Registration number: 02646104

Interactive Game Development Limited

Annual Report and Financial Statements

for the Year Ended 30 June 2019

Interactive Game Development Limited

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Interactive Game Development Limited

Company Information

Directors	Keith R Dolliver
	Benjamin O Orndorff
Company secretary	Reed Smith Corporate Services Limited
Registered office	The Broadgate Tower Third Floor 20 Primrose Street London EC2A 2RS
Solicitors	Reed Smith LLP Beaufort House 15 St Botolph Street London EC3A 7EE
Auditors	Deloitte LLP Statutory Auditor Abbots House Abbey Street Reading United Kingdom RG1 3BD

Interactive Game Development Limited

Strategic Report for the Year Ended 30 June 2019

The directors present their strategic report for the year ended 30 June 2019.

Principal activity
Interactive Game Development Limited, a subsidiary of Microsoft Corporation, partners with other Group Companies who specialise in the writing and development of video games software, facilitating key administration activities including the submission of claims in respect of the Video Games Tax Credit. The principal area of business activity is the United Kingdom.

Fair review of the business
The results for the year are shown on page 11. The company recorded a profit before taxation of £1,011,000 (2018: profit before taxation of £4,831,000). The Directors reviewed the value of the investment in Rare Limited held by the company and taking account of its expected future cash flows and revised commission margin considered the appropriate value to be £8,536,000. Accordingly an impairment of £2,746,000 has been recognised in the year. The Directors feel that the Company is in a sound position for the coming period. The company maintained a strong balance sheet and had net assets at 30 June 2019 of £12,175,000 (2018: £15,995,000).

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.

Strategy, objective and business model
The Directors have not presented a separate analysis of the strategy, objectives or business model of the Microsoft group as this analysis has been disclosed as part of the Microsoft Corporation consolidated Form 10-K for the year ended 30 June 2019, which is publicly available at www.microsoft.com. Interactive Game Development Limited's business model is expected to remain consistent as it continues to partner with other Group Companies who specialise in the writing and development of video games software and enables the claim of Video Games Tax Credits.

Principal risks and uncertainties
The principal risks and uncertainties of the Company are intrinsically linked to the other Microsoft group companies; their performance continues to be strong and there is not considered to be a significant risk to the company's continuing profitability. The company has no significant borrowings or foreign exchange exposure.

Cash flow risk, credit risk, liquidity risk and market risk

Cash flow risk
Financial risk of changes in foreign currency exchange rates are mitigated by short payment terms by its ultimate parent company, Microsoft Corporation and access to their cash pool where required. The Company does not use derivative financial instruments for speculative purposes or to hedge 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 other group companies continue to perform well.

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 the ability of its fellow subsidiaries to attract and retain talented employees, to remain at the forefront of technological advances and wider long-term market trends.

Microsoft continues to invest in attracting and retaining high-calibre individuals and developing new technology to mitigate these risks.

Brexit
The results of operations may be affected by legislation and political developments. The company has assessed the risks associated with Brexit and considers the main potential risks as employment restrictions for non-UK EU employees, increased costs and compliance requirements for custom tariffs, and regulatory restrictions impacting contractual mechanisms. The company is continuing to evaluate and implement processes to minimise these risks.

COVID-19
The beginning of 2020 saw a major outbreak of coronavirus (COVID-19) which has been declared by the World Health Organisation to be a pandemic. This pandemic has occurred after the company's year-end and is considered a non-adjusting post balance sheet event. The pandemic is having widespread, rapidly evolving, and unpredictable impacts on global society, economies, financial markets and business practices.

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

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

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

- Maintain our operations infrastructure, including the reliability and adequate capacity of cloud services.
- Satisfy our contractual and regulatory compliance obligations as we adapt to changing usage patterns, such as through datacenter load balancing.
- Ensure a high-quality and consistent supply chain and manufacturing operations for our hardware devices and datacenter operations.
- Effectively manage our international operations through changes in trade practices and policies.
- Hire and deploy people where we most need them.
- Sustain the effectiveness and productivity of our operations including our sales, marketing, engineering, and distribution functions.

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

Other risks

Other risks include cyber-attacks, security vulnerabilities, outages and data losses which could lead to reduced revenue, increased costs, liability claims, or harm to our competitive position. See a discussion of these factors and other risks under Risk Factors in Microsoft Corporation's consolidated fiscal year 2019 Form 10-K.

Climate change

The Directors have considered the importance of climate change and how the company can contribute towards Microsoft's goal of becoming carbon negative by 2030.

Approved by the Board on 2 June 2020 and signed on its behalf by:

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Benjamin O Orndorff
Director

Interactive Game Development Limited

Directors' Report for the Year Ended 30 June 2019

The directors present their report and the audited financial statements for the year ended 30 June 2019.

Dividends
The directors approved a dividend for the year of £4,831,000 (2018: £3,993,000).

Going concern
The beginning of 2020 saw a major outbreak of coronavirus (COVID-19) which has been declared by the World Health Organisation to be a pandemic. Management have evaluated the financial impact of COVID-19 on the entity operations, solvency and liquidity and to date no significant negative impacts as a result of COVID-19 have been identified to cast doubt on the entity's ability to continue operating as a going concern in the foreseeable future. Management acknowledge that these unpredictable times can have a huge impact on people and organizations and keeps monitoring these uncertainties very closely.

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 the group have adequate resources to continue in operational existence for the foreseeable future, and have given consideration to potential impacts of the COVID-19 pandemic. Thus, the directors continue to adopt the going concern basis in preparing the annual report and accounts.

No other events occurred after the balance sheet date that would impact significantly on the financial statements.

Directors' of the company
The directors, who held office during the financial year, were as follows:

Keith R Dolliver

Benjamin O Orndorff

Risk and uncertainties

The principal risks and uncertainties of the company are intrinsically linked to the other Microsoft Group companies. These are detailed in the Strategic Report.

Future developments
The company will continue to support other group companies and in view of the current economic climate, the board is looking forward to sustaining the level of revenue and profits in the following years.

Disclosure of information to the auditors
Each of the persons who is a director at the date of approval of this report confirms 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 director in order to be aware of any relevant audit information and to establish that the company's auditor is aware of that information. This confirmation is given and should be interpreted in accordance with the provision of the s418 of the Companies Act 2006.

Interactive Game Development Limited

Directors' Report for the Year Ended 30 June 2019 (continued)

Auditors
Deloitte LLP have expressed their willingness to continue in office as auditor. The company passed elective resolutions dispensing with the requirements to hold annual general meetings and to re-appoint auditors annually.

Approved by the Board on 2 June 2020 and signed on its behalf by:

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Benjamin O Orndorff
Director

Interactive Game Development Limited

Statement of Directors' Responsibilities

The directors acknowledge their responsibilities 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 Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including FRS 101 'Reduced Disclosure Framework' ('FRS 101'). 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 apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether FRS 101 has been followed, subject to any material departures disclosed and explained in the financial statements; 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.

Interactive Game Development Limited

Independent Auditor's Report to the Members of Interactive Game Development Limited

Opinion
In our opinion the financial statements of Interactive Game Development Limited (the 'company'):

- give a true and fair view of the state of the Company's affairs as at 30 June 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 101 "Reduced Disclosure Framework"; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the profit and loss account;
- the balance sheet;
- the statement of changes in equity; and
- the related notes 1 to 18.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 101 "Reduced Disclosure Framework" (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 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.

We have nothing to report in respect of these matters.

Independent Auditor's Report to the Members of Interactive Game Development Limited (continued)

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual 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 Statement of Directors' Responsibilities [set out on page 7], the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

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

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

Report on other legal and regulatory requirements

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 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.

Independent Auditor's Report to the Members of Interactive Game Development Limited (continued)

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.

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

Date: 2 June 2020

Interactive Game Development Limited

Profit and Loss Account for the Year Ended 30 June 2019

	Note	2019 £ 000	2018 £ 000
Turnover	4	22,224	22,857
Administrative expenses		(18,730)	(18,284)
Impairment of investment		(2,746)	-
Operating profit	5	748	4,573
Income from shares in group undertakings	6	307	282
Interest payable and similar expenses	7	(44)	(24)
		263	258
Profit before tax		1,011	4,831
Tax on profit	11	-	-
Profit for the year		1,011	4,831

The above results were derived from continuing operations.

There are no income or expenses other than those shown in the Profit and Loss Account above and therefore no statement of comprehensive income is presented.

Interactive Game Development Limited

(Registration number: 02646104)
Balance Sheet as at 30 June 2019

	Note	30 June 2019 £ 000	30 June 2018 £ 000
Fixed Assets			
Investments	13	8,536	11,282
		8,536	11,282
Current assets			
Debtors	14	12,887	7,802
Creditors: Amounts falling due within one year	15	(9,248)	(3,089)
Net current assets		3,639	4,713
Net assets		12,175	15,995
Capital and reserves			
Called up share capital	16	2	2
Profit and loss account		12,173	15,993
Shareholders' funds		12,175	15,995

Approved by the Board on 2 June 2020 and signed on its behalf by:

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Benjamin O Orndorff
Director

The notes on pages 14 to 26 form an integral part of these financial statements.

Interactive Game Development Limited

Statement of Changes in Equity for the Year Ended 30 June 2019

	Share capital £ 000	Profit and loss account £ 000	Total £ 000
At 1 July 2018	2	15,993	15,995
Profit for the year	-	1,011	1,011
Total comprehensive income	-	1,011	1,011
Dividends (note 12)	-	(4,831)	(4,831)
At 30 June 2019	2	12,173	12,175

	Share capital £ 000	Profit and loss account £ 000	Total £ 000
At 1 July 2017	2	15,155	15,157
Profit for the year	-	4,831	4,831
Total comprehensive income	-	4,831	4,831
Dividends (note 12)	-	(3,993)	(3,993)
At 30 June 2018	2	15,993	15,995

1 General information

Interactive Game Development Limited ("the Company") is a private company, limited by shares, incorporated in the UK under the Companies Act 2006 and is registered in England and Wales. The registered office address is shown on page 1. The financial statements are presented in pounds sterling, which is the currency of the primary economic environment in which the Company operates. The Company is exempt by virtue of s401 of the Companies Act 2006 from the requirement to prepare group financial statements. These financial statements present information about the Company as an individual undertaking and not about its group. The group accounts of Microsoft Corporation can be obtained as set out in Note 18.

2 Accounting policies

Summary of significant accounting policies and key accounting estimates
The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

Basis of preparation
These financial statements were prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework.

Summary of disclosure exemptions
In preparing these financial statements, the Company applies the recognition, measurement and disclosure requirements of International Financial Reporting Standards as adopted by the EU ("Adopted IFRSs"), but makes amendments where necessary in order to comply with Companies Act 2006 and has set out below where advantage of the FRS 101 disclosure exemptions has been taken. In these financial statements, the company has applied the exemptions available under FRS 101 in respect of the following disclosures:

- a Cash Flow Statement and related notes;
- Comparative period reconciliations for share capital;
- The effects of new but not yet effective IFRSs;
- Disclosures in respect of the compensation of Key Management Personnel and related party transactions within the group;
- Disclosures of transactions with a management entity that provides key management personnel services to the company;
- Disclosures in respect of transactions with wholly owned subsidiaries;
- Certain disclosures required by IFRS 13 Fair Value Measurement and the disclosures required by IFRS 7 Financial Instrument Disclosures.

The Company proposes to continue to adopt the reduced disclosure framework of FRS 101 in its next financial statements.

Where relevant, equivalent disclosures have been given in the group accounts of Microsoft Corporation. The group accounts of Microsoft Corporation are available to the public and can be obtained as set out in note 18.

2 Accounting policies (continued)

Changes in accounting policy

There have been no significant changes in accounting policy during the year.

None of the standards, interpretations and amendments effective for the first time from 1 July 2018 have had a material effect on the financial statements, including IFRS 15 - Revenue, that has been adopted for the first time.

The company applied IFRS 9 for the first time in the current year. The nature and effect of the changes as a result of adoption of this new accounting standard are described below.

IFRS 9 Financial Instruments

IFRS 9 Financial Instruments replaces IAS 39 Financial Instruments: Recognition and Measurement for annual periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement; impairment; and hedge accounting. The company has applied IFRS 9 retrospectively, with the initial application date of 1 July 2018.

There was no impact on the income statement or the balance sheet from the adoption of IFRS 9 and it was adopted without restating comparative information. Additionally, the company adopted consequential amendments to IFRS 7 Financial Instruments: Disclosures that were applied to the disclosures for 2019 and to the comparative period.

The Company performed a detailed analysis of its business model for managing financial assets as well as analysing their contractual cash flow characteristics. The below table reconciles the original measurement categories and carrying amounts of financial assets in accordance with IAS 39 and the new measurement categories under IFRS 9 at 1 July 2018:

Financial Assets	**IAS 39 Classification**	**IFRS 9 Classification**	**IAS 39 Carrying Amount £000**	**IFRS 9 Carrying Amount £000**
Intercompany receivables	Amortised cost	Amortised cost	2,761	2,761

Financial Liabilities

There were no changes to the classification and measurement of financial liabilities.

2 Accounting policies (continued)

Measurement convention
The financial statements are prepared on the historical cost basis.

Going concern
The financial statements are prepared on a going concern basis.

The Company and the Microsoft Group have considerable financial resources. As a consequence, the directors believe that the Company is well placed to manage its business risks successfully.

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 the group 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.

Turnover
Turnover includes commission income receivable and amounts derived from a fellow group undertaking based on a mark-up on eligible costs incurred; revenue is recognised in the period in which the costs are incurred and once the values are approved by the Microsoft group. Video Games Tax Credits that can be claimed based on qualifying expenditure incurred in the development of video games are also included in turnover.

Income from group undertakings
Income from investments is recognised when the company's rights to receive payment has been established.

Interest 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 a 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.

Foreign currencies
Transactions in foreign currencies are initially recorded at the functional currency rate prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated into the respective functional currency of the entity at the rates prevailing on the reporting period date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the initial transaction dates. Non-monetary items measured in terms of historical cost in a foreign currency are not retranslated.

2 Accounting policies (continued)

Tax

Current tax is based on taxable profit for the year and is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantially enacted by the balance sheet date.

Deferred tax is provided in full on timing differences which result in an obligation at the balance sheet date to pay more tax or a right to pay less tax at a future date, at rates expected to apply when they crystallise based on current tax rates and law. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in the financial statements. Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered. Deferred tax assets and liabilities are not discounted.

Investments

Investments in subsidiary undertakings are stated at cost, less any provision for impairment in value. The company performs an impairment analysis on an annual basis.

Provisions

Provisions are recognised when the company has a present obligation (legal or constructive) as a result of a past event, it is probable that the company will be required to settle that obligation and a reliable estimate can be made of the amount of the obligation.

Provisions are measured at the best estimate of the expenditure required to settle the obligation at the reporting date and are discounted to present value where the effect is material.

Share capital

Ordinary shares are classified as equity. Equity instruments are measured at the fair value of the cash or other resources received or receivable, net of the direct costs of issuing the equity instruments.

Dividends

Dividend distribution to the company's shareholders is recognised as a liability in the company's financial statements in the period in which the dividends are approved by the company's shareholders.

2 Accounting policies (continued)

Financial instruments

Initial recognition
Financial assets

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, or fair value through other comprehensive income (OCI).

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the company's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the company has applied the practical expedient, the company initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs. Transaction costs directly attributable to the acquisition of financial assets at fair value through profit or loss are recognised immediately in profit or loss.

In order for a financial asset to be classified and measured at amortised cost or fair value through OCI, it needs to give rise to cash flows that are 'solely payments of principal and interest (SPPI)' on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level.

The company's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognised on the trade date, i.e., the date that the company commits to purchase or sell the asset.

Financial liabilities

Financial liabilities are classified, at initial recognition, as loans and borrowings or payables, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The company's financial liabilities include trade and other payables, and loans and borrowings including bank overdrafts.

2 Accounting policies (continued)

Classification and measurement
Financial assets

For purposes of subsequent measurement, financial assets are classified in two categories:
• Financial assets at amortised cost (debt instruments)
• Financial assets at fair value through OCI with recycling of cumulative gains and losses (debt instruments)

Financial liabilities

The measurement of financial liabilities depends on their classification, as described below:

Loans and borrowings
After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the EIR method. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the EIR amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included as finance costs in the statement of profit or loss.

Payables are measured at amortised cost.

Financial assets at amortised cost
This category is the most relevant to the company. The company measures financial assets at amortised cost if both of the following conditions are met:
• The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows
• The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding

Financial assets at amortised cost are subsequently measured using the effective interest (EIR) method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired. The company's financial assets at amortised cost includes trade receivables, and balances with other group companies.

Financial assets at fair value through other comprehensive income (FVTOCI)
The Group measures debt instruments at fair value through OCI if both of the following conditions are met:
• The financial asset is held within a business model with the objective of both holding to collect contractual cash flows and selling
• The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding

For debt instruments at fair value through OCI, interest income, foreign exchange revaluation and impairment losses or reversals are recognised in the statement of profit or loss and computed in the same manner as for financial assets measured at amortised cost. The remaining fair value changes are recognised in OCI. Upon derecognition, the cumulative fair value change recognised in OCI is recycled to profit or loss.

2 Accounting policies (continued)

Derecognition

Financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised when the rights to receive cash flows from the asset have expired or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss. When the company exchanges with the existing lender one debt instrument into another one with substantially different terms, such exchange is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. Similarly, the company accounts for substantial modification of terms of an existing liability or part of it as an extinguishment of the original financial liability and the recognition of a new liability.

Impairment of financial assets

Measurement of Expected Credit Losses

The company recognises an allowance for expected credit losses (ECLs) for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the company expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

ECLs are recognised in two stages under IFRS 9's general approach. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

The company considers a financial asset to be in default when internal or external information indicates that the company is unlikely to receive the outstanding contractual amounts in full. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

For trade receivables and contract assets, the company applies the simplified approach in calculating ECLs. Therefore, the company does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the balance sheet if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, to realise the assets and settle the liabilities simultaneously.

3 Critical accounting judgements and key sources of estimation uncertainty

In the application of the Company's accounting policies, which are described in note 2, the directors are required to make judgements, estimates and assumptions about the carrying amounts 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 estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Impairment of investment: The Company has considered the expected future cash flows expected to arise from an investment it holds in Rare Limited, taking into account the amendment in commission margin in that entity, and considers it appropriate to reflect an impairment in the P&L for £2,746,000. Further details regarding the investment can be found on page 24.

The directors believe there are no other critical accounting judgements or key sources of estimation uncertainty.

4 Turnover

The analysis of the company's turnover for the year from continuing operations is as follows:

	2019 £ 000	2018 £ 000
Commission from group undertakings	20,276	20,253
Other revenue	1,948	2,604
	22,224	22,857

Turnover includes commission income receivable by the company under agreements with a fellow group undertaking. Other revenue consists of Video Games Tax Credits.

5 Profit for the year

Arrived at after charging/(crediting)

	2019 £ 000	2018 £ 000
Foreign exchange losses/(gains)	7	(5)
Auditors remuneration for audit services (note 10)	30	28

6 Income from shares in group undertakings

	2019 £ 000	2018 £ 000
Income from shares in group undertakings	307	282

7 Interest payable and similar expenses

	2019 £ 000	2018 £ 000
Interest payable on loans from parent company	44	24

8 Staff costs

The company had no employees in either the current or preceding year.

9 Directors' remuneration

None of the directors received any remuneration in respect of qualifying services as directors of the company in the current year or in the prior year and none of the directors have any employment contracts with the Company.

No contributions were made to a defined contribution pension scheme on behalf of the directors (2018: £Nil).

10 Auditors' remuneration

	2019 £ 000	2018 £ 000
Audit of the financial statements	30	28

11 Taxation

Tax charged/(credited) in the profit and loss account

	2019 £ 000	2018 £ 000
Current taxation		
UK corporation tax	-	-
	-	-

The standard rate of tax for the year, based on the UK standard rate of corporation tax is 19% (2018 - 19%). The actual tax charge for the current and previous years differs from the standard rate for the reasons set up in the following reconciliation:

	2019 £ 000	2018 £ 000
Profit before tax	1,011	4,831
Corporation tax at standard rate	192	918
Losses surrendered for Video Games Tax Relief	1,793	1,979
Video Games Tax Relief - non taxable	(371)	(514)
Decrease from effect of dividends from UK companies	(58)	(54)
Additional deduction for Video Games Tax Relief	(2,125)	(2,311)
Increase from effect of expenses not deductible in determining taxable profit	569	-
Other tax effects for reconciliation between accounting profit and tax income	-	(18)
Total tax charge/(credit)	-	-

The company had no recognised or unrecognised deferred tax asset or liability in either year.

The Finance Act 2016, provides for reductions in the main rate of corporation tax to 19% effective from 1 April 2017, and to 17% effective from 1 April 2020. This will reduce the company's future current tax charge accordingly.

12 Dividends

	30 June 2019 £ 000	30 June 2018 £ 000
Paid dividend of £27 (2018 - £22) per each ordinary shares	4,831	3,993

13 Investments

Subsidiaries	£ 000
Cost or valuation	
At 1 July 2018	11,282
Impairment	(2,746)
At 30 June 2019	8,536
Carrying amount	
At 30 June 2019	8,536
At 30 June 2018	11,282

The Directors believe that the value of the investment in Rare Limited, considering its expected future cash flows and revised commission margin, is £8,536,000 and therefore the investment has been impaired by £2,746,000 during the year to reflect this.

Details of the subsidiaries as at 30 June 2019 are as follows:

Name of subsidiary	Principal activity	Registered office	Holding	Proportion of ownership interest and voting rights held 2019	2018
Rare Limited	Writing and development of video games software	The Broadgate Tower Third Floor 20 Primrose Street London EC2A 2RS	Ordinary shares	52%	52%

14 Debtors

	30 June 2019 £ 000	30 June 2018 £ 000
Amounts owed by group undertakings	10,615	2,761
Other debtors	1	4
Corporation tax asset	2,271	5,037
	12,887	7,802

Interest is received on amounts owed by group undertakings using a Reuter's 12-month interest rate. Intercompany debtors are repayable on demand. All amounts are due within one year and unsecured.

15 Creditors: amounts falling within one year

	30 June 2019 £ 000	30 June 2018 £ 000
Trade creditors	19	72
Accrued expenses	95	126
Amounts due to group undertakings	9,134	2,891
	9,248	3,089

Interest is paid on amounts owed to group undertakings using a Reuter's 12-month interest rate. Intercompany creditors are repayable on demand. These amounts are unsecured.

16 Share capital

Allotted, called up and fully paid shares

	30 June 2019 No.	30 June 2019 £	30 June 2018 No.	30 June 2018 £
Ordinary A shares of £0.01 each	166,161	1,662	166,161	1,662
Ordinary B shares of £0.01 each	13,839	138	13,839	138
	180,000	1,800	180,000	1,800

Authorised shares

The authorised share capital of the company was 180,000 shares of £0.01 each (2018 : 180,000 shares of £0.01 each)

Rights, preferences and restrictions

Ordinary shares have the following rights, preferences and restrictions:

The shares have attached to them full voting, dividend and capital distribution rights. They do not confer any rights of redemption.

Ordinary A and Ordinary B shares have the same rights with the exception that Ordinary B shares confer no voting rights.

17 Related party transactions

As at 30 June 2019 and 30 June 2018, the company was a wholly owned subsidiary of Microsoft Corporation. The company has taken advantage of the exemption under paragraph 8(k) of FRS 101 and has therefore not disclosed transactions with other wholly owned entities of Microsoft Corporation.

There have been no transactions entered into with non-wholly owned subsidiaries of Microsoft Corporation. Details of balances held with other group undertakings can be found in notes 14 and 15.

18 Parent and ultimate parent undertaking

The immediate and ultimate parent undertaking of the company which is also the controlling party is Microsoft Corporation, a company incorporated in the state of Washington in the United States of America. Microsoft Corporation is the parent of the only group into which the results are consolidated. Copies of Microsoft Corporation's annual report are available at www.microsoft.com or on written request from the Investor Relations Department, at the registered address; Microsoft Corporation, 1 Microsoft Way, Redmond, Washington, 98052-6399, USA.