Strategic Report, Directors' Report and

Financial Statements

for the Year Ended 31 December 2019

for

Sumo Digital Limited

Registered no: 04703224

Contents of the Strategic Report, Directors' Report and Financial Statements for the year ended 31 December 2019

Sumo Digital Limited
(Registered number: 04703224)

Company Information
for the year ended 31 December 2019

DIRECTORS:	C Cavers G S Dunn – appointed 14 May 2019 D R Mills P R Porter D C Wilton
SECRETARY:	S J Webb
REGISTERED OFFICE:	32 Jessops Riverside Brightside Lane Sheffield South Yorkshire S9 2RX
REGISTERED NUMBER:	04703224 (England and Wales)
AUDITOR:	Ernst & Young LLP 1 Bridgewater Place 1 Water Lane Holbeck Leeds LS11 5QR

Sumo Digital Limited
(Registered number: 04703224)

Strategic Report
for the year ended 31 December 2019

The directors present their strategic report and the financial statements of the Company for the year ended 31 December 2019.

BUSINESS REVIEW

The Company is engaged in the development of video games for thirds party publishers. The Company also creates its own concepts and IP which may be self-published or sold to publishers.

The Company has had a strong trading performance in 2019, and continues to attract new talent and grow headcount which is a key driver of performance for the business. Average headcount has grown by 73 year on year, of which 58 are direct development staff. The Company continues to be well placed to take advantage of the growing video games market and it has continued to trade satisfactorily since the balance sheet date. The impact of the COVID-19 pandemic is discussed further under 'Principal Risks and Uncertainties' below.

Key performance indicators are considered to be:

	2019	2018
	£m	£m
Gross Profit	16.1	14.0
Profit after tax	0.6	2.1
Headcount	497	424

Gross profit has increased by 15%, driven by the growth of the business through increased headcount, although gross margin rate (excluding management fee income) has reduced from 23% in 2018 to 18% in 2019, driven by variations in contract mix and the intercompany lending and assignment structures used for game development. The reduction in Profit after tax year on year is primarily driven by exceptional costs, explained further below. Administrative expenses have also increased as the Company invests in people and expensed IT licensing and support; these costs are partially offset by management fee income received in the year which represents central support services performed on behalf of other Sumo Group entities.

During the year, the Company disposed of a subsidiary Company, Sumo Digital (Atlantis) Limited, for consideration of £1. The net assets of the subsidiary at the date of disposal were £nil. On disposal, the Company waived an intercompany loan of £1,380,000 due from Sumo Digital (Atlantis) Limited and the write-off of this loan is disclosed as an exceptional cost.

An exceptional impairment cost of £455,000 has also been recognised in the year on the investment in The Chinese Room Ltd following the hive up of the company's trade into Sumo Digital Ltd, as management's assessment of the future cashflows of The Chinese Room Limited do not support the underlying investment in excess of the subsidiary's net assets. Sumo Digital Limited continues to trade under The Chinese Room brand from its Brighton studio.

The Company has access to finance facilities but at 31 December 2019 these have not been utilised.

On 31 January 2019, the Company acquired Red Kite Games Limited ("Red Kite"), for a total consideration of £2.2 million satisfied through £0.5million cash consideration, £0.2m deferred cash consideration and £1.5million of deferred consideration in the form of shares in the Company's ultimate parent Sumo Group plc, which were paid for by the Company via intercompany debtor with Sumo Group plc.

PRINCIPAL RISKS AND UNCERTAINTIES

Governance and risk management framework

The Board is responsible for the Company's risk management and for ensuring that robust processes are in place to identify, manage and report risks that threaten the business objectives of the Company. These include Financial, Operational and Regulatory Compliance risks. The principal features of the Company's risk management regime is a strong control environment, which is founded on an appropriate organizational structure for planning, executing, controlling and monitoring business operations. It includes clearly defined responsibilities and accountabilities.

Control procedures

The Company dedicates specific resource to audit to improve policies and procedures and the control framework in place. Investment is being made into the automation of key financial and resourcing processes.

Other control procedures include: budgetary systems and management controls to manage financial risk, timely and accurate management information in respect of key performance measures; and procedures to ensure completed and accurate accounting, which are regularly reviewed by the Board.

The principal risks and uncertainties are:

COVID-19

At the time of writing (July 2020) the COVID-19 pandemic has created unprecedented challenge and uncertainty. The recent ease of lockdown in England has provided some stability, however, uncertainty remains in the wider economy. The Company has a low risk, high visibility business model which is adaptable to home working and all staff have effectively transitioned to home working at the date of this report. Potential risks posed to the Company by the COVID-19 pandemic are as follows:

- Liquidity risk due to inability to convert milestone progress to cash
- Loss of efficiency due to the circumstances of home working, and changes to communication channels
- Risks to capacity due to the impact of illness on team members and slow-down in recruitment activity
- Risk in winning and mobilizing new projects due to reduced business development activity
- IT operation and security risk due to remote working environment

Mitigating activities

The challenges presented by the virus are predominantly on the supply side. However, The Company's IT systems are sufficiently flexible to enable remote working. During March 2020, in close co-operation with clients and with their consent, the Company has moved to working from home for all development work. There was some disruption and loss of efficiency during migration, but this is expected to diminish as project management controls and internal management systems are re-calibrated. Since March, the company has continued to meet milestone targets and incoming cashflows have continued with no significant negative impact. The Company's ultimate parent, Sumo Group plc, drew down £10m from its existing revolving credit facility on 24th March 2020 as an extra safeguard to support the Group's liquidity position. The Company's continued liquidity is supported by Sumo Group plc.

The Company is actively mitigating the loss of face time for business development purposes through the increased use of telephony and video conferencing.

Customer

The risk of project cancellation and customer confidence is managed by providing high quality products on time and to customer specifications. Projects are managed through milestones and progress against these is reported to the operating board on a monthly basis and weekly at the project level.

The risk of overreliance on key clients is managed through monitoring of the Company's customer concentration and actively seeking to work with other clients across the industry to diversify the customer base.

Staff

The operations of the Company depend upon the continuing employment of key staff and, due to the specialized sector in which it operates, the ability to recruit and retain people with the expertise and experience required. To achieve this the Company provides what it believes to be competitive remuneration commensurate with the industry. The Company actively head hunts the best talent in the industry.

The Company seeks to continually develop its recruitment and retention activities, including introducing new progression and succession pathways. Growth targets are monitored and reported on to the Operating Board on a monthly basis and within the HR team on a weekly basis to identify and act on issues.

IT security and stability

A breach of IT security, unauthorised copying or software piracy could result in loss of business and reputational damage for the Company, as well as associated negative financial impacts to revenue and costs. Due to the Company's high dependence on its IT systems and infrastructure, any failure, disruption or damage to the network or systems could lead to significant business interruption. Disruption and inability to conduct "business as usual" could lead to reputational damage, financial losses and the inability of the Company to generate revenues going forward.

Project work is protected by copy protection technology and robust security testing, including penetration testing, and disaster recovery plans are in place. The Company has an experienced and dedicated IT team, and uses external consultants where needed, to ensure a good balance of skills and experience in the team

Portfolio risk and meta-critic quality risk

When the Company takes on lower budget projects with lower quality output requirements to fill downtime this could lead to the Company's reputation for quality being undermined. The Company's order book is driven by its reputation; therefore, this could lead to an inability to obtain future work on high quality, big budget projects. It could also negatively impact motivation.

The Company's change in business model, with increased reliance on revenues from royalties and co-development/investment could also be a risk to the Group.

The Company has in place a portfolio risk tool to help mitigate this risk.

Brexit

There are significant uncertainties in relation to the detailed consequences of the United Kingdom's exit from the European Union, in particular as to what the impact will be on the fiscal, monetary and regulatory landscape in the UK, including *inter alia*, the UK's tax system, the conduct of cross-border business and export and import tariffs. There is also uncertainty in relation to how, when and to what extent these developments will impact on the economy in the UK and the future growth of its various industries and on levels of investor activity and confidence, on market performance and on exchange rates. Although it is not possible to predict fully the effects of the UK's exit from the European Union, any of these risks could have a material adverse impact on the financial condition, profitability and share price of the Company.

The senior leadership team has compiled a Brexit report that outlines the Company's ongoing risk assessment. External consultation has been sought where appropriate. The Board also receives regular updates of the paper with progress against the plan of action and any changes to the perceived risks. The Company ensures that sufficient hedging arrangements are in place to reduce uncertainty and currency risk in our foreign currency contracts to an acceptable level.

Research and development

The video game sector is constantly changing and evolving and it is important to remain at the forefront of technical development. The Company continues to invest in research and development, including employee continued professional development, across the production process.

Sumo Digital Limited
(Registered number: 04703224)

Section 172 statement

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

Stakeholder group	Why it is important to engage	How management and/or directors engaged	The key topics of engagement and the feedback obtained	Impact of the engagement including any actions taken
Colleagues The company has 497 employees based in the UK.	Our success is significantly dependent on and driven by the talent and commitment of our people. The company must be attractive to new employees and provide an environment in which everyone is happy to work and that supports their well-being. Recruiting and retaining the best talent is a source of sustainable advantage in our industry.	Our workforce engagement activities take place at all levels across the business, using formal and less formal means, from our annual Employee Engagement Survey to daily individual project team catch-ups.	During 2020, we will use the insights gained from the Best Companies Survey, performed in 2019, as the focus of our workforce engagement activity. The survey measures engagement in eight categories, including leadership, personal growth, well-being and "giving something back". The 2019 survey results were similar to those recorded in earlier years, but the management are committed to stepping up employees' personal development opportunities in 2020.	We have established a group to define and communicate our Mission, Vision and Core Values. A well-being and learning and development portal has been launched in 2020 and colleagues are allocated specified time for personal development.
Clients Our clients include many of the world's most successful publishers of video games and game platform owners, as well as in other sectors such as film and product design.	Clients entrust us with their intellectual property and to bring their visions to life. Their business models, games and hardware are continuously developing. We must stay current and evolve alongside this fast-moving market, to retain our position as a long-term partner for our clients.	Many individuals are in regular contact with existing and potential new clients. This happens as a matter of course, as we work on specific projects. In addition to this, our teams meet and engage with clients regularly, at major industry events, by responding to requests for proposals and whilst pitching our ideas.	Every client is different, but all focus on the quality and flexibility of the services that we provide.	In 2019, an experienced individual was appointed to the role of Partnerships Director with the remit to build and reinforce relationships with existing and prospective clients.

Stakeholder group	**Why it is important to engage**	**How management and/or directors engaged**	**The key topics of engagement and the feedback obtained**	**Impact of the engagement including any actions taken**
Suppliers We have a relatively small number of suppliers, including those who provide commodity items such as computer hardware and utilities. In addition, we require licences to be able to carry out development work on video game platforms (such as Playstation and Xbox). We work with a number of organisations that provide us with distributed development capabilities to support and supplement our in-house resources.	Our suppliers are important in enabling us to provide a high quality of service to our clients. We must work closely with game platform owners to maintain our licences to develop on their platforms.	Our technology and development teams maintain consistent dialogue with platform owners. Our distributed development team identify and qualify suitable organisations. We then agree suitable working arrangements and legal terms with these suppliers.	These include general business relationship matters, technology developments and ways of working.	We are establishing a smaller group of premium suppliers of development services with whom we have strong relationships.
Investors The Company is wholly owned by it's ultimate parent Company Sumo Group plc. The Company engages on an ongoing basis with the plc Board as part of the executive management of the Group. Information about engaging with external shareholders is disclosed in the Group's s172 statement.	Dialogue between the company and the plc board is integral to ensuring the alignment of strategic views and values.	The Directors of the ultimate parent company are also directors of Sumo Digital Ltd. The Company engages on an ongoing basis with the plc Board as part of the overall executive management of the Group. Information about engaging with external shareholders is disclosed in the Group's s172 statement which is publicly available on the Group's website.	The company aligns strategic priorities with those of the group as disclosed in the Group's s172 statement.	The company and the group are aligned on key business decisions as disclosed in the Group's s172 statement.

Stakeholder group	Why it is important to engage	How management and/or directors engaged	The key topics of engagement and the feedback obtained	Impact of the engagement including any actions taken
Community We operate in a number of communities around the UK and aim to have a positive impact on those communities.	It is increasingly important to all our stakeholders that we support local communities and provide opportunities to individuals within them.	We launched a schools engagement programme in Sheffield in 2019, which is being expanded to Brighton in 2020, and have plans to add other locations in the future. We have a long-standing relationship with Special Effect, a UK charity which helps physically disabled people play video games and works with developers to create specialised game control devices and improving game accessibility. In March 2019, 20 girls from a local school attended an event at our Sheffield studio to introduce them to the games industry. They spent time with our developers and the services team, gaining insight into career options in video games. The local children's hospital in Sheffield is one of Sumo's supported charities.	Engaging with young students gave the business an insight into how the video games industry is viewed by the students and their teachers.	One of the students has been invited to pitch his game idea to our IP creation committee. One of the students will be returning in 2020 to undertake a work experience placement, with our event igniting her desire to explore a career in the video games industry further.

The environment

There is increasing interest from all stakeholder groups of the environmental impact of businesses and we understand the increasing importance that sustainable business practices will play in our ability to grow successfully and maintain profitability over the long term.

While our activities are largely office-based and do not involve any energy-intensive processes or generate significant waste, the business can take, and is taking, actions to reduce its environmental impact. We have commenced a process as part of our focus on Environmental, social and Governance to identify the key areas to be addressed.

Actions taken to date to reduce environmental impact:

- Replacement of fluorescent lights with LED panels as standard during studio refurbishment programmes.
- Cycle to work scheme offered
- A monthly alternative travel prize draw to win £100, to encourage greener travel to and from work.
- Energy-efficient IT and facilities equipment is prioritised during replacement and upgrade programmes.
- Videoconferencing software and instant messaging used across the business to help limit business travel for internal meetings and that enables employees to work from home.
- At our largest site in Sheffield, staff who volunteer to car share with colleagues are eligible to use priority parking spaces and we offer electric car charging.

Principal decisions

During the year, Sumo Digital made the decision to acquire Red Kite Games Limited and to relocate the business from Huddersfield to new premises in the centre of Leeds.

The Board approved the acquisition to make available the skills and experience of Red Kite to the company's clients and the decision to move to a new, much larger studio was to enhance the working environment of the Red Kite employees and create capacity for further recruitment.

ON BEHALF OF THE BOARD:

....
D C Wilton
Director

6 July 2020

Directors' Report
for the year ended 31 December 2019

The directors present their report and the financial statements of the Company for the year ended 31 December 2019.

RESULTS AND DIVIDENDS

The profit for the year, after taxation, amounted to £628,000 (2018: £2,082,000).

No dividends will be distributed for the year ended 31 December 2019.

FUTURE DEVELOPMENT

The directors expect the business to continue to trade profitably, delivering continued headcount growth and developing new and existing client relationships. Particulars of significant events which have occurred since the end of the financial year have been included in the Strategic Report.

DIRECTORS

The directors shown below have held office during the whole of the period from 1 January 2019 to the date of this report.

C Cavers
D R Mills
P R Porter
C M Stockwell
D C Wilton

Other changes in directors holding office are as follows:

G S Dunn (appointed as director 14 May 2019)
C M Stockwell (resigned 29 May 2020)

RESEARCH AND DEVELOPMENT ACTIVITIES

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

EMPLOYEE INVOLVEMENT

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

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

DIRECTORS' RESPONSIBILITIES STATEMENT

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), including Financial Reporting Standard 101 'Reduced Disclosure Framework'. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs and profit or loss of the Company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- 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.

DISCLOSURE OF INFORMATION TO AUDITOR

The directors confirm that:

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

SUBSEQUENT EVENTS

On 12th March 2020 the World Health Organisation declared the Covid-19 outbreak to be a pandemic. This resulted in the UK government announcing on a series of restrictions to daily life.

As a result, during March 2020 the Company moved to working from home for all staff. The potential impact of this on the Company is considered more fully in the Strategic Report.

Whilst the impact on the Company's results is difficult to predict, based on the measures taken to mitigate the impact, the successful transition to remote working, and the continued satisfactory trading since the balance sheet date, the directors consider that the Company has adequate resources to continue in operational existence for the foreseeable future and do not expect any Impairment to the Company's non-current assets as a result of the pandemic.

AUDITOR

Ernst & Young LLP were appointed as independent auditor on 2 September 2019 following the resignation of Grant Thornton LLP.

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

ON BEHALF OF THE BOARD:

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D C Wilton
Director
6 July 2020

Sumo Digital Limited
(Registered number: 04703224)

Independent auditor's report to the members of Sumo Digital Limited

OPINION

We have audited the financial statements of Sumo Digital Limited for the year ended 31st December 2019 which comprise Income Statement, Statement of Financial Position and Statement of Changes in Equity and the related notes 1 to 28, 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 FRS 101 "Reduced Disclosure Framework "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the company's affairs as at 31st December 20219 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

BASIS FOR OPINION

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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

EMPHASIS OF MATTER – EFFECT OF COVID-19

We draw attention to Note 2 and 25 of the financial statements, which describe the financial and operational disruption the company is facing as a result of COVID-19 which is impacting supply chains and the ability of personnel to access offices. Our opinion is not modified in respect of this matter.

CONCLUSIONS RELATING TO GOING CONCERN

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial

statements is not appropriate; or

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

OTHER INFORMATION

The other information comprises the information included in the annual report set out on pages 1 to 12, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

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

We have nothing to report in this regard.

OPINIONS ON OTHER MATTERS PRESCRIBED BY THE COMPANIES ACT 2006

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

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

MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

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

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

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

RESPONSIBILITIES OF DIRECTORS

As explained more fully in the directors' responsibilities statement set out on pages 11-12, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

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

A further description of our responsibilities for the audit of the financial statements is located on the

Financial Reporting Council's website at https://www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

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

Mark Morritt (Senior statutory auditor)

for and on behalf of Ernst & Young LLP, Statutory Auditor

Leeds

10 July 2020

Sumo Digital Limited
(Registered number: 04703224)

Statement of Comprehensive Income
for the year ended 31 December 2019

	Notes	2019 £'000	2018 £'000 (Restated[1])
TURNOVER	4	86,104	60,859
Cost of sales		(69,955)	(46,814)
GROSS PROFIT		16,149	14,045
Administrative expenses		(14,109)	(11,906)
Exceptional costs	5	(1,835)	-
OPERATING PROFIT	5	205	2,139
Interest receivable and similar income	8	244	312
		449	2,451
Interest payable and similar expenses	9	(212)	-
PROFIT BEFORE TAXATION		237	2,451
Tax on profit	10	391	(369)
PROFIT FOR THE FINANCIAL YEAR		628	2,082
Other comprehensive income		-	-
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		628	2,082

All of the activities of the Company are classed as continuing.

Note 1: For 2018 the results and financial position have been restated to recognise a provision for national insurance contributions due on the future vesting of share-based payments of £426,000, and a corresponding deferred tax asset of £72,000. During 2019, the Directors considered their accounting policy for the recognition of these costs and elected to spread the costs over the vesting period of share-based payments.

The notes on pages 19 to 42 form part of these financial statements.

Sumo Digital Limited
(Registered number: 04703224)

Statement of Financial Position
31 December 2019

		2019		2018 (Restated)	
	Notes	£'000	£'000	£'000	£'000
NON-CURRENT ASSETS					
Intangible assets	11		1,109		476
Tangible assets	12		8,021		2,106
Investments	13		6,811		5,112
Deferred Tax	18		1,342		668
			17,283		8,362
CURRENT ASSETS					
Debtors	14	40,472		40,731	
Cash at bank	15	3,076		2,221	
		43,548		42,952	
CREDITORS					
Amounts falling due within one year	16	27,970		25,009	
NET CURRENT ASSETS			15,578		17,943
Amounts falling due in more than one year	17		3,749		-
TOTAL NET ASSETS			29,112		26,305
CAPITAL AND RESERVES					
Share capital	19		10		10
Capital contribution reserve			4,456		2,464
Retained earnings	20		24,646		23,831
SHAREHOLDERS' FUNDS			29,112		26,305

The financial statements were approved by the Board of Directors on 6 July 2020 and were signed on its behalf by:

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D C Wilton
Director

The notes on pages 19 to 42 form part of these financial statements.

Sumo Digital Limited
(Registered number: 04703224)

Statement of Changes in Equity
for the year ended 31 December 2019

	Share capital	Capital Contribution Reserve	Retained earnings	Total equity
	£	£	£	£
Balance at 1 January 2018	10	-	21,620	21,630
Changes in equity				
Total comprehensive income (Restated)	-	-	2,082	2,082
Transactions with owners:				
Share based payment capital contribution	-	2,464	-	2,464
Employee share based compensation	-	-	129	129
	-	2,464	129	2,593
Balance at 31 December 2018 (Restated)	10	2,464	23,831	26,305
Changes in equity				
IFRS16 adoption impact	-	-	(43)	(43)
Restated balance at 1 January 2019	**10**	**2,464**	**23,788**	**26,262**
Total comprehensive income	-	-	628	628
Transactions with owners:				
Share based payment capital contribution	-	1,992	-	1,992
Employee share based compensation	-	-	230	230
	-	1,992	230	2,222
Balance at 31 December 2019	**10**	**4,456**	**24,646**	**29,112**

The notes on pages 19 to 42 form part of these financial statements.

Sumo Digital Limited
(Registered number: 04703224)

Notes to the Financial Statements
for the year ended 31 December 2019

1. GENERAL INFORMATION

Sumo Digital Limited is incorporated in England and Wales and is a limited company limited by shares. Its registered head office is located at 32 Jessops Riverside, Brightside Lane, Sheffield, S9 2RX.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES

Basis of preparation

These financial statements have been prepared in accordance with Financial Reporting Standard 101 "Reduced Disclosure Framework" and the Companies Act 2006. The financial statements have been prepared under the historical cost convention. The accounts are presented in round £'000 for all periods.

The preparation of financial statements in compliance with FRS 101 requires the use of certain critical accounting estimates. It also requires management to exercise judgement in applying the Company's accounting policies (see note 3).

The results of the Company and its subsidiaries are included in the consolidated accounts of Sumo Group plc and the Company has therefore taken advantage of the exemption available under section 400 of the Companies Act 2006 and not prepared group accounts.

The Company has taken advantage of the following disclosure exemptions in preparing these financial statements, as permitted by FRS 101 "Reduced Disclosure Framework":

- the requirements of paragraphs 45(b) and 46 to 52 of IFRS 2 Share-based Payment;
- the requirements of IFRS 7 Financial Instruments: Disclosures;
- the requirements of paragraphs 91 to 99 of IFRS 13 Fair Value Measurement;
- the requirement in paragraph 38 of IAS 1 Presentation of Financial Statements to present comparative information in respect of:
  - paragraph 79(a)(iv) of IAS 1;
  - paragraph 73(e) of IAS 16 Property, Plant and Equipment; and
  - paragraph 118(e) of IAS 38 Intangible Assets;
- the requirements of paragraphs 10(d), 10(f), 16, 38A, 38B, 38C, 38D, 40A, 40B, 40C, 40D, 111 and 134 to 136 of IAS 1 Presentation of Financial Statements;
- the requirements of IAS 7 Statement of Cash Flows;
- the requirements of paragraphs 30 and 31 of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors;
- the requirements of paragraphs 17 and 18A of IAS 24 Related Party Disclosures;
- the requirements in IAS 24 Related Party Disclosures to disclose related party transactions entered into between two or more members of a group;
- the requirements of paragraphs 130(fi) & 130(fii), 134(d) to 134(f) and 135(c) to 135(e) of IAS 36 Impairments of Assets.

The following principal accounting policies have been applied:

Going concern

The Company's business activities, together with the factors likely to affect its future development, performance and position are set out in the Strategic Report and the Directors' Report.

As set out in the Strategic Report, the impact of the COVID-19 pandemic has created significant uncertainty. However, based on the measures taken to mitigate the impact, the successful transition to remote working, and the continued satisfactory trading since the balance sheet date, the directors consider that the Company has adequate resources to continue in operation for the foreseeable future.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES - continued

Furthermore, the company has access to parental support and guarantees, which provide a safeguard to support the company's liquidity position. The Company's ultimate parent, Sumo Group plc, has applied sensitivities to its financial projections based on all reasonably possible downside scenarios to illustrate the potential impact from a loss of efficiency in the Group's production process during home working, a loss of capacity from staff being unable to work due to sickness and constraints in the Group's ability to grow headcount or onboard new clients during 2020 outside of those already contracted. This process included a reverse 'stress test' used to inform downside testing which identified the break point in the Group's liquidity. Whilst the sensitivities applied showed an expected downside impact on the group's financial performance in future periods, in all scenarios modelled the Group maintains a robust balance sheet and liquidity position.

On 24th March 2020 Sumo Group plc drew down from its existing revolving credit facility £10 million, repayable on 30 November 2022, as an extra safeguard to support the Group's liquidity position and medium-term growth plans in light of the ongoing pandemic.

Thus, the Directors continue to adopt the going concern basis of accounting in the financial statements.

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

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

Revenue is measured at transaction price, stated net of VAT and other sales related taxes. The company also derives revenue from Lending and Assignment of staff to other group companies.

Third party funded game development

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

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

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

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

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES - continued

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

There is one contract at 31 December 2019 that contains a financing component where the customer receives a benefit from the Company financing the transfer of services to the customer, generally over a period of time extending beyond 12 months. For arrangements with a significant financing component the transaction price is adjusted for both the length of time between when the Company delivers the services and when the customer pays for those services, and the effects of the time value of money using prevailing interest rates When determining what rate to use, management considers the rate that would be reflected in a separate financing transaction between the Company and the customer at contract inception taking into account the credit characteristics of the customer.

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

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

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

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

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

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

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

Property, plant and equipment
Property, plant and equipment are stated at cost less accumulated depreciation.

Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES - continued

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

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

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

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

The estimated useful lives, are as follows:

Customer relationships	2 years
Customer contracts	Over period of contract
Software	2 years

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised in the statement of comprehensive income. An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognised in profit or loss.

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

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

Leases
The Company has applied IFRS 16 from 1 January 2019. At inception of a contract, the Company assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

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

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

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

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES - continued

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

The lease liability is measured at amortised cost using the effective interest method. In calculating the present value of lease payments, the Company uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the lease payments (e.g., changes to future payments resulting from a change in an index or rate used to determine such lease payments) or a change in the assessment of an option to purchase the underlying asset.
If there is a remeasurement of the lease liability, a corresponding adjustment is made to the carrying amount of the right-of-use asset or is recorded directly in profit or loss if the carrying amount of the right of use asset is zero.
The Company presents right-of-use assets within property, plant and equipment.

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

Note 28 provides a disclosure of the impact of IFRS 16.

Operating lease payments
Operating leases are leases in which substantially all the risks and rewards of ownership related to the asset are not transferred to the Company.

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised in profit or loss over the term of the lease, as an integral part of the total lease expense.

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

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

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

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

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

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES – continued

Cash and cash equivalents
Cash and cash equivalents comprise cash balances and call deposits

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

Valuation of investments
Investments in subsidiaries are measured at cost less accumulated impairment.

Work in progress
Work in progress is valued on the basis of direct costs plus attributable overheads based on normal levels of activity on a first in first out basis. Provision is made for any foreseeable losses where appropriate. No element of profit is included in the valuation of work in progress. Work in progress is presented within Debtors: amounts falling due within one year.

Financial instruments
The Company recognises financial instruments when it becomes a party to the contractual arrangements of the instrument. Financial instruments are de-recognised when they are discharged or when the contractual terms expire. The Company's accounting policies in respect of financial instruments transactions are explained below:

Financial assets
The Company classifies all of its financial assets as loans and receivables.

Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise principally through the provision of goods and services to customers (e.g. trade receivables), but also incorporate other types of contractual monetary asset.

They are initially recognised at fair value plus transaction costs that are directly attributable to their acquisition or issue, and are subsequently carried at amortised cost using the effective interest rate method, less provision for impairment.

Impairment provisions are recognised when there is objective evidence (such as significant financial difficulties on the part of the counterparty or default or significant delay in payment) that the Company will be unable to collect all of the amounts due under the terms receivable, the amount of such a provision being the difference between the net carrying amount and the present value of the future expected cash flows associated with the impaired receivable. For trade receivables, which are reported net, such provisions are recorded in a separate allowance account with the loss being recognised within administrative expenses in the statement of comprehensive income. On confirmation that the trade receivable will not be collected, the gross carrying value of the asset is written off against the associated provision.

Amounts owed by group undertakings include balances owed by fellow members of Sumo Group plc group.

Financial liabilities
The Company classifies its financial liabilities into one of the categories discussed below, depending on the purpose for which the liability was acquired.

Fair value through profit or loss
This category comprises only out-of-the-money derivatives. They are carried in the statement of financial position at fair value recognised in the statement of comprehensive income.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES - continued

At amortised cost

Financial liabilities at amortised cost including bank borrowings are initially recognised at fair value net of any transaction costs directly attributable to the issue of the instrument. Such interest-bearing liabilities are subsequently measured at amortised cost using the effective interest rate method, which ensures that any interest expense over the period to repayment is at a constant rate on the balance of the liability carried into the statement of financial position.

Amounts owed to group undertakings include balances owed by fellow members of Sumo Group plc group.

Creditors

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

Exceptional costs

The Company presents as exceptional costs on the face of the income statement, those significant items of expense, which, because of their size, nature and infrequency of the events giving rise to them, merit separate presentation to allow shareholders to understand better the elements of financial performance in the period. This facilitates comparison with prior periods and trends in financial performance more readily. Further information is provided in note 5.

Retained earnings

Retained earnings includes all current and previous periods retained profits.

Direct costs

Included within direct costs are all costs in connection with the development of games, including an allocation of studio management costs.

Share based payments

The ultimate parent company has granted rights to its equity instruments to the Company employees. The share-based payment charge is recorded in the profit and loss account of the Company in respect of these arrangements. The credit is recorded in the Capital Contribution Reserve.

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

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

All share-based remuneration is ultimately recognised as an expense in staff costs with a corresponding credit to retained earnings. Where vesting periods or other vesting conditions apply, the expense is allocated over the vesting period, based on the best available estimate of the number of share options expected to vest. The expense or credit in the statement of profit or loss for a period represents the movement in cumulative expense recognised as at the beginning and end of that period.

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

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES - continued

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

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

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

Finance costs
Finance costs are charged to the statement of comprehensive income over the term of the debt using the effective interest method so that the amount charged is at a constant rate on the carrying amount. Issue costs are initially recognised as a reduction in the proceeds of the associated capital instrument.

Finance income
Interest income is recognised in the statement of comprehensive income using the effective interest method.

Research and development
Expenditure on research activities is recognised in the statement of comprehensive income as an expense as incurred.

Expenditure on development activities may be capitalised if the product or process is technically and commercially feasible and the Company intends and has the technical ability and sufficient resources to complete development, future economic benefits are probable and if the Company can measure reliably the expenditure attributable to the intangible asset during its development. Development activities involve design for, construction or testing of the production of new or substantially improved products or processes. The expenditure capitalised includes the cost of materials, direct labour and an appropriate proportion of overheads and capitalised borrowing costs. Other development expenditure is recognised in the statement of comprehensive income as an expense as incurred. Capitalised development expenditure is stated at cost less accumulated amortisation and less accumulated impairment losses.

3. CRITICAL ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Company's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods.

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

- Development revenue recognised over time is determined based upon estimates on the overall contract margin and percentage of completion of the contract at each period end. These estimates are based on contract value, historical experience and forecasts of future outcomes. These include specific estimates in respect of contracts for which variations may be in the process of being negotiated, and so the contracts are accounted for on the basis of the best estimate of the revenue expected to be received on the contract, which are all expected to be resolved relatively shortly after the financial year end.
- Certain development contracts include an element of variable consideration, such as royalty income, which is contingent on future game sales. Such variable consideration is only recognised to the extent that it is highly probable that a significant reversal of cumulative revenue recognised will not occur once

the certainty related to the variable consideration is subsequently resolved. 2019 revenue includes £1,000,000 of variable consideration not yet received and contingent on future sales.

3. CRITICAL ACCOUNTING JUDGEMENTS AND ESTIMATES – continued

Share-based payments
Estimating fair value for share-based payment transactions requires determination of the most appropriate valuation model, which depends on the terms and conditions of the grant. This estimate also requires determination of the most appropriate inputs to the valuation model including the expected life of the share option or appreciation right, volatility and dividend yield and making assumptions about them. Options with both market and non-market conditions are most impacted by these estimates.

The share options charge is subject to an assumption about the number of options that will vest as a result of the expected achievement of certain non-market conditions.

Recognition of Deferred Tax assets
Deferred tax assets are recognised for unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and the level of future taxable profits, together with future tax planning strategies.

In the preparation of the Company financial statements, the Directors, in applying the accounting policies of the Company, make some judgements and estimates that affect the reported amounts in the financial statements. The following are the areas requiring the use of judgement and estimates that may significantly impact the financial statements.

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

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

4. TURNOVER

The turnover and profit before taxation are mostly attributable to the one principal activity of the Company. An analysis of turnover is given below:

	2019 £'000	2018 £'000
Attributable to game development activities	85,277	60,859
Other income	827	-
	86,104	60,859

Other income relates to management charges for central support services provided to subsidiaries.

An analysis of turnover by geographical market is given below:

	2019 £'000	2018 £'000
United Kingdom	57,762	30,541
Europe	5,037	12,201
Rest of the world	23,305	18,117
	86,104	60,859

Assets and liabilities relating to contracts with clients

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

	Note	**2019 £'000**	2018 £'000
Contract assets – amounts recoverable on contracts	14	**6,493**	11,310
Contract liabilities – advances for game development	16	**394**	435

Contract assets – amounts recoverable on contracts represents contracts whereby the services rendered by the Company at the reporting date exceed the customer payments. Included within the above contract assets are amounts of variable consideration that are highly probable of not reversing of £1,000,000 (2018: £250,000). In the event that this variable consideration is no longer considered probable, a provision for credit losses will be recorded. There are no provisions for credit losses in respect of contract assets at either year end.

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

Contract liabilities represent customer payments received in advance of performance obligations that are expected to be recognised as revenue in 2020. These amounts recognised will generally be utilised within the next reporting period.

5. OPERATING PROFIT

Operating profit is stated after charging:

	2019 £'000	2018 £'000
Exceptional costs	1,835	
Depreciation of tangible fixed assets	1,571	904
Amortisation of intangible assets, including goodwill	189	130
Operating lease rentals	-	587

Exceptional costs relate to the write off of an intercompany receivable due from Sumo Digital (Atlantis) Limited, a subsidiary entity which was disposed of in the year and an impairment cost of £455,000 on the investment in The Chinese Room Ltd following the hive up of the company's trade into Sumo Digital Ltd.

6. AUDITOR'S REMUNERATION

	2019 £'000	2018 £'000
Fees for audit of the Company	110	32
Fees for tax compliance services	-	17
	110	49

7. EMPLOYEES AND DIRECTORS

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

	2019 £'000	2018 (Restated) £'000
Wages and salaries	26,160	18,112
Social security	3,445	1,794
Cost of defined contribution scheme	1,065	610
Share-based payments	2,589	2,890
	33,259	23,406

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

	2019 No.	2018 No.
Development	419	361
Administration	78	63
	497	424

Directors' remuneration

The directors' remuneration for the period was as follows:

	2019 £'000	2018 £'000
Directors' emoluments	1,654	1,384
Company contributions to defined contribution pension schemes	49	39
	1,703	1,423

During the year retirement benefits were accruing to 6 directors (2018:5) in respect of defined contribution schemes.

In respect of the highest paid director:

	2019 £'000	2018 £'000
Directors' emoluments	454	439
Company contributions to defined contribution pension schemes	13	11
	467	450

8. INTEREST RECEIVABLE AND SIMILAR INCOME

	2019 £'000	2018 £'000
IFRS 15 financing income	244	312
Fair value movements on forward currency contracts	-	-
	244	312

9. INTEREST PAYABLE AND SIMILAR EXPENSES

	2019 £'000	2018 £'000
IFRS 16 interest expense	112	-
Fair value movements on forward currency contracts	97	-
Other interest	3	-
	212	-

10. TAXATION

	2019 £'000	2018 £'000 (Restated)
UK Corporation tax		
Current tax on profits for the year	-	986
Adjustments in respect of previous periods	23	(90)
Total current tax	23	896
Deferred tax		
Origination and reversal of timing differences	(356)	(527)
Adjustments in respect of prior periods	(95)	-
Effects of changes in tax rates	37	-
Total deferred tax	(414)	(527)
Taxation on profit on ordinary activities	(391)	369

Factors affecting the tax expense

The tax assessed for the year is lower than the standard rate of corporation tax in the UK. The difference is explained below:

	2019 £'000	2018 £'000 (Restated)
Profit/(loss) before income tax	237	2,451
Profit/(loss) multiplied by the standard rate of corporation tax in the UK of 19% (2018: 19%)	45	466
Effects of:		
Fixed asset differences	-	15
Non-deductible expenses	340	9
Group relief	(759)	(4)
Adjustments in respect of previous periods	(73)	(90)
Movements in deferred tax not recognized	-	(85)
Deferred tax rate change	37	58
Share options	19	-
Tax expense	(391)	369

11. INTANGIBLE FIXED ASSETS

	Computer software £'000	Work in progress £'000	Total £'000
COST			
At 1 January 2019	1,302	-	1,302
Additions	474	348	822
At 31 December 2019	1,776	348	2,124
AMORTISATION			
At 1 January 2019	826	-	826
Amortisation for year	189	-	189
At 31 December 2019	1,015	-	1,015
NET BOOK VALUE			
At 31 December 2019	761	348	1,109
At 31 December 2018	476	-	476

12. TANGIBLE FIXED ASSETS

	Leasehold improvements £'000	Fixtures and fittings £'000	Computer Equipment £'000	Right of use assets £'000	Total £'000
COST					
At 1 January 2019	1,419	1,115	3,883	-	6,417
Additions	228	265	2,561	4,432	7,486
Transfer of assets	-	-	-	-	-
At 31 December 2019	1,647	1,380	6,444	4,432	13,903
DEPRECIATION					
At 1 January 2019	386	657	3,268	-	4,311
Charge for year	335	200	518	518	1,571
At 31 December 2019	721	857	3,786	518	5,882
NET BOOK VALUE					
At 31 December 2019	926	523	2,658	3,914	8,021
At 31 December 2018	1,033	458	615	-	2,106

13. INVESTMENTS

	Shares in subsidiary undertakings £'000
COST	
At 1 January 2019	5,112
Additions	2,154
Impairment	(455)
At 31 December 2019	6,811
NET BOOK VALUE	
At 31 December 2019	6,811
At 31 December 2018	5,112

On 31 January 2019, the Company acquired Red Kite Games Limited ("Red Kite"), for a total consideration of £2.2 million satisfied through £0.5million cash consideration, £0.2m deferred cash consideration and £1.5million of deferred consideration in the form of shares in the Company's ultimate parent Sumo Group plc, which were paid for by the Company via intercompany debtor with Sumo Group plc.

In August 2019, the company disposed of Sumo Digital (Atlantis) Limited, a wholly owned subsidiary, for consideration of £1. The carrying value of the investment at the date of disposal was £Nil.

An exceptional impairment cost of £455,000 has been recognised in the year on the investment in The Chinese Room Ltd, as management's assessment of the future cashflows of The Chinese Room Limited do not support the underlying investment in excess of the subsidiary's net assets.

Subsidiary undertakings
The following were subsidiary undertakings of the Company:

Name	Class of shares	Holding	Principal activity
Cirrus Development Limited	Ordinary	100%	Video game development
Sumo Digital (Genus) Limited	Ordinary	100%	Video game development
Atomhawk Design Limited	Ordinary	100%	Visual design
Atomhawk Canada Limited	Ordinary	100%	Visual design
The Chinese Room Limited	Ordinary	100%	Video game development
Aghoco 1337 Limited	Ordinary	100%	Employee benefit trust
Riverside Games Limited (formerly Aghoco 1788 Limited)	Ordinary	100%	Dormant
Aghoco 1789 Limited	Ordinary	100%	Dormant
Aghoco 1790 Limited	Ordinary	100%	Dormant
Red Kite Games Limited	Ordinary	100%	Video game Development
Red Kite Software Development Ltd	Ordinary	100%	Video game development

13. INVESTMENTS – continued

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

Name	Country of incorporation	Address
Atomhawk Canada Ltd	Canada	Suite 678, 999 Canada Place, Vancouver, British Columbia, V6C 3E1

Of the above subsidiaries, Sumo Digital (Genus) Limited, Cirrus Development Limited, Atomhawk Design Limited, The Chinese Room Limited, Aghoco 1337 Limited, Riverside Games Limited (formerly Aghoco 1788 Limited), Aghoco 1789 Limited and Aghoco 1790 Limited are held directly.

14. DEBTORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2019	2018
	£'000	£'000
Trade debtors	9,052	2,657
Other debtors	3,813	-
Amounts owed by parent companies	14,417	14,416
Amounts owed by sister companies	4,985	7,170
Amounts owed by subsidiary companies	451	3,876
Work in progress	609	227
Prepayments and accrued income	-	718
Contract assets - amounts recoverable on contracts	6,568	11,310
VAT debtor	-	357
Corporation tax	577	-
	40,472	40,731

The above amounts are repayable on demand and are non-interest bearing.

15. CASH AT BANK

	2019	2018
	£'000	£'000
Cash at bank and in hand	3,076	2,221

16. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2019	2018
	£'000	£'000
		(Restated)
Trade creditors	5,823	1,639
Amounts owed to parent companies	2,830	6,700
Amounts owed to sister companies	408	2,825
Amounts owed to subsidiary companies	9,529	9,147
Tax	-	564
Other taxation and social security	748	582
Accruals and deferred income	3,798	3,117
Contract liabilities – advances for game development	394	435
VAT	386	-
Other creditors	3,496	-
IFRS16 Lease liabilities	558	-
	27,970	25,009

The above amounts are repayable on demand and are non-interest bearing.

The 'contract liabilities – advances for game development' represent customer payments received in advance of performance that are expected to be recognised as revenue in 2019. These amounts recognised will generally be utilised within the next reporting period.

17. IFRS 16 LEASE LIABILITY

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

Amounts recognised in the balance sheet

The balance sheet shows the following amounts relating to leases:

	2019	2018
	£'000	£'000
Right of use assets		
Leased land and buildings	3,885	-
Motor vehicles	29	-
	3,914	-

17. IFRS 16 LEASE LIABILITY - continued

These are included within "property, plant and equipment" in the balance sheet.

	2019	2018
	£'000	£'000
Lease liability		
Current	558	-
Non-current	3,749	-
Amount repayable		
Within one year	558	-
In more than one year but less than two years	540	-
In more than two years but less than three years	520	-
In more than three years but less than four years	506	-
In more than four years but less than five years	492	-
In more than five years	1,691	-
	%	%
Average interest rates at the balance sheet rate		
Lease liability	2.5	-

Amounts recognised in the Balance sheet

The Balance sheet shows the following amounts relating to leases:

	2019	2018
	£'000	£'000
Depreciation charge of right of use assets		
Leased land and buildings	495	-
Motor vehicles	23	-
	518	-
Interest expense (included in finance costs)	112	-
Expenses relating to short term/low value leases (included in direct costs / operating expenses)	163	-

18. DEFERRED TAXATION

	2019	2018
	£'000	£'000
		(Restated)
At beginning of year	668	12
Credit to income statement	318	656
Credit to equity	249	-
Adjustment in respect of prior years	95	-
IFRS transition arrangements	12	-
At end of year	1,342	668

18. DEFERRED TAXATION - continued

The deferred taxation balance is made up as follows:

	2019	2018
	£'000	£'000
Accelerated capital allowances and other timing differences	206	32
Employee obligation on share-based payments	1,136	636
	1,342	668

19. SHARE CAPITAL

Allotted, issued and fully paid:

Number	Class	Nominal value	2019	2018
			£'000	£'000
8,000	Ordinary A	£1.00	8	8
20,000	Ordinary B	£0.10	2	2
			10	10

All shares rank pari passu in all respects except B shares carry no voting rights

20. RESERVES

Retained earnings
Includes all current and prior period profit and losses.

Capital contribution reserve
Relates to contributions from the ultimate parent company Sumo Group plc by way of the grant of options over the parent's shares to employees of the Company through share based payment transactions.

21. PENSION COMMITMENTS

The Company operates a defined contribution pension plan. The total expense relating to the plan in the current year was £1,064,524 (2018: £609,936).

22. CONTINGENT LIABILITIES

Yorkshire Bank holds a debenture giving a fixed and floating charge over the Company's assets as security for any borrowings held by the group of companies, headed by Sumo Group plc, of which this Company is a member.

23. CAPITAL COMMITMENTS

Capital Commitments	2019 £'000	2018 £'000
Contracted but not provided for in the financial statements	-	94

Operating lease commitments	2019 £'000	2018 £'000
Within 1 year	-	633
Later than 1 year and less than 5 years	-	2,111
After 5 years	-	2,340
	-	5,084

24. CONTROLLING PARTY

The Company's immediate parent undertaking is Sumo Digital Entertainment Limited. The ultimate parent and controlling party is Sumo Group plc, a company incorporated in England and Wales.

The ultimate parent undertaking and the largest and smallest group for which consolidated financial statements are prepared is Sumo Group plc, which are publicly available.

25. POST BALANCE SHEET EVENTS

On 12th March 2020 the World Health Organisation declared the Covid-19 outbreak to be a pandemic. This resulted in the UK government announcing on a series of restrictions to daily life. As a result, during March 2020 the Company moved to working from home for all staff. The potential impact of this on the Company is considered more fully in the Strategic Report.

Whilst the impact on the Company's results is difficult to predict, based on the measures taken to mitigate the impact, the successful transition to remote working, and the continued satisfactory trading since the balance sheet date, the directors consider that the Company has adequate resources to continue in operational existence for the foreseeable future and do not expect any Impairment to the Company's non-current assets as a result of the pandemic.

26. RELATED PARTY TRANSACTIONS

There are no related party transactions to disclose in the year.

27. SHARE-BASED PAYMENTS

In the year ended 31 December 2019 the Company operated two equity-settled share-based payment plans as described below.

The Company recognised total expenses of £2,589,000 (2018: £2,890,000) in respect of equity-settled share-based payment transactions in the year ended 31 December 2019, of which £496,000 (2018: £426,000) related to accrued national insurance costs.

The Sumo Group plc Long Term Incentive Plan (the 'LTIP')
The parent company, Sumo Group Plc, operates a long term incentive plan for senior executives.

Sumo Group Plc has made awards to certain Directors and employees.

The vesting of most of these awards is subject to the Group achieving certain performance targets under the LTIP, and are based on the Group meeting the adjusted earnings per share ("AEPS") and (in some cases) total shareholder return ("TSR") conditions in the following weightings:

27. *SHARE-BASED PAYMENTS - continued*

Performance condition	Tier 2-4 participants Proportion of award	Tier 1 participants Proportion of award
Cumulative AEPS	100%	35%
Cumulative TSR	-	65%

Details of the maximum total number of ordinary shares, which may be issued in future periods in respect of awards outstanding at 31 December 2019 is shown below.

	31 December 2019 Number of conditional shares
At 1 January 2019	9,184,879
Granted in the year	390,979
Exercised in the year	(519,961)
Lapsed/forfeited in the year	(210,494)
At 31 December 2019	8,845,403

Options over 3,708,435 shares are subject to both the AEPS and TSR performance conditions and the remainder are subject only to the AEPS performance condition.

The estimate of the fair value of the services received in return for the awards is measured based on the Monte Carlo and Black Scholes models. The aggregate of the estimated fair values of the awards at 31 December 2019 shown above is £0.93. The fair value of the TSR award takes into account the likelihood of achieving the performance conditions.

For awards granted in the current year, the inputs into the Monte Carlo and Black Scholes models are as follows:

	AEPS condition 31 December 2019
Share price at grant date	£1.27 to £1.60
Exercise price	£nil
Expected volatility	-
Expected life	3 years
Expected dividend yield	-
Risk-free interest rate	-
Fair value per option	£1.26 to £1.60

Expected volatility was determined using the median volatility of comparator sector companies. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations.

Share Incentive Plan ('SIP')

The parent company, Sumo Group Plc, operates a Revenue-approved share incentive plan that is available to all UK employees. Participants in the plan have conditional entitlements to shares held by the SIP Trustee and consisting of new issue shares allotted by the Company to the SIP Trustee and shares purchased in the market by the SIP Trustee using the contributions from salary made by the participants.

27. SHARE-BASED PAYMENTS - continued

Details of the maximum total number of ordinary shares, which may be issued in future periods in respect of conditional share awards outstanding at 31 December 2019 is shown below.

	31 December 2019 Number of conditional shares
At 1 January 2019	84,907
Granted in the year	13,987
Lapsed/forfeited in the year	(2,391)
At 31 December 2019	96,503

The estimate of the fair value of the services received in return for the conditional share awards is measured based on a Black Scholes model.

For awards granted in the current year, the inputs into the Black Scholes model are as follows:

	31 December 2019
Share price at grant date	£1.28 to £1.67
Exercise price	£nil
Expected volatility	-
Expected life	3 years
Expected dividend yield	-
Risk-free interest rate	-
Fair value per option	£1.28 to £1.67

Expected volatility was determined using the median volatility of comparator sector companies. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations.

28. IFRS 16 IMPACT

In 2019, the Company has adopted new guidance for the recognition of leases (IFRS 16). The new standard has been applied retrospectively without restatement, with the cumulative effect of initial application recognised as an adjustment to the opening balance of retained earnings at 1 January 2019. Consequently, the comparative numbers are not restated.

The financial impact of adoption of IFRS 16 on the 2019 income statement is set out below:

	Pre-IFRS 16 Year ended 31 December 2019	IFRS 16 adoption adjustments: Reversal of rent expense	IFRS 16 adoption adjustments: Additional depreciation and interest	**Post-IFRS 16 Year ended 31 December 2019**
	£'000	£'000	£'000	£'000
TURNOVER	86,104	-	-	86,104
Cost of sales	(69,955)	-	-	(69,955)
GROSS PROFIT	16,149	-	-	16,149
Operating expenses	(16,028)	602	(518)	(15,944)
OPERATING PROFIT	121	602	(518)	205
Finance cost	(100)	-	(112)	(212)
Finance income	244	-	-	244
PROFIT BEFORE TAXATION	265	602	(630)	237
Tax on profit	391	-	-	391
PROFIT FOR THE FINANCIAL YEAR	656	602	(630)	628
Other comprehensive income	-	-	-	-
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**656**	602	(630)	**628**

28. IFRS 16 IMPACT - continued

	Pre-IFRS 16	IFRS 16 adoption adjustments	**Post-IFRS 16**
	As at 31 December 2018	Recognition of ROU asset and liability	**As at 1 January 2019**
	£'000	£'000	**£'000**
Non-current assets			
Intangible assets	476	-	476
Tangible assets	2,106	4,248	6,354
Investments	5,112	-	5,112
Deferred Tax	668	-	668
Total non-current assets	8,362	4,248	12,610
Current assets			
Debtors	40,731	(96)	40,635
Cash at bank	2,221	-	2,221
Total Current Assets	42,952	(96)	42,856
Total Assets	51,314	4,152	55,466
Current Liabilities			
Trade and other payables	25,009	(277)	24,732
Non-current Liabilities			
Lease Liabilities	-	4,472	4,472
Total Liabilities	25,009	4,195	29,204
Net Assets	26,305	(43)	26,262

Equity			
Share capital	10	-	10
Capital contribution reserve	2,464	-	2,464
Retained earnings	23,831	(43)	23,788
Total Equity	26,305	(43)	26,262