

Jagex Limited
Annual report and financial statements
for the year ended 31 December 2017

Company Registration Number: 03982706



Jagex Limited

Report and Financial Statements 31 December 2017

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Jagex Limited

Report and Financial Statements 31 December 2017

Officers and Professional Advisers

Directors

J Pan

J Yang

Z Yang

X Wang (Appointed 24/01/2017)

P Mansell (Appointed 24/01/2017)

Secretary

Yuan Hui Huang (Appointed 24/01/2017)

Registered Office

St Johns Innovation Centre

Cowley Road

Cambridge

CB4 0WS

U.K.

Auditor

Shineving Wilson Accountancy Limited

Statutory Auditor

9 St Clare Street

London

EC3N 1LQ

Jagex Limited

Strategic Report

This strategic report has been prepared for the Group as a whole and therefore gives greater emphasis to those matters which are significant to Jagex Limited and its subsidiary undertakings when viewed as a whole.

Review of the business

Summary

2017 was an exceptionally good year for Jagex, with the highest revenues and profits to date. The Company's stalwart products – RuneScape and Old School for PC platforms – continued their resurgence with improved performance, maintaining growth momentum compared with previous years. The growth in profits also occurred in a year of increased R&D investment. These are good signs, as 2017 was the first full year following new shareholder ownership and the appointment of a new chief executive.

Market context

The video games industry continues to expand globally with analysts' expectation that it will achieve \$108 billion for 2017, growing 7.2% over the previous year. Smartphone, tablet and console games are seeing the strongest growth, with mobile gaming cementing its position as the largest segment at 42% of the total gaming market. Growth in the Asia-Pacific region continues to be the fastest growing, 9.2% year-on-year to \$51.2 billion in 2017. The explosive growth in mobile games in the last decade has rarely come at the cost of cannibalising other segments, in particular the free-to-play PC games segment, which grew 15% year-on-year to \$15 billion in 2017.

In the last couple of decades, gaming has gone from a somewhat niche activity to a generally accepted form of mass entertainment with broad appeal across age and gender. In recent years, a key trend within the gaming market has been a move towards service-based business models, with live services and on-going provision of content driving long term user engagement. Free-to-play monetization models have reduced the barrier to entry for wider audiences whilst offering publishers long term recurring revenue opportunities. To this end, successful game companies are putting communities of customers at the centre of their strategy and daily operations, with a strong focus on keeping the gamer, viewer, and creator community engaged, while providing continuous opportunities to spend. Well known franchises attract new customers whilst also fostering loyalty and bringing lapsed users back into the product.

Market position

Jagex participates in the video games industry by developing, publishing and operating online games and associated services. In 2017, Jagex's digital business model was predominantly free-to-play games supported by optional subscriptions and micro-transactions, with an emphasis on provision of live services, rich content and community activities. Our business strategy is to deliver products and services across multiple platforms in order to maintain and grow our overall customer base. To that end, Jagex began R&D on new multi-platform games in 2017 and announced and began pre-release public testing of our RuneScape and Old School RuneScape games for mobile phones, which will be interoperable with the PC versions.

Operating performance analysis

Following 2016's strong performance, Jagex has continued to focus on the core products RuneScape and Old School RuneScape. Combining a highly customer-centric mindset with operational excellence, the team have delivered with fantastic success, driving Company revenues to grow by over 14% year on year to £84.9m. Profit grew by 51% to £43.5m, with the increase coming from a combination of increased operating performance and lower exceptional costs compared to 2016, which stemmed from the Company changing ownership.

RuneScape and its retro sibling Old School RuneScape continue to enjoy deep, long-term engagement from large loyal communities. Both games benefit from Jagex's progressive approach to live game services, combining player involvement, community interaction and data-derived insights to shape each product around its customer's needs. This approach brings long-term user retention, high rates of return for lapsed players and robust recurring revenue. As such, RuneScape's product revenue increased to £53m (2016 - £49m), as the team provided regular new game content, made on-going refinements to the games operations and incremental modernization. Old School RuneScape's product revenue increased to £32m (2016 - £24m), following new game content and further innovation in community-driven game operations. Both RuneScape and Old School RuneScape maintained strong

Jagex Limited

Strategic Report

presence on social media and video platforms throughout the year through events including competitive tournaments and the RuneFest fan convention.

Both games benefited from increased customer interest following the announcement in July 2017 that mobile versions were in development. The mobile versions of these games entered development in early 2017 and RuneScape had a successful mobile closed beta test by the end of the year. Early estimations of development work for these mobile clients indicated launches in late 2017. However, as development got fully underway, these estimates were discovered to be too optimistic, with the launches now expected in the second half of 2018.

Looking ahead

Since Jagex became part of the Fukong Interactive Entertaining group, a publicly listed company on the Shanghai Stock Exchange, it has been pursuing several new growth opportunities and taking a more global perspective.

In 2017, new product R&D investment increased by 267%, including new products to expand the RuneScape franchise, plus exploration of new game IP. 2017 also marked the start of an overhaul of Jagex's publishing division, strengthening marketing and other commercial product functions through infusion of leadership, new talent and training. The goal being to build the Company's publishing apparatus beyond that needed for just the existing games and into a department with the expertise and experience to launch and sustain multiple new products in the coming years.

Additionally, Jagex has worked with Fukong's game development teams to support the creation of new RuneScape games, specifically for the Asian market. Jagex intends to continue to work closely with Fukong to exploit the opportunities presented by what is now the world's largest gaming market.

The Company employed 311 people by the end of 2017 and the Board of Directors and shareholders are appreciative of the support and commitment in making it the best year on record.

Key performance indicators

The Group has several key performance indicators used internally to monitor and challenge performance and to assist investment decisions. Significant key performance indicators are:

- Revenue;
- Subscribers;
- Operating profit before exceptional items; and
- Headcount

Performance in the year ended 31 December 2017 and comparative information for the previous year is summarised below.

	Year ended 31 December 2017	Year ended 31 December 2016
Revenue (£000)	84,864	74,424
Exceptional Items (£000)	1,088	9,280
Operating profit (£000)	44,360	28,132
Headcount (average)	307	323
Subscribers	2.315m	2.082m

Jagex Limited

Strategic Report

Principal risks and uncertainties

The key risks to which the business is exposed are summarised as follows:

- competitive pressure, which could result in losing active players and subscription numbers to competitors or other forms of connected entertainment;
- failure to make sure that costs stay in line with projected revenues and keeping within development timeframes and cost bases for new products coming to market in future years;
- delays and development issues with intangible assets;
- making sure that all new games and content added is to the highest quality and bug free, to help products succeed in the market place;
- change in legislation within the territories our products operate, or change in policies on the distribution channels our products use;
- hiring and retention of qualified personnel;
- possible claims by external parties of infringements on their intellectual property rights.

The Group aims to mitigate these risks as appropriate with measures including:

- aiming to continue innovating and testing new game concepts and mechanics, making use of new technologies available to us by investing in training for our staff so we can utilise them more effectively;
- developing compelling new game content, by working closely with in-game communities to develop content that is desired within our player base;
- ensuring we have a robust greenlight process for all new products and content, to ensure we keep the quality of our offerings high;
- continuing to perform and develop our focus group testing and beta programmes focused on receiving feedback and identifying areas for improvement, implementing comprehensive testing programmes;
- launching new games whilst regularly monitoring the player behavior by utilising the high degree of skill we have in our analytic teams and Interacting with the community, as well as observing games industry trends;
- regularly reviewing and accommodating upcoming legislation and policy for our key markets and distributions partners;
- continuing to regularly review the employee benefits and compensation package to make sure we remain competitive in the market.

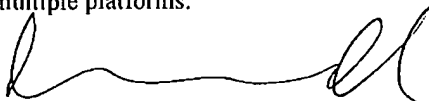
Future developments

Enriching and expanding the RuneScape franchise continues to be a key focus.

The Group intends to continue to improve and expand the existing RuneScape and Old School RuneScape games with frequent updates driven by the player community.

Jagex is also building mobile clients for RuneScape and Old School RuneScape, to allow existing users to play the same game on mobile platforms, and to offer the games to mobile-only players.

R&D continues for new products, both within the RuneScape franchise and for new gaming IP, across multiple platforms.



P Mansell
Director
18th April 2018

Jagex Limited

Directors' Report

The directors present their annual report on the affairs of the Group, together with the financial statements and auditor's report, for the year ended 31 December 2017.

Future developments

Details of future developments can be found in the Strategic Report and forms part of this report by cross-reference.

Research and development

The Group is continually updating its current game offering. Development expenditure for existing titles is not capitalised and is written off in the year it is incurred. Development expenditure on new projects is capitalised once the policy criteria are met and these costs will then be amortised over the expected game lifespan, post full commercial launch.

Going concern

The Group and Company continue to hold significant cash reserves and are forecast to remain cash generative. The directors have reviewed the historic trading performance of the business and prepared forecasts for the foreseeable future, being a period of two years from the date of approval of these financial statements.

The directors have a reasonable expectation that the Group and the Company have adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis in preparing the annual financial statements.

The key uncertainties around the business are noted in the Strategic Report which can be found on page 4.

Post balance sheet event

There have been no significant post balance sheet events which have affected the Company and Group since the year end.

Dividends

The directors proposed dividends in the year of £37.0m, which £25.0m was paid in the year and £12.0m was paid post year end (year ended 31 December 2016 - £30.4m fully paid in the year).

Financial risk management objectives and policies

The Group's activities expose it to a number of financial risks including foreign exchange risk, credit risk and liquidity risk.

Foreign Exchange risk

The Group's activities expose it primarily to the financial risks of changes in foreign currency exchange rates. The Group seeks to minimise the exposure of this by matching foreign currency receipts to payments where possible.

Credit risk

The Group's principal financial assets are bank and cash balances and trade and other receivables.

The amounts presented in the balance sheet are net of allowances for doubtful receivables. An allowance for impairment is made where there is an identified loss event, which, based on previous experience, is evidence of a reduction in the recoverability of the cash flows.

Jagex Limited

Directors' Report

The majority of the Group's receivables are due from institutions regulated by the banking sector. Other receivables are monitored on a regular basis.

Liquidity risk

In order to maintain liquidity to ensure that sufficient funds are available for ongoing operations and future developments, the Group reviews the working capital requirement on a weekly basis in light of the current business trends.

Directors

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

J Pan
J Yang
Z Yang
X Wang (Appointed 24/01/2017)
P Mansell (Appointed 24/01/2017)
R Cousens (Resigned 24/01/2017)
Z Cui (Resigned 24/01/2017)
Z li (Resigned 24/01/2017)

Directors' indemnities

The Group has made qualifying third party indemnity provisions for the benefit of its directors which were made during the year and remain in force at the date of this report.

Political contributions

No political donations were made during the year.

Disabled employees

Applications for employment by disabled persons are always fully considered, bearing in mind the abilities of the applicant concerned. In the event of members of staff becoming disabled every effort is made to ensure that their employment with the Group continues and that appropriate training is arranged. It is the policy of the Group and the Company that the training, career development and promotion of disabled persons should, as far as possible, be identical to that of other employees.

Employee consultation

The Group places considerable value on the involvement of its employees and has continued to keep them informed on matters affecting them as employees and on the various factors affecting the performance of the Group. This is achieved through formal and informal meetings, as well as regular communication of KPIs (Key Performance Indicators).

Branches outside the UK

The Group has two subsidiaries outside the UK (Note 14), which are directly controlled by Jagex Limited.

Auditor

UHY Hacker Young LLP resigned as auditor of the group in December 2017 and Shinewing Wilson Accountancy Limited was subsequently appointed as auditor to the Group.

Jagex Limited

Directors' Report

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 he ought to have taken as a director in order to make himself 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 provisions of section 418 of the Companies Act 2006.

The auditors, Shinewing Wilson Accountancy Limited have expressed their willingness to continue in office, and appropriate arrangements have been put in place for them to be deemed reappointed as auditors in the absence of an Annual General Meeting.

Approved by the Board and signed on its behalf by:

A handwritten signature in black ink, appearing to read 'P Mansell', written in a cursive style.

P Mansell
Director
18th April 2018

Jagex Limited

Directors' responsibilities statement

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the group and parent company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland".

Under company law, the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and the parent company and of the profit or loss of the group for that period.

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

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have 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, disclose with reasonable accuracy at any time the financial position of the group and 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 group and the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Jagex Limited

Independent auditor's report to the members of Jagex Limited



Opinion

We have audited the financial statements of Jagex Limited for the year ended 31 December 2017 which comprise the Consolidated Profit and Loss Account, the Consolidated and Parent Company Balance Sheets, the Consolidated Cash Flow Statement, the Consolidated Statement of Comprehensive Income, the Consolidated and Parent Company Statements of Changes in Equity and the related notes 1 to 28. The financial reporting framework that has been applied in the preparation of the consolidated and parent company financial statements is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland".

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.

In our opinion, the financial statements:

- give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2017 and of the group's profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

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

Conclusions relating to going concern

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

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

Other information

The directors are responsible for the other information. The other information comprises the information 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.

Jagex Limited

Independent auditor's report to the members of Jagex Limited

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

We have nothing to report in this regard.

Opinion on other matter prescribed by the Companies Act 2006

- In our opinion, based on the work undertaken in the course of the audit:
- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the group and the parent company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic Report or the Directors' Report.

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

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the 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.

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement on page 8, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the group's and the parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or parent 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.

Jagex Limited

Independent auditor's report to the members of Jagex Limited

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.



Julie Wilson (Senior Statutory Auditor)
for and on behalf of Shinewing Wilson Accountancy Limited
Statutory Auditor

9 St. Clare Street
London
EC3N 1LQ

18th April 2018

Jagex Limited

Consolidated profit and loss account For the year ended 31 December 2017

		2017 £	2016 £
	Note		
Turnover	4	84,863,699	74,423,778
Cost of sales		(23,353,447)	(24,543,205)
Gross profit		61,510,252	49,880,573
Administrative expenses			
Exceptional administrative expenses	6	(1,088,240)	(9,279,671)
Other administrative expenses	6	(16,062,009)	(12,468,468)
Total administrative expenses		(17,150,249)	(21,748,139)
Operating profit		44,360,003	28,132,434
Finance income/(costs) (net)	5	769,685	345,133
Profit on ordinary activities before taxation		45,129,688	28,477,567
Tax on profit on ordinary activities	9	(1,583,197)	360,178
Profit for the financial year		43,546,491	28,837,745

All activities derive from continuing operations.

Jagex Limited

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

	2017 £	2016 £
Profit for the financial year	43,546,491	28,837,745
Other comprehensive income		
Currency translation difference on foreign currency net investments	(8,152)	28,649
Total comprehensive income	<u>43,538,339</u>	<u>28,866,394</u>

Jagex Limited

Consolidated balance sheet At 31 December 2017

	Note	2017 £	2016 £
Fixed assets			
Intangible assets	12	-	180,575
Tangible assets	13	1,981,223	1,431,043
		<u>1,981,223</u>	<u>1,611,618</u>
Current assets			
Inventories	15	41,300	200,045
Debtors			
– due within one year	16	36,237,132	34,494,276
– due after one year	16	851,783	880,525
Cash at bank and in hand		38,401,085	18,541,074
		<u>75,531,300</u>	<u>54,115,920</u>
Creditors: Amounts falling due within one year	17	<u>(34,654,528)</u>	<u>(20,062,811)</u>
Net current assets		<u>40,876,772</u>	<u>34,053,109</u>
Total assets less current liabilities		<u>42,857,995</u>	<u>35,664,727</u>
Creditors: Amounts falling due after more than one year			
Provisions for liabilities	18	<u>(5,894,611)</u>	<u>(5,212,469)</u>
Net assets		<u><u>36,963,384</u></u>	<u><u>30,452,258</u></u>
Capital and reserves			
Called-up share capital	21	11,267	11,267
Share premium account	21	80	80
Profit and loss account		36,952,037	30,440,911
Shareholders' funds		<u><u>36,963,384</u></u>	<u><u>30,452,258</u></u>

The consolidated financial statements of Jagex Limited, Company registered number 03982706, were approved by the board of directors and authorised for issue on 18th April 2018. They were signed on its behalf by:



P Mansell
Director

Jagex Limited

Company balance sheet At 31 December 2017

	Note	2017 £	2016 £
Fixed assets			
Intangible assets	12	-	180,575
Tangible assets	13	1,981,223	1,431,043
Investments	14	-	-
		<u>1,981,223</u>	<u>1,611,618</u>
Current assets			
Inventories	15	41,300	200,045
Debtors			
– due within one year	16	36,237,132	34,494,276
– due after one year	16	851,267	879,959
Cash at bank and in hand		38,316,973	18,447,011
		<u>75,446,672</u>	<u>54,021,291</u>
Creditors: Amounts falling due within one year	17	<u>(34,654,528)</u>	<u>(20,062,704)</u>
Net current assets		<u>40,792,144</u>	<u>33,958,587</u>
Total assets less current liabilities		<u>42,773,367</u>	<u>35,570,205</u>
Creditors: Amounts falling due after more than one year			
Provisions for liabilities	18	<u>(5,894,611)</u>	<u>(5,212,469)</u>
Net assets		<u><u>36,878,756</u></u>	<u><u>30,357,736</u></u>
Capital and reserves			
Called-up share capital	21	11,267	11,267
Share premium account		80	80
Retained earnings			
- Profit brought forward		-	-
- Transferred from share-based payment reserve		-	1,505,905
Profit and loss account		<u>36,867,409</u>	<u>28,840,484</u>
Shareholders' funds		<u><u>36,878,756</u></u>	<u><u>30,357,736</u></u>

The financial statements of Jagex Limited, registered number 03982706, were approved by the board of directors and authorised for issue on 18th April 2018. They were signed on its behalf by:



P Mansell

Director

Jagex Limited

Consolidated statement of changes in equity At 31 December 2017

	Called-up share capital £	Share premium account £	Share-based payment reserve £	Profit and loss account £	Total £
At 1 January 2016	11,267	80	2,579,047	30,482,402	33,072,796
Profit for the financial year	-	-	-	28,837,745	28,837,745
Currency translation difference on foreign currency net investments	-	-	-	28,649	28,649
Total comprehensive income	-	-	-	28,866,394	28,866,394
Credit to equity for equity settled share- based payment	-	-	23,153	-	23,153
Cash cancellation settlement	-	-	(2,602,200)	1,505,905	(1,096,295)
Dividends	-	-	-	(30,413,790)	(30,413,790)
At 31 December 2016	11,267	80	-	30,440,911	30,452,258
Profit for the financial year	-	-	-	43,546,491	43,546,491
Currency translation difference on foreign currency net investments	-	-	-	(8,152)	(8,152)
Total comprehensive income	-	-	-	43,538,339	43,538,339
Dividends	-	-	-	(37,027,213)	(37,027,213)
At 31 December 2017	11,267	80	-	36,952,037	36,963,384

Jagex Limited

Company statement of changes in equity At 31 December 2017

	Called-up share capital £	Share premium account £	Share-based payment reserve £	Profit and loss account £	Total £
At 1 January 2016	11,267	80	2,579,047	30,413,790	33,004,184
Profit for the financial year	-	-	-	28,840,484	28,840,484
Total comprehensive income	-	-	-	28,840,484	28,840,484
Credit to equity for equity settled share-based payment	-	-	23,153	-	23,153
Cash cancellation settlement	-	-	(2,602,200)	1,505,905	(1,096,295)
Dividends	-	-	-	(30,413,790)	(30,413,790)
At 31 December 2016	11,267	80	-	30,346,389	30,357,736
Profit for the financial year	-	-	-	43,548,233	43,548,233
Total comprehensive income	-	-	-	43,548,233	43,548,233
Dividends	-	-	-	(37,027,213)	(37,027,213)
At 31 December 2017	11,267	80	-	36,867,409	36,878,756

Jagex Limited

Consolidated cash flow statement For the year ended 31 December 2017

	Note	2017 £	2016 £
Net cash from operating activities	22	47,638,942	31,488,681
Taxation received		736,286	1,580,443
Net cash generated from operating activities		48,375,228	33,069,124
Cash flows from investing activities			
Purchase of equipment		(1,452,553)	(1,118,698)
Development costs		(120,880)	(180,575)
Loan made to parent company		(2,675,630)	(26,062,657)
Interest received		769,685	347,423
Interest paid		-	(2,290)
Net cash used in investing activities		(3,479,378)	(27,016,797)
Cash flows from financing activities			
Repayments of obligations under finance leases		-	(46,490)
Dividends paid to owners		(25,027,213)	(30,413,790)
Share based payments		-	(1,096,294)
Net cash used in financing activities		(25,027,213)	(31,556,574)
Net increase/(decrease) in cash and cash equivalents		19,868,637	(25,504,247)
Cash and cash equivalents at beginning of year		18,541,074	43,970,747
Effect of foreign exchange rate changes		(8,626)	74,574
Cash and cash equivalents at end of year		38,401,085	18,541,074
Reconciliation to cash at bank and in hand:			
Cash at bank and in hand		38,401,085	18,541,074
Cash and cash equivalents		38,401,085	18,541,074

Jagex Limited

Notes to the financial statements For the year ended 31 December 2017

1. General information

Jagex Limited is a private company limited by shares and is incorporated in England and Wales, with subsidiaries in the United States. The registered office is: St Johns Innovation Centre, Cowley Road, Cambridge CB4 0WS, U.K.

The principal activity of the Company and the Group is that of developing and publishing of online computer games.

The Group and the Company's financial statements have been prepared in compliance with United Kingdom Accounting Standards, including Financial Reporting Standard 102, "The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland" (FRS102) and the Companies Act 2006.

2. Significant accounting policies

The principal accounting policies applied in the preparation of these consolidated and separate financial statements are summarised below. They have all been applied consistently throughout the year and the preceding year.

a. Basis of preparation

These consolidated and separate financial statements are prepared on a going concern basis, under historical cost convention, as modified by the recognition of certain financial assets and liabilities measured at fair value.

The functional currency of Jagex Limited is considered to be pounds sterling because that is the currency of the primary economic environment in which the Company operates. The consolidated financial statements are also presented in pounds sterling. Foreign operations are included in accordance with the policies set out below.

The Company has taken advantage of the exemption in section 408 of the Companies Act from disclosing its individual profit and loss account.

FRS102 allows a qualifying entity certain disclosure exemptions in preparing its single entity financial statements, subject to certain conditions, which have been complied with, including notification of, and no objection to, the use of exemptions by the Company's shareholders. The Company meets the definition of a qualifying entity, and therefore has taken advantage of following exemptions in its financial statements:

- from preparing a statement of cash flows, on the basis that it is a qualifying entity and the consolidated statement of cash flows, included in these financial statements, includes the Company's cash flows (FRS102 p1.12 (b)); and
- from disclosing the Company key management personnel compensation, as required by FRS 103 p 33.7 (FRS102 p1.12 (e)).

b. Basis of consolidation

The Group financial statements consolidate the financial statements of the Company and its subsidiary undertakings drawn up to 31 December each year.

A subsidiary is an entity controlled by the Group.

All intra-Group transactions, balances income and expenses are eliminated on consolidation. Adjustments are made to eliminate the profit or loss arising on transactions with associates to the extent of the Group's interest in the entity.

Jagex Limited

Notes to the financial statements For the year ended 31 December 2017

c. Going concern

The Group and Company continue to hold significant cash reserves and are forecast to remain cash generative. The directors have reviewed the historic trading performance of the business and prepared forecasts for the foreseeable future, being a period of two years from the date of approval of these financial statements. These forecasts show that the Group has sufficient financial resources to meet its financial obligations as they fall due for the foreseeable future. Thus the directors have concluded that it is appropriate to continue to adopt the going concern basis of accounting in preparing the annual financial statements.

d. Tangible fixed assets

Tangible fixed assets are stated at cost, net of accumulated depreciation and any accumulated impairment losses. Depreciation is provided on all tangible fixed assets at rates calculated to write off the cost, less estimated residual value, of each asset on a straight-line basis over its expected useful life, as follows:

Computer equipment	33% per annum
Fixtures and fittings	20% per annum
Leasehold improvements	20% per annum

Residual value represents the estimated amount which would currently be obtained from the disposal of an asset, after deducting estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life.

e. Intangible Fixed Assets

Intangible fixed assets are measured at historic cost and are amortised on a straight line basis over their expected useful economic life. Amortisation is charged to administrative expenses in the profit and loss account.

Development costs directly attributable to a new product development controlled by the Group are recognised as intangible assets when the following criteria are met:

- Project is technically feasible
- The intention of the Company is to complete the product and sell it
- There is ability to sell the product
- It is likely the product will generate future economic benefits
- Resources are available to complete the product
- Expenditure of the product can be measured reliably.

f. Investments

Investments held as fixed assets are stated at cost less provision for any impairment in value.

g. Leases

Rentals under operating leases are charged on a straight-line basis over the lease term, even if the payments are not made on such a basis. Benefits received and receivable as an incentive to sign an operating lease are similarly spread on a straight-line basis over the lease term.

Assets held under finance leases and other similar contracts, which confer rights and obligations similar to those attached to owned assets, are capitalised as tangible fixed assets at the fair value of the leased asset (or, if lower, the present value of the minimum lease payments as determined at the inception of the lease) and are depreciated over the shorter of the lease terms and their useful lives. The capital elements of future lease obligations are recorded as liabilities, while the interest elements are charged to the profit and loss account over the period of the leases to produce a constant periodic rate of interest on the remaining balance of the liability.

Jagex Limited

Notes to the financial statements For the year ended 31 December 2017

h. Taxation

Current tax is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is provided in full on timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. Timing differences are differences between the Group's taxable profits and its results as stated in the financial statements that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the financial statements.

Unrelieved tax losses and other deferred tax assets are recognised only to the extent that, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax is measured using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date that are expected to apply to the reversal of the timing difference. Deferred tax relating to property, plant and equipment measured using the revaluation model and investment property is measured using the tax rates and allowances that apply to sale of the asset.

Where items recognised in other comprehensive income or equity are chargeable to or deductible for tax purposes, the resulting current or deferred tax expense or income is presented in the same component of comprehensive income or equity as the transaction or other event that resulted in the tax expense or income.

Current tax assets and liabilities are offset only when there is a legally enforceable right to set off the amounts and the Group intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Deferred tax assets and liabilities are offset only if: a) the Group has a legally enforceable right to set off current tax assets against current tax liabilities; and b) the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

i. Foreign exchange

Transactions in foreign currencies are recorded at the rate of exchange at the date of transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are reported at the rates of exchange prevailing at that date.

The results of overseas operations are translated at the average rates of exchange during the period, and their balance at the rates ruling at the balance sheet date. Exchange differences arising on translation of the opening net assets and results of overseas operations are reported in the statement of comprehensive income. All other exchange differences are included in the profit and loss account.

j. Research and development

Expenditure on research and development, except capitalised as intangible fixed assets, is written off to the profit and loss account in the year in which it is incurred.

k. Pensions

The Company operates a defined contribution pension scheme and the pension charge represents amounts payable by the Company to the fund in respect of the year. Differences between contributions payable in the year and contributions actually paid are shown as either accruals or prepayments in the balance sheet.

Jagex Limited

Notes to the financial statements For the year ended 31 December 2017

l. Stocks

Stocks are stated at the lower of cost and estimated selling price less costs to sell, which is equivalent to the net realisable value. Cost includes the cost of material plus expenditure incurred on freight and duty. Cost is calculated using the Weighted Average method. Provision is made for obsolete, slow-moving or defective items where appropriate.

m. Turnover

Turnover represents the amounts (excluding Value Added Tax), derived from the provision of goods and services to customers and is recognised as follows:

- revenue from the sale of subscriptions is recognised rateably over the period of the subscription, calculated on a daily basis;
- revenue from the sale of microtransactions that provide an ongoing benefit to a user's account is recognised over the expected engagement period of the game;
- revenue from the sale of microtransactions that provide an instant acceleration of gameplay to a user's account, providing an acceleration to in-game progression, is recognised at the point of acceleration. This is typically at the point of usage;
- advertising revenue is recognised in the accounting period in which it was earned. This is typically the period in which the advertisements are hosted.

n. Financial instruments

Financial assets and financial liabilities are recognised when the Group becomes a party to the contractual provisions of the instrument.

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities.

(i) Financial assets and liabilities

All financial assets and liabilities are initially measured at transaction price (including transaction costs), except for those financial assets classified as at fair value through profit or loss, which are initially measured at fair value (which is normally the transaction price excluding transaction costs), unless the arrangement constitutes a financing transaction. If an arrangement constitutes a financing transaction, the financial asset or financial liability is measured at the present value of the future payments discounted at a market rate of interest for a similar debt instrument.

Financial assets and liabilities are only offset in the balance sheet when, and only when there exists a legally enforceable right to set off the recognised amounts and the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Financial assets are derecognised when and only when a) the contractual rights to the cash flows from the financial asset expire or are settled, b) the Group transfers to another party substantially all of the risks and rewards of ownership of the financial asset, or c) the Group, despite having retained some, but not all, significant risks and rewards of ownership, has transferred control of the asset to another party.

Financial liabilities are derecognised only when the obligation specified in the contract is discharged, cancelled or expires.

(ii) Equity instruments

Equity instruments issued by the Company are recorded at the fair value of cash or other resources received or receivable, net of direct issue costs.

Jagex Limited

Notes to the financial statements For the year ended 31 December 2017

o. Impairment of assets

Assets, other than those measured at fair value, are assessed for indicators of impairment at each balance sheet date. If there is objective evidence of impairment, an impairment loss is recognised in profit or loss.

p. Share-based payment

The Company issues equity-settled share options to certain employees within the Group. Equity-settled share-based payment transactions are measured at fair value (excluding the effect of non-market-based vesting conditions) at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest and adjusted for the effect of non-market-based vesting conditions.

Fair value is measured by use of the Black Scholes pricing model which is considered by management to be the most appropriate method of valuation. 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.

3. Critical accounting judgements and key sources of estimation uncertainty

In the application of the Group'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.

Critical judgements in applying the Group's accounting policies

The following are the critical judgements, apart from those involving estimations (which are dealt with separately below), that the directors have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the financial statements.

Revenue recognition

In making its judgement, management considered the detailed criteria for the recognition of revenue from the sale of goods set out in FRS 102 Section 23 Revenue. The directors are satisfied that the significant risks and rewards have been transferred and that recognition of the revenue in the current year is appropriate.

Revenue relating to unused loyalty points has been deferred at the balance sheet date to the extent that these are expected to be redeemed. This deferral is based on the balance of outstanding, accumulated loyalty points and the expected usage of these based on historical data collated on their use within the game. However, in June 2016, a refresh of the loyalty points store was done and this resulted in an inability to place a value on loyalty points so no future deferrals of revenue in regards of this are to be made.

Key source of estimation uncertainty – Global Sales Tax Provisions

Determining whether, and to what extent, a potential Global Sales Tax liability exists in overseas countries requires an estimation based on available information and lack of final clarification from the local tax authorities.

The provision is based on our best estimates of the tax treatment in the countries in question taking into account the applicable tax rates, interest and potential penalties. The outcome of these potential liabilities is unclear although the directors believe the liabilities are probable and have recognised provisions accordingly.

Jagex Limited

Notes to the financial statements For the year ended 31 December 2017

4. Turnover

An analysis of the Group's turnover is as follows:

	2017 £	2016 £
Subscription revenue	55,050,417	46,879,490
Microtransaction revenue	29,284,408	27,025,917
Advertising revenue	329,359	375,560
Other income	199,515	142,811
	<u>84,863,699</u>	<u>74,423,778</u>

Other income includes revenue from ticket event sales and the sale of merchandise.

Turnover by geographic location has not been disclosed. As in the opinion of the directors, such disclosures could be seriously prejudicial to the interests of the Group.

5. Finance income/ (costs)

	2017 £	2016 £
Interest payable and similar charges	-	(2,290)
Less: Investment income	769,685	347,423
	<u>769,685</u>	<u>345,133</u>

Interest payable and similar charges

	2017 £	2016 £
Other finance charges	-	(2,290)

Investment income

	2017 £	2016 £
Other interest income	769,685	347,423

Jagex Limited

Notes to the financial statements For the year ended 31 December 2017

6. Profit on ordinary activities before taxation

Profit on ordinary activities before taxation is stated after charging/(crediting):

	2017 £	2016 £
Depreciation of tangible fixed assets (note 13)	886,370	1,429,385
Loss on disposal of fixed assets (note 13)	16,004	154,445
Bad debt expense	1,696	-
Research and development*	301,455	-
Operating lease rentals	1,800,841	1,004,405
Foreign exchange gain	1,947,107	(2,903,151)
Exceptional administrative expenses	1,088,240	9,279,671

*Development costs incurred during the year have been fully capitalised and subsequently impaired.

Included within current year exceptional administrative expenses are costs being £514,174 and £574,066 relating to corporate finance activity costs incurred and redundancy payments, respectively.

The analysis of the auditor's remuneration is as follows:

	2017 £	2016 £
Fees payable to the Company's auditors for the audit of the group and company's financial statements	60,000	60,000
Fees payable to the Company's auditor for other services	-	5,000
Other services relating to tax	-	-

No services were provided pursuant to contingent fee arrangements.

7. Staff numbers and costs

The average monthly number of employees
(including executive directors):

	2017	2016
Director(s)	1	2
Commercial/Management	66	63
Development	137	137
Customer relations	45	53
Technical	58	68
	307	323

Jagex Limited

Notes to the financial statements For the year ended 31 December 2017

Their aggregate remuneration comprised:

	2017 £	2016 £
Wages and salaries	15,347,855	15,891,711
Social security costs	1,726,823	1,908,346
Other pension costs	619,763	622,828
Share-based payment	-	23,153
	<u>17,694,441</u>	<u>18,446,038</u>

8. Directors' remuneration and transactions

	2017 £	2016 £
<i>Directors' remuneration</i>		
Emoluments	2,048,980	1,719,985
Company contributions to money purchase pension schemes	41,086	82,219
	<u>2,090,066</u>	<u>1,802,204</u>

	2017	2016
The number of directors who:		
Are members of a money purchase pension scheme	2	2
Had awards receivable in the form of shares under a long-term incentive scheme	<u>0</u>	<u>2</u>

	2017 £	2016 £
Remuneration of the highest paid director:		
Emoluments	1,493,231	1,419,363
Company contributions to money purchase schemes	5,846	70,969
	<u>1,499,077</u>	<u>1,490,332</u>

In 2016, the Group paid cash cancellation to participants in the Unapproved Employee Share Option Scheme. As a result of this cancellation, the highest paid director received a cancellation cash settlement of £435,177 (note 11).

Jagex Limited

Notes to the financial statements For the year ended 31 December 2017

9. Tax on profit on ordinary activities

The tax credit comprises:

	2017 £	2016 £
Current tax on profit on ordinary activities		
UK corporation tax	1,718,232	(123,063)
Adjustments in respect of prior years	(135,035)	(237,115)
Total current tax	1,583,197	(360,178)
Deferred tax		
Deferred tax asset (note 19)	-	-
Total tax on profit on ordinary activities	1,583,197	(360,178)

In recent years the UK Government has steadily reduced the rate of UK corporation tax, the latest rates set at 19% with effect from 1 April 2017 and further reduction to 17% with effect from 1 April 2020.

The closing deferred tax assets and liabilities have been calculated at 19% in accordance with the rates enacted at the balance sheet date. Having used 19% as the expected deferred tax rate, this is because that in the future the Group plans to use more outside specialists to develop games which therefore is not continued to qualify for VGTR. Runescape profits are expected to drop which lessens the relief qualified from Patent Box. Once other new games launch and generate profits it is likely in the next 2 years, the Group is going to be potentially liable to corporation tax. However, unrelieved tax losses and other deferred tax assets are not recognised on the basis of all available evidence and uncertainty of the Group's future profits. There is no expiry date on timing differences, unused tax losses or tax credits.

The differences between the total tax charge shown above and the amount calculated by applying the standard rate of UK corporation tax to the profit before tax, is as follows:

	2017 £	2016 £
Group profit on ordinary activities before tax	45,129,688	28,447,567
Tax on Group profit on ordinary activities at blended standard UK corporation tax rate of 19.25 per cent (2016: 20.00 per cent)	8,687,465	5,695,513
Effects of:		
- Expenses not deductible for tax purposes	99,788	2,097,102
- Fixed asset timing differences – deferred tax not recognised	36,417	-
- Other timing differences – deferred tax not recognised	603	-
- Utilisation of tax losses – deferred tax not recognised	(285,777)	(1,962,260)
- Video games tax relief	(2,118,278)	(2,021,752)
- Effect of other tax rates – video games tax relief	-	(24,613)
- Patent box	(4,648,979)	(3,907,053)
- Adjustments to tax charge in respect of previous periods – current tax	(135,035)	(237,115)
- Other adjustments	(53,007)	-
Group total tax credit for period	1,583,197	(360,178)

Jagex Limited

Notes to the financial statements For the year ended 31 December 2017

10. Profit attributable to the Company

The Company has elected to take the exemption under Section 408 of the Companies Act 2006, not to present the Company profit and loss account. Therefore, the profit for the Company for the financial year is shown in its individual balance sheet.

11. Share-based payments

Equity-settled share option schemes

The Company had a share option scheme for certain employees of the Company. Options were exercisable at a price equal to the estimated fair value of the Company's shares on the date of grant. The vesting period was up to five years. If the options had remained unexercised after a period of five years from the date of grant, the options expire. Options were forfeited if the employee leaves the Company before the options vest.

Details of the share options outstanding during the year are as follows:

	2017		2016	
	Number of share options	Weighted average exercise price (£)	Number of share options	Weighted average exercise price (£)
Outstanding at beginning of period	-	-	19,889,635	013
Forfeited during the period	-	-	(2,253,498)	013
Cash cancelled during the period	-	-	(17,636,137)	005
Outstanding at the end of the period	-	-	-	-
Exercisable at the end of the period	-	-	-	-

The fair value of the share options at the grant date was calculated using the Black Scholes model, which is considered to be the most appropriate generally accepted valuation method of measuring fair value.

The Group recognised total expenses of £23,153 related to equity-settled share-based payment transactions in 2016.

The Group paid cash cancellation to participants in the Unapproved Employee Share Option Scheme, amounting to £1,096,295 immediately prior to take over. The unused share based payment reserve has been transferred to profit and loss reserve.

Jagex Limited

Notes to the financial statements For the year ended 31 December 2017

12. Intangible fixed assets

Group and Company	Intellectual property £	Development costs £	Total £
Cost			
At 1 January 2017	349,800	180,575	530,375
Additions	-	120,880	120,880
At 31 December 2017	349,800	301,455	651,255
Amortisation			
At 1 January 2017	349,800	-	349,800
Charge for the year	-	301,455	301,455
At 31 December 2017	349,800	301,455	651,255
Net book value			
At 31 December 2017	-	-	-
At 31 December 2016	-	180,575	180,575

13. Tangible fixed assets

Group and Company	Leasehold improvements £	Fixtures and fittings £	Computer equipment £	Total £
Cost				
At 1 January 2017	2,163,651	310,281	5,589,647	8,063,579
Additions	836,447	40,693	575,413	1,452,553
Disposals	(1,007,011)	(252,486)	(127,332)	(1,386,829)
At 31 December 2017	1,993,087	98,488	6,037,728	8,129,303
Depreciation				
At 1 January 2017	1,849,739	246,098	4,536,699	6,632,536
Charge for the year	193,125	24,756	668,489	886,370
Disposals	(994,751)	(248,742)	(127,332)	(1,370,826)
At 31 December 2017	1,048,113	22,111	5,077,856	6,148,080
Net book value				
At 31 December 2017	944,974	76,377	959,872	1,981,223
At 31 December 2016	313,912	64,183	1,052,948	1,431,043

Jagex Limited

Notes to the financial statements For the year ended 31 December 2017

14. Fixed asset investments

Principal Group investments

The Company has invested in the following subsidiary undertakings and investments were fully impaired.

<i>Subsidiary undertaking</i>	<i>Country of incorporation</i>	<i>Principal Activity</i>	<i>Holdings</i>	<i>Percentage</i>
Jagex Holdings Limited, Inc.*	United States	Non-trading	Ordinary	100%
Jagex Managements Limited, Inc.*	United States	Dormant	Ordinary	100%

*Both subsidiaries are controlled directly by Jagex Limited.

15. Inventories

	2017 £	2016 £
Group and Company		
Finished goods and goods for resale	41,300	200,045

There is no material difference between the balance sheet value of stock and their replacement costs.

16. Debtors

	Group		Company	
	2017 £	2016 £	2017 £	2016 £
Amounts falling due within one year:				
Trade debtors	5,323,417	4,391,755	5,323,417	4,391,755
Prepayments and accrued income	2,173,499	3,179,130	2,173,499	3,179,130
Other debtors	1,928	1,899	1,928	1,899
Corporation tax	-	858,835	-	858,835
Amount owed by group undertakings*	28,738,288	26,062,657	28,738,288	26,062,657
	36,237,132	34,494,276	36,237,132	34,494,276
Amounts falling due after more than one year:				
Other debtors	851,783	880,525	851,267	879,959
	851,783	880,525	851,267	879,959

*Amounts owed by group undertakings relate to unsecured loans with an interest rate chargeable at 2.0% + LIBOR, with no fixed date of repayment and are repayable on demand.

Jagex Limited

Notes to the financial statements For the year ended 31 December 2017

17. Creditors – amounts falling due within one year

	Group		Company	
	2017	2016	2017	2016
	£	£	£	£
Trade creditors	665,298	1,077,043	665,298	1,076,936
Corporation tax	1,460,125	-	1,460,125	-
Other taxation and social security	1,658,465	1,310,188	1,658,465	1,310,188
Proposed and unpaid dividends	12,000,000	-	12,000,000	-
Other creditors	98,626	100,853	98,626	100,853
Accruals and deferred income	18,772,014	17,574,727	18,772,014	17,574,727
	<u>34,654,528</u>	<u>20,062,811</u>	<u>34,654,528</u>	<u>20,062,704</u>

18. Provisions for liabilities

	Provisions for Global Sales Tax £
Group and Company	
At 1 January 2017	5,212,469
Charged to profit and loss account	682,142
At 31 December 2017	<u>5,894,611</u>

Provisions for Global Sales Tax

The provision for global sales tax represents management's estimate of tax which could become due on sales in territories outside the United Kingdom. The provision is based on our best estimates of the tax treatment in the countries in question taking into account the applicable tax rates, interest and potential penalties. The outcome of these potential liabilities is unclear although the directors believe the liabilities are probable and have recognised provisions accordingly.

Jagex Limited

Notes to the financial statements For the year ended 31 December 2017

19. Deferred tax asset

Group and Company

Deferred tax assets and liabilities are offset only where the Group has a legally enforceable right to do so and where the assets and liabilities relate to income taxes levied by the same taxation authority on the same taxable entity or another entity within the Group.

No deferred tax asset is recognised during the year.

Unrecognised deferred tax asset

A deferred tax asset is not recognised in the current year as in the Directors' opinion there is no certainty of future taxable profits to offset these against.

	2017 £	2016 £
Group and Company		
Accelerated capital allowances	489,303	462,852
Tax losses available	831,244	1,197,602
Other timing differences	18,739	18,144
	<u>1,339,286</u>	<u>1,678,598</u>

The tax losses are generated by games that are under development which under VGTR rules the tax losses available are locked until the game in which they relate to is either launched and at which point any available losses will be used against profits generated by the game or if the project is cancelled at which point the losses can be used to offset any profits generated by other games.

20. Financial instruments

The carrying values of the Group and Company's financial assets and liabilities are summarised by category below:

	Group		Company	
	2017 £	2016 £	2017 £	2016 £
Financial assets				
Measured at undiscounted amount receivable				
• Trade and other debtors (note 16)	6,176,612	5,274,179	6,176,612	5,273,613
Equity instruments measured at cost less impairment				
• Loan to other group companies (note 16)	28,738,288	26,062,657	28,738,288	26,062,657
	<u>34,914,900</u>	<u>31,336,836</u>	<u>34,914,900</u>	<u>31,336,270</u>
Financial liabilities				
Measured at undiscounted amount payable				
• Trade and other creditors (note 17)	<u>12,763,924</u>	<u>2,488,084</u>	<u>12,763,924</u>	<u>2,487,977</u>

Jagex Limited

Notes to the financial statements For the year ended 31 December 2017

21. Called-up share capital and reserves

	2017 £	2016 £
Allotted, called-up and fully-paid 1,126,753,629 ordinary shares of 10p each	11,267	11,267

The Company has one class of ordinary shares which carry no right to fixed income.

The Group and Company's other reserves are as follows:

- The share premium reserve contains the premium arising on issue of equity shares, net of issue expenses.
- The share-based payment reserve represents the extent of cumulative expenses relating to equity settled share-based payment transactions.
- Retained earnings represents the cumulative profits or losses brought forward and profit for the year attributable to owners, net of dividends paid and other adjustments.

22. Cash flow statement

Reconciliation of operating profit to cash generated by operations:

	2017 £	2016 £
Operating profit	44,360,003	28,132,434
Adjustment for:		
Share-based payment expense	-	23,153
Depreciation and amortisation	1,187,824	1,429,385
Fixed asset disposal adjustment in 2015	-	(29,848)
Loss on sale of tangible fixed assets	16,004	154,445
Operating cash flow before movement in working capital	45,563,831	29,709,569
Decrease/(increase) in stocks	158,745	14,641
Decrease/(increase) in debtors	102,632	208,279
Increase in creditors	1,131,592	1,314,515
Increase/(decrease) in provisions	682,142	241,677
Cash generated by operations	47,638,942	31,488,681

Jagex Limited

Notes to the financial statements For the year ended 31 December 2017

23. Financial commitments

Total future minimum lease payments under non-cancellable operating leases are as follows:

	2017		2016	
	Land and buildings £	Other £	Land and buildings £	Other £
Group and Company				
- within one year	1,657,232	-	1,088,987	1,576
- between one and five years	11,127,385	-	8,333,663	-
- after five years	3,859,256	-	8,310,211	-
	<u>16,643,873</u>	<u>-</u>	<u>17,732,861</u>	<u>1,576</u>

As at the date of this report capital commitment for refurbishment of the office is approx. £400K.

25. Employee benefits

Defined contribution schemes

The Group operates defined contribution retirement benefit schemes for all qualifying employees. The total expense charged to profit or loss in the year ended 31 December 2017 was £619,763 (2016: £622,828).

26. Related party transactions

Group

Transactions with parent company

At the balance sheet date, amounts due from the immediate parent company Shanghai Hongtou Network Technology Co., Ltd and the ultimate parent company Shanghai Fukong Interactive Entertainment Co., Ltd were £28,697,797 and £40,491, respectively (note 16).

Transactions with key management personnel

The total remuneration for key management personnel for the period totalled £3,550,795 (2016: £3,354,821), including directors' remuneration disclosed in note 8 of £2,090,066 (2016: £1,802,204).

Company

Other than transactions disclosed in note 8, the Company's other related party transactions were with wholly owned subsidiaries and so have not been disclosed.

27. Controlling party

The immediate parent company is Shanghai Hongtou Network Technology Co Limited which owns 100% of the shares of the Company, a company registered in P.R.China.

The ultimate parent company is Shanghai Fukong Interactive Entertainment Co., Ltd (formerly known as: Shanghai Zhongji Investment Holding Co., Ltd), a company registered in P.R.China and listed in Shanghai stock exchange.

28. Events after the reporting period

A dividend distribution of £12m in the year proposed and non-cancellable, was paid post year end. Further dividends of £15m and £3m were proposed after year end, and paid on 24 January 2018 and 2 February 2018, respectively.