

Jagex Limited
Annual report and financial statements
for the year ended 31 December 2019

Company Registration Number: 03982706

THURSDAY



A9J3CMMJ

A16

03/12/2020

#338

COMPANIES HOUSE

Jagex Limited

Report and Financial Statements 31 December 2019

Contents

	Page
Officers and professional advisors	1
Strategic report	2
Directors' report	8
Directors' responsibilities statement	11
Independent auditor's report to the members of Jagex Limited	12
Consolidated profit and loss account	15
Consolidated statement of comprehensive income	16
Consolidated balance sheet	17
Company balance sheet	18
Consolidated statement of changes in equity	19
Company statement of changes in equity	20
Consolidated cash flow statement	21
Notes to the financial statements	22

Jagex Limited

Report and Financial Statements 31 December 2019

Officers and Professional Advisers

Directors

P Mansell

Z Feng

S Yuan

J Yang (Appointed 30/09/2019)

Y Yang (Appointed 30/09/2019)

Secretary

S Sullivan

Registered Office

220 Cambridge Science Park

Milton

Cambridge

CB4 0WA

U.K.

Auditor

Shineving Wilson Accountancy Limited

Statutory Auditor

9 St Clare Street

London

EC3N 1LQ

U.K.

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

2019 was extraordinary year for Jagex, bringing significant growth in financial performance, increase in workforce strength and a step-change of greater investments in new products and technologies. Both RuneScape and Old School RuneScape continued with strong performance, especially benefiting from the surge of customers following Old School RuneScape's mobile release in Q4 2018, driving revenue to £110.9m and net profit to £46.2m. The workforce increased from 337 to 377 employees within the year, with an emphasis on significantly boosting the company's roster of product and technical leads. The company continues to increase investment into new game development and service platform technology to drive future growth, with an increase in R&D spending from £2.4m to £6.7m on new games and new developments. We are proud that these achievements have come even in the face of corporate headwinds caused by the parent company's challenges in China and potential company sale. We extend our thanks to our staff and communities of players for Jagex's fantastic results in 2019.

Market context

The video games market continues to grow, with analysts' forecasting 2019 sector revenues at \$152 billion, a +9.6% increase year on year. Although mobile games remain the largest segment of this market at 36% total market share, PC games are forecast to achieve a healthy growth rate of 6.6% year on year and reach \$32.2 billion revenues. In North America and Europe, the CAGR of PC games is forecast through 2022 to remain at over 6%, outpacing the global average of 4.8%. Free-to-play games titles are forecast to represent 80% of total digital game revenues. Sources: NewZoo Global Games market report, Jan 2020.

Market position

Jagex participates in the video games industry by developing, publishing and operating online games and associated services. In 2019, 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 engaging community activities. The year also saw Jagex cement itself as a multi-platform developer, with Old School RuneScape game being available on mobile in addition to traditional PC platforms, and with the Early Access release of RuneScape for mobile.

Our business strategy is to continue deliver products and services across multiple platforms, nurturing our existing games, expanding their reach and creating new experiences within the RuneScape fantasy universe, to maintain and grow our overall customer base.

Operating performance analysis

Jagex has continued to focus on the core products RuneScape and Old School RuneScape, with on-going investment in their live operations and expansion onto additional devices and distribution platforms, especially mobile.

Combining a highly customer-centric mindset with operational excellence, the team have delivered with fantastic success, driving Company revenues to grow by over 19% year on year to £110.9m. And Earnings Before Interest, Tax, Depreciation and Amortization increased to £48.9m. 2019 saw an increase in exceptional and non-operational costs incurred due to the potential company sale and board/parent activities.

This growth in profit was achieved in combination with significant additional investment into enhancing Jagex's existing games, developing new titles, and extending our technology base, in order to build longer-term growth opportunities.

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.

Jagex Limited

Strategic Report

This approach brings long-term user retention, high rates of return for lapsed players and robust recurring revenue. In 2019, RuneScape's product revenue remained stable at revenue of £43m (2018: £47m), the year on year difference being further tapering of micro-transactions offerings in light of customer sentiment and fatigue, whilst subscription revenue held level. The team continue to provide regular new game content, made on-going refinements to the game's operations, and continued to develop and test the mobile version, reaching an Early Access public test in Q4 2019.

Old School RuneScape's product revenue increased to £65m (2018: £45m), benefiting from the full year of availability of mobile devices. Both RuneScape and Old School RuneScape maintained a strong presence on social media and video platforms throughout the year through events including competitive tournaments and the RuneFest fan convention.

In 2019 Jagex's parent companies experienced market challenges and announced they were exploring a potential sale of assets that could include Jagex. Although the impact of such corporate events on operations was minimized, it did create more challenges in recruitment and staff retention. It was also a factor in the board of directors temporarily deferring signing of titles for Third-Party Publishing, which meant no external product was signed for publishing in 2019.

S.172 statement

Jagex directors, having regard to the interests of all their stakeholders, take seriously their duty under S172 of the Companies Act 2006 to promote the success of the company and this statement will outline how this has been achieved during the most recent financial year.

Jagex is a digital direct-to-consumer business with minimal physical supply chain and a high degree of self-sufficiency, and the directors consider their primary stakeholders to be their shareholders, employees and customers.

The company's annual operating plan is built by the board of directors based on proposals made by the senior management team. This operating plan covers operational goals and targets, annual budgeting and operating strategies, and is set within the context of the long-term growth strategy of the business. Once considered by the board of directors and approved, the operating plan provides a framework from which management can operate with day-to-day autonomy. Anything falling outside the approved business plan is subject to additional discussion and approval from the board of directors.

Board of Directors approach to decision making

The board of directors is kept informed of financial and general operating matters through monthly business analysis reports compiled by the senior management team. This report includes product performance trends, summaries of customer feedback and an update on the progress of key projects, as well as details of the senior management team's response to significant staff or customer feedback.

The board takes a view on long-term decisions based on research, and financial and analytical modelling, which it receives in the form of detailed proposals presented by the management team to the board. This could include, but not be limited to, new product development, acquisition opportunities and strategic partnerships.

Employee Engagement

To support Jagex's strategic aims we believe our talent base is critical to our success. Employee engagement is therefore crucial, and we are focused on providing staff with an enriching experience, which ultimately translates to an engaged customer base and the commercial success of the Company. In order to ensure its continuing success, Jagex needs to attract and retain exceptional talent and to invest in its people to enable them to advance the strategic aims of Jagex.

The company undertakes regular employee surveys to enable it to understand the experience of its employees and to track engagement. The output of those surveys is reviewed and used to inform Jagex's people strategy. In the 2019 survey the response rate was more than 90%, demonstrating an appetite for staff to share their feedback and continue to evolve Jagex's employer proposition and the experience provided for our people.

Jagex Limited

Strategic Report

The board of directors support significant levels of investment in training, online learning, paid-for external development, and the hosting of internal company-wide learning events. This sits alongside a generous benefits package which includes private medical insurance, pension contributions above the statutory minimum requirement and an annual bonus scheme. This enables Jagex to stand out in a highly competitive labour market, and to attract employees from Cambridge and the UK, as well as a growing number of high-profile international hires over the course of the past financial year.

The board of directors recognises the importance of having a diverse workforce that both reflects the company's player base of millions from around the world, and which strengthens its business growth. Jagex is committed to promoting fairness and equality in the workplace which it demonstrates through a number of policies, including: Equal Opportunities Policy; Flexible Working Policy; Parental Leave Policy; and Maternity, Paternity and Adoption Policies. The company has also established a dedicated Diversity Group, made up of staff from across the business.

Jagex has and will continue to make a concerted effort to ensure female representation in the recruitment candidate pool. The best candidate will always be chosen, with greater representation increasing the chances of improving the company's gender balance, and Jagex has seen positive changes in the past year.

Promotion of our relationship with our customers

As a company in a dynamic and competitive sector of video games and consumer entertainment, frequent and meaningful engagement with customers is hugely important.

Customer feedback is collated by multiple teams and fed back to the Development team, mainly by the Community Management team, whose primary focus is customer engagement, sentiment monitoring, management and communication. Our customers have a direct impact on the content we make and help us to shape our content roadmap, uniquely voting on content for our hugely successful and award-winning title Old School RuneScape.

In order to fully understand its customers, Jagex enjoys an ongoing dialogue with them through social platforms including Twitter, Facebook, Instagram, Reddit, Discord and Twitch, as well as dedicated player forums.

Jagex has face-to-face interaction with players at its annual two-day fan convention, RuneFest, which attracts approximately 1,500 players and which is attended by more than 100 player-facing members of staff. In addition, the company hosts regular customer visits and play tests, enabling Jagex to engage in deep discussions with selected groups of customers on new and existing content.

Jagex is also absolutely committed to the online safety of our customers when engaging with our products. The company is acknowledged as a proactive leader in the industry when it comes to protecting its customers, and Jagex continues to evolve its community safety, moderation and safeguarding tools and procedures.

To support our safeguarding of customers online, we have an advanced proprietary chat monitoring system that scans more than 86 million lines of in-game chat every day to identify anything requiring manual review by our dedicated team. Any chat logs that relate to a player's safety, or appear to break UK laws, are passed to the relevant authorities and law enforcement agencies.

We have developed our online safety policies and procedures in partnership with:

- Internet Watch Foundation
- Local Cambridge Police
- Child Exploitation and Online Protection Centre (CEOP)
- NCA (National Crimes Agency)
- Sharing best practice in the games industry at conferences, and the Quarterly NCA Gaming Round Table (of which we are a steering committee member)

Relationship with Suppliers

Jagex has a zero-tolerance to human trafficking and slavery and expects its suppliers to take the same approach. The board of directors has approved the publication of the company's Modern Slavery Act statement and will support the senior management team in its review of its policies and procedures to ensure continued compliance.

In its relationship with suppliers, Jagex seeks to maintain a reputation for fairness and high standards through striving for contracts that provide mutual benefit, and ensuring that suppliers are paid on time.

Jagex Limited

Strategic Report

Engagement with the wider community and environmental issues

Throughout the year, the board has supported initiatives to improve energy efficiency, increase recycling, and support charities important to the company's customer base, in particular charities with a mental health focus. Currently these charity partners are CPSL Mind, The Prince's Trust, and Rise Above the Disorder. Jagex also supports Special Effect, which provides access to games for people with disabilities. Our charities efforts have seen Jagex staff have raised in excess of £1million for charity since 2014 with help from our staff and players, and we are proud of this important contribution.

Finally, in addition to our charitable contributions, we have also implemented various environmentally focused initiatives throughout the year, monitoring our carbon footprint; reducing energy consumption and disposables are key components.

Engagement with the regulators and understanding of regulatory strategy

We have been an active contributor to the UK games trade body which works with government to champion a range of issues including age ratings, education and skills, access to finance and protecting intellectual property rights.

In our support for ongoing engagement with the government to rebalance the debates around video games we also volunteered to attend the Digital, Culture, Media and Sport Committee in its inquiry into immersive and addictive technologies.

Looking ahead

The board of directors are excited about Jagex's future and anticipate continued growth and success for the business, connecting and inspiring our customers through play.

The company will continue to enhance the existing products and seek to expand their availability to a wider set of potential customers across more device types, distribution platforms and regions.

Jagex is also increasing focus on investments to support further growth, including on-going modernisation and enrichment of our game service platform technologies, plus investment into new games and pursuit of publishing opportunities by partnering with likeminded developers of live games.

In 2019 new product and technologies R&D investment increased to £6.7m, of which £4.7m was capitalised.

The Company employed 380 people by the end of 2019 and the Board of Directors are appreciative of their 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

Jagex Limited

Strategic Report

The Group Performance in 2019 and comparative information for the previous year is summarized below.

	Year ended 31 December 2019	Year ended 31 December 2018
Revenue (£000)	110,858	92,814
Exceptional Items (£000)	1,932	419
Operating profit (£000)	48,008	45,984
Headcount (average)	377	337
Annual Subscribers (million)	3.408	2.949

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.
- impact of uncertainty due to UK's decision to leave the EU, including impact of foreign exchange and the talent market.
- potential and confirmed regulation update, such as new IR35 change effective from April 2020
- evaluating and identifying temporary staff potentially impacted by the change of IR35 and updating company policy to comply. Budget provision has also been provided in 2020 to cover any potential costs for implementation

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;
- developing and launching new games including the mobile OS, mobile RS and other new titles whilst regularly monitoring the player behaviour 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.
- working with external consultants to mitigate the immediate risks of Brexit and align company strategy to accommodate any uncertainties until a future UK-EU relationship has been determined, while we do not see significant change to existing conditions during the transition period.

Jagex Limited

Strategic Report

Future Developments

The company's key strategy remains to expand the reach of the RuneScape franchise and further enrich player engagement with our games and their communities.

This includes on-going improvements to the existing RuneScape and Old School RuneScape games, with frequent updates and upgrades driven by our player communities.

Following the successful launch of Old School RuneScape onto mobile devices in October 2018, Jagex continues to improve this mobile experience and continues to build the mobile client for RuneScape, to provide cross-platform play for all users.

R&D continues for new products, including within the RuneScape franchise, and to enhance our game development, game publishing and game service technology capabilities. In future years we intend to leverage these capabilities to partner with external developers to publish their titles and expand our portfolio of multiplayer community-driven games.



P Mansell
Director

28 Feb 2020

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 2019.

Future developments

Details of future developments can be found in the Strategic Report and forms part of this report by cross-reference on page 7.

Research and development

The Group is continually updating its current game offering. Development expenditure for existing live 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 sufficient cash reserves and are forecast to remain cash positive. 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 6.

Post balance sheet event

Except disclosure in note 25, there have been no significant post balance sheet events which have affected the Company and Group since the year end.

Dividends

Dividends of £76.4m including non-cash dividends declared to fully set off against inter-company loan, cash dividends declared were paid in year 2019 (2018: £42.9m proposed including non-cash dividends of £2.1m, £35.8m paid in the year and the remaining £5.0m paid in 2019).

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 in the same currency where possible, and arrange the contracts in relevant currency if applicable.

Jagex Limited

Directors' Report

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.

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 (Resigned 04/10/2019)
P Mansell
Y Huang (Resigned 04/10/2019)
S Yuan
J Feng
J Yang (Appointed 30/09/2019)
Y Yang (Appointed 30/09/2019)

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 13), which are directly controlled by Jagex Limited.

Jagex Limited

Directors' Report

Disclosure of information to auditors

Each of the persons who is a director at the date of approval of this report confirms that:

- so far as the director is aware, there is no relevant audit information of which the Company's auditor is unaware; and
- the director has taken all the steps that 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.

Independent auditors

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:



P Mansell
Director

28 Feb 2020

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 2019 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 25. 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".

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 2019 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.

Jagex Limited

Independent auditor's report to the members of Jagex Limited

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.

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 11, 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.

Jagex Limited

Independent auditor's report to the members of Jagex Limited

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.



Julie Zhuge Wilson (Senior Statutory Auditor)
for and on behalf of Shinewing Wilson Accountancy Limited
Statutory Auditor
9 St. Clare Street
London
EC3N 1LQ

04/03/2020

Jagex Limited

Consolidated profit and loss account For the year ended 31 December 2019

	Note	2019 £	2018 £
Turnover	4	110,858,720	92,814,334
Cost of sales		(39,108,355)	(31,550,907)
Gross profit		71,750,365	61,263,427
Administrative expenses			
Exceptional administrative expenses	6	(1,932,724)	(419,222)
Other administrative expenses		(21,809,091)	(14,859,834)
Total administrative expenses		(23,741,815)	(15,279,056)
Operating profit		48,008,550	45,984,371
Finance income/(costs) (net)	5	423,477	879,443
Profit on ordinary activities before taxation		48,432,027	46,863,814
Tax on profit on ordinary activities	9	(2,146,435)	(1,778,516)
Profit for the financial year		46,285,592	45,085,298

All activities derive from continuing operations.

Jagex Limited

Consolidated statement of comprehensive income For the year ended 31 December 2019

	2019 £	2018 £
Profit for the financial year	46,285,592	45,085,298
Other comprehensive income		
Currency translation difference on foreign currency net investments	(1,723)	6,226
Total comprehensive income	<u>46,283,869</u>	<u>45,091,524</u>

Jagex Limited

Consolidated balance sheet At 31 December 2019

	Note	2019 £	2018 £
Fixed assets			
Intangible assets	11	4,680,052	-
Tangible assets	12	1,487,595	2,057,052
		<u>6,167,647</u>	<u>2,057,052</u>
Current assets			
Debtors			
– due within one year	14	12,954,514	43,106,462
– due after one year	14	256,910	271,422
Cash at bank and in hand		14,877,494	29,328,766
		<u>28,088,918</u>	<u>72,706,650</u>
Creditors: Amounts falling due within one year	15	<u>(24,103,998)</u>	<u>(33,983,284)</u>
Net current assets		<u>3,984,920</u>	<u>38,723,366</u>
Total assets less current liabilities		<u>10,152,567</u>	<u>40,780,418</u>
Creditors: Amounts falling due after more than one year			
Provisions for liabilities	16	<u>(1,140,146)</u>	<u>(1,644,222)</u>
Net assets		<u>9,012,421</u>	<u>39,136,196</u>
Capital and reserves			
Called-up share capital	19	11,267	11,267
Share premium account		80	80
Profit and loss account		9,001,074	39,124,849
Shareholders' funds		<u>9,012,421</u>	<u>39,136,196</u>

The consolidated financial statements of Jagex Limited, Company registered number 03982706, were approved by the board of directors and authorised for issue on 28 Feb 2020. They were signed on its behalf by:



P Mansell
Director

Jagex Limited

Company balance sheet At 31 December 2019

	Note	2019 £	2018 £
Fixed assets			
Intangible assets	11	4,680,052	-
Tangible assets	12	1,487,595	2,057,052
Investments	13	-	-
		<u>6,167,647</u>	<u>2,057,052</u>
Current assets			
Debtors			
– due within one year	14	12,954,514	43,106,462
– due after one year	14	256,910	271,422
Cash at bank and in hand		<u>14,790,828</u>	<u>29,239,246</u>
		28,002,252	72,617,130
Creditors: Amounts falling due within one year	15	<u>(24,103,998)</u>	<u>(33,983,087)</u>
Net current assets		<u>3,898,254</u>	<u>38,634,043</u>
Total assets less current liabilities		10,065,901	40,691,095
Creditors: Amounts falling due after more than one year			
Provisions for liabilities	16	<u>(1,140,146)</u>	<u>(1,644,222)</u>
Net assets		<u>8,925,755</u>	<u>39,046,873</u>
Capital and reserves			
Called-up share capital	19	11,267	11,267
Share premium account		80	80
Profit and loss account		<u>8,914,408</u>	<u>39,035,526</u>
Shareholders' funds		<u>8,925,755</u>	<u>39,046,873</u>

The Company's profit and the total comprehensive income for the year were £46,286,526 (2018: £45,086,829).

The financial statements of Jagex Limited, registered number 03982706, were approved by the board of directors and authorised for issue on 28 Feb 2020. They were signed on its behalf by:



P Mansell
Director

Jagex Limited

Consolidated statement of changes in equity At 31 December 2019

	Called-up share capital £	Share premium account £	Profit and loss account £	Total £
At 1 January 2018	11,267	80	36,952,037	36,963,384
Profit for the financial year	-	-	45,085,298	45,085,298
Currency translation difference on foreign currency net investments	-	-	6,226	6,226
Total comprehensive income	-	-	45,091,524	45,091,524
Dividends	-	-	(42,918,712)	(42,918,712)
At 31 December 2018	11,267	80	39,124,849	39,136,196
Profit for the financial year	-	-	46,285,592	46,285,592
Currency translation difference on foreign currency net investments	-	-	(1,723)	(1,723)
Total comprehensive income	-	-	46,283,869	46,283,869
Dividends	-	-	(76,407,644)	(76,407,644)
At 31 December 2019	11,267	80	9,001,074	9,012,421

Jagex Limited

Company statement of changes in equity

At 31 December 2019

	Called-up share capital £	Share premium account £	Profit and loss account £	Total £
At 1 January 2018	11,267	80	36,867,409	36,878,756
Profit for the financial year	-	-	45,086,829	45,086,829
Total comprehensive income	-	-	45,086,829	45,086,829
Dividends	-	-	(42,918,712)	(42,918,712)
At 31 December 2018	11,267	80	39,035,526	39,046,873
Profit for the financial year	-	-	46,286,526	46,286,526
Total comprehensive income	-	-	46,286,526	46,286,526
Dividends	-	-	(76,407,644)	(76,407,644)
At 31 December 2019	11,267	80	8,914,408	8,925,755

Jagex Limited

Consolidated cash flow statement For the year ended 31 December 2019

	Note	2019 £	2018 £
Net cash from operating activities	20	48,319,861	40,400,709
Taxation paid		(4,101,123)	-
Net cash generated from operating activities		44,218,738	40,400,709
Cash flows from investing activities			
Purchase of equipment		(379,464)	(1,048,969)
Development costs		(4,680,596)	(753,878)
Loan repayment from/(made to) parent company		27,375,940	1,362,347
Interest received		423,477	879,443
Net cash used in investing activities		22,739,357	438,943
Cash flows from financing activities			
Prior Year Proposed Dividends Paid		(5,000,000)	(6,984,216)
Dividends paid to owners (including set off against owner's loan)		(76,407,644)	(42,918,712)
Net cash used in financing activities		(81,407,644)	(49,902,928)
Net increase/(decrease) in cash and cash equivalents		(14,449,549)	(9,063,276)
Cash and cash equivalents at beginning of year		29,328,766	38,401,085
Effect of foreign exchange rate changes		(1,723)	(9,043)
Cash and cash equivalents at end of year		14,877,494	29,328,766
Reconciliation to cash at bank and in hand:			
Cash at bank and in hand		14,877,494	29,328,766
Cash and cash equivalents		14,877,494	29,328,766

Jagex Limited

Notes to the financial statements

For the year ended 31 December 2019

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 220 Cambridge Science Park, Milton Road, Cambridge, CB4 0WA.

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, and under the 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 exemption in preparing its single entity financial statements. 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 2019

c. Going concern

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. After taking account of current cash resources and possibly reasonable changes, 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.

Jagex Limited

Notes to the financial statements For the year ended 31 December 2019

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 2019

l. 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.

m. 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.

n. 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.

Jagex Limited

Notes to the financial statements For the year ended 31 December 2019

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.

Capitalisation of internally generated intangible assets

The directors and management assess each project according to FRS 102, section 18 'Intangible Assets' criteria throughout the project life. Judgement is required to determine whether criteria are met, in particular the future economic benefits that will be generated and the intention of the group to complete development and use or sell the asset. These judgements are dependent on expectations of future events.

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.

Tax Provisions

Global Sales

Determining whether, and to what extent, a potential Global Sales Tax liability exists in overseas countries requires an estimation based on available information, where there is 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.

Corporation tax

The group's current tax provision incorporates management's assessment of the amount of tax payable and the extent of reclaimable tax credits, which are subject to receiving the applicable British Video Game interim certificates. In making this assessment, management considers that potential tax losses generated from the games Next Gen and Aftermath do not yet meet the recognition criteria.

Deferred tax assets

The management also exercised judgement on estimating deferred tax assets, as detailed in Note 17.

Jagex Limited

Notes to the financial statements For the year ended 31 December 2019

4. Turnover

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

	2019 £	2018 £
Subscription revenue	87,285,223	67,653,172
Microtransaction revenue	20,753,300	24,636,082
Advertising revenue	225,877	268,542
Other income	2,594,320	256,538
	<u>110,858,720</u>	<u>92,814,334</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

	2019 £	2018 £
Interest income from group undertaking (note 14)	265,875	759,889
Other interest income	157,602	119,554
	<u>423,477</u>	<u>879,443</u>

Jagex Limited

Notes to the financial statements For the year ended 31 December 2019

6. Profit on ordinary activities before taxation

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

	2019 £	2018 £
Depreciation of tangible fixed assets (note 12)	946,351	969,989
Amortisation of intangible fixed assets (note 11)	544	62,817
Loss on disposal of fixed assets (note 20)	2,570	3,151
Loss on disposal of intangible fixed assets	-	691,061
Impairment of inventory	-	41,300
Bad debt expense	-	32
Research and Development costs	2,002,404	1,395,750
Charge / (Released) GST (note 16)	(504,076)	(2,075,704)
Operating lease rentals	943,107	1,702,973
Foreign exchange gain	452,213	1,197,177
Exceptional administrative expenses	1,932,724	419,222

Current year exceptional administrative expenses are mainly associated with directors' settlement costs and litigation costs.

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

	2019 £	2018 £
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		
Other services (non-tax)	60,000	30,000

No services were provided pursuant to contingent fee arrangements.

Jagex Limited

Notes to the financial statements For the year ended 31 December 2019

7. Staff numbers and costs

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

	2019	2018
Director(s)	2	2
Commercial/Management	80	72
Development	174	156
Customer relations	38	35
Technical	83	72
	<u>377</u>	<u>337</u>

Their aggregate remuneration comprised:

	2019 £	2018 £
Wages and salaries	30,090,304	19,537,243
Social security costs	3,367,808	2,422,954
Other pension costs	1,317,104	789,821
	<u>34,775,216</u>	<u>22,750,018</u>

8. Directors' remuneration and transactions

	2019 £	2018 £
<i>Directors' remuneration</i>		
Emoluments	5,663,885	971,321
Company contributions to money purchase pension schemes	58,480	42,969
	<u>5,722,365</u>	<u>1,014,290</u>

	2019	2018
The number of directors who:		
Are members of a money purchase pension scheme	<u>2</u>	<u>2</u>

	2019 £	2018 £
Remuneration of the highest paid director:		
Emoluments	2,597,960	825,614
Company contributions to money purchase schemes	49,000	37,500
	<u>2,646,960</u>	<u>863,114</u>

	2019 £	2018 £
Key management compensation including directors		
Salaries and other short-term benefits	9,130,981	2,647,767
Post-employment benefits	185,231	110,260
	<u>9,316,212</u>	<u>2,758,027</u>

Jagex Limited

Notes to the financial statements For the year ended 31 December 2019

9. Tax on profit on ordinary activities

The tax credit comprises:

	2019	2018
	£	£
Current tax on profit on ordinary activities		
UK corporation tax	2,146,435	1,741,315
Adjustments in respect of prior years	-	37,201
Total current tax	2,146,435	1,778,516
Deferred tax		
Deferred tax asset (note 18)	-	-
Total tax on profit on ordinary activities	2,146,435	1,778,516

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 2018 and further reduction to 18% with effect from 1 April 2020.

The closing deferred tax assets and liabilities have been calculated at 18% in accordance with the rates enacted at the balance sheet date. Having used 18% as the expected deferred tax rate, this is because that in the future the Group continues to use more outside specialists to develop games which therefore is not continued to qualify for VGTR. The current Runescape profits are expected to drop which lessens the relief qualified from Patent Box, and other new games launch and generate profits likely in the next a few years. However, unrelieved tax losses and other deferred tax assets are not recognised on the basis of all available evidence, i.e. British Video Game interim certificate is not yet received, and uncertainty of the Group's future profits, please refer to Note 17 for further information on deferred tax assets. 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:

	2019	2018
	£	£
Group profit on ordinary activities before tax	48,432,960	46,863,814
Tax on Group profit on ordinary activities at blended standard UK corporation tax rate of 19 per cent (2018: 19 per cent)	9,202,262	8,904,125
Effects of:		
- Expenses not deductible for tax purposes	427,051	209,461
- Fixed asset timing differences – deferred tax not recognised	11,005	5,640
- Other timing differences – deferred tax not recognised	11,992	7,189
- Utilisation of tax losses – deferred tax not recognised	-	-
- Video games tax relief	(2,562,588)	(2,751,511)
- Effect of other tax rates – video games tax relief	-	(100,697)
- Patent box	(4,943,287)	(4,532,892)
- Adjustments to tax charge in respect of previous periods – current tax	-	37,201
- Other adjustments	-	-
Group total tax credit for period	2,146,435	1,778,516

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.

Jagex Limited

Notes to the financial statements For the year ended 31 December 2019

11. Intangible fixed assets

Group and Company	Intellectual property £	External Licence £	Development costs £	Total £
Cost				
At 1 January 2019	412,617	-	-	412,617
Additions	-	2,797	4,677,799	4,680,596
Disposal	-	-	-	-
At 31 December 2019	412,617	2,797	4,677,799	5,093,213
Amortisation				
At 1 January 2019	412,617	-	-	412,617
Charge for the year	-	544	-	544
Disposal	-	-	-	-
At 31 December 2019	412,617	544	4,677,799	413,161
Net book value				
At 31 December 2019	-	2,253	4,677,799	4,680,052
At 31 December 2018	-	-	-	-

12. Tangible fixed assets

Group and Company	Leasehold improvements £	Fixtures and fittings £	Computer equipment £	Total £
Cost				
At 1 January 2019	2,020,580	143,501	6,953,271	9,117,352
Additions	10,494	1,349	367,621	379,464
Disposals	-	(6,039)	(2,249,391)	(2,255,430)
At 31 December 2019	2,031,074	138,811	5,071,501	7,241,386
Depreciation				
At 1 January 2019	1,279,879	48,024	5,732,397	7,060,300
Charge for the year	237,107	28,835	680,409	946,351
Disposals	-	(3,523)	(2,249,337)	(2,252,860)
At 31 December 2019	1,516,986	73,336	4,163,469	5,753,791
Net book value				
At 31 December 2019	514,088	65,475	908,032	1,487,595
At 31 December 2018	740,701	95,477	1,220,874	2,057,052

Jagex Limited

Notes to the financial statements For the year ended 31 December 2019

13. Fixed asset investments

Principal Group investments

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

Subsidiary undertaking	Percentage	Country of incorporation	Principal Activity	Holdings
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.

14. Debtors

	Group		Company	
	2019	2018	2019	2018
	£	£	£	£
Amounts falling due within one year:				
Trade debtors	9,216,955	8,971,396	9,216,955	8,971,396
Prepayments and accrued income	3,734,999	6,753,398	3,734,999	6,753,398
Other debtors	2,560	5,728	2,560	5,728
Corporation tax	-	-	-	-
Amount owed by group undertakings*	-	27,375,940	-	27,375,940
	<u>12,954,514</u>	<u>43,106,462</u>	<u>12,954,514</u>	<u>43,106,462</u>
Amounts falling due after more than one year:				
Other debtors	256,910	271,422	256,910	271,422
	<u>256,910</u>	<u>271,422</u>	<u>256,910</u>	<u>271,422</u>

*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, interest charged on the loan was disclosed in Note 5.

15. Creditors – amounts falling due within one year

	Group		Company	
	2019	2018	2019	2018
	£	£	£	£
Trade creditors	705,801	639,082	705,801	638,885
Corporation tax	1,283,953	3,238,641	1,283,953	3,238,641
Other taxation and social security	1,897,069	1,465,174	1,897,069	1,465,174
Proposed and unpaid dividends	-	5,000,000	-	5,000,000
Other creditors	199,579	136,464	199,579	136,464
Accruals and deferred income	20,017,596	23,503,923	20,017,596	23,503,923
	<u>24,103,998</u>	<u>33,983,284</u>	<u>24,103,998</u>	<u>33,983,087</u>

Jagex Limited

Notes to the financial statements For the year ended 31 December 2019

16. Provisions for liabilities

	Provisions for Global Sales Tax £
Group and Company	
At 1 January 2019	1,644,222
Release unused	(504,076)
At 31 December 2019	<u>1,140,146</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.

17. 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.

	2018 £	Movement £	2019 £
Group and Company			
Accelerated capital allowances	445,040	(53,325)	391,715
Tax losses available	1,557,469	(1,557,469)	-
Other timing differences	25,928	53,325	79,253
	<u>2,028,437</u>	<u>(1,557,469)</u>	<u>470,968</u>

The tax losses are generated by games that are under development. Under VGTR rules the tax losses available are locked until the game which they relate to is either launched, at which point any available losses will be used against profits generated by the game, or, when the project is cancelled, at which point the losses can be used to offset any profits generated by other games. This applies to Next Gen and Aftermath losses, but these are not considered in corporation tax and deferred tax assets computations, as the British Video Game interim certificate is not yet received at the reporting date.

Jagex Limited

Notes to the financial statements For the year ended 31 December 2019

18. Financial instruments

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

	Group		Company	
	2019	2018	2019	2018
	£	£	£	£
Financial assets				
Measured at undiscounted amount receivable				
• Trade and other debtors (note 14)	9,476,424	9,248,546	9,476,424	9,248,546
• Loan to other group companies (note 14)	-	27,375,940	-	27,375,940
	<u>9,476,424</u>	<u>36,624,486</u>	<u>9,476,424</u>	<u>36,624,486</u>
Financial liabilities				
Measured at undiscounted amount payable				
• Trade and other creditors (note 15)	<u>905,380</u>	<u>5,775,546</u>	<u>905,380</u>	<u>5,775,546</u>

19. Called-up share capital and reserves

	2019	2018
	£	£
Allotted, called-up and fully-paid		
1,126,753,629 ordinary shares of £0.00001 each	<u>11,267</u>	<u>11,267</u>

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.
- 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.

Jagex Limited

Notes to the financial statements For the year ended 31 December 2019

20. Cash flow statement

Reconciliation of operating profit to cash generated by operations:

	2019 £	2018 £
Operating profit	48,008,550	45,984,371
Adjustment for:		
Depreciation and amortisation	946,895	1,032,806
Loss on sale of tangible fixed assets	2,570	3,151
Loss on disposal of Intangible fixed assets	-	691,061
Operating cash flow before movement in working capital	48,958,015	47,711,389
Decrease/(increase) in stocks	-	41,300
Decrease/(increase) in debtors	2,790,520	(7,651,832)
Increase in creditors	(2,924,598)	4,550,241
Increase/(decrease) in provisions	(504,076)	(4,250,389)
Cash generated by operations	48,319,861	40,400,709

21. Financial commitments

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

	2019		2018	
	Land and buildings £	Other £	Land and buildings £	Other £
Group and Company				
- within one year	1,088,987	-	1,088,987	-
- between one and five years	3,811,455	-	4,355,948	-
- after five years	-	-	544,494	-
	4,900,442	-	5,989,429	-

22. 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 2019 was £1,317,104 (2018: £789,820).

Jagex Limited

Notes to the financial statements For the year ended 31 December 2019

23. Related party transactions

Group

Transactions with parent company

At the balance sheet date, amounts due from the immediate parent company Shanghai Hongtong Network Technology Co., Ltd were £Nil (2018: £27,375,940) (Note 14), as the loan has been settled during the year, interest received on the loan was disclosed under Note 5.

During the year consultancy service of £2,238,000 (2018: £Nil) provided by the Company to Shanghai Hontou Network Technology Co., Ltd which has been included under other revenue (Note 4).

Transactions with key management personnel (Note 8)

The total remuneration for key management personnel for the period totalled £9,136,212 (2018: £2,758,027), including directors' remuneration disclosed in Note 8 of £5,722,365 (2018: £1,014,290).

Company

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

24. Controlling party

The immediate parent company is Shanghai Hongtong 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 on the Shanghai stock exchange.

25. Events after the reporting period

On 21st January 2020, S Sullivan was appointed as a director of the Company and dividends of £3.8 million were declared, full amount was settled on 5th February 2020.