

Jagex Limited

**Directors' report and financial
statements**

Registered number 03982706

31 March 2009

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Company Information

Directors	C T J Tedder A C Crisses A Gower P Gower J Horing M Gerhard
Company Secretary	Riaan Hodgson
Company Number	03982706
Registered office	St Johns Innovation Centre Cowley Road Cambridge CB4 0WS
Auditors	KPMG LLP Chartered Accountants & Registered Auditor 37 Hills Road Cambridge CB2 1XL

Directors' report

The directors present their annual report and the financial statements for the year ended 31 March 2009.

Principal activity

The principal activity of the company is the development and publication of online games using proprietary software tools and web systems technologies.

Business review

During the year ended 31 March 2009 the company experienced further growth following a peak in subscriber numbers and the launch of FunOrb at the end of the previous year. Positive exchange rate movements contributed to the rise in profits and despite continued investment in large development projects, which is expensed as incurred, the company remains very profitable.

The company has seen a 19% increase in turnover this year, with net profits increasing by £2,913,615. Turnover in 2010 looks set to be as strong as that experienced in 2009.

The number of employees has increased from 369 in 2008 to 370 in 2009, an increase of less than 1%. The majority of recruitment efforts have been concentrated on replacing leavers.

Results and dividends

The profit for the year, after taxation, amounted to £13,180,335 (2008: £10,266,720).

The company paid dividends of £8,440,166 (2008: £9,100,000)

Director and director's interests

The directors who held office during the year were as follows:

C J Tedder

A C Crisses

A Gower

P Gower

J Horing

G M Iddison (resigned 30/01/09)

M Gerhard (appointed 01/02/09)

Political and charitable contributions

The company made charitable donations amounting to £191,685 (2008: £146,007) during the year.

Future developments

The company hope to continue to grow foreign language audiences through the launch of Brazilian Runescape and continued updates with all languages.

The company intends to release at least one of the projects currently in rapid development.

Directors' report *(continued)*

Financial instruments

The company's activities expose it primarily to the financial risks of credit risk, foreign exchange risk and liquidity risk.

Foreign exchange risk

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

Credit risk

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

The majority of the company's receivables are due from institutions regulated by the banking sector. Other receivables are monitored on a regular basis. Any potential bad debts are dealt with swiftly.

Liquidity risk

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

Research and development activities

The company is continually updating its current game offering. Any new development is not deferred and is written off in the year it is incurred.

Employee involvement

The company 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 company. This is achieved through formal and informal meetings, as well as circulating data regarding subscriber growth.

Disabled employees

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

Disclosure of information to auditors


The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the company's auditors are unaware; and each director has taken all the steps that he ought to have taken as a director to make himself aware of any relevant audit information and to establish that the company's auditors are aware of that information.

Directors' report *(continued)*

Auditors

Pursuant to Section 487 of the Companies Act 2006, the auditors will be deemed to be reappointed and KPMG LLP will therefore continue in office.

On behalf of the board


R Hodgson
Company secretary

St Johns Innovation Centre
Cowley Road
Cambridge
CB4 0WS

Statement of directors' responsibilities in respect of the Directors' Report and the financial statements

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

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice).

The financial statements are required by law to give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period.

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

- select suitable accounting policies and then apply them consistently;
- make judgments and 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 proper accounting records that disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that its financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.



KPMG LLP

37 Hills Road
Cambridge
CB2 1XL
United Kingdom

Independent Auditors' Report to the members of Jagex Limited

We have audited the financial statements of Jagex Limited for the year ended 31 March 2009 which comprise the Profit and Loss Account, the Balance Sheet, Cash Flow Statement and the related notes. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. 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.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the financial statements in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities on page 4.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements.

In addition we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Independent Auditors' Report to the members of Jagex Limited *(continued)*

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 March 2009 and of its profit for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' report is consistent with the financial statements.

kpmg LLP

KPMG LLP
Chartered Accountants
Registered Auditor

18th August 2009.

Profit and loss account
for the year ended 31 March 2009

	<i>Note</i>	2009 £	2008 £
Turnover	2	38,422,116	32,293,572
Cost of sales		(17,208,578)	(14,743,142)
Gross profit		21,213,538	17,550,430
Administrative expenses		(3,244,703)	(3,053,119)
Operating profit		17,968,835	14,497,311
Interest receivable and similar income	6	356,132	385,871
Interest payable and similar charges	7	(16,618)	(82,678)
Profit on ordinary activities before taxation	3	18,308,349	14,800,504
Tax on profit on ordinary activities	8	(5,128,014)	(4,533,784)
Profit for the financial year		13,180,335	10,266,720

All of the above results relate to continuing operations.

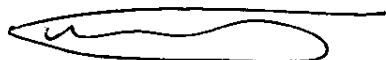
There were no recognised gains and losses for 2009 or 2008 other than those in the Profit and loss account.

The notes on pages 10 to 19 form part of these financial statements.

Balance sheet
at 31 March 2009

	Note	£	2009 £	£	2008 £
Fixed assets					
Intangible assets	9		137,005		171,985
Tangible assets	10		1,333,683		769,530
			<u>1,470,688</u>		<u>941,515</u>
Current assets					
Stock	11	47,535		-	
Debtors	12	5,153,654		4,658,092	
Cash at bank and in hand		14,841,400		8,368,901	
		<u>20,042,589</u>		<u>13,026,993</u>	
Creditors: amounts falling due within one year	13	(11,364,890)		(8,525,310)	
Net current assets			<u>8,677,699</u>		<u>4,501,683</u>
Total assets less current liabilities			<u>10,148,387</u>		<u>5,443,198</u>
Creditors: amounts falling due after more than one year	14		(102,315)		(137,295)
Net assets			<u>10,046,072</u>		<u>5,305,903</u>
Capital and reserves					
Called up share capital	16		10,000		10,000
Share premium account	17		80		80
Profit and loss account	17		10,035,992		5,295,823
Shareholders' funds	18		<u>10,046,072</u>		<u>5,305,903</u>

These financial statements were approved by the board of directors on 07/08/09 and were signed on its behalf by:



M Gerhard
Director

The notes on pages 10 to 19 form part of these financial statements.

Cash flow statement
for the year ended 31 March 2009

	<i>Note</i>	2009 £	2008 £
Net cash flow from operating activities	20	20,309,260	17,247,607
Returns on investments and servicing of finance	21	339,514	303,193
Taxation		(4,618,949)	(4,796,238)
Capital expenditure and financial investment	21	(1,082,180)	(413,489)
Equity dividends paid		(8,440,166)	(9,100,000)
Cash inflow before financing		6,507,479	3,241,073
Financing	21	(34,980)	(34,980)
Increase in cash in the year		6,472,499	3,206,093

Reconciliation of net cash flow to movement in net funds
for the year ended 31 March 2009

	2009 £	2008 £
Increase in cash in the year	6,472,499	3,206,093
Decrease in debt	34,980	34,980
Movement in net funds in the year	6,507,479	3,241,073
Net funds at 1 April 2008	8,196,626	4,955,553
Net funds at 31 March 2009	14,704,105	8,196,626

The notes on pages 10 to 19 form part of these financial statements.

Notes

(forming part of the financial statements)

1 Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the company's financial statements. The Company has changed its accounting policy for turnover in these financial statements. The comparatives have been restated accordingly.

Basis of preparation

The financial statements have been prepared in accordance with applicable accounting standards and under the historical cost accounting rules.

Intangible fixed assets and amortisation

Licences purchased by the company are amortised to 10 years by equal annual instalments over their useful economic lives.

Tangible fixed assets and depreciation

Depreciation is provided to write off the cost less the estimated residual value of tangible fixed assets by equal instalments over their estimated useful economic lives as follows:

Computer equipment	33% per annum
Fixtures and fittings	20% per annum
Leasehold improvements	life of lease (5 years)

Leases

Rentals under operating leases are charged on a straight line basis over the lease term.

Benefits received and receivable as an incentive to sign an operating lease are recognised on a straight line basis over the period until the date the rent is expected to be adjusted to the prevailing market rate.

Taxation

Full provision is made for deferred tax assets and liabilities arising from all timing difference between the recognition of gains and losses in the financial statements and recognition in the tax computation.

A net deferred tax asset is recognised only if 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 assets and liabilities are calculated at the tax rates expected to be effective at the time the timing differences are expected to reverse.

Deferred tax assets and liabilities are not discounted.

Foreign currencies

Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated using the contracted rate or the rate of exchange ruling at the balance sheet date and the gains or losses on translation are included in the profit and loss account.

Research and development

Expenditure on research and development is written off to the profit and loss account in the year in which it is incurred.

Notes (continued)

1 Accounting policies (continued)

Pensions

The company operates a defined contribution pension scheme and the pension charge represents the amounts payable by the company to the fund in respect of the year.

Stock

Stock are stated at the lower of cost and net realisable value. The cost of finished goods includes the cost of material plus expenditure incurred on freight and duty. Where necessary, provision is made for obsolete, slow moving and defective stock.

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 are recognised rateably over the period of the subscription, calculated on a daily basis;
- Advertising revenue is recognised in the accounting period in which it was earned.

2 Analysis of turnover

	2009 £	2008 £
<i>By activity</i>		
Game time sales	36,117,488	30,060,951
Advertising revenue	2,151,754	2,208,355
Other income	152,874	24,266
	<hr/>	<hr/>
	38,422,116	32,293,572
	<hr/>	<hr/>

The directors are not disclosing the geographical analysis of the company's turnover as they consider the information to be seriously prejudicial to the interests of the business.

3 Profit on ordinary activities before taxation

	2009 £	2008 £
<i>Profit on ordinary activities before taxation is stated after charging/(crediting):</i>		
Depreciation on tangible fixed assets:		
-owned by the company	396,577	380,949
Amortisation of intangible assets	34,980	34,980
Auditors' remuneration: Audit of these financial statements	22,000	27,025
Operational lease rentals:		
- other operating leases	637,838	583,490
Research and development expenditure	1,740,980	1,493,261
Difference on foreign exchange	(337,680)	6,185
	<hr/>	<hr/>

Notes (continued)

4 Staff numbers and costs

The aggregate payroll costs of these persons were as follows:

	2009 £	2008 £
Wages and salaries	11,125,019	9,729,180
Social security costs	1,041,073	876,817
Other pension costs	12,503	15,423
	<u>12,178,595</u>	<u>10,621,420</u>

The average number of persons employed by the company (including directors) during the year, analysed by category, was as follows:

	Number of employees 2009	2008
Directors	3	3
Commercial / Management	24	33
Development	153	150
Customer relations	154	158
Technical	36	25
	<u>370</u>	<u>369</u>

5 Remuneration of directors

	2009 £	2008 £
Directors' emoluments	788,767	862,953
Compensation for loss of office	50,000	-
	<u>838,767</u>	<u>862,953</u>

The highest paid director received remuneration of £386,199 (2008: £458,776).

6 Interest receivable

	2009 £	2008 £
Other interest receivable	356,132	385,871

Notes *(continued)*

7 Interest Payable

	2009 £	2008 £
Other interest payable	16,618	82,678

8 Tax on profit on ordinary activities

Analysis of charge in year

	2009 £	2008 £
<i>UK corporation tax</i>		
Current tax (see note below)	5,181,551	4,578,500
Adjustments in respect of prior periods	(6,754)	(259,187)
Total UK Tax	5,174,797	4,319,313
Foreign tax on income for the year	-	266,000
Total current tax	5,174,797	4,585,313
<i>Deferred tax (see note 15)</i>		
Origination/reversal of timing differences	(39,078)	(51,529)
Adjustment in respect of prior periods	(7,705)	-
Total deferred tax	(46,783)	(51,529)
Tax on profit on ordinary activities	5,128,014	4,533,784

Notes (continued)

8 Tax on profit on ordinary activities (continued)

Factors affecting the tax charge for the current year

The current tax charge for the year is higher (2008: higher) than the standard rate of corporation tax in the UK, 28% (2008: 30%). The differences are explained below.

	2009 £	2008 £
<i>Current tax reconciliation</i>		
Profit on ordinary activities before tax	18,308,349	14,800,504
	<hr/>	<hr/>
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 28% (2008: 30%)	5,126,338	4,440,151
<i>Effects of:</i>		
Expenses not deductible for tax purposes	16,135	69,165
Capital allowances for the year less than depreciation	20,765	50,088
Other timing differences	18,313	1,441
Other	-	17,655
Foreign tax	-	266,000
Adjustments to tax charge in respect of previous periods	(6,754)	(259,187)
	<hr/>	<hr/>
Total current tax charge (see above)	5,174,797	4,585,313
	<hr/>	<hr/>

Factors that may affect future tax charges

No adjustment has been made in respect of research and development claims for the current year. At the year end charitable donations and pension contributions were unpaid for which relief will be claimed in future periods.

9 Intangible fixed assets

	Intellectual property £
<i>Cost</i>	
At beginning of year and end of year	349,800
	<hr/>
<i>Amortisation</i>	
At beginning of year	177,815
Charged in year	34,980
	<hr/>
At end of year	212,795
	<hr/>
<i>Net book value</i>	
At 31 March 2009	137,005
	<hr/>
At 31 March 2008	171,985
	<hr/>

Notes (continued)

10 Tangible fixed assets

	Leasehold improvement £	Fixtures and fittings £	Computer equipment £	Total £
Cost				
At beginning of year	127,013	546,416	561,630	1,235,059
Additions	26,794	20,409	1,034,977	1,082,180
Disposals	-	(11,768)	(345,956)	(357,724)
At end of year	153,807	555,057	1,250,651	1,959,515
Depreciation				
At beginning of year	69,868	157,874	237,787	465,529
Charge for year	26,262	111,307	259,008	396,577
Depreciation on disposals	-	(8,310)	(227,964)	(236,274)
At end of year	96,130	260,871	268,831	625,832
Net book value				
At 31 March 2009	57,677	294,186	981,820	1,333,683
At 31 March 2008	57,145	388,542	323,843	769,530

11 Stock

	2009 £	2008 £
Finished goods and goods for resale	47,535	-

12 Debtors

	2009 £	2008 £
Due after more than one year		
Other debtors	198,691	195,338
Due within one year		
Trade debtors	4,485,147	3,755,224
Other debtors	-	140,735
Prepayments and accrued income	388,473	532,235
Net deferred tax asset (note 15)	81,343	34,560
	5,153,654	4,658,092

Notes (continued)

13 Creditors: amounts falling due within one year

	2009 £	2008 £
Other loans	34,980	34,980
Trade creditors	644,310	498,096
Corporation tax	2,749,382	2,193,534
Taxation and social security	2,992,741	1,653,330
Other creditors	6,794	405,414
Accruals and deferred income	4,936,683	3,739,956
	<u>11,364,890</u>	<u>8,525,310</u>

14 Creditors: amounts falling due after more than one year

	2009 £	2008 £
Other loans	<u>102,315</u>	<u>137,295</u>

Other loans represent unsecured amounts repayable to Andrew Gower of £123,375 (2008: £154,875) and Paul Gower of £13,920 (2008: £17,400). Each loan is repayable monthly at a rate of £2,625 and £290 respectively and are interest free. The completion date is 31 March 2013.

15 Deferred taxation

	2009 £	2008 £
At beginning of year	34,560	(16,969)
Credit to profit and loss account	46,783	51,529
	<u>81,343</u>	<u>34,560</u>

The deferred taxation balance is made up as follows:

	2009 £	2008 £
Accelerated capital allowances	25,985	3,721
Other timing differences	55,358	30,839
	<u>81,343</u>	<u>34,560</u>

Notes (continued)

16 Called up share capital

	2009 £	2008 £
<i>Allotted, called up and fully paid</i>		
65,000 ordinary shares of 10p	6,500	6,500
35,000 participating convertible preferred shares of 10p	3,500	3,500
	<u>10,000</u>	<u>10,000</u>

17 Share premium and reserves

	Share premium £	Profit and loss account £
At beginning of year	80	5,295,823
Profit for the financial year	-	13,180,335
Dividends	-	(8,440,166)
	<u>80</u>	<u>10,035,992</u>
At end of year	<u>80</u>	<u>10,035,992</u>

18 Reconciliation of movements in shareholders' funds

	2009 £	2008 £
Opening shareholders' funds	5,305,903	4,139,183
Profit for the financial year	13,180,335	10,266,720
Dividends (see note 19)	(8,440,166)	(9,100,000)
	<u>10,046,072</u>	<u>5,305,903</u>
Closing shareholders' funds	<u>10,046,072</u>	<u>5,305,903</u>

19 Dividends

	2009 £	2008 £
Dividends paid on equity capital	8,440,166	9,100,000
	<u>8,440,166</u>	<u>9,100,000</u>

Notes (continued)

20 Net cash flow from operating activities

	2009 £	2008 £
Operating profit	17,968,835	14,497,311
Amortisation of intangible fixed assets	34,980	34,980
Depreciation of tangible fixed assets	396,577	380,949
Loss on disposal of tangible fixed assets	121,450	105,248
(Increase) in stock	(47,535)	-
(Increase)/decrease in debtors	(448,779)	87,133
Increase in creditors	2,283,732	2,141,986
	<u>20,309,260</u>	<u>17,247,607</u>
Net cash inflow from operations	<u>20,309,260</u>	<u>17,247,607</u>

21 Analysis of cash flows for headings netted in cash flow statement

	2009 £	2008 £
<i>Returns on investments and servicing of finance</i>		
Interest received	356,132	385,871
Interest paid	(16,618)	(82,678)
	<u>339,514</u>	<u>303,193</u>
Net cash inflow from returns on investments and servicing of finance	<u>339,514</u>	<u>303,193</u>
<i>Capital expenditure and financial investment</i>		
Purchase of tangible fixed assets	(1,082,179)	(414,700)
Sale of tangible fixed assets	-	1,211
	<u>(1,082,179)</u>	<u>(413,489)</u>
Net cash outflow from capital expenditure	<u>(1,082,179)</u>	<u>(413,489)</u>
	<u>2009 £</u>	<u>2008 £</u>
Financing		
Repayment of loans	(34,980)	(34,980)
	<u>(34,980)</u>	<u>(34,980)</u>

Notes (continued)

22 Analysis of changes in net debt

	1 April 2008 £	Cash flow £	Other non-cash changes £	31 March 2009 £
Cash at bank and in hand	8,368,901	6,472,499	-	14,841,400
Debt				
Debts due within one year	(34,980)	-	-	(34,980)
Debts falling due after more than one year	(137,295)	34,980	-	(102,315)
Net funds	8,196,626	6,507,479	-	14,704,105

23 Pension commitments

The company operates a defined contributions pension scheme. The assets of the scheme are held separately from those of the company in an independently administered fund. The pension cost charge represents contributions payable by the company to the fund and amounted to £12,503 (2008: £15,423). The unpaid contributions at the year end were £5,075 (2008: £22,288).

24 Operating lease commitments

At 31 March 2009 the company had annual commitments under non-cancellable operating lease as follows:

	Land and buildings 2009 £	2008 £	Other 2009 £	2008 £
<i>Expiry date:</i>				
Less than 1 year	9,493	-	-	-
Between 1 and 5 years	322,146	412,211	4,011	344
After more than 5 years	285,345	298,991	-	-
	616,984	711,202	4,011	344

25 Related party transactions

Included within creditors are obligations under loan notes which are due to A and P Gower, shareholders and directors, and is non interest bearing. At 31 March 2009, the balance outstanding amounted to £137,295 (2008: £172,275). The balance outstanding is interest free and repayable on a monthly basis at a rate of £2,915.