

Jagex Limited

**Director's report and financial
statements**

Registered number 03982706

31 March 2006



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Director's report

The directors present their annual report and the financial statements for the year ended 31 March 2006.

Principal activity

The principal activity of the company is the development of web infrastructure software related to video games.

Business review

2006 was a tremendously exciting year with excellent progress made in almost all areas of the business. By constantly improving our core product RuneScape we were able to attract more players and convert a larger proportion of these into subscribers. This led to consistently growing revenues and profits throughout the year. The coming year holds equally exciting prospects, as we near the release of RuneScape in Germany and plan for its translation into other key European languages throughout the next 12 months. As well as RuneScape our second game is now in full scale development - this is scheduled for release in 2007.

Dividends

During the year the company paid interim dividends amounting to £5,072,045 (2005: £1,375,000). The director does not recommend the payment of a final dividend (2005: £nil).

Director and director's interests

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

C J Tedder

A C Crisses (appointed 18 August 2005)

A Gower (appointed 16 August 2005)

P Gower (appointed 16 August 2005)

J Horing (appointed 18 August 2005)

The directors who held office at the end of the financial year had the following interests in the ordinary shares of the company, as recorded in the register of directors' share and debenture interests:

	Ordinary shares of £0.10	
	Interest at end of year	Interest at beginning of year
A Gower	38,350	-
P Gower	13,000	-
C J Tedder	13,000	-
	Ordinary shares of £1	
	Interest at end of year	Interest at beginning of year
A Gower	-	59
P Gower	-	20
C J Tedder	-	20

Political and charitable contributions

The company made no political contributions during the year (2005: £nil). Donations to UK charities amounted to £106,433 (2005 £27,508).

Directors' report *(continued)*

Auditors

In accordance with Section 384 of the Companies Act 1985, a resolution for the re-appointment of KPMG LLP as auditors of the company is to be proposed at the forthcoming Annual General Meeting.

By order of the board 23 January 2007



C T J Tedder
Director

St Andrew's House
90 St Andrews Road
Cambridge
CB4 1DL

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.

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 2006 which comprise the Profit and Loss Account, the Balance Sheet, the Statement of Recognised Gains and Losses, 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

As described in the Statement of Directors' Responsibilities on page 3, the company's directors are responsible for the preparation of the financial statements in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice).

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 if, in our opinion, the Directors' Report is not consistent with the financial statements, if 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.

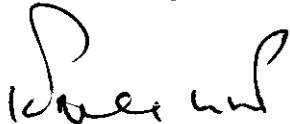
We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity 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 2006 and of its profit for the year then ended; and
- 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
Chartered Accountants
Registered Auditor

23 January 2007

Profit and loss account
for the year ended 31 March 2006

	Note	2006 £	2005 £
Turnover	2	16,852,871	5,217,298
Cost of sales		(5,737,236)	(2,167,364)
Gross profit		11,115,635	3,049,934
Administrative expenses		(898,281)	(339,909)
Operating profit		10,217,354	2,710,025
Interest receivable and similar income	6	71,099	13,255
Interest payable and similar charges		(103,382)	
Profit on ordinary activities before taxation	3-5	10,185,071	2,723,280
Tax on profit on ordinary activities	7	(3,352,386)	(828,028)
Profit on ordinary activities after taxation		6,832,685	1,895,252
Dividends on equity	8	(5,072,045)	(1,375,000)
Retained profit for the year		1,760,640	520,252

All of the above results relate to continuing operations.

Balance sheet
at 31 March 2006

	Note	£	2006 £	£	2005 £
Fixed assets					
Intangible assets	9		241,945		276,925
Tangible assets	10		390,873		135,897
			<u>632,818</u>		<u>412,822</u>
Current assets					
Debtors	11	2,993,601		1,256,833	
Cash at bank and in hand		3,853,006		1,106,449	
		<u>6,846,607</u>		<u>2,363,282</u>	
Creditors: amounts falling due within one year	12	(4,706,736)		(1,721,055)	
Net current assets			<u>2,139,871</u>		<u>642,227</u>
Total assets less current liabilities			<u>2,772,689</u>		<u>1,055,049</u>
Creditors: amounts falling due after more than one year	13		(207,255)		(242,235)
Provisions for liabilities and charges	14		-		(8,020)
Net assets			<u>2,565,434</u>		<u>804,794</u>
Capital and reserves					
Called up share capital	15		10,000		100
Share premium account	16		80		9,980
Profit and loss account	16		2,555,354		794,714
Equity shareholders' funds			<u>2,565,434</u>		<u>804,794</u>

These financial statements were approved by the board of directors on 23 March 2007 and were signed on its behalf by:



C T J Tedder
Director

Statement of total recognised gains and losses
for the year ended 31 March 2006

	2006 £	2005 £
Profit for the financial year	6,832,685	1,895,252
Total recognised gains and losses relating to the financial year	<u>6,832,685</u>	<u>1,895,252</u>

Reconciliation of movements in shareholders' funds
for the year ended 31 March 2006

	2006 £	2005 £
Profit for the financial year	6,832,685	1,895,252
Dividends	(5,072,045)	(1,375,000)
Net addition to shareholders' funds	<u>1,760,640</u>	<u>520,252</u>
Opening shareholders' funds	804,794	284,542
Closing shareholders' funds	<u>2,565,434</u>	<u>804,794</u>

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.

Under Financial Reporting Standard 1 the company is exempt from the requirement to prepare a cash flow statement on the grounds of its size.

Intangible fixed assets and amortisation

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

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 (15 years)

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.

Leases

Assets acquired under finance leases are capitalised and the outstanding future lease obligations are shown in creditors. Operating lease rentals are charged to the profit and loss account on a straight line basis over the period of the lease.

Research and development expenditure

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

Taxation

Deferred tax is recognised, with discounting, in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed by the balance sheet date, except as otherwise required by FRS 19.

Notes (continued)

1 Accounting policies (continued)

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

	2006 £	2005 £
<i>By activity</i>		
Game time sales	15,751,389	4,763,097
Advertising revenue	1,101,482	450,195
Other income	-	4,006
	<u>16,852,871</u>	<u>5,217,298</u>

3 Profit on ordinary activities before taxation

	2006 £	2005 £
<i>Profit on ordinary activities before taxation is stated after charging:</i>		
Auditors' remuneration:		
Audit	19,000	15,000
Depreciation on tangible fixed assets	114,209	38,223
Amortisation of intangible assets	34,980	34,980
Hire of other assets – operating leases	352,785	123,892
	<u>510,974</u>	<u>212,095</u>

Notes (continued)

4 Remuneration of director

	2006 £	2005 £
Director's emoluments	<u>304,830</u>	<u>110,419</u>

	2006 £	2005 £
Highest paid director	<u>146,968</u>	<u>110,419</u>

No retirement benefits were accruing for the director at either the current or preceding year end.

5 Staff numbers and costs

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

	Number of employees 2006	2005
Commercial / Management	6	3
Directors	3	1
Development	34	17
Customer relations	62	18
Technical	7	10
	<u>112</u>	<u>49</u>

The aggregate payroll costs of these persons were as follows:

	2006 £	2005 £
Wages and salaries	3,087,260	1,157,549
Social security costs	313,412	118,490
	<u>3,400,672</u>	<u>1,276,039</u>

6 Interest receivable and similar income

	2006 £	2005 £
Bank interest receivable	<u>71,099</u>	<u>13,255</u>

Notes (continued)

7 Tax on profit on ordinary activities

Analysis of charge in year

	2006	2005
	£	£
<i>UK corporation tax</i>		
Current tax on income for the year	3,161,000	831,778
Adjustments in respect of prior periods	<u>(6,461)</u>	96
Total UK Tax	3,154,539	831,874
Foreign Tax	211,814	-
Total current tax	<u>3,366,353</u>	<u>831,874</u>
Deferred tax (see note 14)		
Origination/reversal of timing differences	<u>(13,967)</u>	<u>(3,846)</u>
	<u>(13,967)</u>	<u>(3,846)</u>
Tax on profit on ordinary activities	<u>3,352,386</u>	<u>828,028</u>

Factors affecting the tax charge for the current year

The current tax charge for the year is higher (2005: higher) than the standard rate of corporation tax in the UK, 30% (2005: 30%). The differences are explained below.

	2005	2005
	£	£
<i>Current tax reconciliation</i>		
Profit on ordinary activities before tax	10,185,071	2,723,280
Current tax at 30% (2005: 30%)	3,055,521	816,984
<i>Effects of:</i>		
Expenses not deductible for tax purposes	81,648	10,948
Capital allowances for year in excess of depreciation	41	(4,406)
Other timing differences	23,498	8,252
Other	292	-
Adjustments to tax charge in respect of previous periods	<u>(6,461)</u>	<u>96</u>
Total current tax charge (see above)	<u>3,154,539</u>	<u>831,874</u>

Notes (continued)

8 Dividends and other appropriations

	2006 £	2005 £
Interim dividends paid	5,072,045	1,375,000

9 Intangible fixed assets

	Intellectual Property £
<i>Cost</i>	
At beginning of year and end of year	349,800
<i>Amortisation</i>	
At beginning of year	72,875
Charged in year	34,980
At end of year	107,855
<i>Net book value</i>	
At 31 March 2006	241,945
At 31 March 2005	276,925

Notes (continued)

10 Tangible fixed assets

	Leasehold improvement £	Fixtures and fittings £	Computer Equipment £	Total £
<i>Cost</i>				
At beginning of year	-	21,900	173,165	195,065
Additions	127,013	40,354	201,818	369,185
	<u>127,013</u>	<u>62,254</u>	<u>374,983</u>	<u>564,250</u>
At end of year	127,013	62,254	374,983	564,250
	<u>127,013</u>	<u>62,254</u>	<u>374,983</u>	<u>564,250</u>
<i>Depreciation</i>				
At beginning of year	-	4,165	55,003	59,168
Charge for year	19,060	8,172	86,977	114,209
	<u>19,060</u>	<u>12,337</u>	<u>141,980</u>	<u>173,377</u>
At end of year	19,060	12,337	141,980	173,377
	<u>19,060</u>	<u>12,337</u>	<u>141,980</u>	<u>173,377</u>
<i>Net book value</i>				
At 31 March 2006	107,953	49,917	233,003	390,873
	<u>107,953</u>	<u>49,917</u>	<u>233,003</u>	<u>390,873</u>
At 31 March 2005	-	17,735	118,162	135,897
	<u>-</u>	<u>17,735</u>	<u>118,162</u>	<u>135,897</u>

11 Debtors

	2005 £	2005 £
Trade debtors	2,745,357	1,210,447
Other debtors	33,340	6,233
Prepayments and accrued income	208,957	40,153
Net deferred tax asset (note 1-4)	5,947	-
	<u>2,993,601</u>	<u>1,256,833</u>

Notes (continued)

12 Creditors: amounts falling due within one year

	2006 £	2005 £
Obligations under loan notes with directors (see note 13)	34,980	34,980
Trade creditors	119,984	30,024
Corporation tax payable	2,159,827	809,977
Taxation and social security	537,778	155,032
Other creditors	123,566	5,898
Accruals and deferred income	1,730,601	685,144
	<u>4,706,736</u>	<u>1,721,055</u>

13 Creditors: amounts falling due after more than one year

	2006 £	2005 £
Obligations under loan notes with directors	<u>207,255</u>	<u>242,235</u>

The maturity of obligations under loan note contracts is as follows:

	2006 £	2005 £
Within one year	34,980	34,980
In the second to fifth years	174,900	174,900
Over five years	32,355	67,335
	<u>242,235</u>	<u>277,215</u>

14 Provisions for liabilities and charges

	Deferred taxation £
At beginning of year	8,020
(Credit) to the profit and loss for the year	(13,967)
At end of year	<u>(5,947)</u>

The elements of deferred tax (asset)/liability are as follows:

	2006 £	2005 £
Difference between accumulated depreciation and amortisation and capital allowances	25,803	16,272
Other timing differences	(31,750)	(8,252)
	<u>(5,947)</u>	<u>8,020</u>

Notes (continued)

15 Called up share capital

	2006 £	2005 £
<i>Authorised</i>		
65,000 ordinary shares of £0.10	6,500	-
35,000 participating convertible preferred shares of £0.10	3,500	-
10,000 ordinary shares of £1 each	-	10,000
	<u> </u>	<u> </u>
<i>Allotted, called up and fully paid</i>		
65,000 ordinary shares of £0.10	6,500	-
35,000 participating convertible preferred shares of £0.10	3,500	-
100 ordinary shares of £1 each	-	100
	<u> </u>	<u> </u>

On 16 August 2005, £9,900 was appropriated from the share premium account of the company to the holders of the ordinary shares of £1 each on the register of members at the close of business on 15 August 2005 in the proportion of £99 per ordinary share held. On 16 August 2005, each of the 10,000 issued ordinary shares of £1 each in the capital of the Company were subdivided into 10 ordinary shares of £0.10 each. In addition, 35 out of every 100 ordinary shares of £0.10 were converted into participating convertible preferred shares of £0.10.

The articles of Association were changed on 16 August 2005. The participating convertible preferred shares ranks pari passu with ordinary shares for all purposes. This includes entitlement to receive dividends, voting rights and return of capital.

16 Share premium and reserves

	Share Premium £	Profit and loss account £
At beginning of year	9,980	794,714
Appropriation to ordinary share capital	(9,900)	-
Retained profit for the year	-	1,760,640
	<u> </u>	<u> </u>
At end of year	80	2,555,354
	<u> </u>	<u> </u>

17 Commitments

Annual commitments under non-cancellable operating leases are as follows:

	2006		2005	
	Land and Buildings £	Other £	Land and Buildings £	Other £
Operating leases which expire:				
Within one year	-	-	81,180	-
In second to fifth years inclusive	340,264	1,377	-	-
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

Notes *(continued)*

18 Related party disclosures

The ultimate controlling party is Andrew Gower, the main shareholder.

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 2006, the balance outstanding amounted to £242,235 (2005: £277,215).