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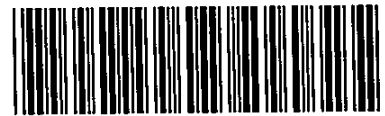
• **Company Registration No. 03982706**

**JAGEX LIMITED**

**Report and Financial Statements**

**31 March 2011**

**TUESDAY**



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**JAGEX LIMITED**

**REPORT AND FINANCIAL STATEMENTS 2011**

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## **JAGEX LIMITED**

### **REPORT AND FINANCIAL STATEMENTS 2011**

#### **OFFICERS AND PROFESSIONAL ADVISERS**

##### **DIRECTORS**

A C Crisses  
J Salter  
B Gardner  
C Mitchell  
J Quagliaroli  
J Horing  
M Gerhard

##### **SECRETARY**

Riaan Hodgson

##### **REGISTERED OFFICE**

St Johns Innovation Centre  
Cowley Road  
Cambridge  
CB4 0WS

##### **AUDITOR**

Deloitte LLP  
Chartered Accountants and Statutory Auditor  
Cambridge  
United Kingdom

## JAGEX LIMITED

### DIRECTORS' REPORT

The directors present their annual report and the audited financial statements for the year ended 31 March 2011

### 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 2011 the company experienced further growth with turnover increasing to £45.3m. The return of the very popular 'Free Trade' and 'Wilderness', continued effect of the price increases and the positive contribution from the new games such as War of Legends contributed to the rise in turnover. Profit for the financial year reduced to £6.7m following the increased investment in the new games as well as the marketing activities that were accelerated during the financial year. Although the company increased the investment in future products, it still remains very profitable.

The landscape is continuing to be very competitive but the company is positive about the future as there are new product launches in the coming financial year.

The directors expect the general level of activity to continue for the foreseeable future.

### 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 our key competitors or other on-line entertainment sites,
- expenditures increasing without a commensurate increase in revenues, and rapid changes in market conditions could result in poor operating results,
- errors or defects in our products, which could negatively affect our revenues and the market acceptance of our products and increase our costs,
- the return of unfavourable economic and market conditions, including significant fluctuations in foreign exchange rates,
- unsuccessful launch of new games,
- the hiring and retention of qualified personnel, and
- claims by others that we infringe on their intellectual property rights

### KEY PERFORMANCE INDICATORS

The company has several key performance measures used internally to monitor and challenge performance and to assist investment decisions. The most important indicators are:

- Revenue
- Operating profit
- Headcount

Performance in the current and prior years is summarised as follows:

	2011 £'000	2010 £'000	% change
Revenue	45,345	44,520	+2%
Operating profit	10,658	18,794	- 43%
Headcount	405	374	+8.3%

## **JAGEX LIMITED**

### **DIRECTORS' REPORT (continued)**

#### **GOING CONCERN**

The company has significant cash reserves and is forecast to remain cash generative. The directors have reviewed the historic trading performance of the business and prepared forecasts which show that the company should have sufficient financial resources to meet its financial obligations as they fall due for the foreseeable future. Therefore the directors believe it is appropriate to prepare the financial statements on a going concern basis.

#### **LITIGATION**

Jagex is subject to a number of litigation cases including intellectual property infringement. The significant case with Paltalk was concluded in the period resulting in no settlement payment to be paid by Jagex.

#### **CHANGE OF CONTROL**

In the current financial year, Insight Venture Partners, a leading private equity and venture capital firm acquired shares in Jagex from the existing shareholders. As part of the sale the following transactions occurred:

- share options previously issued to key management personnel were exercised, being £100 nominal value of shares,
- a share division of 10,000 for 1 and a bonus issue of 116,753,628 shares occurred,
- Jagex has acted as a guarantor for payments of deferred consideration owed, and
- Jagex agreed to pay all reasonable expenses incurred as a result of the sale of shares which totalled £2.5m in the financial year
- an acceleration of the share option charge to recognise the full fair value of the equity instruments issued in the previous year has been recognised as an expense in the current period, being £938,000 (2010 - £280,000)

#### **RESULTS AND DIVIDENDS**

The profit for the year, after taxation, amounted to £6,730,298 (2010 - £13,772,776)

The directors paid dividends in the year of £nil (2010 - £22,833,585)

#### **DIRECTORS**

The directors who served during the year are shown below:

C T J Tedder	(resigned 3 December 2010)
A C Crisses	
A Gower	(resigned 3 December 2010)
P Gower	(resigned 3 December 2010)
J Salter	(appointed 3 December 2010)
B Gardner	(appointed 3 December 2010)
C Mitchell	(appointed 3 December 2010)
J Quagliaroli	(appointed 3 December 2010)
J Horing	
M Gerhard	

The company 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 AND CHARITABLE CONTRIBUTIONS**

The company made charitable donations amounting to £150,076 (2010 - £196,087) during the year. Donations were made to a number of local and US based charities.

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## **JAGEX LIMITED**

### **DIRECTORS' REPORT (continued)**

#### **FUTURE DEVELOPMENTS**

The company hopes to continue to grow its player base by launching internally developed new games in various languages as well as activity as a publisher for third party developed games

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

#### **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

##### *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 trends

#### **RESEARCH AND DEVELOPMENT ACTIVITIES**

The company is continually updating its current game offering. Development expenditure 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

## JAGEX LIMITED

### DIRECTORS' REPORT (continued)

#### 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 financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). 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 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 judgements and accounting estimates that are reasonable and prudent,
- state whether applicable accounting standards have been followed, 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 and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

#### AUDITOR

Each of the persons who is a director at the date of approval of this annual 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 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 s418 of the Companies Act 2006.

Deloitte LLP have expressed their willingness to continue in office as auditor and a resolution to reappoint them as auditor will be proposed at the forthcoming Annual General Meeting.

Approved by the Board of Directors  
and signed on behalf of the Board

  
R Hodgson  
Secretary

11/07/2011

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## **INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF JAGEX LIMITED**

We have audited the financial statements of Jagex Limited for the year ended 31 March 2011 which comprise the profit and loss account, the balance sheet, the cash flow statement and the related notes 1 to 28. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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.

### **Respective responsibilities of directors and auditor**

As explained more fully in the Directors' Responsibilities Statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

### **Scope of the audit of the financial statements**

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the financial statements.

### **Opinion on financial statements**

In our opinion the financial statements

- give a true and fair view of the state of the company's affairs as at 31 March 2011 and of its profit for the year then ended,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006.

### **Opinion on other matter prescribed by the Companies Act 2006**

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.



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**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF JAGEX LIMITED**  
**(continued)**

**Matters on which we are required to report by exception**

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, 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

*David Halstead*

**David Halstead FCA (Senior Statutory Auditor)**

**For and on behalf of Deloitte LLP**

Chartered Accountants and Statutory Auditor

Cambridge, United Kingdom

*11 July 2011*

## JAGEX LIMITED

### PROFIT AND LOSS ACCOUNT Year ended 31 March 2011

	Note	2011 £	2010 £
<b>TURNOVER</b>	2	45,344,638	44,520,037
Cost of sales		(22,734,016)	(19,634,641)
Gross profit		22,610,622	24,885,396
Administrative expenses		(11,953,091)	(6,091,645)
<b>OPERATING PROFIT</b>	3	10,657,531	18,793,751
Interest receivable and similar income	6	32,985	87,172
Interest payable and similar charges	7	(21)	-
<b>PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION</b>		10,690,495	18,880,923
Tax on profit on ordinary activities	8	(3,960,197)	(5,108,147)
<b>PROFIT FOR THE FINANCIAL YEAR</b>	19	<u>6,730,298</u>	<u>13,772,776</u>

All activities derive from continuing operations

There were no recognised gains or losses other than the profits for the current and preceding financial year  
Accordingly no statement of total recognised gains and losses has been prepared

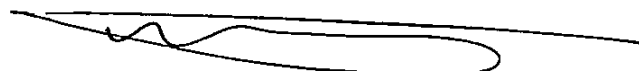
# JAGEX LIMITED

## BALANCE SHEET 31 March 2011

	Note	2011 £	2010 £
<b>FIXED ASSETS</b>			
Intangible assets	10	67,045	102,025
Tangible assets	11	1,365,427	1,094,090
		<u>1,432,472</u>	<u>1,196,115</u>
<b>CURRENT ASSETS</b>			
Stocks	12	260,251	269,979
Debtors	13	4,278,231	4,975,543
Cash at bank and in hand		15,530,151	7,285,012
		<u>20,068,633</u>	<u>12,530,534</u>
<b>CREDITORS amounts falling due within one year</b>	14	(12,328,832)	(12,393,549)
<b>NET CURRENT ASSETS</b>		<u>7,739,801</u>	<u>136,985</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<u>9,172,273</u>	<u>1,333,100</u>
<b>CREDITORS: amounts falling due after more than one year</b>	15	(237,690)	(67,335)
<b>NET ASSETS</b>		<u>8,934,583</u>	<u>1,265,765</u>
<b>CAPITAL AND RESERVES</b>			
Called up share capital	17	11,267	10,000
Share premium account	19	80	80
Profit and loss account	19	8,923,236	1,255,685
<b>SHAREHOLDERS' FUNDS</b>	20	<u>8,934,583</u>	<u>1,265,765</u>

The financial statements of Jagex Limited, registered number 03982706, were approved by the Board of Directors and authorised for issue on

Signed on behalf of the Board of Directors



M Gerhard  
Director

11/07/2011

## JAGEX LIMITED

### CASH FLOW STATEMENT Year ended 31 March 2011

	Note	2011 £	2010 £
Net cash flow from operating activities	21	13,347,277	21,153,648
Returns on investments and servicing of finance	22	32,964	87,172
Taxation		(4,358,504)	(5,462,830)
Capital expenditure and financial investment	22	(946,953)	(465,813)
Equity dividends paid		-	(22,833,585)
<b>Net cash inflow (outflow) before financing</b>		<b>8,074,784</b>	<b>(7,521,408)</b>
Financing	22	170,355	(34,980)
<b>Increase (decrease) in cash in the year</b>		<b>8,245,139</b>	<b>(7,556,388)</b>

### Reconciliation of net cash flow to movement in net funds

		2011 £	2010 £
Increase (decrease) in cash in the year		8,245,139	(7,556,388)
(Increase) decrease in debt		(170,355)	34,980
<b>Movement in net funds in the year</b>		<b>8,074,784</b>	<b>(7,521,408)</b>
Net funds at 1 April 2010		7,182,697	14,704,105
<b>Net funds at 31 March 2011</b>	23	<b>15,257,481</b>	<b>7,182,697</b>

# JAGEX LIMITED

## NOTES TO THE FINANCIAL STATEMENTS Year ended 31 March 2011

### 1. ACCOUNTING POLICIES

The financial statements are prepared in accordance with applicable United Kingdom accounting standards. The particular accounting policies adopted are described below.

#### Accounting convention

The financial statements are prepared under the historical cost convention.

#### Going concern

The company has significant cash reserves and is forecast to remain cash generative. The directors have reviewed the historic trading performance of the business and prepared forecasts which show that the company should have sufficient financial resources to meet its financial obligations as they fall due for the foreseeable future. Therefore the directors believe it is appropriate to prepare the financial statements on a going concern basis.

#### Intangible fixed assets and amortisation

Licences purchased by the company are amortised in equal annual instalments over a period of 10 years which is their estimated useful economic life.

#### Tangible fixed assets

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

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, which result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date, at rates expected to apply when they crystallise based on current tax rates and law. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in financial statements. Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered. Deferred tax assets and liabilities are not discounted.

#### Foreign exchange

Transactions denominated in foreign currencies are translated into the functional currency at the rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are retranslated at the rates ruling at that date. These translation differences are dealt with 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.

# JAGEX LIMITED

## NOTES TO THE FINANCIAL STATEMENTS Year ended 31 March 2011

### 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

#### Stocks

Stocks 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 is 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.

#### Financial liabilities and equity

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 company after deducting all of its liabilities.

#### Share-based payment

The company has applied the requirements of FRS 20 "Share-based Payment".

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

Fair value is measured by use of the Black-Scholes pricing model. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations.

### 2. ANALYSIS OF TURNOVER

	2011 £	2010 £
<b>By activity</b>		
Game time sales	43,846,282	42,929,504
Advertising revenue	1,484,374	1,533,538
Other income	13,982	56,995
	<u>45,344,638</u>	<u>44,520,037</u>

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.

# JAGEX LIMITED

## NOTES TO THE FINANCIAL STATEMENTS Year ended 31 March 2011

### 3. OPERATING PROFIT

	2011 £	2010 £
<b>Operating profit is after charging (crediting):</b>		
Depreciation on tangible fixed assets - owned assets	672,964	571,180
Amortisation of intangible assets	34,980	34,980
The analysis of auditor's remuneration is as follows		
Fees payable to the company's auditor for the audit of the company's annual accounts	23,000	22,000
Other services relating to tax	14,950	3,500
Operating lease rentals		
Other	777,961	660,638
Foreign exchange	400,105	75,095

Included within administrative expenses are costs of £2.9m (2010: nil) borne by Jagex Limited on behalf of the shareholders relating to the sale of their shares during the year.

### 4. STAFF NUMBERS AND COSTS

	2011 No	2010 No
<b>Average number of persons employed by the company (including directors) during the year</b>		
Directors	2	3
Commercial/Management	33	33
Development	181	166
Customer relations	123	136
Technical	66	36
	<u>405</u>	<u>374</u>
	£	£
<b>Staff costs incurred during the year in respect of these employees</b>		
Wages and salaries	12,345,892	11,612,827
Social security costs	1,096,934	993,811
Other pension costs	11,722	24,155
Share based payment	938,420	280,502
	<u>14,392,968</u>	<u>12,911,295</u>

# JAGEX LIMITED

## NOTES TO THE FINANCIAL STATEMENTS Year ended 31 March 2011

### 5. REMUNERATION OF DIRECTORS

	2011 £	2010 £
Directors' emoluments	836,598	723,224

The highest paid director received remuneration of £673,963 (2010 £331,489), and exercised 279 share options

### 6. INTEREST RECEIVABLE AND SIMILAR INCOME

	2011 £	2010 £
Other income	6,986	-
Other interest receivable	25,999	87,172
	<u>32,985</u>	<u>87,172</u>

### 7. INTEREST PAYABLE AND SIMILAR CHARGES

	2011 £	2010 £
Other interest payable	21	-

### 8. TAX ON PROFIT ON ORDINARY ACTIVITIES

	2011 £	2010 £
<b>Current taxation</b>		
UK corporation tax	3,683,785	5,317,371
Adjustments in respect of prior periods	169,199	(70,611)
Total UK tax	<u>3,852,984</u>	<u>5,246,760</u>
<b>Deferred taxation</b>		
Origination and reversal of timing differences	71,187	(144,643)
Adjustments in respect of prior periods	27,353	6,030
Effect of changes in tax rate	8,673	-
Total deferred tax	<u>107,213</u>	<u>(138,613)</u>
Tax on profit on ordinary activities	<u>3,960,197</u>	<u>5,108,147</u>



## JAGEX LIMITED

### NOTES TO THE FINANCIAL STATEMENTS Year ended 31 March 2011

#### 8. TAX ON PROFIT ON ORDINARY ACTIVITIES (continued)

##### *Factors affecting the tax charge for the current year*

The standard rate of tax for the year, based on the UK standard rate of corporation tax is 28% (2010 - 28%)  
The actual tax charge for the current and the previous year differs from the standard tax rate for the reasons set out in the following reconciliation

	2011 £	2010 £
Profit on ordinary activities before tax	10,690,495	18,880,923
Tax on profit on ordinary activities at standard rate	2,993,339	5,286,658
Effects of		
Expenses not deductible for tax purposes	1,052,362	142,338
Capital allowances in deficit of depreciation	32,408	47,541
Other timing differences	3,016	3,670
Tax credit for exercise of share options	(397,340)	-
Adjustments in respect of prior periods	169,199	(70,611)
Research and development tax credit uplift	-	(162,836)
Total actual amount of current tax	3,852,984	5,246,760

##### *Factors that may affect future tax charges*

At the year end charitable donations and pension contributions were unpaid for which relief will be claimed in future periods

Subsequent to the balance sheet date it was announced that the UK rate of corporation tax is to be reduced annually by 1% starting on 1 April 2010, until 1 April 2014, when the rate would be 24% This will impact on the tax charge in future periods

#### 9. DIVIDENDS

	2011 £	2010 £
Interim and final dividends paid on equity capital	-	22,833,585

# JAGEX LIMITED

## NOTES TO THE FINANCIAL STATEMENTS Year ended 31 March 2011

### 10. INTANGIBLE FIXED ASSETS

	Intellectual property £
<b>Cost</b>	
At 1 April 2010 and 31 March 2011	349,800
<b>Amortisation</b>	
At 1 April 2010	247,775
Charge in year	34,980
At 31 March 2011	282,755
<b>Net book value</b>	
At 31 March 2011	67,045
At 31 March 2010	102,025

### 11. TANGIBLE FIXED ASSETS

	Leasehold improve- ment £	Fixtures and fittings £	Computer equipment £	Total £
<b>Cost</b>				
At 1 April 2010	209,959	566,779	1,482,566	2,259,304
Additions	153,075	87,854	708,080	949,009
Disposals	-	(14,461)	(4,598)	(19,059)
At 31 March 2011	363,034	640,172	2,186,048	3,189,254
<b>Depreciation</b>				
At 1 April 2010	133,671	356,026	675,517	1,165,214
Charge in year	33,898	116,123	522,943	672,964
Disposals	-	(11,766)	(2,585)	(14,351)
At 31 March 2011	167,569	460,383	1,195,875	1,823,827
<b>Net book value</b>				
At 31 March 2011	195,465	1,797,789	990,173	1,365,427
At 31 March 2010	76,288	210,753	807,049	1,094,090

## JAGEX LIMITED

### NOTES TO THE FINANCIAL STATEMENTS Year ended 31 March 2011

#### 12. STOCKS

	2011 £	2010 £
Finished goods and goods for resale	260,251	269,979

There is no material difference between the balance sheet value of stocks and their replacement cost

#### 13. DEBTORS

	2011 £	2010 £
Due within one year		
Trade debtors	2,756,300	3,444,911
Prepayments and accrued income	1,239,193	1,140,681
Net deferred tax asset (note 16)	112,743	219,956
	4,108,236	4,805,548
Due after more than one year		
Other debtors	169,995	169,995
	4,278,231	4,975,543

#### 14. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2011 £	2010 £
Other loans	34,980	34,980
Trade creditors	366,101	645,898
Corporation tax	2,027,792	2,533,312
Other taxes and social security	3,493,229	3,590,402
Other creditors	13,898	13,466
Accruals and deferred income	6,392,832	5,575,491
	12,328,832	12,393,549

#### 15. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	2011 £	2010 £
Other loans	32,322	67,335
Advanced development fee	205,368	-
	237,690	67,335

Other loans represent unsecured amounts repayable to Andrew Gower of £60,375 (2010 - £91,875) and Paul Gower of £6,927 (2010 - £10,440). Each loan is repayable monthly at a rate of £2,625 and £290 respectively and are interest free and will be fully repaid by 31 March 2013.

## JAGEX LIMITED

### NOTES TO THE FINANCIAL STATEMENTS Year ended 31 March 2011

#### 16. DEFERRED TAXASSET

	2011 £	2010 £
At 1 April 2010	219,956	81,343
(Charge) credit to profit and loss account	(107,213)	138,613
At 31 March 2011	<u>112,743</u>	<u>219,956</u>
The deferred taxation balance is made up as follows		
Accelerated capital allowances	72,661	63,255
Other timing differences	40,082	156,701
	<u>112,743</u>	<u>219,956</u>

#### 17. CALLED UP SHARE CAPITAL

	2011 £	2010 £
<b>Allotted, called up and fully paid</b>		
1,126,753,628 (2010 65,000) ordinary shares of 10p each	11,267	6,500
Nil (2010 35,000) participating convertible preferred shares of 10p each	-	3,500
	<u>11,267</u>	<u>10,000</u>

During the year 1,000 share options were exercised and then a subdivision of shares was completed resulting in 350,000,000 of participating convertible preferred shares and 660,000,000 ordinary shares. Subsequently the participating convertible preferred shares were converted into ordinary shares.

A bonus issue of 116,753,628 was completed during the year from retained earnings.

**NOTES TO THE FINANCIAL STATEMENTS**  
**Year ended 31 March 2011**

**18. SHARE BASED PAYMENTS**

**Equity-settled share option schemes**

The company has a share option scheme for certain employees of the company. Options are exercisable at a price equal to the estimated fair value of the company's shares on the date of grant. The vesting period is up to five years. Options are forfeited if the employee leaves the company before the options vest.

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

	2011	Weighted	2010	Weighted
	Number of	average	Number of	average
	share	exercise	share	exercise
	options	price	options	price
		£		£
Outstanding at beginning of year	662	£0.10	-	-
Granted during the year	338	£0.10	662	£0.10
Forfeited during the year	-	-	-	-
Exercised during the year	(1,000)	£0.10	-	-
Expired during the year	-	-	-	-
	<u>-</u>		<u>662</u>	
Outstanding at the end of the year	-		662	£0.10
	<u>-</u>		<u>248</u>	
Exercisable at the end of the year	-		248	£0.10

Due to the change of control during the year all options were exercised.

The options outstanding at 31 March 2010 had a weighted average exercise price of £0.10 and a weighted average remaining contractual life of 14.4 years. In the year ending 31 March 2011, options were granted on 3 December 2010. In the year ending 31 March 2010, options were granted on 2 July 2009 and 2 November 2009. The aggregate of the estimated fair values of the options granted on those dates is £479,588 (2010: £739,334).

The inputs into the Black-Scholes model are as follows

	2011	2010
Weighted average share price (p)	£1,419.00	£1,388.89
Weighted average exercise price (p)	£0.10	£0.10
Expected volatility	80%	80%
Expected life (years)	-	4 to 5 years
Risk-free rate (%)	4%	4%
Expected dividend yield (%)	10%	10%

Expected volatility was determined by referring to the share price of a selection of comparable companies. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations.

The company recognised total expenses of £938,420 (2010: £280,502) related to equity-settled share-based payment transactions in 2011.

Due to the change of control during the year all options were exercised, this resulted in the acceleration of the share option charge amounting to £938,420.

# JAGEX LIMITED

## NOTES TO THE FINANCIAL STATEMENTS Year ended 31 March 2011

### 19. STATEMENT OF MOVEMENTS ON RESERVES

	Share premium £	Profit and loss account £
At 1 April 2010	80	1,255,685
Profit for the financial year	-	6,730,298
Share based payments	-	938,420
Bonus share issue	-	(1,167)
	<u>80</u>	<u>8,923,236</u>
At 31 March 2011	80	8,923,236

### 20. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	2011 £	2010 £
Profit for the financial year	6,730,298	13,772,776
Dividends (see note 9)	-	(22,833,585)
Share based payments	938,420	280,502
Share issue	100	-
	<u>7,668,818</u>	<u>(8,780,307)</u>
Net increase (decrease) in shareholders' funds	7,668,818	(8,780,307)
Opening shareholders' funds	1,265,765	10,046,072
	<u>8,934,583</u>	<u>1,265,765</u>
Closing shareholders' funds	8,934,583	1,265,765

### 21. NET CASH FLOW FROM OPERATING ACTIVITIES

	2011 £	2010 £
Operating profit	10,657,531	18,793,751
Amortisation of intangible fixed assets	34,980	34,980
Depreciation of tangible fixed assets	672,964	571,180
Loss on disposal of tangible fixed assets	2,652	6,082
Share based payments	938,420	280,502
Decrease (increase) in stocks	9,728	(222,444)
Decrease in debtors	608,892	316,724
Increase in creditors	422,110	1,372,873
	<u>13,347,277</u>	<u>21,153,648</u>
Net cash inflow from operating activities	13,347,277	21,153,648

# JAGEX LIMITED

## NOTES TO THE FINANCIAL STATEMENTS Year ended 31 March 2011

### 22. ANALYSIS OF CASH FLOWS FOR HEADINGS NETTED IN CASH FLOW STATEMENT

	2011 £	2010 £
<b>Returns on investments and servicing of finance</b>		
Interest received	32,985	87,172
Interest paid	(21)	-
<b>Net cash inflow from returns on investments and servicing of finance</b>	<u>32,964</u>	<u>87,172</u>
<b>Capital expenditure and financial investment</b>		
Purchase of tangible fixed assets	(949,009)	(466,279)
Sale of tangible fixed assets	2,056	466
<b>Net cash outflow from capital expenditure and financial investment</b>	<u>(946,953)</u>	<u>(465,813)</u>
<b>Financing</b>		
Repayment of loans	(35,013)	(34,980)
Advanced development fee	205,368	-
<b>Net cash inflow from financing</b>	<u>170,355</u>	<u>(34,980)</u>

### 23. ANALYSIS OF CHANGES IN NET FUNDS

	At 1 April 2010 £	Cash flow £	At 31 March 2011 £
Cash at bank and in hand	7,285,012	8,245,139	15,530,151
Debt			
falling due within one year	(34,980)	-	(34,980)
falling due after more than one year	(67,335)	(170,355)	(237,690)
<b>Net funds</b>	<u>7,182,697</u>	<u>8,074,784</u>	<u>15,257,481</u>

### 24. PENSION COMMITMENTS

The company operates a defined contributions pension schemes. 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 £11,722 (2010 - £24,155). The unpaid contributions at the year end were £13,985 (2010 - £13,446).

## JAGEX LIMITED

### NOTES TO THE FINANCIAL STATEMENTS Year ended 31 March 2011

#### 25. CONTINGENT LIABILITIES

The company has agreed to act as guarantor in relation to deferred consideration of £7,129,036 and contingent consideration based on future profits of the company

#### 26. FINANCIAL COMMITMENTS

At 31 March 2011 the company had annual commitments under non-cancellable operating leases as follows

	Land and buildings		Other	
	2011	2010	2011	2010
	£	£	£	£
Leases which expire				
Less than one year	312,345	-	7,053	-
Between one and five years	525,000	810,345	-	7,053
After more than five years	-	-	-	-
	<u>837,345</u>	<u>810,345</u>	<u>7,053</u>	<u>7,053</u>

At 31 March 2011 the company had capital commitments amounting to £176,750 (2010 - £nil)

#### 27. RELATED PARTY TRANSACTIONS

Included within creditors are obligations under loan notes which are due to A and P Gower former shareholders and directors, and is non interest bearing At 31 March 2011, the balance outstanding amounted to £67,302 (2010 - £102,315) The balance outstanding is interest free and repayable on a monthly basis at a rate of £2,915

#### 28. CONTROLLING PARTY

The controlling party is Insight Venture Partners, as a result of controlling directly 55% of the issued share capital of the company