

**RARE LIMITED**

**Report and Financial Statements**

**52 weeks ended 1 July 2005**

*Presenter -*

**RICHARDS BUTLER LLP  
BEAUFORT HOUSE  
15 ST. BOTOLPH STREET  
LONDON EC3A 7EE  
SOLICITORS**

*Ref: smy/0012901*



**RARE LIMITED**

**REPORT AND FINANCIAL STATEMENTS 2005**

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# **RARE LIMITED**

## **REPORT AND FINANCIAL STATEMENTS 2005**

### **OFFICERS AND PROFESSIONAL ADVISERS**

#### **DIRECTORS**

JA Seethoff	(resigned 7 March 2006)
KJ Fay	(resigned 31 December 2004)
K Dolliver	(appointed 31 December 2004)
B O Orndorff	(appointed 7 March 2006)

#### **SECRETARY**

RB Secretariat Limited

#### **REGISTERED OFFICE**

Beaufort House  
Tenth Floor  
15 St Botolph Street  
London  
EC3A 7EE

#### **BANKERS**

Lloyds TSB  
1 Marlborough Square  
Coalville  
Leicestershire  
LE67 3WD

#### **SOLICITORS**

Pinsent Masons  
3 Colmore Circus  
Birmingham  
B4 6BH

Richards Butler  
Beaufort House  
15 St Boltoph Street  
London  
EC3A 7EE

#### **AUDITORS**

Deloitte & Touche LLP  
Chartered Accountants  
Reading

## **RARE LIMITED**

### **DIRECTORS' REPORT**

The directors present their annual report and the audited financial statements for the 52 weeks ended 1 July 2005.

#### **ACTIVITIES**

The principal activity of Rare Limited during the period was the writing and development of video games software.

#### **REVIEW OF RESULTS AND FUTURE PROSPECTS**

The results for the period are shown on page 5. The directors feel that this leaves them in a sound position for the coming year. The directors do not recommend the payment of a dividend (2004: £ nil).

#### **DIRECTORS AND THEIR INTERESTS**

The directors who served during the period are shown on page 1.

None of the directors at the year end had any interest in the shares of the company at any point during the period.

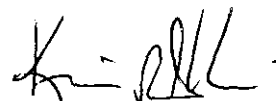
The interests of the directors in the shares of the ultimate parent company are disclosed in the directors' report of that company.

#### **AUDITORS**

Deloitte & Touche LLP have expressed their willingness to continue in office as auditors.

Pursuant to s386 Companies Act 1985, an elective resolution was passed on 17 March 2003 dispensing with the requirement to appoint auditors annually.

Approved by the Board of Directors  
and signed on behalf of the Board on 3 July 2006.



Keith Dolliver  
Director

**STATEMENT OF DIRECTORS' RESPONSIBILITIES**

United Kingdom company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company as at the end of the financial year and of the profit or loss of the company for that period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and 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 proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for the system of internal control, for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

## INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF RARE LIMITED

We have audited the financial statements of Rare Limited for the 52 weeks ended 1 July 2005 which comprise the profit and loss account, the balance sheet and the related notes 1 to 15. 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 auditors' 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, the company's directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibility is to audit the financial statements in accordance with relevant United Kingdom legal and regulatory requirements and auditing standards.

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 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 transactions with the company is not disclosed.

We read the directors' report for the above period and consider the implications for our report if we become aware of any apparent misstatements.

### Basis of audit opinion

We conducted our audit in accordance with United Kingdom auditing standards 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 judgements 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.

### Opinion

In our opinion, the financial statements give a true and fair view of the state of the company's affairs as at 1 July 2005 and of its profit for the 52 weeks then ended and have been properly prepared in accordance with the Companies Act 1985.

*Deloitte & Touche LLP*

DELOITTE & TOUCHE LLP  
Chartered Accountants and Registered Auditors  
Reading

*17 July* 2006

# RARE LIMITED

## PROFIT AND LOSS ACCOUNT 52 weeks ended 1 July 2005

	Note	52 weeks ended 1 July 2005 £	52 weeks ended 2 July 2004 £
<b>TURNOVER</b>	2	21,180,528	22,081,238
Administrative expenses		(10,060,426)	(10,182,934)
<b>OPERATING PROFIT</b>	4	11,120,102	11,898,304
Interest receivable and similar income	5	1,443,837	749,784
Interest payable and similar charges	6	(152,532)	(3,159)
<b>PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION</b>		12,411,407	12,644,929
Tax charge on profit on ordinary activities	7	(4,189,327)	(3,741,502)
<b>PROFIT FOR THE FINANCIAL PERIOD TRANSFERRED TO RESERVES</b>	13	8,222,080	8,903,427

All the activities of the company are classed as continuing.

There are no recognised gains and losses for the current year or prior year other than as stated in the profit and loss account. Accordingly, no statement of total recognised gains and losses is presented.


# RARE LIMITED

## BALANCE SHEET

1 July 2005

	Note	1 July 2005 £	2 July 2004 £
<b>FIXED ASSETS</b>			
Tangible assets	8	4,382,780	4,599,944
<b>CURRENT ASSETS</b>			
Debtors	9	42,598,663	32,078,050
Cash at bank and in hand		77,001	1,472,913
		<u>42,675,664</u>	<u>33,550,963</u>
<b>CREDITORS: amounts falling due within one year</b>	11	(1,732,162)	(1,046,705)
<b>NET CURRENT ASSETS</b>		<u>40,943,502</u>	<u>32,504,258</u>
<b>NET ASSETS</b>		<u>45,326,282</u>	<u>37,104,202</u>
<b>CAPITAL AND RESERVES</b>			
Called up share capital	12	14,767,000	14,767,000
Share premium account	13	8,303	8,303
Profit and loss account	13	30,550,979	22,328,899
<b>EQUITY SHAREHOLDERS' FUNDS</b>	13	<u>45,326,282</u>	<u>37,104,202</u>

These financial statements were approved by the Board of Directors on 3 July 2006.  
Signed on behalf of the Board of Directors

  
Keith Dolliver  
Director



**NOTES TO THE ACCOUNTS**

**52 weeks ended 1 July 2005**

**1. ACCOUNTING POLICIES**

The financial statements are prepared in accordance with applicable United Kingdom accounting standards. The particular accounting policies adopted are described below. They have all been applied consistently throughout the current and preceding year.

**Accounting convention**

The financial statements are prepared under the historical cost convention.

**Tangible fixed assets**

Tangible fixed assets are stated at cost or valuation, net of depreciation and any provision for impairment. Depreciation is provided on cost in equal annual instalments over the estimated useful lives of the assets. The estimated useful economic lives are as follows:

Buildings	15 years
Computer equipment	1 year
Fixtures, fittings and vehicles	3 - 5 years

Land is not depreciated.

**Leases**

Rental costs under operating leases are charged to the profit and loss account in equal annual amounts over the period of the lease.

**Stock**

All work in progress is written off to the profit and loss account as it is incurred.

**Taxation**

Current tax, including UK corporation tax and foreign tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantially 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.

**Research and development expenditure**

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

**Pensions**

The company operates a defined contribution pension scheme for certain employees. The assets of the scheme are held separately from those of the company. The contributions are charged to the profit and loss account as they become due and payable.

**Foreign currencies**

Transactions in foreign currencies during the year are recorded at the average rate ruling for the month of the transaction.

Monetary assets and liabilities denominated in foreign currencies are translated into sterling at the closing rate of exchange at the balance sheet date.

All exchange gains and losses are taken to the profit and loss account.

**NOTES TO THE ACCOUNTS (continued)**

**52 weeks ended 1 July 2005**

**2. TURNOVER**

Turnover represents royalty income receivable and amounts derived from the ultimate parent undertaking in the United States based on a mark-up on total costs incurred. In the 52 weeks to 1 July 2005, royalty income totals £1,663,000 (2004: £2,673,000) and amounts derived from the mark-up on costs total £19,518,000 (2004: 19,408,000). All turnover arises from the United States.

**3. INFORMATION REGARDING DIRECTORS AND EMPLOYEES**

	<b>52 weeks ended 1 July 2005</b>	<b>52 weeks ended 2 July 2004</b>
<b>The average number of employees during the period was:</b>		
Office and management staff	209	193
<b>Staff costs:</b>	<b>£</b>	<b>£</b>
Wages and salaries	7,413,039	6,985,715
Social security costs	820,819	789,596
Other pension costs	5,200	5,200
	<u>8,239,058</u>	<u>7,780,511</u>

The directors received remuneration paid by Microsoft Corporation in respect of their services to group companies for the periods ended 1 July 2005 and 2 July 2004. The portion of this that relates to the Company is £nil (2004: £nil).

**4. OPERATING PROFIT**

	<b>52 weeks ended 1 July 2005</b>	<b>52 weeks ended 2 July 2004</b>
	<b>£</b>	<b>£</b>
<b>Operating profit is stated after charging:</b>		
Depreciation of tangible fixed assets	379,494	447,802
(Profit)/loss on disposal of fixed assets	(5,000)	4,846
Net loss on foreign exchange translation	32,733	751,304

Auditors' remuneration has been borne by the ultimate parent company in the current and preceding years.

# RARE LIMITED

## NOTES TO THE ACCOUNTS (continued)

52 weeks ended 1 July 2005

### 5. INTEREST RECEIVABLE AND SIMILAR INCOME

	52 weeks ended 1 July 2005 £	52 weeks ended 2 July 2004 £
Bank interest receivable	149,899	58,872
Interest receivable from group companies	1,293,938	690,912
	<u>1,443,837</u>	<u>749,784</u>

### 6. INTEREST PAYABLE AND SIMILAR CHARGES

	52 weeks ended 1 July 2005 £	52 weeks ended 2 July 2004 £
Bank interest payable	84	-
Interest payable to group companies	-	3,151
Interest payable on corporation tax	152,448	8
	<u>152,532</u>	<u>3,159</u>

**NOTES TO THE ACCOUNTS (continued)**  
**52 weeks ended 1 July 2005**

**7. TAX ON PROFIT ON ORDINARY ACTIVITIES**

	<b>52 weeks ended 1 July 2005 £</b>	<b>52 weeks ended 2 July 2004 £</b>
UK corporation tax	3,774,229	3,807,099
Adjustments in respect of prior periods:		
Corporation tax	(25,138)	(143,854)
Withholding tax adjustment	-	3,870
Current period tax charge	3,749,091	3,667,115
Deferred tax charge	68,556	74,401
Adjustment in respect of prior periods		
Deferred tax charge/(credit)	371,680	(14)
Deferred tax charge for the period	440,236	74,387
	<u>4,189,327</u>	<u>3,741,502</u>

The standard rate of current tax for the period, based on the UK standard rate of corporation tax is 30%. The current tax charge for the period differs from 30% for the reasons set out in the following reconciliation:

	<b>2005 £</b>	<b>2004 £</b>
Profit on ordinary activities before tax	12,411,407	12,644,929
Tax charge on ordinary activities at 30%	3,723,422	3,793,479
Permanent adjustments	119,363	88,021
Timing differences – origination and reversal	(68,556)	(74,401)
Prior period adjustment in respect of corporation tax	(25,138)	(143,854)
Withholding tax adjustment	-	3,870
Current tax charge for the period	<u>3,749,091</u>	<u>3,667,115</u>

# RARE LIMITED

## NOTES TO THE ACCOUNTS (continued) 52 weeks ended 1 July 2005

### 8. TANGIBLE FIXED ASSETS

	Land £	Buildings £	Computer equipment £	Fixtures, fittings and vehicles £	Total £
<b>Cost</b>					
At 2 July 2004	1,130,000	11,782,538	1,408,624	607,856	14,929,018
Additions	-	-	109,658	52,672	162,330
Disposals	-	-	-	(17,611)	(17,611)
At 1 July 2005	1,130,000	11,782,538	1,518,282	642,917	15,073,737
<b>Accumulated depreciation</b>					
At 2 July 2004	380,000	8,013,796	1,385,125	550,153	10,329,074
Charge for the period	-	284,408	66,588	28,498	379,494
Disposals	-	-	-	(17,611)	(17,611)
At 1 July 2005	380,000	8,298,204	1,451,713	561,040	10,690,957
<b>Net book value</b>					
At 1 July 2005	750,000	3,484,334	66,569	81,877	4,382,780
At 2 July 2004	750,000	3,768,742	23,499	57,703	4,599,944

### 9. DEBTORS

	1 July 2005 £	2 July 2004 £
Amounts owed by group undertakings	42,149,286	28,719,450
Prepayments and accrued income	278,356	592,594
Corporation tax receivable	-	2,154,749
Deferred tax (see note 10)	171,021	611,257
	<u>42,598,663</u>	<u>32,078,050</u>

# RARE LIMITED

## NOTES TO THE ACCOUNTS (continued) 52 weeks ended 1 July 2005

### 10. DEFERRED TAX ASSET

	£
At 2 July 2004	611,257
Deferred tax charge	(68,556)
Prior period adjustment	(371,680)
At 1 July 2005	<u>171,021</u>

Deferred tax is provided as follows:

	1 July 2005 £	2 July 2004 £
Timing differences in respect of capital allowances	169,521	610,193
Other timing differences	1,500	1,050
Capital items included in revenue	-	14
Provision for deferred tax	<u>171,021</u>	<u>611,257</u>

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

	1 July 2005 £	2 July 2004 £
Trade creditors	198,664	139,056
Corporation tax payable	1,225,775	-
Taxation and social security	236,906	249,962
Accruals and deferred income	70,817	657,687
	<u>1,732,162</u>	<u>1,046,705</u>

### 12. CALLED UP SHARE CAPITAL

	1 July 2005 £	2 July 2004 £
Authorised 14,767,000 ordinary shares of £1 each	<u>14,767,000</u>	<u>14,767,000</u>
Called up, allotted and fully paid 14,767,000 £1 ordinary shares	<u>14,767,000</u>	<u>14,767,000</u>

**NOTES TO THE ACCOUNTS (continued)**

**52 weeks ended 1 July 2005**

**13. RECONCILIATION OF MOVEMENTS IN EQUITY SHAREHOLDERS' FUNDS**

	Called up capital share £	Share premium account £	Profit and loss account £	Total £
At 2 July 2004	14,767,000	8,303	22,328,899	37,104,202
Profit for the period	-	-	8,220,080	8,220,080
	<hr/>	<hr/>	<hr/>	<hr/>
At 1 July 2005	14,767,000	8,303	30,550,979	45,326,282
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**14. ULTIMATE PARENT UNDERTAKING AND CONTROLLING PARTY**

The company is a 52% owned subsidiary of Rareware Limited, a company incorporated in England. Copies of the group financial statements of Rareware Limited are available from Companies House, Crown Way, Cardiff, CF14 3UZ. Rareware Limited is the smallest group that consolidates the results of the company.

The ultimate parent undertaking of the company, which is also the controlling undertaking, is Microsoft Corporation, a company incorporated in the United States of America. This is the largest group into which the results are consolidated. Copies of Microsoft Corporation's annual report are available on written request from the Investor Relations Department, Microsoft Corporation, One Microsoft Way, Redmond, WA 98052-6399, United States of America.

**15. RELATED PARTY TRANSACTIONS**

In accordance with Financial Reporting Standard No.8 "Related Party Disclosures", transactions with other group undertakings within the Microsoft group have not been disclosed in these financial statements.