

RARE LIMITED

Report and Financial Statements

Year ended 30 June 2012

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RARE LIMITED

REPORT AND FINANCIAL STATEMENTS 2012

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RARE LIMITED

REPORT AND FINANCIAL STATEMENTS 2012

OFFICERS AND PROFESSIONAL ADVISERS

DIRECTOR

K R Dolliver
B O Orndorff

SECRETARY

Reed Smith Corporate Services Limited

REGISTERED OFFICE

The Broadgate Tower
Third Floor
20 Primrose Street
London
EC2A 2RS

BANKERS

Lloyds TSB Corporate
Butt Dyke House
33 Park Row
Nottingham
NG1 6GY

SOLICITORS

Pinsent Masons
3 Colmore Circus
Birmingham
B4 6BH

Reed Smith LLP
The Broadgate Tower
20 Primrose Street
London
EC2A 2RS

Osborne Clarke
2 Temple Back East
Temple Quay
Bristol
BS1 6EG

TAX ADVISERS

KPMG LLP
Theale
Berkshire

AUDITOR

Deloitte LLP
Abbots House
Abbey Street
Reading
RG1 3BD

RARE LIMITED

DIRECTORS' REPORT

The directors present their annual report on the affairs of the Company, together with the financial statements and auditor's report, for the year ended 30 June 2012

Principal activity and review of business

The principal activity of Rare Limited during the year continued to be the writing and development of video games software

Turnover has decreased by 26% during the year reflecting a much decreased level of activity compared to the previous year

The Company operates as a key strategic franchisee, developing products to requirements specified by its holding company with the main aim of increasing market share and profitability for the Group

The Company continues to perform to plan and is monitored by its holding company by way of a three year rolling plan

Future Developments

The business continues to work to maximise the potential of the group's innovation in the electronic gaming sector

Principle risks and uncertainties

The Company's activities expose it to a number of financial risks including cash flow, credit, liquidity and market. The Company does not use derivative financial instruments for speculative purposes or to hedge these risks, as they are largely mitigated due to support provided by its parent company, Microsoft Corporation

Cash flow risk

The Company's activities expose it primarily to the financial risk of changes in foreign current exchange rates. Interest bearing assets are held at fixed rates to ensure certainty of cash flows

Credit risk

The Company's principal financial assets are bank balances, trade and other debtors

The Company's credit risk is primarily attributable to its trade debtors. The amounts presented in the balance sheet are net of allowances for doubtful debts. An allowance for impairment is made where there is an identified loss event which, based on previous experience, is evidence of a reduction in the recoverability of these cash flows

Liquidity risk

In order to maintain liquidity to ensure that sufficient funds are available for ongoing operations and future developments, the Company relies on support from its parent company, Microsoft Corporation

Market risk

The Company's long-term success is dependent on its ability to attract and retain talented employees, to remain at the forefront of technological advances and to wider long-term market trends

The Company and Group continue to invest in attracting and retaining high-calibre individuals and developing new technology to mitigate these risks

Going Concern

The directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future, despite the current economic uncertainty

Microsoft Corporation (the ultimate parent company) has agreed to provide financial support as and when required to enable the Company to meet its external obligation. On this basis, the directors consider it appropriate to adopt the going concern basis in preparing the annual report and accounts. Thus, they continue to adopt the going concern basis in preparing the annual report and accounts

Further details regarding the adoption of the going concern basis can be found in note 1 to the financial statements

DIRECTORS' REPORT

Results and dividends

The profit for the period, after taxation, amounted to £1,245,295 (2011 £3,146,130) During the period the directors paid an interim dividend of £3,146,130 (2011 £6,650,000)

Directors and their interests

The directors who held office during the year and to the date of signing were as follows

K R Dolliver
B O Orndorff

Charitable contributions

Charitable contributions for the period amounted to £1,060 (2011 £1,919)

Employee consultation

The Group places considerable value on the involvement of its employees and has continued to keep them informed on matters affecting them as employees and on the various factors affecting the performance of the Group and the Company This is achieved through formal and informal meetings, the Company magazine and a special edition for employees of the annual financial statements

Disabled employees

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

Supplier payment policy

The Company's policy is to settle terms of payment with suppliers when agreeing the terms of each transaction, and ensure that suppliers are made aware of the terms of payment and abide by the terms of payment

RARE LIMITED

DIRECTORS' REPORT (CONTINUED)

Auditor

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

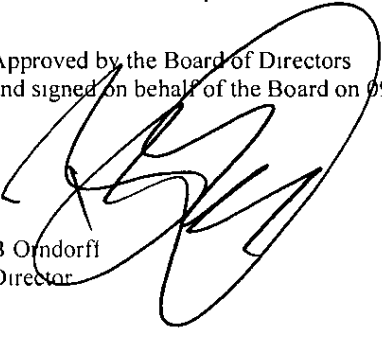
- so far as the director is aware, there is no relevant audit information of which the Company's auditor is unaware, and
- the director has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the Company's auditor is aware of that information

This confirmation is given and should be interpreted in accordance with provisions of s418 of the Companies Act 2006

Pursuant to S485-488 Companies Act 2006, an elective resolution has been passed dispensing with the requirement to appoint auditor annually

Deloitte LLP have expressed their willingness to continue in office as auditor

Approved by the Board of Directors
and signed on behalf of the Board on 09 January 2013



B Orndorff
Director

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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 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 those financial statements, the directors are required to

- a select suitable accounting policies and then apply them consistently,
- b make judgements and estimates that are reasonable and prudent,
- c state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements, and
- d 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 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 requirements of 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.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF RARE LIMITED

We have audited the financial statements of Rare Limited for the 52 week period ended 30 June 2012 which comprise the Profit and Loss Account, the Balance Sheet, and the related notes 1 to 17. 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. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

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 30 June 2012 and of its profit for the period 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.

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.



Andrew Bond ACA (Senior statutory auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
Reading, UK

09 January 2013

RARE LIMITED

PROFIT AND LOSS ACCOUNT

Year ended 30 June 2012

	Note	2012 £	2011 £
TURNOVER	2	15,285,248	20,717,780
Administrative expenses		<u>(13,938,133)</u>	<u>(18,542,980)</u>
OPERATING PROFIT	4	1,347,115	2,174,800
Interest receivable and similar income	5	<u>145,437</u>	<u>118,510</u>
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		1,492,552	2,293,310
Tax (charge)/credit on profit on ordinary activities	6	<u>(247,257)</u>	<u>852,820</u>
PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION	14	<u>1,245,295</u>	<u>3,146,130</u>

All the activities of the Company are classed as continuing

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

RARE LIMITED

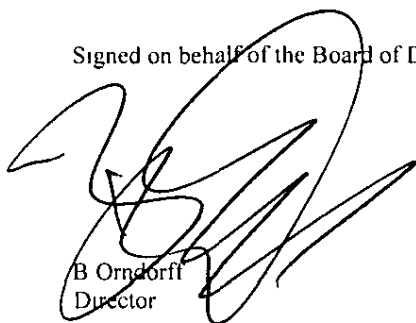
BALANCE SHEET

At 30 June 2012

	Note	2012 £	2011 £
FIXED ASSETS			
Tangible assets	8	2,579,016	2,705,887
CURRENT ASSETS			
Debtors	9	15,491,502	17,374,958
Cash at bank and in hand		509	386,784
		15,492,011	17,761,742
CREDITORS amounts falling due within one year	11	(1,716,734)	(2,442,549)
NET CURRENT ASSETS		13,775,277	15,319,193
TOTAL ASSETS LESS CURRENT LIABILITIES, BEING NET ASSETS		16,354,293	18,025,080
PROVISIONS FOR LIABILITIES AND CHARGES	12	(230,048)	-
		16,124,245	18,025,080
CAPITAL AND RESERVES			
Called up share capital	13	14,767,000	14,767,000
Share premium account	14	8,303	8,303
Profit and loss account	14	1,348,942	3,249,777
SHAREHOLDERS' FUNDS	14	16,124,245	18,025,080

These financial statements of Rare Limited (Company Registration Number 01905690) were approved by the Board of Directors and authorised for issue on 09 January 2013

Signed on behalf of the Board of Directors



B Orndorff
Director

RARE LIMITED

NOTES TO THE ACCOUNTS

Year ended 30 June 2012

1. ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention in accordance with applicable United Kingdom accounting standards. They have all been applied consistently throughout the current and preceding period.

Going concern

The Company generates income predominantly from recharges made to other Microsoft group companies. Therefore the future profitability of the Company is dependent on the Company and Group's ability to continue to develop video games software and market these successfully.

The Company is showing strong net current asset and net asset positions.

There is a risk that changes in the economic climate or in the gaming technology could lead to a downturn in sales which could result in reduced demand for Rare's services. However, management are satisfied that the Group continues to perform strongly in the gaming sector and believe there will continue to be strong demand for the group's products for the foreseeable future.

The directors have a reasonable expectation that the Company and the Microsoft Group have adequate resources to continue in operational existence for the foreseeable future. Microsoft Corporation (the ultimate parent company) has agreed to provide financial support as and when required to enable the Company to meet its external obligation. On this basis, the directors consider it appropriate to adopt the going concern basis in preparing the annual report and accounts. Thus, they continue to adopt the going concern basis in preparing the annual report and accounts.

Tangible fixed assets

Tangible fixed assets are stated at cost, net of depreciation and any provision for impairment. Depreciation is provided on cost less residual value 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	2 years
Fixtures, fittings and vehicles	3 - 5 years

Land is not depreciated.

Stock

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

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.

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.

RARE LIMITED

NOTES TO THE ACCOUNTS

Year ended 30 June 2012

1. ACCOUNTING POLICIES (Continued)

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.

Operating Leases

The annual rentals on operating leases are charged to profit and loss on a straight line basis over the lease term.

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 year to 30 June 2012, royalty income totalled £103,563 (2011: £128,298) and amounts derived from the mark-up on costs totalled £15,181,685 (2011: £20,589,482).

Analysis by geographical market:

	2012 £	2011 £
Japan	103,563	128,298
United States	15,181,685	20,589,482
	<u>15,285,248</u>	<u>20,717,780</u>

3. INFORMATION REGARDING DIRECTORS AND EMPLOYEES

	2012	2011
	No.	No.
The average number of employees during the period was:		
Office and management staff	<u>125</u>	<u>145</u>
Staff costs:	£	£
Wages and salaries	7,866,951	9,780,414
Social security costs	1,367,354	1,293,711
	<u>9,234,305</u>	<u>11,074,125</u>

Redundancy payments were made in the year amounting to £16,388 (2011: £1,889,111).

The directors received remuneration paid by Microsoft Corporation in respect of their services to group companies for the years ended 30 June 2012 and 2011. The portion of this that relates to the Company is £Nil (2011: £Nil).

RARE LIMITED

NOTES TO THE ACCOUNTS Year ended 30 June 2012

4 OPERATING PROFIT

	2012 £	2011 £
Operating profit is stated after charging		
Depreciation of tangible fixed assets – owned	344,658	299,318
Profit on disposal of fixed assets	-	21,500
Net loss on foreign exchange translation	774	-
Auditor's remuneration		
Amount payable to Deloitte LLP for audit service	27,200	24,000
Research and development expenditure	12,556,507	15,134,367
Operating lease rentals	248,514	257,389

5. INTEREST RECEIVABLE AND SIMILAR INCOME

	2012 £	2011 £
Interest receivable from group companies	145,437	118,510

Interest is charged on amounts owed from group undertakings, except short-term trading balances, using a Reuter's 12-month interest rate

6 TAX CHARGE/(CREDIT) ON PROFIT ON ORDINARY ACTIVITIES

	2012 £	2011 £
UK corporation tax – current year	34,440	124,161
	34,440	124,161
Adjustments in respect of prior year		
- UK corporation tax	210,889	(1,042,140)
Total current tax charge/(credit)	245,329	(917,979)
Deferred tax – origination and reversal of timing differences	30,750	56,854
Adjustment in respect of prior periods	(28,822)	8,305
Total deferred tax charge for the year	1,928	65,159
Total tax charge/(credit)	247,257	(852,820)

RARE LIMITED

NOTES TO THE ACCOUNTS

Year ended 30 June 2012

6. TAX ON PROFIT ON ORDINARY ACTIVITIES (Continued)

The blended rate of current tax for the year, based on the UK standard rate of corporation tax is 25.5% (2011 27.5%). The current tax charge for the year differs from 25.5% for the reasons set out in the following reconciliation

	2012 £	2011 £
Profit on ordinary activities before tax	1,492,552	2,293,310
Tax charge on ordinary activities at 25.5% (2011 27.5%)	380,601	630,660
Permanent adjustments	(326,172)	(515,823)
Timing differences – origination and reversal	(19,989)	9,324
Prior year adjustment in respect of corporation tax	210,889	(1,042,140)
Current tax charge/(credit) for the year	245,329	(917,979)

Included in the prior year adjustment is £210,889 (2011 £1,000,000) for anticipated R&D tax adjustments arising for 2010 and 2011. The claim for 2012 has yet to be finalised but the credit is considered to be a reasonable estimate of the anticipated benefit.

7. DIVIDENDS ON EQUITY SHARES

	2012 £	2011 £
Interim dividend for the year ended 30 June 2012 of 21p (2011 45p) per ordinary share	3,146,130	6,650,000

RARE LIMITED

NOTES TO THE ACCOUNTS Year ended 30 June 2012

8. TANGIBLE FIXED ASSETS

	Land & Buildings £	Computer equipment £	Fixtures, fittings and vehicles £	Total £
Cost				
At 1 July 2011	12,940,298	746,234	899,632	14,586,164
Additions	-	170,415	47,372	217,787
	<u>12,940,298</u>	<u>916,649</u>	<u>947,004</u>	<u>14,803,951</u>
At 30 June 2012	12,940,298	916,649	947,004	14,803,951
	<u>12,940,298</u>	<u>916,649</u>	<u>947,004</u>	<u>14,803,951</u>
Accumulated depreciation				
At 1 July 2011	10,639,468	461,913	778,896	11,880,277
Charge for the year	197,520	76,476	70,662	344,658
	<u>10,836,988</u>	<u>538,389</u>	<u>849,558</u>	<u>12,224,935</u>
At 30 June 2012	10,836,988	538,389	849,558	12,224,935
	<u>10,836,988</u>	<u>538,389</u>	<u>849,558</u>	<u>12,224,935</u>
Net book value				
At 30 June 2012	2,103,310	378,260	97,446	2,579,016
	<u>2,103,310</u>	<u>378,260</u>	<u>97,446</u>	<u>2,579,016</u>
At 30 June 2011	2,300,830	284,321	120,736	2,705,887
	<u>2,300,830</u>	<u>284,321</u>	<u>120,736</u>	<u>2,705,887</u>

9. DEBTORS

	2012 £	2011 £
Amounts owed by group undertakings	14,686,884	15,806,193
Deferred tax (see note 10)	124,429	126,357
Prepayments and accrued income	206,951	227,005
Other debtors	69,678	85,078
Corporation tax	403,560	1,130,325
	<u>15,491,502</u>	<u>17,374,958</u>

RARE LIMITED

NOTES TO THE ACCOUNTS Year ended 30 June 2012

10. DEFERRED TAX ASSET

	£
At 30 June 2011	126,357
Deferred tax credit for the year	(1,928)
At 30 June 2012	<u>124,429</u>

Deferred tax is provided as follows	2012 £	2011 £
Timing differences in respect of capital allowances	92,715	126,357
Deferred tax on provisions	<u>31,714</u>	<u>-</u>
	<u>124,429</u>	<u>126,357</u>

During the year, a reduction in the main rate of corporation tax to 24% was substantively enacted with effect from 1 April 2012. Accordingly, deferred tax at the balance sheet date is recognised at 24%. The Chancellor has announced that the main rate of corporation tax will reduce by a further 1% each 1 April until reaching 22% with effect from 1 April 2014. If legislation is passed in accordance with the announced changes, the impact on the Company's deferred tax position would be a reduction in the deferred tax asset of up to £10,369. The rate change will also impact the amount of any future cash tax payments.

11. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2012 £	2011 £
Trade creditors	113,732	108,385
Taxation and social security	39,891	-
Accruals and deferred income	<u>1,563,111</u>	<u>2,334,164</u>
	<u>1,716,734</u>	<u>2,442,549</u>

12. PROVISIONS FOR LIABILITIES AND CHARGES

Provisions for liabilities and charges are made up as follows

	2012 £	2011 £
Onerous lease	<u>230,048</u>	<u>-</u>

RARE LIMITED

NOTES TO THE ACCOUNTS Year ended 30 June 2012

13. CALLED UP SHARE CAPITAL

	2012 £	2011 £
Called up, allotted and fully paid 14,767,000 £1 ordinary shares	<u>14,767,000</u>	<u>14,767,000</u>

14. COMBINED STATEMENT OF MOVEMENT ON RESERVES AND RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	Called up capital share £	Share premium account £	Profit and loss account £	2012 Total £	2011 Total £
At start of year	14,767,000	8,303	3,249,777	18,025,080	21,528,950
Profit for the year	-	-	1,245,295	1,245,295	3,146,130
Dividend for the year (note 7)	-	-	(3,146,130)	(3,146,130)	(6,650,000)
At end of year	<u>14,767,000</u>	<u>8,303</u>	<u>1,348,942</u>	<u>16,124,245</u>	<u>18,025,080</u>

15. COMMITMENTS UNDER OPERATING LEASES

At 30 June 2012 the Company had annual commitments under non-cancellable operating leases as follows

	2012 £	2011 £
Land and buildings expiring in one year	230,048	-
expiring in the second to fifth year	-	248,514
	<u>230,048</u>	<u>248,514</u>

16. ULTIMATE PARENT UNDERTAKING AND CONTROLLING PARTY

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 only 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.

17. RELATED PARTY TRANSACTIONS

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