

RARE LIMITED

Report and Financial Statements

52 weeks ended 2 July 2010

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RARE LIMITED

REPORT AND FINANCIAL STATEMENTS 2010

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RARE LIMITED

REPORT AND FINANCIAL STATEMENTS 2010

OFFICERS AND PROFESSIONAL ADVISERS

DIRECTOR

K R Dolliver
B O Orndorff

SECRETARY

RB Secretariat 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

AUDITORS

Deloitte LLP
Reading

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 52 week period ended 2 July 2010

Principal activity and review of business

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

Turnover for the period was £14,891,836 (2009 £15,275,670) indicating a similar level of activity to the previous period. The company recorded a profit for the period of £1,578,793 (2009 £1,851,532)

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 long-term success is dependent on its ability to attract and retain talented employees, to remain at the forefront of technological advances and 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 continue to adopt the going concern basis in preparing the financial statements. Further details regarding the adoption of the going concern basis can be found in note 1 to the financial statements

Results and dividends

The profit for the period, after taxation, amounted to £1,578,793 (2009 £1,851,532). During the period the directors paid an interim dividend of £Nil (2009 £7,000,000). The directors recommend a final dividend of £4,800,000 (32.7p per Ordinary Share) to be paid to ordinary shareholders on 6 January 2011.

Directors and their interests

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

K R Dolliver
B O Ormdorff

Charitable contributions

Charitable contributions for the period amounted to £4,427 (2009 £12,012)

DIRECTORS' REPORT (CONTINUED)

Auditors

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 auditors are 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 auditors are aware of that information

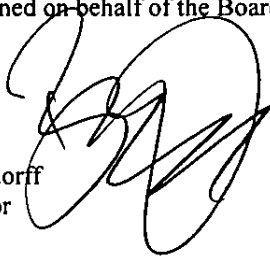
This confirmation is given and should be interpreted in accordance with provisions of s418 of the Companies Act 2006

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

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

Approved by the Board of Directors
and signed on behalf of the Board on 31 March 2011 .

B Orndorff
Director

A large, stylized handwritten signature in black ink, likely belonging to B Orndorff, is written over the text "B Orndorff Director".

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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 judgments and accounting 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 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.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF RARE LIMITED

We have audited the financial statements of Rare Limited for the 52 weeks ended 2 July 2010 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 provide 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 Practising 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 2 July 2010 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.



Susan Barratt, BA ACA (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
Reading, United Kingdom
31 March 2011

RARE LIMITED

PROFIT AND LOSS ACCOUNT 52 weeks ended 2 July 2010

	Note	52 weeks ended 2 July 2010 £	53 weeks ended 3 July 2009 £
TURNOVER	2	14,891,836	15,275,670
Administrative expenses		(13,442,621)	(13,633,936)
OPERATING PROFIT	4	1,449,215	1,641,734
Interest receivable and similar income	5	184,214	934,093
Interest payable and similar charges	6	-	(322)
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		1,633,429	2,575,505
Tax charge on profit on ordinary activities	7	(54,636)	(723,973)
PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION	14	1,578,793	1,851,532

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

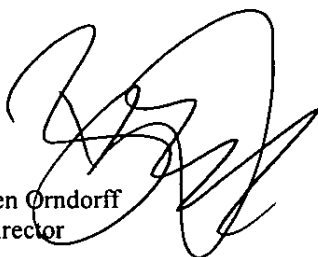
BALANCE SHEET At 2 July 2010

	Note	2 July 2010 £	3 July 2009 £
FIXED ASSETS			
Tangible assets	9	2,772,336	2,898,576
CURRENT ASSETS			
Debtors	10	20,252,323	18,428,834
Cash at bank and in hand		396,278	60,181
		20,648,601	18,489,015
CREDITORS: amounts falling due within one year	12	(1,891,987)	(1,437,434)
NET CURRENT ASSETS		18,756,614	17,051,581
TOTAL ASSETS LESS CURRENT LIABILITIES, BEING NET ASSETS		21,528,950	19,950,157
CAPITAL AND RESERVES			
Called up share capital	13, 14	14,767,000	14,767,000
Share premium account	14	8,303	8,303
Profit and loss account	14	6,753,647	5,174,854
SHAREHOLDERS' FUNDS	14	21,528,950	19,950,157

These financial statements of Rare Limited (company registration number 01905690) were approved by the Board of Directors on 31 March 2011.

Signed on behalf of the Board of Directors

Ben Orndorff
Director



NOTES TO THE ACCOUNTS
52 weeks ended 2 July 2010

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 period.

Accounting convention

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

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.

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.

Despite the current uncertain economic outlook the directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Thus, they continue to adopt the going concern bases 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.

Taxation

Current tax, including UK corporation 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.

NOTES TO THE ACCOUNTS (CONTINUED)

52 weeks ended 2 July 2010

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

Cash flow statement

Under FRS1 "Cash flow statements" the company is exempt from the requirement to prepare a cash flow statement on the grounds that a parent undertaking includes the company in its own published consolidated financial statements

2. TURNOVER

Turnover represents royalty income receivable from Japan 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 2 July 2010, royalty income totalled £107,172 (2009 £339,507) and amounts derived from the mark-up on costs totalled £14,784,663 (2009 £14,936,163)

Analysis of geographical market by destination

	52 weeks ended 2 July 2010 £ £	53 weeks ended 3 July 2009 £ £
Japan	107,172	339,507
United States	14,784,663	14,936,163
	<u>14,891,836</u>	<u>15,275,670</u>

3. INFORMATION REGARDING DIRECTORS AND EMPLOYEES

	52 weeks ended 2 July 2010 £ No.	53 weeks ended 3 July 2009 £ No.
The average number of employees during the period was:		
Office and management staff	<u>160</u>	<u>195</u>
	2010	2009
	£	£
Staff costs.		
Wages and salaries	7,792,498	9,076,808
Social security costs	991,248	1,075,657
Other pension costs	2,600	600
	<u>8,789,526</u>	<u>10,153,065</u>

The directors received remuneration paid by Microsoft Corporation in respect of their services to group companies for the 52 week periods ended 2 July 2010 and 53 week period ended 3 July 2009. The portion of this that relates to the Company is £nil (2009 £nil)

RARE LIMITED

NOTES TO THE ACCOUNTS (CONTINUED)

52 weeks ended 2 July 2010

4. OPERATING PROFIT

	52 weeks ended 2 July 2010 £	53 weeks ended 3 July 2009 £
Operating profit is stated after charging/(crediting):		
Depreciation of tangible fixed assets – owned	338,521	410,287
Loss on disposal of fixed assets	2,161	266
Foreign exchange loss	3,783	18,552
Auditors' remuneration – audit services	23,500	23,000

5. INTEREST RECEIVABLE AND SIMILAR INCOME

	52 weeks ended 2 July 2010 £	53 weeks ended 3 July 2009 £
Bank interest receivable	39	15,542
Interest receivable from group companies	184,175	913,138
Corporation tax interest	-	5,413
	<u>184,214</u>	<u>934,093</u>

6. INTEREST PAYABLE AND SIMILAR CHARGES

	52 weeks ended 2 July 2010 £	53 weeks ended 3 July 2009 £
Interest payable on corporation tax	-	322
	<u>-</u>	<u>322</u>

NOTES TO THE ACCOUNTS (CONTINUED)
52 weeks ended 2 July 2010

7. TAX ON PROFIT ON ORDINARY ACTIVITIES

	52 weeks ended 2 July 2010 £	53 weeks ended 3 July 2009 £
Current tax		
UK corporation tax	488,264	765,331
	<u>488,264</u>	<u>765,331</u>
Adjustments in respect of prior period		
- UK corporation tax	(478,089)	(3,498)
	<u>10,175</u>	<u>761,833</u>
Total current tax		
Deferred tax		
Origination and reversal of timing differences	35,782	(4,494)
Adjustment in respect of prior periods	8,679	(33,366)
	<u>44,461</u>	<u>(37,860)</u>
Total deferred tax		
Total tax on profit before ordinary activities	<u>54,636</u>	<u>723,973</u>

The standard rate of current tax for the period, based on the UK standard rate of corporation tax is 28%. The current tax charge for the period differs from 28% for the reasons set out in the following reconciliation

	2010 £	2009 £
Profit on ordinary activities before tax	<u>1,633,429</u>	<u>2,575,505</u>
Tax charge on ordinary activities at 28% (2009 30%)	457,360	721,141
Permanent adjustments	66,686	39,696
Timing differences – origination and reversal	(35,782)	4,494
Rate difference	-	-
Prior period adjustment in respect of corporation tax	(478,089)	(3,498)
	<u>10,175</u>	<u>761,833</u>
Current tax charge for the period		

Included in the prior period adjustment is £469,000 (2009 £nil) for an R&D tax claim made in respect of 2008. It is anticipated that claims will be submitted for 2009 and 2010, however, these have not been recognised as they cannot be reliably estimated at the period end date.

RARE LIMITED

NOTES TO THE ACCOUNTS (CONTINUED)

52 weeks ended 2 July 2010

8. DIVIDENDS ON EQUITY SHARES

	2010 £	2009 £
Interim dividend for the period ended 30 June 2010 of Nil (2009 47 4p)	-	7,000,000

9. TANGIBLE FIXED ASSETS

	Land £	Buildings £	Computer equipment £	Fixtures, fittings and vehicles £	Total £
Cost					
At 3 July 2009	1,130,000	11,788,325	446,979	855,460	14,220,764
Additions	-	21,973	112,582	82,387	216,942
Disposals	-	-	-	(33,665)	(33,665)
At 2 July 2010	1,130,000	11,810,298	559,561	904,182	14,404,041
Accumulated depreciation					
At 3 July 2009	130,000	10,114,417	365,183	712,588	11,322,188
Charge for the period	-	198,160	68,137	72,224	338,521
Disposals	-	-	-	(29,004)	(29,004)
At 2 July 2010	130,000	10,312,577	433,320	755,808	11,631,705
Net book value					
At 2 July 2010	1,000,000	1,497,721	126,241	148,374	2,772,336
At 3 July 2009	1,000,000	1,673,908	81,796	142,872	2,898,576

10. DEBTORS

	2 July 2010 £	3 July 2009 £
Amounts owed by group undertakings	19,368,582	17,804,842
Deferred tax (see note 11)	191,516	235,977
Prepayments and accrued income	282,824	356,321
Other debtors	138,622	31,694
Corporation Tax	270,779	-
	20,252,323	18,428,834

RARE LIMITED

NOTES TO THE ACCOUNTS (CONTINUED) 52 weeks ended 2 July 2010

11. DEFERRED TAX ASSET

	£
At 3 July 2009	235,977
Deferred tax credit for the period	(44,461)
At 2 July 2010	<u>191,516</u>

Deferred tax is provided as follows	2 July 2010 £	3 July 2009 £
Timing differences in respect of capital allowances	191,516	235,977
Provision for deferred tax	<u>191,516</u>	<u>235,977</u>

12. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2 July 2010 £	3 July 2009 £
Trade creditors	356,124	183,537
Corporation tax payable	-	385,088
Taxation and social security	254,246	306,657
Accruals and deferred income	1,281,617	562,152
	<u>1,891,987</u>	<u>1,437,434</u>

13. CALLED UP SHARE CAPITAL

	2 July 2010 £	3 July 2009 £
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 2 July 2010

14. RESERVES

	Called up capital share £	Share premium account £	Profit and loss account £	2010 Total £	2009 Total £
At start of period	14,767,000	8,303	5,174,854	19,950,157	25,098,625
Profit for the period	-	-	1,578,793	1,578,793	1,851,532
Dividend for the period	-	-	-	-	(7,000,000)
At end of period	<u>14,767,000</u>	<u>8,303</u>	<u>6,753,647</u>	<u>21,528,950</u>	<u>19,950,157</u>

15. FINANCIAL COMMITMENTS

	2010 £	2009 £
Land & Buildings	241,986	-
- expiring within two to five years	-	-
	<u>241,986</u>	<u>-</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 group undertakings within the Microsoft group have not been disclosed in these financial statements.