Registration number: 01905690

Rare Limited

Annual Report and Financial Statements

for the Year Ended 30 June 2021

Rare Limited

Contents

Rare Limited

Company Information

Directors	Keith R Dolliver
	Benjamin O Orndorff
Company secretary	Reed Smith Corporate Services Limited
Registered office	The Broadgate Tower Third Floor 20 Primrose Street London EC2A 2RS
Solicitors	Reed Smith LLP Beaufort House 15 St Botolph Street London EC3A 7EE
Auditors	Deloitte LLP Statutory Auditor Abbots House Abbey Street Reading United Kingdom RG1 3BD

Rare Limited

Strategic Report for the Year Ended 30 June 2021

The directors present their strategic report for the year ended 30 June 2021.

Principal activity
Rare Limited, a subsidiary of Microsoft Corporation, is engaged in the writing and development of video games software. The principal area of business activity is the United Kingdom.

Fair review of the business
The results for the year are shown on page 13. The Company recorded a profit before taxation of £1,032,000 (2020: profit before taxation of £389,000). Profit has increased primarily due to higher headcount and payroll costs relating to the development of video games software and the associated commission on these costs. The Directors feel that the Company is in a sound position for the coming period. The Company maintained a strong balance sheet and had net assets at 30 June 2021 of £15,630,000 (2020: £15,117,000). Within net assets tangible assets have increased by £4,703,000 mainly due to improvement work in the land and buildings of the Company. This increase in net assets is partly offset by the movements in intercompany balances.

Key Performance indicators
The Directors do not monitor the performance of the Company at a statutory level through the use of key performance indicators (KPI's). The Microsoft group manages its business and manages the delivery of its strategic objectives through the application of KPI's at a business group level.

Strategy, objective and business model
The Directors have not presented a separate analysis of the strategy, objectives or business model of the Microsoft group as this analysis has been disclosed as part of the Microsoft Corporation consolidated Form 10-K for the year ended 30 June 2021, which is publicly available at www.microsoft.com. Rare Limited a subsidiary of Microsoft Corporation, is engaged in the writing and development of video games. The principal area of business activity is the United Kingdom.

Principal risks and uncertainties
The principal risks and uncertainties of the Company are intrinsically linked to the other Microsoft group companies; their performance continues to be strong and there is not considered to be a significant risk to the Company's continuing profitability. The Company has no significant borrowings or foreign exchange exposure.

Currency risk, credit risk, liquidity risk and market risk

Currency risk
Financial risk of changes in foreign currency exchange rates are mitigated by short payment terms by its ultimate parent company, Microsoft Corporation and access to their cash pool where required. The Company does not use derivative financial instruments for speculative purposes or to hedge risks, as they are largely mitigated due to support provided by its parent company, Microsoft Corporation.

Credit risk
The Company's principal financial assets are bank balances and other debtors. The Company's credit risk is primarily attributable to its intercompany debtors. This is not considered a significant risk as the other group companies continue to perform well.

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 wider long-term market trends.

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

COVID-19
The beginning of 2020 saw a major outbreak of coronavirus (COVID-19) which has been declared by the World Health Organisation to be a pandemic. The pandemic continues to have widespread and unpredictable impacts on global society, economies, financial markets and business practices.

Global and local crisis management teams have been put in place by Microsoft to monitor the COVID-19 situation closely and to anticipate and react to the evolving circumstances. To protect the health and well-being of our employees, suppliers, and customers, Microsoft have made substantial modifications to employee travel policies, implemented Microsoft Experience Center and office closures so that employees could work remotely from home, and cancelled or shifted our conferences and other marketing events to virtual-only.

The extent to which the COVID-19 pandemic impacts Microsoft going forward will depend on numerous evolving factors we cannot reliably predict, including the duration and scope of the pandemic; governmental, business, and individuals' actions in response to the pandemic; and the impact on economic activity including the possibility of recession or financial market instability. These factors may adversely impact consumer, business, and government spending on technology as well as customers' ability to pay for our products and services on an ongoing basis. This uncertainty also affects management's accounting estimates and assumptions, which could result in greater variability in a variety of areas that depend on these estimates and assumptions, including investments, receivables, and forward-looking guidance.

Management have evaluated the financial impact of COVID-19 on the entity operations, solvency and liquidity and to date no significant impacts as a result of COVID-19 have been identified to cast doubt on the entity's ability to continue as a going concern. Management acknowledge that these uncertain times can have a huge impact on people and organisations and keeps monitoring these uncertainties closely. Measures to contain the virus that impact us, our partners, distributors, and suppliers may further intensify these impacts and other risks. Any of these may adversely impact Microsoft's ability to:

- Maintain our operations infrastructure, including the reliability and adequate capacity of cloud services.
- Satisfy our contractual and regulatory compliance obligations as we adapt to changing usage patterns, such as through datacenter load balancing.
- Ensure a high-quality and consistent supply chain and manufacturing operations for our hardware devices and datacenter operations.
- Effectively manage our international operations through changes in trade practices and policies.
- Hire and deploy people where we most need them.
- Sustain the effectiveness and productivity of our operations including our sales, marketing, engineering, and distribution functions.

We may incur increased costs to effectively manage these aspects of our business. If we are unsuccessful it may adversely impact our revenues, cash flows, market share growth, and reputation.

Brexit
The Company has concluded that there is no envisaged short term substantial risk to operations, given that the Company:
• does not have supply chain requirements impacted by EU Exit
• has not identified any significant issues with staff mobility
• is not overly reliant on UK-EU trade, its most significant customers being UK based

However, given the uncertainty surrounding the impact of EU Exit in the medium to long-term, we continue to maintain a watching brief to monitor changes and to facilitate the early identification and implementation of any required mitigations.

Other risks
Other risks include cyber-attacks, security vulnerabilities, outages and data losses which could lead to reduced revenue, increased costs, liability claims, or harm to our competitive position. See a discussion of these factors and other risks under Risk Factors in Microsoft Corporation's consolidated fiscal year 2021 Form 10-K.

Section 172 (1) Statement
Section 172 of the Companies Act 2006 requires a director of a company to act in a way he or she considers, in good faith, would be most likely to promote the success of the Company for the benefit of its members as a whole. The Directors acknowledge their responsibility, and the following disclosure sets out how the Directors have regard to the matters set out in section 172 (1) (a)-(f).

The Company is a subsidiary of the Microsoft group and therefore consideration of stakeholder engagement is intrinsically linked to the wider Microsoft strategy in order to achieve a greater aligned impact. Microsoft seek to ensure that stakeholder voices are considered and gain input and outside perspectives into the Company to inform business decisions through a variety of feedback channels. Microsoft is committed to conducting business in a way that is principled, transparent, and accountable and the foundations of this commitment is expressed in Microsoft's Standards of Business Conduct which apply to all employees. These standards require legal compliance and also broader commitments to address accessibility, diversity and inclusion, human rights and privacy. In support of these Standards Microsoft strive to build a workplace that embraces trust where every employee feels free to ask questions and raise concerns when something doesn't seem right. Microsoft offers employees, customers, suppliers, and other external parties' multiple ways to report compliance concerns.

Customers
Customer feedback and insights are critical in shaping how the business enhances existing products and services and develop new ones. Insights from customers are gained through online feedback, support communities, product satisfaction surveys, usability studies, research forums, business account managers and our customer service representatives.

Employees
Attracting and retaining talented and diverse employees is critical to the Company's long-term success. To support this the Company seeks to create a respectful, rewarding, diverse and inclusive work environment. This is focussed around the concept of a growth mindset which starts with a belief that everyone can grow and develop. Employee feedback is sought in multiple ways including an annual online anonymous poll around the Microsoft work experience including workgroups, organisation, and the Company as a whole. The senior leadership team and individual managers use this feedback to further improve areas of strength and address opportunities for improvement.

Suppliers
The Company extends the expectation of high standards of business conduct to the suppliers who do business with Microsoft through requiring them to uphold human rights, labour, health and safety, environment, and business ethics practices in our Supplier Code of Conduct. Supplier engagement is sought through workshops and trainings, supplier advisory boards, a supplier summit and participation in industry coalitions. An anonymous voice of the supplier survey is also conducted.

Environment
The Directors have considered the importance of climate change and working towards Microsoft's strategy for a sustainable future which focuses on climate, ecosystems, water, and waste. On climate, this includes a commitment to becoming carbon negative by 2030, shifting to 100% renewable energy by 2025 and investing in new technologies and innovative sustainability solutions.

Approved by the Board on 30 Mar 2022 and signed on its behalf by:

....
Benjamin O Orndorff
Director

Rare Limited

Directors' Report for the Year Ended 30 June 2021

The directors present their report and the audited financial statements for the year ended 30 June 2021.

Dividends
The directors approved a dividend for the year of £342,000 (2020 - £342,000).

Going concern
The Financial statements are prepared on a going concern basis.

The beginning of 2020 saw a major outbreak of coronavirus (COVID-19) which has been declared by the World Health Organisation to be a pandemic. Management have evaluated the financial impact of COVID-19 on the entity operations, solvency and liquidity and to date no significant negative impacts as a result of COVID-19 have been identified to cast doubt on the entity's ability to continue operating as a going concern in the foreseeable future. Management acknowledge that these unpredictable times can have a huge impact on people and organizations and keeps monitoring these uncertainties very closely.

The Company has a letter of support that Microsoft Corporation will guarantee the solvency of the Company and provide it with sufficient financing resources for at least 12 months from the date of signing.

The directors have a reasonable expectation that the Company and the group have adequate resources to continue in operational existence for the foreseeable future, and have given consideration to potential impacts of the COVID-19 pandemic. Thus, the directors continue to adopt the going concern basis in preparing the annual report and financial statements.

No other events occurred after the balance sheet date that would impact significantly on the financial statements.

Directors of the Company
The directors, who held office during the financial year and up to the date of signing, were as follows :

Keith R Dolliver

Benjamin O Orndorff

Risk and uncertainties

The principal risks and uncertainties of the Company are intrinsically linked to the other Microsoft Group companies. These are detailed in the Strategic Report.

Future developments
The Company will continue with the principle activities as outlined in the strategic report. The Company continues to do business with other group companies and the board is looking forward to sustaining the level of revenue and profits in the following years.

Research and development
The Company continues to invest in research and development in Microsoft Xbox game products.

Rare Limited

Directors' Report for the Year Ended 30 June 2021 (continued)

Disclosure of information to the auditors

Each of the persons who is a director 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 ought to have been taken as director in order to be 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 provision of the s418 of the Companies Act 2006.

Auditors

Deloitte LLP have expressed their willingness to continue in office as auditor. The Company passed elective resolutions dispensing with the requirements to hold annual general meetings and to re-appoint auditors annually.

Approved by the Board on ...30 May 2022... and signed on its behalf by:

....

Benjamin O Orndorff
Director

Rare Limited

Statement of Directors' Responsibilities

The directors are responsible for preparing 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), including FRS 101 'Reduced Disclosure Framework'. The financial statements are required by law to give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that 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.

Rare Limited

Independent Auditor's Report to the Members of Rare Limited

Report on the audit of the financial statements

Opinion
In our opinion the financial statements of Rare Limited (the 'Company'):

- give a true and fair view of the state of the Company's affairs as at 30 June 2021 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 101 "Reduced Disclosure Framework"; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the profit and loss account;
- the balance sheet;
- the statement of changes in equity; and
- the related notes 1 to 19.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 101 "Reduced Disclosure Framework" (United Kingdom Generally Accepted Accounting Practice).

Basis for opinion
We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern
In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

Independent Auditor's Report to the Members of Rare Limited (Continued)

Other information
The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit, or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Responsibilities of directors

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, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Extent to which the audit was considered capable of detecting irregularities, including fraud
Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below:

We considered the nature of the company's industry and its control environment, and reviewed the company's documentation of their policies and procedures relating to fraud and compliance with laws and regulations. We also enquired of management and internal audit about their own identification and assessment of the risks of irregularities.

We obtained an understanding of the legal and regulatory frameworks that the company operates in, and identified the key laws and regulations that:

- had a direct effect on the determination of material amounts and disclosures in the financial statements. These included UK Companies Act, tax legislation; and
- do not have a direct effect on the financial statements but compliance with which may be fundamental to the company's ability to operate or to avoid a material penalty.

We discussed among the audit engagement team including relevant internal specialists such as tax, regarding the opportunities and incentives that may exist within the organisation for fraud and how and where fraud might occur in the financial statements.

In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override. In addressing the risk of fraud through management override of controls, we tested the appropriateness of journal entries and other adjustments; assessed whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluated the business rationale of any significant transactions that are unusual or outside the normal course of business.

In addition to the above, our procedures to respond to the risks identified included the following:

- reviewing financial statement disclosures by testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- enquiring of management, internal audit and in-house legal counsel concerning actual and potential litigation and claims, and instances of non-compliance with laws and regulations; and
- reading minutes of meetings of those charged with governance, reviewing internal audit reports / and reviewing correspondence with HMRC.

Rare Limited

Independent Auditor's Report to the Members of Rare Limited (Continued)

Report on other legal and regulatory requirements

Opinion on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and the directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the directors' report.

Matters on which we are required to report by exception

Under the Companies Act 2006 we are required to report in respect of the following matters 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.

We have nothing to report in respect of these matters.

Use of our report

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.

....

Julian Rae (Senior statutory Auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
Reading, UK

Date: 30 March 2022

Rare Limited

Profit and Loss Account for the Year Ended 30 June 2021

	Note	2021 £ 000	2020 £ 000
Turnover	4	28,095	23,175
Administrative expenses		(27,064)	(22,872)
Operating profit	5	1,031	303
Interest receivable and similar income	6	6	86
Interest payable and similar expenses	7	(5)	-
		1	86
Profit before tax		1,032	389
Tax on profit	11	(177)	(94)
Profit for the year		855	295

The above results were derived from continuing operations.

There are no income or expenses other than those shown in the Profit and Loss Account above and therefore no statement of comprehensive income is presented.

Rare Limited

(Registration number: 01905690)
Balance Sheet as at 30 June 2021

	Note	30 June 2021 £ 000	30 June 2020 £ 000
Fixed Assets			
Tangible assets	13	6,313	2,695
		6,313	2,695
Current assets			
Deferred tax assets	11	554	429
Debtors	14	16,111	17,048
Cash at bank and in hand		20	3
		16,685	17,480
Creditors: Amounts falling due within one year	15	(7,368)	(5,058)
Net current assets		9,317	12,422
Net assets		15,630	15,117
Capital and reserves			
Called up share capital	16	14,767	14,767
Share premium account		8	8
Profit and loss account		855	342
Shareholders' funds		15,630	15,117

Approved by the Board on 30 Mar. 2022 and signed on its behalf by:

....

Benjamin O Orndorff
Director

The notes on pages 16 to 29 form an integral part of these financial statements.

Rare Limited

Statement of Changes in Equity for the Year Ended 30 June 2021

	Share capital £ 000	Share premium £ 000	Profit and loss account £ 000	Total £ 000
At 1 July 2020	14,767	8	342	15,117
Profit for the year	-	-	855	855
Total comprehensive income	-	-	855	855
Dividends (note 12)	-	-	(342)	(342)
At 30 June 2021	14,767	8	855	15,630

	Share capital £ 000	Share premium £ 000	Profit and loss account £ 000	Total £ 000
At 1 July 2019	14,767	8	389	15,164
Profit for the year	-	-	295	295
Total comprehensive income	-	-	295	295
Dividends (note 12)	-	-	(342)	(342)
At 30 June 2020	14,767	8	342	15,117

Rare Limited

Notes to the Financial Statements for the Year Ended 30 June 2021

1 General information

Rare Limited ("the Company") is a private company, limited by shares, incorporated in the UK under the Companies Act 2006 and is registered in England and Wales. The registered office address is shown on page 1. The nature of the Company's operations and its principal activities are set out in the Strategic' Report on pages 2 - 5.The financial statements are presented in pounds sterling, which is the currency of the primary economic environment in which the Company operates. These financial statements present information about the Company as an individual undertaking and not about its group. The group accounts of Microsoft Corporation can be obtained as set out in Note 19.

2 Accounting policies

Summary of significant accounting policies and key accounting estimates

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

Basis of preparation

These financial statements were prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework.

Summary of disclosure exemptions

In preparing these financial statements, the Company applies the recognition, measurement and disclosure requirements of International Financial Reporting Standards as adopted by the EU ("Adopted IFRSs"), but makes amendments where necessary in order to comply with Companies Act 2006 and has set out below where advantage of the FRS 101 disclosure exemptions has been taken. In these financial statements, the Company has applied the exemptions available under FRS 101 in respect of the following disclosures:

- Cash Flow Statement and related notes;
- Comparative period reconciliations for share capital, and tangible fixed assets;
- Disclosures in respect of capital management;
- The effects of new but not yet effective IFRSs;
- Disclosures in respect of the compensation of Key Management Personnel and related party transactions within the group; and
- Certain disclosures required by IFRS 13 Fair Value Measurement, IFRS 15 Revenue from Contracts with Customers, and the disclosures required by IFRS 7 Financial Instrument Disclosures.

The Company proposes to continue to adopt the reduced disclosure framework of FRS 101 in its next financial statements.

Where relevant, equivalent disclosures have been given in the group accounts of Microsoft Corporation. The group accounts of Microsoft Corporation are available to the public and can be obtained as set out in note 19.

2 Accounting policies (continued)

Changes in accounting policy
There have been no significant changes in accounting policy during the year.

Measurement convention
The financial statements are prepared on the historical cost basis.

Going concern
The financial statements are prepared on a going concern basis.

The Company and the Microsoft Group have considerable financial resources. As a consequence, the directors believe that the Company is well placed to manage its business risks successfully.

The Company has a letter of support that Microsoft Corporation will guarantee the solvency of the Company and provide it with sufficient financing resources for at least 12 months from the date of signing.

The directors have a reasonable expectation that the Company and the group have adequate resources to continue in operational existence for the foreseeable future. Thus, the directors continue to adopt the going concern basis in preparing the annual report and accounts.

Turnover
Revenue represents commission receivable from a group company based on a mark-up on eligible costs incurred and commission received from a fellow group company based on a recharge of costs incurred. Revenue from royalty agreements is recognised upon shipment or transfer of title to the end customer in accordance with the agreements. Revenue is recognised in the period in which the costs are incurred and once the values are approved by the Microsoft group. Revenue is shown net of sales/value added tax, returns, rebates and discounts and after eliminating sales within the Company.

The Company recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity, and specific criteria have been met for each of the Company activities.

Interest income
Interest income is recognised when it is probable that the economic benefits will flow to the Company and the amount of revenue can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Foreign currencies
Transactions in foreign currencies are initially recorded at the functional currency rate prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated into the respective functional currency of the entity at the rates prevailing on the reporting period date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the initial transaction dates. Non-monetary items measured in terms of historical cost in a foreign currency are not retranslated.

2 Accounting policies (continued)

Tax

Current tax is based on taxable profit for the year and 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 the 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.

Deferred income tax is recognised on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements and on unused tax losses or tax credits in the Company. Deferred income tax is determined using tax rates and laws that have been enacted or substantively enacted by the reporting date.

The carrying amount of deferred tax assets are reviewed at each reporting date and a valuation allowance is set up against deferred tax assets so that the net carrying amount equals the highest amount that is more likely than not to be recovered based on current or future taxable profit.

Tangible assets

Tangible fixed assets are stated in the balance sheet at cost less accumulated depreciation. Provision is made for any permanent diminution in value. The Company performs an impairment analysis on an annual basis.

Depreciation is calculated so as to write off the cost, less residual value of fixed assets on a straight-line basis over their expected useful lives at the following rates:

Office equipment, furniture and fittings 3 years
Computer and technical equipment 1 - 4 years
Buildings 15 years
Land is not depreciated.

Residual value is calculated on prices prevailing at the date of acquisition. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the depreciation rate or method as appropriate on a prospective basis. In the current period the depreciation rate for datacentre servers and network equipment was changed from 3 years to 4 years, which is included in computer and technical equipment classification.

2 Accounting policies (continued)

Research and Development Expenditure
Expenditure on research is written off in the period in which it is incurred. Development costs are assessed against IAS 38 criteria and subsequently expensed or capitalised as appropriate.

Cash and cash equivalents
Cash and cash equivalents comprise cash on hand and call deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

Provisions
Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that the Company will be required to settle that obligation and a reliable estimate can be made of the amount of the obligation.

Provisions are measured at the best estimate of the expenditure required to settle the obligation at the reporting date and are discounted to present value where the effect is material.

Share capital
Ordinary shares are classified as equity. Equity instruments are measured at the fair value of the cash or other resources received or receivable, net of the direct costs of issuing the equity instruments.

Dividends
Dividend distribution to the Company's shareholders is recognised as a liability in the Company's financial statements in the period in which the dividends are approved by the Company's shareholders.

Defined contribution pension obligation
The Company operates a defined contribution pension scheme. The amount charged to the profit and loss account in respect of pension costs is the contributions payable in the year. Differences between contributions payable in the year and contributions actually paid are shown either as accruals or prepayments in the balance sheet.

2 Accounting policies (continued)

Financial instruments

Initial recognition
Financial assets.

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, or fair value through other comprehensive income (OCI).

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Company's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Company has applied the practical expedient, the Company initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs. Transaction costs directly attributable to the acquisition of financial assets at fair value through profit or loss are recognised immediately in profit or loss.

In order for a financial asset to be classified and measured at amortised cost or fair value through OCI, it needs to give rise to cash flows that are 'solely payments of principal and interest (SPPI)' on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level.

The Company's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the marketplace (regular way trades) are recognised on the trade date, i.e., the date that the Company commits to purchase or sell the asset.

Financial liabilities

Financial liabilities are classified, at initial recognition, as loans and borrowings or payables, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The Company's financial liabilities include trade and other payables, and loans and borrowings including bank overdrafts.

2 Accounting policies (continued)

Classification and measurement
Financial assets

For purposes of subsequent measurement, financial assets are classified in two categories:
• Financial assets at amortised cost (debt instruments)
• Financial assets at fair value through OCI with recycling of cumulative gains and losses (debt instruments)

Financial liabilities

The measurement of financial liabilities depends on their classification, as described below:

Loans and borrowings
After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest rate (EIR) method. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the EIR amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included as finance costs in the statement of profit or loss.

Payables are measured at amortised cost.

Financial assets at amortised cost
This category is the most relevant to the Company. The Company measures financial assets at amortised cost if both of the following conditions are met:
• The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows
• The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding

Financial assets at amortised cost are subsequently measured using the effective interest rate (EIR) method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired. The Company's financial assets at amortised cost includes trade receivables, and balances with other group companies.

Financial assets at fair value through other comprehensive income (FVTOCI)
The Group measures debt instruments at fair value through OCI if both of the following conditions are met:
• The financial asset is held within a business model with the objective of both holding to collect contractual cash flows and selling
• The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding

For debt instruments at fair value through OCI, interest income, foreign exchange revaluation and impairment losses or reversals are recognised in the statement of profit or loss and computed in the same manner as for financial assets measured at amortised cost. The remaining fair value changes are recognised in OCI. Upon derecognition, the cumulative fair value change recognised in OCI is recycled to profit or loss.

2 Accounting policies (continued)

Derecognition

Financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised when the rights to receive cash flows from the asset have expired or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss. When the Company exchanges with the existing lender one debt instrument into another one with substantially different terms, such exchange is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. Similarly, the Company accounts for substantial modification of terms of an existing liability or part of it as an extinguishment of the original financial liability and the recognition of a new liability.

Impairment of financial assets

Measurement of Expected Credit Losses

The Company recognises an allowance for expected credit losses (ECLs) for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Company expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

ECLs are recognised in two stages under IFRS 9's general approach. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

The Company considers a financial asset to be in default when internal or external information indicates that the Company is unlikely to receive the outstanding contractual amounts in full. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

For trade receivables and contract assets, the Company applies the simplified approach in calculating ECLs. Therefore, the Company does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the balance sheet if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, to realise the assets and settle the liabilities simultaneously.

3 Critical accounting judgements and key sources of estimation uncertainty

In the application of the Company's accounting policies, which are described in note 2, the directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The directors believe that the key critical accounting judgements lie in respect of capitalised development costs, and that in the directors opinion no expenditure has reached development stage due to the uncertainty of future financial benefit.

With the exception of the above, the directors believe there are no other critical accounting judgements and no key sources of estimation uncertainty.

4 Turnover

The analysis of the Company's turnover for the year from continuing operations is as follows:

	2021 £ 000	2020 £ 000
Commission from group undertakings	28,095	23,156
Other revenue	-	19
	28,095	23,175

Turnover represents commission receivable from a group company based on a mark-up on eligible costs incurred and commission receivable from a fellow group company based on costs recharged.

As permitted by Schedule 1, paragraph 68 of the Companies Act 2006, revenue is not analysed by geographical market as in the opinion of the directors the disclosure of this information would be seriously prejudicial to the interests of the Company.

5 Profit for the year

Arrived at after charging/(crediting)

	2021 £ 000	2020 £ 000
Depreciation expense	1,085	1,047
Research and development cost	17,609	18,964
Foreign exchange (gains)/losses	(130)	5
Auditors' remuneration for audit services (note 10)	33	32

6 Interest receivable and similar income

	2021 £ 000	2020 £ 000
Interest receivable from group undertakings	6	86

7 Interest payable and similar expenses

	2021 £ 000	2020 £ 000
Interest payable to group undertakings	5	-

8 Staff costs

The aggregate payroll costs were as follows:

	2021 £ 000	2020 £ 000
Wages and salaries	13,930	10,971
Social security costs	1,780	1,413
Pension costs, defined contribution scheme	660	611
	16,370	12,995

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

	2021 No.	2020 No.
Development, office and management	189	172

9 Directors' remuneration

None of the directors received any remuneration in respect of qualifying services as directors of the Company in the current year or in the prior year and none of the directors have any employment contracts with the Company.

No contributions were made to a defined contribution pension scheme on behalf of the directors (2020 - £nil).

10 Auditors' remuneration

	2021 £ 000	2020 £ 000
Audit of the financial statements	33	32

11 Taxation

Tax charged/(credited) in the profit and loss account

	2021 £ 000	2020 £ 000
Current taxation		
UK corporation tax	322	180
UK corporation tax adjustment to prior periods	(20)	47
	302	227
Deferred taxation		
Arising from origination and reversal of temporary differences	(20)	(71)
Arising from previously unrecognised tax loss, tax credit or temporary difference of prior periods	23	(24)
Effect of tax rate change on opening balance	(128)	(38)
Total deferred taxation	(125)	(133)
Tax expense in the profit and loss account	177	94

Rare Limited

Notes to the Financial Statements for the Year Ended 30 June 2021 (Continued)

11 Taxation (continued)

The standard rate of tax for the year, based on the UK standard rate of corporation tax is 19% (2020 - 19%). The actual tax charge for the current and previous years differs from the standard rate for the reasons set up in the following reconciliation:

	2021 £ 000	2020 £ 000
Profit before tax	1,032	389
Corporation tax at standard rate	196	74
(Decrease)/increase in current tax from adjustment for prior periods	(20)	46
Increase from effect of capital allowances depreciation	111	38
Increase from effect of revenues exempt from taxation	-	(2)
Deferred tax expense/(credit) from unrecognised temporary difference from a prior period	23	(24)
Deferred tax credit relating to changes in tax rates or laws	(133)	(38)
Total tax charge	177	94

Deferred tax

Deferred tax assets and liabilities

Deferred tax movement during the year:

	At 1 July 2020 £ 000	Recognised in profit and loss £ 000	At 30 June 2021 £ 000
Timing differences in respect of capital allowances	429	125	554

The deferred tax asset includes amounts recoverable after more than one year.

An increase in the UK corporation tax rate from 19% to 25% (effective 1 April 2023) was substantively enacted on 24 May 2021. This will increase the Company's future current tax charge accordingly. The deferred tax asset/liability at 30 June 2021 has been calculated based on these rates, reflecting the expected timing of reversal of the related temporary differences (2020 - 19%).

12 Dividends

	30 June 2021 £ 000	30 June 2020 £ 000
Paid dividend of £0.02 (2020 - £0.02) per each Ordinary shares	342	342

13 Tangible assets

	Freehold Land and buildings £ 000	Furniture, fittings and office equipment £ 000	Computer and technical equipment £ 000	Total £ 000
Cost or valuation				
At 1 July 2020	13,518	3,251	4,661	21,430
Additions	3,519	637	547	4,703
Disposals	-	-	(6)	(6)
At 30 June 2021	17,037	3,888	5,202	26,127
Depreciation				
At 1 July 2020	11,896	2,696	4,143	18,735
Charge for the year	79	404	602	1,085
Eliminated on disposal	-	-	(6)	(6)
At 30 June 2021	11,975	3,100	4,739	19,814
Carrying amount				
At 30 June 2021	5,062	788	463	6,313
At 30 June 2020	1,622	555	518	2,695

14 Debtors

	30 June 2021 £ 000	30 June 2020 £ 000
Amounts owed by group undertakings	15,386	16,554
Prepayments	269	198
Other debtors	456	296
	16,111	17,048

Interest is received on amounts owed by group undertakings using a Reuter's 12-month interest rate. Intercompany debtors are repayable on demand. All amounts are due within one year and unsecured.

15 Creditors: amounts falling within one year

	30 June 2021 £ 000	30 June 2020 £ 000
Trade creditors	1,100	356
Other creditors	263	198
Accrued expenses	4,234	3,410
Amounts due to group undertakings	1,076	342
Social security and other taxes	372	572
Corporation tax liability	323	180
	7,368	5,058

Interest is paid on amounts owed to group undertakings using a Reuter's 12-month interest rate. Intercompany creditors are repayable on demand. These amounts are unsecured.

16 Share capital

Allotted, called up and fully paid shares

	30 June 2021 No. 000	£ 000	30 June 2020 No. 000	£ 000
Ordinary shares of £1 each	14,767	14,767	14,767	14,767

Authorised shares

The authorised share capital of the Company was 14,767,000 shares of £1 each (2020 - 14,767,000 shares of £1 each)

Rights, preferences and restrictions

Ordinary shares have the following rights, preferences and restrictions:
The shares have attached to them full voting, dividend and capital distribution rights, they do not confer any rights of redemption.

17 Pension and other schemes

The Company operates a defined contribution pension scheme. The assets of the scheme are held separately from those of the Company in an independently administered fund. The pension charge for the year represents contributions payable by the Company to the scheme and amounted to £660,000 (2020 - £611,000). Included in accruals at financial year end is £185,348 payable to the fund (2020 - £85,837).

18 Related party transactions

As at 30 June 2021 and 30 June 2020, the Company was a wholly owned subsidiary of Microsoft Corporation. The Company has taken advantage of the exemption under paragraph 8(k) of FRS 101 and has therefore not disclosed transactions with other wholly owned entities of Microsoft Corporation.

There have been no transactions entered into with non-wholly owned subsidiaries of Microsoft Corporation. Details of balances held with other group undertakings can be found in notes 14 and 15.

19 Parent and ultimate parent undertaking

The immediate parent company is Interactive Games Development Limited, registered address; The Broadgate Tower, Third Floor, 20 Primrose Street, London, EC2A 2RS, United Kingdom. The ultimate parent undertaking of the Company, which is also the controlling undertaking and the largest and smallest company preparing group accounts in which the results of the Company are consolidated, is Microsoft Corporation, a company incorporated in the state of Washington in the United States of America. Copies of Microsoft Corporation's annual report are available at www.microsoft.com or on written request from the Investor Relations Department, at the registered address; Microsoft Corporation, 1 Microsoft Way, Redmond, Washington, 98052-6399, USA.