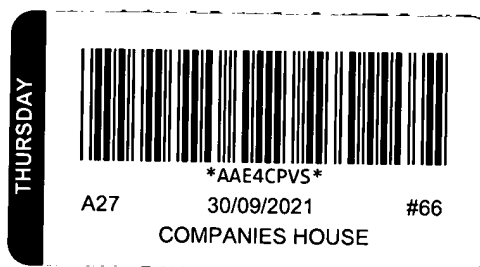


Registered number: 02341947

HIT ENTERTAINMENT LIMITED

**ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020**



HIT ENTERTAINMENT LIMITED

COMPANY INFORMATION

Directors	P Bapna (appointed 27 July 2020) S Wollman (appointed 18 November 2019) A Godfrey (appointed 24 January 2018)
Registered number	02341947
Registered office	3rd Floor The Porter Building 1 Brunel Way Slough Berkshire SL1 1FQ
Independent auditors	PricewaterhouseCoopers LLP Chartered Accountants and Statutory Auditors 1 Embankment Place London WC2N 6RH

HIT ENTERTAINMENT LIMITED

CONTENTS

	Page
Strategic Report	1 - 2
Directors' Report	3 - 5
Independent Auditors' Report	6 - 8
Statement of Comprehensive Income	9
Balance Sheet	10
Statement of Changes in Equity	11
Notes to the Financial Statements	12 - 35

HIT ENTERTAINMENT LIMITED

STRATEGIC REPORT FOR THE YEAR ENDED 31ST DECEMBER 2020

Introduction

The Directors present the Strategic Report of HIT Entertainment Limited (the "Company") for the year ended 31 December 2020.

Business review

Business environment

The children's entertainment business, comprised of television content, licensing & merchandising, home entertainment, live event shows & attractions and digital continues to be a very competitive industry.

While the industry has seen a proliferation of specialist children's channels emerge over the last decade, the distribution of pre-school television content is highly competitive. This is due to the children-focused cable and satellite networks developing and owning their programming content and the number of production companies competing in the market. Accordingly, distribution is secured among the free-to-air public television broadcasters in the major markets.

The Company's partnership with DHX Media is aimed at developing, producing and distributing a range of multi-platform Bob the Builder content. This agreement also gives DHX Media the rights to distribute existing Bob the Builder content as part of a strategy of leveraging core brands and intellectual property. The distribution of such Bob the Builder content has continued in 2020 and into 2021, establishing a solid platform for future turnover growth. The Company also continues to explore the possibilities of developing some of its other existing Intellectual Property, in turn helping to promote new opportunities to grow its revenues.

Turnover has increased 57% from the prior year. Whilst the Consumer Products business has remained relatively flat despite a lack of new content, there has been a 29% increase in Home Entertainment, driven by the renewal of an agreement for audio rights, and an increase in Television revenues, partly attributable to one-off broadcast fees. During 2020, the Live Events business has suffered from cancellations and reduced attendances as a direct result of the Covid-19 pandemic. This continues to be monitored as we move through 2021, albeit with Live Events continuing to form a less significant portion of the Company's revenues than other classes of business.

Strategy

Key elements of the Company's strategic plan are as follows:

- continued exploitation of the HIT Entertainment brand portfolio through diverse lines of business including Home Entertainment, Consumer Products, Live Events and Television;
- enhance the HIT Entertainment brand portfolio through programming content investment and innovation;
- increase brand awareness through alternative distribution platforms;
- continued upgrade of major licensees;
- maintain strong relationships with broadcasters all over the world.

HIT ENTERTAINMENT LIMITED

STRATEGIC REPORT (CONTINUED) FOR THE YEAR ENDED 31ST DECEMBER 2020

Future Developments

The continued exploitation of the Company's existing Intellectual Property is key to the continued success of the Company. Furthermore, the Directors hope that the relocation to a new UK office building in 2020, bringing together employees of HIT Entertainment Limited and Mattel U.K. Limited, will achieve synergies and provide future cost savings, in turn improving the Company's long-term profitability.

Going concern

Given the Company's loss position for the FY20 year and its net current liabilities as at 31st December 2020, the Company has sought and obtained a letter of support from its ultimate parent company Mattel Inc. Consequently, the directors believe that for any reason should the Company be unable to meet its liabilities then Mattel Inc. will provide financial support to the Company in accordance with this letter such that the Company is able to operate as a going concern and to settle its liabilities as they fall due for at least 12 months from the date of these financial statements. The company has assessed whether it can rely upon the letter of support and has no concern in that regard. Therefore, these financial statements are prepared on a going concern basis.

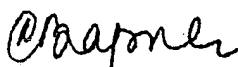
Principal risks and uncertainties

The directors of Mattel Inc. manage the Group's risks at a Group level, rather than at an individual entity level. For this reason, the Company's directors believe that a discussion of the Group's risks would not be appropriate for an understanding of the development, performance or position of the Company's business. The development, performance and position of the Group headed by Mattel Inc. which includes the Company, is discussed in the Mattel Inc. annual report (from page 11 of Mattel's 2020 annual report, which is posted on its website), which does not form part of these financial statements.

Financial key performance indicators

The key performance indicators (KPI's) used by the Company to measure annual performance are turnover and operating loss. Turnover in 2020 was £3,259,000; an increase of 57% on the prior year (2019 - £2,081,000). The operating loss was £7,214,000 in 2020; a decrease of 32% on the prior year (2019 loss - £10,663,000). The net liability of the Company at 31 December 2020 was £48,634,000 (2019 net liability - £41,588,000). The Company expects its partnership with DHX Media, combined with the heritage of its brand portfolio, to help provide a platform for future revenue growth.

This report was approved by the board on 29 September 2021 and signed on its behalf.



Prashant Bapna
Director

HIT ENTERTAINMENT LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 31ST DECEMBER 2020

The directors present their report and the audited financial statements for the year ended 31 December 2020.

Statement of directors' responsibilities in respect of the financial statements

The directors are responsible for preparing the annual report and the financial statements in accordance with applicable law and regulation.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", 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 the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable United Kingdom Accounting Standards, comprising FRS 102 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 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 also 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.

Directors' confirmations

In the case of each director in office at the date the directors' report is approved:

- so far as the director is aware, there is no relevant audit information of which the company's auditors are unaware; and
- they have taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the company's auditors are aware of that information.

Principal activities

The principal activities of the Company is that of ownership, development, and exploitation of intellectual property rights associated with the HIT brand portfolio. The Directors expect this to remain so for the foreseeable future.

Results and dividends

The loss for the year, after taxation, amounted to £7,042,000 (2019 - loss £10,674,000).

The Company did not pay any dividends throughout the year (2019: £nil). There are no plans for a final dividend (2019: £nil).

HIT ENTERTAINMENT LIMITED

DIRECTORS' REPORT (CONTINUED) FOR THE YEAR ENDED 31ST DECEMBER 2020

Directors

The directors of the company who were in office during the year and up to the date of signing the financial statements were

P Bapna (appointed 27 July 2020)
S Wollman (appointed 18 November 2019)
A Godfrey (appointed 24 January 2018)
A Unitt (resigned 7 August 2020)

Future developments

Future developments are discussed in the strategic report on page 1.

Post Balance Sheet Events

Post Balance Sheet Events are discussed in note 23.

Financial instruments

The Company is exposed to foreign exchange risk in respect to its operations in the UK and abroad, and to a lesser extent, assets denominated in foreign currencies.

The Company maintains sufficient available funds for its daily operations. Management actively monitors all funding requirements, and will manage any finance arrangements needed to meet such requirements.

The Company's policy is to provide for any trade or other debtors balance whose collection is deemed doubtful. The Company is exposed to credit risk of its trade and other debtors to the extent they are not specifically provided for as doubtful accounts.

Research and development activities

The Company does not engage in research and development activities.

Engagement with employees

The Company places considerable importance on informing employees of matters of concern to them and issues affecting the Company's operational and financial performance. The principal means of communication included all staff being regularly invited to briefings on the business from the Chief Executive Officer. Employment of individuals within the Company is based on the position to be filled and the qualifications of the applicant, without regard to race, religion, sex, age, colour, marital status, national origin, handicap or any other characteristic. The aim is to ensure that the most capable job applicants are recruited and the most competent qualified candidate, including disabled persons, are considered for vacancies in the Company.

Qualifying third party indemnity provisions

As permitted by the Articles of Association, the Directors have the benefit of an indemnity which is a qualifying third party indemnity provision as defined by Section 234 of the Companies Act 2006. The indemnity was in force throughout the last financial year and is currently in force. The Company also purchased and maintained throughout the year Directors' and Officers' liability insurance in respect of itself and its directors.

HIT ENTERTAINMENT LIMITED

**DIRECTORS' REPORT (CONTINUED)
FOR THE YEAR ENDED 31ST DECEMBER 2020**

Going concern

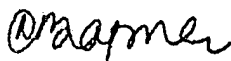
The directors consider the Company a going concern despite a net liability position due to continued financial support from within the Mattel Inc. group.

The Company has sought and obtained a letter of support from its ultimate parent company Mattel Inc. confirming its intention, should it be required, to provide additional financial support for at least twelve months from the date on which the financial statements are signed.

Independent auditors

The auditors, PricewaterhouseCoopers LLP, will be proposed for reappointment in accordance with section 485 of the Companies Act 2006.

This report was approved by the board on 29 September 2021 and signed on its behalf.



Prashant Bapna
Director

Independent auditors' report to the members of HIT Entertainment Limited

Report on the audit of the financial statements

Opinion

In our opinion, HIT Entertainment Limited's financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2020 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and Financial Statements (the "Annual Report"), which comprise: the Balance Sheet as at 31 December 2020; the Statement of Comprehensive Income, the Statement of Changes in Equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Conclusions relating to going concern

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.

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.

However, because not all future events or conditions can be predicted, this conclusion is not a guarantee as to the company's ability to continue as a going concern.

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

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, 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 audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. 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 based on these responsibilities.

With respect to the Strategic report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on our work undertaken in the course of the audit, the Companies Act 2006 requires us also to report certain opinions and matters as described below.

Strategic report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic report and Directors' Report for the year ended 31 December 2020 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic report and Directors' Report.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Directors' Responsibilities Statement, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they 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.

Auditors' 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 auditors' 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.

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.

Based on our understanding of the company and industry, we identified that the principal risks of non-compliance with laws and regulations related to tax legislation and Companies Act 2006, and we considered the extent to which non-compliance might have a material effect on the financial statements. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to fraudulent recognition of revenue and bias relating to accounting estimates. Audit procedures performed by the engagement team included:

- Discussions and enquiries with management and legal counsel, relating to instances of non-compliance with laws and regulation and fraud;
- Review of minutes of the Board of Directors' meetings;
- Identifying and testing journal entries, in particular any journal entries with unusual account combinations;
- Designing audit procedures to incorporate unpredictability around the nature, timing or extent of our testing;
- Challenging estimates and judgements made by management and independently testing the assumptions in relation to these.

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the financial statements. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

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 auditors' report.

Use of this report

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other required reporting

Companies Act 2006 exception reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not obtained all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the company, or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of directors' remuneration specified by law are not made; or
- the financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.



Stuart Macdougall (Senior Statutory Auditor)

for and on behalf of PricewaterhouseCoopers LLP

Chartered Accountants and Statutory Auditors

London

29 September 2021

HIT ENTERTAINMENT LIMITED

**STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2020**

	Note	2020 £000	2019 £000
Turnover	4	3,259	2,081
Cost of sales		(887)	(2,884)
Gross profit/(loss)		2,372	(803)
Distribution costs		(284)	(554)
Administrative expenses		(9,302)	(9,224)
Other operating charges			(82)
Loss before tax	5	(7,214)	(10,663)
Tax credit/(charge) on loss	9	172	(11)
Loss for the financial year		(7,042)	(10,674)

There were no recognised gains and losses for 2020 or 2019 other than those included in the statement of comprehensive income.


The notes on pages 12 to 35 form part of these financial statements.

HIT ENTERTAINMENT LIMITED
REGISTERED NUMBER: 02341947

BALANCE SHEET
AS AT 31 DECEMBER 2020

	Note	2020 £000	2019 £000
Fixed assets			
Tangible assets	10	86	261
Investments	11	21,783	21,783
		<u>21,869</u>	<u>22,044</u>
Current assets			
Stocks	12	34	767
Debtors: amounts falling due after more than one year	14	1,839	1,840
Debtors: amounts falling due within one year	14	6,232	4,349
Cash at bank and in hand	15	434	94
		<u>8,539</u>	<u>7,050</u>
Creditors: amounts falling due within one year	16	(76,712)	(69,007)
Net current liabilities		<u>(68,173)</u>	<u>(61,957)</u>
Total assets less current liabilities		<u>(46,304)</u>	<u>(39,913)</u>
Provisions for liabilities			
Deferred tax	17	(1)	-
Provisions	18	(2,325)	(1,675)
		<u>(2,326)</u>	<u>(1,675)</u>
Net liabilities		<u><u>(48,630)</u></u>	<u><u>(41,588)</u></u>
Capital and reserves			
Other reserves	20	309,679	309,679
Profit and loss account	20	(358,309)	(351,267)
Total shareholders' deficit		<u><u>(48,630)</u></u>	<u><u>(41,588)</u></u>

The financial statements were approved and authorised for issue by the board and were signed on its behalf on 29 September 2021.


Prashant Bapna
 Director

The notes on pages 12 to 35 form part of these financial statements.

HIT ENTERTAINMENT LIMITED

**STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2020**

	Called up share capital £000	Other reserves £000	Profit and loss account £000	Total equity £000
At 1st January 2019	-	309,679	(340,593)	(30,914)
Loss for the year	-	-	(10,674)	(10,674)
At 31st December 2019 and at 1st January 2020	-	309,679	(351,267)	(41,588)
Loss for the year	-	-	(7,042)	(7,042)
At 31st December 2020	-	309,679	(358,309)	(48,630)

The notes on pages 12 to 35 form part of these financial statements.

HIT ENTERTAINMENT LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST DECEMBER 2020

1. General information

HIT Entertainment Limited (the "Company") owns, develops and exploits intellectual property rights associated with the HIT Entertainment Limited brand portfolio. The Company is a private company limited by shares incorporated and domiciled in the United Kingdom and registered in England and Wales. The address of its registered office is 3rd Floor The Porter Building, 1 Brunel Way, Slough, Berkshire, England, SL1 1FQ.

2. Accounting policies

2.1 Basis of preparation of financial statements

The financial statements have been prepared under the historical cost convention unless otherwise specified within these accounting policies and in accordance with Financial Reporting Standard 102, the Financial Reporting Standard applicable in the UK and the Republic of Ireland and the Companies Act 2006.

Given the Company's loss position for the FY20 year and its net current liabilities as at 31st December 2020, the Company has sought and obtained a letter of support from its ultimate parent company Mattel Inc. Consequently, the directors believe that for any reason should the Company be unable to meet its liabilities then Mattel Inc. will provide financial support to the Company in accordance with this letter such that the Company is able to operate as a going concern and to settle its liabilities as they fall due for at least 12 months from the date of these financial statements. The company has assessed whether it can rely upon the letter of support and has no concern in that regard. Therefore, these financial statements are prepared on a going concern basis.

The preparation of financial statements in compliance with FRS 102 requires the use of certain critical accounting estimates. It also requires management to exercise judgment in applying the Company's accounting policies (see note 3).

The Company is itself a subsidiary company and is exempt from the requirement to prepare group financial statements by virtue of section 401 of the Companies Act 2006. These financial statements therefore present information about the Company as an individual undertaking and not about its group. The ultimate parent undertaking and controlling party is Mattel Inc., a publicly listed company registered in the United States. The largest and smallest group of companies into which the results of the Company are consolidated at the balance sheet date is Mattel Inc. The consolidated financial statements can be obtained at Mattel Inc. 333 Continental Blvd, El Segundo, CA 90245, United States.

HIT ENTERTAINMENT LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31ST DECEMBER 2020

2. Accounting policies (continued)

2.2 Exemption from preparing consolidated financial statements

The company has taken advantage of the following disclosure exemptions in preparing these financial statements, as permitted by the FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland":

- the requirements of Section 4 Statement of Financial Position paragraph 4.12(a)(iv);
- the requirements of Section 7 Statement of Cash Flows;
- the requirements of Section 3 Financial Statement Presentation paragraph 3.17(d);
- the requirements of Section 11 Financial Instruments paragraphs 11.41(b), 11.41(c), 11.41(e), 11.41(f), 11.42, 11.44 to 11.45, 11.47, 11.48(a)(iii), 11.48(a)(iv), 11.48(b) and 11.48(c);
- the requirements of Section 12 Other Financial Instruments paragraphs 12.26 to 12.27, 12.29(a), 12.29(b) and 12.29A;
- the requirements of Section 26 Share-based Payment paragraphs 26.18(b), 26.19 to 26.21 and 26.23;
- the requirements of Section 33 Related Party Disclosures paragraph 33.7.

This information is included in the consolidated financial statements of Mattel Inc. as at 31 December 2020 and these financial statements may be obtained from 333 Continental Blvd, El Segundo, CA 90245, United States.

The following principal accounting policies have been applied:

HIT ENTERTAINMENT LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST DECEMBER 2020

2. Accounting policies (continued)

2.3 Revenue

2.3.1 General

The Company has adopted the guidance whereby revenue is recognised only when all of the following conditions are met:

- (i) Evidence of a licensing agreement exists in the form of a signed and fully executed contract;
- (ii) Licensee has obtained control over the necessary property for exploitation of the licensed rights to begin (that is, content has been delivered or available for immediate delivery);
- (iii) The license period of the arrangement has begun and the customer can begin exploitation, exhibition or sale;
- (iv) The arrangement fee is fixed or determinable; and
- (v) Collections of the arrangement fee are reasonably assured.

2.3.2 Licensing revenue

2.3.2.1 Variable Fees - no Minimum Guarantee ('MG') Recognition

All royalty and licensing income is recognised as revenue on an "as-earned" basis during the term of the contract.

For multi-year contracts, royalty income is recognised as revenue on an as-earned basis.

In absence of reported royalties, a royalty revenue accrual is established using the best estimate available, considering but not limited to, licensee sales projections, historical data and seasonal fluctuations and only when the amount is considered material to the individual contract.

Upon receipt of actual reported royalties, "contract inception to reporting date reported royalties" are compared to "contract inception to reporting date recognised revenue" with any associated true up/down recognised in revenue.

Delinquent royalties

Where revenue recognised during a period is based on an accrual (as opposed to actual reported royalties) and royalties are not reported by the reporting period due date (usually a subsequent period) the licensee will be considered delinquent. As such:

- a reversal of previously accrued revenue for the reporting period that is now delinquent is booked in the period that the royalty becomes delinquent; and
- no further revenue is accrued in future periods until the Company receives all delinquent royalty statements.

This is on the basis that where a licensee is not reporting royalties by the reporting period due date, collection of the fees may no longer be reasonably assured.

2.3.2.2 Variable Fees with non-cross collateralised non-refundable MG

The Company's business plan is to build strategic partnerships with key licensees in order to develop relationships that result in consistent revenue growth - both for the licensee and for the Company. With this goal in mind, each licensee contract is managed as its own business plan, weighing up

licensee performance and ongoing relationship development when considering minimum guarantees. As a result the Company will, from time to time, subjectively waive all or part of an MG to manage such partnerships. This would generally occur in the final year of a contract and can

HIT ENTERTAINMENT LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31ST DECEMBER 2020

2. Accounting policies (continued)

2.3 Revenue (continued)

occur under multiple scenarios.

As the possibility of waiver cannot be determined until contract end when performance can be reviewed, MG revenue is not reasonably determinable for upfront revenue recognition. As such:

1) Under contracts which have a specified guarantee for the entire contract term:

- Royalties are recognised on an as-earned basis as per 2.3.2.1 above.
- Royalties earned above and beyond the minimum guaranteed amount are recognised on an as-earned basis in accordance with the 2.3.2.1 above.
- If, at the last reporting period of the contract term, a portion of the non-refundable MG remains unearned ("guarantee shortfall"), any guarantee shortfall is recognised with the recognition of royalty income in the last reporting period of the contract term.
- Recognition of any guarantee balance is subject to the criteria outlined in 2.1 above being met.

2) Under contracts which have stand-alone guarantee periods:

- The guarantee shortfall is recognised with the recognition of royalty income in the last reporting period of each guarantee term.

2.3.2.3 Variable Fees with cross collateralised non-refundable MG's

Fees subject to cross collateralisation are not considered fixed or determinable with respect to each brand/territory/category/year/film until the licensee exploits all the rights. As such revenue is recognised as follows:

1) Under contracts which allow for the cross-collateralisation of guarantee balances and have a specified guarantee for the entire contract term:

- Per 2.3.2.2 above.

2) Under contracts which have stand-alone guarantee periods:

- Per 2.3.2.2 above.

2.3.3 Licensing revenue - TV

Income is recognised upon satisfaction of the criteria outlined in 2.3.1.

The majority of television contracts have a single advance payment. This is referred to as a 'flat fee'. Flat fees are considered fixed and determinable.

Revenue recognised on owned television programme series and from the distribution of licensed television programmes represents the invoiced value of license fees including withholding tax but excluding value added tax.

Where timing differences arise between the recognition of revenue in the Profit & Loss statement, and the contractual time when the Company is allowed to invoice the licensee, revenue is recognised as follows:

HIT ENTERTAINMENT LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST DECEMBER 2020

2. Accounting policies (continued)

2.3 Revenue (continued)

(1) Where the Company can contractually invoice in the current period but the revenue recognition criteria is not met until a subsequent period (contract signed, material delivered, but license period starts in a future month), recognition of revenue is deferred until the license period starts;

(2) Where the Company has met the revenue recognition criteria in the current period but contractually cannot invoice until a subsequent period (whether several instalments or 1 instalment at end of the license), revenue is accrued until the point at which the invoice can be raised.

2.3.4 Advances

While an advance may be invoiced, it does not meet the revenue recognition criteria outlined in 2.3.1. Advances invoiced/received are booked in the balance sheet as "Deferred Revenue Liability." As revenue is recognized in accordance with 2.3.2 above, any advance in "Deferred Revenue Liability" is offset against "Accrued Revenue Asset" created at the time of recognising revenue.

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. Revenue is measured as the fair value of the consideration received or receivable, excluding discounts, rebates, value added tax and other sales taxes. The following criteria must also be met before revenue is recognised:

Sale of goods

Revenue from the sale of goods is recognised when all of the following conditions are satisfied:

- the Company has transferred the significant risks and rewards of ownership to the buyer;
- the Company retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the Company will receive the consideration due under the transaction; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Rendering of services

Revenue from a contract to provide services is recognised in the period in which the services are provided in accordance with the stage of completion of the contract when all of the following conditions are satisfied:

- the amount of revenue can be measured reliably;
- it is probable that the Company will receive the consideration due under the contract;
- the stage of completion of the contract at the end of the reporting period can be measured reliably; and
- the costs incurred and the costs to complete the contract can be measured reliably.

HIT ENTERTAINMENT LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST DECEMBER 2020

2. Accounting policies (continued)

2.4 Foreign currency translation

Foreign currency transactions are translated into the functional currency using the spot exchange rates at the dates of the transactions.

At each period end foreign currency monetary items are translated using the closing rate. Non-monetary items measured at historical cost are translated using the exchange rate at the date of the transaction and non-monetary items measured at fair value are measured using the exchange rate when fair value was determined.

Foreign exchange gains and losses resulting from the settlement of transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the Statement of Comprehensive Income except when deferred in other comprehensive income as qualifying cash flow hedges.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the Statement of Comprehensive Income within 'finance income or costs'. All other foreign exchange gains and losses are presented in profit or loss within 'other operating income'.

2.5 Interest income

Interest income is recognised in Statement of Comprehensive Income using the effective interest method.

2.6 Borrowing costs

All borrowing costs are recognised in the Statement of Comprehensive Income in the year in which they are incurred.

2.7 Finance costs

Finance costs are charged to Statement of Comprehensive Income over the term of the debt using the effective interest method so that the amount charged is at a constant rate on the carrying amount. Issue costs are initially recognised as a reduction in the proceeds of the associated capital instrument.

2.8 Pensions

Defined contribution pension plan

The Company operates a defined contribution plan for its employees. A defined contribution plan is a pension plan under which the Company pays fixed contributions into a separate entity. Once the contributions have been paid the Company has no further payment obligations.

The contributions are recognised as an expense in profit or loss when they fall due. Amounts not paid are shown in accruals as a liability in the Balance Sheet. The assets of the plan are held separately from the Company in independently administered funds.

HIT ENTERTAINMENT LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31ST DECEMBER 2020

2. Accounting policies (continued)

2.9 Current and deferred taxation

The tax expense for the year comprises current and deferred tax. Tax is recognised in profit or loss except that a charge attributable to an item of income and expense recognised as other comprehensive income or to an item recognised directly in equity is also recognised in other comprehensive income or directly in equity respectively.

The current income tax charge is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the balance sheet date in the countries where the Company operates and generates income.

Deferred tax balances are recognised in respect of all timing differences that have originated but not reversed by the Balance Sheet date, except that:

- The recognition of deferred tax assets is limited to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits; and
- Any deferred tax balances are reversed if and when all conditions for retaining associated tax allowances have been met.

Deferred tax balances are not recognised in respect of permanent differences except in respect of business combinations, when deferred tax is recognised on the differences between the fair values of assets acquired and the future tax deductions available for them and the differences between the fair values of liabilities acquired and the amount that will be assessed for tax. Deferred tax is determined using tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

2.10 Tangible fixed assets

Tangible fixed assets under the cost model are stated at historical cost less accumulated depreciation and any accumulated impairment losses. Historical cost includes expenditure that is directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

Depreciation is charged so as to allocate the cost of assets less their residual value over their estimated useful lives, using the straight-line method.

Depreciation is provided on the following basis:

Short-term leasehold property	- Straight line over term of lease
Plant and machinery	- Straight line over 3-5 years
Fixtures and fittings	- Straight line over 3-5 years
Computer equipment	- Straight line over 3-5 years
Other fixed assets	- Straight line over 3-5 years

The assets' residual values, useful lives and depreciation methods are reviewed, and adjusted prospectively if appropriate, or if there is an indication of a significant change since the last reporting date.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised in profit or loss.

HIT ENTERTAINMENT LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31ST DECEMBER 2020**

2. Accounting policies (continued)

2.11 Investment in programmes

Investments in programmes are stated at the lower of cost, less accumulated amortisation, or net realisable value.

Costs comprise direct programme costs, which are capitalised on costs incurred up to the date of first release of the programme, and programme development costs. Costs for developing programmes are expensed until such time that a pilot is produced and decision made to further exploit the programme.

A charge is made to write down the cost of completed programmes over their useful lives. Completed programmes are expensed based on the ratio of the current period's net revenues to estimated total net revenues from all sources on an individual production basis. Amortisation is included in cost of sales in the profit and loss account.

An assessment is made at each balance sheet date by the directors to determine whether provision is required to reduce the carrying value of the investment in programmes to net realisable value. Where programmes in development are not expected to proceed, the related costs are written off to the Statement of Comprehensive Income.

Any charge from writing down to net realisable value during the year is included in the Statement of Comprehensive Income as part of cost of sales.

2.12 Valuation of Investments

Investments in subsidiaries are measured at cost less accumulated impairment.

2.13 Stocks

Stocks are stated at the lower of cost and net realisable value, being the estimated selling price less costs to complete and sell. Cost is based on the cost of purchase on a first in, first out basis. Work in progress and finished goods include labour and attributable overheads.

At each balance sheet date, stocks are assessed for impairment. If stock is impaired, the carrying amount is reduced to its selling price less costs to complete and sell. The impairment loss is recognised immediately in profit or loss.

2.14 Debtors

Short term debtors are measured at transaction price, less any impairment. Loans receivable are measured initially at fair value, net of transaction costs, and are measured subsequently at amortised cost using the effective interest method, less any impairment.

2.15 Cash and cash equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are highly liquid investments that mature in no more than three months from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

HIT ENTERTAINMENT LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST DECEMBER 2020

2. Accounting policies (continued)

2.16 Creditors

Short term creditors are measured at the transaction price. Other financial liabilities, including bank loans, are measured initially at fair value, net of transaction costs, and are measured subsequently at amortised cost using the effective interest method.

2.17 Provisions for liabilities

Provisions are made where an event has taken place that gives the Company a legal or constructive obligation that probably requires settlement by a transfer of economic benefit, and a reliable estimate can be made of the amount of the obligation.

Provisions are charged as an expense to profit or loss in the year that the Company becomes aware of the obligation, and are measured at the best estimate at the Balance Sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.

When payments are eventually made, they are charged to the provision carried in the Balance Sheet.

2.18 Financial instruments

The Company only enters into basic financial instrument transactions that result in the recognition of financial assets and liabilities like trade and other debtors and creditors, loans from banks and other third parties, loans to related parties and investments in ordinary shares.

Debt instruments (other than those wholly repayable or receivable within one year), including loans and other accounts receivable and payable, are initially measured at present value of the future cash flows and subsequently at amortised cost using the effective interest method. Debt instruments that are payable or receivable within one year, typically trade debtors and creditors, are measured, initially and subsequently, at the undiscounted amount of the cash or other consideration expected to be paid or received. However, if the arrangements of a short-term instrument constitute a financing transaction, like the payment of a trade debt deferred beyond normal business terms or in case of an out-right short-term loan that is not at market rate, the financial asset or liability is measured, initially at the present value of future cash flows discounted at a market rate of interest for a similar debt instrument and subsequently at amortised cost, unless it qualifies as a loan from a director in the case of a small company, or a public benefit entity concessionary loan.

Investments in non-derivative instruments that are equity to the issuer are measured:

- at fair value with changes recognised in the Statement of Comprehensive Income if the shares are publicly traded or their fair value can otherwise be measured reliably;
- at cost less impairment for all other investments.

Financial assets that are measured at cost and amortised cost are assessed at the end of each reporting period for objective evidence of impairment. If objective evidence of impairment is found, an impairment loss is recognised in the Statement of Comprehensive Income.

For financial assets measured at amortised cost, the impairment loss is measured as the difference between an asset's carrying amount and the present value of estimated cash flows discounted at the asset's original effective interest rate. If a financial asset has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

For financial assets measured at cost less impairment, the impairment loss is measured as the

HIT ENTERTAINMENT LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31ST DECEMBER 2020

2. Accounting policies (continued)

2.18 Financial instruments (continued)

difference between an asset's carrying amount and best estimate of the recoverable amount, which is an approximation of the amount that the Company would receive for the asset if it were to be sold at the balance sheet date.

Financial assets and liabilities are offset and the net amount reported in the Balance Sheet when there is an enforceable right to set off the recognised amounts and there is an intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

Derivatives, including interest rate swaps and forward foreign exchange contracts, are not basic financial instruments. Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value. Changes in the fair value of derivatives are recognised in profit or loss in finance costs or income as appropriate. The company does not currently apply hedge accounting for interest rate and foreign exchange derivatives.

HIT ENTERTAINMENT LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST DECEMBER 2020

3. Judgements in applying accounting policies and key sources of estimation uncertainty

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The estimates and assumptions that have a risk of causing material adjustments to the carrying amounts of assets and liabilities within the next financial year are addressed below.

Impairment Assessments

At each balance sheet date the Directors consider whether intangible assets/investments in subsidiaries/programme rights are impaired. Where an indication of impairment is identified the estimation of recoverable value requires estimation of the recoverable value of the cash generating units (CGUs). This requires estimation of the future cash flows from the CGUs and also selection of appropriate discount rates in order to calculate the net present value of those cash flows.

Impairment of non-financial assets

At each balance sheet date non-financial assets not carried at fair value are assessed to determine whether there is an indication that the asset (or asset's cash generating unit) may be impaired. If there is such an indication the recoverable amount of the asset (or asset's cash generating unit) is compared to the carrying amount of the asset (or asset's cash generating unit).

The recoverable amount of the asset (or asset's cash generating unit) is the higher of the fair value less costs to sell and value in use. Value in use is defined as the present value of the future cash flows before interest and tax obtainable as a result of the asset's (or asset's cash generating unit) continued use. These cash flows are discounted using a pre-tax discount rate that represents the current market risk-free rate and the risks inherent in the asset.

If the recoverable amount of the asset (or asset's cash generating unit) is estimated to be lower than the carrying amount, the carrying amount is reduced to its recoverable amount. An impairment loss is recognised in the profit and loss account.

If an impairment loss is subsequently reversed, the carrying amount of the asset (or asset's cash generating unit) is increased to the revised estimate of its recoverable amount. A reversal of an impairment loss is recognised in the profit and loss account.

Programme Rights

The cost of completed programmes is written down over the estimated useful life. This requires managements best estimate of an individual programmes ability to generate economic benefit. The assumptions reflect historical experience and require management's judgement.

Useful economic lives of intangible assets

The annual amortisation charge for intangible assets is sensitive to changes in the estimated useful economic lives. The useful economic lives are re-assessed annually and are amended when necessary to reflect current estimates. See note 11 for the carrying amount of the intangible assets.

HIT ENTERTAINMENT LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31ST DECEMBER 2020**

4. Turnover

	2020 £000	2019 £000
Analysis of turnover by country of destination		
United Kingdom	589	336
Rest of Europe	1,191	913
Rest of the World	1,479	832
	<u>3,259</u>	<u>2,081</u>

	2020 £000	2019 £000
Analysis of turnover by class of business is as follows:		
Consumer Products	719	644
Home Entertainment	1,471	1,144
Television	907	42
New Media	-	21
Live Events	162	230
	<u>3,259</u>	<u>2,081</u>

5. Operating loss

The operating loss is stated after charging/(crediting):

	2020 £000	2019 £000
Exchange differences	(35)	(113)
Other operating lease rentals	-	878
Depreciation of tangible assets	175	48
Amortisation of investment in programmes	454	2,175
Intercompany management fee	-	(82)
Onerous lease provision	2,040	1,400
Staff costs, excluding pension	2,920	2,985
Pension costs	<u>138</u>	<u>185</u>

The distribution costs line in the profit and loss account comprise marketing and advertising costs for both the current and the prior year.

HIT ENTERTAINMENT LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31ST DECEMBER 2020**

6. Auditors' remuneration

	2020 £000	2019 £000
Fees payable to the Company's auditors for the audit of the Company's annual financial statements	315	335
Fees payable to the Company's auditors and their associates in respect of:		
Other services relating to taxation	23	17
	23	17

7. Employees

Staff costs, including directors' remuneration, were as follows:

	2020 £000	2019 £000
Wages and salaries	2,558	3,185
Social security costs	362	317
Other pension costs	138	185
	3,058	3,687

The average monthly number of employees, including the directors, during the year was as follows:

	2020 No.	2019 No.
Sales and marketing	11	13
Administration	21	25
	32	38

HIT ENTERTAINMENT LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31ST DECEMBER 2020**

8. Directors' remuneration

	2020 £000	2019 £000
Directors' emoluments	381	422
Directors pension costs - defined contrib'n sch.	10	18
Compensation for loss of office	50	-
	<u>441</u>	<u>440</u>

During the year retirement benefits were accruing to 2 directors (2019 - 2) in respect of defined contribution pension schemes.

The highest paid director received remuneration of £302,000 (2019 - £261,000).

The value of the company's contributions paid to a defined contribution pension scheme in respect of the highest paid director amounted to £5,000 (2019 - £7,000).

9. Tax on loss

	2020 £000	2019 £000
Corporation tax		
Foreign tax on income for the year	66	89
	<u>66</u>	<u>89</u>
Total current tax	<u>66</u>	<u>89</u>
Deferred tax		
Origination and reversal of timing differences	(10)	(103)
Changes to tax rates	(218)	16
Adjustment in respect of prior periods	(10)	9
Total deferred tax	<u>(238)</u>	<u>(78)</u>
Tax credit on loss	<u>(172)</u>	<u>11</u>

HIT ENTERTAINMENT LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31ST DECEMBER 2020**

9. Tax on loss (continued)

Factors affecting tax charge for the year

The tax assessed for the year is higher than (2019 - *higher than*) the standard rate of corporation tax in the UK of 19% (2019 - 19%). The differences are explained below:

	2020 £000	2019 £000
Loss before tax	(7,214)	(10,663)
Loss before tax multiplied by standard rate of corporation tax in the UK of 19% (2019 - 19%)	(1,371)	(2,026)
Effects of:		
Expenses not deductible for tax purposes, other than goodwill amortisation and impairment	(24)	(37)
Foreign withholding tax suffered	66	89
Rate difference on deferred tax	(218)	16
Adjustments to tax charge in respect of prior periods	(10)	9
DTA not recognised on current year losses carried forward	-	783
Losses utilised previously not recognised	-	(344)
Group relief	102	421
Transfer pricing adjustments	1,283	1,100
Total tax charge for the year	(172)	11

Factors that may affect future tax charges

In Finance Bill 2021, substantively enacted in June 2021, the main corporation tax rate is set to increase to 25% with effect from 1 April 2023. As Finance Bill 2021 had not been substantively enacted at the balance sheet date, its effects are not included in these financial statements. Had it been substantively enacted by the balance sheet date, the impact on the income tax charge and deferred tax asset would not be material.

UK deferred taxes have been provided at 19% (2019: 17%).

HIT ENTERTAINMENT LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31ST DECEMBER 2020**

10. Tangible assets

	Short-term leasehold property £000	Plant and machinery £000	Fixtures and fittings £000	Computer equipment £000	Total £000
Cost or valuation					
At 1 January 2020	1,885	44	523	4,456	6,908
Additions	-	-	-	49	49
Disposals	-	(44)	-	-	(44)
At 31st December 2020	1,885	-	523	4,505	6,913
Accumulated depreciation					
At 1 January 2020	1,781	19	523	4,324	6,647
Charge for the year on owned assets	104	-	-	95	199
Disposals	-	(19)	-	-	(19)
At 31st December 2020	1,885	-	523	4,419	6,827
Net book value					
At 31st December 2020	-	-	-	86	86
At 31st December 2019	104	25	-	132	261

HIT ENTERTAINMENT LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31ST DECEMBER 2020

11. Investments

	Investments in subsidiary companies £000
Cost or valuation	
At 1 January 2020	463,750
At 31st December 2020	463,750
Accumulated impairment	
At 1 January 2020	441,967
At 31st December 2020	441,967
Net book value	
At 31st December 2020	21,783
At 31st December 2019	21,783

The Directors believe that the carrying value of the remaining investments is supported by their underlying net assets.

HIT ENTERTAINMENT LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31ST DECEMBER 2020**

11. Investments (continued)**Subsidiary undertakings**

The following were subsidiary undertakings of the Company:

Name	Registered office	Class of shares	Holding
Gullane (Productions) Limited	3rd Floor, The Porter Building, 1 Brunel Way, Slough, Berkshire, SL1 1FQ	Ordinary	100%
Prism Art and Design Limited	3rd Floor, The Porter Building, 1 Brunel Way, Slough, Berkshire, SL1 1FQ	Ordinary	100%
The Magic Railroad Company Limited	3rd Floor, The Porter Building, 1 Brunel Way, Slough, Berkshire, SL1 1FQ	Ordinary	100%
HiT Consumer Products Limited	3rd Floor, The Porter Building, 1 Brunel Way, Slough, Berkshire, SL1 1FQ	Ordinary	100%
HiT Attractions Limited	3rd Floor, The Porter Building, 1 Brunel Way, Slough, Berkshire, SL1 1FQ	Ordinary	100%
Rainbow Magic Limited	3rd Floor, The Porter Building, 1 Brunel Way, Slough, Berkshire, SL1 1FQ	Ordinary	100%
Gullane Entertainment Limited	3rd Floor, The Porter Building, 1 Brunel Way, Slough, Berkshire, SL1 1FQ	Ordinary	100%
HiT (MTK) Limited	3rd Floor, The Porter Building, 1 Brunel Way, Slough, Berkshire, SL1 1FQ	Ordinary	100%

HIT ENTERTAINMENT LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31ST DECEMBER 2020**

11. Investments (continued)

Subsidiary undertakings (continued)

The aggregate of the share capital and reserves as at 31st December 2020 and the profit or loss for the year ended on that date for the subsidiary undertakings were as follows:

Name	Aggregate of share capital and reserves	Profit/(Loss)
	£000	£000
Gullane (Productions) Limited	4,528	17
Prism Art and Design Limited	43,630	3,672
The Magic Railroad Company Limited	-	-
HiT Consumer Products Limited	3,127	1,350
HiT (MTK) Limited	3,228	374
Rainbow Magic Limited	5,254	(85)
Gullane Entertainment Limited	6,791	-
HiT Attractions Limited	4,313	2

12. Stocks

	2020 £000	2019 £000
Finished goods and goods for resale	23	69
Investment in programmes	11	698
	<u>34</u>	<u>767</u>

There is no significant difference between the replacement cost of stocks (including investments in programmes) and their carrying values.

13. Investment in programmes

	Completed programmes £000	Work in progress £000	Total £000
At 1 January 2020	371	327	698
Additions	-	37	37
Amortisations	(101)	(353)	(454)
Transfers	(270)	-	(270)
	<u>-</u>	<u>11</u>	<u>11</u>
At 31 December 2020	-	11	11

HIT ENTERTAINMENT LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31ST DECEMBER 2020**

14. Debtors

	2020 £000	2019 £000
Amounts falling due after more than one year		
Deferred tax asset	1,839	1,840
	<u>1,839</u>	<u>1,840</u>

The 2% change in tax rate results in an immaterial impact to the deferred tax recognised.

	2020 £000	2019 £000
Amounts falling due within one year		
Trade debtors	120	148
Amounts owed by group undertakings	5,102	3,161
Other debtors	239	316
Prepayments and accrued income	533	724
Deferred tax	238	-
	<u>6,232</u>	<u>4,349</u>

Amounts owed by group undertakings are not secured, interest free and are repayable on demand.

15. Cash at bank and in hand

	2020 £000	2019 £000
Cash at bank and in hand	434	94
	<u>434</u>	<u>94</u>

HIT ENTERTAINMENT LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31ST DECEMBER 2020**

16. Creditors: Amounts falling due within one year

	2020 £000	2019 £000
Trade creditors	521	165
Amounts owed to group undertakings	74,800	67,933
Other taxation and social security	180	158
Accruals and deferred income	1,211	751
	<u>76,712</u>	<u>69,007</u>

Amounts owed to group undertakings are not secured, interest free and are repayable on demand.

17. Deferred tax:

	2020 £000	2019 £000
At beginning of year	1,840	1,762
Credited to profit or loss	238	78
At end of year	<u>2,078</u>	<u>1,840</u>

The deferred taxation balance is made up as follows:

	2020 £000	2019 £000
Accelerated capital allowances	2,060	1,814
DTA on separate trade revenue	-	18
DTA on IIP	-	(11)
DTA on reserves	18	19
	<u>2,078</u>	<u>1,840</u>

There is an unrecognised deferred tax asset of £10,584,630 (2019: £9,636,939) arising primarily in respect of trading losses and non trade deficit not utilised. The asset may reduce future tax charges in the event that appropriate profits arise in the future such that the losses can be utilised.

HIT ENTERTAINMENT LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31ST DECEMBER 2020**

18. Other provisions

	Provision for dilapidation s £000	Provision for onerous lease £000	Total £000
At 1st January 2020	275	1,400	1,675
Charged to profit or loss	-	2,040	2,040
Utilised in year	-	(1,390)	(1,390)
At 31st December 2020	275	2,050	2,325

After the Company vacated its London office premises during 2020, relocating to a new office building located in Slough, the directors continued discussions with the landlord of the London office whilst also exploring sub leasing options. Despite this, by the end of 2020 there was still no formal agreement signed with either the landlord or a possible tenant, influenced significantly by the changes to UK market conditions that occurred following the Covid-19 pandemic and subsequent lockdowns enforced by the UK Government. As a result, the Company re-estimated its provision for onerous lease to represent the likelihood that the Company will not find a tenant to sub lease the office space.

19. Called up Share capital

	2020 £000	2019 £000
Allotted, called up and fully paid		
1 (2019 - 1) Ordinary share of £0.02 -		

20. Reserves**Other reserves**

All movements during the year in other reserves have been disclosed in the Statement of Changes in Equity on page 11 of the financial statements.

Profit and loss account

All movements during the year in the Profit & Loss account have been disclosed in the Statement of Changes in Equity on page 11 of the financial statements.

21. Pension commitments

The Company operates a defined contributions pension scheme. The assets of the scheme are held separately from those of the Company in an independently administered fund. The pension cost charge represents contributions payable by the Company to the fund and amounted to £138,000 (2019 - £185,000). Contributions totalling £nil (2019 - £nil) were payable to the fund at the balance sheet date and are included in creditors.

HIT ENTERTAINMENT LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST DECEMBER 2020

22. Commitments under operating leases

At 31st December 2020 the Company had future minimum lease payments due under non-cancellable operating leases for each of the following periods:

	2020 £000	2019 £000
Not later than 1 year	878	878
Later than 1 year and not later than 5 years	652	1,530
	<u>1,530</u>	<u>2,408</u>

23. Post balance sheet events

The coronavirus pandemic continues to have a major effect worldwide on people, businesses and the economy. Over the course of the Coronavirus pandemic, the Company's top priority has been to protect the health and safety of its employees while at the same time mitigating the disruption to its business. To the date of this report, the Company's liquidity continues to be sufficient to effectively manage through the disruption and to continue to execute the key elements of the Company's strategic plan.

The Directors believe that the impact of the United Kingdom's decision to leave the EU will not have a significant impact on the Company. The Company's revenues are diverse geographically with 82% generated outside of the United Kingdom and 45% generated outside of Europe. Given the Company's type of business, it does not rely on cross border supply chains and can mitigate short term pressures on Sterling with access to funding from the Mattel Group in a range of currencies.

On 31 March 2021, the Company, together with Sunshine Holdings 3 Limited (the Company's immediate parent undertaking), entered into a sale and purchase agreement with Mattel Europa BV (a fellow group subsidiary) and Mattel Inc (the Company's ultimate parent undertaking) for the purchase of the entire share capital of PT Mattel Indonesia (a fellow group subsidiary). Mattel Inc owned 1 share and Mattel Europa owned 75,715 shares of IDR 1,968,000 each.

The Company purchased the 1 share from Mattel Inc for IDR 8,994,136 translated to \$623 in cash on 30 March 2021. Mattel Europa BV sold its shares to the Company, with the consideration satisfied by the Company's issue and allotment to Sunshine Holdings 3 Limited of 10,000 ordinary shares of £0.02 each in the capital of the Company at an aggregate subscription price of £34,256,444 (being the equivalent of IDR 680,991,005,864) and the issue of a loan note by Sunshine Holdings 3 Limited with a value of USD \$47,143,718 (being the equivalent of IDR 680,991,005,864) to Mattel Europa BV.

On 1 April 2021 the entire share capital of Gullane Thomas Limited (a fellow group subsidiary) was contributed from Sunshine Holdings 3 Limited to the Company in consideration for the issue of 100 ordinary shares of £0.02 each in the Company at an aggregate subscription price of £39,497,932 (being the equivalent of USD \$54,440,000). The result of this transaction is that the direct parent of Gullane Thomas Limited changed from Sunshine Holdings 3 Limited to the Company. Sunshine Holdings 3 Limited remains the owner of the Company and therefore the indirect 100% ownership by Sunshine Holdings 3 Limited and by Mattel Inc remains unchanged.

HIT ENTERTAINMENT LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31ST DECEMBER 2020**

24. Contingent liabilities

The Company has given a guarantee in respect of the bank borrowings of Mattel Inc., a fellow group company, which amounted to £nil at 31 December 2020 (2019: £nil). The guarantee is secured by a charge on the company's accounts receivable balances (excluding any intercompany balance).

25. Controlling party

The immediate parent undertaking is Sunshine Holdings 3 Limited, which is registered in England and Wales.

The ultimate parent undertaking and controlling party is Mattel Inc., a publicly listed company registered in the United States. The largest and smallest group of companies into which the results of the Company are consolidated at the balance sheet date is Mattel Inc.

The consolidated financial statements can be obtained at Mattel Inc. 333 Continental Blvd, El Segundo, CA 90245, United States.

The Company is itself a subsidiary company and is exempt from the requirement to prepare group financial statements by virtue of section 401 of the Companies Act 2006. These financial statements therefore present information about the Company as an individual undertaking and not about its group.