Entertainment Film Distributors Limited

Report and Financial Statements

31 March 2016

Directors
T H Green
N G Green
R D Street

Secretary
N G Green

Auditors
Ernst & Young LLP
1 More London Place
London SE1 2AF

Bankers
Barclays Bank Plc
27 Soho Square
London W1D 3QR

Registered Office
Eagle House
108/110 Jermyn Street
London SW1Y 6HB

Strategic report

The directors present their strategic report and the financial statements for the year ended 31 March 2016.

Principal activities and review of the business

The company's principal activities are the acquisition and subsequent distribution of films. Revenue is received from the exploitation of the rights acquired which can include theatrical, DVD and television rights.

The key financial and other performance indicators during the year were as follows:

	2016	*2015*	*Change*
	£000	*£000*	*%*
Turnover	29,824	45,865	(35%)
Operating (loss)/profit	(8,951)	4,351	(306%)
(Loss)/Profit for the financial year	(8,954)	3,538	(353%)
Shareholders' funds	30,039	38,992	(23%)

The reduction in the current year's turnover reflects the impact of the rapidly evolving home entertainment market place as consumers continue to move from physical products to digital. Furthermore the company has been subjected to anomalies surrounding the timing aspects of the company's accounting policy for revenue recognition for Television sales, leading to a lower number of film availabilities in 2016. Clearly the reduction in turnover has fed through to the results at the operating loss level.

To ensure that it is best positioned to maximise profitability going forward the company has taken steps to address its cost structure with a tight control on the operating and overhead expenditure.

The cash reserves in the company continue to remain strong, as does the groups' investment in new and current film projects with a 14% increase in the level invested at balance sheet date. The company continues to look in the market to acquire assets, develop revenue generating opportunities on different platforms and furthermore to monitor its direct costs, seeking to implement business strategies responsive to the changing market.

The directors are confident that the performance of the company in the years following this current year will be a considerable improvement, as it looks to exploit all the opportunities available on the new and existing film investments.

Principal risks and uncertainties

Legislative risks

Lack of sufficient protection for intellectual property by the law may affect the value of the company. Also the company may suffer if it cannot continue to enforce the intellectual property rights on the movies it currently owns. Whilst it is acknowledged that there is a risk with piracy the company ensures that everything possible is done to minimise it. The orders for the constituents of the finished product are never placed with one manufacturer, internal systems are in place to constantly monitor online activity and the industry continues to be closely policed by its own industry body.

Business risks

The key business risk affecting the company is considered to be anticipating the public demand for films that the company has or is about to invest in. The company manages this risk by monitoring and researching the market and ensuring that the films distributed cover a wide range of material and genre types. Furthermore, the opportunities brought about by technological advancements within the industry, both in terms of potential new markets and the delivery of products therein, require the group to constantly monitor and develop its business processes to meet these ever-changing demands.

Strategic report

Principal risks and uncertainties (continued)

Financial instruments

The company's principal financial instruments comprise bank balances, trade creditors and trade debtors. The main purpose of these instruments is to finance the company's operations. Due to the nature of the financial instruments used by the company there is no exposure to price risk. The company's approach to managing other risks applicable to the financial instruments concerned is shown below.

Trade debtors are managed in respect of credit and cash flow risk by policies concerning the credit offered to customers and the regular monitoring of amounts outstanding for both time and credit limits. Trade creditors' liquidity risk is managed by ensuring that sufficient funds are available to meet amounts due.

On behalf of the Board

N G Green
Director
22nd March 2017

T H Green
Director

Registered No. 1338296

Directors' report

The directors present their report and financial statements for the year ended 31 March 2016.

Dividends

The directors do not recommend a final dividend (2015 – £nil).

Future developments

There have not been any significant changes in the company's principal activities in the year under review and the directors are not expecting any changes in the company's activities in the next year.

Going concern

The company's business activities, together with the factors likely to affect its future development, its financial position, financial risk management and details of its exposures to price, credit, liquidity and cash flow risk are described in the Strategic Report on page 2.

The company has made a loss for the financial year, however it still has a strong balance sheet, long-term relationships with customers and suppliers and will be able to meet its liabilities as and when they fall due for the foreseeable future. The company has enough experience to anticipate and is well placed to react quickly to changes in the market place to ensure it obtains the best possible return on any new and existing investment opportunities.

The directors therefore consider it appropriate to prepare the financial statements on a going concern basis.

Directors

The directors who served the company during the year were as follows:

T H Green
N G Green
R D Street

Disclosure of information to the auditors

So far as each person who was a director at the date of approving this report is aware, there is no relevant audit information, being information needed by the auditor in connection with preparing its report, of which the auditor is unaware. Having made enquiries of fellow directors and the company's auditor, each director has taken all the steps that he is obliged to take as a director in order to make himself aware of any relevant audit information and to establish that the auditor is aware of that information.

Auditors

A resolution to reappoint Ernst & Young LLP as auditors will be put to the members at the Annual General Meeting.

On behalf of the Board

N G Green	T H Green
Director	Director

22nd March 2017

Statement of directors' responsibilities

The directors are responsible for preparing the strategic report, the directors' report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing 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, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Independent auditors' report

To the members of Entertainment Film Distributors Limited

We have audited the financial statements of Entertainment Film Distributors Ltd for the year ended 31 March 2016 which comprise the Statement of income and retained earnings, the Statement of financial position and the related notes 1 to 14. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, with FRS 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland'.

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 5, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Financial Statements to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on the financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 March 2016 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Independent auditors' report

To the members of Entertainment Film Distributors Limited

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

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

Ernst & Young LLP

Gordon Cullen (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London
23 March 2017

Statement of income and retained earnings

for the year ended 31 March 2016

	Notes	2016 £	2015 £
Turnover	2	29,824,068	45,865,326
Cost of sales		(37,131,540)	(39,736,547)
Gross (loss)/profit		(7,307,472)	6,128,779
Distribution costs		(207,109)	(252,481)
Administrative expenses		(1,436,024)	(1,524,869)
Operating (loss)/profit	3	(8,950,605)	4,351,429
Interest receivable and similar income		113,457	91,651
(Loss)/profit on ordinary activities before taxation		(8,837,148)	4,443,080
Tax on (loss)/profit of ordinary activities	6	(116,616)	(905,084)
(Loss)/profit for the financial year		(8,953,764)	3,537,996
Retained earnings at 1 April		38,992,395	35,454,399
Retained earnings at 31 March		30,038,631	38,992,395

All amounts relate to continuing activities.

There is no difference between the loss (2015 profit) for the financial year and total comprehensive income for the year, and accordingly no separate statement of comprehensive income has been presented.

Statement of financial position

at 31 March 2016

	Notes	2016 £	2015 £
Fixed assets			
Tangible assets	7	14,809	15,153
Current assets			
Film distribution rights		32,047,796	28,019,959
Debtors	8	10,212,632	9,900,065
Cash at bank and in hand		48,404,350	61,226,505
		90,664,778	99,146,529
Creditors: amounts falling due within one year	9	(60,640,856)	(58,690,873)
Net current assets		30,023,922	40,455,656
Total assets less current liabilities		30,038,731	40,470,809
Provisions	10	–	(1,478,314)
Net assets		30,038,731	38,992,495
Capital and reserves			
Called up share capital	11	100	100
Profit and loss account		30,038,631	38,992,395
Shareholders' funds		30,038,731	38,992,495

N G Green
Director
22nd March 2017

T H Green
Director

Notes to the financial statements

at 31 March 2016

1. Accounting policies

Statement of compliance

The company's financial statements have been prepared in compliance with FRS 102 as it applied to the financial statements of the company for the year ended 31 March 2016.

The company transitioned from previously extant UK GAAP to FRS 102 as at 1 April 2014. The last financial statements under previous UK GAAP were for the year ended 31 March 2015 and the date of transition to FRS102 was therefore 1 April 2014. There have been no adjustments to the accounts of the company as a result of the transition to FRS 102 and hence no reconciliation have been prepared.

Basis of preparation

The financial statements are prepared under the historical cost convention and in accordance with applicable accounting standards.

The company's financial statements have been prepared in compliance with FRS 102 as it applies to the financial statements of the company for the year ended 31 March 2016.

There have been no adjustments to the accounts of the company as a result of the transition to FRS 102 and hence no reconciliations have been prepared.

The financial statements are prepared in sterling which is the functional currency of the company and rounded to the nearest £.

Going concern

The company made a loss for the year, however it still has a strong balance sheet and significant cash balances and will be able to meet its liabilities as and when they fall due for the foreseeable future.

It has a strong financial control and reporting environment which anticipates and identifies any short or long term commitments.

The directors have received confirmation from the company's parent undertaking that it will not seek repayment of amounts due to it to the detriment of other creditors for the foreseeable future. The directors therefore consider it appropriate to prepare the financial statements on a going concern basis.

Statement of cash flows

The company has taken advantage of the exemption in FRS 102.1.12(b) Reduced disclosures for subsidiaries. A statement of cash flows has not been prepared as the company is a member of a group where the parent, The Entertainment Group of Companies Limited, prepares publicly available consolidated financial statements and the company is included in the consolidation (see note 14).

Tangible fixed assets

Tangible fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses.

Depreciation is provided on all tangible fixed assets at rates calculated to write off the cost or valuation, less estimated residual value based on prices prevailing at the date of acquisition or revaluation, of each asset evenly over its expected useful life, as follows:

Motor vehicles	–	25% on cost per annum
Fixtures and fittings	–	15% to 20% on cost per annum

The carrying values of tangible fixed assets are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable.

Revenue recognition

The following specific recognition criteria must be met before revenue is recognised:

Theatrical sales

Revenue from theatrical sales is recognised when the films are exhibited based on contractual rental terms of box office admissions with exhibitors.

Notes to the financial statements

at 31 March 2016

1. Accounting policies (continued)

Revenue recognition (continued)

Television sales

Revenue from theatrical films exhibited on satellite and terrestrial television is recognised once contractual terms have been satisfied, the materials have been delivered and the licence period for the availability of television exhibition has commenced. Any advanced invoicing is deferred until all recognition criteria have been met.

Film distribution rights

Costs of acquiring the rights to distribute films are capitalised and are stated at the lower of cost or estimated realisable value.

For films with a start of principal photography date ('SPP') after 1 April 2006 the depreciation rate is calculated on an individual film basis so as to write off the acquisition cost over the expected useful life of the rights in proportion to the total estimated income arising from those rights. All films with a SPP before 1 April 2006 are now fully depreciated.

Film distribution rights are further written down to the estimated future income arising from those rights where this is lower than the net book value under the normal depreciation rule.

The nature of revenue generated from film distribution rights may result in these being recognised over a period of more than one year. The directors estimate that approximately 80 to 85% of film rights are recognised within one year.

Amounts due in respect of film acquisitions where the film has yet to start production at the balance sheet date have been disclosed as capital commitments.

Accounting estimates

The net carrying value of each film title acquired or in development is reviewed for impairment at least annually in accordance with the accounting policy outlined above. In each case, the directors estimate the future cash flows and profitability for the title, with reference to the revenue already generated by the film to date and the performance of other similar titles, as a guide to estimating the future income on the revenue streams still to be exploited for that title. Any change in expectations of future performance may impact upon the spread of amortisation of minimum guarantees and existing provisions across the expected life of the film title.

Deferred taxation

Deferred tax is recognised without discounting in respect of all timing differences which are differences between taxable profits and total comprehensive income that arise from the inclusion of income and expenses in tax assessments in periods different from those in which they are recognised in the financial statements. Deferred tax assets are only recognised to the extent that they are considered recoverable against future taxable profits.

Provisions

A provision is recognised when the company has a legal or constructive obligation as a result of a past event and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, expected future cash flows are discounted using a pre-tax rate that reflects, where appropriate, the risks specific to the liability.

Notes to the financial statements

at 31 March 2016

1. Accounting policies (continued)

Foreign currencies

Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date.

Transactions in foreign currencies are translated into sterling at the rate ruling on the date of the transaction.

Exchange gains and losses are recognised in the profit and loss account.

Operating leases

Rentals payable under operating leases are charged in the profit and loss account on a straight-line basis over the lease term.

2. Turnover

Turnover, which is stated net of value added tax, represents amounts invoiced to third parties and is attributable to one continuing activity, as stated in the directors' report.

An analysis of turnover by geographical market is given below:

	2016	*2015*
	£	*£*
United Kingdom	28,254,970	43,525,300
Europe	1,559,094	2,297,409
Rest of the world	10,004	42,617
	29,824,068	45,865,326

3. Operating result

This is stated after charging/(crediting):

			2016	*2015*
			£	*£*
Auditor's remuneration	–	audit of the company	27,200	24,850
	–	taxation compliance services	4,750	4,750
Depreciation of owned fixed assets			11,139	10,031
Amortisation and impairment of film distribution rights			18,847,851	19,242,273
Foreign exchange gain			(607,032)	(2,500,208)

Notes to the financial statements

at 31 March 2016

4. Directors' remuneration

	2016	*2015*
	£	*£*
Remuneration	202,281	213,635

Directors' remuneration was paid by both the company and its fellow group undertakings. The directors do not consider it practicable to apportion remuneration for qualifying services between the group undertakings.

The highest paid director received remuneration of £154,896 (2015: £168,811)

5. Staff costs

	2016	*2015*
	£	*£*
Wages and salaries	814,366	882,675
Social security costs	99,813	116,321
	914,179	998,996

The average monthly number of employees during the year was made up as follows:

	No.	*No.*
Management	5	5
Administration	6	6
Sales	3	3
	14	14

6. Tax

(a) Tax on charge on ordinary activities

The tax charge is made up as follows:

	2016	*2015*
	£	*£*
Current tax:		
UK corporation tax on the profit for the year	–	19,247
Total current tax (note 6 (b))	–	19,247
Deferred tax:		
Origination and reversal of timing differences	780,519	942,076
Adjustment in respect of previous periods	(663,903)	(11,378)
Effect of changes in tax rates	–	(44,861)
Deferred tax charge/(credit) in current year	116,616	885,837
Tax on profit on ordinary activities	116,616	905,084

Notes to the financial statements

at 31 March 2016

6. Tax (continued)

(b) Factors affecting current tax charge for the year

The tax assessed for the year differs from the standard rate of corporation tax in the UK of 20% (2015 – 21%). The differences are explained below:

	2016	*2015*
	£	*£*
(Loss)//(profit) on ordinary activities before tax	(8,837,148)	4,443,080
(Loss)/profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 20% (2015 – 21%)	(1,767,430)	933,047
Effects of:		
Expenses not deductible for tax purposes	35,263	28,276
Group relief surrendered to fellow subsidiary undertaking	25,514	–
Trading losses carried forward	2,487,172	(11,378)
Adjustments from previous periods	(663,903)	(44,861)
Tax charge for the year (note 6 (a))	116,616	905,084

(c) Deferred tax

The deferred tax asset is made up as follows:

	2016	*2015*
	£	*£*
Decelerated capital allowances	–	20,313
Losses	–	96,304
	–	116,617

	£
At 1 April 2015	116,617
Adjustment in respect of prior period	663,903
Origination and reversal of timing differences	(780,519)
At 31 March 2016	–

The company has not recognised deferred tax assets of £2,238,455 in respect of trading losses of £12,323,157 and other timing differences of £112,703 as there is insufficient certainty on future recoverability.

Notes to the financial statements

at 31 March 2016

6. Tax (continued)

(d) Factors that may affect future tax charges.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period when the asset is realised or the liability settled, based on the tax rates that have been enacted or substantially enacted at the balance sheet date.

The July 2015 Budget Statement announced changes to the UK Corporation tax regime which will reduce the main rate of corporation tax to 19% from April 2017 and to 18% from 1 April 2020. These rates have substantially enacted at the balance sheet date. A change was announced in the March 2016 budget to reduce the rate to 17% from 1 April 2020 but this has not been substantially enacted at the balance sheet date.

Deferred tax is recognised at the substantively exacted rate at the balance sheet date at which the asset is expected to unwind, which is 18%.

7. Tangible fixed assets

	Motor vehicles	*Fixtures and fittings*	*Total*
	£	*£*	*£*
Cost or valuation:			
At 1 April 2015	81,124	615,139	696,263
Additions	–	10,795	10,795
Disposals	–	(11,822)	(11,822)
At 31 March 2016	81,124	614,112	695,236
Depreciation:			
At 1 April 2015	81,124	599,986	681,110
Provided during the year	–	11,139	11,139
Disposals	–	(11,822)	(11,822)
At 31 March 2016	81,124	599,303	680,427
Carrying amount:			
At 31 March 2016	–	14,809	14,809
At 1 April 2015	–	15,153	15,153

8. Debtors

	2016	*2015*
	£	*£*
Trade debtors	2,097,286	2,510,669
Prepayments and accrued income	8,115,346	7,272,779
Deferred tax asset (note 6 (c))	–	116,617
	10,212,632	9,900,065

Notes to the financial statements

at 31 March 2016

9. Creditors: amounts falling due within one year

	2016	*2015*
	£	£
Trade creditors	5,956,002	3,158,862
Amounts owed to parent and fellow subsidiary undertakings	43,546,099	44,220,098
Current corporation tax	197,519	197,519
Other taxes and social security costs	284,135	816,585
Other creditors	60,445	50,795
Accruals and deferred income	10,596,656	10,247,014
	60,640,856	58,690,873

10. Provisions

	Provision for Onerous Contracts
	£
At 1 April 2015	1,478,314
Utilised during the year	(1,478,314)
At 31 March 2016	–

In 2015, the company recognised a provision for onerous film contract costs based on the shortfall between the carrying value of the titles, including all prepaid amounts plus future commitments and actual and anticipated futures income. The provision related to 2016 theatrical releases and was utilised during the year.

11. Issued share capital

		2016		*2015*
Allotted, called up and fully paid	*No.*	£	*No.*	£
Ordinary shares of £1 each	100	100	100	100

12. Other financial commitments

At 31 March 2016 the company had annual commitments for film acquisitions contracted for at year end as follows:

	2016	*2015*
	£	£
Payable within one year on execution and delivery	5,947,339	10,345,524
Delivery thereafter	333,843	2,155,318
	6,281,182	12,500,842

Notes to the financial statements

at 31 March 2016

13. Related party transactions

The company has taken advantage of the exemption in FRS 102.1.12(e) Reduced disclosures for subsidiaries. Key management remuneration has not been disclosed as the company is a member of a group where the parent, The Entertainment Group of Companies Limited, prepares publicly available consolidated financial statements and the company is included in the consolidation (see note14).

The company has taken advantage of the exemption in FRS 102.33.1A not to disclose related party transactions with fellow wholly-owned subsidiary undertakings of The Entertainment Group of Companies Limited, which prepares publicly available consolidated financial statements (see note14).

14. Ultimate parent undertaking and controlling party

The ultimate parent undertaking and largest and smallest group in whose financial statements the company is included is The Entertainment Group of Companies Limited, the group financial statements of which are filed with the Registrar of Companies.

For the whole year the company was under the ultimate control of N G Green and T H Green, directors of the company.