

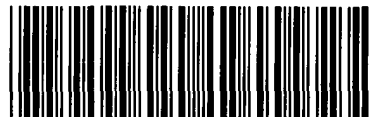
Registered number: 1555168

GULLANE (THOMAS) LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

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GULLANE (THOMAS) LIMITED

COMPANY INFORMATION

Directors	P Bapna (appointed 27 July 2020) S Wollman (appointed 18 November 2019) N A Godfrey (appointed 24 January 2018)
Company secretary	T Piccus
Registered number	1555168
Registered office	3rd Floor The Porter Building 1 Brunel Way Slough Berkshire SL1 1FQ
Independent auditors	PricewaterhouseCoopers LLP 1 Embankment Place London WC2N 6RH

GULLANE (THOMAS) LIMITED

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**STRATEGIC REPORT
FOR THE YEAR ENDED 31ST DECEMBER 2019**

Introduction

The Directors present the Strategic report of Gullane (Thomas) Limited (the "Company") for the year ended 31 December 2019.

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 undergoing structural change.

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. Furthermore, viewership from streaming and channels such as YouTube has become increasingly relevant in recent years, with Thomas & Friends content being distributed and managed accordingly on these platforms.

There continues to be significant investment by the Company in the redevelopment of the creative content for Thomas & Friends through new story lines and CGI animation production, with episodes rating strongly. The 75th anniversary of the Thomas & Friends brand was marked in 2020 by the release of new content, and further production and distribution of content in various forms is planned for 2021 and beyond. Whilst full year 2020 revenue is not expected to be back to 2018 levels, there are signs of encouragement in the point of sale trends towards the end of 2020, and the Directors believe that the continued investment in creative content will help to position the brand for future growth. The Live Events and Attractions business has also suffered understandably during the Coronavirus pandemic, as a direct result of forced postponements and cancellations. The downturn in this revenue stream is however expected to be temporary, with a return to FY19 revenues hoped for by 2021.

The 18% fall in turnover compared to prior year is largely attributable to the Toy and Consumer Products business. This is offset partially by timing on the recognition of revenues for Home Entertainment deals, whilst the Live Events and Attractions business has remained relatively flat, and New Media revenue, which can vary based on the timing of release of new apps, has declined.

In many key territories across the Consumer Products ("CP") business, character-based retailing is concentrated in the hands of a few retailers who focus on maximizing shelf space return with heavily promoted Thomas & Friends branding and events. As broadcast of pre-school shows is a driver of retail placement of the CP, ancillary revenues are also somewhat dependent on the Company's broadcast footprint in each territory. The Company continues to enjoy strong relationships with major broadcasters in key territories.

Business Review

The Thomas & Friends brand is still one of the top preschool licenses in the United Kingdom. The master toy rights continue to be held by Fisher-Price (which is part of the Mattel Inc. group) for the International markets. This is a partnership which continues to be a success, and which Management believes will provide future growth for the Thomas & Friends brand.

The Company continues to invest in the brand and the Directors believe it is well positioned to turn around recent revenue trends and experience future growth.

Strategy

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

GULLANE (THOMAS) LIMITED

STRATEGIC REPORT (CONTINUED) FOR THE YEAR ENDED 31ST DECEMBER 2019

- * continued exploitation of the Thomas & Friends brand through diverse lines of business including Home Entertainment, Consumer Products, Live Events, Television and New Media;
- * enhance the Thomas & Friends brand through programming content investment and innovation;
- * increase brand awareness through alternatives to television, such as movies, theme parks, publishing and digital media;
- * continued upgrade of major licensees; and
- * maintain strong relationships with broadcasters all over the world.

Future Developments

The Coronavirus pandemic that had a global impact during 2020 is having a major effect worldwide on people, businesses and the economy. The Company's top priority has been to mitigate the disruption to its business, and the Directors continue to both monitor the situation closely and take adaptive measures accordingly. Whilst the year to date turnover at 30 September 2020 in the Company's Toy and Consumer Products business has seen a downturn, the release of new content in 2020, and the planned release in 2021, is expected to help drive this revenue back towards pre-Covid levels.

The Live Events and Attractions business has also suffered understandably during the Coronavirus pandemic, as a direct result of forced postponements and cancellations. The downturn in this revenue stream is however expected to be temporary, with a return to FY19 revenues hoped for by 2021. Liquidity is expected 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 deem the outbreak of Covid-19 in March 2020 to be a non-adjusting post balance sheet event (see note 19).

Going Concern

Despite the above assessment, given the uncertainty created by the Covid-19 pandemic, 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. have the ability and intention to provide support in accordance with this letter 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 concerns 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 10 of Mattel's 2019 annual report, which is posted on its website), which does not form part of these financial statements.

GULLANE (THOMAS) LIMITED

**STRATEGIC REPORT (CONTINUED)
FOR THE YEAR ENDED 31ST DECEMBER 2019**

Financial key performance indicators

The key performance indicators (KPI's) used by the Company to measure annual performance are turnover and operating profit.

Turnover in 2019 was £17,229,000; a decrease of 18% on the prior year of (2018 - £20,947,000), which was partly attributable to lower royalties on the toy line. Operating profit was £3,266,000 in 2019; a decrease of 37% on the prior year (2018 - £5,195,000).

At the Balance Sheet date the Company had net assets of £14,590,000 (2018 - £47,380,000).

This report was approved by the board on *Dec 22, 2020* and signed on its behalf.



Prashant Bapna
Director

GULLANE (THOMAS) LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 31ST DECEMBER 2019

The directors present their report and the financial statements for the year ended 31 December 2019.

Directors' responsibilities statement

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;
- 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 also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for 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.

Results and dividends

The profit for the year, after taxation, amounted to £2,872,000 (2018 - £5,737,000).

A dividend of £35,662,185 was approved and settled through intercompany during the year with the company's immediate parent undertaking, Sunshine Holdings 3 Limited (2018: £nil). The Directors do not recommend the payment of any further dividend for the year (2018: £nil).

GULLANE (THOMAS) LIMITED

DIRECTORS' REPORT (CONTINUED) FOR THE YEAR ENDED 31ST DECEMBER 2019

Directors

The Directors who served 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)
N A Godfrey (appointed 24 January 2018)
T Lynch (appointed 18 January 2016, resigned 29 April 2019)
A Unitt (appointed 7 September 2015, resigned 7 August 2020)

Future developments

The continued success of the Thomas & Friends brand is key to the future of the Company.

The impact of the Coronavirus pandemic is discussed in more detail in the future developments section of the Strategic report, which is on page 1.

Whilst the United Kingdom's decision to leave the EU cannot yet be fully assessed, the Company's revenues are diverse geographically with 82% generated outside of the United Kingdom and 74% 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 Inc. group in a range of currencies. The Directors therefore believe that the potential impact of the United Kingdom's decision to leave the EU will not have a material impact on the Company.

The Directors currently know of no further issues that would prevent the Company's continued success.

Financial risk management

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

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.

Post balance sheet events

The only significant post balance sheet event is considered to be the global Covid-19 pandemic, the impact of which has been assessed in the Strategic Report on page 1 and included in note 19.

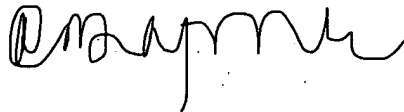
Independent auditors

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

GULLANE (THOMAS) LIMITED

**DIRECTORS' REPORT (CONTINUED)
FOR THE YEAR ENDED 31ST DECEMBER 2019**

This report was approved by the board on Dec 22, 2020 and signed on its behalf.



Prashant Bapna
Director

Independent auditors' report to the members of Gullane (Thomas) Limited

Report on the audit of the financial statements

Opinion

In our opinion, Gullane (Thomas) Limited's financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2019 and of its profit 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 2019; 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

We have nothing to report in respect of the following matters in relation to which ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

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

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.

Independent auditors' report to the members of Gullane (Thomas) Limited (continued)

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require 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 2019 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 set out on page 4, 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.

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.

Independent auditors' report to the members of Gullane (Thomas) Limited


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 received 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
23 December 2020

GULLANE (THOMAS) LIMITED

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2019

	Note	2019 £000	2018 £000
Turnover	4	17,229	20,947
Cost of sales		(12,297)	(13,578)
Gross profit		4,932	7,369
Distribution costs		(988)	(970)
Administrative expenses		(678)	(1,204)
Operating profit	5	3,266	5,195
Interest receivable and similar income	8	645	532
Profit before tax		3,911	5,727
Tax (charge)/credit on profit	9	(1,039)	10
Total comprehensive income for the year		2,872	5,737

The notes on pages 13 to 30 form part of these financial statements.

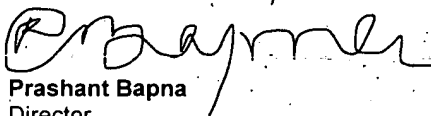
GULLANE (THOMAS) LIMITED
REGISTERED NUMBER: 1555168

BALANCE SHEET
AS AT 31 DECEMBER 2019

	Note	2019 £000	2018 £000
Current assets			
Stocks	12	8,198	6,691
Debtors: amounts falling due after more than one year	13	-	662
Debtors: amounts falling due within one year	13	68,575	96,302
Cash at bank and in hand	14	656	951
		<u>77,429</u>	<u>104,606</u>
Creditors: amounts falling due within one year	15	(62,637)	(57,226)
Net current assets		<u>14,792</u>	<u>47,380</u>
Total assets less current liabilities		<u>14,792</u>	<u>47,380</u>
Provisions for liabilities			
Deferred tax liability	16	(202)	-
		<u>(202)</u>	<u>-</u>
Net assets		<u>14,590</u>	<u>47,380</u>
Capital and reserves			
Called up share capital	17	-	-
Other reserves	18	287,681	287,681
Profit and loss account	18	(273,091)	(240,301)
Total equity		<u>14,590</u>	<u>47,380</u>

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

22/12/2020


Prashant Bapna
 Director

The notes on pages 13 to 30 form part of these financial statements.

GULLANE (THOMAS) LIMITED**STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2019**

	Called up share capital £000	Other reserves £000	Profit and loss account £000	Total equity £000
At 1st January 2018	-	287,681	(246,038)	41,643
Profit for the year	-	-	5,737	5,737
At 1st January 2019	-	287,681	(240,301)	47,380
Profit for the year	-	-	2,872	2,872
Intracompany dividends paid	-	-	(35,662)	(35,662)
At 31st December 2019	-	287,681	(273,091)	14,590

The notes on pages 13 to 30 form part of these financial statements.

GULLANE (THOMAS) LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST DECEMBER 2019

1. General information

Gullane (Thomas) Limited (the "Company") exploits the Thomas & Friends character licensing rights associated with its television content. The Company is a private company limited by shares and 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, 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.

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 Directors have represented the Statement of Comprehensive Income to more appropriately classify interest income which was previously disclosed in administrative expenses. This has no impact on profit before tax.

Given the uncertainty created by the Covid-19 pandemic, 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. have the ability and intention to provide support in accordance with this letter 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 concerns in that regard. Therefore, these accounts are prepared on a going concern basis.

2.2 Financial reporting standard 102 - reduced disclosure exemptions

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 26.1B(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 2019 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:

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31ST DECEMBER 2019**

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31ST DECEMBER 2019

2. Accounting policies (continued)

2.3 Revenue (continued)

can 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 and Loss account, and the contractual time when the Company is allowed to invoice the licensee, revenue is recognised as follows:

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31ST DECEMBER 2019**

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 recognised 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:

2.4 Interest income

Interest income is recognised in profit or loss using the effective interest method.

2.5 Intangible assets

Intangible assets are initially recognised at cost. After recognition, under the cost model, intangible assets are measured at cost less any accumulated amortisation and any accumulated impairment losses.

All intangible assets are considered to have a finite useful life. If a reliable estimate of the useful life cannot be made, the useful life shall not exceed ten years.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31ST DECEMBER 2019**

2. Accounting policies (continued)

2.6 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 Profit and loss account.

2.7 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.

2.8 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.

2.9 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.

2.10 Dividends

Equity dividends are recognised when they become legally payable. Interim equity dividends are recognised when paid. Final equity dividends are recognised when approved by the shareholders at an annual general meeting.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31ST DECEMBER 2019**

2. Accounting policies (continued)

2.11 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.

2.12 Foreign currency translation

Functional and presentation currency

The Company's functional and presentational currency is GBP and denominated in £'000's.

Transactions and balances

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 profit or loss 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'.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31ST DECEMBER 2019**

2. Accounting policies (continued)

2.13 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.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31ST DECEMBER 2019**

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.

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 9 for the carrying amount of the intangible assets.

Impairment Assessments

At each balance sheet date the Company considers whether intangible assets/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 CGUs) may be impaired. If there is such an indication the recoverable amount of the asset (or asset's CGUs) is compared to the carrying amount of the asset (or asset's CGUs).

The recoverable amount of the asset (or asset's CGUs) 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 CGUs) 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 CGUs) 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 Statement of Comprehensive Income.

If an impairment loss is subsequently reversed, the carrying amount of the asset (or asset's CGUs) is increased to the revised estimate of its recoverable amount. A reversal of an impairment loss is recognised in the Statement of Comprehensive Income.

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.

GULLANE (THOMAS) LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST DECEMBER 2019

4. Turnover

	2019 £000	2018 £000
Analysis of turnover by country of destination		
United Kingdom	3,182	4,192
Rest of Europe	1,283	2,577
Rest of the world	12,764	14,178
	<u>17,229</u>	<u>20,947</u>

	2019 £000	2018 £000
An analysis of turnover by class of business is as follows:		
Consumer products	12,430	16,152
Home entertainment	2,512	382
Television	2	1,761
Live events	2,003	2,147
New media	282	505
	<u>17,229</u>	<u>20,947</u>

5. Operating profit

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

	2019 £000	2018 £000
Amortisation of investment in programmes	7,048	8,023
Exchange differences	(260)	399
Royalty expenses	<u>4,861</u>	<u>5,429</u>

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

GULLANE (THOMAS) LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31ST DECEMBER 2019**

6. Auditors' remuneration

Auditors' remuneration has been borne by a related party, HIT Entertainment Limited, in the current and prior year. HIT Entertainment Limited incurred audit fees of £285,000 (2018 - £235,000) fees relating to other services of £nil (2018 - £nil) and fees relating to other taxation services of £17,000 (2018 - £44,000).

7. Directors and employees

The Company has no employees other than the Directors (2018 - no employees other than the Directors), who did not receive any remuneration (2018 - £nil).

The Directors were remunerated by other Group companies and no recharges were made (2018 - £nil). It is not possible to apportion the share of the Directors costs for services undertaken on behalf of the Company.

8. Interest receivable

	2019 £000	2018 £000
Interest receivable from group undertakings	645	532
	<u>645</u>	<u>532</u>

Interest receivable relates to interest accrued on amounts owed by group undertakings.

GULLANE (THOMAS) LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31ST DECEMBER 2019**

9. Tax on profit

	2019 £000	2018 £000
Corporation tax		
Current tax on profits for the year	-	(24)
Adjustments in respect of prior periods	(140)	42
	<u>(140)</u>	<u>18</u>
Foreign tax		
Foreign tax on income for the year	314	328
	<u>314</u>	<u>328</u>
Total current tax	<u>174</u>	<u>346</u>
Deferred tax		
Origination and reversal of timing differences	662	(203)
Adjustment in respect of prior periods	159	(180)
Change in tax rate	43	27
Total deferred tax	<u>864</u>	<u>(356)</u>
Taxation charge/(credit) on profit	<u>1,038</u>	<u>(10)</u>

GULLANE (THOMAS) LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31ST DECEMBER 2019**

9. Tax on profit (continued)

Factors affecting tax charge for the year

The tax assessed for the year is lower than (2018 - lower than) the standard rate of corporation tax in the UK of 19% (2018 - 19%). The differences are explained below:

	2019 £000	2018 £000
Profit before tax	3,911	5,727
Profit before tax multiplied by standard rate of corporation tax in the UK of 19% (2018 - 19%).	743	1,088
Effects of:		
Increase in tax rate	43	26
Timing differences in relation to IIP	(138)	(51)
Tax refund on UK production spend	-	(23)
Previous year deferred tax	159	(180)
Previous year current tax	(140)	42
Group relief	-	(33)
Transfer pricing adjustments	(752)	(879)
Utilisation of previously unrecognised tax losses	(151)	-
Derecognised deferred tax asset	1,274	-
Total tax charge/(credit) for the year	1,038	(10)

Factors that may affect future tax charges

The Finance Act 2019 confirms that the corporation tax rate would be cut to 17% from 1 April 2020. This was substantially enacted on 1 September 2019. In November 2019, the Prime Minister announced that he intended to cancel the future reduction in corporation tax rate from 19% to 17%. However, this was not enacted until after the balance sheet date and therefore deferred taxes continue to be measured at the enacted rate of 17%.

10. Dividends paid

	2019 £000	2018 £000
Dividends paid to group undertakings	35,662	-
	35,662	-

GULLANE (THOMAS) LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31ST DECEMBER 2019**

11. Intangible assets

	Acquired Rights £000
Cost	
At 1 January 2019	8,354
At 31st December 2019	<u>8,354</u>
Amortisation	
At 1 January 2019	8,354
At 31st December 2019	<u>8,354</u>
Net book value	
At 31st December 2019	<u><u>-</u></u>
At 31st December 2018	<u><u>-</u></u>

12. Stocks

	2019 £000	2018 £000
Investment in programmes	8,198	6,691
	<u>8,198</u>	<u>6,691</u>

Investment in programmes

	Completed £000	Total £000
1 January 2019	6,691	6,691
Amortisations	(7,048)	(7,048)
Transfers	8,556	8,556
At 31 December 2019	<u><u>8,199</u></u>	<u><u>8,199</u></u>

GULLANE (THOMAS) LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31ST DECEMBER 2019**

13. Debtors

	2019 £000	2018 £000
Amounts falling due after more than one year		
Deferred tax asset	-	662
	<u>-</u>	<u>662</u>
Amounts falling due within one year		
Trade debtors	1,511	2,932
Amounts owed by group undertakings	64,969	91,036
Other debtors	-	552
Prepayments and accrued income	2,095	1,782
	<u>68,575</u>	<u>96,302</u>

Amounts owed by group undertakings are not secured, interest free and are repayable on demand, except for amounts due from Mattel International Finance B.V. which as at 31 December 2019 were a credit balance of £342,907 (2018: debit balance of £31,102,182), which are subject to interest based on a weighted average investment rate.

14. Cash at bank and in hand

	2019 £000	2018 £000
Cash at bank and in hand	656	951
	<u>656</u>	<u>951</u>

GULLANE (THOMAS) LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31ST DECEMBER 2019**

15. Creditors: Amounts falling due within one year

	2019 £000	2018 £000
Trade creditors	1,839	2,437
Amounts owed to group undertakings	58,940	51,955
Taxation and social security	38	83
Accruals and deferred income	1,820	2,751
	<u>62,637</u>	<u>57,226</u>

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

GULLANE (THOMAS) LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31ST DECEMBER 2019**

16. Deferred taxation

	2019 £000	2018 £000
At beginning of year	662	305
(Charged)/credited to profit or loss	(864)	357
At end of year	(202)	662

The deferred tax (liability)/asset is made up as follows:

	2019 £000	2018 £000
DTA on reserve	42	73
DTA on separate trade revenue	94	456
DTL on IIP	(338)	(905)
Unrelieved foreign taxes	-	1,038
	(202)	662

There is an unrecognised deferred tax asset of £2,153,492 (2018: £994,217), being £878,964 in respect of Creative Sector Relief losses not utilised and £1,274,528 in respect of unrelieved foreign taxes. The asset may reduce future tax charges in the event that appropriate profits arise in the future such that the losses and unrelieved foreign tax credit can be utilised.

17. Called up Share capital

	2019 £000	2018 £000
Authorised		
1,000 (2018 - 1,000) Ordinary shares of £0.10 each	-	-

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31ST DECEMBER 2019**

18. Reserves

Other reserves

Other reserves relate to a capital contribution from 2012, when there was a restructuring exercise within the Mattel Inc group, of which the Company is a wholly owned indirect subsidiary. All movements during the year in other reserves have been disclosed in the Statement of Changes in Equity on page 12 of the financial statements.

Profit and loss account

All movements during the year in the Profit and Loss account have been disclosed in the Statement of Changes in Equity on page 12 of the financial statements. The date of transition to FRS 102 was 1st January 2014.

19. Post balance sheet events

The Coronavirus pandemic is having a major effect worldwide on people, businesses and the economy during 2020 and the Company's top priority has been to mitigate the disruption to its business. The Directors continue to both monitor the situation closely and take adaptive measures accordingly. Whilst the year to date turnover at 30 September 2020 in the Company's Toy and Consumer Products business has seen a downturn, the release of new content in 2020, and the planned release in 2021, is expected to help drive this revenue back towards pre-Covid levels. The Live Events and Attractions business has also suffered understandably during the Coronavirus pandemic, as a direct result of forced postponements and cancellations. The downturn in this revenue stream is however expected to be temporary through 2020, with a return to FY19 revenues hoped for by 2021. Liquidity is expected to be sufficient to effectively manage through the disruption and to continue to execute the key elements of the Company's strategic plan.

Despite the above assessment, given the uncertainty created by the Covid-19 pandemic, 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. have the ability and intention to provide support in accordance with this letter 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 concerns in that regard. Therefore, these financial statements are prepared on a going concern basis.

The Directors deem the outbreak of Covid-19 in March 2020 to be a non-adjusting post balance sheet event.

Whilst the United Kingdom's decision to leave the EU cannot yet be fully assessed, the Company's revenues are diverse geographically with 82% generated outside of the United Kingdom and 74% 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 Inc. group in a range of currencies. The Directors therefore believe that the potential impact of the United Kingdom's decision to leave the EU will not have a material impact on the Company.

20. 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 2019 (2018: £nil). The guarantee is secured by a charge on the company's accounts receivable balances (excluding any intercompany balance).

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31ST DECEMBER 2019**

21. 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.