

Registered number: 02341947

**HIT ENTERTAINMENT LIMITED**

**ANNUAL REPORT AND FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 31 DECEMBER 2019**

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## HIT ENTERTAINMENT LIMITED

### COMPANY INFORMATION

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

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**HIT ENTERTAINMENT LIMITED**

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

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**Introduction**

The Directors present the Strategic Report of HIT Entertainment 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.

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 in new ways. Bob the Builder content continues to be distributed on a global scale. Aside from Bob the Builder, the Company is making an additional effort to explore the possibilities of developing some of its existing Intellectual Property, in turn helping to promote new opportunities for revenue growth.

Turnover has reduced 36% from the prior year. This is largely attributable to a marked decline in revenues from its Consumer Products business, which in turn will be partially driven by a lack of new content compared to 2018. The decline in Consumer Products was partially offset by a 40% increase in Home Entertainment revenues through the continued partnership with DHX Media, and a rise in Live Events revenues, mainly due to improved attendances. During 2020, the Live Events business has suffered from cancellations and reduced attendances as a direct result of the Covid-19 pandemic. This remains a concern going into 2021, albeit with Live Events continuing to form a less significant portion of the Company's revenues than Consumer Products and Home Entertainment.

**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, Television and New Media;
- \* 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;

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

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**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 protect the health and safety of their employees and at the same time mitigate the disruption to its business. The Directors continue to monitor the situation closely and take adaptive measures accordingly. Whilst the year to date turnover at 30 September 2020 in the Company's Consumer Products business has seen a slight downturn, new content deals have helped maintain revenues at pre-Covid levels. 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 (also see note 22).

Whilst the United Kingdom's decision to leave the EU cannot yet be fully assessed, the Company's revenues are diverse geographically with 84% generated outside of the United Kingdom and 40% 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. 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.

**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.

**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 2019 was £2,081,000; a decrease of 36% on the prior year (2018 - £3,242,000). The operating loss was £10,663,000 in 2019; a decrease of 17% on the prior year (2018 loss - £12,800,000).

The net liability of the Company at 31 December 2019 was £41,588,000 (2018 net liability - £30,914,000).

The Company expects its partnership with DHX Media, combined with the heritage of its brand portfolio, to provide a platform for future revenue growth.

HIT ENTERTAINMENT LIMITED

STRATEGIC 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

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

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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 regulations.

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 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.

**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 £10,674,000 (2018 - loss £11,850,000).

The Company did not pay any dividends throughout the year (2018: £nil). There are no plans for a final dividend (2018: £nil).

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

**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 2000)  
T Lynch (resigned 29 April 2019)

**Future developments**

Future developments are discussed in the Strategic Report on page 1.

**Post Balance Sheet Events**

In March 2020 the Company vacated its existing office premises in London, relocating to a new office building located in Slough. This decision is expected to improve the long-term profitability of the Company through achieving synergies by bringing together the employees of HIT Entertainment Limited and Mattel U.K. Limited (a fellow UK subsidiary of Mattel Inc.). As such an onerous lease has been recognised for £1.4m as at 31 December 2019 (see note 17).

Subsequent to the year end, the Directors continued discussions with the Landlord whilst also exploring sub-leasing options. On 23 March, the outbreak of the Covid-19 pandemic resulted in significant changes to the UK market conditions following the Government's lockdown announcement and resulted in no formal agreement being signed with either the Landlord or a tenant.

At the date of signing these financial statements in December 2020, the Directors are still seeking a resolution and estimate that the most likely cost of finalising a surrender of the existing lease will be in the range of £1.3m - £1.6m plus VAT compared to the lease liability for the minimum expected future lease payments of £2.4m per note 21.

The above subsequent events have been considered to be non-adjusting post balance sheet events and there are no other subsequent events to be disclosed within these financial statements.

**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, 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.

**Research and development activities**

The Company does not engage in research and development activities.



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

**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.

**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.

**Post balance sheet events**

The office relocation which occurred in March 2020 has been discussed in the Future Developments section of the Strategic Report on page 1.

The only other 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. The Directors deem the outbreak of Covid-19 in March 2020 to be a non-adjusting post balance sheet event (see note 22).

**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 **DEC 22, 2020** 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**

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### **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 2019 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 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.

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### **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.

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### **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.

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### **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 HIT Entertainment 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.

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### **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](http://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.

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## ***Independent auditors' report to the members of HIT Entertainment Limited (continued)***

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### **Other required reporting**

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#### **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

# HIT ENTERTAINMENT LIMITED

## STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2019

	Note	2019 £000	2018 £000
Turnover	4	2,081	3,242
Cost of sales		(2,884)	(4,987)
<b>Gross loss</b>		<b>(803)</b>	<b>(1,745)</b>
Distribution costs		(554)	(500)
Administrative expenses		(9,224)	(10,219)
Other operating expenses		(82)	(336)
<b>Loss before tax</b>	5	<b>(10,663)</b>	<b>(12,800)</b>
Tax credit/(charge) on loss	9	(11)	950
<b>Loss for the financial year</b>		<b>(10,674)</b>	<b>(11,850)</b>

There were no recognised gains and losses for 2019 or 2018 other than those included in the statement of comprehensive income.

The notes on pages 13 to 37 form part of these financial statements.

**HIT ENTERTAINMENT LIMITED**  
**REGISTERED NUMBER: 02341947**

**BALANCE SHEET**  
**AS AT 31 DECEMBER 2019**

	Note	2019 £000	2018 £000
<b>Fixed assets</b>			
Tangible assets	10	261	193
Investments	11	21,783	21,783
		<u>22,044</u>	<u>21,976</u>
<b>Current assets</b>			
Stocks	12	767	2,938
Debtors: amounts falling due after more than one year	13	1,840	1,762
Debtors: amounts falling due within one year	13	4,349	5,417
Cash at bank and in hand	14	94	174
		<u>7,050</u>	<u>10,291</u>
Creditors: amounts falling due within one year	15	(69,007)	(62,906)
<b>Net current liabilities</b>		<u>(61,957)</u>	<u>(52,615)</u>
<b>Total assets less current liabilities</b>		<u>(39,913)</u>	<u>(30,639)</u>
<b>Provisions for liabilities</b>			
Provisions	17	(1,675)	(275)
		<u>(1,675)</u>	<u>(275)</u>
<b>Net liabilities</b>		<u><u>(41,588)</u></u>	<u><u>(30,914)</u></u>
<b>Capital and reserves</b>			
Other reserves	19	309,679	309,679
Profit and loss account	19	(351,267)	(340,593)
<b>Total shareholders' deficit</b>		<u><u>(41,588)</u></u>	<u><u>(30,914)</u></u>

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

**DEC 22, 2020**

  
**Prashant Bapna**  
 Director

The notes on pages 13 to 37 form part of these financial statements.

**HIT ENTERTAINMENT LIMITED****STATEMENT OF CHANGES IN EQUITY  
FOR THE YEAR ENDED 31 DECEMBER 2019**

	<b>Called up share capital £000</b>	<b>Other reserves £000</b>	<b>Profit and loss account £000</b>	<b>Total equity £000</b>
<b>At 1st January 2018</b>	-	309,679	(328,743)	(19,064)
Loss for the year	-	-	(11,850)	(11,850)
<b>At 1st January 2019</b>	-	309,679	(340,593)	(30,914)
Loss for the year	-	-	(10,674)	(10,674)
<b>At 31st December 2019</b>	-	309,679	(351,267)	(41,588)

The notes on pages 13 to 37 form part of these financial statements.

## HIT ENTERTAINMENT LIMITED

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

#### 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 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.

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.



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

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**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 26.1B(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:

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

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**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

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

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**2. Accounting policies (continued)****2.3 Revenue (continued)**

to manage such partnerships. This would generally occur in the final year of a contract and 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 & Loss statement, and the contractual time when the Company is allowed to invoice the licensee, revenue is

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

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**2. Accounting policies (continued)****2.3 Revenue (continued)**

recognised as follows:

- (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.

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

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**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.

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

**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.

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

**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.

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

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**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.



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

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2. Accounting policies (continued)

2.18 Financial instruments (continued)

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

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

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**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.

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

4. Turnover

	2019 £000	2018 £000
<b>Analysis of turnover by country of destination</b>		
United Kingdom	336	635
Rest of Europe	913	1,145
Rest of the world	832	1,462
	<u>2,081</u>	<u>3,242</u>
	2019 £000	2018 £000
<b>Analysis of turnover by class of business is as follows:</b>		
Consumer Products	644	1,855
Home Entertainment	1,144	815
Television	42	491
New Media	21	6
Live Events	230	75
	<u>2,081</u>	<u>3,242</u>

5. Operating loss

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

	2019 £000	2018 £000
Exchange differences	(113)	(4)
Other operating lease rentals	878	878
Depreciation of tangible assets	48	168
Amortisation of investment in programmes	2,175	4,346
Intercompany management fee	(82)	(336)
Onerous lease provision	1,400	-
Staff costs, excluding pension	2,985	4,846
Pension costs	185	211

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 2019

### 6. Auditors' remuneration

	2019 £000	2018 £000
Fees payable to the Company's auditors for the audit of the Company's annual financial statements	285	235
Fees payable to the Company's auditors and their associates in respect of:		
Other services relating to taxation	17	44
	17	44

### 7. Employees

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

	2019 £000	2018 £000
Wages and salaries	3,185	4,353
Social security costs	317	493
Other pension costs	185	211
	3,687	5,057

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

	2019 No.	2018 No.
Sales and marketing	13	17
Administration	25	33
Creative production	-	8
	38	58

# HIT ENTERTAINMENT LIMITED

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

### 8. Directors' remuneration

	2019 £000	2018 £000
Directors' emoluments	422	339
Company contributions to defined contribution pension schemes	18	17
	<u>440</u>	<u>356</u>

During the year retirement benefits were accruing to 2 directors (2018 - 2) in respect of defined contribution pension schemes.

The highest paid director received remuneration of £261,000 (2018 - £188,000).

The value of the company's contributions paid to a defined contribution pension scheme in respect of the highest paid director amounted to £7,000 (2018 - £6,000).

### 9. Tax on loss

	2019 £000	2018 £000
<b>Corporation tax</b>		
Foreign tax on income for the year	89	31
	<u>89</u>	<u>31</u>
<b>Total current tax</b>	<u>89</u>	<u>31</u>
<b>Deferred tax</b>		
Origination and reversal of timing differences	(103)	(749)
Changes to tax rates	16	74
Adjustment in respect of prior periods	9	(306)
<b>Total deferred tax</b>	<u>(78)</u>	<u>(981)</u>
<b>Tax credit on loss</b>	<u>11</u>	<u>(950)</u>

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

9. Tax on loss (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
Loss before tax	(10,663)	(12,800)
Loss before tax multiplied by standard rate of corporation tax in the UK of 19% (2018 - 19%)	(2,026)	(2,432)
Effects of:		
Expenses not deductible for tax purposes, other than goodwill amortisation and impairment	(37)	(6)
Foreign withholding tax suffered	89	31
Rate difference on deferred tax	16	74
Adjustments to tax charge in respect of prior periods	9	(306)
DTA not recognised on current year losses carried forward	783	-
Losses utilised previously not recognised	(344)	-
Timing differences in relation to separate trade	-	(134)
Group relief	421	519
Transfer pricing adjustments	1,100	1,304
<b>Total tax charge for the year</b>	<b>11</b>	<b>(950)</b>

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%. UK Deferred taxes has been provided at 17% (2018: 17%).

# HIT ENTERTAINMENT LIMITED

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

### 10. Tangible fixed assets

	Short-term leasehold property £000	Plant and machinery £000	Fixtures and fittings £000	Computer equipment £000	Total £000
<b>Cost or valuation</b>					
At 1 January 2019	1,885	44	523	4,340	6,792
Additions	-	-	-	116	116
At 31st December 2019	1,885	44	523	4,456	6,908
<b>Depreciation</b>					
At 1 January 2019	1,776	9	523	4,291	6,599
Charge for the year on owned assets	5	10	-	33	48
At 31st December 2019	1,781	19	523	4,324	6,647
<b>Net book value</b>					
At 31st December 2019	104	25	-	132	261
At 31st December 2018	109	35	-	49	193

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**HIT ENTERTAINMENT LIMITED**

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

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**11. Investments**

	Investments in subsidiary companies £000
<b>Cost or valuation</b>	
At 1 January 2019	463,750
At 31st December 2019	<u>463,750</u>
<b>Impairment</b>	
At 1 January 2019	441,967
At 31st December 2019	<u>441,967</u>
<b>Net book value</b>	
At 31st December 2019	<u>21,783</u>
At 31st December 2018	<u>21,783</u>

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 2019

### 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 2019

### 11. Investments (continued)

#### Subsidiary undertakings (continued)

The aggregate of the share capital and reserves as at 31st December 2019 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 £000	Profit/(Loss) £000
Gullane (Productions) Limited	4,511	575
Prism Art and Design Limited	39,958	3,901
The Magic Railroad Company Limited	-	-
HiT Consumer Products Limited	1,777	426
HiT (MTK) Limited	2,854	120
Rainbow Magic Limited	5,339	(142)
Gullane Entertainment Limited	6,791	(1)
HiT Attractions Limited	4,311	77

### 12. Stocks

	2019 £000	2018 £000
Finished goods and goods for resale	69	117
Investment in programmes	698	2,821
	<u>767</u>	<u>2,938</u>

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

#### Investment in programmes

	Completed programmes £000	Work in progress £000	Total £000
At 1 January 2019	2,002	818	2,820
Additions	-	53	53
Amortisations	(1,631)	(544)	(2,175)
At 31 December 2019	<u>371</u>	<u>327</u>	<u>698</u>

# HIT ENTERTAINMENT LIMITED

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

### 13. Debtors

	2019 £000	2018 £000
<b>Amounts falling due after more than one year</b>		
Deferred tax asset	1,840	1,762
	<u>1,840</u>	<u>1,762</u>

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

	2019 £000	2018 £000
<b>Amounts falling due within one year</b>		
Trade debtors	148	1,675
Amounts owed by group undertakings	3,161	2,801
Other debtors	316	249
Prepayments and accrued income	724	692
	<u>4,349</u>	<u>5,417</u>

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

### 14. Cash at bank and in hand

	2019 £000	2018 £000
Cash at bank and in hand	94	174
	<u>94</u>	<u>174</u>

# HIT ENTERTAINMENT 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	165	271
Amounts owed to group undertakings	67,933	60,642
Other taxation and social security	158	142
Other creditors	-	11
Accruals and deferred income	751	1,840
	<u>69,007</u>	<u>62,906</u>

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

### 16. Deferred taxation

	2019 £000	2018 £000
At beginning of year	1,762	781
Credited to profit or loss	78	981
<b>At end of year</b>	<u>1,840</u>	<u>1,762</u>

The deferred taxation balance is made up as follows:

	2019 £000	2018 £000
Accelerated capital allowances	1,814	1,806
DTA on separate trade revenue	18	68
DTA on IIP	(11)	(123)
DTA on reserves	19	11
	<u>1,840</u>	<u>1,762</u>

There is an unrecognised deferred tax asset of £9,636,939 (2018: £9,382,375) arising primarily in respect of trading losses, creative sector relief 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. The 2% change in tax rate results in an immaterial impact to the deferred tax recognised.

# HIT ENTERTAINMENT LIMITED

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

### 17. Other provisions

	Provision for dilapidation s £000	Provision for onerous lease £000	Total £000
At 1st January 2019	275	-	275
Charged to profit or loss	-	1,400	1,400
<b>At 31st December 2019</b>	<b>275</b>	<b>1,400</b>	<b>1,675</b>

### 18. Called up Share capital

	2019 £000	2018 £000
Allotted, called up and fully paid		
1 (2018 - 1) Ordinary share of £0.02 -		

### 19. Reserves

#### Other reserves

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 & Loss account have been disclosed in the Statement of Changes in Equity on page 12 of the financial statements.

### 20. 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 £185,000 (2018 - £211,000). Contributions totalling £nil (2018 - £11,000) were payable to the fund at the balance sheet date and are included in creditors.

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**HIT ENTERTAINMENT LIMITED**

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

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**21. Commitments under operating leases**

At 31st December 2019 the Company had future minimum lease payments due under non-cancellable operating leases for each of the following periods:

	2019 £000	2018 £000
Not later than 1 year	878	878
Later than 1 year and not later than 5 years	1,530	2,408
	<u>2,408</u>	<u>3,286</u>

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

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**22. Post balance sheet events**

The Coronavirus pandemic that had a global impact during 2020 is having a major effect worldwide on people, businesses and the global economy. The Company's top priority has been to protect the health and safety of their employees and at the same time mitigate the disruption to its business. The Directors continue to monitor the situation closely and take adaptive measures accordingly. Whilst the year to date turnover at 30 September 2020 in the Company's Consumer Products business has seen a slight downturn, new content deals have helped maintain revenues at pre-Covid levels. 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.

Whilst the United Kingdom's decision to leave the EU cannot yet be fully assessed, the Company's revenues are diverse geographically with 84% generated outside of the United Kingdom and 40% 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. 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.

In March 2020 the Company vacated its existing office premises in London, relocating to a new office building located in Slough. This decision is expected to improve the long-term profitability of the Company through achieving synergies by bringing together the employees of HIT Entertainment Limited and Mattel U.K. Limited (a fellow UK subsidiary of Mattel Inc.).

At 31 December 2019, the Company had not found a tenant to sublease its Maple House office at 149 Tottenham Court Road, London nor had the Directors agreed to a surrender of the existing lease with the landlord. In accordance with FRS 102 sections 21 'Provisions and contingencies', the Directors recognised an onerous lease provision of £1.4m (see note 17) representing the most likely cost of buying out the remaining term of the lease. This was based on the ongoing negotiations at that point in time creating a present obligation as a result of a past event (the obligating event being the lease), the payment was probable ('more likely than not'), and the amount could be estimated reliably.

Subsequent to the year end, the Directors continued discussions with the Landlord whilst also exploring sub-leasing options. On 23 March, the outbreak of the Covid-19 pandemic resulted in significant changes to the UK market conditions following the Government's lockdown announcement and resulted in no formal agreement being signed with either the Landlord or a tenant.

At the date of signing these financial statements in December 2020, the Directors are still seeking a resolution and estimate that the most likely cost of finalising a surrender of the existing lease will be in the range of £1.3m - £1.6m plus VAT compared to the lease liability for the minimum expected future lease payments of £2.4m per note 21.

The above subsequent events have been considered to be non-adjusting post balance sheet events and there are no other subsequent events to be disclosed within these financial statements.

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<b>HIT ENTERTAINMENT LIMITED</b>
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**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31ST DECEMBER 2019**

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**23. 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).

**24. 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.