

PPC Creative Limited

Annual Report and Financial Statements

Year Ended

31 December 2020

Company Number 07357972

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PPC Creative Limited

Company Information

Directors	M Nakamura B Nicholls M Sullivan S Nagase
Company secretary	M Sullivan
Registered number	07357972
Registered office	6-8 Kingly Court London W1B 5PW
Independent auditor	Deloitte LLP Hill House 1 Little New Street London EC4A 3TR

PPC Creative Limited

Contents

	Page
Strategic report	1 - 3
Directors' report	4 - 5
Directors' responsibilities statement	6
Independent auditor's report	7 - 10
Statement of comprehensive income	11
Statement of financial position	12
Statement of changes in equity	13
Notes to the financial statements	14 - 29

PPC Creative Limited

Strategic report for the year ended 31 December 2020

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

PPC's business

PPC Creative Limited ("PPC") is a full service creative and production agency that delivers marketing materials to an international client base of film studios, broadcasters, VOD platforms, programme producers and brand advertisers. As part of the Imagica Group, and with offices in London and Los Angeles ("LA"), we originate cross platform international creative marketing campaigns as well as producing foreign language localisation and adaption, delivering client's marketing assets into over 60 languages and to over 30 countries around the world. Our creative and localisation services cover all Audio-Visual, Digital, Print, Immersive, Social and Outdoor advertising platforms.

There was a change of ownership in the year from SDI Media Group Limited to Imagica Group Inc.

Business review

2020 started off well for PPC in terms of both our revenue growth trajectory and in significant new client wins. However, the global COVID-19 pandemic, that impacted the world from the end of the first quarter, curtailed our positive start to the year as we dealt with the ramifications the pandemic had on the global film industry.

Movie theatres and film productions around the world were forced to close or shut down, causing our major studio clients to put a stop on releasing product. This meant they had no need to market their releases and, as a result, we had to respond to a very sudden lack of theatrical marketing campaign projects. We did this by focusing more toward VOD, Home Entertainment, Online, Immersive and Brand marketing opportunities.

Turnover in the year was £8m (2019 - £13m), with the reasons for the decrease in turnover noted in the business review section above.

Capex in the year was £352k (2019 - £485k).

Key performance indicators

The business and its performance are closely monitored with KPI's for revenue, gross margin and EBITDA both on a consolidated basis but also by discipline and revenue stream.

Turnover from continuing operations

As the prime measure of our economic output, turnover growth is key to measuring shareholder return and the success of our expansion strategies.

Turnover in the year was £8m (2019 - £13m)

Gross margin

Gross margin from continuing operations was 91% (2019 - 89%)

Gross margin from continuing operations was £7.2m (2019 - £11.7m)

Gross margin provides an indication of the quality of turnover growth and is also a measure of the value added by the company, reflecting the quality of our creative and production services.

PPC Creative Limited

Strategic report (continued) for the year ended 31 December 2020

Strategy

The COVID-19 pandemic hit the entire global film industry very hard in 2020 and the company did well to maintain its market position as a leader in its field. When UK and US lockdown restrictions came into force, we were swift to react and we evolved our business to one where both offices could operate and deliver client orders through remote working. We adapted to the enforced changes in our client's demands and helped them take planned theatrical releases and successfully release them onto PVOD. Equally, we sought out new opportunities in vertical markets and we took measures to protect our team and worked hard to ensure staff retention. As a result, we are currently on course to emerge from the pandemic an incredibly robust and viable business.

As we embark on 2021, we are still having to operate under lockdown restrictions but, as the world starts to rally against the pandemic, we see this year as being one of initial recovery and then stabilisation (both for the company and the film industry at large). As movie theatres re-open and our theatrical clients start to release product to market again, we will continue to work with them in delivering high quality marketing collateral to a global marketplace. We will also continue to service our new and established non-theatrical clients across VOD platform providers, broadcasters, programme producers and consumer targeted brand clients.

Even with the adverse impacts on the industry caused by the COVID-19 pandemic, we have ensured we remain adaptive to client demands and continued to evolve our business. We have successfully grown our service offering and further established our reputation for providing our clients with a premium service by creating, developing, adapting, localising and delivering marketing assets in multiple languages and in multiple formats for use across the world. Our honed and refined offering has proven to be resilient, it remains best in class and the business is well positioned to move on from 2020 and continue the upwards trajectory we had been enjoying prior to the pandemic.

As emerging technologies such as 4K, automation and AI become more robust and relevant in our space we will be adapting and developing our offering to meet client demands.

Principal risks and uncertainties

Financial risk management objectives and policies

Credit risk

Credit risk is the risk of financial loss to the company if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The company is mainly exposed to credit risk from credit sales. It is company policy, implemented locally, to assess the credit risk of new customers before entering contracts. Each new customer is analysed individually for creditworthiness before the company's standard payment and delivery terms and conditions are offered.

A monthly review of the trade receivables' ageing is undertaken and, customers' credit is re-assessed periodically. Existing customers that become "high risk" due to the periodic re-assessment are placed on a restricted customer list and future credit sales are made only with approval of management.

Credit risk also arises from cash and cash equivalents and deposits with banks and financial institutions. For banks and financial institutions, only independently rated parties with minimum rating "A" are accepted.

PPC Creative Limited

Strategic report (continued) for the year ended 31 December 2020

Principal risks and uncertainties (continued)

Financial risk management objectives and policies

Liquidity risk

Liquidity risk arises from the company's management of working capital and the finance charges and principal repayments on its debt instruments. It is the risk that the company will encounter difficulty in meeting its financial obligations as they fall due. The board reviews rolling 12-month cash flow projections on a monthly basis. At the end of the financial year, these projections indicated that the company expected to have sufficient liquid resources to meet its obligations. The company also seeks to reduce liquidity risk by fixing interest rates (and hence cash flows) on a portion of its long-term borrowings. Revenue/market volatility is a significant risk, and this is driven by the fluctuation and fluid nature of release dates for motion picture content. It is often challenging to forecast revenues on a short-term basis and this therefore creates some liquidity risk throughout the year. However, the business is well capitalised and regularly monitors both trading performance and cash flow. The board are comfortable that this risk is suitably controlled.

COVID-19

The pandemic hit the film industry particularly hard. Since March 2020, cinemas were forced to close and active productions were shut down. The major studios reacted by de-slatting releases and put a hold on the majority of their marketing activity. We reacted quickly to the threat of the pandemic, moving all our staff in London and Los Angeles to home working, setting up secure network connections so that we were still operational and utilising any government support initiatives that were available to us.

As a result of our diverse client base across Home Media, Broadcasters, VOD Platforms and Brands advertisers, and with some theatrical film work still live but moving to PVOD, we were able to continuously generate revenues in 2020, albeit not at a profitable level.

With movie theatres around the world planning to re-open throughout Q2 2021, we are anticipating an uplift in client orders for localised theatrical marketing asset production from April and we are in place to meet their demands as and when required.

However, the negative impact from the first quarter of 2021 and the current ongoing restrictions caused by the pandemic are expected to negatively impact our 2021 EBITDA performance. As a result, we continue to manage our cash flow and liquidity tightly as our revenues start to increase and cash generation resumes.

Outlook

As the film industry recovers, we anticipate that our clients marketing demands will continue to change and evolve. PPC remains well placed to continue to expand its International presence, targeting growth from our International clients and also, establishing itself as a significant player in the US domestic market.

This report was approved by the board and signed on its behalf by:



B Nicholls
Director

Date: 6th July 2021

PPC Creative Limited

Directors' report for the year ended 31 December 2020

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

Principal activity

The principal activities of the business have been disclosed in the strategic report on page 1.

Directors

The directors who served during the year and up to the date of this report were:

M Nakamura
B Nicholls
M Sullivan
S Nagase (appointed 30 November 2020)
M W Howorth (resigned 30 November 2020)

Qualifying third party indemnity provisions

The company has put in place qualifying third party indemnity provisions for all of the directors of PPC Creative Limited.

Existence of branches of the company outside of the United Kingdom

The company has a branch in the United States.

Dividends

A dividend of £0.5m in relation to the year ended 31 December 2020 was declared and paid in March 2020 (2019 - £2.4m).

No dividends have been proposed at year end.

Going concern

The impacts on the global film industry caused by the COVID 19 pandemic adversely impacted our 2020 financial performance and, given the fact the virus is still a very real challenge, we are naturally concerned about how it will continue to impact our performance this year. Where we had hoped that normal business volumes would swiftly return to more normal levels in Q1 2021, we are still having to react to studios moving titles and pulling campaigns at short notice. Whilst we are hopeful Q2 will see a resurgence of cinema, we anticipate our Q1 performance to still have a negative impact on the year end result. In response to this, we have continued to apply cost saving measures and sought to utilise the various government initiatives at our disposal.

Following the longtail impacts of the COVID-19 pandemic from 2020 and the gradual return to normality anticipated in 2021, we are now forecasting a return to pre COVID 19 levels by the end of the second quarter of the year. We are maintaining a number of cost saving measures including staff furloughing, cutting of discretionary spend, limiting our cap-ex expenditure and have taken advantage of any available government initiatives to reduce staff costs, in both the UK and the US.

Notwithstanding these cost and cash saving measures we are anticipating a significant reduction in EBITDA at year end but, we are forecasting to still be cash flow positive for the year. We are currently anticipating enough cash reserves to continue operating for the foreseeable future. However, given the uncertainty surrounding the timing of a return to normal operating conditions, it is not impossible that we may be reliant on our parent company, Imagica Group, for financial support if required.

PPC Creative Limited

Directors' report (continued) for the year ended 31 December 2020

Going concern (continued)

In assessing whether our parent company will be able to provide this financial support the directors have reviewed the financial position of Imagica Group Inc. to ensure that they have the funding sources available to provide direct financial support. The parent company will continue to provide the necessary support and as a result, after reviewing the current status of operations and taking into consideration the facilities available to the company, the directors have a reasonable expectation that the company has access to adequate resources to continue operating as a going concern for at least 12 months from the date of the approval of the financial statements and for the foreseeable future.

Likely future developments in the business of the company

Per the strategic report on page 2, as emerging technologies such as 4K, automation and AI become more robust and relevant in our space we will be adapting and developing our offering to meet client demands.

Disclosure of information to auditor

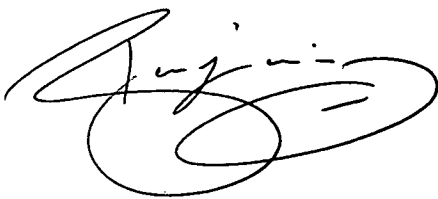
Each of the persons who are directors at the time when this directors' report is approved has confirmed that:

- so far as the director is aware, there is no relevant audit information of which the company's auditor is unaware, and
- the director has taken all the steps that ought to have been taken as a director in order to be aware of any relevant audit information and to establish that the company's auditor is aware of that information.

Auditor

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

This report was approved by the board and signed on its behalf by:



B Nicholls
Director

Date: 6th July 2021

PPC Creative Limited

Directors' responsibilities statement for the year ended 31 December 2020

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

Company law requires the directors to prepare financial statements for each financial year. Under that law, the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland". Under company law, the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period.

In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

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

PPC Creative Limited

Independent auditor's report to the members of PPC Creative Limited

Report on the audit of the financial statements

Opinion

In our opinion the financial statements of PPC Creative Limited (the 'company'):

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

We have audited the financial statements which comprise:

- the statement of comprehensive income;
- the statement of financial position;
- the statement of changes in equity; and
- the related notes 1 to 25.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice).

Basis for opinion

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

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

Conclusions relating to going concern

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

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

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

PPC Creative Limited

Independent auditor's report to the members of PPC Creative Limited (continued)

Other information

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

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

We have nothing to report in this regard.

Responsibilities of directors

As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

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

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

PPC Creative Limited

Independent auditor's report to the members of PPC Creative Limited (continued)

Extent to which the audit was considered capable of detecting irregularities, including fraud

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

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

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

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

We discussed among the audit engagement team regarding the opportunities and incentives that may exist within the organisation for fraud and how and where fraud might occur in the financial statements.

As a result, we identified the greatest potential for fraud was related to the cut-off of revenue and the risk that revenue was recorded in the incorrect period. In order to address this risk we tested the design and implementation of the key control identified to address this risk and performed tests of detail on revenue transactions occurring immediately before and after year-end.

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

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

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

PPC Creative Limited

Independent auditor's report to the members of PPC Creative Limited (continued)

Report on other legal and regulatory requirements

Opinions on other matters prescribed by the Companies Act 2006

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

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

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

Matters on which we are required to report by exception

Under the Companies Act 2006 we are required to report in respect of the following matters if, in our opinion:

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

We have nothing to report in respect of these matters.

Use of our report

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



Jon Young (Senior Statutory Auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
London
United Kingdom

Date: 6 July 2021

PPC Creative Limited

Statement of comprehensive income for the year ended 31 December 2020

	Note	2020 £000	2019 £000
Turnover	4	7,948	13,184
Cost of sales		(700)	(1,460)
Gross profit		7,248	11,724
Administrative expenses		(7,975)	(8,849)
Other operating income	9	714	1
Operating (loss)/profit	8	(13)	2,876
Interest receivable and similar income		2	4
Interest payable and similar charges		(38)	(48)
(Loss)/profit before taxation		(49)	2,832
Taxation	10	(5)	(535)
(Loss)/profit for the financial year		(54)	2,297
Other comprehensive income for the year			
Currency translation differences		51	28
Total comprehensive (loss)/income for the year		(3)	2,325

All amounts relate to continuing operations.

The notes on pages 14 to 29 form part of these financial statements.

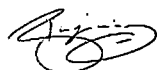
PPC Creative Limited

Registered number:07357972

**Statement of financial position
as at 31 December 2020**

	Note	2020 £000	2020 £000	2019 £000	2019 £000
Fixed assets					
Intangible assets	11		306		284
Tangible assets	12		725		794
			<u>1,031</u>		<u>1,078</u>
Current assets					
Debtors	13	1,910		3,630	
Cash at bank and in hand	14	1,459		1,389	
		<u>3,369</u>		<u>5,019</u>	
Creditors: amounts falling due within one year	15	(2,272)		(3,353)	
Net current assets			<u>1,097</u>		<u>1,666</u>
Total assets less current liabilities			<u>2,128</u>		<u>2,744</u>
Creditors: amounts falling due after more than one year	16		(136)		(257)
Provisions for liabilities					
Deferred taxation	18		(53)		(45)
Net assets			<u><u>1,939</u></u>		<u><u>2,442</u></u>
Capital and reserves					
Called up share capital	20		500		500
Foreign exchange reserve	20		22		(29)
Profit and loss account	20		1,417		1,971
			<u><u>1,939</u></u>		<u><u>2,442</u></u>

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


B Nicholls
DirectorDate: 6th July 2021

M Sullivan
DirectorDate: 6th July 2021

PPC Creative Limited
Registered number:07357972

The notes on pages 14 to 29 form part of these financial statements.

PPC Creative Limited

Statement of changes in equity for the year ended 31 December 2020

	Called up share capital	Foreign exchange reserve	Profit and loss account	Total equity
	£000	£000	£000	£000
At 1 January 2020	500	(29)	1,971	2,442
Comprehensive income for the year				
Loss for the year	-	-	(54)	(54)
Currency translation differences	-	51	-	51
Total comprehensive income/(loss) for the year	-	51	(54)	(3)
Contributions by and distributions to owners				
Dividends	-	-	(500)	(500)
At 31 December 2020	500	22	1,417	1,939

Statement of changes in equity for the year ended 31 December 2019

	Called up share capital	Foreign exchange reserve	Profit and loss account	Total equity
	£000	£000	£000	£000
At 1 January 2019	500	(57)	2,114	2,557
Comprehensive income for the year				
Profit for the year	-	-	2,297	2,297
Currency translation differences	-	28	-	28
Total comprehensive income for the year	-	28	2,297	2,325
Contributions by and distributions to owners				
Dividends	-	-	(2,440)	(2,440)
At 31 December 2019	500	(29)	1,971	2,442

PPC Creative Limited

The notes on pages 14 to 29 form part of these financial statements.

PPC Creative Limited

Notes to the financial statements for the year ended 31 December 2020

1. General information

PPC Creative Limited is a private company, limited by shares and incorporated in England and Wales under the Companies Act 2006. The address of the registered office is given on the company information page and the nature of the company's operations and principal activities are set out in the strategic and directors' report.

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 judgement in applying the company's accounting policies (see note 3).

The following principal accounting policies have been applied:

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 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 33 Related Party Disclosures paragraph 33.7.

This information is included in the consolidated financial statements of Imagica Group Inc. which is the largest and smallest group which includes the company and for which publicly available consolidated financial statements are prepared as at 31 December 2020. These financial statements may be obtained from www.imagicagroup.co.jp.

PPC Creative Limited

Notes to the financial statements for the year ended 31 December 2020

2. Accounting policies (continued)

2.3 Going concern

The impacts on the global film industry caused by the COVID 19 pandemic adversely impacted our 2020 financial performance and, given the fact the virus is still a very real challenge, we are naturally concerned about how it will continue to impact our performance this year. Where we had hoped that normal business volumes would swiftly return to more normal levels in Q1 2021, we are still having to react to studios moving titles and pulling campaigns at short notice. Whilst we are hopeful Q2 will see a resurgence of cinema, we anticipate our Q1 performance to still have a negative impact on the year end result. In response to this, we have continued to apply cost saving measures and sought to utilise the various government initiatives at our disposal.

Following the longtail impacts of the COVID-19 pandemic from 2020 and the gradual return to normality anticipated in 2021, we are now forecasting a return to pre COVID 19 levels by the end of the second quarter of the year. We are maintaining a number of cost saving measures including staff furloughing, cutting of discretionary spend, limiting our cap-ex expenditure and have taken advantage of any available government initiatives to reduce staff costs, in both the UK and the US.

Notwithstanding these cost and cash saving measures we are anticipating a significant reduction in EBITDA at year end but, we are forecasting to still be cash flow positive for the year. We are currently anticipating enough cash reserves to continue operating for the foreseeable future. However, given the uncertainty surrounding the timing of a return to normal operating conditions, it is not impossible that we may be reliant on our parent company, Imagica Group, for financial support if required.

In assessing whether our parent company will be able to provide this financial support the directors have reviewed the financial position of Imagica Group Inc. to ensure that they have the funding sources available to provide direct financial support. The parent company will continue to provide the necessary support and as a result, after reviewing the current status of operations and taking into consideration the facilities available to the company, the directors have a reasonable expectation that the company has access to adequate resources to continue operating as a going concern for at least 12 months from the date of the approval of the financial statements and for the foreseeable future.

2.4 Turnover

Turnover represents amounts invoiced and delivered to clients, excluding sales taxes, for services provided.

Turnover for each type of revenue stream is recognised on the following basis:

- (a) Revenues for localisation work are recognised when they are delivered.
- (b) Revenues for non-localisation work are recognised when they are delivered and invoiced.

In both cases, production costs are charged to the statement of comprehensive income when the associated revenue is recognised.

In preparing these financial statements, the directors have made the following judgement:

Determining when the entity has an enforceable right to payment for services provided. Factors considered include stage of completion in respect of ongoing services, agreement that revenue can be billed and is collectable taking account of the terms of the service. In the absence of formal contractual arrangements, the receipt of a purchase order represents the most appropriate form of evidence of acceptance regarding the enforceable right to payment for services provided.

PPC Creative Limited

Notes to the financial statements for the year ended 31 December 2020

2. Accounting policies (continued)

2.5 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:

Leasehold improvements	- over the term of the lease
Plant and machinery	- 20% on cost per annum
Fixtures, fittings and equipment	- 20% on cost per annum

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 the statement of comprehensive income.

2.6 Intangible assets other than Goodwill

Externally acquired intangible assets including software are initially recognised at cost and subsequently amortised on a straight-line basis over their useful economic lives.

Amortisation is provided on the following basis and is included within administrative expenses in the statement of comprehensive income.

Amortisation is provided on the following bases:

Software	- 20% on cost per annum
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2.7 Leased assets: Lessor

Where assets are leased to a third party and give rights approximating to ownership (finance leases), the assets are treated as if they have been sold outright. The amount removed from the fixed assets is the net book value on disposal of the asset. The profit on disposal, being the excess of the present value of the minimum lease payments over net book value is credited to the statement of comprehensive income.

Finance lease payments are analysed between capital and interest components so that the interest-element of the payment is credited to the statement of comprehensive income over the term of the lease and represents a constant proportion of the balance of capital repayments outstanding. The capital part reduces the amounts owed by the lessee.

All other leases are treated as operating leases. Their annual rentals are credited to the statement of comprehensive income on a straight line basis over the term of the lease.

PPC Creative Limited

Notes to the financial statements for the year ended 31 December 2020

2. Accounting policies (continued)

2.8 Leased assets: Lessee

Where assets are financed by leasing agreements that give rights approximating to ownership (finance leases), the assets are treated as if they had been purchased outright. The amount capitalised is the present value of the minimum lease payments payable over the term of the lease. The corresponding leasing commitments are shown as amounts payable to the lessor. Depreciation on the relevant assets is charged to the statement of comprehensive income over the shorter of estimated useful economic life and the term of the lease.

Finance lease payments are analysed between capital and interest components so that the interest element of the payment is charged to the statement of comprehensive income over the term of the lease and is calculated so that it represents a constant proportion of the balance of capital repayments outstanding. The capital part reduces the amounts payable to the lessor.

All other leases are treated as operating leases. Their annual rentals are charged to the statement of comprehensive income on a straight line basis over the term of the lease.

Where the company has a legal obligation, a dilapidations provision is created on inception of a lease. These provisions are a best estimate of the cost required to return leased properties to their original condition upon termination of the lease.

2.9 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 and loans from related parties.

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.

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

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

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

PPC Creative Limited

Notes to the financial statements for the year ended 31 December 2020

2. Accounting policies (continued)

2.9 Financial instruments (continued)

Financial assets and liabilities are offset and the net amount reported in the statement of financial position 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.

2.10 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.

2.11 Foreign currency translation

Functional and presentation currency

The company's functional and presentational currency is GBP.

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.

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.

2.12 Financial liabilities and equity

Financial liabilities and equity are classified according to the substance of the financial instrument's contractual obligations, rather than the financial instrument's legal form.

2.13 Finance costs

Finance costs are charged to the 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.

2.14 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 the statement of comprehensive income when they fall due. Amounts not paid are shown in accruals as a liability in the statement of financial position. The assets of the plan are held separately from the company in independently administered funds.

PPC Creative Limited

Notes to the financial statements for the year ended 31 December 2020

2. Accounting policies (continued)

2.15 Current and deferred taxation

The tax expense for the year comprises current and deferred tax. Tax is recognised in the statement of comprehensive income 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 reporting 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 statement of financial position 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 reporting date.

2.16 Government grants

Grants are accounted under the accruals model as permitted by FRS 102. Grants relating to expenditure on tangible fixed assets are credited to profit or loss at the same rate as the depreciation on the assets to which the grant relates. The deferred element of grants is included in creditors as deferred income.

Grants of a revenue nature are recognised in the statement of comprehensive income in the same period as the related expenditure.

Furlough income is credited to other income in the period these grants are received in line with FRS102.

3. Critical Accounting Judgements and Key Sources of Estimation Uncertainty

In preparing these financial statements, the directors have made the following judgements:

- Determine whether leases entered into by the company either as a lessor or a lessee are operating or finance leases. These decisions depend on an assessment of whether the risks and rewards of ownership have been transferred from the lessor to the lessee on a lease by lease basis.
- Determine whether there are indicators of impairment of the company's tangible and intangible assets. Factors taken into consideration in reaching such a decision include the economic viability and expected future financial performance of the asset and where it is a component of a larger cash-generating unit, the viability and expected future performance of that unit.

The directors do not consider there to be any key sources of estimation uncertainty.

PPC Creative Limited

Notes to the financial statements for the year ended 31 December 2020

4. Turnover

All turnover arose within the United Kingdom and the United States.

	2020 £000	2019 £000
United Kingdom	6,489	10,752
United States	1,459	2,432
	<u>7,948</u>	<u>13,184</u>

5. Employees

Staff costs including directors' remuneration, consist of:

	2020 £000	2019 £000
Wages and salaries	4,995	5,614
Social security costs	472	572
Cost of defined contribution scheme	112	114
	<u>5,579</u>	<u>6,300</u>

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

	2020 No.	2019 No.
Directors	2	2
	1	1
Administration	19	13
	<u>1</u>	<u>1</u>
	<u>21</u>	<u>15</u>

PPC Creative Limited

Notes to the financial statements for the year ended 31 December 2020

6. Directors' remuneration

	2020 £000	2019 £000
Directors' emoluments	280	421
Company contributions to defined contribution pension schemes	13	15
	<u>293</u>	<u>436</u>

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

Emoluments of the highest paid director were £162,788 (2019 - £250,624). Company pension contributions of £5,188 (2019 - £5,684) were made on their behalf.

7. Auditor's remuneration

Fees payable to the company's auditor for the audit of the company's annual financial statements totalled £15k (2019 - £18k).

8. Operating (loss)/profit

This is arrived at after charging:

	2020 £000	2019 £000
Depreciation of tangible fixed assets	379	317
Auditor's remuneration (see note 7)	15	18
Operating lease rentals	<u>672</u>	<u>665</u>

9. Other operating income

	2020 £000	2019 £000
Rental income	-	1
Government grants	346	-
PPP loan written off	368	-
	<u>714</u>	<u>1</u>

PPC Creative Limited

Notes to the financial statements for the year ended 31 December 2020

Government grants relates to furlough income received.

PPC Creative Limited

Notes to the financial statements for the year ended 31 December 2020

10. Taxation

	2020 £000	2019 £000
UK corporation tax		
Current tax on (loss)/profit for the year	-	505
Adjustments in respect of previous years	(3)	(24)
Total current tax	<u>(3)</u>	<u>481</u>
Deferred tax		
Origination and reversal of timing differences	2	53
Adjustment in respect of previous years	-	1
Effects of change in tax rates	6	-
Total deferred tax	<u>8</u>	<u>54</u>
Taxation on (loss)/profit on ordinary activities	<u>5</u>	<u>535</u>

PPC Creative Limited

Notes to the financial statements for the year ended 31 December 2020

10. Taxation (continued)

Factors affecting tax charge for the year

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

	2020 £000	2019 £000
(Loss)/profit on ordinary activities before tax	<u>(49)</u>	<u>2,832</u>
(Loss)/profit on ordinary activities at the standard rate of corporation tax in the UK of 19% (2019 - 19%)	(9)	538
Effects of:		
Fixed asset differences	17	26
Tax rate differences	-	(6)
Adjustment in respect of previous years	-	(23)
Expenses not deductible for tax purposes	3	-
Amounts relating to other comprehensive income or otherwise transferred	(10)	-
Losses carried back	2	-
Adjustments to tax charge in respect of previous periods	(3)	-
Remeasurement of deferred tax for changes in tax rates	5	-
Total tax charge for the year	<u>5</u>	<u>535</u>

Deferred Tax

The Finance Bill 2021 has set out measures to increase the rate of Corporation Tax to 25% on profits over £250,000 from April 2023. Although this has not yet been substantively enacted, had it been adopted at the balance sheet date, there would have been an immaterial impact on the tax credit for the period and an immaterial impact on the carrying amount of the deferred tax asset.

PPC Creative Limited

Notes to the financial statements for the year ended 31 December 2020

11. Intangible assets

	Software £000
Cost	
At 1 January 2020	284
Additions	30
At 31 December 2020	<u>314</u>
Amortisation	
At 1 January 2020	-
Charge for the year	8
At 31 December 2020	<u>8</u>
Net book value	
At 31 December 2020	<u>306</u>
At 31 December 2019	<u>284</u>

PPC Creative Limited

Notes to the financial statements for the year ended 31 December 2020

12. Tangible fixed assets

	Leasehold improvements £000	Plant and machinery £000	Fixtures, fittings and equipment £000	Total £000
Cost				
At 1 January 2020	1,259	1,741	93	3,093
Additions	50	241	30	321
Re-translation	(15)	(12)	(1)	(28)
At 31 December 2020	<u>1,294</u>	<u>1,970</u>	<u>122</u>	<u>3,386</u>
Depreciation				
At 1 January 2020	967	1,283	49	2,299
Charge for the year	165	199	15	379
Re-translation	(9)	(7)	(1)	(17)
At 31 December 2020	<u>1,123</u>	<u>1,475</u>	<u>63</u>	<u>2,661</u>
Net book value				
At 31 December 2020	<u>171</u>	<u>495</u>	<u>59</u>	<u>725</u>
At 31 December 2019	<u>292</u>	<u>458</u>	<u>44</u>	<u>794</u>

The net book value of assets held under finance leases or hire purchase contracts, included above, are as follows:

	2020 £000	2019 £000
Leasehold improvements	17	37
Plant and machinery	30	81

PPC Creative Limited

Notes to the financial statements for the year ended 31 December 2020

<u>47</u>	<u>118</u>
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Finance leases relate to plant and equipment purchased for the business in 2016 and will expire in 2021. Depreciation of £71k (2019 - £86k) was charged on assets held under finance leases during the year.

PPC Creative Limited

Notes to the financial statements for the year ended 31 December 2020

13. Debtors

	2020 £000	2019 £000
Trade debtors	1,335	2,521
Corporation tax	57	-
Other debtors	196	197
Prepayments and accrued income	322	912
	<u>1,910</u>	<u>3,630</u>

14. Cash and cash equivalents

	2020 £000	2019 £000
Cash at bank and in hand	<u>1,459</u>	<u>1,389</u>

15. Creditors: amounts falling due within one year

	2020 £000	2019 £000
Bank loans	363	-
Other loans (secured)	17	-
Trade creditors	282	343
Corporation tax	-	186
Taxation and social security	518	692
Net obligations under finance lease and hire purchase contracts	62	78
Other creditors	439	1,169
Accruals and deferred income	591	885
	<u>2,272</u>	<u>3,353</u>

Net obligations under finance leases and hire purchase contracts are secured on the assets financed.

Included within other creditors is an invoice finance creditor of £438k (2019 - £1,156k) which is secured by way of a fixed and floating charge on the assets of the company.

PPC Creative Limited

Notes to the financial statements for the year ended 31 December 2020

16. Creditors: amounts falling due after more than one year

	2020 £000	2019 £000
Other loans (secured)	-	34
Net obligations under finance leases and hire purchase contracts	-	62
Other creditors	136	161
	<u>136</u>	<u>257</u>

Included within the above are amounts falling due as follows:

	2020 £000	2019 £000
Amounts falling due between one and two years		
Other loans (secured)	<u>-</u>	<u>34</u>

17. Hire purchase and finance leases

Obligations under finance leases and hire purchase contracts, included above, are payable as follows:

	2020 £000	2019 £000
Not later than 1 year	62	78
Later than 1 year and not later than 5 years	-	62
	<u>62</u>	<u>140</u>

PPC Creative Limited

Notes to the financial statements for the year ended 31 December 2020

18. Deferred taxation

	2020 £000	2019 £000
At beginning of year	(45)	9
Charged to profit or loss	(8)	(54)
At end of year	<u>(53)</u>	<u>(45)</u>

The deferred taxation liability is made up as follows:

	2020 £000	2019 £000
Accelerated capital allowances	(81)	(63)
Short term timing differences	28	18
	<u>(53)</u>	<u>(45)</u>

The Finance Bill 2021 has set out measures to increase the rate of Corporation Tax to 25% on profits over £250,000 from April 2023. Although this has not yet been substantively enacted, had it been adopted at the balance sheet date, there would have been an immaterial impact on the tax credit for the period and an immaterial impact on the carrying amount of the deferred tax asset.

19. Pensions

The company operates a defined contribution pension scheme. The assets of the scheme are held separately from those of the company in an independently administered fund. The pension cost charge represents contributions payable by the company to the fund and amounted to £110k (2019 - £114k). At year end, contributions amounting to £1k (2019 - £5k) were owed by the company and are included in other creditors.

20. Share capital

	2020 £000	2019 £000
Allotted, called up and fully paid		
500,100- ordinary shares of £1 each	<u>500</u>	<u>500</u>

Ordinary shares entitle the holder to one vote per share and full rights in respect of dividend and capital distribution (including on winding-up).

PPC Creative Limited

Notes to the financial statements for the year ended 31 December 2020

21. Reserves

Called up share capital

Called up share capital reserve represents the nominal value of the shares issued.

Foreign exchange reserve

Foreign exchange reserve comprises translation differences arising from the translation of the financial statements of the company's foreign entities into Sterling (£).

Profit and loss account

Profit and loss account represents cumulative profits or losses, net of dividends paid and other adjustments.

22. Commitments under operating leases

The company had minimum lease payments under non-cancellable operating leases as set out below:

	2020 £000	2019 £000
Not later than 1 year	743	739
Later than 1 year and not later than 5 years	894	1,637
	<u>1,637</u>	<u>2,376</u>

23. Capital commitments

The company had contracted but not provided for any capital commitments at year end relating to software (2019 - £199,632).

24. Related party transactions

At year end, Imagica Group Inc. was the beneficial holder of 500,100 Ordinary shares.

25. Controlling party

At 31 December 2020 the company's ultimate parent company and controlling party was Imagica Group Inc., a company listed on the Tokyo Stock Exchange. The registered office of Imagica Group Inc. is:

Shinagawa - Ku
Tokyo

The consolidated financial statements are available on the company's website www.imagicagroup.co.jp.