

COMPANY REGISTRATION NUMBER: 08495607

M2 Entertainment Limited
Financial Statements
31 December 2016

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M2 Entertainment Limited

Financial Statements

Year ended 31 December 2016

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M2 Entertainment Limited

Officers and Professional Advisers

Director	M Nielsen
Registered office	7 Berners Mews London W1T 3AN
Auditor	Shipleys LLP Chartered accountant & statutory auditor 10 Orange Street Haymarket London WC2H 7DQ

M2 Entertainment Limited

Strategic Report

Year ended 31 December 2016

Review of the business

The performance for the company during 2016 was in line with expectations.

Development and financial performance during the year

In financial year 2016, the company has continued to make positive progress with the commissioned animation projects. The results of the work undertaken on these animation projects has had a positive effect on the profits for the current year. The results do, however, reflect a foreseeable loss on the Lego Friends Movie project, due to insufficient levels of likely future income. This particular project was wholly funded by the company.

Financial position at the reporting date

The balance sheet shows that the company's net assets at the year end have increased from £2,152,936 to £2,690,780 after allowing for a dividend payment of £1,000,000 to the company shareholders. The increase in net assets is due to the success achieved within the overall project activity that itself has been realised through a programme of outsourcing to related group undertakings in the year.

The company remains exposed to currency risks by virtue of the proportion of the business being invoiced in foreign currencies. The company reduces its exposure by controlling the cash flows and holding cash in foreign currencies in order to mitigate this exposure.

Key performance indicators

The entity's key performance indicators are considered to be as follows:

1. Turnover - £10,140,780 (2015: £11,306,383)
2. Operating profit/loss - £1,372,390 (2015: £1,925,333)

This report was approved by the board of directors on **- 8 AUG 2017** and signed on behalf of the board by:



M Nielsen
Director

M2 Entertainment Limited

Director's Report

Year ended 31 December 2016

The director presents his report and the financial statements of the company for the year ended 31 December 2016.

Director

The director who served the company during the year was as follows:

M Nielsen

Dividends

Particulars of recommended dividends are detailed in note 9 to the financial statements.

Disclosure of information in the strategic report

A strategic report is included in these accounts in accordance with Section 414C(11) of the Companies Act 2006. The Strategic report includes a review of the business, the development and performance of the business during the year, the financial position at the reporting date and the principle risks and uncertainties to which the business is exposed.

Director's responsibilities statement

The director is responsible for preparing the strategic report, director's report and the financial statements in accordance with applicable law and regulations.

Company law requires the director to prepare financial statements for each financial year. Under that law the director has elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the director must not approve the financial statements unless he is satisfied that they give a true and fair view of the state of affairs of the company and the profit or loss of the company for that period.

In preparing these financial statements, the director is required to:

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

The director is 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. He is 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.

M2 Entertainment Limited

Director's Report *(continued)*

Year ended 31 December 2016

Auditor

Each of the persons who is a director at the date of approval of this report confirms that:

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

This report was approved by the board of directors on 8 AUG 2017 and signed on behalf of the board by:



M Nielsen
Director

M2 Entertainment Limited

Independent Auditor's Report to the Members of M2 Entertainment Limited

Year ended 31 December 2016

We have audited the financial statements of M2 Entertainment Limited for the year ended 31 December 2016 which comprise the statement of income and retained earnings, statement of financial position and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland".

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

Respective responsibilities of director and auditor

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

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2016 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the strategic report and the director's report for the financial year for which the financial statements are prepared is consistent with the financial statements.

M2 Entertainment Limited

Independent Auditor's Report to the Members of M2 Entertainment Limited *(continued)*

Year ended 31 December 2016

Matters on which we are required to report by exception

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

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



SIMON ROBINSON (Senior Statutory Auditor)

For and on behalf of
Shipleys LLP
Chartered accountant & statutory auditor
10 Orange Street
Haymarket
London
WC2H 7DQ

17 AUG 2017

M2 Entertainment Limited

Statement of Income and Retained Earnings

Year ended 31 December 2016

	Note	2016 £	2015 £
Turnover	4	10,140,780	11,306,383
Cost of sales		7,908,656	8,489,917
Gross profit		<u>2,232,124</u>	<u>2,816,466</u>
Administrative expenses		859,734	891,133
Operating profit	5	1,372,390	1,925,333
Other interest receivable and similar income		25,086	8,162
Interest payable and similar expenses		452	—
Profit before taxation		<u>1,397,024</u>	<u>1,933,495</u>
Tax on profit	8	(140,820)	312,946
Profit for the financial year and total comprehensive income		<u>1,537,844</u>	<u>1,620,549</u>
Dividends paid and payable	9	(1,000,000)	(350,000)
Retained earnings at the start of the year		2,152,836	882,287
Retained earnings at the end of the year		<u>2,690,680</u>	<u>2,152,836</u>

All the activities of the company are from continuing operations.

The notes on pages 9 to 15 form part of these financial statements.

M2 Entertainment Limited

Statement of Financial Position

31 December 2016

	Note	2016 £	2015 £
Fixed assets			
Investments	12	713	613
Current assets			
Work in progress	13	570,494	2,283,674
Debtors	14	3,817,178	3,374,517
Cash at bank and in hand		73,124	39,240
		<u>4,460,796</u>	<u>5,697,431</u>
Creditors: amounts falling due within one year	15	<u>1,770,729</u>	<u>3,545,108</u>
Net current assets		<u>2,690,067</u>	<u>2,152,323</u>
Total assets less current liabilities		<u>2,690,780</u>	<u>2,152,936</u>
Net assets		<u>2,690,780</u>	<u>2,152,936</u>
Capital and reserves			
Called up share capital	16	100	100
Profit and loss account	17	<u>2,690,680</u>	<u>2,152,836</u>
Members funds		<u>2,690,780</u>	<u>2,152,936</u>

These financial statements were approved by the board of directors and authorised for issue on ~~8 AUG 2017~~, and are signed on behalf of the board by:



M Nielsen
Director

Company registration number: 08495607

The notes on pages 9 to 16 form part of these financial statements.

M2 Entertainment Limited

Notes to the Financial Statements

Year ended 31 December 2016

1. General information

The company is a private company limited by shares, registered in England and Wales. The address of the registered office is 7 Berners Mews, London, W1T 3AN.

2. Statement of compliance

These financial statements have been prepared in compliance with FRS 102, 'The Financial Reporting Standard applicable in the UK and the Republic of Ireland'.

3. Accounting policies

Basis of preparation

The financial statements have been prepared on the historical cost basis, as modified by the revaluation of certain financial assets and liabilities and investment properties measured at fair value through profit or loss.

The financial statements are prepared in sterling, which is the functional currency of the entity.

Disclosure exemptions

The entity satisfies the criteria of being a qualifying entity as defined in FRS 102. Its financial statements are consolidated into the financial statements of M2 Film A/S which can be obtained on request. As such, advantage has been taken of the following disclosure exemptions available under paragraph 1.12 of FRS 102:

- (b) No cash flow statement has been presented for the company.
- (c) Disclosures in respect of financial instruments have not been presented.
- (d) Disclosures in respect of share-based payments have not been presented.
- (e) No disclosure has been given for the aggregate remuneration of key management personnel.

Consolidation

The company has taken advantage of the exemption from preparing consolidated financial statements contained in Section 400 of the Companies Act 2006 on the basis that it is a subsidiary undertaking of M2 Group A/S, a company incorporated in Denmark, and is included in the consolidated financial statements of that company.

Judgements and key sources of estimation uncertainty

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported. These estimates and judgements are continually reviewed and are based on experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

M2 Entertainment Limited

Notes to the Financial Statements *(continued)*

Year ended 31 December 2016

3. Accounting policies *(continued)*

Revenue recognition

Turnover is measured at the fair value of the consideration received or receivable and represents amounts receivable for work done in the year in respect of long-term contracts and contracts for on-going services, including estimates of amounts not invoiced. The value of work done in respect of long-term contracts and contracts for on-going services is determined by reference to the stage of completion. All amounts recognised as turnover are stated net of discounts and of Value Added Tax.

Revenue from the rendering of services is measured by reference to the stage of completion of the service transaction at the end of the reporting period provided that the outcome can be reliably estimated. When the outcome cannot be reliably estimated, revenue is recognised only to the extent that expenses recognised are recoverable.

Income tax

The taxation expense represents the aggregate amount of current and deferred tax recognised in the reporting period. Tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, tax is recognised in other comprehensive income or directly in equity, respectively.

Current tax is recognised on taxable profit for the current and past periods. Current tax is measured at the amounts of tax expected to pay or recover using the tax rates and laws that have been enacted or substantively enacted at the reporting date.

Deferred tax is recognised in respect of all timing differences at the reporting date. Unrelieved tax losses and other deferred tax assets are recognised to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits. Deferred tax is measured using the tax rates and laws that have been enacted or substantively enacted by the reporting date that are expected to apply to the reversal of the timing difference.

Foreign currencies

Foreign currency transactions are initially recorded in the functional currency, by applying the spot exchange rate as at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the exchange rate ruling at the reporting date, with any gains or losses being taken to the profit and loss account.

Investments

Fixed asset investments are stated at cost less provision for diminution in value.

Stock and work in progress

Work in progress shown in the accounts represents the value of television and film rights acquired for the purpose of future resale. Work in progress is valued at the lower of cost and net realisable value.

Financial instruments

A financial asset or a financial liability is recognised only when the company becomes a party to the contractual provisions of the instrument.

M2 Entertainment Limited

Notes to the Financial Statements *(continued)*

Year ended 31 December 2016

3. Accounting policies *(continued)*

Financial instruments *(continued)*

Basic financial instruments are initially recognised at the transaction price, unless the arrangement constitutes a financing transaction, where it is recognised at the present value of the future payments discounted at a market rate of interest for a similar debt instrument.

Debt instruments are subsequently measured at amortised cost.

Where investments in non-convertible preference shares and non-puttable ordinary shares or preference shares are publicly traded or their fair value can otherwise be measured reliably, the investment is subsequently measured at fair value with changes in fair value recognised in profit or loss. All other such investments are subsequently measured at cost less impairment.

Other financial instruments, including derivatives, are initially recognised at fair value, unless payment for an asset is deferred beyond normal business terms or financed at a rate of interest that is not a market rate, in which case the asset is measured at the present value of the future payments discounted at a market rate of interest for a similar debt instrument.

Other financial instruments are subsequently measured at fair value, with any changes recognised in profit or loss, with the exception of hedging instruments in a designated hedging relationship.

Financial assets that are measured at cost or amortised cost are reviewed for objective evidence of impairment at the end of each reporting date. If there is objective evidence of impairment, an impairment loss is recognised in profit or loss immediately.

For all equity instruments regardless of significance, and other financial assets that are individually significant, these are assessed individually for impairment. Other financial assets are either assessed individually or grouped on the basis of similar credit risk characteristics.

Any reversals of impairment are recognised in profit or loss immediately, to the extent that the reversal does not result in a carrying amount of the financial asset that exceeds what the carrying amount would have been had the impairment not previously been recognised.

4. Turnover

Turnover arises from:

	2016 £	2015 £
Rendering of services	<u>10,140,780</u>	<u>11,306,383</u>

The turnover is attributable to the one principal activity of the company. An analysis of turnover by the geographical markets that substantially differ from each other is given below:

	2016 £	2015 £
Overseas	<u>10,140,780</u>	<u>11,306,383</u>

M2 Entertainment Limited

Notes to the Financial Statements *(continued)*

Year ended 31 December 2016

5. Operating profit

Operating profit or loss is stated after (crediting)/charging:

	2016 £	2015 £
Foreign exchange differences	<u>(279,427)</u>	<u>204,947</u>

6. Auditor's remuneration

	2016 £	2015 £
Fees payable for the audit of the financial statements	<u>5,750</u>	<u>4,750</u>
Fees payable to the company's auditor and its associates for other services:		
Audit-related assurance services	10,545	–
Taxation advisory services	2,750	5,250
Other non-audit services	<u>3,500</u>	<u>3,500</u>
	<u>16,795</u>	<u>8,750</u>

7. Staff costs

The average number of persons employed by the company during the year, including the director, amounted to 5 (2015: 5).

The aggregate payroll costs incurred during the year, relating to the above, were:

	2016 £	2015 £
Wages and salaries	113,650	20,800
Social security costs	<u>2,287</u>	<u>–</u>
	<u>115,937</u>	<u>20,800</u>

All production staff and directors were contracted and paid through a fellow group company.

8. Tax on profit

Major components of tax (income)/expense

	2016 £	2015 £
Current tax:		
UK current tax expense	–	312,946
Adjustments in respect of prior periods	<u>(78,770)</u>	<u>–</u>
Total current tax	<u>(78,770)</u>	<u>312,946</u>
Deferred tax:		
Origination and reversal of timing differences	<u>(62,050)</u>	<u>–</u>
Tax on profit	<u>(140,820)</u>	<u>312,946</u>

M2 Entertainment Limited

Notes to the Financial Statements *(continued)*

Year ended 31 December 2016

8. Tax on profit *(continued)*

Reconciliation of tax (income)/expense

The tax assessed on the profit on ordinary activities for the year is lower than (2015: lower than) the standard rate of corporation tax in the UK of 20% (2015: 20.25%).

	2016 £	2015 £
Profit on ordinary activities before taxation	1,397,024	1,933,495
Profit on ordinary activities by rate of tax	279,405	391,533
Adjustment to tax charge in respect of prior periods	(78,770)	–
Unused tax losses	(62,050)	–
Group relief	(279,405)	(78,587)
Tax on profit	<u>(140,820)</u>	<u>312,946</u>

9. Dividends

	2016 £	2015 £
Dividends paid during the year (excluding those for which a liability existed at the end of the prior year)	<u>1,000,000</u>	<u>350,000</u>

10. Investments

	Shares in group undertakings £
Cost	
At 1 January 2016	613
Additions	100
At 31 December 2016	<u>713</u>
Impairment	
At 1 Jan 2016 and 31 Dec 2016	<u>–</u>
Carrying amount	
At 31 December 2016	<u>713</u>
At 31 December 2015	<u>613</u>

Subsidiaries, associates and other investments

M2 Entertainment Limited

Notes to the Financial Statements *(continued)*

Year ended 31 December 2016

10. Investments *(continued)*

The company owns 100% of the Ordinary share capital of the following subsidiary undertakings:

LKT M2 Entertainment Ltd - Aggregate Capital & Reserves £1 / Result for the year £nil

LFP M2 Entertainment Ltd - Aggregate Capital & Reserves £1 / Result for the year £nil

FRD M2 Entertainment Ltd - Aggregate Capital & Reserves £8,637 / Result for the year £nil

2D M2 Entertainment Ltd - Aggregate Capital & Reserves £174 / Result for the year £nil

MM Music and Entertainment Ltd - Aggregate Capital & Reserves £(9,522) / Result for the year £(14,493)

MM Talents Ltd - Aggregate Capital & Reserves £(1,500,944) / Result for the year £(1,112,960)

All of the above are companies registered in the United Kingdom.

The company also owns the equity of MM Talents Inc, an entity registered during the year in the USA. This subsidiary has yet to file its first period accounts and as such no results are reported.

11. Work in progress

	2016 £	2015 £
Work in progress	<u>570,494</u>	<u>2,283,674</u>

12. Debtors

	2016 £	2015 £
Trade debtors	1,345,751	2,034,948
Amounts owed by group undertakings	2,076,330	758,713
Prepayments and accrued income	252,090	148,113
Other debtors	<u>143,007</u>	<u>432,743</u>
	<u>3,817,178</u>	<u>3,374,517</u>

13. Creditors: amounts falling due within one year

	2016 £	2015 £
Trade creditors	60,712	10,987
Amounts owed to group undertakings	1,045,388	1,933,993
Accruals and deferred income	492,503	1,287,182
Corporation tax	<u>172,126</u>	<u>312,946</u>
	<u>1,770,729</u>	<u>3,545,108</u>

M2 Entertainment Limited

Notes to the Financial Statements *(continued)*

Year ended 31 December 2016

14. Called up share capital

Issued, called up and fully paid

	2016		2015	
	No.	£	No.	£
Ordinary shares of £1 each	<u>100</u>	<u>100</u>	<u>100</u>	<u>100</u>

15. Reserves

Profit and loss account - This reserve records retained earnings and accumulated losses.

16. Related party transactions

The company is a majority (95%) owned subsidiary of M2 Group A/S and the results of the company and its subsidiaries are consolidated within the group financial statements of M2 Group A/S. The registered office of M2 Group A/S is Filmbyen 23, 4., 8000 Aarhus C, Denmark.

The company has taken advantage of exemptions available in FRS102 whereby disclosures of transactions and balances with wholly owned subsidiaries are not required to be disclosed. Disclosure is also not required where transactions and balances are conducted at normal market rates. In view of this, the following related party balances are required to be made as not conducted at market rates:

2D M2 Entertainment Ltd (100% subsidiary) - short term interest free loan creditor £(137,706) FRD
M2 Entertainment Ltd (100% subsidiary) - short term interest free loan creditor £(494,857) MM
Music & Entertainment Ltd (100% subsidiary) - short term interest free debtor £15,530
LKT M2 Entertainment Ltd (100% subsidiary) - short term interest free creditor £(539,436)
LFP M2 Entertainment Ltd (100% subsidiary) - short term interest free debtor £266,398

17. Controlling party

The immediate and ultimate parent company is M2 Group A/S, a company registered in Denmark. The ultimate controlling party is M Nielsen by virtue of his shareholding in M2 Group A/S.