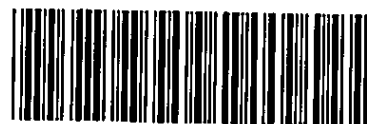


AARDMAN HOLDINGS LIMITED
REPORT AND CONSOLIDATED ACCOUNTS
31 DECEMBER 2006

Company Registration Number 2672880

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AARDMAN HOLDINGS LIMITED
INDEX TO THE CONSOLIDATED ACCOUNTS
YEAR ENDED 31 DECEMBER 2006

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AARDMAN HOLDINGS LIMITED

OFFICERS AND PROFESSIONAL ADVISERS

Directors	D A Sproxton P D F Lord
Company Secretary	D A Sproxton
Registered Office	Gas Ferry Road Bristol BS1 6UN
Auditors	Smith & Williamson Solomon Hare Audit LLP Chartered Accountants Registered Auditors Oakfield House Oakfield Grove Clifton Bristol BS8 2BN
Bankers	Coutts & Co Media Banking 440 Strand London WC2R 0QS

AARDMAN HOLDINGS LIMITED

DIRECTORS' REPORT

YEAR ENDED 31 DECEMBER 2006

The directors have pleasure in presenting their report and the consolidated accounts of the group for the year ended 31 December 2006

PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

The principal activity of the company during the year was that of controlling and providing management services to all of its subsidiaries, and of the group during the year was that of film producers

The consolidated results for the year returned a consolidated pre-tax profit of £5,877,302 (2005 £6,621,430)

A significant amount of this (£4,276,276) is due to an exceptional item relating to previously unrecognised inter-company fees coming through the profit and loss account for the production of "Tortoise and the Hare", whose costs have been written off and income recognised in the year. For a fuller explanation, please refer to the Directors Report included in the accounts of Aardman Tortoise and the Hare Limited

The group earned fees in relation to the film "Flushed Away", produced with Dreamworks, which was released during the year. Feature income also included distribution income relating to the previous year's release, "Wallace & Gromit: Curse of the Wererabbit"

During the year, the group mutually agreed with Dreamworks to end the multi-picture agreement, without the requirement to deliver a further two films. The group has subsequently established a new relationship with another major US studio and has a number of Feature projects in development

A large number of major Broadcast productions were in production during the year, which included "Chop Socky Chooks", "Shaun the Sheep", "Creature Comforts USA" and further "Angry Kid" episodes. The majority of these will be delivered and aired in 2007

Commercials' business remained consistent with the previous year overall, with the UK picking up significantly. Income derived from CGI animation overtook stop-frame in this division, reflecting the company's growing expertise in this technique

Commissions through the Licensing division remained steady and the group set-up a new International Sales division in the third quarter in order to exploit primarily TV, DVD and mobile income streams for both our own catalogue and third party product Worldwide

Distribution income for the three original Wallace and Gromit short films continued to be strong, recognised through Wallace and Gromit Limited, with commissions paid to Aardman Animations Limited

RESULTS AND DIVIDENDS

The trading results of the group for the year, and the group's and company's financial position at the end of the year are shown in the attached accounts

AARDMAN HOLDINGS LIMITED

DIRECTORS' REPORT *(continued)*

YEAR ENDED 31 DECEMBER 2006

RESULTS AND DIVIDENDS *(continued)*

The directors have recommended the following dividends

	2006 £	2005 £
Dividends paid on ordinary shares	<u>72,659</u>	<u>260,000</u>

FINANCIAL RISK MANAGEMENT

The main financial risk the company faces is the movement in exchange rates, particularly the dollar-sterling rate. With many contracts denominated in dollars, although some forward contracts are in place, the majority of future dollar receipts are unhedged.

KEY PERFORMANCE INDICATORS

The average gross profit margin for Commercials was 40% for the year, compared to 45% in 2005. This is partly due to an increasingly competitive market, but also due to a change in internal accounting and recharges of resources.

In Broadcast productions, there is generally a provision for a production fee of around 10% of the budget. This is generally recognised at the end of the production, or earlier if ultimate revenue is guaranteed, under the requirements of UITF 40.

Commissions for Licensing and International Sales are generally at 30% of gross revenue where exploiting directly, and up to 10% override commission if exploiting via an agent.

With core staff of over 140, employee turnover remains low, with large variations in freelance staffing levels depending on how many projects are in production.

THE DIRECTORS

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

D A Sproxton
P D F Lord

DIRECTORS' RESPONSIBILITIES

The directors are responsible for preparing the accounts in accordance with applicable law and United Kingdom Generally Accepted Accounting Practice.

Company law requires the directors to prepare accounts for each financial year which give a true and fair view of the state of affairs of the group and the company at the end of the year and of the profit or loss for the year then ended.

In preparing those accounts, the directors are required to select suitable accounting policies, as described on pages 12 to 14, and then apply them on a consistent basis, making judgements and estimates that are prudent and reasonable. The directors must also prepare the accounts on the going concern basis unless it is inappropriate to presume that the group will continue in business.

AARDMAN HOLDINGS LIMITED

DIRECTORS' REPORT *(continued)*

YEAR ENDED 31 DECEMBER 2006

DIRECTORS' RESPONSIBILITIES *(continued)*

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the group and to enable them to ensure that the accounts comply with the Companies Act 1985. The directors are also responsible for safeguarding the assets of the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are also required to prepare the accounts on the going concern basis unless it is inappropriate to presume that the company will continue in business.

In so far as the directors are aware there is no relevant audit information of which the group's auditors are unaware and the directors have taken all steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the auditors are aware of that information.

EMPLOYEES

The directors acknowledge the importance of good communications and relations with their employees, and believe that they should be aware of matters which affect the group which employs them. Employees are provided with regular information by various means and are represented at discussions concerning their welfare.

DONATIONS

During the year the group made the following contributions

	2006	2005
	£	£
Charitable	<u>10,031</u>	<u>18,179</u>

AUDITORS

On 2 April 2007 Solomon Hare Audit LLP changed its name to Smith & Williamson Solomon Hare Audit LLP.

The company has passed an elective resolution to dispense with the need for reappointing auditors. Smith & Williamson Solomon Hare Audit LLP have expressed their willingness to continue in office.

Signed on behalf of the directors



D A Sproxton
Director

Date 3 August 2007

AARDMAN HOLDINGS LIMITED

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS

YEAR ENDED 31 DECEMBER 2006

We have audited the group and parent company accounts of Aardman Holdings Limited for the year ended 31 December 2006 which comprise the consolidated profit and loss account, the consolidated and company balance sheets, the consolidated cash flow statement and the related notes 1 to 28. These accounts have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with Section 235 of the Companies Act 1985. 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 auditors' 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 THE DIRECTORS AND THE AUDITORS

The directors' responsibilities for preparing the Annual Report and the accounts in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the accounts in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the accounts give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We report to you whether in our opinion the information given in the Directors' Report is consistent with the accounts. We also report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if the information specified by law regarding directors' remuneration and transactions with the company is not disclosed.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

BASIS OF AUDIT OPINION

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the accounts, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the accounts are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the accounts.

AARDMAN HOLDINGS LIMITED

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS *(continued)*

YEAR ENDED 31 DECEMBER 2006

OPINION

In our opinion

- the accounts give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the group's and parent company's affairs as at 31 December 2006 and of the group's profit for the year then ended,
- the accounts have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the Directors' Report is consistent with the accounts

Smith & Williamson Solomon Hare Audit LLP

SMITH & WILLIAMSON SOLOMON HARE AUDIT LLP

Chartered Accountants

Registered Auditors

Bristol

Date 3 August 2007

AARDMAN HOLDINGS LIMITED
CONSOLIDATED PROFIT AND LOSS ACCOUNT
YEAR ENDED 31 DECEMBER 2006

	Note	2006 £	2005 £
TURNOVER	2	24,950,399	45,987,837
Cost of sales		(16,023,033)	(34,434,410)
GROSS PROFIT		8,927,366	11,553,427
Distribution costs		(48,294)	(38,286)
Administrative expenses		(9,158,771)	(6,986,528)
Other operating income	3	5,712,401	1,852,747
OPERATING PROFIT	4	5,432,702	6,381,360
Interest receivable	7	479,255	245,722
Interest payable	8	(34,655)	(5,652)
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		5,877,302	6,621,430
Tax on profit on ordinary activities	9	(903,409)	(1,277,560)
PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION		4,973,893	5,343,870
Minority interests		(66,426)	(110,802)
RETAINED PROFIT FOR THE FINANCIAL YEAR		4,907,467	5,233,068

There are no recognised gains or losses for the year other than the profit shown above

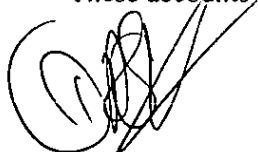
All of the activities of the group are classed as continuing

The notes on pages 12 to 29 form part of these accounts.

AARDMAN HOLDINGS LIMITED
CONSOLIDATED BALANCE SHEET
YEAR ENDED 31 DECEMBER 2006

		2006		2005	
	Note	£	£	£	£
FIXED ASSETS					
Intangible assets	11		900,000		1,050,000
Tangible assets	12		7,362,230		6,432,870
			<u>8,262,230</u>		<u>7,482,870</u>
CURRENT ASSETS					
Stocks	15	9,964,791		34,579,347	
Debtors	16	4,409,467		4,798,343	
Cash at bank and in hand		8,695,667		7,949,554	
		<u>23,069,925</u>		<u>47,327,244</u>	
CREDITORS: Amounts falling due within one year	17	(12,835,133)		(39,166,731)	
NET CURRENT ASSETS			<u>10,234,792</u>		<u>8,160,513</u>
TOTAL ASSETS LESS CURRENT LIABILITIES			<u>18,497,022</u>		<u>15,643,383</u>
CREDITORS: Amounts falling due after more than one year	18		(45,603)		-
			<u>18,451,419</u>		<u>15,643,383</u>
PROVISIONS FOR LIABILITIES AND CHARGES					
Deferred taxation	19		(2,218,560)		(4,311,758)
NET ASSETS			<u>16,232,859</u>		<u>11,331,625</u>
CAPITAL AND RESERVES					
Called-up share capital	22		117,500		117,500
Share premium account	23		513,847		513,847
Profit and loss account	23		15,191,565		10,356,757
EQUITY SHAREHOLDERS' FUNDS	25		15,822,912		10,988,104
Minority interests			409,947		343,521
			<u>16,232,859</u>		<u>11,331,625</u>

These accounts were approved by the directors on 3 August 2007 and are signed on their behalf by



D A Sproxton
Director

The notes on pages 12 to 29 form part of these accounts.

AARDMAN HOLDINGS LIMITED**COMPANY BALANCE SHEET****31 DECEMBER 2006**

	Note	2006	2005
		£	£
FIXED ASSETS			
Tangible assets	13	3,881,344	3,789,557
Investments	14	76,283	76,285
		<u>3,957,627</u>	<u>3,865,842</u>
CURRENT ASSETS			
Debtors – due within one year	16	166,989	94,429
Cash at bank and in hand		<u>2,875,340</u>	<u>3,090,835</u>
		3,042,329	3,185,264
CREDITORS. Amounts falling due within one year	17	<u>(342,206)</u>	<u>(283,785)</u>
NET CURRENT ASSETS		<u>2,700,123</u>	<u>2,901,479</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>6,657,750</u>	<u>6,767,321</u>
PROVISIONS FOR LIABILITIES AND CHARGES			
Deferred taxation	19	<u>(63,707)</u>	<u>(58,063)</u>
NET ASSETS		<u>6,594,043</u>	<u>6,709,258</u>
CAPITAL AND RESERVES			
Called-up equity share capital	22	117,500	117,500
Share premium account	23	513,847	513,847
Profit and loss account	24	<u>5,962,696</u>	<u>6,077,911</u>
EQUITY SHAREHOLDERS' FUNDS	25	<u>6,594,043</u>	<u>6,709,258</u>

These accounts were approved by the directors on 3 August 2007 and are signed on their behalf by



D A Sproxton
Director

The notes on pages 12 to 29 form part of these accounts.

AARDMAN HOLDINGS LIMITED
CONSOLIDATED CASH FLOW STATEMENT
YEAR ENDED 31 DECEMBER 2006

	2006		2005	
	£	£	£	£
NET CASH INFLOW FROM OPERATING ACTIVITIES		3,694,730		12,853,292
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE				
Interest received	478,770		245,722	
Interest paid	<u>(9,813)</u>		<u>(5,652)</u>	
NET CASH INFLOW FROM RETURNS ON INVESTMENTS AND SERVICING OF FINANCE		468,957		240,070
TAXATION		(1,743,732)		(675,578)
CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT				
Payments to acquire tangible fixed assets	(1,515,053)		(412,049)	
Receipts from sale of fixed assets	<u>5,075</u>		<u>4,927</u>	
NET CASH OUTFLOW FROM CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT		(1,509,978)		(407,122)
EQUITY DIVIDENDS PAID		<u>(72,659)</u>		<u>(260,000)</u>
CASH INFLOW BEFORE MANAGEMENT OF LIQUID RESOURCES AND FINANCING		837,318		11,750,662
MANAGEMENT OF LIQUID RESOURCES				
Movement on short term deposits		300,000		5,052,009
FINANCING				
Repayment of long term bank loans	-		(12,923,691)	
Capital element of finance lease payments	<u>(91,205)</u>		<u>-</u>	
NET CASH OUTFLOW FROM FINANCING		<u>(91,205)</u>		<u>(12,923,691)</u>
INCREASE IN CASH		<u>1,046,113</u>		<u>3,878,980</u>

The notes on pages 12 to 29 form part of these accounts.

AARDMAN HOLDINGS LIMITED

CONSOLIDATED CASH FLOW STATEMENT *(continued)*

YEAR ENDED 31 DECEMBER 2006

**RECONCILIATION OF OPERATING PROFIT TO
NET CASH INFLOW FROM OPERATING ACTIVITIES**

	2006 £	2005 £
Operating profit	5,432,702	6,381,360
Depreciation	857,928	623,612
Amortisation	150,000	150,000
(Profit)/loss on disposal of fixed assets	(3,695)	4,306
Decrease in stocks	24,614,556	16,090,736
Decrease/(increase) in debtors	388,876	(2,290,670)
Decrease in creditors	(27,745,637)	(8,106,052)
Net cash inflow from operating activities	<u>3,694,730</u>	<u>12,853,292</u>

RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET FUNDS

	2006 £	2005 £
Increase in cash in the year	1,046,113	3,878,980
Cash inflow from increase in lease financing	91,205	-
Net cash outflow from decreases in debt	-	12,923,691
Net cash inflow from liquid resources	(300,000)	(5,052,009)
Movement in net funds arising from cash flows	<u>837,318</u>	<u>11,750,662</u>
New finance leases	(273,615)	-
Movement in net funds	<u>563,703</u>	<u>11,750,662</u>
Net funds/(debt) at 1 January	<u>7,949,554</u>	<u>(3,801,108)</u>
Net funds at 31 December	<u>8,513,257</u>	<u>7,949,554</u>

ANALYSIS OF CHANGES IN NET FUNDS

	At 31 December 2005 £	Cash flows £	Non-cash movements £	At 31 December 2006 £
Net Cash:				
Cash in hand and at bank	<u>7,649,554</u>	<u>1,046,113</u>	<u>-</u>	<u>8,695,667</u>
Liquid resources:				
Short term deposits	300,000	(300,000)	-	-
Debt.				
Finance leases	-	91,205	(273,615)	(182,410)
Net funds	<u>7,949,554</u>	<u>837,318</u>	<u>(273,615)</u>	<u>8,513,257</u>

The notes on pages 12 to 29 form part of these accounts.

AARDMAN HOLDINGS LIMITED
NOTES TO THE ACCOUNTS
YEAR ENDED 31 DECEMBER 2006

1. ACCOUNTING POLICIES

Basis of accounting

The accounts have been prepared under the historical cost convention, and in accordance with applicable accounting standards

Basis of consolidation

The consolidated accounts incorporate the results of the company and all of its subsidiary undertakings as at 31 December 2006 using acquisition accounting. The company has taken advantage of the exemption allowed under section 230 of the Companies Act 1985 and has not presented its own profit and loss account in these accounts. The loss after taxation for the year dealt with in the accounts of the parent company was £42,556 (2005 – profit of £70,015)

Turnover

The turnover shown in the profit and loss account represents amounts generated from film production and related activities, exclusive of value added tax

Advances received during the production of feature films, to fund the cost of production, are treated as deferred income, and are released to turnover over the period of recoupment, as defined in the film agreement

Goodwill

Goodwill arising on an acquisition of a subsidiary undertaking is the difference between the fair value of the consideration paid and the fair value of the assets and liabilities acquired. It is capitalised and amortised through the profit and loss account over the directors' estimate of its useful economic life which ranges from 1 to 5 years. Impairment tests on the carrying value of goodwill are undertaken annually

Rights

Purchased rights to future revenues arising from the Wallace and Gromit brand are capitalised initially at cost. These costs are amortised so as to write them off over their useful economic life. The directors believe it is appropriate to amortise the costs on a straight line basis over ten years

Obligations under finance lease agreements

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 during the lease term. The corresponding lease commitments are shown as obligations to the lessor

Lease payments are treated as consisting of capital and interest elements, and the interest is charged to the profit and loss account in proportion to the remaining balance outstanding

Investments

Investments held as fixed assets are stated at cost less any provision for impairment in value

AARDMAN HOLDINGS LIMITED

NOTES TO THE ACCOUNTS

YEAR ENDED 31 DECEMBER 2006

1. ACCOUNTING POLICIES *(continued)*

Depreciation

Depreciation is calculated so as to write off the cost of an asset, less its estimated residual value, over the useful economic life of that asset as follows

Freehold Property	- 5% on cost
Improvements to Property	- Over remaining period of lease
Plant & Machinery	- 15% on reducing balance
Fixtures & Fittings	- 15% on reducing balance
Motor Vehicles	- 25% on reducing balance
Computer Equipment	- 33% on cost
Bicycles	- 100% on cost

Plant and machinery used in the production of feature films is depreciated over the life of the film production to result in a zero profit or loss on disposal

Work in progress

Work in progress is valued on the basis of direct costs, including interest, plus attributable overheads based on normal level of activity. Provision is made for any foreseeable losses where appropriate. No element of profit is included in the valuation of work in progress.

Work in progress on feature film production is valued as above during the production of the film. On completion of the film, work in progress is transferred to finished goods stock and is released to cost of sales over the period of recoupment, as defined in the film agreement, except where the conditions of UITF 40 are met and the costs and income can be matched against the work performed in accordance with the relevant contract. Provision is made where the directors anticipate that these costs will not be recouped in full.

Operating lease agreements

Rentals applicable to operating leases where substantially all of the benefits and risks of ownership remain with the lessor are charged against profits on a straight line basis over the period of the lease.

Deferred taxation

Deferred tax is provided in full in respect of taxation deferred by timing differences between the treatment of certain items for taxation and accounting purposes. The deferred tax balance has not been discounted. No amount has been provided for deferred tax assets.

Pension costs

The company operates a defined contribution pension scheme for the directors. The assets of the scheme are held separately from those of the company in an independently administered scheme. The annual contributions payable are charged to the profit and loss account.

Contributions to employees' personal pension schemes are charged to the profit and loss account in the year in which they become payable.

Commission receivable

Commission income is included on a receivable basis.

AARDMAN HOLDINGS LIMITED

NOTES TO THE ACCOUNTS

YEAR ENDED 31 DECEMBER 2006

1. ACCOUNTING POLICIES *(continued)*

Royalties receivable

Royalty income is included on a receivable basis calculated on distribution income and sales of merchandise arising during each accounting period as reported by licensees

Foreign currencies

Assets and liabilities denominated in foreign currencies are translated into sterling at the rates ruling at the balance sheet date, or where appropriate, the pre-contracted rate. Transactions in foreign currencies are translated into sterling at the rate of exchange ruling at the date of the transaction. Exchange differences are taken into account in arriving at the operating result or are charged to work in progress during the production of a film.

Derivative financial instruments and hedge accounting

The group uses forward exchange contracts which manage the currency risk associated with its financing of its underlying business activities. The group does not use derivative instruments for speculative purposes.

Fees received in advance

Where monies have been received in respect of commercials and broadcast productions in progress at the balance sheet date, such amounts are treated as deferred income and are recognised as turnover on contract completion or when the right to consideration is obtained in accordance with UITF 40.

2. TURNOVER

The turnover and profit before tax are attributable to the one principal activity of the group.

An analysis of turnover by geographical market is given below.

	2006 £	2005 £
United Kingdom	9,707,301	12,697,015
Europe	4,961,029	72,104
USA	9,570,448	32,287,909
Rest of the World	711,621	930,809
	<u>24,950,399</u>	<u>45,987,837</u>

AARDMAN HOLDINGS LIMITED**NOTES TO THE ACCOUNTS****YEAR ENDED 31 DECEMBER 2006****3 OTHER OPERATING INCOME**

	2006 £	2005 £
Rents receivable	-	800
Recognition of production fees	4,276,276	-
Commission receivable	412,375	1,212,253
Royalties receivable	416,829	290,713
Bike lease scheme income	8,157	10,534
Release of deferred income	586,915	-
Exchange gains	11,849	338,447
	<u>5,712,401</u>	<u>1,852,747</u>

As a result of the cessation of the Dreamworks multi-picture agreement all outstanding deferred income and work in progress relating to the film "Tortoise and the Hare" were released to the profit and loss account with the net balance of £586,915 being included in other operating income above

As a result of this, production fees of £4,276,276, which were previously eliminated on consolidation have been recognised in the profit and loss account, within other operating income above

4. OPERATING PROFIT

Operating profit is stated after charging/(crediting)

	2006 £	2005 £
Operating leases – land and buildings	170,084	63,000
Operating leases – other	120,720	163,216
(Profit)/loss on disposal of fixed assets	(3,695)	4,306
Royalties Payable	38,679	-
Depreciation	857,928	623,612
Amortisation	150,000	150,000
Auditors' remuneration		
- as auditors	27,950	29,125
- other services	46,778	38,817
Loss on foreign currency translation	<u>224,624</u>	<u>865</u>

In addition to the above is £54,512 (2005 - £257,050) in respect of land and buildings operating leases which have been charged to work in progress in the year

AARDMAN HOLDINGS LIMITED**NOTES TO THE ACCOUNTS****YEAR ENDED 31 DECEMBER 2006****5. PARTICULARS OF EMPLOYEES**

The average number of staff employed by the group during the financial year amounted to

	2006	2005
	No	No
Film production	231	137
Administration	58	58
	<u>289</u>	<u>195</u>

The aggregate payroll costs of the above were

	2006	2005
	£	£
Wages and salaries	8,792,778	6,735,432
Social security costs	945,951	729,414
Other pension costs	434,599	475,482
	<u>10,173,328</u>	<u>7,940,328</u>

6. DIRECTORS' EMOLUMENTS

The directors' aggregate emoluments in respect of qualifying services were

	2006	2005
	£	£
Aggregate emoluments	236,553	234,497
Value of company pension contributions to money purchase schemes	135,000	194,240
	<u>371,553</u>	<u>428,737</u>

Emoluments of the highest paid director

	2006	2005
	£	£
Aggregate emoluments	119,941	119,435
Value of company contributions to money purchase schemes	67,500	97,120
	<u>187,441</u>	<u>216,555</u>

The number of directors who are accruing benefits under group pension schemes were as follows

	2006	2005
	No	No
Money purchase schemes	<u>2</u>	<u>2</u>

AARDMAN HOLDINGS LIMITED
NOTES TO THE ACCOUNTS
YEAR ENDED 31 DECEMBER 2006

7. INTEREST RECEIVABLE

	2006 £	2005 £
Bank interest receivable	479,199	244,437
Other interest receivable	56	1,285
	<u>479,255</u>	<u>245,722</u>

In addition to the above, bank interest receivable of £m1 (2005 - £97,038) has been included in work in progress and cost of sales. This income relates directly to the production of a film.

8. INTEREST PAYABLE AND SIMILAR CHARGES

	2006 £	2005 £
Bank interest payable	8,822	4,960
Other interest payable	16,449	-
Other similar charges	9,384	692
	<u>34,655</u>	<u>5,652</u>

9. TAX ON PROFIT ON ORDINARY ACTIVITIES

	2006 £	£	2005 £	£
(a) Charge for the year				
Current taxation				
Corporation tax for the year	3,018,198		1,223,463	
Adjustment in respect of previous years	(12,630)		1,257	
Foreign tax	54,941		21,946	
Double tax relief	(54,941)		(21,946)	
Total current tax (note 9(b))	3,005,568		1,224,720	
Deferred taxation				
Movement in deferred tax provision (note 19)				
Capital allowances	(433,804)		61,325	
Other	(3,194,717)		(8,485)	
Losses	1,526,362		-	
	(2,102,159)		52,840	
Tax on ordinary activities	<u>903,409</u>		<u>1,277,560</u>	

AARDMAN HOLDINGS LIMITED**NOTES TO THE ACCOUNTS****YEAR ENDED 31 DECEMBER 2006****9. TAX ON PROFIT ON ORDINARY ACTIVITIES** *(continued)***(b) Factors affecting current tax charge**

The tax assessed on the profit on ordinary activities for the year is higher (2005 – lower) than the standard rate of corporation tax in the UK of 30% (2005 - 30%)

	2006	2005
	£	£
Profit on ordinary activities before taxation	<u>5,877,302</u>	<u>6,621,430</u>
Profit on ordinary activities multiplied by the standard rate of tax in the UK of 30%	1,763,191	1,986,429
Income not taxable	(1,291,844)	(750,130)
Depreciation for the period in excess of capital allowances	274,830	(84,785)
UITF 40 adjustment	26,780	26,780
Expenses not deductible for tax purposes	652,874	63,635
Film relief expense adjustment	-	400,796
Tax losses utilised	(1,526,362)	(437,374)
Other timing differences	3,180,443	29,112
Relief for chargeable gains	(57,000)	-
Small companies relief	(4,714)	(11,000)
Adjustments to tax charge in respect of previous periods	<u>(12,630)</u>	<u>1,257</u>
Total current tax (note 9(a))	<u>3,005,568</u>	<u>1,224,720</u>

10 DIVIDENDS

The company paid a dividend on ordinary shares of £72,659 (2005 - £260,000) in respect of the year

AARDMAN HOLDINGS LIMITED
NOTES TO THE ACCOUNTS
YEAR ENDED 31 DECEMBER 2006

11. INTANGIBLE FIXED ASSETS – GROUP

	W & G Rights £	Goodwill £	Total £
COST			
At 1 January 2006	1,500,000	10,017	1,510,017
Elimination of fully amortised goodwill	-	(10,017)	(10,017)
31 December 2006	<u>1,500,000</u>	<u>-</u>	<u>1,500,000</u>
AMORTISATION			
At 1 January 2006	450,000	10,017	460,017
Charge for the year	150,000	-	150,000
Elimination of fully amortised goodwill	-	(10,017)	(10,017)
At 31 December 2006	<u>600,000</u>	<u>-</u>	<u>600,000</u>
NET BOOK VALUE			
At 31 December 2006	<u>900,000</u>	<u>-</u>	<u>900,000</u>
At 31 December 2005	<u>1,050,000</u>	<u>-</u>	<u>1,050,000</u>

‘W&G Rights’ relates to the acquisition of third party rights to future revenues arising from the Wallace and Gromit brand

Negative goodwill of £429,643 arising on the acquisition of Aardman Animations Limited in 1992 has been fully amortised through the profit and loss account over its useful economic life of 5 years

Goodwill of £10,017 arising on the acquisition of Morph Limited during the year ended 31 December 2000 was written off in full to the profit and loss account during that year

AARDMAN HOLDINGS LIMITED

NOTES TO THE ACCOUNTS

YEAR ENDED 31 DECEMBER 2006

12. TANGIBLE FIXED ASSETS – GROUP

	Assets in the course of Construction £	Freehold Property £	Improvements to Property £	Plant and Machinery £	Fixtures and Fittings £	Motor Vehicles £	Computer Equipment £	Bicycles £	Total £
COST									
At 1 January 2006	17,500	4,412,429	607,830	6,660,570	582,264	116,675	1,717,038	11,365	14,125,671
Additions	155,155	-	10,504	1,247,784	18,009	-	347,628	9,588	1,788,668
Disposals	-	-	-	(4,500)	-	-	(5,200)	(9,205)	(18,905)
At 31 December 2006	172,655	4,412,429	618,334	7,903,854	600,273	116,675	2,059,466	11,748	15,895,434
DEPRECIATION									
At 1 January 2006	-	679,561	337,327	4,579,552	390,843	95,266	1,598,887	11,365	7,692,801
Charge for the year	-	53,571	70,252	499,114	31,414	5,352	188,637	9,588	857,928
On disposals	-	-	-	(3,120)	-	-	(5,200)	(9,205)	(17,525)
At 31 December 2006	-	733,132	407,579	5,075,546	422,257	100,618	1,782,324	11,748	8,533,204
NET BOOK VALUE									
At 31 December 2006	172,655	3,679,297	210,755	2,828,308	178,016	16,057	277,142	-	7,362,230
At 31 December 2005	17,500	3,732,868	270,503	2,081,018	191,421	21,409	118,151	-	6,432,870

Included in the net book value of plant and machinery above of £2,828,308 (2005 - £2,081,018) are assets held under finance lease of £253,093 (2005 - £nil) The depreciation charged to the accounts in the year in respect of such assets amounted to £20,521 (2005 - £nil)

AARDMAN HOLDINGS LIMITED**NOTES TO THE ACCOUNTS****YEAR ENDED 31 DECEMBER 2006****13. TANGIBLE FIXED ASSETS – COMPANY**

	Assets in the course of construction £	Improvements to Property £	Freehold Property £	Total £
COST				
At 1 January 2006	17,500	56,029	4,412,429	4,485,958
Additions	155,155	-	-	155,155
At 31 December 2006	<u>172,655</u>	<u>56,029</u>	<u>4,412,429</u>	<u>4,641,113</u>
DEPRECIATION				
At 1 January 2006	-	16,840	679,561	696,401
Charge for the year	-	9,797	53,571	63,368
At 31 December 2006	<u>-</u>	<u>26,637</u>	<u>733,132</u>	<u>759,769</u>
NET BOOK VALUE				
At 31 December 2006	<u>172,655</u>	<u>29,392</u>	<u>3,679,297</u>	<u>3,881,344</u>
At 31 December 2005	<u>17,500</u>	<u>39,189</u>	<u>3,732,868</u>	<u>3,789,577</u>

14. INVESTMENTS - COMPANY

	Unlisted Investments £
COST	
At 1 January 2006	76,285
Disposals	(2)
At 31 December 2006	<u>76,283</u>
PROVISION FOR DIMINUTION IN VALUE	
At 1 January and 31 December 2006	<u>-</u>
NET BOOK VALUE	
At 31 December 2006	<u>76,283</u>
At 31 December 2005	<u>76,285</u>

The company transferred its investment in Aardman Creature Comforts USA Limited to Aardman Animations Limited during the year

AARDMAN HOLDINGS LIMITED

NOTES TO THE ACCOUNTS

YEAR ENDED 31 DECEMBER 2006

14. INVESTMENTS – COMPANY *(continued)*

The company's investments in the ordinary share capital of the unlisted companies at the balance sheet date include the following

Company	Country of incorporation	Percentage Holding	Nature of Business
Aardman Animations Limited	England	100	Film Producers
Aardman Features Limited	England	100	Film Producers
Aardman Tortoise and the Hare Limited	England	100	Film Producers
Wallace and Gromit Limited	England	75	Film Producers
Anti Pesto Limited	England	100	Dormant
Aardman Equipment Limited	England	100	Dormant
Aardman Chicken Run Limited	England	66	Dormant
Aardman Trustees Limited	England	100	Dormant
Rex the Runt Limited	England	75	Dormant

The following companies are subsidiaries of Aardman Animations Limited

Company	Country of incorporation	Percentage Holding	Nature of Business
Morph Limited	England	100	Dormant
Aardman Creature Comforts USA Limited	England	100	Film Producers

In addition, the following company is a subsidiary of Aardman Creature Comforts USA Limited

Company	Country of incorporation	Percentage Holding	Nature of Business
Aardman Creature Comforts USA, Inc	United States	100	Film Producers

The results of all the above subsidiaries are included within these consolidated accounts. All subsidiaries have co-terminus year ends with the parent company.

AARDMAN HOLDINGS LIMITED**NOTES TO THE ACCOUNTS****YEAR ENDED 31 DECEMBER 2006****15 STOCKS**

	Group		Company	
	2006	2005	2006	2005
	£	£	£	£
Work in progress	9,964,791	24,838,250	-	-
Finished goods	-	9,741,097	-	-
	<u>9,964,791</u>	<u>34,579,347</u>	<u>-</u>	<u>-</u>

16. DEBTORS

Amounts receivable within one year

	Group		Company	
	2006	2005	2006	2005
	£	£	£	£
Trade debtors	1,298,794	2,558,519	-	-
Amounts owed by group undertakings	-	-	131,062	77,086
Other debtors	379,326	107,158	-	-
Prepayments and accrued income	1,301,416	1,972,162	12,778	13,652
Amounts recoverable on contracts	1,374,022	107,017	-	-
VAT recoverable	55,909	53,487	23,149	3,691
	<u>4,409,467</u>	<u>4,798,343</u>	<u>166,989</u>	<u>94,429</u>

17. CREDITORS: Amounts falling due within one year

	Group		Company	
	2006	2005	2006	2005
	£	£	£	£
Trade creditors	385,747	549,228	63,290	11,902
Corporation tax	2,206,728	953,853	8,143	9,500
Amounts owed to group undertakings	-	-	217,317	224,303
Other taxation and social security	365,493	419,263	18,386	10,151
Amounts due under finance lease agreements	136,807	-	-	-
Other creditors	89,391	111,594	-	-
Directors' current accounts	6,330	-	6,330	-
Accruals and deferred income	9,644,637	37,132,793	28,740	27,929
	<u>12,835,133</u>	<u>39,166,731</u>	<u>342,206</u>	<u>283,785</u>

AARDMAN HOLDINGS LIMITED
NOTES TO THE ACCOUNTS
YEAR ENDED 31 DECEMBER 2006

18. CREDITORS: Amounts falling due after more than one year

	Group		Company	
	2006	2005	2006	2005
	£	£	£	£
Amounts due under finance lease agreements	<u>45,603</u>	<u>-</u>	<u>-</u>	<u>-</u>

Obligations under finance lease agreements are due as follows

	Group		Company	
	2006	2005	2006	2005
	£	£	£	£
Within 1 year	136,807	-	-	-
Within 1 - 2 years	<u>45,603</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>182,410</u>	<u>-</u>	<u>-</u>	<u>-</u>

19. DEFERRED TAXATION

The movement in the deferred taxation provision during the year was

	Group		Company	
	2006	2005	2006	2005
	£	£	£	£
Provision brought forward	4,311,758	4,198,387	58,063	52,929
(Decrease)/increase in provision	(2,102,159)	52,840	5,644	5,134
Movement in advance corporation tax	<u>8,961</u>	<u>60,531</u>	<u>-</u>	<u>-</u>
Provision carried forward	<u>2,218,560</u>	<u>4,311,758</u>	<u>63,707</u>	<u>58,063</u>

The provision for deferred taxation consists of the tax effect of timing differences in respect of

	Group		Company	
	2006	2005	2006	2005
	£	£	£	£
Accelerated capital allowances	899,584	1,333,388	63,707	58,063
Tax losses available	-	(1,526,362)	-	-
Other timing differences	<u>1,318,976</u>	<u>4,513,693</u>	<u>-</u>	<u>-</u>
Less Advance Corporation Tax	<u>-</u>	<u>(8,961)</u>	<u>-</u>	<u>-</u>
	<u>2,218,560</u>	<u>4,311,758</u>	<u>63,707</u>	<u>58,063</u>

At the year end the group has an unprovided deferred tax asset in relation to accelerated capital allowances of £120 842 (2005 - £nil) within one of the subsidiary companies

AARDMAN HOLDINGS LIMITED

NOTES TO THE ACCOUNTS

YEAR ENDED 31 DECEMBER 2006

20. COMMITMENTS UNDER OPERATING LEASES

At 31 December 2006 the group and the company had annual commitments under non-cancellable operating leases as set out below

	Land & Buildings			
	Group		Company	
	2006	2005	2006	2005
	£	£	£	£
Operating leases which expire				
Within 2 to 5 years	<u>364,000</u>	<u>358,000</u>	<u>-</u>	<u>-</u>
	Other			
	Group		Company	
	2006	2005	2006	2005
	£	£	£	£
Operating leases which expire				
Within one year	11,160	116,793	-	-
Within 1 to 2 years	14,760	36,842	-	-
Within 2 to 5 years	-	14,760	-	-
	<u>25,920</u>	<u>168,395</u>	<u>-</u>	<u>-</u>

AARDMAN HOLDINGS LIMITED**NOTES TO THE ACCOUNTS****YEAR ENDED 31 DECEMBER 2006****21. RELATED PARTY TRANSACTIONS**

The following information is provided in accordance with Financial Reporting Standard No 8, Related Party Transactions, involving the company

Year ended 31 December 2006

Name of related party	Relationship	Type of transaction	Value of transaction £	Debtor/(creditor) at 31.12.06 £
Wallace & Gromit Ltd	Subsidiary	Settled balance	19,423	-
D Sproxton	Director	Undrawn dividend	6,330	(6,330)

Year ended 31 December 2005

Name of related party	Relationship	Type of transaction	Value of transaction £	Debtor/(creditor) at 31.12.05 £
P D F Lord	Director	Loan repayment	1,054	-
		Loan interest	41	-
Wallace & Gromit Ltd	Subsidiary	Loan repayment	420,000	19,423
		Loan interest	14,190	-

In addition to the above, the company paid pension contributions of £135,000 (2005 - £194,240) to the Aardman Holdings Limited Executive Pension Scheme D A Sproxton and P D F Lord are both Trustees and Beneficiaries of this scheme

The company is controlled by D A Sproxton and P D F Lord who are directors of the company

AARDMAN HOLDINGS LIMITED

NOTES TO THE ACCOUNTS

YEAR ENDED 31 DECEMBER 2006

21. RELATED PARTY TRANSACTIONS *(continued)*

The following information is provided in accordance with Financial Reporting Standard No 8, Related Party Transactions, involving the rest of the group

Year ended 31 December 2006

Name of related party	Relationship	Type of transaction	Value of transaction £	Debtor/ (creditor) at 31.12.06 £
Wallace & Gromit Ltd	Fellow subsidiary	Recharged expenses	53,480	53,480
Wallace & Gromit Ltd	Fellow subsidiary	Commissions payable	841,412	(348,025)
Wallace & Gromit Ltd	Fellow subsidiary	Group relief	2,611	2,611
Wallace & Gromit Ltd	Fellow subsidiary	Group relief	-	401,113

Year ended 31 December 2005

Name of related party	Relationship	Type of transaction	Value of transaction £	Debtor/ (creditor) at 31.12.05 £
Wallace & Gromit Ltd	Fellow subsidiary	Commissions receivable	687,183	347,467
		Group relief	-	414,046

During the year Aardman Animations Limited acted as guarantor for the 1998 Aardman Holdings Limited Approved Profit Sharing Scheme. At the year end £146,794 (2005 - £112,481) was secured by the company, and was the maximum amount secured during the year

22. SHARE CAPITAL

Authorised share capital

	2006 £	2005 £
10,000,000 Ordinary shares of £0.01 each	100,000	100,000
1,750,000 'A' Ordinary shares of £0.01 each	17,500	17,500
	<u>117,500</u>	<u>117,500</u>

Allotted, called up and fully paid

	2006		2005	
	No	£	No	£
Ordinary shares of £0.01 each	10,000,000	100,000	10,000,000	100,000
'A' Ordinary shares of £0.01 each	1,750,000	17,500	1,750,000	17,500
	<u>11,750,000</u>	<u>117,500</u>	<u>11,750,000</u>	<u>117,500</u>

The rights of each class of ordinary share rank *pari passu* in all respects with the exception that the 'A' ordinary shares will be subject to pre-emption rights upon the termination of the employment of the 'A' ordinary shareholders

AARDMAN HOLDINGS LIMITED
NOTES TO THE ACCOUNTS
YEAR ENDED 31 DECEMBER 2006

23. SHARE PREMIUM ACCOUNT

	Group		Company	
	2006	2005	2006	2005
	£	£	£	£
Balance brought forward and carried forward	<u>513,847</u>	<u>513,847</u>	<u>513,847</u>	<u>513,847</u>

24. PROFIT AND LOSS ACCOUNT

	Group		Company	
	2006	2005	2006	2005
	£	£	£	£
Balance brought forward	10,356,757	5,383,689	6,077,911	6,267,896
Retained profit for the financial year	4,907,467	5,233,068	(42,556)	70,015
Dividends paid	(72,659)	(260,000)	(72,659)	(260,000)
Balance carried forward	<u>15,191,565</u>	<u>10,356,757</u>	<u>5,962,696</u>	<u>6,077,911</u>

25. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	Group		Company	
	2006z	2005	2006	2005
	£	£	£	£
Retained profit for the financial year	4,907,467	5,233,068	(42,556)	70,015
Dividends paid	(72,659)	(260,000)	(72,659)	(260,000)
Net addition to funds	<u>4,834,808</u>	<u>4,973,068</u>	<u>(115,215)</u>	<u>(189,985)</u>
Opening shareholders' equity funds	<u>10,988,104</u>	<u>6,015,036</u>	<u>6,709,258</u>	<u>6,899,243</u>
Closing shareholders' equity funds	<u>15,822,912</u>	<u>10,988,104</u>	<u>6,594,043</u>	<u>6,709,258</u>

AARDMAN HOLDINGS LIMITED

NOTES TO THE ACCOUNTS

YEAR ENDED 31 DECEMBER 2006

26. APPROVED PROFIT SHARING SCHEME

On 18 December 1998 the company established the 1998 Aardman Holdings Limited Approved Profit Sharing Scheme ('the scheme') through the creation of a Trust Deed on that date. The purpose of the scheme is to enable directors and employees of companies within the group to hold shares and participate in the profits of the company. The contributions to the scheme are incurred by the employer company of the participating employees. The Trust acquired no shares in either the current or previous year. The beneficial interest in the 125,000 'A' Ordinary shares acquired in prior years was vested in employees of the group companies on acquisition by the trust.

27. DERIVATIVES AND FINANCIAL INSTRUMENTS

Currency exposure on future agreed sales is hedged through the use of forward exchange contracts. Gains and losses on instruments used for hedging are not recognised until the exposure that has been hedged is itself recognised. At the year end the group had forward contracts amounting to \$500,000 expiring on 31 January 2007, at a rate of \$1 7440 to £1. The fair value of these derivatives at 31 December 2006 is a liability of £31,595.

28. SALE AND LEASEBACK AGREEMENT

During the year the Aardman Animations, a subsidiary company, completed a sale and leaseback agreement in respect of a film entitled 'Wallace and Gromit: The Curse of the Were-rabbit'. Under the agreement, the company sold the master negative and rights of the film and agreed to lease it back over an initial fifteen year period ending on 28 August 2015. At the end of the primary period the company has the option to continue the lease into a secondary period at a peppercorn rent.

Funds received from these transactions are held in deposit accounts and comprise monies to provide for the full discharge of future leasing liabilities. The banks with which these sums are deposited have given guarantees in respect of the lease liabilities and any further payments by the company are considered remote.

The fee received has been recognised as income during the year. As the separate deposit account investment and the lease payment obligations do not meet the definitions of an asset and liability respectively, these have not been recognised in these accounts. Instead the details of the transaction have been disclosed by way of this note only. The directors consider that this accounting treatment follows best practice, whereby a series of transactions are linked together such that in substance, during the lease period, the company retains control of the underlying asset and enjoys substantially the same rights to its use as before the agreement.