

AARDMAN HOLDINGS LIMITED
REPORT AND CONSOLIDATED ACCOUNTS
31 DECEMBER 2008

Company Registration Number 2672880

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AARDMAN HOLDINGS LIMITED
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YEAR ENDED 31 DECEMBER 2008

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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

Nexia Smith & Williamson LLP
Chartered Accountants
Registered Auditors
Portwall Place
Portwall Lane
Bristol
BS1 6NA

Bankers

Coutts & Co
Media Banking
440 Strand
London
WC2R 0QS

AARDMAN HOLDINGS LIMITED

DIRECTORS' REPORT

YEAR ENDED 31 DECEMBER 2008

The directors have pleasure in presenting their report and the consolidated accounts of the group for the year ended 31 December 2008.

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, broadcast and commercial producers and distributors.

The consolidated results for the year returned a consolidated pre-tax profit of £1,061,408 (2007: pre-tax loss of £1,143,255).

Toward the end of the year, the second year in our Feature Film partnership with Sony Pictures (Columbia), we were given the go ahead to produce two feature films: 'Pirates!' and 'Arthur Christmas'. 'Pirates!' is a stop-frame project produced in the UK and 'Arthur Christmas' a CGI project produced partly in the UK and in collaboration with Sony Imageworks in the US. Both projects should be delivered in 2011.

The Features operating division also benefitted from a significant amount of income relating to a stage payment for the UK free TV licence for 'Wallace & Gromit: Curse of the Wererabbit'.

The major Broadcast productions delivered in the year were 'Chop Socky Chooks' and 'Wallace & Gromit in A Matter of Loaf & Death', the latter breaking Christmas Day record viewing figures on the BBC. The studio also started production on 'Shaun the Sheep series 2' and 'Timmy' (a spin-off of 'Shaun'); these shows will be delivered in 2009/10.

The Commercials business, once again, had a very good year, exceeding 2007 turnover and recording the second highest turnover in the last ten years, albeit at a slightly lower overall gross margin. Income derived from stop-frame animation picked up again during the year, marginally exceeding CGI animation income for the first time since 2005.

Commissions through the Licensing division remained very similar to the previous year, however they were significantly under budget having been adversely affected by the global financial and economic crisis in the latter part of the year. This in turn led to the slower than predicted recoupment of completed Broadcast projects, in particular 'Shaun the Sheep series 1'.

The International Sales division, in its second full year, roughly doubled commissions against the previous year, exceeded budget, and went some way to mitigating the shortfall in Licensing.

From 2009, the Licensing and International Sales divisions have been combined into 'Aardman Rights', creating a one-stop shop for the licensing of all forms of Aardman content across all media.

The Web/Online division, in its first full year, more than trebled its turnover against 2007 and made a positive contribution to the profit and loss account, roughly on budget.

Overheads rose in comparison to 2007, but included an element of redundancy costs as a result of a process that was concluded by the year-end. The overall ongoing salary savings of the redundancy process are significant and have had a material positive impact on budgets for the upcoming years.

Just before the end of the year, the new HQ building was completed and delivered, and previously displaced divisions have moved in and come together during 2009. The building was financed by a mixture of debt and cash.

AARDMAN HOLDINGS LIMITED

DIRECTORS' REPORT *(continued)*

YEAR ENDED 31 DECEMBER 2008

PRINCIPAL ACTIVITIES AND BUSINESS REVIEW *(continued)*

Distribution income for the three original Wallace & Gromit short films, recognised through Wallace & Gromit Limited, dropped significantly in comparison to 2007. For the two year period commencing June 2008, any generic/non-specific Wallace & Gromit income will go toward recouping 'A Matter of Loaf and Death' after commissions have been taken by Aardman Rights.

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.

The directors have recommended the following dividends:

	2008	2007
	£	£
Dividends paid on ordinary shares	<u>60,000</u>	<u>220,653</u>

FINANCIAL RISK MANAGEMENT

The main financial risk the group faces is the movement in exchange rates, particularly the dollar-sterling rate. Certain of the groups' contracts denominated in dollars were hedged at the year end as disclosed in note 29 of the accounts.

KEY PERFORMANCE INDICATORS

The average gross profit margin for Commercials was 40% for the year, compared to 45% in 2007. This is mainly due to a number of large jobs pulling the average margin up in the previous year. Partially completed projects at the year-end are accounted for under the requirements of UITF 40.

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 around 120, 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.

AARDMAN HOLDINGS LIMITED

DIRECTORS' REPORT *(continued)*

YEAR ENDED 31 DECEMBER 2008

DIRECTORS' RESPONSIBILITIES *(continued)*

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.

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.

In so far as each of the directors is 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.

The company recognises its obligations towards less able people and endeavours to provide as much employment as the demands of the group's operations and the abilities of the less able persons allow. Applications for employment from less able people are studied with care, and if existing employees became less able, every effort is made to find appropriate employment within the group. Opportunities are offered to less able employees to develop their knowledge and skills and undertake greater responsibility.

DONATIONS

During the year the group made the following contributions:

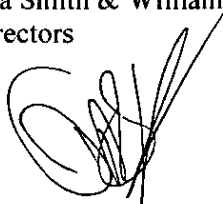
	2008	2007
	£	£
Charitable	<u>15,155</u>	<u>19,183</u>

AUDITORS

The current auditors, Nexia Smith & Williamson, are deemed to be reappointed as auditors.

Signed on behalf of the directors

D A Sproxton
Director
Date: 31 July 2009



AARDMAN HOLDINGS LIMITED

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS

YEAR ENDED 31 DECEMBER 2008

We have audited the group and parent company accounts of Aardman Holdings Limited for the year ended 31 December 2008 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 30. 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 DIRECTORS AND 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 2008

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 2008 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.

Nexia Smith & Williamson LLP

NEXIA SMITH & WILLIAMSON LLP

Chartered Accountants

Registered Auditors

Bristol

Date: 31 July 2009

AARDMAN HOLDINGS LIMITED
CONSOLIDATED PROFIT AND LOSS ACCOUNT
YEAR ENDED 31 DECEMBER 2008

	Note	2008 £	2007 (restated) £
TURNOVER	2	19,908,625	15,817,216
Cost of sales		(11,782,324)	(9,018,943)
GROSS PROFIT		8,126,301	6,798,273
Distribution costs		(47,147)	(57,145)
Administrative expenses		(9,453,925)	(9,334,073)
Other operating income	3	2,372,601	1,214,658
OPERATING PROFIT/(LOSS)	4	997,830	(1,378,287)
Interest receivable	7	81,837	306,825
Interest payable	8	(18,259)	(71,793)
PROFIT/(LOSS) ON ORDINARY ACTIVITIES BEFORE TAXATION		1,061,408	(1,143,255)
Tax on profit/(loss) on ordinary activities	9	(308,339)	430,256
PROFIT/(LOSS) ON ORDINARY ACTIVITIES AFTER TAXATION		753,069	(712,999)
Minority interests		5,353	(55,761)
RETAINED PROFIT/(LOSS) FOR THE FINANCIAL YEAR		758,422	(768,760)

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 results for the prior year have been restated to reflect royalties payable within cost of sales rather than administrative expenses, this is consistent with the classification adopted in the current year. This restatement has no effect on the retained profit/(loss) in the current or prior year.

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

AARDMAN HOLDINGS LIMITED
CONSOLIDATED BALANCE SHEET
31 DECEMBER 2008

	Note	2008	2007 (restated)
		£	£
FIXED ASSETS			
Intangible assets	11	600,000	750,000
Tangible assets	12	15,926,123	8,576,210
		<u>16,526,123</u>	<u>9,326,210</u>
CURRENT ASSETS			
Stocks	15	15,742,234	10,517,126
Debtors	16	3,996,933	3,529,560
Cash at bank and in hand		5,535,969	4,876,488
		<u>25,275,136</u>	<u>18,923,174</u>
CREDITORS: Amounts falling due within one year	17	<u>(18,544,206)</u>	<u>(11,236,930)</u>
NET CURRENT ASSETS		<u>6,730,930</u>	<u>7,686,244</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>23,257,053</u>	<u>17,012,454</u>
CREDITORS: Amounts falling due after more than one year	18	<u>(5,869,003)</u>	<u>-</u>
		<u>17,388,050</u>	<u>17,012,454</u>
PROVISIONS FOR LIABILITIES AND CHARGES			
Deferred taxation	19	<u>(1,849,295)</u>	<u>(1,914,436)</u>
NET ASSETS		<u>15,538,755</u>	<u>15,098,018</u>
CAPITAL AND RESERVES			
Called-up share capital	22	117,500	117,500
Share premium account	23	513,847	513,847
Shares held by Employee Benefit Trust	24	(203,523)	(201,189)
Profit and loss account	25	14,900,574	14,202,152
EQUITY SHAREHOLDERS' FUNDS	26	15,328,398	14,632,310
Minority interests		210,357	465,708
		<u>15,538,755</u>	<u>15,098,018</u>

These accounts were approved by the directors on 31 July 2009 and are signed on their behalf by:


D A Sproxtton
Director

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

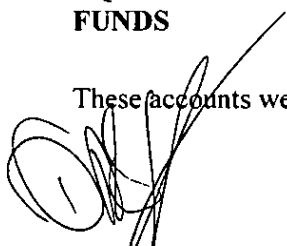
AARDMAN HOLDINGS LIMITED

COMPANY BALANCE SHEET

31 DECEMBER 2008

	Note	2008		2007 (restated)	
		£	£	£	£
FIXED ASSETS					
Tangible assets	13		13,030,879		5,394,532
Investments	14		76,481		76,283
			<u>13,107,360</u>		<u>5,470,815</u>
CURRENT ASSETS					
Debtors – due within one year	16	562,899		518,917	
Cash at bank and in hand		<u>1,213,640</u>		<u>1,202,657</u>	
		1,776,539		1,721,574	
CREDITORS: Amounts falling due within one year	17	<u>(1,829,360)</u>		<u>(965,828)</u>	
NET CURRENT (LIABILITIES)/ASSETS			<u>(52,821)</u>		<u>755,746</u>
TOTAL ASSETS LESS CURRENT LIABILITIES			13,054,539		6,226,561
CREDITORS: Amounts falling due after one year	18		<u>(5,869,003)</u>		<u>-</u>
			7,185,536		6,226,561
PROVISIONS FOR LIABILITIES AND CHARGES					
Deferred taxation	19		<u>(247,335)</u>		<u>(70,342)</u>
NET ASSETS			<u>6,938,201</u>		<u>6,156,219</u>
CAPITAL AND RESERVES					
Called-up equity share capital	22		117,500		117,500
Share premium account	23		513,847		513,847
Shares held by Employee Benefit Trust	24		(203,523)		(201,189)
Profit and loss account	25		<u>6,510,377</u>		<u>5,726,061</u>
EQUITY SHAREHOLDERS' FUNDS	26		<u>6,938,201</u>		<u>6,156,219</u>

These accounts were approved by the directors on 31 July 2009 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 2008**

	2008		2007 (restated)	
	£	£	£	£
NET CASH INFLOW FROM OPERATING ACTIVITIES		2,099,509		639,733
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE				
Interest received	81,837		306,825	
Interest paid	(69,597)		(20,455)	
Dividends paid to minority interests	(250,000)		-	
NET CASH (OUTFLOW)/ INFLOW FROM RETURNS ON INVESTMENTS AND SERVICING OF FINANCE		(237,760)		286,370
TAXATION RECEIVED/(PAID)		104,888		(2,216,224)
CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT				
Payments to acquire tangible fixed assets	(7,849,764)		(2,175,462)	
Receipts from sale of fixed assets	79,211		3,865	
NET CASH OUTFLOW FROM CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT		(7,770,553)		(2,171,597)
EQUITY DIVIDENDS PAID		(60,000)		(220,653)
CASH OUTFLOW BEFORE MANAGEMENT OF LIQUID RESOURCES AND FINANCING		(5,863,916)		(3,682,371)
FINANCING				
Capital element of finance lease payments	(45,602)		(136,808)	
Income from borrowings	6,568,999		-	
Employee Benefit Trust purchase of shares	(2,334)		(54,395)	
NET CASH INFLOW/(OUTFLOW) FROM FINANCING		6,521,063		(191,203)
INCREASE/(DECREASE) IN CASH		657,147		(3,873,574)

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

AARDMAN HOLDINGS LIMITED**CONSOLIDATED CASH FLOW STATEMENT** *(continued)***YEAR ENDED 31 DECEMBER 2008****RECONCILIATION OF OPERATING PROFIT/(LOSS) TO
NET CASH INFLOW FROM OPERATING ACTIVITIES**

	2008 £	2007 £
Operating profit/(loss)	997,830	(1,378,287)
Depreciation	896,868	836,838
Impairment	-	115,356
Amortisation	150,000	150,000
Loss on disposal of fixed assets	51,220	5,423
Increase in stocks	(5,225,108)	(552,335)
(Increase)/decrease in debtors	(603,064)	1,015,600
Increase in creditors	5,831,763	447,138
Net cash inflow from operating activities	<u>2,099,509</u>	<u>639,733</u>

RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET FUNDS/(DEBT)

	2008 £	2007 (restated) £
Increase/(decrease) in cash in the year	657,147	(3,873,574)
Cash outflow from lease financing	45,602	136,808
Net cash inflow from increases in debt	<u>(6,568,999)</u>	<u>-</u>
Movement in net funds	(5,866,250)	(3,736,766)
Net funds at 1 January	<u>4,629,697</u>	<u>8,366,463</u>
Net (debt)/funds at 31 December	<u>(1,236,553)</u>	<u>4,629,697</u>

ANALYSIS OF CHANGES IN NET FUNDS/(DEBT)

	At 31 December 2007 (restated) £	Cash flows £	Non-cash movements £	At 31 December 2008 £
Net cash:				
Cash in hand and at bank	4,876,488	659,481	-	5,535,969
Bank overdraft	<u>(201,189)</u>	<u>(2,334)</u>	<u>-</u>	<u>(203,523)</u>
	4,675,299	657,147	-	5,332,446
Debt:				
Finance leases	(45,602)	45,602	-	-
Debt less than one year	-	(699,996)	-	(699,996)
Debt greater than one year	<u>-</u>	<u>(5,869,003)</u>	<u>-</u>	<u>(5,869,003)</u>
Net funds	<u>4,629,697</u>	<u>(5,866,250)</u>	<u>-</u>	<u>(1,236,553)</u>

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

AARDMAN HOLDINGS LIMITED

NOTES TO THE ACCOUNTS

YEAR ENDED 31 DECEMBER 2008

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 2008 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 profit after taxation for the year dealt with in the accounts of the parent company was £844,316 (2007 – loss of £15,982).

Turnover

The turnover shown in the profit and loss account represents amounts generated from film production and related activities, exclusive of value added tax. The reported turnover is recorded at the fair value of the right to consideration in accordance with UITF40 and, where applicable, is based on the price specified in the contractual arrangement, net of value added tax.

Advances received during the production of a feature film, to fund the cost of production, are treated as deferred income and are either released to turnover over the period of recoupment, as defined in the film agreement, or are released against amounts recoverable on contracts where the group's obligations under the film agreement have been satisfied.

Rights

Purchased rights to future revenues arising from the Wallace & 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.

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.

AARDMAN HOLDINGS LIMITED

NOTES TO THE ACCOUNTS

YEAR ENDED 31 DECEMBER 2008

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 and Machinery	- 15% on reducing balance
Fixtures and 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.

Included within fixed assets is an amount for assets in the course of construction which have not been depreciated since they have yet to be brought in to use.

Stocks and work in progress

Stock reflects the production cost of completed films, broadcasts, commercials and other projects. Production costs are matched with income and charged through the profit and loss account over the recoupment period as specified in the production agreements, except where the conditions of UITF40 are met and the costs and income can be matched against the work performed in accordance with the relevant contracts.

Work in progress reflects the cost of films, broadcasts, commercials and other projects which are still in production and also includes development expenditure on feature film projects not yet in production.

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.

Employee Benefit Trust

Shares in the parent company owned by the group's employee benefit trust are included at cost paid to acquire the shares as a deduction in arriving at shareholders funds.

AARDMAN HOLDINGS LIMITED

NOTES TO THE ACCOUNTS

YEAR ENDED 31 DECEMBER 2008

1. ACCOUNTING POLICIES *(continued)*

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.

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.

Derivative financial instruments and hedge accounting

Financial instruments are classified and accounted for according to the substance of the contractual arrangements as either financial assets, financial liabilities or equity instruments. An equity instrument is any contract that evidences a residual interest in the assets of the company after deducting all of its liabilities.

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/(loss) before tax are attributable to the one principal activity of the group.

An analysis of turnover by geographical market is given below:

	2008 £	2007 £
United Kingdom	10,465,939	8,043,824
Europe	2,483,497	1,360,265
USA	5,821,902	5,664,054
Rest of the World	1,137,287	749,073
	<u>19,908,625</u>	<u>15,817,216</u>

AARDMAN HOLDINGS LIMITED**NOTES TO THE ACCOUNTS****YEAR ENDED 31 DECEMBER 2008****3. OTHER OPERATING INCOME**

	2008 £	2007 £
Commission receivable	1,726,194	809,013
Royalties receivable	279,252	335,335
Bike lease scheme income	6,377	7,153
Exchange gains	360,778	63,157
	<u>2,372,601</u>	<u>1,214,658</u>

4. OPERATING PROFIT/(LOSS)

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

	2008 £	2007 £
Operating leases – land and buildings	302,269	202,758
Operating leases – other	33,250	28,714
Net loss on disposal of fixed assets	51,220	5,423
Royalties payable	776,780	6,069
Depreciation	896,868	836,838
Impairment	-	115,356
Amortisation	150,000	150,000
Auditors' remuneration		
- as auditors	34,940	35,600
- other services	70,214	56,721
Net gain on foreign currency translation	<u>(386,526)</u>	<u>(12,096)</u>

In addition to the above is £114,831 (2007 - £192,217) 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 2008

5. PARTICULARS OF EMPLOYEES

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

	2008 No.	2007 No.
Core staff	122	122
Project related freelancers	164	116
	<u>286</u>	<u>238</u>

The aggregate payroll costs of the above were:

	2008 £	2007 £
Wages and salaries	10,058,262	8,113,392
Social security costs	1,120,281	903,395
Other pension costs	373,471	347,762
	<u>11,552,014</u>	<u>9,364,549</u>

6. DIRECTORS' EMOLUMENTS

The directors' aggregate emoluments in respect of qualifying services were:

	2008 £	2007 £
Aggregate emoluments	<u>253,877</u>	<u>256,143</u>
Emoluments of the highest paid director:		
	2008 £	2007 £
Aggregate emoluments	<u>131,207</u>	<u>132,340</u>

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

	2008 No.	2007 No.
Money purchase schemes	<u>2</u>	<u>2</u>

AARDMAN HOLDINGS LIMITED
NOTES TO THE ACCOUNTS
YEAR ENDED 31 DECEMBER 2008

7. INTEREST RECEIVABLE

	2008 £	2007 £
Bank interest receivable	56,768	306,520
Other interest receivable	25,069	305
	<u>81,837</u>	<u>306,825</u>

8. INTEREST PAYABLE AND SIMILAR CHARGES

	2008 £	2007 £
Bank interest payable	14,047	12,641
Other interest payable	3,985	59,152
Other similar charges	227	-
	<u>18,259</u>	<u>71,793</u>

9. TAX ON PROFIT ON ORDINARY ACTIVITIES

	2008 £	2007 £
(a) Charge for the year		
Current taxation:		
Corporation tax for the year	391,654	216
Adjustment in respect of previous years	(18,202)	(135,628)
Foreign tax	48,942	9,496
Double tax relief	(48,914)	(216)
Total current tax (note 9(b))	<u>373,480</u>	<u>(126,132)</u>
Deferred taxation:		
Movement in deferred tax provision (note 19):		
Capital allowances	118,514	(73,155)
Other	<u>(183,635)</u>	<u>(230,969)</u>
	<u>(65,141)</u>	<u>(304,124)</u>
Tax on ordinary activities	<u>308,339</u>	<u>(430,256)</u>

AARDMAN HOLDINGS LIMITED**NOTES TO THE ACCOUNTS****YEAR ENDED 31 DECEMBER 2008****9. TAX ON PROFIT ON ORDINARY ACTIVITIES** *(continued)***(b) Factors affecting current tax charge**

The tax assessed on the profit/(loss) on ordinary activities for the year is higher (2007 – higher) than the standard rate of corporation tax in the UK of 28.5% (2007 - 30%).

	2008 £	2007 £
Profit/(loss) on ordinary activities before taxation	<u>1,061,408</u>	<u>(1,143,255)</u>
Profit/(loss) on ordinary activities multiplied by the standard rate of tax in the UK of 28.5% (2007: 30%)	302,501	(342,977)
Income not taxable	(36,965)	(111,723)
Capital allowances for the period in excess of depreciation	(140,185)	(31,382)
Expenses not deductible for tax purposes	72,653	196,981
Tax losses utilised	-	136,174
Other timing differences	208,701	153,254
Deduction for land remediation expenditure	(7,154)	-
Small companies relief	-	(111)
Adjustments to tax charge in respect of previous periods	(18,202)	(135,628)
Foreign tax credits	28	9,280
Tax rate differences	<u>(7,897)</u>	<u>-</u>
Total current tax (note 9(a))	<u>373,480</u>	<u>(126,132)</u>

10. DIVIDENDS

The company paid a dividend on ordinary shares of £60,000 (2007 - £220,653) in respect of the year.

AARDMAN HOLDINGS LIMITED**NOTES TO THE ACCOUNTS****YEAR ENDED 31 DECEMBER 2008****11. INTANGIBLE FIXED ASSETS – GROUP**

	W & G Rights £	Total £
COST		
At 1 January and 31 December 2008	<u>1,500,000</u>	<u>1,500,000</u>
AMORTISATION		
At 1 January 2008	750,000	600,000
Charge for the year	<u>150,000</u>	<u>150,000</u>
At 31 December 2008	<u>900,000</u>	<u>750,000</u>
NET BOOK VALUE		
At 31 December 2008	<u>600,000</u>	<u>600,000</u>
At 31 December 2007	<u>750,000</u>	<u>750,000</u>

‘W&G Rights’ relates to the acquisition of third party rights to future revenues arising from the Wallace & 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 2008

12. TANGIBLE FIXED ASSETS – GROUP

COST

	Assets in the course of Construction £	Freehold Property £	Improvements to Property £	Plant and Machinery £	Fixtures and Fittings £	Motor Vehicles £	Computer Equipment £	Bicycles £	Total £
At 1 January 2008	1,902,938	4,412,429	629,910	8,073,071	613,158	116,675	2,292,359	12,864	18,053,404
Additions	7,852,232	-	4,622	224,875	24,030	-	264,535	6,918	8,377,212
Disposals	-	-	-	(304,570)	-	(2,875)	(6,000)	(11,721)	(325,166)
Transfers	(306,242)	-	-	306,242	-	-	-	-	-
At 31 December 2008	9,448,928	4,412,429	634,532	8,299,618	637,188	113,800	2,550,894	8,061	26,105,450

DEPRECIATION

At 1 January 2008	-	786,703	482,518	5,624,517	446,441	104,584	2,019,567	12,864	9,477,194
Charge for the year	-	53,572	76,126	451,430	24,161	2,975	281,686	6,918	896,868
On disposals	-	-	-	(174,427)	-	(2,587)	(6,000)	(11,721)	(194,735)
At 31 December 2008	-	840,275	558,644	5,901,520	470,602	104,972	2,295,253	8,061	10,179,327

NET BOOK VALUE

At 31 December 2008	9,448,928	3,572,154	75,888	2,398,098	166,586	8,828	255,641	-	15,926,123
At 31 December 2007	1,902,938	3,625,726	147,392	2,448,554	166,717	12,091	272,792	-	8,576,210

Included in the net book value of plant and machinery above of £2,398,098 (2007 - £2,448,554) are assets held under finance lease of £168,034 (2007 - £197,687). The depreciation charged to the accounts in the year in respect of such assets amounted to £29,653 (2007 - £34,886).

AARDMAN HOLDINGS LIMITED**NOTES TO THE ACCOUNTS****YEAR ENDED 31 DECEMBER 2008****13. TANGIBLE FIXED ASSETS – COMPANY**

	Assets in the course of construction £	Improvements to Property £	Freehold Property £	Total £
COST				
At 1 January 2008	1,749,211	56,029	4,412,429	6,217,669
Additions	7,699,717	-	-	7,699,717
At 31 December 2008	<u>9,448,928</u>	<u>56,029</u>	<u>4,412,429</u>	<u>13,917,386</u>
DEPRECIATION				
At 1 January 2008	-	36,434	786,703	823,137
Charge for the year	-	9,798	53,572	63,370
At 31 December 2008	<u>-</u>	<u>46,232</u>	<u>840,275</u>	<u>886,507</u>
NET BOOK VALUE				
At 31 December 2008	<u>9,448,928</u>	<u>9,797</u>	<u>3,572,154</u>	<u>13,030,879</u>
At 31 December 2007	<u>1,749,211</u>	<u>19,595</u>	<u>3,625,726</u>	<u>5,394,532</u>

14. INVESTMENTS - COMPANY

	Unlisted Investments £
COST	
At 1 January 2008	76,283
Additions	198
At 31 December 2008	<u>76,481</u>
PROVISION FOR DIMINUTION IN VALUE	
At 1 January and 31 December 2008	<u>-</u>
NET BOOK VALUE	
At 31 December 2008	<u>76,481</u>
At 31 December 2007	<u>76,283</u>

AARDMAN HOLDINGS LIMITED**NOTES TO THE ACCOUNTS****YEAR ENDED 31 DECEMBER 2008****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	Dormant
Wallace & Gromit Limited	England	75	Film Producers
Anti Pesto Limited	England	100	Dormant
Aardman Equipment Limited	England	100	Website Developers
Aardman Chicken Run Limited	England	66	Dormant
Aardman Trustees Limited	England	100	Dormant
Rex the Runt Limited	England	75	Dormant
Aardman Feature Development Limited	England	100	Dormant
Briny Rogues Limited	England	98	Dormant

Briny Rogues Limited became a wholly owned subsidiary after the year-end.

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	Dormant

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	Dormant

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

AARDMAN HOLDINGS LIMITED
NOTES TO THE ACCOUNTS
YEAR ENDED 31 DECEMBER 2008

15. STOCKS

	Group		Company	
	2008	2007	2008	2007
	£	£	£	£
Work in progress	4,758,205	1,842,932	-	-
Finished goods	10,984,029	8,674,194	-	-
	<u>15,742,234</u>	<u>10,517,126</u>	<u>-</u>	<u>-</u>

16. DEBTORS

Amounts receivable within one year:

	Group		Company	
	2008	2007	2008	2007
	£	£	£	£
Trade debtors	2,092,459	1,201,844	-	4,612
Amounts owed by group undertakings	-	-	190,113	307,290
Other debtors	93,476	132,703	-	70,000
Prepayments and accrued income	775,875	856,488	24,097	12,554
Amounts recoverable on contracts	677,342	779,428	-	-
Corporation tax recoverable	-	135,693	-	-
VAT recoverable	357,781	423,404	348,689	124,461
	<u>3,996,933</u>	<u>3,529,560</u>	<u>562,899</u>	<u>518,917</u>

17. CREDITORS: Amounts falling due within one year

	Group		Company	
	2008	2007	2008	2007
	£	(restated) £	£	(restated) £
Bank overdraft	203,523	201,189	203,523	201,189
Bank loan	699,996	-	699,996	-
Trade creditors	1,816,622	2,085,973	52,563	622,137
Corporation tax	342,740	65	7,045	-
Amounts owed to group undertakings	-	-	381	924
Other taxation and social security	1,014,766	255,406	8,431	18,642
Amounts due under finance lease agreements	-	45,602	-	-
Interest payable	-	51,338	-	-
Other creditors	58,398	78,343	-	-
Directors' current accounts	91,137	70,000	91,137	70,000
Accruals and deferred income	14,317,024	8,449,014	766,284	52,936
	<u>18,544,206</u>	<u>11,236,930</u>	<u>1,829,360</u>	<u>965,828</u>

Included within accruals are outstanding pension contributions of £38,297 (2007 - £29,710).

AARDMAN HOLDINGS LIMITED**NOTES TO THE ACCOUNTS****YEAR ENDED 31 DECEMBER 2008****18. CREDITORS: Amounts falling due after more than one year**

	Group 2008 £	2007 £	Company 2008 £	2007 £
Bank loan	5,869,003	-	5,869,003	-
	<u>5,869,003</u>	<u>-</u>	<u>5,869,003</u>	<u>-</u>

The bank loan is secured by a fixed charge over the freehold property of the company and a floating charge over the other assets of the group. The bank loan is repayable by monthly instalments over a ten year period to 30 November 2018.

The bank loan due for repayment as follows:

Amounts repayable:

	Group 2008 £	2007 £	Company 2008 £	2007 £
In one year or less or on demand	699,996	-	699,996	-
In more than one year but not more than two years	699,996	-	699,996	-
In more than two years but not more than five years	2,099,988	-	2,099,988	-
In more than five years	3,069,019	-	3,069,019	-
	<u>6,568,999</u>	<u>-</u>	<u>6,568,999</u>	<u>-</u>

Following the year end the bank loan was renegotiated as described in note 30.

Obligations under finance lease agreements are due as follows:

	Group 2008 £	2007 £	Company 2008 £	2007 £
Within 1 year	-	45,602	-	-
Within 1 - 2 years	-	-	-	-
	<u>-</u>	<u>45,602</u>	<u>-</u>	<u>-</u>

AARDMAN HOLDINGS LIMITED
NOTES TO THE ACCOUNTS
YEAR ENDED 31 DECEMBER 2008

19. DEFERRED TAXATION

The movement in the deferred taxation provision during the year was:

	Group		Company	
	2008	2007	2008	2007
	£	£	£	£
Provision brought forward	1,914,436	2,218,560	70,342	63,707
(Decrease)/increase in provision	(65,141)	(304,124)	176,993	6,635
Provision carried forward	<u>1,849,295</u>	<u>1,914,436</u>	<u>247,335</u>	<u>70,342</u>

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

	Group		Company	
	2008	2007	2008	2007
	£	£	£	£
Accelerated capital allowances	944,943	826,429	227,622	70,342
Other timing differences	904,352	1,088,007	19,713	-
	<u>1,849,295</u>	<u>1,914,436</u>	<u>247,335</u>	<u>70,342</u>

At the year end the group has an unprovided deferred tax liability in relation to accelerated capital allowances of £95,783 (2007 - £ nil).

20. COMMITMENTS UNDER OPERATING LEASES

At 31 December 2008 the group and the company had annual commitments under non-cancellable operating leases as set out below:

	Land & Buildings			
	Group		Company	
	2008	2007	2008	2007
	£	£	£	£
Operating leases which expire:				
Within one year	367,100	53,100	-	-
Within 1 to 2 years	50,000	345,000	-	-
Within 2 to 5 years	-	19,000	-	-
	<u>417,100</u>	<u>417,100</u>	<u>-</u>	<u>-</u>

	Other			
	Group		Company	
	2008	2007	2008	2007
	£	£	£	£
Operating leases which expire:				
Within one year	1,012	19,841	-	-
Within 1 to 2 years	-	-	-	-
Within 2 to 5 years	27,308	-	-	-
	<u>28,320</u>	<u>19,841</u>	<u>-</u>	<u>-</u>

AARDMAN HOLDINGS LIMITED**NOTES TO THE ACCOUNTS****YEAR ENDED 31 DECEMBER 2008**

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 2008

Name of related party	Relationship	Type of transaction	Value of transaction £	Creditor at 31.12.08 £
D Sproxton	Director	Undrawn dividend	70,000	(86,278)
D Sproxton	Director	Undrawn interest	3,188	
D Sproxton	Director	Undrawn salary	13,090	
D Sproxton	Director	Dividend paid	30,000	
P Lord	Director	Undrawn salary	4,859	(4,859)
P Lord	Director	Dividend paid	30,000	

Year ended 31 December 2007

Name of related party	Relationship	Type of transaction	Value of transaction £	Creditor at 31.12.07 £
D Sproxton	Director	Undrawn dividend	70,000	(70,000)

In addition to the above, the company paid pension contributions of £nil (2007 - £ nil) 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 2008****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 2008

Name of related party	Relationship	Type of transaction	Value of transaction £	Debtor/ (creditor) at 31.12.08 £
Wallace & Gromit Ltd	Subsidiary	Commissions	253,597	46,284
		Settled balance	144,443	
		Group relief paid for	46,284	
		Dividend received	750,000	

Year ended 31 December 2007

Name of related party	Relationship	Type of transaction	Value of transaction £	Debtor/ (creditor) at 31.12.07 £
Wallace & Gromit Ltd	Subsidiary	Commissions	552,643	(460,788)
		Settled balance	56,091	

22. SHARE CAPITAL

Authorised share capital:

	2008 £	2007 £
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:

	2008		2007	
	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 2008

23. SHARE PREMIUM ACCOUNT

	Group		Company	
	2008	2007	2008	2007
	£	£	£	£
Balance brought forward and carried forward	<u>513,847</u>	<u>513,847</u>	<u>513,847</u>	<u>513,847</u>

24. SHARES HELD BY EMPLOYEE BENEFIT TRUST RESERVE

	Group		Company	
	2008	2007	2008	2007
	£	(restated) £	£	(restated) £
Balance brought forward	(201,189)	(146,794)	(201,189)	(146,794)
Purchase of shares by Employee Benefit Trust	(2,334)	(54,395)	(2,334)	(54,395)
Balance carried forward	<u>(203,523)</u>	<u>(201,189)</u>	<u>(203,523)</u>	<u>(201,189)</u>

During the year the group purchased 7,782 (2007 – 56,836) ‘A’ ordinary shares in the parent company, representing 0.06% (2007 – 0.48%) of the issued share capital, as part of an Employee Benefit Trust. The total consideration paid for the shares was £2,334 (2007 - £54,395) generating the above reserve. The shares are held by the trust as part of an approved profit sharing scheme as disclosed in note 27.

25. PROFIT AND LOSS ACCOUNT

	Group		Company	
	2008	2007	2008	2007
	£	£	£	£
Balance brought forward	14,202,152	15,191,565	5,726,061	5,962,696
Retained profit/(loss) for the financial year	758,422	(768,760)	844,316	(15,982)
Dividends paid	(60,000)	(220,653)	(60,000)	(220,653)
Balance carried forward	<u>14,900,574</u>	<u>14,202,152</u>	<u>6,510,377</u>	<u>5,726,061</u>

AARDMAN HOLDINGS LIMITED**NOTES TO THE ACCOUNTS****YEAR ENDED 31 DECEMBER 2008****26. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS**

	Group		Company	
	2008	2007	2008	2007
		(restated)		(restated)
	£	£	£	£
Retained profit/(loss) for the financial year	758,422	(768,760)	844,316	(15,982)
Purchase of shares by Employee Benefit Trust	(2,334)	(54,395)	(2,334)	(54,395)
Dividends paid	(60,000)	(220,653)	(60,000)	(220,653)
Net movement in funds	696,088	(1,043,808)	781,982	(291,030)
Opening equity shareholders' funds	14,632,310	15,676,118	6,156,219	6,447,249
Closing equity shareholders' funds	15,328,398	14,632,310	6,938,201	6,156,219

27. 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 7,782 shares in the current year and 56,836 shares in the previous year. The beneficial interests in the remaining 'A' Ordinary shares acquired in prior years are vested in employees of the group companies.

28. PRIOR YEAR ADJUSTMENT

During the year the group adopted the requirements of UITF 38: Accounting for ESOP trusts in respect of the Employee Benefit Trust detailed in note 24. The company and group have therefore included the assets and liabilities of the trust within the respective balance sheets and restated the prior year balance sheet and cash flow statement to reflect the transactions of the trust. There has been no change to the results for either period and a reduction in the net assets of the group as at 31 December 2007 of £201,189.

29. 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 \$2,000,000 expiring on 15 May 2009, 14 August 2009, 15 October 2009 and 15 December 2009 at rates of \$1.4685, \$1.4715, \$1.473 and \$1.4725 to £1 respectively. The fair value of these derivatives at 31 December 2008 is an asset of £22,036 (2007 - £nil).

30. POST BALANCE SHEET EVENTS

On 31 March 2009 the bank loan was renegotiated such that it will now be repayable over a ten year period to 31 March 2019 by initial quarterly instalments of £100,000 commencing 30 April 2009.