

Registered number 2672880

AARDMAN HOLDINGS LIMITED

DIRECTORS' REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2010



AARDMAN HOLDINGS LIMITED

COMPANY INFORMATION

DIRECTORS	D A Sproxton P D F Lord
COMPANY SECRETARY	D A Sproxton
COMPANY NUMBER	2672880
REGISTERED OFFICE	Gas Ferry Road Bristol BS1 6UN
AUDITORS	Nexia Smith & Williamson Chartered Accountants & Statutory Auditors Portwall Place Portwall Lane Bristol BS1 6NA
BANKERS	Coutts & Co Media Banking 440 Strand London WC2R 0QS

AARDMAN HOLDINGS LIMITED

CONTENTS

	Page
Directors' report	1 - 4
Independent auditors' report	5 - 6
Consolidated profit and loss account	7
Consolidated balance sheet	8
Company balance sheet	9
Consolidated cash flow statement	10
Notes to the financial statements	11 - 29

AARDMAN HOLDINGS LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2010

The directors have pleasure in presenting their report and the consolidated accounts of the group for the year ended 31 December 2010

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 was that of film, broadcast, commercial and digital creators, producers and distributors

The consolidated results for the year returned a consolidated pre-tax profit on ordinary activities of £1,888,784 (2009 pre-tax profit of £703,273)

The Feature Film division continued the production of two feature films, 'Arthur Christmas' and 'Pirates!', which are currently on schedule to be released in November 2011 and March 2012 respectively. There was also residual income related to the distribution of 'Wallace & Gromit: Curse of the Wererabbit'.

The Broadcast division delivered 'Shaun the Sheep 2' and 'Timmy' and immediately went into production on a second series of the latter. In addition, 'Wallace & Gromit's World of Invention' was produced and delivered during the year. 'Wallace & Gromit in A Matter of Loaf and Death' has reached accounting breakeven, with the exception of some deferred commissions, and recoupment on both 'Shaun' and 'World of Invention' was occurring more quickly than expected by the year-end. Notably, in back catalogue, the 'Creature Comforts' brand continued to make a meaningful contribution.

The Commercials division had a record year in terms of turnover, posting the best result for ten years and significantly outperforming the budget. A major contributor was the relatively high number of repeat clients during the year. As per 2009, stop-frame animation work exceeded CGI animation, with nearly three fifths of the work generated in the UK and one third in the US.

The Rights division again outperformed the budget, posting a result similar to 2009. Significantly, the 'Shaun' brand exceeded expectations and was fundamental to the accelerated recoupment on that property. Following the success of the 'Wallace & Gromit Interactive Exhibition at the Science Museum' in the previous year, a number of new exhibitions were in the process of opening during 2010.

The Digital division exceeded budget, achieved more than double the turnover, and more than three times the contribution to the profit and loss account, of the previous year. For commissions relating to the Broadcast slate of properties, income from this division continues to contribute to their recoupment.

Overall, overheads decreased for the second year in succession, largely due to the salary restructure that took place in late 2008 and the benefit of having a considerable amount of projects in production during the year. This is despite the additional costs of the first full year in the new HQ building.

Distribution income for the three original Wallace & Gromit short films, recognised through Wallace & Gromit Limited, was slightly lower than 2009 and for the two year period to July 2010, any generic/non-specific Wallace & Gromit income went toward recouping 'A Matter of Loaf and Death'. Post July 2010, generic/non-specific Wallace & Gromit income went toward recouping 'World of Invention', after commissions have been taken by 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 not recommended the payment of a dividend (2009: £nil).

AARDMAN HOLDINGS LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2010

FINANCIAL RISK MANAGEMENT

The main financial risk the group faces is the movement in exchange rates. No currencies have been hedged at the year-end.

KEY PERFORMANCE INDICATORS

The average gross profit margin for Commercials was 38% for the year, compared to 37% in 2009. 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 Rights 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 continues to remain low, with large variations in freelance staffing levels depending on how many projects are in production.

DIRECTORS

The directors who served the company during the year were

D A Sproxton
P D F Lord

EMPLOYEE INVOLVEMENT

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 become 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.

AARDMAN HOLDINGS LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2010

DONATIONS

During the year the group made the following contributions

	2010 £	2009 £
Charitable	-	1,145

DIRECTORS' RESPONSIBILITIES STATEMENT

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and the group and of the profit or loss of the group for that period. In preparing these financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgments and accounting estimates that are reasonable and prudent,
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements,
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group will continue in business.

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

PROVISION OF INFORMATION TO AUDITORS

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

- so far as that director is aware, there is no relevant audit information of which the company and the group's auditors are unaware, and
- that director has taken all the steps that ought to have been taken as a director in order to be aware of any information needed by the company and the group's auditors in connection with preparing their report and to establish that the company and the group's auditors are aware of that information.

This confirmation is given and shall be interpreted in accordance with provision s418 of the Companies Act 2006.

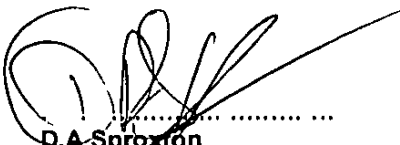
AARDMAN HOLDINGS LIMITED

**DIRECTORS' REPORT
FOR THE YEAR ENDED 31 DECEMBER 2010**

AUDITORS

The auditors, Nexia Smith & Williamson, will be proposed for reappointment in accordance with section 485 of the Companies Act 2006

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



D.A. Sproston
Director

Date 26 September 2011

AARDMAN HOLDINGS LIMITED

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF AARDMAN HOLDINGS LIMITED

We have audited the financial statements of Aardman Holdings Limited for the year ended 31 December 2010, which comprise the group profit and loss account, the group and parent company balance sheets, the group consolidated cash flow statement and the related notes 1 to 28. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an 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

As explained more fully in the Directors' Responsibilities Statement, set out on page 3, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

SCOPE OF THE AUDIT OF THE FINANCIAL STATEMENTS

A description of the scope of an audit of financial statements is provided on the Auditing Practices Board's website at www.frc.org.uk/apb/scope/private.cfm.

OPINION ON FINANCIAL STATEMENTS

In our opinion the financial statements

- give a true and fair view of the state of the group's and the parent company's affairs as at 31 December 2010 and of the group's profit for the year then ended,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006.

OPINION ON OTHER MATTER PRESCRIBED BY THE COMPANIES ACT 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

AARDMAN HOLDINGS LIMITED

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF AARDMAN HOLDINGS LIMITED

MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

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

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


Ian Cooper (Senior statutory auditor)

for and on behalf of
Nexia Smith & Williamson

Chartered Accountants
Statutory Auditors

Portwall Place
Portwall Lane
Bristol
BS1 6NA

26 September 2011

AARDMAN HOLDINGS LIMITED

**CONSOLIDATED PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 2010**

	Note	2010 Feature film activity £	2010 Other activities £	2010 Total £	2009 Feature film activity £	2009 Other activities £ restated	2009 Total £ restated
TURNOVER	2	34,346,790	19,113,005	53,459,795	18,191,186	13,633,385	31,824,571
Cost of sales		<u>(37,249,248)</u>	<u>(9,736,749)</u>	<u>(46,985,997)</u>	<u>(21,131,246)</u>	<u>(5,021,008)</u>	<u>(26,152,254)</u>
GROSS PROFIT		(2,902,458)	9,376,256	6,473,798	(2,940,060)	8,612,377	5,672,317
Distribution costs		-	(23,440)	(23,440)	-	(24,216)	(24,216)
Administrative expenses		-	(10,016,478)	(10,016,478)	-	(10,115,691)	(10,115,691)
Other operating income	3	<u>-</u>	<u>2,704,419</u>	<u>2,704,419</u>	<u>-</u>	<u>2,392,878</u>	<u>2,392,878</u>
OPERATING (LOSS)/PROFIT	4	(2,902,458)	2,040,757	(861,701)	(2,940,060)	865,348	(2,074,712)
Interest receivable	7	-	6,362	6,362	-	4,786	4,786
Interest payable	8	<u>-</u>	<u>(158,335)</u>	<u>(158,335)</u>	<u>-</u>	<u>(166,861)</u>	<u>(166,861)</u>
(LOSS)/PROFIT ON ORDINARY ACTIVITIES BEFORE FILM TAX CREDIT		(2,902,458)	1,888,784	(1,013,674)	(2,940,060)	703,273	(2,236,787)
Film tax credit	9	<u>2,902,458</u>	<u>-</u>	<u>2,902,458</u>	<u>2,940,060</u>	<u>-</u>	<u>2,940,060</u>
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		-	1,888,784	1,888,784	-	703,273	703,273
Tax on profit on ordinary activities	9	<u>-</u>	<u>(806,209)</u>	<u>(806,209)</u>	<u>-</u>	<u>(380,935)</u>	<u>(380,935)</u>
TOTAL TAX ON (LOSS)/PROFIT ON ORDINARY ACTIVITIES	9	2,902,458	(806,209)	2,096,249	2,940,060	(380,935)	2,559,125
PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION		-	1,082,575	1,082,575	-	322,338	322,338
Minority interests		<u>-</u>	<u>1,616</u>	<u>1,616</u>	<u>-</u>	<u>4,472</u>	<u>4,472</u>
RETAINED PROFIT FOR THE FINANCIAL YEAR		<u>-</u>	<u>1,084,191</u>	<u>1,084,191</u>	<u>-</u>	<u>326,810</u>	<u>326,810</u>

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 11 to 29 form part of these financial statements

AARDMAN HOLDINGS LIMITED

**CONSOLIDATED BALANCE SHEET
AS AT 31 DECEMBER 2010**

	Note	£	2010 £	£	2009 £ <i>restated</i>
FIXED ASSETS					
Intangible assets	10		300,000		450,000
Tangible assets	11		15,719,940		16,074,936
			<u>16,019,940</u>		<u>16,524,936</u>
CURRENT ASSETS					
Stocks	13	9,736,521		12,155,686	
Debtors	14	8,415,758		6,366,452	
Cash at bank		7,852,753		6,249,768	
		<u>26,005,032</u>		<u>24,771,906</u>	
CREDITORS amounts falling due within one year	15	(18,606,277)		(17,361,867)	
NET CURRENT ASSETS			<u>7,398,755</u>		<u>7,410,039</u>
TOTAL ASSETS LESS CURRENT LIABILITIES			<u>23,418,695</u>		<u>23,934,975</u>
CREDITORS: amounts falling due after more than one year	16		(4,850,000)		(6,300,000)
PROVISIONS FOR LIABILITIES					
Deferred tax	17		(1,629,391)		(1,776,976)
NET ASSETS			<u><u>16,939,304</u></u>		<u><u>15,857,999</u></u>
CAPITAL AND RESERVES					
Called up share capital	20		117,500		117,500
Share premium account	21		513,847		513,847
Other reserves	21		(207,885)		(206,615)
Profit and loss account	21		16,311,575		15,227,384
SHAREHOLDERS' FUNDS	22		<u>16,735,037</u>		<u>15,652,116</u>
MINORITY INTERESTS			<u>204,267</u>		<u>205,883</u>
			<u><u>16,939,304</u></u>		<u><u>15,857,999</u></u>

The financial statements were approved and authorised for issue by the board and were signed on its behalf on 26 September 2011


D A Sproxton
Director

The notes on pages 11 to 29 form part of these financial statements

AARDMAN HOLDINGS LIMITED
REGISTERED NUMBER 2672880

COMPANY BALANCE SHEET
AS AT 31 DECEMBER 2010

	Note	£	2010 £	£	2009 £
FIXED ASSETS					
Tangible assets	11		12,294,081		12,739,690
Investments	12		76,583		76,583
			<u>12,370,664</u>		<u>12,816,273</u>
CURRENT ASSETS					
Debtors	14	74,777		466,061	
Cash at bank		879,657		1,104,425	
		<u>954,434</u>		<u>1,570,486</u>	
CREDITORS: amounts falling due within one year	15	<u>(1,299,480)</u>		<u>(861,223)</u>	
NET CURRENT (LIABILITIES)/ASSETS			<u>(345,046)</u>		<u>709,263</u>
TOTAL ASSETS LESS CURRENT LIABILITIES			<u>12,025,618</u>		<u>13,525,536</u>
CREDITORS: amounts falling due after more than one year	16		<u>(4,850,000)</u>		<u>(6,300,000)</u>
PROVISIONS FOR LIABILITIES					
Deferred tax	17		<u>(426,136)</u>		<u>(376,317)</u>
NET ASSETS			<u>6,749,482</u>		<u>6,849,219</u>
CAPITAL AND RESERVES					
Called up share capital	20		117,500		117,500
Share premium account	21		513,847		513,847
Other reserves	21		(207,885)		(206,615)
Profit and loss account	21		<u>6,326,020</u>		<u>6,424,487</u>
SHAREHOLDERS' FUNDS	22		<u>6,749,482</u>		<u>6,849,219</u>

The financial statements were approved and authorised for issue by the board and were signed on its behalf on 26 September 2011


D A Sproston
 Director

The notes on pages 11 to 29 form part of these financial statements

AARDMAN HOLDINGS LIMITED

**CONSOLIDATED CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2010**

	Note	2010 £	2009 £
Net cash flow from operating activities	23	2,993,425	3,616,050
Returns on investments and servicing of finance	24	(151,973)	(162,075)
Taxation	24	1,050,189	(528,800)
Capital expenditure and financial investment	24	(1,438,656)	(2,342,375)
Acquisitions and disposals	24	-	(2)
CASH INFLOW BEFORE FINANCING		2,452,985	582,798
Financing	24	(851,270)	127,909
INCREASE IN CASH IN THE YEAR		1,601,715	710,707

**RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET FUNDS/DEBT
FOR THE YEAR ENDED 31 DECEMBER 2010**

	2010 £	2009 £
Increase in cash in the year	1,601,715	710,707
Cash outflow from decrease in debt and lease financing	850,000	-
MOVEMENT IN NET DEBT IN THE YEAR	2,451,715	710,707
Net debt at 1 January 2010	(656,847)	(1,367,554)
NET FUNDS/(DEBT) AT 31 DECEMBER 2010	1,794,868	(656,847)

The notes on pages 11 to 29 form part of these financial statements

AARDMAN HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

1. ACCOUNTING POLICIES

1.1 Basis of accounting

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

1.2 Basis of consolidation

The consolidated accounts incorporate the results of the company and all of its subsidiary undertakings as at 31 December 2010 using acquisition accounting. The company has taken advantage of the exemption allowed under section 408 of the Companies Act 2006 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 £98,469 (2009 - loss of £85,890)

1.3 Turnover

The turnover shown in the profit and loss account represents amounts generated from film, commercial, broadcast, and digital 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 UITF 40 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.

1.4 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.

1.5 Investments

Investments in subsidiaries are valued at cost less provision for impairment.

1.6 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 FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

1. ACCOUNTING POLICIES (continued)

1.7 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 (purchased)	-	5% on cost
Freehold property (constructed)	-	4% on cost
Improvements to property	-	Over remaining period of lease
Plant and machinery	-	15% on reducing balance and 33% on cost
Motor vehicles	-	25% on reducing balance
Fixtures and fittings	-	15% on reducing balance
Studio equipment	-	25% on reducing balance
Computer equipment	-	33% on cost
Bicycles	-	100% on cost

1.8 Stocks and work in progress

Finished goods 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 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 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.

1.9 Operating leases

Rental 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.

1.10 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 is not discounted. No amount has been provided for deferred tax assets.

1.11 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 FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

1 ACCOUNTING POLICIES (continued)

1 12 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.

1 13 Commission

Commission income is included on a receivable basis.

1 14 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.

1.15 Derivatives

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.

1 16 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.

1 17 Film tax credit

The group's business model of financing feature film production incorporates claims under the UK film tax credit legislation. These claims are considered to part of the ordinary activities of those companies which produce the feature films and therefore the film tax credit claims are separately disclosed on the face of the profit and loss account above profit on ordinary activities before taxation.

AARDMAN HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

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

	2010 £	2009 £ <i>restated</i>
United Kingdom	9,495,449	6,680,337
Rest of European Union	4,040,560	1,801,834
Rest of world	1,632,224	1,174,896
United States of America	38,291,562	22,167,504
	<u>53,459,795</u>	<u>31,824,571</u>

3. OTHER OPERATING INCOME

	2010 £	2009 £
Commissions receivable	2,405,440	2,147,785
Royalties receivable	276,497	236,981
Bike lease scheme income	15,418	6,132
Recharges	7,064	1,980
	<u>2,704,419</u>	<u>2,392,878</u>

4. OPERATING LOSS

Operating loss is stated after charging

	2010 £	2009 £
Amortisation - intangible fixed assets	150,000	150,000
Depreciation of tangible fixed assets		
- owned by the group	1,786,425	1,691,852
Auditors' remuneration	54,650	61,200
Auditors' remuneration - non-audit services	68,870	79,538
Operating lease rentals		
- other operating leases	700,503	278,451
Net loss on foreign currency translation	24,985	17,113
Impairment	-	152,889
Net loss on disposal of fixed assets	7,227	348,811
Royalties payable	77,791	364,999
	<u></u>	<u></u>

Auditors fees for the company were £15,790 (2009 - £13,850)

AARDMAN HOLDINGS LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2010**

5 PARTICULARS OF EMPLOYEES

Staff costs, including directors' remuneration, were as follows

	2010 £	2009 £
Wages and salaries	15,141,939	12,848,381
Social security costs	1,601,071	1,379,732
Other pension costs	454,243	385,958
	<u>17,197,253</u>	<u>14,614,071</u>

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

	2010 No.	2009 No.
Core staff	115	129
Project related freelancers	308	223
	<u>423</u>	<u>352</u>

6. DIRECTORS' REMUNERATION

	2010 £	2009 £
Emoluments	<u>233,208</u>	<u>263,615</u>
Company pension contributions to defined contribution pension schemes	<u>45,000</u>	<u>45,000</u>

During the year retirement benefits were accruing to 2 directors (2009 - 2) in respect of defined contribution pension schemes

The highest paid director received remuneration of £133,535 (2009 - £135,443)

The value of the company's contributions paid to a defined contribution pension scheme in respect of the highest paid director amounted to £22,500 (2009 - £22,500)

7 INTEREST RECEIVABLE

	2010 £	2009 £
Bank interest receivable	950	3,726
Other interest receivable	5,412	1,060
	<u>6,362</u>	<u>4,786</u>

AARDMAN HOLDINGS LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2010**

8. INTEREST PAYABLE

	2010 £	2009 £
Bank interest payable	158,335	165,674
Other interest payable	-	1,187
	<u>158,335</u>	<u>166,861</u>

9 TAXATION

	2010 £	2009 £
Analysis of tax credit in the year		
Current tax (see note below)		
UK corporation tax charge on loss for the year	957,357	472,527
Adjustments in respect of prior periods	(3,563)	(19,270)
Film tax credit	(2,902,458)	(2,940,060)
	<u>(1,948,664)</u>	<u>(2,486,803)</u>
Double taxation relief	(58,436)	(30,647)
	<u>(2,007,100)</u>	<u>(2,517,450)</u>
Foreign tax on income for the year	58,436	30,644
Total current tax	<u>(1,948,664)</u>	<u>(2,486,806)</u>
Deferred tax		
Capital allowances	68,369	(2,494)
Other	(215,954)	(69,825)
Total deferred tax (see note 17)	<u>(147,585)</u>	<u>(72,319)</u>
Tax on loss on ordinary activities	<u>(2,096,249)</u>	<u>(2,559,125)</u>

AARDMAN HOLDINGS LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2010**

9 TAXATION (continued)

Factors affecting tax charge for the year

The tax assessed for the year is lower than (2009 - *lower than*) the standard rate of corporation tax in the UK of 28% (2009 - 28%) The differences are explained below

	2010 £	2009 £
Loss on ordinary activities before tax	<u>(1,013,674)</u>	<u>(2,236,787)</u>
Loss on ordinary activities multiplied by standard rate of corporation tax in the UK of 28% (2009 - 28%)	(283,829)	(626,300)
Effects of:		
Expenses not deductible for tax purposes	123,206	126,045
Capital allowances for year in excess of depreciation	7,434	92,771
Effect of film tax credit	(2,089,770)	(2,116,843)
Adjustments to tax charge in respect of prior periods	(3,563)	(19,270)
Other timing differences	302,035	57,466
Tax rate differences	(4,177)	(675)
Current tax credit for the year (see note above)	<u><u>(1,948,664)</u></u>	<u><u>(2,486,806)</u></u>

Factors that may affect future tax charges

Finance (No 2) Act 2010 included legislation to reduce the main rate of corporation tax from 28% to 27% from 1 April 2011, and its impact is reflected above On 23 March 2011 the Government announced its intention to further reduce the main rate of corporation tax from 1 April 2011 to 26% with further annual reductions of 1% each year culminating in a rate of 23% on 1 April 2014

It has not yet been possible to quantify the full anticipated effect of these proposed changes combined with other announced reductions to rates of capital allowances, although this will further reduce the company's future current tax charge and reduce the company's deferred tax balances accordingly

AARDMAN HOLDINGS LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2010**

10 INTANGIBLE FIXED ASSETS

Group	W&G Rights
Cost	£
At 1 January 2010 and 31 December 2010	<u>1,500,000</u>
Amortisation	
At 1 January 2010	1,050,000
Charge for the year	150,000
At 31 December 2010	<u>1,200,000</u>
Net book value	
At 31 December 2010	<u>300,000</u>
<i>At 31 December 2009</i>	<u>450,000</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 FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2010**

11. TANGIBLE FIXED ASSETS

Group	Purchased freehold property £	Constructed freehold property £	Improvement s to property £	Plant & machinery £	Fixtures & fittings £
Cost					
At 1 January 2010	4,412,429	9,542,704	639,411	6,090,147	741,968
Additions	-	8,155	-	239,183	67,413
Disposals	-	-	-	(168,243)	-
At 31 December 2010	4,412,429	9,550,859	639,411	6,161,087	809,381
Depreciation					
At 1 January 2010	893,847	383,067	639,411	4,410,591	497,636
Charge for the year	53,572	383,134	-	312,462	50,149
On disposals	-	-	-	(107,043)	-
At 31 December 2010	947,419	766,201	639,411	4,616,010	547,785
Net book value					
At 31 December 2010	3,465,010	8,784,658	-	1,545,077	261,596
At 31 December 2009	3,518,582	9,159,637	-	1,679,556	244,332

Group	Motor vehicles £	Computer equipment £	Studio equipment £	Bicycles £	Total £
Cost					
At 1 January 2010	113,800	3,666,014	842,215	11,986	26,060,674
Additions	4,984	805,787	353,368	13,739	1,492,629
Disposals	-	-	-	(8,141)	(176,384)
At 31 December 2010	118,784	4,471,801	1,195,583	17,584	27,376,919
Depreciation					
At 1 January 2010	107,131	2,831,515	210,554	11,986	9,985,738
Charge for the year	2,865	724,247	246,257	13,739	1,786,425
On disposals	-	-	-	(8,141)	(115,184)
At 31 December 2010	109,996	3,555,762	456,811	17,584	11,656,979
Net book value					
At 31 December 2010	8,788	916,039	738,772	-	15,719,940
At 31 December 2009	6,669	834,499	631,661	-	16,074,936

AARDMAN HOLDINGS LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2010**

11. TANGIBLE FIXED ASSETS (continued)

Company	Purchased freehold property £	Constructed freehold property £	Improvements to freehold property £	Fixtures & fittings £	Total £
Cost					
At 1 January 2010	4,412,429	9,542,704	56,029	61,471	14,072,633
Additions	-	8,155	-	-	8,155
At 31 December 2010	4,412,429	9,550,859	56,029	61,471	14,080,788
Depreciation					
At 1 January 2010	893,847	383,067	56,029	-	1,332,943
Charge for the year	53,572	383,134	-	17,058	453,764
At 31 December 2010	947,419	766,201	56,029	17,058	1,786,707
Net book value					
At 31 December 2010	3,465,010	8,784,658	-	44,413	12,294,081
At 31 December 2009	3,518,582	9,159,637	-	61,471	12,739,690

12. FIXED ASSET INVESTMENTS

Company	Investments in subsidiary companies £
Cost or valuation	
At 1 January 2010 and 31 December 2010	76,583
Net book value	
At 31 December 2010	76,583
At 31 December 2009	76,583

AARDMAN HOLDINGS LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2010**

12 FIXED ASSET INVESTMENTS (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	Dormant
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	Film Producers
Briny Rogues Limited	England	100	Film Producers
Aardman Arthur Christmas Limited	England	100	Film Producers

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 companies are subsidiaries of Aardman Arthur Christmas Limited

Company	Country of incorporation	Percentage Holding	Nature of Business
Aardman Arthur Christmas Inc	United States	100	Dormant
Evie Films Inc	United States	100	Film Producers

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 FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2010**

13. STOCKS

	Group		Company	
	2010	2009	2010	2009
	£	£	£	£
Work in progress	1,379,945	4,773,725	-	-
Finished goods	8,356,576	7,381,961	-	-
	<u>9,736,521</u>	<u>12,155,686</u>	<u>-</u>	<u>-</u>

14. DEBTORS

Amounts receivable within one year

	Group		Company	
	2010	2009	2010	2009
	£	£	£	£
Trade debtors	2,596,741	1,100,216	-	415,154
Amounts owed by group undertakings	-	-	1,913	-
VAT recoverable	232,641	96,750	38,727	8,468
Corporation tax recoverable	4,273,498	2,948,791	-	-
Other debtors	130,154	450,340	2	15,000
Prepayments and accrued income	841,839	775,085	34,135	27,439
Amounts recoverable on contracts	340,885	995,270	-	-
	<u>8,415,758</u>	<u>6,366,452</u>	<u>74,777</u>	<u>466,061</u>

15. CREDITORS. Amounts falling due within one year

	Group		Company	
	2010	2009	2010	2009
	£	£	£	£
Bank loans and overdrafts	1,207,885	606,615	1,207,885	606,615
Trade creditors	779,322	953,792	35,851	28,706
Amounts owed to group undertakings	-	-	4,106	25,110
Corporation tax	702,157	275,925	7,000	-
Social security and other taxes	590,289	648,103	9,341	23,728
Other creditors	41,635	47,655	-	-
Accruals and deferred income	15,284,989	14,829,777	35,297	177,064
	<u>18,606,277</u>	<u>17,361,867</u>	<u>1,299,480</u>	<u>861,223</u>

Included within accruals are outstanding pension contributions of £31,859 (2009 - £28,690)

AARDMAN HOLDINGS LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2010**

16 CREDITORS:
Amounts falling due after more than one year

	2010 £	Group 2009 £	2010 £	Company 2009 £
Bank loans	<u>4,850,000</u>	<u>6,300,000</u>	<u>4,850,000</u>	<u>6,300,000</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 quarterly instalments over a ten year period to 30 November 2018, and bears interests at a rate of 2.25% above the base rate.

Creditors include amounts not wholly repayable within 5 years as follows

	2010 £	Group 2009 £	2010 £	Company 2009 £
Repayable by instalments	<u>850,000</u>	<u>4,700,000</u>	<u>850,000</u>	<u>4,700,000</u>

Following the year end the bank loan was renegotiated as described in note 28

The bank loan is due for repayment as follows

	2010 £	Group 2009 £	2010 £	Company 2009 £
In one year or less				
Bank loans	<u>1,000,000</u>	<u>400,000</u>	<u>1,000,000</u>	<u>400,000</u>
Between one and two years				
Bank loans	<u>1,000,000</u>	<u>400,000</u>	<u>1,000,000</u>	<u>400,000</u>
Between two and five years				
Bank loans	<u>3,000,000</u>	<u>1,200,000</u>	<u>3,000,000</u>	<u>1,200,000</u>
Over five years				
Bank loans	<u>850,000</u>	<u>4,700,000</u>	<u>850,000</u>	<u>4,700,000</u>

AARDMAN HOLDINGS LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2010**

17. DEFERRED TAXATION

The movement in the deferred taxation provision during the year was

	Group		Company	
	2010	2009	2010	2009
	£	£	£	£
At beginning of year	1,776,976	1,849,295	376,317	247,335
(Released during)/charge for the year	(147,585)	(72,319)	49,819	128,982
At end of year	1,629,391	1,776,976	426,136	376,317

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

	Group		Company	
	2010	2009	2010	2009
	£	£	£	£
Accelerated capital allowances	1,010,818	942,449	439,555	350,316
Other timing differences	618,573	834,527	(13,419)	26,001
	1,629,391	1,776,976	426,136	376,317

At the year end the group has an unprovided deferred tax liability in relation to accelerated capital allowances of £50,501 (2009 - £35,889)

18 OPERATING LEASE COMMITMENTS

At 31 December 2010 the Group had annual commitments under non-cancellable operating leases as follows

	Land and buildings		Other	
	2010	2009	2010	2009
	£	£	£	£
Group				
Expiry date:				
Within 1 year	-	50,000	23,053	1,012
Between 2 and 5 years	396,040	297,915	133,720	149,026
After more than 5 years	-	-	7,187	13,419

At 31 December 2010 the Company had annual commitments under non-cancellable operating leases as follows

	Land and buildings		Other	
	2010	2009	2010	2009
	£	£	£	£
Company				
Expiry date:				
Between 2 and 5 years	-	-	76,665	76,665

AARDMAN HOLDINGS LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2010**

19 RELATED PARTY TRANSACTIONS

There were no Related Party Transactions involving the company in 2010. The following information is provided in accordance with Financial Reporting Standard No. 8, Related Party Transactions, involving the company in 2009.

Year ended 31 December 2009

Name of Related Party	Relationship	Type of transaction	Value of transaction £	Debtor / (creditor) at 31.12.09 £
D Sproxton	Director	Dividend payment	70,000	-
D Sproxton	Director	2008 salary payment	13,090	-
D Sproxton	Director	Net interest payment	3,992	-
P Lord	Director	2008 salary payment	4,859	-
P Lord	Director	Net interest payment	146	-

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

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 2010

Name of Related Party	Relationship	Type of transaction	Value of transaction £	Debtor / (creditor) at 31.12.10 £
Wallace & Gromit Limited	Subsidiary	Group relief paid for	21,004	24,627

There were no transactions requiring disclosure in the year ended 31 December 2009.

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

20 SHARE CAPITAL

	2010 £	2009 £
Allotted, called up and fully paid		
10,000,000 Ordinary shares shares of £0.01 each	100,000	100,000
1,750,000 'A' Ordinary shares shares of £0.01 each	17,500	17,500
	<u>117,500</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'

AARDMAN HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

20 SHARE CAPITAL (continued)

ordinary shares will be subject to pre-emption rights upon the termination of the employment of the 'A' ordinary shareholders

21. RESERVES

Group	Share premium account £	Other reserves £	Profit and loss account £
At 1 January 2010 (restated)	513,847	(206,615)	15,227,384
Profit for the year	-	-	1,084,191
Purchase of shares by employment benefit trust	-	(1,270)	-
At 31 December 2010	<u>513,847</u>	<u>(207,885)</u>	<u>16,311,575</u>

Company	Share premium account £	Other reserves £	Profit and loss account £
At 1 January 2010	513,847	(206,615)	6,424,487
Loss for the year	-	-	(98,467)
Purchase of shares by employment benefit trust	-	(1,270)	-
At 31 December 2010	<u>513,847</u>	<u>(207,885)</u>	<u>6,326,020</u>

During the year the group purchased 7,267 (2009 – 50,566) 'A' ordinary shares in the parent company, representing 0.06% (2009 – 0.43%) of the issued share capital, as part of an Employee Benefit Trust. The total consideration paid for the shares was £1,270 (2009 - £3,092) generating the above reserve. The shares are held by the trust as part of an approved profit sharing scheme as disclosed in note 26.

AARDMAN HOLDINGS LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2010**

22 RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' FUNDS

	2010 £	2009 £
Group		
Opening shareholders' funds (restated)	15,652,116	15,328,398
Profit for the year	1,084,191	326,810
Purchase of shares by employment benefit trust	(1,270)	(3,092)
	<u>16,735,037</u>	<u>15,652,116</u>
Closing shareholders' funds		
	<u>16,735,037</u>	<u>15,652,116</u>
	2010 £	2009 £
Company		
Opening shareholders' funds	6,849,219	6,938,201
Loss for the year	(98,467)	(85,890)
Purchase of shares by employment benefit trust	(1,270)	(3,092)
	<u>6,749,482</u>	<u>6,849,219</u>
Closing shareholders' funds		
	<u>6,749,482</u>	<u>6,849,219</u>

The Company has taken advantage of the exemption contained within section 408 of the Companies Act 2006 not to present its own profit and loss account

The loss for the year dealt with in the accounts of the Company was £98,467 (2009 - £85,890)

23. NET CASH FLOW FROM OPERATING ACTIVITIES

	2010 £	2009 £
Operating loss	(861,701)	(2,074,712)
Amortisation of intangible fixed assets	150,000	150,000
Depreciation of tangible fixed assets	1,786,425	1,691,852
Impairments of fixed assets	-	152,899
Loss on disposal of tangible fixed assets	7,227	348,811
Decrease in stocks	2,419,165	3,586,548
(Increase)/decrease in debtors	(724,599)	579,272
Increase/(decrease) in creditors	216,908	(818,620)
	<u>2,993,425</u>	<u>3,616,050</u>
Net cash inflow from operating activities		
	<u>2,993,425</u>	<u>3,616,050</u>

AARDMAN HOLDINGS LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2010**

24. ANALYSIS OF CASH FLOWS FOR HEADINGS NETTED IN CASH FLOW STATEMENT

	2010 £	2009 £
Returns on investments and servicing of finance		
Interest received	6,362	4,786
Interest paid	(158,335)	(166,861)
Net cash outflow from returns on investments and servicing of finance	<u>(151,973)</u>	<u>(162,075)</u>
	2010 £	2009 £
Taxation		
Corporation tax repaid/(paid)	<u>1,050,189</u>	<u>(528,800)</u>
	2010 £	2009 £
Capital expenditure and financial investment		
Purchase of tangible fixed assets	(1,492,629)	(2,628,612)
Sale of tangible fixed assets	53,973	286,237
Net cash outflow from capital expenditure	<u>(1,438,656)</u>	<u>(2,342,375)</u>
	2010 £	2009 £
Acquisitions and disposals		
Purchase of fixed asset investments	<u>-</u>	<u>(2)</u>
	2010 £	2009 £
Financing		
Repayment of loans	(850,000)	-
Employee Benefit Trust purchase of shares	(1,270)	(3,092)
Income from borrowing	-	131,001
Net cash (outflow)/inflow from financing	<u>(851,270)</u>	<u>127,909</u>

AARDMAN HOLDINGS LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2010**

25. ANALYSIS OF CHANGES IN NET DEBT

	1 January 2010 £	Cash flow £	Other non-cash changes £	31 December 2010 £
Cash at bank and in hand	6,249,768	1,602,985	-	7,852,753
Bank overdraft	(206,615)	(1,270)	-	(207,885)
	<u>6,043,153</u>	<u>1,601,715</u>	<u>-</u>	<u>7,644,868</u>
Debt				
Debts due within one year	(400,000)	850,000	(1,450,000)	(1,000,000)
Debts falling due after more than one year	(6,300,000)	-	1,450,000	(4,850,000)
	<u>(656,847)</u>	<u>2,451,715</u>	<u>-</u>	<u>1,794,868</u>
Net debt	<u>(656,847)</u>	<u>2,451,715</u>	<u>-</u>	<u>1,794,868</u>

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 7,267 shares in the current year and 50,566 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.

27. PRIOR YEAR RESTATEMENT

The comparative turnover, administrative expenses and work in progress figures have been restated to reflect a reclassification of specific job costs relating to the prior year. This has increased reported profit and net assets by £234,030.

28. POST BALANCE SHEET EVENTS

On 11 May 2011 the bank loan was renegotiated such that it will now be repayable by quarterly instalments of £175,000 commencing 30 April 2011. Interest on the loan shall be charged at a rate of 2.25% above base rate per annum.