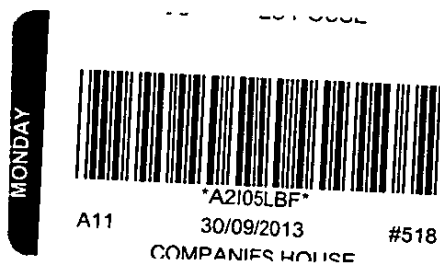


Registered number 02672880

AARDMAN HOLDINGS LIMITED

DIRECTORS' REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012



AARDMAN HOLDINGS LIMITED

CONTENTS

	Page
Company Information	1
Directors' report	2 - 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 - 30

AARDMAN HOLDINGS LIMITED

COMPANY INFORMATION

DIRECTORS	D A Sproxton P D F Lord
COMPANY SECRETARY	D A Sproxton
COMPANY NUMBER	02672880
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

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2012

The directors have pleasure in presenting their report and the consolidated financial statements of the Group for the year ended 31 December 2012

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 loss on ordinary activities of £1,154,920 (2011 pre-tax profit of £739,321)

Following the release of 'Arthur Christmas' in 2011, the Feature Film division completed and released 'Pirates' in March 2012. A nominal amount of post release contingent compensation went through the profit and loss account for these two titles

Residual income continued to be received for 'Wallace and Gromit: Curse of the Were-Rabbit' and 'Chicken Run', the latter through Aardman Features Limited

A deal was also signed prior to the year-end to produce 'Shaun the Sheep: The Movie', which was in pre-production

The Broadcast division delivered a third series of 'Shaun the Sheep', taking the total number of episodes to 100. Also produced in the division was a one minute series 'Champion Sheeps', and a number of shorts for the Nintendo 3D console, both featuring 'Shaun the Sheep'

'Wallace and Gromit's World of Invention' and 'Timmy Time' continued to recoup their investment during 2012. A small number of projects on the Broadcast development slate were written off in the year and a further 20 episodes of 'Shaun' were greenlit, for production and delivery in 2013

The Commercials division posted a good year in terms of turnover, again outperforming the budget. As per the last three years, stop-frame animation work exceeded CGI animation, but Flash/Cel Action was lower than the year before. Over two thirds of the work was generated from the UK and nearly a fifth from North America, the balance from Europe and the Rest of the World

The Rights division outperformed last year's result and the budget, again mainly due to the continued success in the distribution of the 'Shaun' brand and strong sales of the 'Wallace and Gromit' and 'Timmy' brands. The back catalogue continues to contribute meaningfully to the results of the division, as does the distribution of third party properties taken on over the last two years

Distribution income for the three original Wallace & Gromit short films, recognised through Wallace and Gromit Limited, increased, as generic/non-specific Wallace and Gromit income began to come through the subsidiary company again, following recoupment of 'World of Invention'

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 financial statements

The directors have recommended the following dividends

	2012 £	2011 £
Dividends paid on ordinary shares	<u>Nil</u>	<u>Nil</u>

AARDMAN HOLDINGS LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2012

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 30% for the year, compared to 32% in 2011. 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.

The small number of written off Broadcast projects mentioned in the Business Review, together with a similar write-off of Feature film development costs, detrimentally affected overall gross profit in the year. Compared to 2011, recharges of space and equipment to Feature projects, shown in turnover, were much lower in 2012, further highlighting the difference in overall gross profit.

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 100, employee turnover continues to remain 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

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 2012

DIRECTORS' RESPONSIBILITIES STATEMENT

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

Company law requires the directors to prepare consolidated financial statements of the Group for each financial year. Under that law the directors have elected to prepare the consolidated financial statements of the Group 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 consolidated financial statements of the Group 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 consolidated financial statements of the Group, 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 consolidated financial statements of the Group 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 consolidated financial statements of the Group 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.

DISCLOSURE OF INFORMATION TO AUDITORS

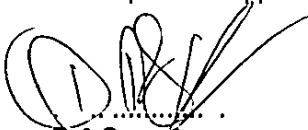
Each of the persons who are directors at the time when this Directors' Report is approved has confirmed that

- 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.

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 on 27 September 2013 and signed on its behalf


.....
D.A. Sproston
Director

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 2012, which comprise the Group profit and loss account, the Group and Company balance sheets, the Group cash flow statement and the related notes. 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, 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 FRC'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 2012 and of the Group's loss 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



Carl Deane (Senior statutory auditor)

for and on behalf of
Nexia Smith & Williamson

Chartered Accountants
Statutory Auditors

Portwall Place
Portwall Lane
Bristol
BS1 6NA

27 September 2013

AARDMAN HOLDINGS LIMITED

**CONSOLIDATED PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 2012**

	Note	2012 Feature film activity £	2012 Other activities £	2012 Total £	2011 Feature film activity £	2011 Other activities £	2011 Total £
TURNOVER	2	5,235,429	17,038,477	22,273,906	52,733,394	14,069,317	66,802,711
Cost of sales		(5,926,381)	(9,976,526)	(15,902,907)	(57,026,928)	(4,975,891)	(62,002,819)
GROSS PROFIT		(690,952)	7,061,951	6,370,999	(4,293,534)	9,093,426	4,799,892
Distribution costs		-	(20,025)	(20,025)	-	(21,684)	(21,684)
Administrative expenses		-	(10,522,549)	(10,522,549)	-	(10,446,509)	(10,446,509)
Other operating income	3	-	2,451,711	2,451,711	-	2,237,437	2,237,437
OPERATING (LOSS)/PROFIT	4	(690,952)	(1,028,912)	(1,719,864)	(4,293,534)	862,670	(3,430,864)
Interest receivable		-	4,944	4,944	-	5,734	5,734
Interest payable	8	-	(130,952)	(130,952)	-	(129,083)	(129,083)
(LOSS)/PROFIT ON ORDINARY ACTIVITIES BEFORE FILM TAX CREDIT		(690,952)	(1,154,920)	(1,845,872)	(4,293,534)	739,321	(3,554,213)
Film tax credit	9	690,952	-	690,952	4,293,534	-	4,293,534
(LOSS)/PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		-	(1,154,920)	(1,154,920)	-	739,321	739,321
Tax on (loss)/profit on ordinary activities	9	-	363,155	363,155	-	(98,069)	(98,069)
TOTAL TAX ON (LOSS)/PROFIT ON ORDINARY ACTIVITIES	9	690,952	363,155	1,054,107	4,293,534	(98,069)	4,195,465
PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION		-	(791,765)	(791,765)	-	641,252	641,252
Minority interests		-	17,025	17,025	-	35,006	35,006
RETAINED PROFIT FOR THE FINANCIAL YEAR		-	(774,740)	(774,740)	-	676,258	676,258

There are no recognised gains or losses for the year other than the (loss)/profit shown above
All of the activities of the group are classed as continuing
The notes on pages 11 to 30 form part of these financial statements

AARDMAN HOLDINGS LIMITED

**CONSOLIDATED BALANCE SHEET
AS AT 31 DECEMBER 2012**

	Note	£	2012 £	£	2011 £
FIXED ASSETS					
Intangible assets	10		-		150,000
Tangible assets	11		<u>12,671,427</u>		<u>14,643,426</u>
			12,671,427		14,793,426
CURRENT ASSETS					
Stocks	13	9,247,972		11,333,467	
Debtors	14	4,152,043		9,001,350	
Cash at bank		<u>11,072,806</u>		<u>5,842,077</u>	
		24,472,821		26,176,894	
CREDITORS: amounts falling due within one year	15	<u>(15,675,901)</u>		<u>(17,557,999)</u>	
NET CURRENT ASSETS			<u>8,796,920</u>		<u>8,618,895</u>
TOTAL ASSETS LESS CURRENT LIABILITIES			21,468,347		23,412,321
CREDITORS: amounts falling due after more than one year	16		(3,675,000)		(4,375,000)
PROVISIONS FOR LIABILITIES					
Deferred tax	17		<u>(1,088,827)</u>		<u>(1,457,961)</u>
NET ASSETS			<u>16,704,520</u>		<u>17,579,360</u>
CAPITAL AND RESERVES					
Called up share capital	20		117,500		117,500
Share premium account	21		513,847		513,847
Other reserves	21		(229,656)		(209,081)
Profit and loss account	21		<u>16,213,093</u>		<u>16,987,833</u>
SHAREHOLDERS' FUNDS	22		16,614,784		17,410,099
MINORITY INTERESTS			<u>89,736</u>		<u>169,261</u>
			<u>16,704,520</u>		<u>17,579,360</u>

The financial statements were approved and authorised for issue by the board and were signed on its behalf on 27 September 2013

D-A Sproxtton

Director

The notes on pages 11 to 30 form part of these financial statements

AARDMAN HOLDINGS LIMITED
REGISTERED NUMBER: 02672880

COMPANY BALANCE SHEET
AS AT 31 DECEMBER 2012

	Note	£	2012 £	£	2011 £
FIXED ASSETS					
Tangible assets	11		11,410,548		11,851,815
Investments	12		<u>76,783</u>		<u>76,583</u>
			11,487,331		11,928,398
CURRENT ASSETS					
Debtors	14	161,619		52,741	
Cash at bank and in hand		<u>98,316</u>		<u>553,374</u>	
		259,935		606,115	
CREDITORS: amounts falling due within one year	15	<u>(1,014,716)</u>		<u>(1,021,749)</u>	
NET CURRENT LIABILITIES			<u>(754,781)</u>		<u>(415,634)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES			10,732,550		11,521,764
CREDITORS amounts falling due after more than one year	16		(3,675,000)		(4,375,000)
PROVISIONS FOR LIABILITIES					
Deferred tax	17		<u>(342,040)</u>		<u>(430,063)</u>
NET ASSETS			<u>6,715,510</u>		<u>6,707,701</u>
CAPITAL AND RESERVES					
Called up share capital	20		117,500		117,500
Share premium account	21		513,847		513,847
Other reserves	21		(229,656)		(209,081)
Profit and loss account	21		<u>6,313,819</u>		<u>6,285,435</u>
SHAREHOLDERS' FUNDS	22		<u>6,715,510</u>		<u>6,707,701</u>

The financial statements were approved and authorised for issue by the board and were signed on its behalf on 27 September 2013


D-A Sproston
 Director

The notes on pages 11 to 30 form part of these financial statements

AARDMAN HOLDINGS LIMITED

**CONSOLIDATED CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2012**

	Note	2012 £	2011 £
Net cash flow from operating activities	23	1,262,952	(3,817,226)
Returns on investments and servicing of finance	24	(188,508)	(123,349)
Taxation	24	4,125,338	3,453,901
Capital expenditure and financial investment	24	<u>730,947</u>	<u>(749,002)</u>
CASH INFLOW/(OUTFLOW) BEFORE FINANCING		5,930,729	(1,235,676)
Financing	24	<u>(720,575)</u>	<u>(776,196)</u>
INCREASE/(DECREASE)/ IN CASH IN THE YEAR		<u>5,210,154</u>	<u>(2,011,872)</u>

**RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET FUNDS/DEBT
FOR THE YEAR ENDED 31 DECEMBER 2012**

	2012 £	2011 £
Increase/(Decrease) in cash in the year	5,210,154	(2,011,872)
Cash outflow from decrease in debt and lease financing	<u>700,000</u>	<u>775,000</u>
MOVEMENT IN NET FUNDS/(DEBT) IN THE YEAR	5,910,154	(1,236,872)
Net funds at 1 January 2012	<u>557,996</u>	<u>1,794,868</u>
NET FUNDS AT 31 DECEMBER 2012	<u>6,468,150</u>	<u>557,996</u>

The notes on pages 11 to 30 form part of these financial statements

AARDMAN HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

1 ACCOUNTING POLICIES

1.1 Basis of preparation of financial statements

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 financial statements incorporate the results of the Company and all of its subsidiary undertakings as at 31 December 2012 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

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 of exchange 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 on the date of the transaction. Exchange differences are taken into account in arriving at the operating profit or loss, 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 2012

1 ACCOUNTING POLICIES (continued)

1.7 Tangible fixed assets and 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
Bicycles	-	100% on cost
Fixtures and fittings	-	15% on reducing balance
Motor vehicles	-	25% on reducing balance
Studio equipment	-	25% on reducing balance
Computer equipment	-	33% 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 2012

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 receivable

Commission income is included on a receivable basis.

1.14 Royalties received

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 be 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 2012**

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

	2012 £	2011 £ <i>restated</i>
United Kingdom	9,191,857	6,805,516
Rest of European Union	2,262,487	1,772,137
Rest of world	2,562,049	1,699,269
United States of America	8,257,513	56,525,789
	<u>22,273,906</u>	<u>66,802,711</u>

3 OTHER OPERATING INCOME

	2012 £	2011 £
Commissions receivable	2,026,543	2,049,376
Royalties receivable	417,419	178,018
Bike lease scheme income	1,403	3,204
Recharges	6,346	6,839
	<u>2,451,711</u>	<u>2,237,437</u>

4 OPERATING LOSS

Operating loss is stated after charging/(crediting)

	2012 £	2011 £
Amortisation - intangible fixed assets	150,000	150,000
Depreciation of tangible fixed assets		
- owned by the group	1,332,963	1,781,294
Operating lease rentals		
- other operating leases	873,472	825,011
Net loss/(gain) on foreign currency translation	112,322	(16,283)
Net (profit)/loss on disposal of tangible assets	(91,911)	44,222
Royalties payable	<u>29,520</u>	<u>41,542</u>

AARDMAN HOLDINGS LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2012**

5 AUDITORS' REMUNERATION

	2012 £	2011 £
Fees payable to the Company's auditor for the audit of the Company's annual accounts	15,650	15,650
Fees payable to the Company's auditor and its associates in respect of The auditing of accounts of associates of the Company pursuant to legislation	33,040	33,040
Other services relating to taxation	31,160	25,725
All other services	-	8,955
	<u> </u>	<u> </u>

6 STAFF COSTS

Staff costs, including directors' remuneration, were as follows

	2012 £	2011 £
Wages and salaries	9,978,169	19,340,804
Social security costs	1,030,632	2,421,866
Other pension costs	325,344	392,097
	<u>11,334,145</u>	<u>22,154,767</u>

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

	2012 No.	2011 No
Core staff	102	115
Project related freelancers	142	375
	<u>244</u>	<u>490</u>

7. DIRECTORS' REMUNERATION

	2012 £	2011 £
Emoluments	<u>233,208</u>	<u>203,724</u>
Company pension contributions to defined contribution pension schemes	<u>-</u>	<u>30,000</u>

During the year retirement benefits were accruing to 2 directors (2011 - 2) in respect of defined contribution pension schemes

AARDMAN HOLDINGS LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2012**

7. DIRECTORS' REMUNERATION (continued)

The highest paid director received remuneration of £116,604 (2011 - £131,491)

The value of the company's contributions paid to a defined contribution pension scheme in respect of the highest paid director amounted to £nil (2011 - £15,000)

8 INTEREST PAYABLE

	2012 £	2011 £
Bank interest payable	<u>130,952</u>	<u>129,083</u>

9 TAXATION

	2012 £	2011 £
Analysis of tax credit in the year		
Current tax (see note below)		
UK corporation tax charge on loss for the year	-	263,350
Adjustments in respect of prior periods	(62,084)	6,143
Film tax credit	<u>(690,952)</u>	<u>(4,293,534)</u>
	(753,036)	(4,024,041)
Double taxation relief	<u>-</u>	<u>(103,625)</u>
	(753,036)	(4,127,666)
Foreign tax on income for the year	<u>68,063</u>	<u>103,631</u>
Total current tax	<u>(684,973)</u>	<u>(4,024,035)</u>
Deferred tax		
Capital allowances	-	(51,602)
Other	<u>(369,134)</u>	<u>(119,828)</u>
Total deferred tax (see note 17)	<u>(369,134)</u>	<u>(171,430)</u>
Tax on loss on ordinary activities	<u>(1,054,107)</u>	<u>(4,195,465)</u>

AARDMAN HOLDINGS LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2012**

9. TAXATION (continued)

Factors affecting tax charge for the year

The tax assessed for the year is lower than (2011 - lower than) the standard rate of corporation tax in the UK of 24.5% (2011 – 26.5%) The differences are explained below

	2012 £	2011 £
Loss on ordinary activities before tax and film tax credit	<u>(1,845,872)</u>	<u>(3,554,213)</u>
Loss on ordinary activities multiplied by standard rate of corporation tax in the UK of 24.5% (2011 – 26.5%)	(452,238)	(941,866)
Effects of		
Expenses not deductible for tax purposes	106,234	113,657
Capital allowances for year in excess of depreciation	(81,753)	15,075
Effect of film tax credit	(521,669)	(3,155,743)
Income not taxable for tax purposes	-	-
Foreign tax credits	68,063	-
Losses carried back to prior period	30,944	-
Unrelieved tax losses and other deductions arising in the period	238,920	-
Additional deduction for R&D	(66,640)	-
Adjustments to tax charge in respect of prior periods	(62,084)	6,143
Other timing differences	71,925	(57,750)
Withholding tax expensed	(16,675)	-
Tax rate differences	-	(3,551)
Current tax credit for the year (see note above)	<u>(684,973)</u>	<u>(4,024,035)</u>

Factors that may affect future tax charges

Finance Act 2012 included legislation to reduce the main rate of corporation tax from 26% to 24% from 1 April 2012, and to 23% from 1 April 2013, and its impact is reflected above

Finance Act 2013 included legislation to reduce the main rate of corporation tax to 21% from 1 April 2014 and to 20% from 1 April 2015. The full anticipated effect of these changes is not considered material

AARDMAN HOLDINGS LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2012**

10. INTANGIBLE FIXED ASSETS

Group	W&G Rights £
Cost	
At 1 January 2012 and 31 December 2012	<u>1,500,000</u>
Amortisation	
At 1 January 2012	1,350,000
Charge for the year	<u>150,000</u>
At 31 December 2012	<u>1,500,000</u>
Net book value	
At 31 December 2012	<u>-</u>
<i>At 31 December 2011</i>	<u><i>150,000</i></u>

AARDMAN HOLDINGS LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2012**

11 TANGIBLE FIXED ASSETS

Group	Purchased freehold property £	Constructed freehold property £	Improve- ments to property £	Plant & machinery £	Bicycles £
Cost					
At 1 January 2012	4,412,429	9,550,859	639,411	4,776,690	8,781
Additions	-	-	-	57,074	1,754
Disposals	-	-	-	(639,052)	(9,996)
At 31 December 2012	4,412,429	9,550,859	639,411	4,194,712	539
Depreciation					
At 1 January 2012	1,000,989	1,148,236	639,411	3,404,789	8,781
Charge for the year	53,570	382,034	-	274,553	1,754
On disposals	-	-	-	(464,925)	(9,996)
At 31 December 2012	1,054,559	1,530,270	639,411	3,214,417	539
Net book value					
At 31 December 2012	3,357,870	8,020,589	-	980,295	-
At 31 December 2011	3,411,440	8,402,623	-	1,371,901	-
Group	Fixtures & fittings £	Motor vehicles £	Computer equipment £	Studio equipment £	Total £
Cost					
At 1 January 2012	799,981	81,705	4,279,032	1,367,964	25,916,852
Additions	1,423	-	81,154	-	141,405
Disposals	(27,682)	(18,376)	(936,688)	(1,367,964)	(2,999,758)
At 31 December 2012	773,722	63,329	3,423,498	-	23,058,499
Depreciation					
At 1 January 2012	563,119	69,791	3,753,711	684,599	11,273,426
Charge for the year	31,292	2,931	415,988	170,841	1,332,963
On disposals	(10,062)	(18,049)	(860,845)	(855,440)	(2,219,317)
At 31 December 2012	584,349	54,673	3,308,854	-	10,387,072
Net book value					
At 31 December 2012	189,373	8,656	114,644	-	12,671,427
At 31 December 2011	236,862	11,914	525,321	683,365	14,643,426

AARDMAN HOLDINGS LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2012**

11 TANGIBLE FIXED ASSETS (continued)

Company	Purchased freehold property £	Improvements to freehold property £	Constructed freehold property £	Fixtures & fittings £
Cost				
At 1 January 2012 and 31 December 2012	<u>4,412,429</u>	<u>56,029</u>	<u>9,550,859</u>	<u>61,471</u>
Depreciation				
At 1 January 2012	<u>1,000,989</u>	<u>56,029</u>	<u>1,148,236</u>	<u>23,719</u>
Charge for the year	<u>53,570</u>	<u>-</u>	<u>382,034</u>	<u>5,663</u>
At 31 December 2012	<u>1,054,559</u>	<u>56,029</u>	<u>1,530,270</u>	<u>29,382</u>
Net book value				
At 31 December 2012	<u>3,357,870</u>	<u>-</u>	<u>8,020,589</u>	<u>32,089</u>
At 31 December 2011	<u>3,411,440</u>	<u>-</u>	<u>8,402,623</u>	<u>37,752</u>

Company	Total £
Cost	
At 1 January 2012 and 31 December 2012	<u>14,080,788</u>
Depreciation	
At 1 January 2012	<u>2,228,973</u>
Charge for the year	<u>441,267</u>
At 31 December 2012	<u>2,670,240</u>
Net book value	
At 31 December 2012	<u>11,410,548</u>
At 31 December 2011	<u>11,851,815</u>

AARDMAN HOLDINGS LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2012**

12. FIXED ASSET INVESTMENTS

Company	Investments in subsidiary companies £
Cost or valuation	
At 1 January 2012	<u>76,583</u>
Additions	<u>200</u>
At 31 December 2012	<u>76,783</u>
Net book value	
At 31 December 2012	<u>76,783</u>
<i>At 31 December 2011</i>	<u>76,583</u>

AARDMAN HOLDINGS LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2012**

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
Aardman Shaun the Sheep Limited	England	100	Dormant
Shaun the Sheep Limited	England	100	Dormant

The following companies are subsidiaries of Aardman Animations Limited

Company	Country of incorporation	Percentage Holding	Nature of Business
Morph Limited	England	100	Dormant
Aardman Creature Comforts USA Limited	England	100	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 2012**

13. STOCKS

	Group		Company	
	2012	2011	2012	2011
	£	£	£	£
Work in progress	2,135,219	2,980,545	-	-
Finished goods	7,112,753	8,352,922	-	-
	<u>9,247,972</u>	<u>11,333,467</u>	<u>-</u>	<u>-</u>

14. DEBTORS - Amounts receivable within one year

	Group		Company	
	2012	2011	2012	2011
	£	£	£	£
Trade debtors	1,895,484	2,865,463	-	-
Amounts owed by group undertakings	-	-	104,092	-
VAT repayable	16,313	473,799	8,437	11,052
Corporation tax repayable	700,426	4,293,534	-	-
Other debtors	182,595	189,174	1,000	-
Prepayments and accrued income	1,327,048	845,206	48,090	41,689
Amounts recoverable on contracts	30,177	334,174	-	-
	<u>4,152,043</u>	<u>9,001,350</u>	<u>161,619</u>	<u>52,741</u>

15. CREDITORS Amounts falling due within one year

	Group		Company	
	2012	2011	2012	2011
	£	£	£	£
Bank loans and overdrafts	929,656	909,081	929,656	909,081
Trade creditors	435,399	1,329,752	20,567	24,431
Amounts owed to group undertakings	-	-	1,766	12,559
Corporation tax	-	152,059	-	26,140
Social security and other taxes	534,186	512,815	12,313	11,749
Other creditors	42,675	90,365	-	-
Accruals and deferred income	13,733,985	14,563,927	50,414	37,789
	<u>15,675,901</u>	<u>17,557,999</u>	<u>1,014,716</u>	<u>1,021,749</u>

Included within accruals are outstanding pension contributions of £20,988 (2011 - £29,873)

AARDMAN HOLDINGS LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2012**

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

	<u>Group</u>		<u>Company</u>	
	2012 £	2011 £	2012 £	2011 £
Bank loans	<u>3,675,000</u>	<u>4,375,000</u>	<u>3,675,000</u>	<u>4,375,000</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 interest at a rate of 2.75% above the base rate.

Creditors include amounts not wholly repayable within 5 years as follows

	<u>Group</u>		<u>Company</u>	
	2012 £	2011 £	2012 £	2011 £
Repayable by instalments	<u>875,000</u>	<u>1,575,000</u>	<u>875,000</u>	<u>1,575,000</u>

The bank loan is due for repayment as follows

	<u>Group</u>		<u>Company</u>	
	2012 £	2011 £	2012 £	2011 £
In one year or less				
Bank loans	<u>700,000</u>	<u>700,000</u>	<u>700,000</u>	<u>700,000</u>
Between one and two years				
Bank loans	<u>700,000</u>	<u>700,000</u>	<u>700,000</u>	<u>700,000</u>
Between two and five years				
Bank loans	<u>2,100,000</u>	<u>2,100,000</u>	<u>2,100,000</u>	<u>2,100,000</u>
Over five years				
Bank loans	<u>875,000</u>	<u>1,575,000</u>	<u>875,000</u>	<u>1,575,000</u>

17. DEFERRED TAXATION

	<u>Group</u>		<u>Company</u>	
	2012 £	2011 £	2012 £	2011 £
At beginning of year	1,457,961	1,629,391	430,063	426,136
(Released during)/charge for the year	<u>(369,134)</u>	<u>(171,430)</u>	<u>(88,023)</u>	<u>3,927</u>
At end of year	<u>1,088,827</u>	<u>1,457,961</u>	<u>342,040</u>	<u>430,063</u>

AARDMAN HOLDINGS LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2012**

17. DEFERRED TAXATION (continued)

The provision for deferred taxation is made up as follows

	<u>Group</u>		<u>Company</u>	
	2012 £	2011 £	2012 £	2011 £
Accelerated capital allowances	905,270	959,216	418,309	422,209
Tax losses	(197,967)	-	(68,103)	-
Other timing differences	381,524	498,745	(8,166)	7,854
	<u>1,088,827</u>	<u>1,457,961</u>	<u>342,040</u>	<u>430,063</u>

18. OPERATING LEASE COMMITMENTS

At 31 December 2012 the Group had annual commitments under non-cancellable operating leases as follows

	<u>Land and buildings</u>			<u>Other</u>
Group	2012 £	2011 £	2012 £	2011 £
Expiry date				
Within 1 year	70,000	-	-	50,824
Between 2 and 5 years	-	400,415	87,287	76,665
After more than 5 years	<u>347,915</u>	<u>-</u>	<u>-</u>	<u>45,894</u>

At 31 December 2012 the Company had annual commitments under non-cancellable operating leases as follows

		2012 £	<u>Other</u> 2011 £
Company			
Expiry date:			
Between 2 and 5 years		<u>-</u>	<u>76,665</u>

AARDMAN HOLDINGS LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2012**

19. RELATED PARTY TRANSACTIONS

There were no Related Party Transactions involving the company in 2012 nor 2011

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

Group

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

There were no transactions requiring disclosure in the year ended 31 December 2012 and 31 December 2011

20. SHARE CAPITAL

	2012 £	2011 £
Allotted, called up and fully paid		
10,000,000 Ordinary shares shares of £0 01 each	100,000	<i>100,000</i>
1,750,000 'A' Ordinary shares shares of £0 01 each	17,500	<i>17,500</i>
	<u>117,500</u>	<i><u>117,500</u></i>

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 FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2012**

21. RESERVES

Group	Share premium account £	Other reserves £	Profit and loss account £
At 1 January 2012	513,847	(209,081)	16,987,833
Loss for year	-	-	(774,740)
Purchase of shares by employment benefit trust	-	(20,575)	-
At 31 December 2012	<u>513,847</u>	<u>(229,656)</u>	<u>16,213,093</u>
Company	Share premium account £	Other reserves £	Profit and loss account £
At 1 January 2012	513,847	(209,081)	6,285,435
Profit for the year	-	-	28,384
Purchase of shares by employment benefit trust	-	(20,575)	-
At 31 December 2012	<u>513,847</u>	<u>(229,656)</u>	<u>6,313,819</u>

Included in other reserves are amounts in respect of an Employee Benefit Trust

During the year the Group purchased 93,087 (2011 – 2,605) 'A' ordinary shares in the parent company, representing 5.3% (2011 – 0.02%) of the issued share capital, as part of the Employee Benefit Trust. The total consideration paid for the shares was £20,575 (2011 - £1,196) 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 2012**

22 RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' FUNDS

Group	2012 £	2011 £
Opening shareholders' funds	17,410,099	16,735,037
(Loss)/profit for the year	(774,740)	676,258
Purchase of shares by employment benefit trust	(20,575)	(1,196)
Closing shareholders' funds	<u>16,614,784</u>	<u>17,410,099</u>
 Company	 2012 £	 2011 £
Opening shareholders' funds	6,707,701	6,749,482
Profit/(loss) for the year	28,384	(40,585)
Purchase of shares by employment benefit trust	(20,575)	(1,196)
Closing shareholders' funds	<u>6,715,510</u>	<u>6,707,701</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 profit for the year dealt with in the accounts of the Company was £28,384 (2011 – loss of £40,585)

23. NET CASH FLOW FROM OPERATING ACTIVITIES

	2012 £	2011 £
Operating loss	(1,719,864)	(3,430,864)
Amortisation of intangible fixed assets	150,000	150,000
Depreciation of tangible fixed assets	1,332,963	1,781,294
Profit/(loss) on disposal of tangible fixed assets	(91,911)	44,222
Decrease/(increase) in stocks	2,085,495	(1,596,946)
Decrease/(increase) in debtors	1,256,883	(565,556)
Decrease in creditors	(1,750,614)	(199,376)
 Net cash inflow/(outflow) from operating activities	 <u>1,262,952</u>	 <u>(3,817,226)</u>

AARDMAN HOLDINGS LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2012**

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

	2012 £	2011 £
Returns on investments and servicing of finance		
Interest received	4,944	5,734
Interest paid	(130,952)	(129,083)
Dividends paid to minority interests	(62,500)	-
Net cash outflow from returns on investments and servicing of finance	<u>(188,508)</u>	<u>(123,349)</u>
	2012 £	2011 £
Taxation		
Corporation tax repaid	<u>4,125,338</u>	<u>3,453,901</u>
	2012 £	2011 £
Capital expenditure and financial investment		
Purchase of tangible fixed assets	(141,405)	(805,024)
Sale of tangible fixed assets	872,352	56,022
Net cash outflow from capital expenditure	<u>730,947</u>	<u>(749,002)</u>
	2012 £	2011 £
Financing		
Repayment of loans	(700,000)	(775,000)
Employee Benefit Trust purchase of shares	(20,575)	(1,196)
Net cash outflow from financing	<u>(720,575)</u>	<u>(776,196)</u>

AARDMAN HOLDINGS LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2012**

25. ANALYSIS OF CHANGES IN NET DEBT

	1 January 2012 £	Cash flow £	Other non-cash changes £	31 December 2012 £
Cash at bank and in hand	5,842,077	5,230,729	-	11,072,806
Bank overdraft	(209,081)	(20,575)	-	(229,656)
	<u>5,632,996</u>	<u>5,210,154</u>	<u>-</u>	<u>10,843,150</u>
Debt:				
Debts due within one year	(700,000)	700,000	(700,000)	(700,000)
Debts falling due after more than one year	(4,375,000)	-	700,000	(3,675,000)
	<u>(5,075,000)</u>	<u>700,000</u>	<u>(700,000)</u>	<u>(4,075,000)</u>
Net funds	<u>557,996</u>	<u>5,910,154</u>	<u>-</u>	<u>6,468,150</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 93,087 shares in the current year (2011 – 2,605). The beneficial interests in the remaining 'A' Ordinary shares acquired in prior years are vested in employees of the group companies.