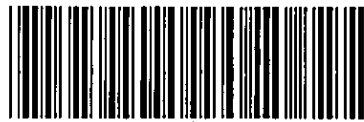

AARDMAN FEATURE DEVELOPMENT LIMITED

DIRECTORS' REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2011

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AARDMAN FEATURE DEVELOPMENT LIMITED

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AARDMAN FEATURE DEVELOPMENT LIMITED

COMPANY INFORMATION

DIRECTORS	D A Sproxton P D F Lord
COMPANY NUMBER	06712047
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 FEATURE DEVELOPMENT LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2011

The directors have pleasure in presenting their report and the financial statements for the year ended 31 December 2011

PRINCIPAL ACTIVITIES AND REVIEW OF BUSINESS

The principal activities of the company during the year were that of feature film development and the leasing of equipment to group companies

The directors are satisfied with the performance of the business during the year and the position of the company at the year end

RESULTS AND DIVIDENDS

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

The directors have not recommended a dividend (2010 - £nil)

FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The directors have not established any formal financial risk management objectives and policies due to the size of the company and the nature of the business

PRINCIPAL RISKS AND UNCERTAINTIES

The directors of Aardman Feature Development Limited manage the group's risks at a group level, rather than at an individual business unit level. For this reason the company's directors believe that a discussion of the group's risks would not be appropriate for an understanding of the development, performance or position of Aardman Feature Development Limited's business. The principal risks and uncertainties of the Aardman Holdings Limited group, which include those of this company, are discussed in the Directors' Report of the group's annual report which does not form part of this report.

KEY PERFORMANCE INDICATORS

The directors of Aardman Feature Development Limited manage the group's operations on a group basis. For this reason the company's directors believe that analysis using key performance indicators for the company is not necessary or appropriate for an understanding of the development, performance or position of the business of Aardman Feature Development Limited. The development, performance and position of the group is discussed in the Directors' Report of the group's annual report which does not form part of this report.

DIRECTORS

The directors who served during the year were as follows

D A Sproxtton
P D F Lord

AARDMAN FEATURE DEVELOPMENT LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2011

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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 of the profit or loss of the company 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,
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company 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 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 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'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's auditors in connection with preparing their report and to establish that the company's auditors are aware of that information.

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

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 Sproxton
Director

Date 27 September 2012

AARDMAN FEATURE DEVELOPMENT LIMITED

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF AARDMAN FEATURE DEVELOPMENT LIMITED

We have audited the financial statements of Aardman Feature Development Limited for the year ended 31 December 2011, which comprise the Profit and Loss Account, the Balance Sheet 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 Statement of Directors' Responsibilities 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 company's affairs as at 31 December 2011 and of its 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 FEATURE DEVELOPMENT LIMITED

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF AARDMAN FEATURE DEVELOPMENT 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, or returns adequate for our audit have not been received from branches not visited by us, or
- the financial statements are not in agreement with the accounting records and returns, or
- certain disclosures of 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 2012

AARDMAN FEATURE DEVELOPMENT LIMITED

**PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 2011**

	Note	2011 £	2010 £
TURNOVER	1,2	746,422	1,299,865
Cost of sales		<u>(130,808)</u>	<u>(765,151)</u>
GROSS PROFIT		615,614	534,714
Administrative expenses		<u>(639,620)</u>	<u>(676,675)</u>
Other operating income		<u>6,839</u>	<u>7,064</u>
OPERATING LOSS	3	(17,167)	(134,897)
Interest receivable and similar income		63	76
Interest payable and similar charges	5	<u>(100)</u>	<u>-</u>
LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION		(17,204)	(134,821)
Tax on loss on ordinary activities	6	<u>(4,230)</u>	<u>(28,220)</u>
LOSS FOR THE FINANCIAL YEAR	12	<u>(21,434)</u>	<u>(163,041)</u>

All amounts relate to continuing operations

There were no recognised gains and losses for 2011 or 2010 other than those included in the profit and loss account

The notes on pages 8 to 14 form part of these financial statements

AARDMAN FEATURE DEVELOPMENT LIMITED
REGISTERED NUMBER: 06712047

BALANCE SHEET
AS AT 31 DECEMBER 2011

	Note	£	2011 £	£	2010 £
FIXED ASSETS					
Tangible assets	7		922,648		1,326,179
CURRENT ASSETS					
Stocks	8	774,938		355,654	
Debtors	9	639,095		11,384	
Cash at bank		10,954		72,599	
			<u>1,424,987</u>	<u>439,637</u>	
CREDITORS , amounts falling due within one year	10	(2,679,246)		(2,075,993)	
NET CURRENT LIABILITIES			<u>(1,254,259)</u>		<u>(1,636,356)</u>
NET LIABILITIES			<u>(331,611)</u>		<u>(310,177)</u>
CAPITAL AND RESERVES					
Called up share capital	11		100		100
Profit and loss account	12		<u>(331,711)</u>		<u>(310,277)</u>
SHAREHOLDERS' DEFICIT	13		<u>(331,611)</u>		<u>(310,177)</u>

The financial statements were approved and authorised for issue by the board and were signed on its behalf on 27 September 2012



D A Sproxton
Director

The notes on pages 8 to 14 form part of these financial statements

AARDMAN FEATURE DEVELOPMENT LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011

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 Going concern

The company has net liabilities of £331,611 as at 31 December 2011 and a reported loss of £21,434 for the year then ended. The parent company has indicated that it intends to continue to support the company for the foreseeable future.

1.3 Cash flow

The company, being a subsidiary undertaking where 90% or more of the voting rights are controlled within the group whose consolidated financial statements are publicly available, is exempt from the requirement to draw up a cash flow statement in accordance with FRS 1.

1.4 Turnover

Turnover comprises revenue recognised by the company in respect of goods and services supplied during the year, exclusive of Value Added Tax and trade discounts.

The turnover shown in the profit and loss account represents amounts generated from rental of fixed assets to group companies, exclusive of value added tax. When a decision is made to discontinue development of a film, all income moves from deferred income to turnover, and the associated work in progress moves to cost of sales.

1.5 Fees received in advance

Monies received in respect of films and other projects in progress at the balance sheet date are initially treated as deferred income. When a feature goes into production the work in progress and deferred income relating to the feature gets transferred to a separate company.

1.6 Other operating income

The other operating income shown in the profit and loss account represents recharges made for administration costs.

1.7 Tangible fixed assets and depreciation

Tangible fixed assets are stated at cost less depreciation. Depreciation is provided at rates calculated to write off the cost of fixed assets, less their estimated residual value, over their expected useful lives on the following bases:

Studio equipment	-	25% on reducing balance
Fixtures & fittings	-	15% on reducing balance
Computer equipment	-	33% on cost

AARDMAN FEATURE DEVELOPMENT LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011

1. ACCOUNTING POLICIES (continued)

1.8 Stocks and work in progress

Stocks and work in progress are valued at the lower of cost and net realisable value after making due allowance for obsolete and slow-moving stocks. Cost includes all direct costs and an appropriate proportion of fixed and variable overheads incurred in relation to development on feature film projects not yet in production.

1.9 Operating leases

Equipment leased to other businesses under operating leases is capitalised. Operating lease income is accounted for on a straight line basis with any rental increases recognised during the year to which they relate.

1.10 Deferred taxation

Full provision is made for deferred tax assets and liabilities arising from all timing differences between the recognition of gains and losses in the financial statements and recognition in the tax computation.

A net deferred tax asset is recognised only if it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax assets and liabilities are calculated at the tax rates expected to be effective at the time the timing differences are expected to reverse.

Deferred tax assets and liabilities are not discounted.

1.11 Foreign currencies

Monetary assets and liabilities denominated in foreign currencies are translated into sterling at rates of exchange ruling at the balance sheet date.

Transactions in foreign currencies are translated into sterling at the rate ruling on the date of the transaction.

Exchange gains and losses are recognised in the profit and loss account.

2. TURNOVER

The whole of the turnover and loss before tax are attributable to the two principal activities of the company.

AARDMAN FEATURE DEVELOPMENT LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2011**

3. OPERATING LOSS

The operating loss is stated after charging/(crediting)

	2011 £	2010 £
Depreciation of tangible fixed assets - owned by the company	703,475	669,611
Auditors' remuneration	4,075	3,950
Auditors' remuneration - non-audit	2,764	3,050
(Profit)/loss on disposal of fixed assets	(70,645)	-
	<u>703,475</u>	<u>669,611</u>

4. STAFF COSTS

The company has no employees other than the directors, who did not receive any remuneration (2010 - £nil)

5. INTEREST PAYABLE

	2011 £	2010 £
On other loans	100	-
	<u>100</u>	<u>-</u>

6. TAXATION

	2011 £	2010 £
Analysis of tax charge in the year		
UK corporation tax charge on loss for the year	4,595	28,220
Adjustments in respect of prior periods	(365)	-
	<u>4,230</u>	<u>28,220</u>
Tax on loss on ordinary activities	<u>4,230</u>	<u>28,220</u>

AARDMAN FEATURE DEVELOPMENT LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2011

6. TAXATION (continued)

Factors affecting tax charge for the year

The tax assessed for the year is higher than (2010 - *higher than*) the standard rate of corporation tax in the UK of 26.5% (2010 - 28%). The differences are explained below

	2011 £	2010 £
Loss on ordinary activities before tax	(17,204)	(134,821)
Loss on ordinary activities multiplied by standard rate of corporation tax in the UK of 26.5% (2010 - 28%)	(4,559)	(37,750)
Effects of:		
Expenses not deductible for tax purposes, other than goodwill amortisation and impairment	26	-
Adjustments to tax charge in respect of prior periods	(365)	-
Tax credits	(1,419)	(1,085)
Depreciation in excess of capital allowances	10,547	67,055
Current tax charge for the year (see note above)	4,230	28,220

Factors that may affect future tax charges

Finance Act 2011 included legislation to reduce the main rate of corporation tax from 28 percent to 26 percent from 1 April 2011, and to 25% from 1 April 2012. The impact of these changes have been reflected in the above figures.

Finance Bill 2012 proposes a further reduction to 24 percent from 1 April 2012 with further annual reductions of 1 percent culminating in a rate of 22 percent from 1 April 2014. The full anticipated effect of these proposed changes combined with any reductions to the rates of capital allowances is not considered material.

AARDMAN FEATURE DEVELOPMENT LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2011**

7 TANGIBLE FIXED ASSETS

	Studio equipment £	Fixtures & fittings £	Computer equipment £	Total £
Cost				
At 1 January 2011	1,195,583	30,796	1,269,787	2,496,166
Additions	180,702	7,748	150,724	339,174
Disposals	(8,321)	(10,862)	(526,613)	(545,796)
At 31 December 2011	<u>1,367,964</u>	<u>27,682</u>	<u>893,898</u>	<u>2,289,544</u>
Depreciation				
At 1 January 2011	456,811	6,292	706,884	1,169,987
Charge for the year	229,868	4,838	468,769	703,475
On disposals	(2,080)	(4,177)	(500,309)	(506,566)
At 31 December 2011	<u>684,599</u>	<u>6,953</u>	<u>675,344</u>	<u>1,366,896</u>
Net book value				
At 31 December 2011	<u>683,365</u>	<u>20,729</u>	<u>218,554</u>	<u>922,648</u>
At 31 December 2010	<u>738,772</u>	<u>24,504</u>	<u>562,903</u>	<u>1,326,179</u>

The above assets are leased to other group companies under operating lease agreements. The rental income generated during the year in respect of these assets was £615,623 (2010 - £534,714).

8 STOCKS

	2011 £	2010 £
Work in progress	<u>774,938</u>	<u>355,654</u>

9 DEBTORS

	2011 £	2010 £
Trade debtors	619,627	-
Amounts owed by group undertakings	100	100
VAT recoverable	600	2,240
Prepayments and accrued income	18,768	9,044
	<u>639,095</u>	<u>11,384</u>

AARDMAN FEATURE DEVELOPMENT LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2011**

10. CREDITORS:

Amounts falling due within one year

	2011 £	2010 £
Trade creditors	1,620	-
Amounts owed to group undertakings	1,627,318	1,606,287
Corporation tax	4,595	28,220
Accruals and deferred income	1,045,713	441,486
	<u>2,679,246</u>	<u>2,075,993</u>

The company is party to a debenture dated 12 October 2009 with AA Development UK Limited securing all monies due, or to become due, from the company to AA Development Limited

11. SHARE CAPITAL

	2011 £	2010 £
Allotted, called up and fully paid		
100 Ordinary shares of £1 each	<u>100</u>	<u>100</u>

12. RESERVES

	Profit and loss account £
At 1 January 2011	(310,277)
Loss for the year	(21,434)
At 31 December 2011	<u>(331,711)</u>

13. RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' DEFICIT

	2011 £	2010 £
Opening shareholders' deficit	(310,177)	(147,136)
Loss for the year	(21,434)	(163,041)
Closing shareholders' deficit	<u>(331,611)</u>	<u>(310,177)</u>

AARDMAN FEATURE DEVELOPMENT LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2011**

14. RELATED PARTY TRANSACTIONS

There are no related party transactions with other group companies requiring disclosure in respect of the year ended 31 December 2011 and the year ended 31 December 2010

The company has taken advantage of the exemptions provided by Financial Reporting Standard Number 8 from disclosing transactions with other wholly owned group companies on the grounds that it is itself a wholly owned subsidiary and its parent publishes consolidated accounts

The company is controlled by its parent company, Aardman Holdings Limited, which is itself controlled by D A Sproxton and P D F Lord, who are directors of the company

15. ULTIMATE PARENT COMPANY

The ultimate parent company is Aardman Holdings Limited, a company registered in England and Wales

Copies of the parent's consolidated accounts may be obtained from Aardman Holdings Limited, Gas Ferry Road, Bristol, BS1 6UN