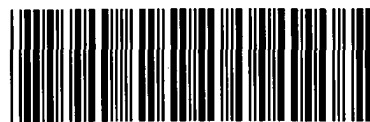

AARDMAN HOLDINGS LIMITED

DIRECTORS' REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

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AARDMAN HOLDINGS LIMITED

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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 2016

The directors have pleasure in presenting their report and the consolidated financial statements of the Group for the year ended 31 December 2016.

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:

	2016	2015
Dividends paid on ordinary shares	<u>200,712</u>	<u>194,016</u>

THE DIRECTORS

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

D A Sproxtton
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.

DIRECTORS' RESPONSIBILITIES STATEMENT

The directors are responsible for preparing the strategic report, 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 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) including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland". 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 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 judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and the Company will continue in business.

AARDMAN HOLDINGS LIMITED

**DIRECTORS' REPORT
FOR THE YEAR ENDED 31 DECEMBER 2016**

DIRECTORS' RESPONSIBILITIES STATEMENT (*continued*)

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

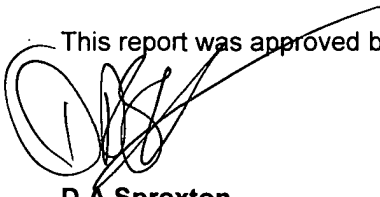
Each of the persons who are directors at the time when this directors' report is approved has confirmed that:

- so far as the director is aware, there is no relevant audit information of which the Company and the Group's auditors are unaware, and
- the director has taken all the steps that ought to have been taken as a director in order to be aware of any relevant audit information 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 29 September 2017 and signed on its behalf.



D A Sproxton
Director

AARDMAN HOLDINGS LIMITED

STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2016

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, Digital and Interactive creators, producers and distributors.

The consolidated results for the year returned a consolidated pre-tax profit on ordinary activities of £2,707,120 (2015: pre-tax profit of £2,927,423).

In 2016 Aardman celebrated 40 years of being in business, having started from a two man outfit working from a small space above a shop. The result for this year reflects the way in which the company has diversified its offering since it started in 1976, whilst maintaining a strong belief in story led productions.

Following the success of the Oscar nominated 'Shaun the Sheep: The Movie' in 2015, a 'Shaun the Sheep sequel' was greenlit during the year, with a provisional release date in the first half of 2019, continuing the partnership with Studio Canal. Nick Park's latest film, 'Early Man', started full production, and is on schedule for delivery at the end of 2017 for release in early 2018.

Post release income from 'Pirates!', 'Arthur Christmas' and 'Wallace and Gromit: Curse of the Wererabbit' continue to make a significant contribution.

The collaboration with the BFI to develop targeted, specific animation projects with emerging filmmakers continued during the year, with the scheme due to finish in 2017. The company continues to fund a slate of Feature Film projects from internal cash resources, and have a number of projects in active development.

The Broadcast division delivered new episodes of 'Morph' for Sky, and launched a major new initiative for IP development. At the year-end, a number of brand new projects were in active development.

'Shaun the Sheep', despite not delivering any new content during the year, continues to be the biggest brand, and performed strongly. Significantly, 'Timmy Time' reached recoupment in the year, and is starting to earn post recoupment profits.

Largely due to the uncertainty surrounding Brexit and the US election, the advertising market suffered considerably. As a result, the turnover in the Commercials division recorded the lowest figure since 2003. Despite this, the division continued to be highly profitable and delivered around one hundred projects and, for the first time since 2013, income generated by stop-frame animation exceeded CGI animation work, albeit marginally. Just over half of the turnover was generated from the UK with North America generating less than three tenths (both decreases against the previous year), with an increase in Rest of World.

During its first year of trading post acquisition, the New York based CGI studio, Aardman Nathan Love LLC, suffered similar challenges to the UK, with overall revenue around twenty percent off budget. Similarly, the same uncertainties affected the Digital division with revenue down against budget, and costs of pitching for work escalating in the more difficult, competitive marketplace.

The Rights division improved on last year's record year, mainly due to the continued success of 'Shaun' around the World, and commissions earned from the distribution of, and royalties from, third party properties. The 'Timmy' brand also performed well, as did Back Catalogue distribution. Activity in attractions and live events continued to grow, as did exhibitions, including the opening of the 'Art of Aardman' that opened in Paris, and will travel onto other worldwide venues, and a 'Shaun the Sheep' exhibition touring in Japan. The focus on developing and nurturing Aardman's content on You Tube and other digital platforms has also created a record year in revenues. Distribution and ancillary income for the three original 'Wallace & Gromit' short films, via Wallace and Gromit Limited, decreased against the year before.

Overheads have increased against the previous year, with over a quarter of the increase related to depreciation as the company continued to invest in equipment and technology. Employees were given an annual bonus in addition to an above inflation, performance related, pay increase.

AARDMAN HOLDINGS LIMITED

STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2016

PRINCIPAL ACTIVITIES AND BUSINESS REVIEW (continued)

The company also continued its commitment to pay the Bristol living wage to the lowest paid. Other notable differences compared to last year were increases in marketing/awards costs, leasehold refurbishments and trademark protection and associated legal fees.

FINANCIAL RISK MANAGEMENT

The main financial risk the group faces is the movement in exchange rates. As a result of the weakness of sterling against both the euro and US dollar, a significant exchange gain was recognised during the year, on account of holding significant euro and dollar cash. This had a material effect on the results for the year. No currencies have been hedged at the year-end.

KEY PERFORMANCE INDICATORS


The average gross profit margin for Commercials was 29% for the year, compared to 31% in 2015. In Digital, the average gross profit margin was 17%, compared to 32% in 2015. Partially completed projects at the year-end are accounted for under the percentage of completion method in accordance with FRS102, Section 23.

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 FRS102, Section 23.

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

Core staff remain under 100 and, staff employee turnover continues to remain low, with large variations in freelance staffing levels depending on how many projects are in production.

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



D A Sproxton
Director

Date: 29 September 2017

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 2016, which comprise the consolidated statement of comprehensive income, the consolidated and Company balance sheets, the consolidated statement of changes in equity, the consolidated statement of cash flows 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) including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland".

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, on pages 2 to 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 Financial Reporting Council's (FRC'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/auditscopeukprivate.

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 2016 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, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with those financial statements; and
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic Report or the Directors' Report.

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

Date:



AARDMAN HOLDINGS LIMITED

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2016**

	Note	2016 Feature film activity £	2016 Other activities £	2016 Total £	2015 Feature film activity £	2015 Other activities £	2015 Total £
TURNOVER	1,3	7,073,896	19,219,589	26,293,485	5,129,117	18,505,365	23,634,482
Cost of sales		(8,758,574)	(7,780,959)	(16,539,533)	(6,031,986)	(8,532,543)	(14,564,529)
GROSS (LOSS)/PROFIT		(1,684,678)	11,438,630	9,753,952	(902,869)	9,972,822	9,069,953
Distribution costs		-	(10,553)	(10,553)	-	(14,367)	(14,367)
Administrative expenses		(8,498)	(9,607,709)	(9,616,207)	-	(8,418,419)	(8,418,419)
Other operating income	4	-	782,673	782,673	-	507,972	507,972
OPERATING (LOSS)/PROFIT	5	(1,693,176)	2,603,041	909,865	(902,869)	2,048,008	1,145,139
Interest receivable		-	22,981	22,981	-	9,198	9,198
Interest payable	9	-	(15,698)	(15,698)	-	(47,946)	(47,946)
(LOSS)/PROFIT ON ORDINARY ACTIVITIES BEFORE TAX CREDIT		(1,693,176)	2,610,324	917,148	(902,869)	2,009,260	1,106,391
Tax credit		1,676,242	113,730	1,789,972	1,161,688	659,344	1,821,032
(LOSS)/PROFIT BEFORE TAXATION		(16,934)	2,724,054	2,707,120	258,819	2,668,604	2,927,423
Tax on profit on ordinary activities		-	(273,366)	(273,366)	-	(565,291)	(565,291)
TOTAL TAX	10	1,676,242	(159,636)	1,516,606	1,161,688	94,053	1,255,741
(LOSS)/PROFIT FOR THE YEAR		(16,934)	2,450,688	2,433,754	258,819	2,103,313	2,362,132
OTHER COMPREHENSIVE INCOME							
Exchange adjustment on translation of US subsidiaries		-	26,054	26,054	-	-	-
TOTAL COMPREHENSIVE (EXPENSE)/INCOME FOR THE YEAR		(16,934)	2,476,742	2,459,808	258,819	2,103,313	2,362,132
Non-controlling interest		-	4,968	4,968	-	(30,225)	(30,225)
RETAINED PROFIT AND TOTAL COMPREHENSIVE INCOME FOR THE YEAR		(16,934)	2,481,710	2,464,776	258,819	2,073,088	2,331,907

There were no recognised gains or losses for 2016 or 2015 other than those included in the profit and loss account.
All of the activities of the Group are classed as continuing.
The notes on pages 14 to 29 form part of these financial statements.

AARDMAN HOLDINGS LIMITED

**CONSOLIDATED BALANCE SHEET
AS AT 31 DECEMBER 2016**

	Note	£	2016 £	£	2015 £
FIXED ASSETS					
Intangible assets	11		588,606		-
Tangible assets	12		11,486,042		11,645,784
			12,074,648		11,645,784
CURRENT ASSETS					
Stocks	14	2,546,501		3,376,901	
Debtors	15	6,832,635		7,184,936	
Cash at bank		17,613,714		22,035,110	
		26,992,850		32,596,947	
CREDITORS: amounts falling due within one year	16	(12,704,622)		(19,942,836)	
NET CURRENT ASSETS			14,288,228		12,654,111
TOTAL ASSETS LESS CURRENT LIABILITIES			26,362,876		24,299,895
PROVISIONS FOR LIABILITIES					
Deferred tax	18		(286,580)		(534,308)
NET ASSETS			26,076,296		23,765,587
CAPITAL AND RESERVES					
Called up share capital	21		117,500		117,500
Share premium account	22		513,847		513,847
Other reserves	22		(237,548)		(236,559)
Profit and loss account	22		25,598,883		23,334,819
SHAREHOLDERS' FUNDS			25,992,682		23,729,607
NON-CONTROLLING INTEREST			83,614		35,980
			26,076,296		23,765,587

The financial statements were approved and authorised for issue by the board and were signed on its behalf on 29 September 2017 by:


D A Sproston
Director

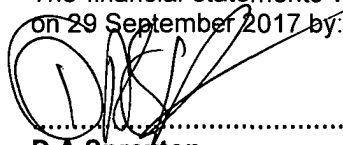
The notes on pages 14 to 29 form part of these financial statements.

AARDMAN HOLDINGS LIMITED
REGISTERED NUMBER: 02672880

COMPANY BALANCE SHEET
AS AT 31 DECEMBER 2016

	Note	£	2016 £	£	2015 £
FIXED ASSETS					
Tangible assets	12		9,850,226		10,235,216
Investments	13		<u>76,883</u>		<u>76,883</u>
			9,927,109		10,312,099
CURRENT ASSETS					
Debtors	15	68,063		65,694	
Cash at bank and in hand		<u>13,641</u>		<u>71,430</u>	
		81,704		137,124	
CREDITORS: amounts falling due within one year	16	<u>(961,692)</u>		<u>(1,684,612)</u>	
NET CURRENT (LIABILITIES)/ASSETS			<u>(879,988)</u>		<u>(1,547,488)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES			9,047,121		8,764,611
PROVISIONS FOR LIABILITIES					
Deferred tax	18		<u>(286,580)</u>		<u>(307,030)</u>
NET ASSETS			<u>8,760,541</u>		<u>8,457,581</u>
CAPITAL AND RESERVES					
Called up share capital	21		117,500		117,500
Share premium account	22		513,847		513,847
Other reserves	22		(237,548)		(236,559)
Profit and loss account	22		<u>8,366,742</u>		<u>8,062,793</u>
			<u>8,760,541</u>		<u>8,457,581</u>

The financial statements were approved and authorised for issue by the board and were signed on its behalf on 29 September 2017 by:


.....

D A Sproxton

Director

The notes on pages 14 to 29 form part of these financial statements.

AARDMAN HOLDINGS LIMITED

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2016**

	Share Capital £	Share Premium £	Other Reserves £	Profit and loss account £	Non- controlling Interest £	Total equity £
BALANCE AT 1 JANUARY 2015	117,500	513,847	(230,000)	21,196,928	68,255	21,666,530
Profit for the year	-	-	-	2,331,907	30,225	2,362,132
Movement in employment benefit trust	-	-	(6,559)	-	-	(6,559)
Dividends paid	-	-	-	(194,016)	(62,500)	(256,516)
BALANCE AT 31 DECEMBER 2015	117,500	513,847	(236,559)	23,334,819	35,980	23,765,587
Profit for the year	-	-	-	2,456,039	(22,285)	2,433,754
On acquisition of subsidiary	-	-	-	-	126,551	126,551
Movement in employment benefit trust	-	-	(989)	-	-	(989)
Dividends paid	-	-	-	(200,712)	(73,949)	(274,661)
Currency exchange difference arising on retranslation	-	-	-	8,737	17,317	26,054
BALANCE AT 31 DECEMBER 2016	117,500	513,847	(237,548)	25,598,883	83,614	26,076,296

The notes on pages 14 to 29 form part of these financial statements.

AARDMAN HOLDINGS LIMITED

**COMPANY STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2016**

	Share Capital £	Share Premium £	Other Reserves £	Profit and loss account £	Total equity £
BALANCE AT 1 JANUARY 2015	117,500	513,847	(230,000)	7,802,660	8,204,007
Profit for the year	-	-	-	454,149	454,149
Movement in employment benefit trust	-	-	(6,559)	-	(6,559)
Dividends paid	-	-	-	(194,016)	(194,016)
BALANCE AT 31 DECEMBER 2015	117,500	513,847	(236,559)	8,062,793	8,457,581
Profit for the year	-	-	-	504,661	504,661
Movement in employment benefit trust	-	-	(989)	-	(989)
Dividends paid	-	-	-	(200,712)	(200,712)
BALANCE AT 31 DECEMBER 2016	117,500	513,847	(237,548)	8,366,742	8,760,541

The notes on pages 14 to 29 form part of these financial statements.

AARDMAN HOLDINGS LIMITED

**CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2016**

	Note	2016 £	2015 £
Cash flows from operating activities			
Profit before tax		917,148	1,106,391
Depreciation charge		1,201,401	1,016,579
Interest received		(22,981)	(9,198)
Amortisation charge		59,496	-
Interest paid		15,698	47,946
Decrease in stock		830,400	1,542,180
Decrease/(increase) in debtors		1,098,484	(951,090)
(Decrease)/increase in creditors		(6,579,440)	8,441,560
Loss/(profit) on disposal of tangible fixed assets		(9,461)	(4,618)
Foreign exchange		(91,667)	-
		<u>(2,580,922)</u>	<u>11,189,750</u>
Corporation tax received		751,242	2,400,561
Net cash generated from operating activities		<u>(1,829,680)</u>	<u>13,590,311</u>
Investing activities			
Interest received		22,981	9,198
Additions to tangible fixed assets		(976,319)	(916,542)
Proceeds from disposal of tangible fixed assets		21,681	7,480
Acquisition of subsidiary net of cash acquired		(269,700)	-
Net cash used in investing activities		<u>(1,201,357)</u>	<u>(899,864)</u>
Financing activities			
Equity dividends paid		(200,712)	(194,016)
Equity dividends paid to non-controlling interest		(73,949)	(62,500)
Interest paid		(15,698)	(47,946)
Loans repaid		(1,100,000)	(1,050,000)
Net cash used in financing activities		<u>(1,390,359)</u>	<u>(1,354,462)</u>
Net (decrease)/increase in cash and cash equivalents		(4,421,396)	11,335,985
Cash and cash equivalents at beginning of the year		22,035,110	10,699,125
Cash and cash equivalents at end of year		<u>17,613,714</u>	<u>22,035,110</u>
Cash and cash equivalents consist of:			
Cash at bank and in hand		<u>17,613,714</u>	<u>22,035,110</u>

The notes on pages 14 to 29 form part of these financial statements.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016**

1. ACCOUNTING POLICIES

1.1 Basis of preparation of financial statements

Aardman Holdings Limited is a private company, limited by shares and incorporated in England and Wales. The address of the registered office is Gas Ferry Road, Bristol, BS1 6UN.

These financial statements have been prepared in accordance with FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland".

1.2 Exemptions

The parent Company has taken advantage of the following disclosure exemptions in preparing these financial statements and as permitted under FRS 102:

- the requirements of Section 7 Statement of Cash Flows;
- the requirements of Section 3 Financial Statement Presentation paragraph 3.17(d);
- the disclosure requirements of Section 11 paragraphs 11.39 to 48A; and
- the requirements of Section 33 Related Party Disclosures paragraphs 33.7 and 33.9.

1.3 Basis of consolidation

The consolidated financial statements incorporate the results of the Company and entities controlled by the company (its subsidiaries) as at 31 December 2016. Control is achieved where the company has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities. All intra-group transactions have been excluded. The Company has taken advantage of the exemption allowed under section 408 of the Companies Act 2006 and has not presented its own statement of comprehensive income in these accounts.

1.4 Business combinations and goodwill

Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the group.

The cost of a business combination includes consideration paid, deferred consideration and contingent consideration to the extent that the transfer of further economic resources is considered probable and can be measured reliably.

The group measures goodwill at the acquisition date as the excess of the cost of the business combination over the group's interest in the net amount of the identifiable assets, liabilities and contingent liabilities recognised. Subsequently goodwill is amortised on a straight line basis over its useful life of ten years.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016

1. ACCOUNTING POLICIES (continued)

1.5 Turnover

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 FRS 102, Section 23 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.

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 completion of the production in the case of broadcast projects or when the right to consideration is earned on commercial projects.

Where recoverability of costs incurred on a project by way of recoupment is considered uncertain, the stock balance is written down to its recoupable value and any associated deferred income is released to turnover.

1.6 Royalties received

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

1.7 Investments

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

1.8 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

In accordance with FRS 102, Section 17, land is not depreciated.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016**

1. ACCOUNTING POLICIES (continued)

1.9 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 FRS 102 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 films in production is matched with related income from pre-agreed funding arrangements and released to the profit and loss account over the period of production. Provision is made where the directors anticipate that production costs will not be recouped in full.

1.10 Financial instruments

Financial assets and financial liabilities are recognised in the balance sheet when the Group becomes a party to the contractual provisions of the instrument.

Trade and other debtors and creditors are classified as basic financial instruments and measured at initial recognition at transaction price. Debtors and creditors are subsequently measured at amortised cost using the effective interest rate method. A provision is established when there is objective evidence that the Group will not be able to collect all amounts due.

Cash and cash equivalents are classified as basic financial instruments and comprise cash in hand and at bank, short-term bank deposits with an original maturity of three months or less and bank overdrafts.

Financial liabilities and equity instruments issued by the Group are classified in accordance with the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Interest bearing bank loans, overdrafts and other loans which meet the criteria to be classified as basic financial instruments are initially recorded at the present value of cash payable to the bank, which is ordinarily equal to the proceeds received net of direct issue costs. These liabilities are subsequently measured at amortised cost, using the effective interest rate method.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016**

1. ACCOUNTING POLICIES (continued)

1.11 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.

On consolidation, exchange differences arising from the translation of the net investment in foreign operations are taken to other comprehensive income. Goodwill adjustments arising on the acquisition of a foreign entity are treated as assets of the foreign entity and translated at the closing rate.

1.12 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.

1.13 Pension costs

The Group operates a defined contribution pension scheme for the directors and staff. 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.

1.14 Taxation

The tax expense represents the sum of the tax currently payable and any deferred tax.

The current tax charge is based on the taxable profit for the year. Taxable profit differs from net profit as reported in the statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised in respect of all timing differences between taxable profits and total comprehensive income that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. Deferred tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised. Deferred tax is charged or credited to profit or loss, except when it relates to items charged or credited directly to other comprehensive income, in which case the deferred tax is also dealt with in other comprehensive income.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle on a net basis.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016

1. ACCOUNTING POLICIES (continued)

1.15 Film, animation and video games tax credits

The Group's business model of financing feature film, animation and video games incorporates claims under the UK film, animation and video games tax credit legislation. These claims are considered to be part of the ordinary activities of those companies which produce the feature films, animations and video games 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.

1.16 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.

2. KEY SOURCES OF ESTIMATION UNCERTAINTY AND JUDGEMENTS

The preparation of financial statements in conformity with generally accepted accounting practice requires management to make estimates and judgements that affect the reported amounts of assets and liabilities at the balance sheet date and the reported amounts of revenues and expenses during the period.

The key areas of judgement and estimation uncertainty in these financial statements are highlighted below:

Revenue recognition

Revenue recognition on commercial and digital projects requires management to forecast the outcome of the project with regard to overall costs expected to be incurred. This is central to the level of revenue and profit recognised through these income streams in each financial period.

Valuation of stock

Work in progress and finished goods comprise costs incurred on broadcast, commercial, digital and feature film projects. Where there is no single end customer in place, with particular reference to broadcast and feature film projects, management are required to make an assessment of future expected income in relation to those projects in order to determine whether the associated stock balance should be impaired.

3. TURNOVER

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

An analysis of turnover by geographical market is given below:

	2016	2015
	£	£
United Kingdom	6,545,547	9,476,564
Rest of European Union	9,224,351	7,310,218
Rest of world	6,496,863	2,830,342
United States of America	4,026,724	4,017,358
	<u>26,293,485</u>	<u>23,634,482</u>

AARDMAN HOLDINGS LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016**

4. OTHER OPERATING INCOME

	2016	2015
	£	£
Royalties receivable	760,739	462,377
Bike lease scheme income	3,765	1,289
Recharges	-	5,278
R&D tax credit	18,169	39,028
	<u>782,673</u>	<u>507,972</u>

5. OPERATING PROFIT

Operating profit is stated after charging/(crediting):

	2016	2015
	£	£
Depreciation of tangible fixed assets:		
- owned by the Group	1,201,399	1,016,579
Operating lease rentals:		
- land and buildings	454,941	361,836
- other	61,018	90,150
Net loss/(gain) on foreign currency translation	(1,011,341)	2,672
Net profit on disposal of tangible assets	(9,461)	(4,618)
Royalties payable	<u>37,508</u>	<u>70,609</u>

6. AUDITORS' REMUNERATION

	2016	2015
	£	£
Fees payable to the Company's auditor for the audit of the Company's annual accounts	19,900	14,350
Fees payable to the Company's auditor for the audit of the annual accounts of subsidiary undertakings	<u>36,100</u>	<u>33,600</u>

AARDMAN HOLDINGS LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016**

7. STAFF COSTS

Staff costs, including directors' remuneration, were as follows:

	2016	2015
	£	£
Wages and salaries	10,845,655	8,891,119
Social security costs	1,097,357	995,242
Other pension costs	332,683	336,324
	<u>12,275,695</u>	<u>10,222,685</u>

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

	2016	2015
	No.	No.
Core staff	98	91
Project related freelancers	158	134
	<u>256</u>	<u>225</u>

8. DIRECTORS' REMUNERATION

	2016	2015
	£	£
Emoluments	<u>53,580</u>	<u>97,461</u>
Company pension contributions to defined contribution pension schemes	<u>-</u>	<u>-</u>

9. INTEREST PAYABLE

	2016	2015
	£	£
Bank interest payable	<u>15,698</u>	<u>47,946</u>

AARDMAN HOLDINGS LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016**

10. TAXATION

	2016 £	2015 £
Analysis of tax credit in the year		
Current tax (see note below)		
UK corporation tax charge on profit for the year	821,858	678,193
Adjustments in respect of prior periods	(157)	(17,017)
Film/animation/video games tax credit	<u>(1,789,972)</u>	<u>(1,821,032)</u>
	(968,271)	(1,159,856)
Double taxation relief	<u>(173,280)</u>	<u>(94,634)</u>
	<u>(1,141,551)</u>	<u>(1,254,490)</u>
Foreign tax on income for the year	<u>217,022</u>	<u>94,634</u>
Total current tax	<u>(924,529)</u>	<u>(1,159,856)</u>
Deferred tax (see note 18)	<u>(592,077)</u>	<u>(95,885)</u>
Tax on profit on ordinary activities	<u>(1,516,606)</u>	<u>(1,255,741)</u>

Factors affecting tax charge for the year

The tax assessed for the year is lower than (2015 - lower than) the standard rate of corporation tax in the UK 20.00% (2015 – 20.25%) The differences are explained below:

	2016 £	2015 £
Profit on ordinary activities before tax and film tax credit	<u>917,148</u>	<u>1,106,391</u>
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 20.00% (2015 – 20.25%)	183,430	224,044
Effects of:		
Expenses not deductible for tax purposes	102,713	61,803
Video games tax profit adjustment	(69,038)	(44,471)
Animation tax profit adjustment	(445,854)	(318,860)
Effect of film tax credits	(1,662,852)	(1,158,485)
Additional deduction for R&D	(63,407)	(66,956)
Adjustments to tax charge in respect of prior periods	(157)	(17,017)
Deferred tax not recognised	269,458	107,714
Tax rate differences	125,364	(43,513)
Foreign tax	43,737	-
Total tax credit for the year (see note above)	<u>(1,516,606)</u>	<u>(1,255,741)</u>

AARDMAN HOLDINGS LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016**

11. INTANGIBLE ASSETS

	Goodwill £
Cost	
At 1 January 2016	-
Additions	542,456
Exchange adjustments	<u>111,551</u>
At 31 December 2016	654,007
Amortisation	
At 1 January 2016	-
Charge for the year	59,496
Exchange adjustments	<u>5,905</u>
At 31 December 2016	65,401
Net book value	
At 31 December 2016	<u>588,606</u>
At 31 December 2015	<u>-</u>

Goodwill recognised in the year relates to the acquisition of a 51% interest in Aardman Nathan Love LLC (formerly Nathan Love LLC) on 1 January 2016. Fixed consideration payable in respect of this acquisition totals \$1,000,000 with \$700,000 paid on the acquisition date and the timing of payment of the residual \$300,000 dependent on the post-acquisition performance of Aardman Nathan Love LLC, but no later than 31 December 2020.

Contingent consideration of \$200,000 is potentially payable within the next 5 years dependent on the performance of the acquired entity. This has not been recognised in the calculation of goodwill as at 31 December 2016.

The acquisition had the following effect on the Group's assets and liabilities:

	Net assets acquired £
Tangible fixed assets	65,484
Trade other debtors	228,547
Cash	162,862
Trade and other creditors	<u>(198,625)</u>
Net assets	<u>258,268</u>

The above represents the book value of assets and liabilities acquired. No fair value adjustments were recognised on acquisition as the book value was considered to reflect the fair value of assets and liabilities acquired.

Aardman Nathan Love LLC has contributed revenue of £2,540,932 and a post tax loss of £89,372 to the consolidated results for the year ended 31 December 2016.

AARDMAN HOLDINGS LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016**

12. TANGIBLE FIXED ASSETS

Group	Purchased freehold property £	Constructed freehold property £	Improve- ments to property £	Plant & machinery £	Bicycles £
Cost					
At 1 January 2016	4,412,429	9,550,859	639,411	4,911,758	2,862
On acquisition	-	-	10,961	-	-
Additions	-	-	7,925	754,250	4,417
Disposals	-	-	-	(63,341)	(2,445)
Exchange adjustments	-	-	3,041	-	-
At 31 December 2016	4,412,429	9,550,859	661,338	5,602,667	4,834
Depreciation					
At 1 January 2016	1,071,407	2,676,372	639,411	3,987,644	2,862
On acquisition	-	-	2,259	-	-
Charge for the year	-	382,034	5,347	487,838	4,417
On disposals	-	-	-	(52,179)	(2,445)
Exchange adjustments	-	-	995	-	-
At 31 December 2016	1,071,407	3,058,406	648,012	4,423,303	4,834
Net book value					
At 31 December 2016	3,341,022	6,492,453	13,326	1,179,364	-
At 31 December 2015	3,341,022	6,874,487	-	924,114	-

Group	Fixtures & fittings £	Motor vehicles £	Computer equipment £	Total £
Cost				
At 1 January 2016	784,270	56,029	4,256,567	24,614,185
On acquisition	12,406	-	65,767	89,134
Additions	15,166	8,750	185,811	976,319
Disposals	-	(35,152)	(12,676)	(113,614)
Exchange adjustments	2,574	-	14,823	20,438
At 31 December 2016	814,416	29,627	4,510,292	25,586,462
Depreciation				
At 1 January 2016	647,783	53,998	3,888,924	12,968,401
On acquisition	2,628	-	18,761	23,648
Charge for the year	21,004	2,616	298,145	1,201,401
On disposals	-	(34,466)	(12,304)	(101,394)
Exchange adjustments	813	-	6,556	8,364
At 31 December 2016	672,228	22,148	4,200,082	14,100,420
Net book value				
At 31 December 2016	142,188	7,479	310,210	11,486,042
At 31 December 2015	136,487	2,031	367,643	11,645,784

AARDMAN HOLDINGS LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016**

12. TANGIBLE FIXED ASSETS (continued)

	Purchased freehold property	Constructed freehold property	Improvements to freehold property	Fixtures & fittings	Total
Company	£	£	£	£	£
Cost					
At 1 January 2016 and 31 December 2016	<u>4,412,429</u>	<u>9,550,859</u>	<u>56,029</u>	<u>61,471</u>	<u>14,080,788</u>
Depreciation					
At 1 January 2016	1,071,407	2,676,372	56,029	41,764	3,845,572
Charge for the year	<u>-</u>	<u>382,034</u>	<u>-</u>	<u>2,956</u>	<u>384,991</u>
At 31 December 2016	<u>1,071,407</u>	<u>3,058,406</u>	<u>56,029</u>	<u>44,720</u>	<u>4,230,562</u>
Net book value					
At 31 December 2016	<u>3,341,022</u>	<u>6,492,453</u>	<u>-</u>	<u>16,751</u>	<u>9,850,226</u>
At 31 December 2015	<u>3,341,022</u>	<u>6,874,487</u>	<u>-</u>	<u>19,707</u>	<u>10,235,216</u>

13. FIXED ASSET INVESTMENTS

	Investments in subsidiary companies £
Company	
Cost or valuation	
At 1 January 2016	76,883
Additions	<u>-</u>
At 31 December 2016	<u>76,883</u>
Net book value	
At 31 December 2016	<u>76,883</u>
At 31 December 2015	<u>76,883</u>

AARDMAN HOLDINGS LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016**

13. FIXED ASSET INVESTMENTS (continued)

The Company's investments in the ordinary share capital of 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	Film Producers
Primordial Soup Limited	England	100	Film producers
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
Aardman Mossy Bottom Limited	England	100	Film Producers
Aardman USA Inc	USA	100	Intermediate Holding Company
Aardman Nathan Love LLC*	USA	51	Film Producers

* Held indirectly through Aardman USA Inc

The results of all of the above subsidiaries are included within these consolidated accounts.

AARDMAN HOLDINGS LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016**

14. STOCKS

	Group		Company	
	2016	2015	2016	2015
	£	£	£	£
Work in progress	2,452,167	1,898,836	-	-
Finished goods	94,334	1,478,065	-	-
	2,546,501	3,376,901	-	-

15. DEBTORS - Amounts receivable within one year

	Group		Company	
	2016	2015	2016	2015
	£	£	£	£
Trade debtors	2,702,492	3,331,180	-	-
Amounts owed by group undertakings	-	-	-	1,401
VAT repayable	108,388	23,812	14,740	11,242
Corporation tax repayable	1,605,885	1,432,598	-	-
Other debtors	675,255	538,354	1,138	1,286
Prepayments and accrued income	1,377,900	1,768,308	52,185	51,765
Amounts recoverable on contracts	18,366	90,684	-	-
Deferred taxation	344,349	-	-	-
	6,832,635	7,184,936	68,063	65,694

16. CREDITORS: Amounts falling due within one year

	Group		Company	
	2016	2015	2016	2015
	£	£	£	£
Bank loans and overdrafts	574,672	1,461,559	362,548	1,461,559
Trade creditors	741,055	820,278	66,307	36,493
Amounts owed to group undertakings	-	-	369,952	8,431
Corporation tax	-	-	63,961	113,670
Social security and other taxes	355,132	397,628	2,693	3,342
Other creditors	355,824	43,681	-	-
Accruals and deferred income	10,648,854	17,202,685	67,146	44,112
Directors' current accounts	29,085	17,005	29,085	17,005
	12,704,622	19,942,836	961,692	1,684,612

Included within accruals are outstanding pension contributions of £33,771 (2015 - £29,824).

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 bears interest at 2.75% above the base rate.

AARDMAN HOLDINGS LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016**

17. FINANCIAL INSTRUMENTS

Group

	2016 £	2015 £
Financial assets that are debt instruments measured at amortised cost	<u>4,029,132</u>	<u>6,438,578</u>
Financial liabilities measured at amortised cost	<u>2,762,128</u>	<u>3,428,968</u>

18. DEFERRED TAXATION

Provision

	<u>Group</u>		<u>Company</u>	
	2016 £	2015 £	2016 £	2015 £
At beginning of year	534,308	630,193	307,030	341,007
Released during the year	(247,728)	(95,885)	(20,450)	(33,977)
At end of year	<u>286,580</u>	<u>534,308</u>	<u>286,580</u>	<u>307,030</u>

The provision for deferred taxation is made up as follows:

	<u>Group</u>		<u>Company</u>	
	2016 £	2015 £	2016 £	2015 £
Accelerated capital allowances	287,786	327,388	287,786	309,585
Other timing differences	(1,206)	206,920	(1,206)	(2,555)
	<u>286,580</u>	<u>534,308</u>	<u>286,580</u>	<u>307,030</u>

Asset

Deferred tax assets where there is no right of offset are presented within debtors (note 15).

The deferred tax asset is made up as follows:

	<u>Group</u>	
	2016 £	2015 £
Accelerated capital allowances	70,385	-
Other timing differences	273,964	-
	<u>344,349</u>	<u>-</u>

AARDMAN HOLDINGS LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016**

19. OPERATING LEASE COMMITMENTS

At 31 December 2016 the Group had future minimum lease payments under non-cancellable operating leases as follows:

Group	Land and buildings		2016	Other
	2016	2015		
	£	£	£	£
Not later than 1 year	454,941	454,941	55,628	67,618
Later than 1 year and not later than 5 years	549,876	1,004,817	65,170	30,197
Later than 5 years	-	-	-	1,010
	<u>1,004,817</u>	<u>1,459,758</u>	<u>120,798</u>	<u>98,825</u>

At 31 December 2016 the Company had no annual commitments under non-cancellable operating leases.

20. RELATED PARTY TRANSACTIONS**Group and parent**

The parent Company and the Group are controlled by D A Sproxton and P D F Lord who are directors of the Aardman Holdings Limited.

During the year, each director received dividends of £100,356 (2015: £97,008) in respect of their holding of Ordinary shares.

Group

Key management are those persons having authority and responsibility for the planning, controlling, and directing of the Group.

The senior management team (including the directors) comprised 8 people (2015 – 9). Total compensation payable to key management personnel during the year was £742,646 (2015 - £915,464).

Parent

During the year, the Company received dividends of £120,000 (2015: £187,500) from Wallace & Gromit Limited, a subsidiary of the Company.

AARDMAN HOLDINGS LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016**

21. SHARE CAPITAL

	2016 £	2015 £
Allotted, called up and fully paid		
10,000,000 Ordinary shares of £0.01 each	100,000	100,000
1,750,000 'A' Ordinary shares of £0.01 each	17,500	17,500
	<u>117,500</u>	<u>117,500</u>

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.

22. RESERVES

Share premium

The share premium account is used to record the aggregate amount or value of premiums paid when the Company's shares are issued at an amount in excess of nominal value.

Other Reserves

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

Profit and Loss Account

This reserve relates to the cumulative retained earnings less amounts distributed to shareholders.

23. 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 has not acquired any shares in the current year (2015 – 4,524). The beneficial interests in the remaining 'A' Ordinary shares acquired in prior years are vested in employees of the Group companies.