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The Character Group plc (“the Group”) Preliminary Results for the year ended 31 August 2005

- Solid Improvement in H2 performance
 - H2 sales + 57% to £55.4 million
 - Full year + 30% to £98.8 million
 - H1 operating loss reversed producing operating profit for year of £864,000
 - Dividend for the year + 11%
- 50% of Toys, Gifts and Games together with 90% of digital products designed and developed in-house.
- Strong line up of products including **Robosapien**; **Roboraptor**, **Robopet**, **Dr Who**, **Little Britain** and **Electronic Sudoku**.
- Strategic review of business to include Transfer to AIM and possible de-merger of Digital Division.

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*“Our enhanced ability to design and develop a more advanced product base within our **Digital Division** should present opportunities for further expansion in both product and customer base.*

“I am pleased to report that the new financial year has started with both our Divisions trading above our internal forecasts and with a higher level of sales and orders than at the corresponding point last year.”

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**The Character Group plc (“the Group”)
Preliminary Results
for the year ended 31 August 2005**

STATEMENT BY THE EXECUTIVE CHAIRMAN, RICHARD KING

Introduction

It comes as no surprise to any of us that the markets within which the Group is operating have been, and continue to be, very competitive, with retailing in the UK, the main market for our Toys, Games and Gifts products, being hit especially hard.

We started the 2005 financial year faced with this poor trading environment, certain operating problems to be overcome and, with a few exceptions, a lacklustre product range.

I reported in my interim statement a disappointing loss of £1.9 million for the first half but stated that we expected the second half would witness an improvement and that this trend would continue into the new financial year ending 31 August 2006.

I am therefore pleased to report that the second half did indeed show a solid improvement. We managed to more than reverse the first half loss and remain on stream for the trading performance to continue along this trend. Not only did trading significantly improve over the first half but, even more significantly, our second half performance improved substantially against the 2004 comparable period, with pre-exceptional profit in 2005 of £2.7 million and £2.1 million post-exceptional (2004 pre-exceptional profit of £717,000, and £1.2 million post-exceptional).

These financial results clearly demonstrate that, despite difficult market conditions, the Group has produced a positive turnaround.

Financial Results

Sales in the year ended 31 August 2005 were £98.8 million, 29.9% higher than in the previous year (2004: £76.0 million).

First half sales were £43.4 million compared to £40.9 million for the same period in 2004, with second half sales £55.4 million, 57.7% higher than the same period in 2004 (£35.1 million).

In the first half, the Group produced an operating loss of £1.5 million against a £2.2 million operating profit in 2004. Following the strong second half performance, the Group produced a pre-exceptional operating profit of £3.0 million for the second half compared to £994,000 in 2004.

As you will recall, the 2004 results were enhanced by the inclusion of an exceptional item resulting in a credit to the profit and loss account of some £492,000 before tax in respect of the settlement of our dispute with a former distributor. The 2005 results have also been affected by an exceptional item, resulting in a charge to the profit and loss account of some £643,000 before tax, which arises from the costs associated with the integration of our gifts business into the enlarged Toys, Games and Gifts Division.

Profit before tax for the year was £161,000 (2004: £3.2 million).

The first half basic loss per share amounted to 3.8 pence against earnings per share of 4.22 pence for the first half in 2004. The recovery in the second half produced earnings per share of 3.41 pence for the second half (2004: 3.26 pence), giving an overall loss per share of 0.39p.

On-going administration expenses were 13% of sales (2004: 14.6%).

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Stocks at the end of the first half stood at £8.9 million and by the end of the financial year they totalled £9.8 million (2004: £12.2 million). The increase over the first half reflects the higher stock levels required to service the increased level of sales in the current year. The decrease in stock at the year-end when compared to 2004 was achieved through both higher sales in August as well as improved efficiencies due to the restructuring of the Toys, Games and Gifts Division during the year under review.

Cash at bank, as at 31 August 2005, stood at £3.7 million, compared to £3.9 million at the interim stage and £4.2 million at 31 August 2004.

At 28 February 2005, the Group had unused bank and trade finance facilities totalling £11.0 million. By the year-end, unused bank and trade finance facilities were £4.1 million, again a reflection of the higher level of trading and seasonality.

On our normal business, excluding exceptional items, our gross margin was 24% (2004: 30.8%). This lower gross margin is mainly due to the higher percentage of Group sales of Digital Products, which are at a lower margin than the Toys, Games and Gifts products.

Net assets at the end of the period were £10.5 million against £11.8 million in 2004. The decrease in net assets resulted from an overseas tax charge as well as the payment of the dividends.

Dividend

The Directors are proposing a final dividend of 0.9 pence per share. This, together with the interim dividend of 1.1 pence already paid, makes the total dividend for the year of 2.0 pence, an increase of 11.1% on the previous year.

The final dividend, which is subject to shareholder approval at the EGM on 29 November 2005, will be paid on 27 January 2006 to shareholders on the Register as at 6 January 2006. The shares go ex-dividend on 4 January 2006.

Business Overview

Toys, Games and Gifts

During the financial year, we have accomplished our strategic plans of integrating firstly, Games and then Gifts within this Division, with the former being completed in the first half and the latter in the second half.

Although we have received a limited benefit from these changes in the latter part of the financial year being reported upon, we expect that there will be a more positive impact during the new financial year in terms of both efficiencies and costs.

We stated in our interim report, that the outlook for the remainder of the year and for the new financial year remained encouraging. I am pleased to be able to report that during the second half of the financial year, we introduced a number of new products which were very well received by both the trade and the consumer. As these new products did not come on stream until late in the financial year, they have had a limited effect on the results being reported. However, we expect our sales to increase significantly in the period leading up to Christmas and for the current financial year as a whole.

The results for the first two months of this new financial year, together with the management team's expectations for the financial year as a whole, are very encouraging, especially when they are measured against the retail market environment in both the UK and international markets.

We have improved our offering throughout the Division over the past year and, as previously, indicated, the benefits started to come through in the second half of the financial year. We have witnessed a positive sales improvement since the year-end, which is above our internal budgets and leaves us optimistic for the prospects for the current financial year as a whole.

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For the first time, we have enclosed with this report a DVD which shows some of the television commercials that we are airing in the run up to Christmas and which the Directors hope shareholders will find informative.

Within this business, we are very fortunate to have a great line up of products which includes:

- our range of **Robosapien, Roboraptor, Robopet**
- **Dr Who** for both the toy and gift markets
- **Little Britain** gift line
- **Scooby Doo** range
- **Gr8 Gear** range for Girls
- **Cinderella** range of dolls and accessories
- a new game **Boney Head** to add to our already successful line-up of games, which includes our new electronic **Sudoku** (endorsed by Carol Vorderman) and **Peppa Pig**, our successful pre-school range
- **Witch** – a new girls range produced under Disney License

We are also pleased to have several new items for launch in 2006 including **Trolls**, which are destined for the gift trade and which were very successful when last marketed, together with toys from **Biker Mice from Mars**, which are to be featured in a new TV series next year, and **Superman**, which is to be based on a new feature film due for release in 2006.

It is interesting to note that **Roboraptor** is the first second generation remote controlled robot from the same family as last year's Toy of the Year, **Robosapien**, which sold in excess of 1 million units worldwide. Invented by ex-NASA scientist, Dr Mark Tilden, the 32-inch robotic raptor beast has already won Toy of the Year in Australia and Norway and was voted top toy in the 8-10 year-old category by the Duracell European Toy Survey.

At Dream Toy 2005, The Toy Retailers Association ("TRA") included Character's **Roboraptor** in its 'Hot Dozen' for Christmas 2005 listing.

This follows on from Dream Toy 2004 where **Robosapien** first came to prominence and went on to become "2004 Toy of the Year". Also within the individual category listings at Dream Toy 2005, Character's ranges tipped for success for Christmas 2005 were:

- Pre-School - **Peppa Pig Playhouse**
- Boys - **Stretch Homer**
- Big Kidz - **Dr Who's Dalek**
- Games - **Electronic Sudoku**

It is also very gratifying to report that approximately 50% of our Toys, Games and Gifts product line up is made up of products that we have designed and developed in-house. This alone has opened up further opportunities for international sales, which have grown by over 250% in the period under review.

Through this stronger and improved product offering, we anticipate that we will incur a lower percentage of credits and marketing spend in the current new financial year, with stock write-downs also expected to remain within the levels budgeted.

The Directors believe that the strategic changes made over the past year and the improved quality of products will greatly benefit the Group's performance in both this and the following financial years.

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Digital Division

World Wide Licenses (“WWL”)

Despite the fact that this Division faces an extremely competitive environment, with downward pressure on pricing being an every day event and with strong competition from some leading retail brands, I am delighted to report that, following the major problem experienced last year with our previous US distributor, WWL has significantly grown its sales and profits during the year. In August, the last month of the financial year, WWL shipped over US\$20 million of cameras, a record level of monthly sales for WWL.

We have continued to increase our capacity to design, develop, manufacture and supply ever increasingly complex products.

At the interim stage of the year, I informed shareholders that the Polaroid® brand had been purchased by the Petters Group and that the Group would be negotiating with Petters on how best to develop the business. Following discussions, we have jointly decided that the original distribution and licence model was not appropriate for the future and, accordingly, the original licensing agreements will not be renewed. In their place, we have entered into a supply arrangement whereby WWL has first rights of supply and, although the basic commercial terms have been agreed and currently form the basis of our dealings with Petters in North America, the final form of the legal agreement is currently in the final stages of negotiation. We will update shareholders on this status in due course.

We are also working very closely with Petters in designing the new Polaroid® product line-up and have no reason to believe that our sales to Petters will not continue to increase. In essence, we see no changes in our prospects other than the fact that we shall not be acting as a distributor of the Polaroid® digital camera products in the UK, which will have limited effect on the Group’s overall profitability.

Sales and orders for WWL for the period to Christmas are above our original internal budgets. The Digital Division has reached critical mass and the Directors will, through exploiting WWL’s technical base which has been developed over the past years, now be able to look at further opportunities for growth.

Strategic Review

The Directors are mindful that the Board has a duty to improve shareholder value and to prepare the Group for long term growth. Accordingly, the Board has undertaken a strategic review of the business and has agreed a strategy to accomplish the goals that it has set.

- **Transfer to AIM**

At the time of the Group’s interim results statement issued in April, the Company highlighted its intention to seek a cancellation of its listing and an admission to trading of its shares on AIM as it provides, in the Board’s view, a more flexible environment in which to achieve the Group’s objectives and to reduce costs and formalities relating to maintaining a market in its shares and undertaking future transactions.

The process of transferring from the Official List to AIM has commenced and details will be included in a Circular to be posted to shareholders together with the Annual Report on 4 November 2005. Subject to shareholder approval at a second Extraordinary General Meeting to be held on 29 November, we expect trading in the Group’s shares on AIM to commence on 2 December 2005.

- **Possible de-merger of WWL**

The Board is, as already announced, considering the possible de-merger of the Digital Division, a distribution of the shares in WWL (or the shares of a company formed for the purpose of the de-merger) to shareholders and simultaneously seeking admission of those shares to trading on AIM in their own right. Whilst there are no immediate plans to make this move, the Board believes that this could better promote shareholder value. Shareholders will be updated with news of any developments in this regard as soon as practicable and appropriate.

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- **Executive Changes**

We also announced in April that we had begun the process of recruiting a new Chief Executive Officer and a Group Finance Director. Having taken into account the progress being made in the trading position of the Group and the need to manage each of the Group's businesses, the Board decided that whilst these proposed changes to the Group structure are being completed, it would in the interests of both the business and its shareholders that Kiran Shah and I should be appointed interim joint managing directors to oversee the changes.

Mr Enrico Preziosi resigned from the Board and from his Executive position as Managing Director and CEO in September 2005. The Directors would like to put on record their gratitude to him for his service to the Company since assuming his Board position in August 2000 and thank him for his considerable contribution to the Group. Enrico Preziosi played a pivotal role in developing the close working relationship between Giochi Preziosi S.p.A. ("Giochi Preziosi") and the Group, which will manifest itself in a substantially increased level of inter-company business in this new financial year.

Giochi Preziosi remains a 22.5% shareholder in the Character Group.

Management, People and Development Training

The year under review has seen many changes within the Group and the Directors would like to acknowledge and thank all the Group's employees for their hard work and determination to return the Group to profitability. At the year-end, the Group employed 231 people.

Looking Forward

I am pleased to report that the new financial year has started with both our Divisions trading above our internal forecasts and with a higher level of sales and orders than at the corresponding point last year.

Our focus continues to be to improve our operational efficiencies and further develop our product portfolio.

Within our **Toys, Games and Gifts Division**, we have achieved a very strong improvement in our ability to develop our own good quality and saleable product lines, both under our own brands as well as under licences.

Our enhanced ability to design and develop a more advanced product base within our **Digital Division** should present opportunities for further expansion in both product and customer base.

By the end of 2005 calendar year, over 50% of our products within the Toys, Games and Gifts Division and over 90% of our digital products will have been developed in-house. This in-house expertise in developing licensed properties and also bringing new products to market quickly is becoming generally recognised in the Group's markets. It is also proving to be a major benefit to the Group in attracting and winning both strong new licences and finished products for distribution.

As a Board, we believe that by refocusing the efforts of the Executive team, the Group can leverage its market position and ultimately this will be reflected in our commercial performance and improved shareholder value.

The Character Group plc
Preliminary Results

Consolidated Profit and Loss Account
for the year ended 31 August 2005

	Note	2005 £'000	Total 2004 £'000	Other 2004 £'000	Exceptional 2004 (note 2) £'000
Turnover	1	98,791	76,046	74,653	1,393
Cost of sales		(75,110)	(54,332)	(51,675)	(2,657)
Gross profit		23,681	21,714	22,978	(1,264)
Net operating expenses					
Selling and distribution costs		(9,750)	(9,409)	(9,131)	(278)
Administration expenses		(12,867)	(11,389)	(10,919)	(470)
Administration expenses – Exceptional	2	(643)	-	-	-
Other operating income		443	2,761	257	2,504
Operating profit	2	864	3,677	3,185	492
Interest	3	(703)	(453)	(453)	-
Profit on ordinary activities before taxation		161	3,224	2,732	492
Taxation	4	(365)	503	589	(86)
(Loss)/profit on ordinary activities after taxation		(204)	3,727	3,321	406
Dividend	5	(1,051)	(1,093)		
Retained (loss)/profit for the year		(1,255)	2,634		
(Loss)/Earnings per share	6				
- basic		(0.39)p	7.48p		
- fully diluted		(0.39)p	7.31p		
Dividend per share	5	2.0p	1.80p		
EBITDA (earnings before interest, tax, depreciation and amortisation)		1,492	4,444		

All activity has arisen from continuing operations.

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

	12 months to 31 August 2005 £'000	12 months to 31 August 2004 £'000
(Loss)/profit for the financial period	(1,255)	2,634
Foreign exchange differences	(64)	(541)
Total recognised gains and losses relating to the financial period	(1,319)	2,093

The Character Group plc
Preliminary Results

Consolidated Balance Sheet
as at 31 August 2005

	2005	2004
	£'000	£'000
Fixed assets		
Intangible assets	646	692
Tangible assets	1,849	1,599
Investments	2	2
	2,497	2,293
Current assets		
Stocks	9,810	12,227
Trade debtors subject to finance arrangements	9,053	8,319
Factor advances	(6,937)	(6,785)
	2,116	1,534
Debtors – including non-factored trade debtors	21,803	16,024
Cash at bank and in hand	3,748	4,183
	37,477	33,968
Creditors: amounts falling due within one year:		
Other creditors	(29,482)	(24,484)
Net current assets	7,995	9,484
Total assets less current liabilities	10,492	11,777
Net assets	10,492	11,777
Capital and reserves		
Called up share capital	2,641	2,634
Investment in own shares	(908)	(908)
Capital redemption reserve	40	40
Share premium	11,821	11,794
Merger reserve	651	651
Profit and loss account	(3,753)	(2,434)
Equity shareholders' funds	10,492	11,777

The Character Group plc
Preliminary Results

Consolidated Cash Flow Statement
for the year ended 31 August 2005

	Note	2005 £'000	2004 £'000
Cash inflow from operating activities	7	2,870	3,326
Returns on investment and servicing of finance			
Interest received		18	7
Interest paid		(721)	(460)
Net cash outflow for returns on investment and servicing of finance		(703)	(453)
Taxation		(844)	(315)
Capital expenditure and financial investment			
Payments to acquire tangible fixed assets		(868)	(510)
Sale of tangible fixed assets		25	9
Net cash outflow for capital expenditure and financial investment		(843)	(501)
Equity dividends paid		(945)	(1,626)
Cash inflow before financing		(465)	431
Issue of new shares		34	6
Purchase of own shares		-	(121)
Capital element of finance lease rentals		(4)	(5)
Expenses in relation to the conversion of loan note		-	(60)
Net cash inflow/(outflow) from financing		30	(180)
(Decrease)/Increase in cash in the year		(435)	251
(Increase)/Decrease in net debt in the year	8	(431)	256

**The Character Group plc
Preliminary Results**

Notes to the Accounts

1. Turnover

Turnover represents the amount derived from the provision of goods and services which arise from the Group's ordinary activities, stated net of value added tax.

Analysis of turnover by geographical market by destination	12 months to 31 August 2005 £'000	12 months to 31 August 2004 £'000
United Kingdom	45,893	52,347
Rest of the world	52,898	23,699
Total	98,791	76,046

Analysis of turnover by division	12 months to 31 August 2005 £'000	12 months to 31 August 2004 £'000
Toys, Games and Gifts	48,669	44,989
Digital	50,122	31,057
Total	98,791	76,046

All the Group's activities during the 12 months ended 31 August 2005 are classed as continuing. The Directors consider that the disclosure of further disaggregated information would be seriously prejudicial to the commercial interests of the Group.

2. Operating Profit

	12 months to 31 August 2005 £'000	12 months to 31 August 2004 £'000
Operating profit is stated after charging:		
Staff costs	6,717	6,185
Principal auditors' remuneration		
- Statutory audit services	48	69
- Financial reporting advisory services	16	60
- Tax compliance services	20	8
- Tax advisory services	3	8
- Further assurance services	12	9
Other auditors' remuneration		
- Statutory audit services	32	28
-Total fees payable to auditors	131	182
Operating leases – land and buildings	349	343
Research and development costs	1,143	1,971
Depreciation of tangible fixed assets		
- owned assets	579	718
- assets held under finance leases and HP contracts	3	4
	582	722
Goodwill amortisation	46	45

**The Character Group plc
Preliminary Results**

Notes to the Accounts (*continued*)

2. Operating Profit (*continued*)

Exceptional Item

The 2005 exceptional item of £643,000 relates to relocation and restructuring costs of Character Gifts Limited which now operates from the Group's central facility at Oldham, Lancashire.

2004 Exceptional Item

In November 2004, World Wide Licenses Limited ("WWL") settled its dispute with Uniden America Corporation ("Uniden") which commenced when Uniden terminated its distribution agreement with WWL. Under the settlement, Uniden paid to WWL the sum of US\$4.5 million by two equal instalments.

WWL has incurred substantial costs since Uniden terminated its distribution agreement. The settlement as well as the associated costs incurred have been classified as an exceptional item.

The exceptional income and costs, as set out on the face of the consolidated profit and loss account, are explained below.

Turnover is the sale of products which had to be sold elsewhere at lower prices.

Cost of sales are the costs of those products, as well as a write-off of royalties paid which are unlikely to be recoverable.

Selling and distribution costs represent an additional amount of commission payable under the terms of WWL's contract with a USA company as a consequence of the settlement.

Administration expenses comprise the legal costs incurred.

Other operating income is the settlement from Uniden.

3. Interest

	12 months to 31 August 2005 £'000	12 months to 31 August 2004 £'000
Total interest receivable	18	7
Total interest payable:		
On bank overdraft and similar charges	(444)	(296)
Convertible loan note interest	-	(56)
Finance leases and hire purchase contracts	(1)	(1)
Factor advances	(276)	(107)
	(703)	(453)

The Character Group plc
Preliminary Results

Notes to the Accounts (*continued*)

4. Taxation

	12 months to 31 August 2005 £'000	12 months to 31 August 2004 £'000
UK Corporation Tax		
Tax on profit for the period	-	-
Adjustments to tax charge in respect of previous periods	-	(241)
Total UK corporation tax	-	(241)
Foreign Tax		
Tax on profit for the period	355	444
Adjustments to tax charge in respect of previous periods	24	17
Total foreign tax	379	461
Total current tax	379	220
Deferred Tax		
Tax losses	-	(764)
Origination and reversal of timing differences	(14)	41
Total deferred tax	(14)	(723)
Tax on profit on ordinary activities	365	(503)
Factors affecting tax charge for the period		
Profit on ordinary activities before taxation	161	3,224
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 30% (2004: 30%)	48	967
Effects of:		
Expenses not deductible for tax purposes	182	301
Capital allowances less than/(in excess of) depreciation	(178)	16
Other temporary differences between taxable and accounting profit	93	162
Lower tax rate on overseas earnings	(198)	(252)
Utilisation of tax losses	-	(1,003)
Tax losses not utilised	-	253
Adjustments to tax charge in respect of previous periods	24	(224)
Remitted earnings of overseas subsidiaries	408	-
Current tax charge for the year	379	220

5. Dividend

	12 months to 31 August 2005 £'000	12 months to 31 August 2004 £'000
On equity shares:		
Interim dividend paid – 1.1 pence (2004: 1.1 pence) per share	578	726
Final dividend proposed – 0.9 pence (2004: 0.7 pence) per share	473	367
Total – 2.0 pence (2004: 1.8 pence) per share	1,051	1,093

The Character Group plc
Preliminary Results

Notes to the Accounts (*continued*)

6. Earnings per Share

	12 months to 31 August 2005			12 months to 31 August 2004		
	Loss after taxation	Weighted average number of ordinary shares	Pence per share	Profit after taxation	Weighted average number of ordinary shares	Pence per share
Basic earnings per share	(204,000)	52,475,156	(0.39)	3,727,000	49,811,576	7.48
Impact of share option schemes		-	-	-	1,190,106	(0.17)
Diluted earnings per share	(204,000)	53,740,156	(0.39)	3,727,000	51,001,682	7.31

7. Reconciliation of Operating Profit to Net Cash Inflow from Operating Activities

	12 months to 31 August 2005 £'000	12 months to 31 August 2004 £'000
Operating profit	864	3,677
Depreciation, impairment and amortisation	628	767
Loss/(Profit) on disposal of fixed assets	11	(7)
Decrease/(Increase) in stocks	2,417	(4,084)
Decrease/(increase) in debtors	(6,347)	1,843
Increase in creditors	5,361	1,671
Exchange movement	(64)	(541)
Net cash inflow from operating activities	2,870	3,326

Reconciliation of Exceptional Profit to Net Cash Outflow from Exceptional Activities

	12 months to 31 August 2005 £'000	12 months to 31 August 2004 £'000
Exceptional (loss)/profit	(643)	492
Decrease/(increase) in debtor	2,504	(2,504)
(Decrease)/increase in creditors	(551)	926
Net cash inflow/(outflow) from operating activities	1,310	(1,086)

There was no cash flow relating to taxation in respect of the exceptional items.

8. Reconciliation of Net Cash Flow to Movement in Net Debt

	12 months to 31 August 2005 £'000	12 months to 31 August 2004 £'000
(Decrease)/Increase in cash in the period	(435)	251
Cash inflow from movement in debt and lease financing	4	5
Movement in net debt resulting from cash flows	(431)	256
Net debt at 1 September 2004	4,179	3,923
Net debt at 31 August 2005	3,748	4,179

**The Character Group plc
Preliminary Results**

Notes to the Accounts (*continued*)

9. Analysis of Net Debt

	Cash at bank and in hand £'000	Lease finance £'000	Total £'000
1 September 2003	3,932	(9)	3,923
Cash flow	251	5	256
31 August 2004	4,183	(4)	4,179
Cash flow	(435)	4	(431)
31 August 2005	3,748	-	3,748

10. The Extraordinary General Meeting will be held at the offices of Citigate Dewe Rogerson Ltd, 26 Finsbury Square, London, EC2A 1DS on Tuesday, 29 November 2005.
11. The Report & Accounts will be posted to shareholders. Further copies will be available from the Company's Office: 2nd Floor, 86-88 Coombe Road, New Malden, Surrey, KT3 4QS or info@charactergroup.plc.uk or character@citigatedr.co.uk and will be posted on the Company's website at www.thecharacter.com.
12. The preliminary announcement does not constitute statutory accounts. The annual report and accounts for the year ended 31 August 2005 have yet to be reported on by the auditors and have not yet been filed with the registrar of companies.