



Issued by Citigate Dewe Rogerson Ltd, Birmingham
Date: Tuesday, 28 April 2009

The Character Group plc **Interim Results** *for the six months ended 28 February 2009*

STATEMENT BY THE CHAIRMAN, RICHARD KING

Introduction

The Group has had its share of difficulties which, as anticipated, resulted in a trading loss for the first half of this financial year.

However, I am pleased to note that, despite the unprecedented economic turmoil, the Group is beginning to benefit from its cost control programme and new product ranges coming on stream, both of which provide an improved trading platform. Overall, we have renewed confidence for the medium term even though the outlook will remain challenging.

Financials

Group sales in the six month period amounted to £37.8 million, down 22% compared with the same period in 2008 of £48.6 million.

The operating loss in the same period was £3.74 million compared to a profit of £3.4 million for the similar period in 2008. This included an exceptional loss of £1.06 million, being the bad debt suffered due to Woolworths going into Administration. The loss before tax on the same basis was £3.84 million, compared to a profit of £3.25 million at the half-year point in 2008. Basic loss per share was 8.44 pence per share compared to earnings per share of 5.51 pence at the 2008 half-year point and 12.03 pence at the financial year-ended August 2008.

Gross margin was 29.0%, compared to 38.8% in the comparative period in 2008 and 35.8% at the year-ended August 2008.

Stocks decreased from £9.8 million at the August 2008 year end to £5.05 million at end of the half-year being reported.

Cash and cash equivalents at 28 February 2009 amounted to £3.8 million, against £5.4 million in the 2008 comparable period. The Group currently has no borrowings and has unused finance facilities available totalling approximately £5.65 million.

Dividend

It is not proposed to pay an interim dividend and it is too early to form a view on dividend prospects for the full year.

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Share Buy-Backs

During the period being reported, the Group has undertaken share buy-backs totalling 177,077 shares. As at 1 April 2009, the Company had 41,477,481 ordinary shares in issue, excluding 4,019,456 ordinary shares held in treasury (April 2008: 42,552,953 ordinary shares excluding 2,938,984 ordinary shares held in treasury).

Half-Year Review

As we indicated to stakeholders at our AGM in January, against a very challenging and sombre economic backdrop, Character has not escaped the tough trading environment at both the consumer and retail level, with revenues on a like for like basis during the all important Christmas trading period at 35% below the comparative 2007 season.

We have had to consolidate and re-group, whilst continuing to deliver a portfolio that meets the current market aspirations and consumer demand, whilst also delivering service and support to our customers.

To sum up Group trading to date, it would be fair to report that the six month period has already been one of two halves.

In the first four months of the half-year (being the pre-Christmas period):

- We experienced the failure of Woolworths, one of the Group's key customers and a major toy retailer. This had a significant impact not only on our business but also on the high street. Indeed, it is a credit to our management team that Character was able to reduce its exposure to this retailer from in excess of £5 million in September 2008 to around £1 million at the time of the Woolworths store closures at the end of 2008.
- Stocks, which had been ordered to satisfy Woolworths Christmas and Spring requirements, had to be placed into the market, causing a decline in margins. Margins were also adversely impacted by the need for placement of excess stocks to ensure that the Groups cash flow remained in good shape.
- This situation was further exacerbated by the ever increasing nervousness of the consumer in the winter trading period up to and including Christmas 2008, which resulted in lower sales in general and led to our promotional spend increasing as a proportion of our revenue.
- The impact of adverse currency movements and the higher costs of goods and services out of the Far East.

In January and February, (the last two months of the first half of the current financial year) we experienced:

- A marked improvement in trading with solid revenues meeting expectations.
- Through careful management, we re-aligned our promotional spend to the revised sales levels and maintained these costs within budget.
- Margin stabilisation.
- Fluctuations in currency movements normalising.
- Benefits from our cost base reduction programme.

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Electronic Communications

The Company wrote to shareholders on 7 April 2009 with a view to obtaining authority to deliver documents, including the unaudited accounts for the period ended 28 February 2009, to shareholders via the Company's website. The Company anticipates that not many shareholders will withhold this authority and, accordingly, is not proposing to bulk print and post full hard copies of the half-year statement, unless specifically requested by individual shareholders.

The Board believes that by utilising electronic communication it will deliver savings to the Company in terms of administration, printing and postage, and environmental benefits through reduced consumption of paper and inks, as well as speeding up the provision of information to shareholders in the future.

It is intended that the Company will distribute the Chairman's statement and details of shareholder perks to all shareholders during May 2009. The full statement will be available to be viewed on the Group's website at www.thecharacter.com.

Outlook

Most encouraging has been the fact that, whereas Group sales up to Christmas fell by a greater percentage than the general fall in the market as a whole, Group sales since Christmas have more or less reflected the marketplace. In March, we exceeded internal budgets for both sales and margins. Subject to a return to a more normal marketplace, acceptable margin levels should be maintained during the second half of the financial year. Our large product development programme, especially with our HM Armed Forces range, which is being launched within days, puts us in a strong position to take advantage of any uplift in sales that occurs.

As a business, we will continue to monitor costs and focus on efficiencies and productivity; we have already reduced stock levels, personnel and, by preserving cash and maintaining a strong balance sheet, remain cash positive with unused financial facilities available and we have placed ourselves in the strong position of being able to take advantage of a return to normal market conditions.

Whilst we anticipate trading profitably during the remainder of the financial year, we do not expect to recover the losses of the first half, in full. However, we do believe that we are capable of making progress throughout the remainder of the calendar year and, despite the market remaining difficult, we shall maintain our position as one of the largest players in the toy and games market.

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CONSOLIDATED INCOME STATEMENT

	Notes	6 months to 28 February 2009 (unaudited) £'000	6 months to 29 February 2008 (unaudited) £'000	12 months to 31 August 2008 (audited) £'000
Continuing operations				
Revenue		37,789	48,594	82,272
Cost of sales		(26,828)	(29,737)	(52,800)
Gross profit		10,961	18,857	29,472
Net operating expenses				
Selling and distribution costs		(6,956)	(7,335)	(9,977)
Administration expenses		(6,704)	(8,199)	(14,365)
Other operating income		12	79	167
Operating (loss)/profit before exceptional items		(2,687)	3,402	5,297
Exceptional bad debt provisions		(1,056)	–	–
Operating (loss)/profit		(3,743)	3,402	5,297
Net finance costs		(96)	(147)	(154)
(Loss)/profit before taxation		(3,839)	3,255	5,143
Taxation		362	(854)	4
(Loss)/profit for the period attributable to equity holders of the parent		(3,477)	2,401	5,147
(Loss)/Earnings per share (pence)				
Basic	4	(8.44p)	5.51p	12.03p
Fully diluted	4	(8.44p)	5.34p	11.70p
Dividend per share	3	–	2.2p	4.6p

CONSOLIDATED STATEMENT OF RECOGNISED INCOME AND EXPENSE

	6 months to 28 February 2009 (unaudited) £'000	6 months to 29 February 2008 (unaudited) £'000	12 months to 31 August 2008 (audited) £'000
(Loss)/profit for the period after tax	(3,477)	2,401	5,147
Exchange differences on translation of foreign operations recognised in equity	(663)	(5)	243
Net effective change in value of cash flow hedges	941	–	217
Total recognised income and expense	(3,199)	2,396	5,607

CONSOLIDATED BALANCE SHEET

	at 28 February 2009 (unaudited) £'000	at 29 February 2008 (unaudited) £'000	at 31 August 2008 (audited) £'000
Non – current assets			
Intangible assets – product development	2,149	2,604	2,415
Property, plant and equipment	1,249	1,362	1,303
	3,398	3,966	3,718
Current assets			
Inventories	5,051	9,084	9,802
Trade and other receivables	6,897	7,486	19,142
Derivative financial instruments	1,609	299	1,507
Income Tax	1,560	–	1,555
Cash and cash equivalents	3,901	10,249	17,785
	19,018	27,118	49,791
Current liabilities			
Short term borrowings	(118)	(4,821)	(17,782)
Trade and other payables	(8,843)	(9,368)	(17,628)
Income tax payable	(96)	(2,078)	(1,534)
	(9,057)	(16,267)	(36,944)
Net current assets	9,961	10,851	12,847
Non Current Liabilities			
Deferred tax	(817)	(585)	(834)
Net assets	12,542	14,232	15,731
Equity			
Share capital	2,275	2,275	2,275
Shares held in treasury	(3,373)	(2,389)	(3,277)
Investment in own shares	(908)	(908)	(908)
Capital redemption reserve	448	448	448
Share based payment reserve	641	433	534
Share premium account	12,587	12,584	12,587
Merger reserve	651	651	651
Translation reserve	(162)	(413)	501
Profit and loss account	383	1,551	2,920
Total equity	12,542	14,232	15,731

CONSOLIDATED CASH FLOW STATEMENT

	6 months to 28 February 2009 (unaudited) £'000	6 months to 29 February 2008 (unaudited) £'000	12 months to 31 August 2008 (audited) £'000
Cash flow from operating activities			
Loss/(profit) before taxation for the period	(3,839)	3,255	5,143
Adjustments for:			
Depreciation of property, plant and equipment	164	193	378
Amortisation of intangible assets	1,944	934	3,854
(Profit)/loss on disposal of property, plant and equipment	–	–	(5)
Interest Expense	96	147	154
Financial instruments fair value adjustments	1,207	(751)	(1,659)
Share based payments	106	117	219
Decrease in inventories	4,751	1,747	1,029
Decrease in trade and other receivables	12,244	13,816	2,161
(Decrease) in trade and other creditors	(8,784)	(9,424)	(1,167)
Cash generated from operations	7,889	10,034	10,107
Interest paid	(96)	(147)	(154)
Income tax paid	(1,465)	(1,660)	(2,329)
Net cash inflow from operating activities	6,328	8,227	7,624
Cash flows from investing activities			
Payments for intangible assets	(1,678)	(2,129)	(4,860)
Payments for property, plant and equipment	(102)	(98)	(243)
Proceeds from disposal of property, plant and equipment	–	38	62
Net cash outflow from investing activities	(1,780)	(2,189)	(5,041)
Cash flows from financing activities			
Proceeds from issue of share capital	–	18	21
Purchase of treasury shares	(97)	(1,730)	(2,627)
Dividends paid	–	(1,039)	(1,959)
Net cash used in financing activities	(97)	(2,751)	(4,565)
Net increase/(decrease) in cash and cash equivalents	4,451	3,287	(1,982)
Cash and cash equivalents at the beginning of the period	3	2,146	2,146
Effects of exchange rate movements	(671)	(5)	(161)
Cash and cash equivalents at the end of the period	3,783	5,428	3

Cash, cash equivalents and borrowings consist of:

Cash and cash equivalents	3,901	10,249	17,785
Short term borrowings	(118)	(4,821)	(17,782)
	3,783	5,428	3

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital £000's	Investment in own shares £000's	Treasury Shares £000's	Capital redemption reserve £000's	Share premium account £000's	Merger reserve £000's	Share Based Payment £000's	Translation Reserve £000's	Profit and loss account £000's	Total £000's
At 1 September 2007	2,273	(908)	(676)	448	12,568	651	315	(725)	524	14,470
Share based payment	-	-	-	-	-	-	118	-	-	118
Profit after tax	-	-	-	-	-	-	-	-	2,401	2,401
Translation reserve movement	-	-	-	-	-	-	-	312	(318)	(6)
Dividends	-	-	-	-	-	-	-	-	(1,039)	(1,039)
Shares Issued	2	-	-	-	16	-	-	-	-	18
Shares purchased	-	-	(1,713)	-	-	-	-	-	(17)	(1,730)
Six months ended 29 February 2008	2,275	(908)	(2,389)	448	12,584	651	433	(413)	1,551	14,232
Share Based Payment	-	-	-	-	-	-	219	-	-	219
Profit after tax	-	-	-	-	-	-	-	-	5,147	5,147
Translation reserve movement	-	-	-	-	-	-	-	1,226	(1,387)	(161)
Tax on items taken directly to equity	-	-	-	-	-	-	-	-	404	404
Net gain on cash flow hedged forward contract	-	-	-	-	-	-	-	-	217	217
Dividends	-	-	-	-	-	-	-	-	(1,959)	(1,959)
Shares Issued	2	-	-	-	19	-	-	-	-	21
Shares purchased	-	-	(2,601)	-	-	-	-	-	(26)	(2,627)
Year ended 31 August 2008	2,275	(908)	(3,277)	448	12,587	651	534	501	2,920	15,731
Share Based Payment	-	-	-	-	-	-	107	-	-	107
Loss after tax	-	-	-	-	-	-	-	-	(3,477)	(3,477)
Translation reserve movement	-	-	-	-	-	-	-	3,310	(3,973)	(663)
Net gain on cash flow hedged forward contract	-	-	-	-	-	-	-	-	941	941
Shares purchased	-	-	(96)	-	-	-	-	-	(1)	(97)
Six months ended 28 February 2009	2,275	(908)	(3,373)	448	12,587	651	641	3,811	(3,590)	12,542

NOTES TO THE FINANCIAL STATEMENTS

1 BASIS OF PREPARATION

The financial information set out in this interim statement has been prepared under International Financial Reporting Standards (IFRS) as adopted by the European Union and in accordance with the accounting policies which will be adopted in presenting the Group's annual report and financial statements for the year ended 31 August 2009.

These are consistent with the accounting policies used in the financial statements for the year ended 31 August 2008 and which are set out in those annual financial statements.

As permitted, this interim report has been prepared in accordance with the AIM rules and not in accordance with IAS 34 'Interim Financial Reporting'.

The consolidated financial statements are prepared under the historical cost convention, as modified by the revaluation of certain financial instruments and share based payments at fair value.

These interim financial statements and the financial information for the six months ended 28 February 2009 do not constitute full statutory accounts within the meaning of section 435(3) of the Companies Act 2006 and are unaudited. These unaudited interim financial statements were approved by the Board of Directors on 27 April 2009.

The information for the year ended 31 August 2008 is based on the consolidated financial statements for that year on which the Group's auditors' report was unqualified and did not contain a statement under section 237 (2) or (3) of the Companies Act 1985.

2 GOING CONCERN

The Directors consider that the Group has adequate resources to continue operating for the foreseeable future and therefore continue to adopt the going concern basis in preparing the financial statements.

3 DIVIDENDS

	For the six months ended 28 February 2009 (unaudited) £000's	For the six months ended 29 February 2008 (unaudited) £000's	For the year ended 31 August 2008 (audited) £000's
Final	–	1,039	1,039
Interim	–	–	920
	–	1,039	1,959

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4 (LOSS)/ EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the earnings attributable to ordinary shareholders by the weighted average number of ordinary shares during the period.

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares in issue on the assumption of conversion of all dilutive potential ordinary shares. The Group has only one category of dilutive potential ordinary shares, being share options granted where the exercise price is less than average price of the company's ordinary shares during this period.

The calculations are based on the following:

	For the six months ended 28 February 2009 (unaudited) £000's	For the six months ended 29 February 2008 (unaudited) £000's	For the year ended 31 August 2008 (audited) £000's
(Loss)/profit attributable to equity shareholders of the parent	(3,477)	2,401	5,147
Weighted average number of shares			
In issue during the year – basic	41,211,689	43,598,263	42,777,074
Dilutive potential ordinary shares	11,468	1,357,073	1,231,151
Weighted average number of ordinary shares for diluted earnings per share* ¹	41,211,689	44,955,336	44,008,225

*¹The weighted average number of shares used in the calculation of the diluted loss per share for the six months ended 28 February 2009 is the same as that in respect of the basic loss per share calculation as the effect of exercising options would be to reduce the loss per share and is therefore not dilutive under the terms of IAS 33.

Basic (loss)/earnings per share (pence)	(8.44)	5.51	12.03
Diluted (loss)/earnings per share (pence)	(8.44)	5.34	11.70

INDEPENDENT REVIEW REPORT TO THE CHARACTER GROUP PLC

Introduction

We have been engaged by the Company to review the financial statements presented in the half-yearly report for the six months ended 28 February 2009, which comprises the consolidated income statement, the consolidated statement of recognised income and expense, the consolidated balance sheet, the consolidated cash flow statement, the consolidated statement of changes in equity and related notes 1 to 4. We have read the other information contained in the half-yearly report which comprises only the Chairman's statement and considered whether it contains any apparent misstatements or material inconsistencies with the financial statements.

This report is made solely to the Company in accordance with guidance contained in ISRE 2410 (UK and Ireland) "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Auditing Practices Board. Our review work has been undertaken so that we might state to the company those matters we are required to state to them in a review report and for no other purposes. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company, for our work, for this report, or for the conclusions we have formed.

Directors' Responsibilities

The half-yearly financial report is the responsibility of, and has been approved by, the directors. The AIM rules of the London Stock Exchange require that the accounting policies and presentation applied to the financial information in the half-yearly financial report are consistent with those which will be adopted in the annual accounts having regard to the accounting standards applicable for such accounts.

As disclosed in Note 1, the annual financial statements of the group are prepared in accordance with IFRSs as adopted by the European Union. The financial information in the half-yearly financial report has been prepared in accordance with the basis of preparation in Note 1.

Our Responsibility

Our responsibility is to express to the Company a conclusion on the financial statements in the half-yearly financial report based on our review.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Auditing Practices Board for use in the United Kingdom. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Review Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the financial statements in the half-yearly report for the six months ended 28 February 2009 are not prepared, in all material respects, in accordance with the AIM Rules of the London Stock Exchange.