the CHARACTER group plc

Annual Report and Accounts

For the year ended 31 August 2021

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www.thecharacter.com

www.character-online.com

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OVERVIEW

The Strategic Report comprises the Overview, the Chairman's Statement, the Executive Review, the Principal Risks and Uncertainties, the Section 172 Statement and the Environmental Report

The Character Group plc is an independent toy company based in the United Kingdom.

We design, manufacture and distribute a wide range of toys, games and playthings. Many of our products feature or are based on popular film, television, comic and digital characters, reproduced under licence from the brand owners. The principal markets for our products are our home territories of the UK and Scandinavia but our penetration into other international territories is growing, particularly in the USA and other parts of the EU. We also partner on an exclusive basis with other overseas-based toy producers, either to market and distribute their products in the UK or to collaborate to jointly-develop and distribute toy products and ranges worldwide.

Our diverse product ranges focus on key areas within the toy sector; these include Pre-school (where we consider ourselves as market leader), Boys, Girls and Activity and Crafts

Our corporate strategy is to expand and refresh our existing, diverse, successful core brands (where we continually look to add new and relevant products), to develop innovative and engaging new products (including environmentally-friendly and sustainable products) for newly emerging or established brands (both in-house and third party) and to further increase our sales globally. We believe that this approach will enable sustainable growth for the Group.

In focusing on our quest to reduce the presence of plastics in our toy ranges, we have developed and produced a range of wooden toys, vehicles and accessories. More recently, we have developed ranges of "Eco Plush" toys (soft fabric and filled toy products manufactured from recycled materials) which have also proved to be very popular in our markets. The momentum for sales of these products arises not only from heightened consumer awareness of the need to redirect purchasing choices to sustainable, environmentally-friendly products but also from brand-owners embracing the concept in order to reduce their association with plastics and to reinforce their "green" credentials. We intend to develop further initiatives in this eco-conscious space in the coming years.

We do not own factories; our manufacturing takes place predominantly in China and is carried out on a strictly managed, collaborative, sub-contract basis with closely vetted, reputable suppliers. The Group owns and operates from three freehold properties in the UK. Our head office is based in New Malden, Surrey and our principal distribution warehouse is located in a re-purposed Mill building near Oldham, Greater Manchester. New premises were acquired earlier this year and it is intended that these will serve as an overspill warehousing facility for our operations in the UK. These new premises will, when the current refitting and refurbishment works have been concluded, provide an energy-efficient addition to the Group's facilities. Our Far East operations are carried out from leased offices in Hong Kong and Shenzen, China and our Scandinavian operations are managed from leased offices in Copenhagen.

The Group's customer list includes the major UK and Scandinavian toy retailers, independent toy stores and a wide selection of distributors in many key overseas territories. The UK sales are invoiced in sterling whilst the Scandinivian ones are mainly in Danish Krone and Swedish Krone. All sales from the Far East are on a free-on-board basis and invoiced in US Dollars. The brands we represent are amongst the most recognisable to children and parents alike. We have a diverse and exciting product range which we believe offers something to all our target consumers.

Our top performing brands in 2020 and into 2021 include: *Goo Jit Zu, Peppa Pig, Pokémon, Little Live Pets, Shimmer 'n Sparkle, Treasure X, Instaglam, Mashems, Teletubbies and Ben & Holly's Little Kingdom.*

CHAIRMAN'S STATEMENT

I am delighted, once again, to introduce the results of the Group for another year of profitable trading. There were immense challenges to overcome in the year under review due to ongoing delays at ports, shipping and container shortages, continued increases in freight rates, increased costs of inland transportation in China and the UK and rising costs of materials and labour in China. Despite this testing trading environment, orders for our ranges of products have remained high and sales levels have been achieved to deliver turnover of £140.0m and an operating profit before highlighted items of £11.2m, all in line with market expectations.

These results demonstrate yet again how deft and talented our teams around the globe are in ensuring the smooth and profitable operation of the Group's business. On behalf of all of our shareholders and other stakeholders, I would like to thank all of our personnel for their spirited endeavours.

The Board is recommending a final dividend of 9.0p per share, which (together with the interim dividend of 6.0p per share paid in July 2021), brings the total dividend for the year to 15.0p per share.

I look forward to updating shareholders at our annual general meeting on 21 January 2022 and take the opportunity to wish all our staff, shareholders, customers and suppliers a very happy New Year!

Richard King

Non-Executive Chairman
21 December 2021

EXECUTIVE REVIEW

KEY PERFORMANCE INDICATORS	12 months ended 31 August 2021	12 months ended 31 August 2020
Revenue	**£140.0m**	£108.9m
Operating profit before highlighted items	**£11.2m**	£5.4m
Profit before tax before highlighted items *	**£11.1m**	£5.0m
Statutory profit before tax	**£15.3m**	£3.9m
EBITDA (earnings before interest, tax, depreciation, amortisation and gain on property)	**£14.0m**	£8.2m
Basic earnings per share before highlighted items*	**40.92p**	18.12p
Diluted earnings per share before highlighted items*	**40.37p**	18.08p
Basic earnings per share after highlighted items	**56.86p**	14.76p
Diluted earnings per share after highlighted items	**56.09p**	14.73p
Dividends declared per share for the year	**15.0p**	5.0p
Net assets	**£44.9m**	£34.0m
Net cash	**£35.9m**	£19.1m

*Excludes:		
Mark to market profit (loss) adjustments on FX derivative positions	**£2.1m**	£(2.0m)
Profit on sale of property	**£2.0m**	-
Gain on buy back on loan	**-**	£0.9m

INTRODUCTION

The buoyant demand for the Group's products has been sustained throughout the year and has continued to rise in recent months despite the global supply-side and logistics challenges, which have been relentless for many businesses.

Against this backdrop, we acknowledge the loyalty and dedication of all our staff in the UK, Europe and the Far East. They have been tested once again and, exhibiting the superhero qualities that many of our toys products depict, came through for the business and delivered a very creditable performance.

The turnover increased by 29% to £140.0m (2020: £108.9m) and operating profit before highlighted items more than doubled to £11.2m (2020: £5.4m).

The Group has continued to be cash generative, delivering £27.3m of cash from operations (2020: £19.6m) and finishing the year with a net cash balance of £35.9m (2020: £19.1m).

The Board presents the Group's results for the year ended 31 August 2021:

OPERATIONAL PERFORMANCE

Group revenue in the year ended 31 August 2021 was £140.0m, against a turnover of £108.9m in the comparable 2020 period. Of particular note was the continued growth in sales of the Group's products in the USA.

The gross profit margin for the Group was 28.9% (FY 2020: 27.7%) and, on an absolute basis, the gross profit was £40.4m compared to £30.2m for the previous year.

A considerable proportion of the Group's purchases are made in US dollars; the Group is therefore exposed to foreign currency fluctuations and manages the associated risk through the purchase of forward exchange contracts and derivative financial instruments. Under International Financial Reporting Standards (IFRS), at the end of each reporting period the Group is required to make an adjustment in its financial statements to incorporate a "mark to market" valuation of such financial instruments. The "mark to market" adjustment for this financial period results in a notional profit of £2.1m. This compares to a corresponding notional loss of £2.0m reported in the year to 31 August 2020. These "mark to market" adjustments are non-cash items calculated by reference to unpredictable and sometimes volatile currency spot rates at the relevant balance sheet dates. To present the results on a "normal" basis, these mark to market profit adjustments on FX derivative positions are excluded but shown separately as "highlighted items" to demonstrate the "underlying" profitability.

During the year, the Group also made a pre-tax gain of £2.0m on the sale of one of its freehold properties (Vernon Mill), which is shown as a highlighted item.

The Group is reporting a profit before tax in the year under review, after the highlighted items, of £15.3m (FY 2020: £3.9m). Underlying earnings before interest, tax, depreciation, amortisation and gain on property disposal (EBITDA) were £14.0m (FY 2020: £8.2m).

Basic earnings per share before highlighted items amounted to 40.92p (FY 2020: 18.12p). Diluted earnings per share, on the same basis, were 40.37p, (FY 2020: 18.08p).

Basic earnings per share after highlighted items were 56.86p (FY 2020: 14.76p). Diluted earnings per share, on the same basis, were 56.09p, (FY 2020: 14.73p).

FINANCIAL POSITION, WORKING CAPITAL & CASH FLOW

The Group's net assets as at 31 August 2021 totalled £44.9m (FY 2020: £34.0m) and, notwithstanding the payment of total dividends of £1.9m, the capital base of the Company has been strengthened considerably from last year's level.

Inventories were c.£3.9m lower at the end of the financial period at £10.9m (FY 2020 £14.7m), reflecting the delay in shipments from the Far East due to the logistical challenges which all importers have faced.

During the financial year, the Group generated cash from operations of £27.3m (FY 2020: £19.6m). Net interest charges on short-term use of working capital facilities during the year amounted to £0.1m (FY 2020: £0.34m).

At the end of the financial year, after making payments for dividends, the Group had a net cash position of £35.9m, compared to £19.1m at the end of the 2020 comparative period.

DIVIDEND

The Board remains committed to a progressive dividend policy as we believe this reflects our confidence in the Company's ability to grow profits and generate and develop further sustainable cash flow.

The Board will be recommending to shareholders a final dividend of 9.0p (2020 H2: 3.0p per share), an increase of 200% when compared to the final dividend last year. Together with the interim dividend of 6.0p per share paid in July 2021, this will, if approved by shareholders, bring the total dividend for the year to 15.0p per share (FY 2020: 5.0p). The 2021 total final dividend is covered approximately 2.7 times by underlying annual earnings (2020: 3.6 times).

Subject to approval by shareholders at the Annual General Meeting at 11am on Friday, 21 January 2022, the following timetable will apply for this dividend:

Event	Date
Ex-dividend date	13 January 2022
Record date	14 January 2022
Payment date	28 January 2022

OUR PRODUCT PORTFOLIO

Our portfolio of products has performed extremely well throughout the year, living up to the Board's expectations, and is selling through well in the lead up to Christmas 2021.

Products from the Group's portfolio featured in the Toy Retailers Association's prestigious "DreamToys" list announced in early November 2021, which reflects the most sought-after toy categories in the UK for Christmas 2021. Although the supply chain issues that have plagued importers throughout the year have thwarted us from realising the portfolio's full sales potential, the careful and skilfully managed operation of the business has enabled optimum sales to be realised. Moving into 2022, our line-up of merchandise not only continues to feature some of the most sought-after toy products but will be further bolstered by the launch of a number of exciting new concepts, additions and brand extensions that the Group will unveil at the London Toy Fair in January 2022 and through to Spring of next year.

In July 2021, the Group acquired the business and assets of the *Chill Factor* branded range of drink chilling bottles and slushy makers for a cash consideration of USD 1.31m. The first quarter of the new calendar year will witness the Group's full relaunch of its *Chill Factor* branded range, including products produced under a new licence signed by the Group for the *Coca Cola* and *Fanta* brands.

The Group has maintained its focus on further developing its own, in-house originated brands and reducing reliance on capturing distribution rights in its home territories for third-party products. We continue to work on developing our pipeline of new projects, some as far ahead as two years before an introduction to our range, and these feed into our portfolio at predetermined stages in the annual toy selling cycle and renew and enlarge our offering. The growth potential of these projects is considerable, initially from sales following release in our domestic markets and then to the subsequent development of sales in international markets. This change of mix, favouring in-house developed products to distribution of third-party products, has been gradual but is gathering pace. This has drawn on the depth and range of skills that we have developed and our successes in strategic planning and implementation of new brand and product launches in our domestic and international markets. The Board considers that this approach will continue to mitigate the impact of retirements from our product portfolio as licence agreements expire and are not renewed and product distribution agreements come to an end.

Our full current portfolio of products and brands can be viewed at www.character-online.com.

PROXY

In the year under review, the Group's Scandinavian subsidiaries, which trade under the "Proxy" name in Denmark, Sweden and Norway, saw strong demand for their top brands, although they were not immune from the supply chain issues that affected the Group generally. The mix of its domestic distribution business and significant FOB business from the Far East combined to produce a near break-even position for Proxy for the year as a whole.

This result was achieved following senior management changes made in the early part of the year and through the determined and exceptional efforts of all members of the Proxy team and the Board offers its thanks and appreciation to each of them.

SHARE BUY-BACK PROGRAMME

During FY 2021, the Company effected no buybacks of ordinary shares in the Company. It remains part of the Group's overall strategy to continue to repurchase the Company's own shares, when considered appropriate. However, certain provisions of the UK Market Abuse Regulation have frustrated this objective in recent years.

The Company currently has authority to buy-back up to 3,200,000 ordinary shares but this has not been utilised since it was granted at the Annual General Meeting ("AGM") in January 2021 and this authority will expire at the 2022 AGM.

The Board believes that it is in the Company's and all investors' interests to provide shareholders who wish to realise part or all their investment in the Company with an opportunity to access liquidity that is not otherwise available in the market and to return excess capital to shareholders. Accordingly, the Board will be seeking to renew its authority to buy back up to 3,200,000 ordinary shares (constituting approximately 15% of the total voting rights in the Company) at the forthcoming 2022 AGM.

Subject to the authority being renewed at the 2022 AGM in January 2022, the Company will be proceeding with the tender offer proposed earlier in the year and full details of the size, pricing and exact timing of the offer will be announced following the AGM.

TOTAL VOTING RIGHTS

As at today's date, the Company has 23,608,501 ordinary shares in issue, excluding shares held in treasury. The Company holds 2,226,220 ordinary shares in treasury, representing approximately 10.4 per cent. of the issued share capital (excluding these treasury shares), which do not carry voting or dividend rights. Therefore, the total number of voting rights in the

Company is 21,382,281. This figure of 21,382,281 may be used by shareholders as the denominator for the calculations by which they may determine if they are required to notify their interest, or change to their notified interest, in the Company under the Financial Conduct Authority's Disclosure Guidance and Transparency Rules.

OUR PEOPLE

The Group employs a total of 209 people across its locations in the UK, Scandinavia and Asia (FY 2020: 209).

Regular readers of this report will be aware of the high esteem in which the workforce throughout the Group is held by the Board. Just when it was thought that there were no challenges that had not been thrown at our teams that they had not already encountered and overcome, a new and potentially paralysing fragility was exposed in the global supply chain on which our business is dependent. The communications and seamless synchronicity between, and the agile reactions of, those teams to the testing logistical challenges that they faced in the year under review armed them with the ability to deliver what the Board considers to have been a terrific outcome for the Group in the circumstances.

Our reported results have been achieved through the determined and exceptional efforts of all of our teams across the world and the Board offers its thanks and appreciation to each of them.

THE BOARD

The composition of and the succession planning for the Board, particularly the non-executive directors, has been a matter of careful focus for the Directors over the past year. The Board agreed early in the year to look to appoint two new non-executive directors to the Board. Independence, diversity and experience have all been significant selection criteria in the process.

The Company welcomed the appointment of Carmel Warren to the Board as an independent, non-executive director in April and, subsequently Carmel has been appointed to all of the Board's committees and to the Chair of the Audit Committee. As a consequence, the composition of each of those committees is, in the Board's view, is now made up of wholly independent, non-executive directors. In addition, David Harris has stepped down as the Chair of the Remuneration Committee and Clive Crouch has been appointed as his successor.

Richard King has stepped down as a member of the Audit Committee, the Remuneration Committee and the Nominations Committee. The Board wishes to acknowledge and thank him for his commitment and service on these Committees over the years and also for his continued leadership and support as its Chairman. Richard remains a member and Chair of the Corporate Governance and Risk Management Committee, as the role of the Chair is pivotal to the articulation and implementation of good corporate governance within the Company and it is appropriate that the Board's Chairman also chairs this Committee.

The search for another non-executive director continues and the Board is determined to complete this search and appoint as soon as practicable in early 2022.

OUTLOOK

Both domestic and international demand for our products remains strong and the reception received so far by the new introductions planned for our ranges in the coming months has been a very pleasing endorsement of our team's designs, plans and execution.

Whilst it is not possible to predict when the global logistics issues will be fully resolved, the Group is well placed to satisfy anticipated demand in its markets.

The Board believes that margins will be under pressure due to high freight rates and increased materials and labour costs, however, it is satisfied that the Group remains on target to meet current market expectations.

The Board looks forward to further updating shareholders on the outcome of the 2021 Christmas trading period and prospects at the time of the forthcoming AGM on 21 January 2022.

PRINCIPAL RISKS AND UNCERTAINTIES

The nature of the Group's business renders it subject to a number of risks and uncertainties. The directors have set out below the principal risks facing the business:

COVID-19

The pandemic continues to have an impact on global supply chains and concern over localised escalations in COVID surges will likely be a feature of ordinary life for months to come and will have the potential to affect productivity. The Group manages this risk by:

- continuing to apply safe working practices at all of its premises (e.g. social distancing, maintaining desk partitioning, encouraging mask wearing when moving about the premises, providing hand sanitizer and weekly COVID testing) and facilitating full vaccination of all staff;
- working and liaising closely with all factories that the Group engages for its production;
- careful and timely management of its purchases;
- daily monitoring of, and timely interventions where required on, all freight movements;
- maintaining dialogue with and servicing its customer base.

Cyber crime

The menace of cyber-crime continues to grow and become increasingly sophisticated. Phishing, website spoofing, ransomware, malware, hacking and data theft are the most prevalent and effective crime practices currently used by cyber criminals. Combining these attacks with social engineering, criminals are potentially able to gain access to enterprise systems, steal data and intellectual property and/or hold organisations to ransom. The Group manages this risk by maintaining a well-trained dedicated IT team (supported by accredited IT consultants), adopting and updating strong anti-virus and anti-spam software and filters and other software protections, maintaining off-network back-ups of critical data and information, providing regular staff training and update alerts (coupled with simulated cyber attacks on the Group's systems) and maintaining cyber-attack response consultancy and insurance coverage.

Information technology

The management of the Group's business is dependent on network and information systems, the internet and other technologies. Shutdowns or service disruptions could adversely affect the Group. The Group's IT systems are backed up regularly and there are standard processes in place to restore critical services. The Group's IT department continually reviews the suitability of the Group's systems and identifies any legacy or ageing systems that need to be replaced or updated.

Suppliers

In order to achieve competitively priced products, the Group has outsourced production, mainly to China. Risks and uncertainties of this strategy include management and quality control issues, compliance with regulatory and brand owners' and customer policy requirements at the factories and throughout the supply chain. The Group manages this risk by using a wide range of suppliers and by operating through local offices in Hong Kong and China with teams that work closely with the factories and supply chain links.

Competition

The Group operates in a highly competitive market. As a result, there is a constant pressure on margins and the additional risk of being unable to meet customers' expectations. Policies of supply chain management and product development are in place to mitigate such risks.

Changes in legislation and regulation

The sensitivity to the health and safety of children, our ultimate target consumers, is (quite rightly) an area of close regulation and control in all jurisdictions where we distribute and sell our products. We are closely involved with representative bodies in the Toy Industry in the UK and are often involved in (and always aware of) early consultations on proposed legislative or regulatory changes and make submissions and/or otherwise adapt our production/processes in compliance with and often in anticipation of those changes before they become law. As many of the products that we produce are distributed in territories outside the UK (and with some ranges globally), all of our products are produced to the highest standards applied in the territories where we sell or distribute them as we do not undertake separate production runs for different territories. In addition, the Group maintains substantial product liability and product recall insurance.

Toy safety regulation is not the only way in which changes to law can affect the Group. The imposition of tax on plastic packaging for imports to the UK from 1 April 2022 is an example of other impactful legislative change. The Group has been aware of this legislative change for some time and has planned its response and, to the extent that it can be achieved, the Group will endeavour, and will continually move towards reducing new plastics in packaging to below the tax threshold.

Foreign currency

A significant amount of the Group's purchases is made in US dollars. The Group is therefore exposed to foreign currency fluctuations. The Group manages its foreign exchange risk with forward foreign exchange contracts and other derivative financial instruments such as currency options, to reduce the exposure.

Financial risks

The main risks arising from the financial instruments are foreign currency risk, credit risk, concentration risk, interest rate and liquidity risk. The Board reviews and agrees policies for managing each of these risks. A summary of these risks is disclosed in note 23 to the financial statements.

Environmental/sustainable products

The threat to the environment from global industrial practices is an increasing point of focus for governments, businesses, social commentators, lobbyists and the general public and will be an area of greatly increased regulation in the coming years.

The Group recognises its responsibility to reduce the potential for harm to the environment caused by its operations and production and is committed to reducing its environmental impact by continually improving its environmental performance as an integral part of its devising, developing and implementing its business strategies and operating methods. The Group requires all suppliers in its supply chain to understand, and then to adopt and/or adapt work practices that are aligned with, our environmental policy requirements and aims.

SECTION S172 STATEMENT

The Directors have given due regard to the matters set out in Section 172(1)(a) – (f) when performing their duties under section 172 of the Companies Act 2006 (the "Act"). In compliance with The Companies (Miscellaneous Reporting) Regulations 2018, this report seeks to explain how the Directors have achieved this in the year under review.

S172(1)(a) of the Act - "Likely consequences of any decision in the long term"
The Directors have a responsibility to consider the likely long-term consequences of decisions that they make. The Directors understand the dynamic environment under which the business operates and the consequences of each of their decisions are carefully assessed. Examples of this are as follows:

- Acquisition of new overspill warehouse premises

The UK operations of the Group are based in the Oldham area near Manchester and principally carried out from its premises at Lees Brook Mill, a re-purposed, five storey mill building, originally dating from c. 1886. Until last year, the facilities at Lees Brook Mill were supplemented by overspill warehousing capacity provided by a further nearby converted, five storey mill dating from c. 1905 (Vernon Works). The freeholds to both of these properties were at the time owned by the Group. It was apparent to the Board that Vernon Works was no longer appropriate for the Group's purposes as it was not economically viable to undertake necessary remedial and upgrading works or to redevelop the site to provide a bespoke facility. Accordingly, the premises were marketed from early 2019 and a disposal was achieved at the end of January 2021.

A search was undertaken to find replacement premises reasonably proximate to Lees Brook Mill that would have the potential to provide sufficient overspill warehouse capacity to fulfil forecast requirements of the UK operations of the Group and deliver a more efficient environment and enable the Group to take measures to reduce its carbon footprint. Premises at Townley Street, Middleton (approximately 6 miles from Lees Brook Mill) were identified and subsequently acquired in February 2021. These premises were constructed in the early 1970's as a warehouse for a cash and carry business and provide substantial, single storey, purpose-built overspill warehouse capacity on a plot of approximately 7.6 acres. Reroofing and associated works are nearing completion and the new overspill warehousing facilities will be available for use by the Group from early 2022.

The works at Townley Street have been undertaken under the scrutiny and with the advice of leading UK eco-design consultancy Giraffe Innovation Limited and the opportunity has been taken to ensure that measures are taken in the fit-out such that carbon emissions from this facility will be reduced.

- Acquisition of Chill Factor brand

The Group has been the UK and Scandinavian distributor of the Chill Factor branded range of drink chilling bottles and slushy makers since 2013. The opportunity to acquire the brand presented itself earlier in the year as the Australia-based brand owner was seeking to divest itself of this autonomous business and focus its resources on other aspects of its business. The Board considered that, with a fresh perspective on the opportunities for the marketing of this brand, the potential to develop broader sales, the benefit of preserving the Group's existing distribution of this range and by capturing the "owner's margin", this was a sound acquisition opportunity for the Group and would provide further diversity in its portfolio and be for the medium to long-term benefit of the Group.

S172(1) (b) of the Act - "The interests of the Group's employees"
Ensuring the welfare of, and a safe working environment for, all Group employees is a duty that the Directors have particularly focused on since the lockdowns commenced in March 2020. Our staff, at all levels of the business, are focussed, loyal, motivated and well-trained and are supported and enabled by a clear structure and framework, which has been instrumental in the success of the Group. Despite the end of lockdowns and elimination of the associated restrictions, the Group has retained weekly lateral flow testing and other measures (including enabling full COVID vaccinations of all staff) to guard its personnel from the continuing COVID threat.

Qualifying employees participate in the Group's share option scheme, which is designed to motivate and reward their contributions to Group performance and retain staff. Details of the share option scheme can be found in note 25 to the financial statements.

S172(1) (c) "The need to foster the company's business relationships with suppliers, customers and others"
The Group was established on the principle of placing customer and supplier relations and experience at its core. The need to foster and maintain strong and positive relations with customers and suppliers and, indeed, all other stakeholders in the business, has been a central part of the Group's approach to doing business since its inception and one of the key reasons for its success.

To support this principle, an integrated management structure was adopted by the Group over 15 years ago. This structure facilitates and supports carefully considered, medium to long term decision making in all aspects of the business. These include regulatory, commercial and other internal and external factors that influence future policy making, such as operational decisions, employee welfare, effects on the supply chain and, more recently, the environment. Approximately 10 scheduled management meetings are held each year, in addition to at least 4 main board meetings, to address these issues as they affect the business, with regular focused team sessions being an ongoing process to inform the management decision making process and, when made, to implement decisions effectively.

The Group has a published Ethical Policy & Code of Conduct applicable to staff and suppliers and this is regularly revised and updated.

The Group's supply chain is key to the strategic success of the business. From concept, through early development stages to production and shipment, each approved supplier is fully engaged with to ensure its compliance with all our safety, regulatory, ethical policy, environmental and other requirements, including those of other stakeholders (most notably our licensors and customers). Internal and external ethical audits are routinely carried out and each supplier's compliance with our ethical policy requirement is monitored and reported on. The Group holds annual "vendor reviews" for each factory that we retain for our manufacturing requirements and this review scrutinises compliance with all our requirements.

Dedicated marketing and sales teams collaboratively engage with our customers to coordinate product programs and maximise sales opportunities. Although disrupted by the lockdowns and restrictions due to the COVID-19 pandemic, in the latter part of 2021 and with appropriate safety measures in place, we have been able to restore some in-person meetings to enable us to showcase our products in physical previews. We are pleased to say we will be also presenting some new additions to our portfolio of products at the London Toy Fair in January 2022.

Additionally, the Group has made extensive use of electronic facilities to successfully showcase our products to our distributors and customers globally.

S172(1)(d) of the Act - "The impact of the company's operations on the community and the environment".
The impact of everyday work and product design practices on the environment are of increasing concern to the Group, its customers and consumers. In 2020, the Group formally adopted a comprehensive environmental policy. The policy focuses on continuously improving and monitoring and annually measuring the Environmental impact in the areas of:

- Transportation;
- Efficient use of water & energy;
- Minimising waste;
- Recyclability of packaging materials;
- Timber use from "managed" sources;
- Procedures to minimise noise disturbance to neighbours.

Here are a few updates and outcomes derived from this policy during the year under review:

- we continue to ensure that all wood for our growing wooden toy ranges is sourced only from FSC (Forestry Stewardship Council) managed suppliers. This has been fully implemented and this approach continues to be expanded to include other aspects of sourcing our requirements;
- the Group has implemented a revised car policy, requiring that only electric cars will be acquired for its UK fleet and encouraging the use of only electric cars for business mileage. Approximately 50% of the Group's UK car fleet is now fully electric. Charging facilities have been installed at the Group's UK site at Lees Brook Mill and it is proposed will be installed at our New Malden premises in 2022.
- the Group launched its own Eco plush toy range in 2020, produced entirely from widely recycled plastics, plastic free packaging and using FSC managed cardboard. This range continues to expand as licences of further well-known characters and brands are added.

S172(1)(e) of the Act - "The desirability of the Company maintaining a reputation for high standards of business conduct".
The Group strives to maintain the highest standards of conduct, both within the Group and in its dealings with customers and suppliers. This is supported by extensive polices and processes that the Group has implemented, including our Ethical Policy & Code of Conduct, which is applicable to all of our suppliers. Employees and managers receive regular briefings on these policies and our policies are reviewed and updated, as necessary, in line with best practice.

S172(1)(f) of the Act - "The need to act fairly as between members of the company"
The Group has one class of share in issue and all shareholders benefit from the same rights and entitlements. Most of the Directors are shareholders or otherwise interested in shares in the Company (a number of the executive Directors with significant interests) and the Board considers that the interests of the Board as a whole is, therefore, closely aligned with those of the shareholders. The Board has a regular dialogue with analysts and major shareholders and is aware of its legal and regulatory duties not to act in any manner that would provide any shareholder or group of shareholders with any unfair advantage compared to shareholders as a whole. The Company has a dedicated investors website, which is available to all shareholders (http://www.thecharacter.com). The website includes sections that provide instant access to all regulatory and non- regulatory announcements from 2014 and all financial reports from 2001.

All shareholders are usually invited to the annual general meeting and encouraged to speak at the meeting or otherwise have discussions with the Directors after the meeting. Regretfully, due to the UK Government's restrictions imposed in response to the COVID19 pandemic, we were unable to extend this facility at the AGM in January 2021 and the current surge in the transmission of COVID-19 has impacted our plans for a return to a full in person AGM in 2022. Instead, we are discouraging personal attendance and are facilitating online access to the proceedings. Whilst this is a poor substitute for an opportunity to have full personal attendance by shareholders, it is hoped that this will provide a safe and useful opportunity for shareholders to engage with the Directors.

ENVIROMENTAL REPORT

The Group is required to report on all the emission sources of its UK entities that fall within its consolidated financial statements as specified under the Companies (Director's Report) and Limited Liability Partnerships (Energy and Carbon Report) Regulations 2018.

Character Options Limited, the principal UK trading subsidiary within the Group, appointed Comply Direct Limited to independently assess our Greenhouse gas (GHG) emissions. These emissions have been reported with reference to the latest Greenhouse Gas Protocol Corporate Accounting and Reporting standard (GHG Protocol). The 2021 UK Government GHG Conversion Factors for Company Reporting published by the UK Department for Environment Food & Rural Affairs (DEFRA) are used to convert energy use in our operations to emissions of CO_2e.

The Group's three UK sites are included in the assessment. The table below summarises these sites' GHG emissions for the 12 months ended 31st August 2021 as well as a comparison with the emissions data for the comparable period in 2020.

Scope	**Activity**	**12 months ended 31 August 2021 Tonnes CO_2e**	12 months ended 31 August 2020 Tonnes CO_2e
Scope 1 GHG emissions	Site gas	**158**	167
	Company car travel	**15**	35
Subtotal		**173**	202
Scope 2 GHG emissions	Purchased electricity	**76**	99
Total gross GHG emissions		**249**	301

Total energy consumption	**1,300,444 kWh**	1,443,758 kWh
Gross total emissions Scope 1, Scope 2 (market base)	**198tCO_2e**	295tCO_2e
Intensity metric: Gross tonnes CO_2e per £m turnover (Scope 1, Scope 2)	**4**	5

This shows that there is a significant reduction in the intensity metric, which has dropped by 1tCO2e per £m of turnover. Whilst part of this reduction is acknowledged to be due to some reduced operations during the lockdowns and the travel restrictions that have affected normal commerce during the year, a considerable part of this reduction has been due to the effectiveness of measures taken by Character Options to reduce its emissions. The Group is currently implementing and developing further carbon reduction plans for its UK sites that will continue to house its operations and head office administration and is proposing to increase further the implementation of its plans to fully electrify the Group's UK car fleet.

The Group is currently in the early planning stage of formulating an ESG formal reporting structure and a working group has been formed to oversee this project. It is proposed that the first full ESG report will be published prior to the publication of, or incorporated within, the report and accounts for the year ending 31 August 2022. The Group is further reviewing the potential expansion of its Scope 3 Greenhouse Gas (GHG) measurement and reporting to include the impact of its products. Giraffe Innovation Limited has been engaged to support and advise on both of these tasks.

The initiatives adopted or endorsed at the UN Climate Change Conference (COP26) will see the implementation of a series of global and localised regulatory requirements in the coming months and years and the Group will monitor carefully this position and adapt and develop its policies and processes accordingly, in cooperation and consultation with its customers, licensors and other stakeholders.

The Strategic Report has been signed on behalf of the Board by

J J Diver
Joint Managing Director
21 December 2021

DIRECTORS' BIOGRAPHIES

Executive Directors

Jonathan Diver (aged 57), Joint Managing Director

Jon Diver joined the business in September 1991 from Rainbow Toys Limited, where he was Senior Marketing Executive. He became Group Marketing Director in August 1994 and has developed close working relationships with the Group's suppliers, including Licensors and Manufacturers. He has played a key role in determining and delivering the Group's diversified product development strategy. Jon is a past chairman of the British Toy & Hobby Association.

Jon is jointly responsibility with Mr Shah for the setting and implementation of the Group's corporate and competitive strategy and managing its commercial affairs.

Kiran Shah (aged 67), Joint Managing Director and Group Finance Director

Kiran Shah is a member of the Association of Chartered Certified Accountants. After initially working in a private accountancy practice, he moved into industry and, since 1978, has been involved extensively in the toy industry, notably in his role in jointly heading up a successful management buyout of Merit Toys Limited in 1981 and its subsequent sale to Bluebird Toys plc in 1988. He jointly established the original business of The Character Group plc with Mr King and Mr Kissane in April 1991.

Kiran is jointly responsible with Mr Diver for the setting and implementation of the Group's corporate and competitive strategy and managing its commercial affairs and is responsible for the Group's financial management, accounting, tax and legal affairs.

Joseph Kissane (aged 69), Managing Director of UK Operations

Joe Kissane has considerable sales expertise both at retail and supplier base in and outside the toy industry, gained over a period of over 40 years, notably with such companies as Nabisco, Lego and Tonka. He is one of the founders of the Group and is a senior committee member, charity secretary, trustee and past chairman of the Toy Industry's leading children's charity The Fence Club.

Joe has direct responsibility for the sales and operational management of the Group's principal UK trading subsidiary Character Options Limited, including overseeing relations with customers.

Michael Hyde (aged 47), Managing Director of Far East Operations

Mike Hyde joined the Company in 2005 and was appointed to the Main Board in 2011. Prior to joining Character, Mike spent a number of years working for Mattel Inc., the NASDAQ listed US toy designer and manufacturer, where he held a number of management positions, focusing on brand management, marketing and product development. He holds a Bachelor of Arts (BA) degree in Mandarin Chinese and a Master of Business Administration (MBA) degree.

Mike has direct responsibility for the operational management of the Group's Far East operations, including overseeing relations with factory suppliers.

Jeremiah Healy (aged 60), Group Marketing Director

Jerry Healy joined Character Options Limited (the Group's principal trading subsidiary) in 2004 as Head of Marketing; he was promoted to Marketing Director in 2006 and then became Group Marketing Director in February 2016. He has a wealth of marketing experience gained within the toy industry; prior to joining the Group he worked with Hornby Hobbies, Matchbox and Mattel, both in the UK and Europe and also at Sony Computer Entertainment Europe. Jerry holds a Bachelor of Arts (BA) degree in Business Studies.

Jerry is responsible for setting and managing the Group's product and customer focused marketing plans.

Non-Executive Directors

Richard King (aged 76), Non-Executive Chairman

Richard King has extensive experience in the toy industry and has been involved in importing consumer products from the Far East since 1969. He established the original business of The Character Group plc jointly with Mr Kissane and Mr Shah in 1991 and was until February 2016 the Group's Executive Chairman.

Richard is responsible for ensuring the quality and sound approach to high standards of corporate governance and the effectiveness of the Board as a working group. He is Chairman of the Corporate Governance and Risk Management Committee.

David Harris (aged 71), Senior Independent Non-Executive Director

David Harris was appointed to the Board in 2004; he has very broad financial experience, gained over a 40-year career in both executive and non-executive capacities. He is currently a non-executive director of BMO Managed Portfolio Trust plc, which is a quoted company on the London Stock Exchange, and of Bens Creek Group plc, an AIM listed company.

David is a member of each of the Audit, Remuneration, Nominations and Corporate Governance and Risk Management Committees.

Clive Crouch (aged 69), Non-Executive Director

Clive Crouch was appointed to the Board in February 2016. His 35-year career in media included senior roles within GMTV a company he launched together with his fellow directors. From 1992 to 2007, Clive was GMTV's Sales and Marketing Director. He attended The London Business School Senior Executive Programme in 2003. From 2007 until 2010 he served as GMTV's Chief Operating Officer, taking responsibility for the Channel's License and Compliance to the Ofcom Broadcasting Codes.

Clive was a founder member of Thinkbox, the ITV programme marketing company, and Clearcast, the quango that pre-clears all advertising copy for compliance to the advertising guidance codes.

Clive now operates his own media consulting business and he remains actively involved in the toy industry, advising on such matters as regulatory, promotional activity and licensing. He brings a wealth of relevant management and industry experience to the Board.

Clive is Chairman of both the Remuneration and Nominations Committees and is also a member of the Audit and Corporate Governance and Risk Management Committees.

Carmel Warren (aged 57), Non-Executive Director

Carmel Warren was appointed to the Board in April 2021. Carmel is an experienced executive at both operational and board levels. From 2015-2019, Carmel served as Chief Financial Officer of D4t4 Solutions Plc (D4t4), the AIM quoted specialist in data platforms. Between 2007-2015 she was Chief Financial Officer of Celebrus Technologies Ltd, a customer intelligence software company, which was subsequently acquired by D4t4 in 2015. Following a career break travelling to seven continents, she has most recently acted as interim Chief Financial Officer at Universe Group plc (AIM: UNG.L), a leading developer and supplier of retail management solutions, payment and loyalty systems. Prior to her PLC career Carmel spent eleven years with ExxonMobil in key financial and operational roles within the organisation and, for five years, operated her own Consultancy. She qualified as a chartered accountant with Ernst & Young LLP in 1990.

Carmel is Chair of the Audit Committee and a member of each of the Remuneration, Nominations and Corporate Governance and Risk Management Committees.

DIRECTORS' REPORT

The directors present their report together with the financial statements for the year ended 31 August 2021.

Dividend

The directors recommend a final dividend of 9.00 pence per share (2020: 3.00 pence) making a total dividend for the year of 15.00 pence per ordinary share (2020: 5.00 pence). If approved, the final dividend will be paid on 28 January 2022, to shareholders on the register on 14 January 2022.

Employment policies

The Group depends on the skills and commitment of its employees in order to achieve its objectives. Group staff at every level are encouraged to make their fullest possible contribution to the Group's success.

The Group's selection, training, development and promotion policies ensure equal opportunities for all employees regardless of gender, gender identity or reassignment, marital status, race, religion, age, sexual orientation, or disability. All decisions are based on merit.

It is the Group's policy not to discriminate between employees or potential employees on any grounds. Full and fair consideration is given to the recruitment, training and promotion of disabled people and, should staff become disabled during the course of their employment, efforts would be made to provide appropriate re-training. The Group places enormous importance on the contributions of its employees and aims to keep them informed of developments in the Group by way of regular meetings, newsletters and publications, together with distribution of the Annual Report.

Employees are encouraged to become involved in the financial performance of the Group through participation in the Group's share option scheme.

Research and development

The Group's research and development activities are concentrated on the development of new products, new processes and improvements to, or developments of, existing products.

Policy and practice on payment of creditors

The Group does not follow any standard code of practice for paying its suppliers but, instead, agrees with each principal supplier the terms of payment for each transaction or series of transactions. The Group's policy is then to abide by those pre-arranged terms for payment. At 31 August 2021, trade creditors of the Group represented an average of 55 (2020: 45) days credit in relation to total purchases for the year.

Governance

Directors

The following directors served during the year:

Jonathan James Diver (Joint Managing Director)
Kirankumar Premchand Shah (Joint Managing Director and Group Finance Director)
Joseph John Patrick Kissane (Managing Director, UK Operations)
Michael Spencer Hyde (Managing Director, Far East Operations)
Jeremiah Healy (Group Marketing Director)
Richard King (Non-Executive Chairman)
David Harris (Senior Independent Non-Executive Director)
Clive William Crouch (Non-Executive Director)
Carmel Elizabeth Warren (Non-Executive Director)*

(*appointed on 19 April 2021)

Directors and their interests in shares

The directors and their interests (all of which are beneficial) in ordinary shares of 5p each in the capital of The Character Group plc ("Ordinary Shares") as at 31 August 2021 and 21 December 2021 (being the date of this report) were as follows:

	As at 21 December 2021		**As at 31 August 2021**		As at 31 August 2020	
Directors	**Number of Ordinary Shares**	**Ordinary Shares Under option**	**Number of Ordinary Shares**	**Ordinary Shares under option**	Number of Ordinary Shares	Ordinary Shares under option
K P Shah	**2,166,720**	**-**	**2,166,720**	**-**	2,166,720	-
J J Diver	**1,409,442**	**-**	**1,409,442**	**-**	1,409,442	-
J J P Kissane	**513,878**	**-**	**513,878**	**-**	513,878	-
M S Hyde	**268,888**	**92,000**	**309,681**	**92,000**	309,681	100,000
J Healy	**73,000**	**66,000**	**73,000**	**66,000**	73,000	72,000
R King	**336,286**	**-**	**336,286**	**-**	336,286	-
D Harris	**68,183**	**-**	**68,183**	**-**	68,183	-
C Crouch	**15,358**	**-**	**15,358**	**-**	15,358	-
C Warren	**-**	**-**	**-**	**-**	-	-

Included in the interests of K P Shah are his interests in Ordinary Shares held by Sarissa Holdings Limited, being 2,000,000 Ordinary Shares at 21 December 2021, 31 August 2021 and 31 August 2020.

Included in the interests of J J Diver are his interests in Ordinary Shares held by Mr Diver's personal pension scheme being 551,867 Ordinary Shares at 21 December 2021, 31 August 2021 and 31 August 2020.

Included in the interests of J Healy are his interests in Ordinary Shares held by Mr Healy's personal pension scheme being 5,000 Ordinary Shares at 21 December 2021, 31 August 2021 and 31 August 2020, and 52,000 Ordinary Shares held by his spouse, Mrs K Healy at 20 December 2021, 31 August 2021 and 31 August 2020.

Included in the interests of D Harris are his interests in Ordinary Shares held by Mr Harris's personal pension scheme being 51,403 Ordinary Shares at 21 December 2021, 31 August 2021 and 31 August 2020.

Details of the directors share options are disclosed in note 4 to the financial statements. Disclosures required to be made in accordance with the Quoted Companies Alliance's Corporate Governance Code 2018 are made or otherwise sign-posted in the Corporate Governance Report.

Directors' indemnity insurance
The Company has purchased and maintains insurance to cover its directors against liabilities in relation to their duties to the Group.

Matters referred to in the Strategic Report
In accordance with section 414C(11) of the Companies Act 2006 the future developments, principal risks and uncertainties, and share buy-back disclosures required in the Directors Report are made in the Strategic Report.

Environmental Report
As required by The Companies (Directors' Report) and Limited Liability Partnerships (Energy and Carbon Report) Regulations 2018, the Environmental Report is on page 12.

Share option schemes
Details of the Company's share option schemes are given in note 25 to the financial statements.

Financial Instruments
Information about the use of financial instruments by the Group is given in note 22 to the financial statements and in the principal accounting policies.

Auditors
A resolution to reappoint MHA MacIntyre Hudson as auditors to the Company will be proposed at the forthcoming Annual General Meeting.

Statement of disclosure to auditors
The directors who were in office on the date of approval of these financial statements have confirmed that, as far as they are aware, there is no relevant audit information of which the auditors are unaware. Each of the directors has confirmed that he has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that it has been communicated to the auditors.

Approved by the Board on 21 December 2021, and signed on its behalf by:

R B Smyth
Secretary

Registered Office:
CityPoint, 16th Floor,
One Ropemaker Street,
London
EC2Y 9AW

Registered number 3033333
21 December 2021

CORPORATE GOVERNANCE REPORT

CHAIRMAN'S INTRODUCTION

The Company applies the principles of the Quoted Companies Alliance's (the "**QCA**") Corporate Governance Code 2018 (the "**QCA Code**") to the Company's corporate governance. We identify whole-heartedly with the underlying philosophy and objectives of the QCA Code and our collaborative culture and engagement with our key stakeholders (i.e. shareholders, customers and suppliers) sees us very much aligned to core principles of the QCA Code.

I engage with the business, its directors, advisers and, where necessary, customers and suppliers and with the formulation, development and the review of the efficacy of the Group's strategy and its key procedures and processes.

As Chairman, I am responsible for:

- articulating my role and demonstrating my responsibility for corporate governance;
- explaining how the QCA Code is applied to the Company and how that application supports the medium to long term success of the Company;
- explaining any areas in which the Company departs from the expectations of the QCA Code; and
- identifying any key governance related matters that have occurred during the period under review.

I accept these responsibilities and seek to demonstrate how these have been addressed in this report.

CORPORATE GOVERNANCE REPORT

The Board

The Board is responsible for the overall governance of the Company.

The Board comprises five executive directors and four non-executive directors, as detailed on pages 13 and 14. Three of the non-executive Directors, David Harris, Clive Crouch and Carmel Warren, are considered by the Board to be independent and free from any relationship that could materially interfere with the exercise of their independent judgement. David Harris was appointed as a Non-Executive Director of the Company in May 2004. Although this duration of service requires the Board to consider his independence, the Board does not see duration of service alone as a determining factor in assessing independence. David has strong and wide business experience, good relations with "the City", a wealth of experience with publicly listed companies, is financially independent and has a direct manner. In the Board's view, the continuity, stability and experience that David brings to the Company adds significantly to the strength of the Board. In his time with the Company, David has demonstrated a calm and authoritative manner and wisdom. In the circumstances, the Board is satisfied that David exercises independent judgement in all matters relating to the Company.

The Board has a formal schedule of matters reserved for its consideration. It is responsible for: setting the overall Group strategy and providing leadership to implement the strategy; supervising the management of the business; the acquisition or disposal of material corporate entities or assets; public announcements (including statutory financial statements); approving or making significant changes in accounting policy, the capital structure and dividend policy of the Group; Group remuneration policy; and Board structure, composition and succession.

The Board delegates to management, through the executive directors, the overall performance of the Group, which is effected principally through the setting of clear objectives and monitoring of performance against those objectives. The Board is structured so that no one individual or group dominates the decision-making process. Board meetings are scheduled and held at least four times a year and at other times as required to address requirements arising between these scheduled meetings.

During the year, five (5) Board meetings were held. The directors attended as follows:

Director	Number of meetings attended
Richard King	5
Kiran Shah	5
Jonathan Diver	5
Joesph Kissane	5
Michael Hyde	5
Jerry Healy	5
David Harris	5
Clive Crouch	5
Carmel Warren	2*

(* appointed on 19 April 2021)

In accordance with the terms of her/his appointment, each non-executive director of the Company is obliged to retire each year and is eligible for re-election at the Company's annual general meeting. The executive directors are not subject, either contractually or under the Company's Articles of Association, to a requirement to retire by rotation. Under their respective contracts of employment, each of the Joint-Managing Directors (Jon Diver and Kiran Shah) is required to give not less than 12 months' written notice if he wishes to terminate his contract.

The Board has constituted the following four committees comprised solely of non-executive directors, with duties and responsibilities formally assigned to them (as set out in their respective terms of reference):

- the Audit Committee – Chairman, Carmel Warren;
- the Remuneration Committee – Chairman, Clive Crouch (see the Committee's report set out on page 25);
- the Nominations Committee – Chairman, Clive Crouch; and
- Corporate Governance and Risk Management Committee – Chairman, Richard King.

The terms of reference for these Committees are available to view on the Company's website at:
http://www.thecharacter.com/company-documents/.

The QCA Principles

The QCA Code sets out 10 broad principles and requires the Company to consider how each should be applied to and implemented by the Company and to disclose how that implementation has been achieved by the Company or explain any areas in which the Company departs from any of those principles.

Before providing the disclosures required by the QCA Code, I provide the following update on developments that have impacted aspects of our Corporate Governance at the Company since my last report:

- Carmel Warren joined the Board in April this year and brings with her considerable accounting skills and wealth of experience in financial and operational roles. Since her appointment to the Board, Carmel has also assumed the Chair of the Company's Audit Committee and has become a member of all of the other Board Committees;

- the continuing effects of the COVID-19 pandemic impacted the Group throughout the year under review. Measures, at least in line with government guidelines at the locations where the Group operates, have been maintained throughout the period and continue to date to ensure the continued safety and wellbeing of all our personnel at, and visitors to, our workplaces;

- the disruption to the Group's supply chain arising due to:
  - production and operational stoppages/interruptions in China due to local COVID-19 lockdowns and outbreaks;
  - container shortages in, and significantly reduced shipping capacity from, China;
  - in-bound congestion at major container ports around the world;
  - the Suez Canal blockage in March 2021; and
  - shortages of HGV drivers and casual labour in the UK,

  impacted the Group's performance in the period under review and in the lead up to Christmas 2021. The adverse effects have been considerably mitigated by swift and focused action by the Group's management to source alternative shipping and container capacity and freight handling services, assisting customers with the implementation of their action plans to minimise resulting delays and the willingness of our staff (at all levels of the business) to support the effort, with senior managers, sales and administrative staff joining out-of-hours picking and packing teams to ensure the fulfilment of orders;

- the Board has retained the services of leading UK eco-design consultancy Giraffe Innovation Limited, an existing adviser/consultant to the Group, to undertake a root and branch review the Group's environmental policy, sustainable product development and manufacturing processes and other related environmental issues affecting the Group. Giraffe Innovation will advise on and seek to evaluate the Group's response and the effectiveness of the measures and practices adopted by the Group to implement ESG aligned policies and processes. Giraffe Innovation have provided a preliminary action plan to the Board for consideration and a working group, headed by the Group's Managing Director of Far East Operations, Michael Hyde, has been formed with objective of making recommendations to the Board in relation to this fast-developing facet of corporate governance. This working group will work to formulate and have oversight of the implementation of a comprehensive, cohesive and dynamic Group ESG policy to identify where the Group should focus its efforts and resources to progressively reduce and, ultimately, to eliminate or balance the harmful impacts of its operations and global supply chain on the environment. An early recommendation of this working group contemplates annual reporting by the Company in the form of a standalone ESG Report to chart and measure its progress and it is contemplated that this approach will be adopted or otherwise signposted in the Annual Report for 2022 and in our annual reporting from that time.

- I have resigned from, and Carmel Warren has been appointed to, membership of the Audit, Remuneration and Nominations Committees of the Board, with the result that these committees are, in the Board's view, now made up solely of independent non-executive directors of the Company. Clive Crouch has assumed the chair of the Nominations Committee, in succession to me, and of the Remuneration Committee, in succession to David Harris.

- a revised Corporate Governance Statement has been published on the Company's website simultaneously with the publication of this report and is available to view at: http://www.thecharacter.com/corporate-governance/.

Review of each of the QCA Code principles

This Report is a summary of the position with the Company's Corporate Governance processes and practices or otherwise "sign-posts" where other disclosures are made in this document or on the Company's website at www.thecharacter.com, particularly the Company's Corporate Governance Statement: www.thecharacter.com/corporate-governance.

Principle 1:

"Establish a strategy and business model which promote long-term value for shareholder."

Our business model and strategy are explained in the Overview section of the Strategic Report on page 2 of this document.

Principle 2:

"Seek to understand and meet shareholder needs and expectations."

The Company engages with shareholders by:

- The publication of its Annual Report and shareholder circulars.
- Announcements published via a Regulatory News Service ('RNS').
- Proactive Investor presentations and interviews.
- Conducting meetings with major shareholders during its results "roadshows" to obtain a balanced understanding of their issues and concerns. During the COVID-19 lockdowns and restrictions, these meetings have been conducted by audio-visual means or by telephone but it is hoped that there will be opportunities for a resumption of in-person encounters in the coming weeks/months.
- Active engagement with shareholders at the Company's AGMs. Regretfully, the closed format of the AGM in January 2021 did not allow for this much welcomed annual interaction with shareholders and, whilst online access to the event is to be facilitated for all shareholders, continuing safety concerns over COVID-19 have led to a request that shareholders do not personally attend the 2022 AGM. It is hoped that conditions will allow a resumption of full physical meetings with shareholders for this important annual calendar event in 2023.
- Replying to investor questions sent to info@charactergroup.plc.uk, its registered office or otherwise submitted to the Company.
- Press releases.
- Updating and publishing relevant content on the Company's website (www.thecharacter.com).

When engaging with our shareholders, we endeavour to take due account of their concerns, explain our actions and, where appropriate, take appropriate steps to address any issues. When we do not agree with a shareholders point of view, we explain our reasoning. This is very much a mutual informing process and one that we very much welcome.

Principle 3:

"Take into account wider stakeholder and social responsibilities and their implications for long-term success."

The Company's key stakeholders are:

- its shareholders;
- its customers in its domestic markets in the UK and Scandinavia and (as we increasingly seek to grow our markets internationally) elsewhere around the world;
- its suppliers (including brand owners); and
- its employees.

The Company's ultimate consumers are children and the Company has a long tradition of "giving-back" through active engagement with charities, good-causes and its local community on projects that are dedicated to addressing children's welfare issues, particularly care and support for disabled children. Further details of these initiatives undertaken throughout the past year can be found in our Corporate Governance Statement at www.thecharacter.com/corporate-governance.

We embrace and are committed to the causes of protecting and preserving the environment, an issue that we know concerns many of our stakeholders and which will benefit the children that our products are ultimately produced for and succeeding generations. We actively seek to reduce non-recyclable plastics and other harmful materials in, and the related packaging for, our products. The further development of our range of wooden toys, vehicles and accessories, originally launched in 2020, the more recent introduction of our ranges of "Eco-plush" products (soft fabric and filled toy products manufactured from recycled materials) and the reductions in harmful content that we have achieved, and continue to seek, in our packaging demonstrate this commitment. We have tangibly increased the energy efficiency of our operations, particularly in the UK, as measured in our Environmental Report (see page 12), and the year under review has seen overall reductions in emissions from our operations. Our work in this area is continuing with further migration of the Group's car fleet to electric vehicles in the current year and with the implementation of other measures intended to have a medium to long term effect on reducing the Group's carbon footprint. We will also continue to work actively with our customers and suppliers to further reduce the impact from emissions and other harmful effects of our global operations and supply chain in the coming months and years.

Principle 4:
"Embed effective risk management, considering both opportunities and threats, throughout the organisation."

Although the Board is ultimately responsible for the Group's system of internal control and for reviewing its effectiveness, the Corporate Governance and Risk Management Committee has primary responsibility for overseeing the development of a comprehensive risk management policy framework by the Company, the implementation of appropriate risk management practices throughout the Company's operations and systems and reporting to the Board on its work in this area.

Whilst a risk management policy framework is designed to identify and then manage risks to a business, it cannot totally eliminate the risk of failure to achieve business objectives but does provide a reasonable (though not absolute) assurance against material misstatement or loss.

In accordance with the guidance for directors on internal control "Internal Control: Guidance for Directors on the Combined Code", the Board confirms that there is an ongoing process for identifying, evaluating and managing the significant risks faced by the Group. This process has been in place throughout the year under review and is continuing. Key areas of focus in this effort since my last Corporate Governance Report issued by the Company have been (i) the continuing effects of the COVID-19 pandemic on the health and welfare of our personnel, (ii) the follow-on impact of the pandemic on the Group's supply chain and (iii) the need to continue to strengthen the protections for data controlled and/or processed and the security of digital assets owned or managed by the Group and to combat the continuing menace posed by Cyber criminals. Sophisticated enhancements and processes for detecting and minimising these risks have been developed and introduced and will continue to be part of our ongoing diligence in this area.

The Board has reviewed the effectiveness of the system of internal controls. In particular, it has reviewed the Group's process for identifying and evaluating the significant risks affecting the business and the policies and procedures by which these risks are managed.

Key elements of the Group's system of internal controls are as follows:

Control environment

- the setting of appropriate levels of authorisation, which must be adhered to as the Group conducts its business;
- the operation of a recognised, organisational and management reporting structure, within which individual executive directors have responsibility for the day-to-day running of the business;
- the operation of detailed procedures for the setting of annual budgets and monthly forecasts and the monitoring of actual financial performance against these targets and the impact on inventory levels, on a monthly basis, both at operational and Board level; and
- a clearly defined and well-established set of accounting policies, which ensure that the financial performance is recorded on a consistent and appropriate basis throughout the Group's reporting entities.

Monitoring and corrective action

There are ongoing procedures in place for monitoring the system of internal financial controls. The remit of the Audit Committee includes meeting to review the effectiveness of the Group's system of internal financial controls and considering reports made to it by the Group's auditors. The Group does not have an internal audit function. During the year, the Board has reviewed the need for an internal audit function and continues to believe that the current size of the Group does not warrant the establishment of an internal audit function. The need for an internal audit function will continue to be reviewed on an annual basis.

Risk management

Management are responsible for assisting the Board in the identification and evaluation of significant risks applicable to their areas of the business together with the design and operation of suitable internal controls. These risks are assessed on a continual basis and may be associated with a variety of internal or external factors, including control breakdowns, disruption in information systems, natural catastrophe and regulatory requirements.

Management report to the Board regularly on their review of risks and how they have managed the risks. The Board reviews the key risks inherent in the business and the system of controls necessary to manage such risks.

Principle 5:
"Maintain the board as a well-functioning, balanced team led by the chair."

Reference is made to the section of this Report above entitled "Board" (see page 18).

The executive Directors are full-time working directors. The Non-Executive Directors do not have prescribed working hours in their appointment letters but are required to expend such time in discharging their duties as is necessary or required to fulfil their respective roles.

The Company is committed to a culture of equal opportunities for all employees regardless of gender, gender identity or reassignment, marital status, age, race, religion, sexual orientation or disability. Although diversity is one of the key factors that the Board will take into account when making any new appointments to the Board, any new appointment will only be made on the basis of a candidate's merits and the skills and experience identified by the Board as being necessary or desirable to complement those of the existing directors.

Principle 6:
"*Ensure that between them the directors have the necessary up-to-date experience, skills and capabilities.*"

The list and functions of the directors is set out on page 15 of this document and the skills of each member of the Board are set out in his biography on pages 13 and 14 of this document.

The Board has operates a structured approach for ensuring that the Directors are able to obtain training on relevant new developments that affect the Group's business or that may be beneficial to ensure that the Group's corporate governance practices are developed and enhanced. Whilst the Directors are free to select their own training/refresher/updating programs, if and as required (at the Company's cost), the Company is pro-active in encouraging a systematic approach to updating skills and relevant training for the Directors. Notably, the Company has in the last 12 months arranged seminars for Directors and other relevant personnel to attend, covering subjects such as the Group's Environmental Policy (including in the use of plastics, the focus on sustainability in the design of products and packaging and the reuse of plastics and other materials) and developments in Data Protection, Cyber security and the security of digital assets.

Principle 7:
"*Evaluate board performance based on clear and relevant objectives, seeking continuous improvement.*"

The Directors consider that the size of the Company does not justify the use of third parties to evaluate the performance of the Board on an annual basis, though this will be kept under regular review.

An evaluation of the performance of the Board, its Committees and directors is undertaken every year. This process requires each Director to complete a form of questionnaire designed to probe his views on various facets of the role, activities and performance of the Board, its committees and the Chairman. A report is then complied from the responses and comments (on an anonymized basis) and circulated to each of the Directors and discussed at meetings respectively of the Corporate Governance and Risk Management Committee and the Board. This exercise was conducted in October and November this year and has been very instructive in highlighting some areas where the processes adopted by the Board and its committees may be enhanced.

Individual director performance evaluations were also undertaken during the year. Again, this was a questionnaire-based approach, designed to determine/question strengths and weaknesses in a range of areas, has been adopted. I undertook the evaluation for all of the Directors apart from myself and the evaluation of my performance was undertaken by the Independent Non-Executive Directors.

Following those performance evaluations, I am pleased to confirm that both I and the Board are satisfied that the performance of the executive and non-executive Directors continues to be effective and demonstrates commitment to the roles, though adjustments and changes made in certain practices/processes will, it is believed, enhance performance still further.

Principle 8:
"*Promote a corporate culture that is based on ethical values and behaviours.*"

Character has a strong corporate identity which has been instrumental in recruiting and retaining the talents that are essential to ensure the development and prosperity of the business.

The Group employs a total of 209 people across its locations in the UK, Scandinavia and Asia. The team is dedicated to and focused on developing, manufacturing, marketing and distributing innovative and exciting toys that meet the high expectations that the Group's customers and the consumer demand, both in terms of quality and value.

There is a spirit of collaboration at all levels of personnel within the Group (from the warehouse floors through to the boardroom), reinforced by a strong, informed and inclusive culture. This sees its expression in the continuous hard work, dedication and loyalty of the Group's personnel and in the strong and enduring bonds with the Group's customers and suppliers that has been exemplified by the performance of the Group in the year under review.

This unique team spirit underpins the strength of the Group's model and provides the Group with the dynamics that assure it of the continued ability to deliver growth, performance and results.

Principle 9:
"*Maintain governance structures and processes that are fit for purpose and support good decision-making by the board.*"

The principle governance structures within the Company are the Board and its Committees, details of which have been given earlier in this Report (see page 18). There are dynamics to the development of good governance practices and decision-making that require the Company to be ever vigilant to market, regulatory, fashion and macro-economic ontogenesis, as well as emerging technology, impacting its sphere of activity. The proven skills of our central management team, the depth of experience and knowledge of our Directors, our active market engagement through our partnerships with our customers and suppliers all ensure that the Board are alerted to and well informed regarding all issues that affect our market and performance and able to make informed decisions on the short, medium and long term considerations that affect the Group's business model and/or strategy.

More details of the Company's governance structures are given in the Company's Corporate Governance Statement at www.thecharacter.com/corporate-governance.

Principle 10:
"*Communicate how the company is governed and is performing by maintaining a dialogue with shareholders and other relevant stakeholders.*"

The Company makes sure that a good flow of communication exists between the Board and all its stakeholders, including shareholders, to enable all interested parties to come to informed decisions over any interaction with the Company.

The report of the Remuneration Committee is set out on page 25 of this document.

The corporate website of the Company (www.thecharacter.com) plays an important role in ensuring that the shareholders and other stakeholders have all the information they should require.

The notice of AGM, the Annual and Interim reports since 2001 are available on the Company's website: www.thecharacter.com The Company's website also includes a proxy report and the results of the votes cast at its AGM in January 2021.

Corporate Governance Statement

Further details regarding the Corporate Governance of the Company are set out in the Company's updated Corporate Governance Statement, which may be viewed at: http://www.thecharacter.com/corporate-governance/. Further updates will be made from time to time to this statement to reflect and report of developments in this important and dynamic area.

Richard King
Chairman
21 December 2021

DIRECTORS' REMUNERATION REPORT

The Board presents the Remuneration Report for the year ended 31 August 2021.

The Remuneration Committee

The Remuneration Committee consisted solely of the following non-executive directors:

C Crouch (Chairman from 26 November 2021)
D Harris (Chairman until 26 November 2021)
C Warren (appointed 26 November 2021)
R King (resigned 26 November 2021)

Remuneration of Directors

Each executive director is paid a basic salary and is entitled to benefits, including payments of pension contributions to a suitable chosen scheme, the provision of a company car and participation in a private health care scheme. Where a director chooses not to take a pension allowance, an equivalent sum is added to his gross salary.

Each of the executive directors is eligible for a bonus in the event that specified performance targets are met or exceeded. These targets are based on certain profit levels being achieved in each financial year of the Group, adjusted to exclude certain exceptional non-trading items. Messrs Diver, Shah and Kissane are also entitled to a further bonus of 4%, 2% and 1% respectively of the consolidated, pre-tax profits of the Group in the event that a specified minimum target is met or exceeded. Half of this further bonus is satisfied in shares. All bonuses are capped.

The basic salaries referred to above are reviewed every year by the Remuneration Committee. Messers Diver, Shah and Kissane have not received a basic salary increase since September 2010. No director has a service contract incorporating a notice period of more than 12 months.

The Company believes that share ownership by executive directors and senior executives strengthens the links between their personal interests and those of the shareholders. Executive directors are entitled to participate in the Group's 2017 Share Option Plan, details of which may be found in note 25 to the financial statements.

Non-executive directors are appointed for a fixed term expiring at each Annual General Meeting of the Company, when they may offer themselves for re-election. The Non-Executive Chairman is entitled to fees of £100,000 per annum, plus expenses. The remaining non-executive directors are entitled to fees, currently at the rate of £40,000 per annum (2020: £40,000), plus expenses, without any right to compensation on early termination.

Details of the directors' remuneration are disclosed in note 4 to the financial statements.

On behalf of the Board

C Crouch
Chairman, Remuneration Committee
21 December 2021

DIRECTORS' RESPONSIBILITY STATEMENT

The directors are responsible for preparing the annual report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare such financial statements for each financial year. Under that law, the directors have prepared the Group and Parent Company financial statements in accordance with International Accounting Standards in conformity with the requirements of theCompanies Act 2006.

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 Group and the Company 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.
- state whether applicable international accounting standards in conformity with the Companies Act 2006 have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's and the Group'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 financial statements comply with the requirements of the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and the Group and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF THE CHARACTER GROUP plc

For the purpose of this report, the terms "we" and "our" denote MHA MacIntyre Hudson in relation to UK legal, professional and regulatory responsibilities and reporting obligations to the members of The Character Group plc. For the purposes of the table on page 28 that sets out the key audit matters and how our audit addressed the key audit matters, the terms "we" and "our" refer to MHA MacIntyre Hudson. The Group financial statements, as defined below, consolidate the accounts of The Character Group plc and its subsidiaries (the "Group"). The "Parent Company" is defined as The Character Group plc. The relevant legislation governing the Parent Company is the United Kingdom Companies Act 2006 ("Companies Act 2006").

Our opinion

We have audited the financial statements of The Character Group plc for the year ended 31 August 2021.

The financial statements that we have audited comprise:

- Group Income Statement;
- Group Statement of Comprehensive Income;
- Group Balance Sheet;
- Company Balance Sheet;
- Group and Company Cash Flow Statement;
- Group Statement of Changes In Equity;
- Company Statement of Changes in Equity; and
- Notes 1 to 30 of the financial statements, including the accounting policies.

The financial reporting framework that has been applied in their preparation is applicable law and international accounting standards.

In our opinion, the financial statements:

- give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 August 2021 and the Group's profit for the year then ended;
- have been properly prepared in accordance with international accounting standards; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed entities, and we have fulfilled our ethical responsibilities in accordance with those requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Overview of our audit approach

Materiality	**2021**	**2020**	
Group	£1,040,000	£880,000	8% of profit before tax after the impact of highlighted items
Parent	£740,235	£324,000	1.5% of net assets (2020:1% of net assets)

Key Audit Matters	
Group	• Revenue recognition • Inventory valuation

Key Audit Matters

Key Audit Matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those matters which had the greatest effect on:

- the overall audit strategy;
- the allocation of resources in the audit; and
- directing the efforts of the engagement team and, as required for public interest entities, our results from those procedures.

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Revenue recognition

Key audit matter description	As described in the accounting policy note 1 a provision is established at the year end for estimated sales returns and allowances. These are adjustments made to revenue, outside of the Group's core transactional processes which represent a key area of focus for the audit due to its material significance.
How the scope of our audit responded to the key audit matter	Our procedures included assessing the design and implementation of key controls around the allowances approval process. We have also performed procedures to assess the completeness of these allowances. In addition, we performed substantial analytical procedures on the revenue in the year to understand the revenue profile in the year and the completeness of the allowances provision.
Key observations	Following our audit procedures, we found that revenue had been recorded appropriately.

Inventory valuation

Key audit matter description	As described in the accounting policy for stock obsolescence the Group is required to make judgement to the future demand of product ranges in determining whether inventory will be expected to be fully realised at an amount in excess of the carrying value of the inventory. As this assessment requires judgements it is considered a key area of focus for the audit due to the material amount of the carrying value of inventories.
How the scope of our audit responded to the key audit matter	We obtained a detailed understanding and evaluated the design and implementation of controls that the Group has established in relation to inventory valuation. We have obtained assurance over the appropriateness of management's assumptions applied in calculating the value of inventory provisions by: • critically evaluating the Group's policy of provisioning for slow moving inventory; • verifying compliance with that policy through the testing of a sample of inventory items; • verifying the sample of inventory to confirm whether it is held at the lower of cost and net realisable value, through comparison to vendor invoices and sale prices; and • considering the historical accuracy of these provisions.
Key observations	We concluded that the total amount of the stock obsolescence provision is within an acceptable range and had been recorded appropriately.

Our application of materiality

Our definition of materiality considers the value of error or omission on the financial statements that, individually or in aggregate, would change or influence the economic decision of a reasonably knowledgeable user of those financial statements. Misstatements below these levels will not necessarily be evaluated as immaterial as we also take account of the nature of identified misstatements, and the particular circumstances of their occurrence, when evaluating their effect on the financial statements as a whole. Materiality is used in planning the scope of our work, executing that work and evaluating the results.

Materiality in respect of the Group was set at £1,040,000 (2020: £880,000) which was determined based on 8% of profit before tax after the impact of highlighted items in both years. This was deemed to be the most appropriate metric for materiality as this is primarily what the users of the financial statements are concerned with.

Performance materiality is the application of materiality at the individual account or balance level, set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality for the financial statements as a whole.

Performance materiality for the Group was set at £884,000 (2020: £748,000) which represents 85% (2020: 85%) of the above materiality level.

The determination of performance materiality reflects our assessment of the risk of undetected errors existing, the nature of the systems and controls and the level of misstatements arising in previous audits.

Materiality in respect of the Parent Company was set at £740,235 (2020: £324,000) which was determined based on 1.5% of the Parent Company's net assets. Performance materiality for the Parent Company was set at £629,200 (2020: £275,400) which represents 85% (2020: 85%) of the above materiality level.

We agreed to report any corrected or uncorrected adjustments exceeding £52,000 to the Audit Committee as well as differences below this threshold that in our view warranted reporting on qualitative grounds.

The scope of our audit

Our Group audit was scoped by obtaining an understanding of the Group and its environment, including the Group's system of internal control, and assessing the risks of material misstatement in the financial statements. We also addressed the risk of management override of internal controls, including assessing whether there was evidence of bias by the directors that may have represented a risk of material misstatement.

The results of that assessment have meant that our Group audit scope has focused primarily on the financial results of five components of the Group: Character Options Limited, Toy Options (Far East) Limited, Charter Limited, OVG Proxy A/S and Character Denmark ApS. These entities trade from the UK, Hong Kong and Denmark respectively. These entities have been subjected to a full audit with the nature and extent of testing driven by our assessment of the risks of material misstatement and of the materiality determined at the component level. The results of these entities represented 99.9% of total Group revenue and 99.9% of the Group's profit before tax.

As part of our audit work we have also tested the consolidation process. We have also performed those audit procedures of the remaining components necessary for us to reduce the risks of material misstatement to an acceptable level.

The audit of Character Options Limited and the Parent Company, The Character Group plc was performed by us and we have acted as the Group engagement team in directing the audit of Toy Options (Far East) Limited and Charter Limited, and the agreed upon procedures for OVG Proxy A/S and Character Denmark ApS. Our work in this respect was performed in accordance with the International Standards on auditing specifically ISA 600 (UK).

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.
Our evaluation of the Directors' assessment of the Group and Parent Company's ability to continue to adopt the going concern basis of accounting included:

- The consideration of inherent risks to the Company's operations and specifically its business model.
- The evaluation of how those risks might impact on the Company's available financial resources.
- Where additional resources may be required the reasonableness and practicality of the assumptions made by the Directors when assessing the probability and likelihood of those resources becoming available.
- Liquidity considerations including examination of cash flow projections.

- Solvency considerations including examination of budgets and forecasts and their basis of preparation, including review and assessment of the model's mechanical accuracy and the reasonableness of assumptions included within.
- Consideration of availability of funds required to settle funding facilities due for repayment during the going concern review period. Assessing the reasonableness and practicality of the mitigation measures identified by management in their conservative case scenario and considered by them in arriving at their conclusions about the existence of any uncertainties in respect of going concern.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

Other information

The other information comprises the information included in the annual report other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon. Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit, or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions on other matters 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 the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the Group and the Parent 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.

We have nothing to report in respect of the following matters in relation to which 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 by branches not visited by us; or
- the financial statements of the Parent Company 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.

Responsibilities of directors

As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Group's and the Parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or the Parent Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud.

Because of the inherent limitations of an audit, there is a risk that we will not detect all irregularities, including those leading to a material misstatement in the financial statements or non-compliance with regulation. This risk increases the more that compliance with a law or regulation is removed from the events and transactions reflected in the financial statements, as we will be less likely to become aware of instances of non-compliance. The risk is also greater regarding irregularities occurring due to fraud rather than error, as fraud involves intentional concealment, forgery, collusion, omission or misrepresentation.

The specific procedures for this engagement and the extent to which these are capable of detecting irregularities, including fraud is detailed below:

- Obtaining an understanding of the legal and regulatory frameworks that the Group operates in, focusing on those laws and regulations that had a direct effect on the financial statements. The key laws and regulations we considered in this context included the UK Companies Act 2006, AIM regulations and applicable tax legislation. In addition, we considered compliance with the UK Bribery Act and employee legislation, as fundamental to the Group's operations.
- Enquiry of management to identify any instances of non-compliance with laws and regulations.
- Enquiry of management around actual and potential litigation and claims.
- Enquiry of management concerning actual and potential litigation and claims.
- Enquiry of management to identify any instances of known or suspected instances of fraud.
- Discussing among the engagement team regarding how and where fraud might occur in the financial statements and any potential indicators of fraud.
- Reading key correspondence with regulatory authorities such as the Financial Reporting Council.
- Performing audit work over the risk of management override of controls, including testing of journal entries and other adjustments for appropriateness, evaluating the business rationale of significant transactions outside the normal course of business, and reviewing accounting estimates for bias; and
- Challenging assumptions and judgements made by management in their significant accounting estimates.

A further description of our responsibilities for the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities .

This description forms part of our auditor's report.

Use of our report
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 auditor's 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.

Andrew Moyser FCA FCCA
(Senior Statutory Auditor)
for and on behalf of MHA MacIntyre Hudson, London, United Kingdom
Statutory Auditor
22 December 2021

GROUP INCOME STATEMENT

for the year ended 31 August 2021

	Note	12 months ended 31 August 2021 Result before *highlighted items £'000	12 months ended 31 August 2021 *highlighted items £'000	12 months ended 31 August 2021 Statutory Result £'000	12 months ended 31 August 2020 Result before *highlighted items £'000	12 months ended 31 August 2020 *highlighted items £'000	12 months ended 31 August 2020 Statutory Result £'000
Revenue	2	**139,997**	**-**	**139,997**	108,867	-	108,867
Cost of sales		**(99,553)**	**-**	**(99,553)**	(78,704)	-	(78,704)
Gross profit		**40,444**	**-**	**40,444**	30,163	-	30,163
Other income		**332**	**-**	**332**	501	-	501
Selling and distribution expenses		**(8,248)**	**-**	**(8,248)**	(7,355)	-	(7,355)
Administrative expenses		**(21,301)**	**-**	**(21,301)**	(17,949)	-	(17,949)
Profit on sale of property		**-**	**2,016**	**2,016**	-	-	-
Operating profit	3	**11,227**	**2,016**	**13,243**	5,360	-	5,360
Finance income	5	**36**	**-**	**36**	47	-	47
Finance costs	5	**(113)**	**-**	**(113)**	(388)	-	(388)
Changes in fair value of financial instruments		**-**	**2,128**	**2,128**	-	(1,980)	(1,980)
Gain on buy back on loan		**-**	**-**	**-**	-	886	886
Profit before tax		**11,150**	**4,144**	**15,294**	5,019	(1,094)	3,925
Income tax	6	**(2,353)**	**(737)**	**(3,090)**	(1,312)	376	(936)
Profit for the period		**8,797**	**3,407**	**12,204**	3,707	(718)	2,989
Attributable to:							
Owners of the parent				**12,156**			3,154
Non-controlling interest				**48**			(165)
Profit for the period				**12,204**			2,989
Earnings per share (pence)							
Basic earnings per share	8			**56.86p**			14.76p
Diluted earnings per share	8			**56.09p**			14.73p

GROUP STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 August 2021

	Note	**Total 2021 £000's**	Total 2020 £000's
Profit for the year after tax		**12,204**	2,989
Items that may be reclassified subsequently to profit and loss			
Exchange differences on translation of foreign operations		**-**	(5)
Income tax on exchange differences		**7**	(93)
Other comprehensive income/(expense) for the year, net of income tax		**7**	(98)
Total comprehensive income for the year		**12,211**	2,891
Total comprehensive income for the year attributable to:			
Equity holders of the parent		**12,163**	3,056
Non-controlling interest		**48**	(165)
		12,211	2,891

GROUP BALANCE SHEET

as at 31 August 2021

	Note	2021 £000's	2020 £000's
Non – current assets			
Intangible assets	10	**1,806**	891
Investment property	11	**1,519**	1,584
Property, plant and equipment	12	**8,230**	3,226
Right of use assets	14	**1,454**	2,069
Deferred tax assets	7	**243**	704
		13,252	8,474
Current assets			
Inventories	15	**10,893**	14,736
Trade and other receivables	16	**26,019**	23,013
Current income tax receivable	17	**766**	244
Derivative financial instruments	18	**75**	75
Cash and cash equivalents	19	**35,920**	22,292
		73,673	60,360
Current liabilities			
Short-term borrowings	20	**-**	(3,168)
Trade and other payables	21	**(38,390)**	(26,432)
Lease Liabilities	14	**(557)**	(550)
Income tax	17	**(1,610)**	(777)
Derivative financial instruments	18	**(165)**	(2,293)
		(40,722)	(33,220)
Net current assets		**32,951**	27,140
Non-current liabilities			
Deferred tax	7	**(405)**	(21)
Lease liabilities	14	**(946)**	(1,547)
		(1,351)	(1,568)
Net assets		**44,852**	34,046
Equity			
Called up share capital	25	**1,181**	1,181
Shares held in treasury		**(1,870)**	(1,870)
Capital redemption reserve		**1,776**	1,776
Share-based payment reserve		**3,749**	3,369
Share premium account		**17,324**	17,324
Merger reserve		**651**	651
Translation reserve		**767**	727
Profit and loss account		**21,274**	11,231
Attributable to equity holders of the parent		**44,852**	34,389
Non-controlling interest		**-**	(343)
Total equity		**44,852**	34,046

The financial statements on pages 32 to 69 were approved by the Board of Directors on 21 December 2021, and were signed on its behalf by:

J J Diver
Joint Managing Director

K P Shah
Joint Managing Director and Group Finance Director

COMPANY BALANCE SHEET

as at 31 August 2021

	Note	**2021 £000's**	2020 £000's
Non – current assets			
Property, plant and equipment	12	**298**	286
Right of use asset	14	**330**	440
Investments in subsidiaries	13	**4,347**	4,013
Deferred tax assets	7	**170**	14
		5,145	4,753
Current assets			
Trade and other receivables	16	**44,877**	37,963
Cash and cash equivalents	19	**677**	4,644
		45,554	42,607
Current liabilities			
Trade and other payables	21	**(1,009)**	(201)
Lease liabilities	14	**(110)**	(106)
Income tax		**-**	(68)
		(1,119)	(375)
Net current assets		**44,435**	42,232
Non-current liabilities			
Lease liabilities	14	**(231)**	(341)
		(231)	(341)
Net assets		**49,349**	46,644
Equity			
Called up share capital	25	**1,181**	1,181
Shares held in treasury		**(1,870)**	(1,870)
Capital redemption reserve		**1,776**	1,776
Share-based payment reserve		**3,749**	3,369
Share premium account		**17,324**	17,324
Profit and loss account		**27,189**	24,864
Total equity attributable to equity holders of the parent		**49,349**	46,644

Under section 408 of the The Companies Act 2006, the Company is exempt from the requirement to present its own profit and loss account. The profit for the year is £4,110,000 (2020: £16,176,000).

The financial statements on pages 32 to 69 were approved by the Board of Directors on 21 December 2021, and were signed on its behalf by:

J J Diver
Joint Managing Director

K P Shah
Joint Managing Director and Group Finance Director

GROUP AND COMPANY CASH FLOW STATEMENT

for the year ended 31 August 2021

		Group		Company	
	Note	**2021 £000's**	2020 £000's	**2021 £000's**	2020 £000's
Cash flow from operating activities					
Profit before taxation for the year after highlighted items		**15,294**	3,925	**4,093**	16,243
Adjustments for:					
Depreciation of property, plant and equipment	12	**567**	544	**61**	43
Depreciation of investment property	11	**65**	65	**-**	-
Depreciation of right of use assets	14	**556**	412	**110**	110
Amortisation of intangible assets	10	**1,621**	1,783	**-**	-
Gain on buyback of loan	20	**-**	(886)	**-**	-
Write off plant and equipment	12	**132**	-	**-**	-
(Profit) on disposal of property, plant and equipment		**(2,028)**	(9)	**-**	-
Net interest expense	5	**77**	341	**21**	42
Financial instruments fair value adjustments	18	**(2,128)**	1,980	**-**	-
Share-based payments	26	**380**	189	**47**	11
Decrease in inventories		**3,853**	1,669	**-**	-
(Increase) / Decrease in trade and other receivables		**(3,006)**	11,960	**(6,914)**	(9,042)
Increase / (Decrease) in trade and other creditors		**11,957**	(2,334)	**807**	(632)
Cash generated/(utilised) from operations		**27,340**	19,639	**(1,775)**	6,775
Finance income	5	**36**	47	**-**	-
Finance expense	5	**(113)**	(388)	**(21)**	(42)
Income tax paid		**(1,788)**	(1,728)	**(68)**	-
Net cash inflow/(outflow) from operating activities		**25,475**	17,570	**(1,864)**	6,733
Cash flows from investing activities					
Purchase of business	10	**(945)**	-	**-**	-
Payments for intangible assets	10	**(1,615)**	(1,771)	**-**	-
Payments for property, plant and equipment	12	**(7,128)**	(528)	**(73)**	(5)
Proceeds from disposal of property, plant and equipment		**3,458**	12	**-**	-
Net cash outflow from investing activities		**(6,230)**	(2,287)	**(73)**	(5)
Cash flows from financing activities					
Reduction of borrowings	20	**-**	1,408	**-**	-
Buyback of loan	20	**-**	(521)	**-**	-
Payment of lease liabilities		**(606)**	(378)	**(106)**	(102)
Proceeds from issue of share capital		**-**	205	**-**	205
Purchase of own shares for cancellation		**-**	(163)	**-**	(163)
Dividends paid	9	**(1,924)**	(3,207)	**(1,924)**	(3,207)
Net cash used in financing activities		**(2,530)**	(2,656)	**(2,030)**	(3,267)
Net increase / (decrease) in cash and cash equivalents		**16,715**	12,627	**(3,967)**	3,461
Cash, cash equivalents and borrowings at the beginning of the year		**19,124**	6,504	**4,644**	1,183
Effects of exchange rate movements		**81**	(7)	**-**	-
Cash, cash equivalents and borrowings at the end of the year		**35,920**	19,124	**677**	4,644

Cash, cash equivalents and borrowings consist of:

Cash and cash equivalents	19	**35,920**	22,292	**677**	4,644
Total borrowings	20	**-**	(3,168)	**-**	-
Cash, cash equivalents and borrowings at the end of the year		**35,920**	19,124	**677**	4,644

GROUP STATEMENT OF CHANGES IN EQUITY

for the year ended 31 August 2021

	Note	Called up share capital £000's	Shares held in treasury £000's	Capital redemption reserve £000's	Share premium account £000's	Merger reserve £000's	Share-based payment reserve £000's	Translation reserve £000's	Profit and loss account £000's	Non-controlling interest £000's	Total £000's
The Group											
At 1 September 2019		**1,183**	**(1,912)**	**1,774**	**17,161**	**651**	**3,180**	**1,223**	**11,293**	**(416)**	**34,137**
Profit/(loss) for the year after tax									3,154	(165)	2,989
Other comprehensive (expense)/income											
Net exchange differences on translation of foreign operations		-	-	-	-	-	-	(496)	398	-	(98)
Total other comprehensive expense								**(496)**	**398**	**-**	**(98)**
Total comprehensive income for the year								**(496)**	**3,552**	**(165)**	**2,891**
Transactions with owners, recorded directly in equity											
Change in non controlling interest	10	-	-	-	-	-	-	-	(238)	238	-
Share-based payment	26	-	-	-	-	-	189	-	-	-	189
Deferred tax debit relating to share options	7	-	-	-	-	-	-	-	(6)	-	(6)
Dividends	9	-	-	-	-		-	-	(3,207)	-	(3,207)
Shares issued	25		42		163	-	-	-	-	-	205
Shares cancelled	25	(2)	-	2	-	-	-	-	(163)	-	(163)
At 31 August 2020		**1,181**	**(1,870)**	**1,776**	**17,324**	**651**	**3,369**	**727**	**11,231**	**(343)**	**34,046**
Profit for the year after tax									12,156	48	12,204
Other comprehensive income/(expense)											
Net exchange differences on translation of foreign operations		-	-	-	-	-	-	40	(28)	(5)	7
Total other comprehensive expense								**40**	**(28)**	**(5)**	**7**
Total comprehensive income for the year								**40**	**12,128**	**43**	**12,211**
Transactions with owners, recorded directly in equity											
Change in non controlling interest	10	-	-	-	-	-	-	-	(300)	300	-
Share-based payment	26	-	-	-	-	-	380	-	-	-	380
Deferred tax credit relating to share options	7	-	-	-	-	-	-	-	139	-	139
Dividends	9	-	-	-	-	-	-	-	(1,924)	-	(1,924)
At 31 August 2021		**1,181**	**(1,870)**	**1,776**	**17,324**	**651**	**3,749**	**767**	**21,274**	**-**	**44,852**

COMPANY STATEMENT OF CHANGES IN EQUITY

for the year ended 31 August 2021

	Note	Called up share capital £000's	Shares held in treasury £000's	Capital redemption reserve £000's	Share premium account £000's	Share-based payment reserve £000's	Profit and loss account £000's	Total £000's
At 1 September 2019		**1,183**	**(1,912)**	**1,774**	**17,161**	**3,180**	**12,064**	**33,450**
Profit for the year		-	-	-	-	-	16,176	16,176
Total comprehensive income for the year		**-**	**-**	**-**	**-**	**-**	**16,176**	**16,176**
Transactions with owners, recorded directly in equity								
Shares issued	25	-	42	-	163	-	-	205
Shares cancelled	25	(2)	-	2	-	-	(163)	(163)
Share-based payment – Company	26	-	-	-	-	10	-	10
Share-based payment – Subsidiary undertaking	26	-	-	-	-	179	-	179
Deferred tax on share options	7	-	-	-	-	-	(6)	(6)
Dividend paid	9	-	-	-	-	-	(3,207)	(3,207)
At 31 August 2020		**1,181**	**(1,870)**	**1,776**	**17,324**	**3,369**	**24,864**	**46,644**
Profit for the year		-	-	-	-	-	4,110	4,110
Total comprehensive income for the year		**-**	**-**	**-**	**-**	**-**	**4,110**	**4,110**
Transactions with owners, recorded directly in equity								
Share-based payment – Company	26	-	-	-	-	47	-	47
Share-based payment – Subsidiary undertaking	26	-	-	-	-	333	-	333
Deferred tax on share options	7	-	-	-	-	-	139	139
Dividend paid	9	-	-	-	-	-	(1,924)	(1,924)
At 31 August 2021		**1,181**	**(1,870)**	**1,776**	**17,324**	**3,749**	**27,189**	**49,349**

Capital and Reserves

- Called up share capital represents the nominal value of equity shares allotted, called up and fully paid.
- Share premium represents the excess of the fair value of consideration received for the equity shares, net of expenses of the share issue, over the nominal value of the equity shares.
- Capital redemption reserve represents the buyback and cancellation of shares at nominal value.
- Merger reserve represents the premium arising on shares issued as consideration for the acquisition of subsidiaries and which qualified for merger relief.
- Share-based payment reserve represents the amounts recognised in profit and loss in respect of share-based payments.
- Translation reserve represents the cumulative foreign exchange differences on the translation of the net assets of the Group's foreign operations to the presentation currency of the parent.
- Profit and loss account represents retained profit and losses.
- Details of shares held in treasury can be found in note 25.

NOTES TO THE FINANCIAL STATEMENTS

1 PRINCIPAL ACCOUNTING POLICIES

General information

The Character Group plc ('the Company') is a public limited company incorporated and domiciled in the United Kingdom. The Company's shares are traded on the AIM Market of the London Stock Exchange.

The principal activities of the Company and its subsidiaries ('the Group') are detailed in the Strategic Report. The Group's principal places of operations are the United Kingdom, Denmark and the Far East.

Standards, amendments and interpretations effective in the current period

	Effective for annual periods beginning on or after:
IAS 1 & IAS 8 (amendments) – Definition of material	- 1 January 2020
IFRS 3 (amendment) Business Combinations	- 1 January 2020
IFRS 16 (amendment) – Covid-19 related rent concessions	- 1 June 2020
Amendments to References to the Conceptual Framework in IFRS Standards	- 1 January 2020
Amendments to IFRS 7, IFRS 9 and IAS 39 – Interest Rate Benchmark Reform	- 1 January 2020

Standards, amendments and interpretations in issue not yet adopted

The following new standards, amendments and interpretations are yet to become mandatory and have not been applied in the Group's consolidated financial statements for the year ended 31 August 2021.

	Effective for annual periods beginning on or after:
IAS 1 (amendment) Presentation of Financial Statements on classification of liabilities	- 1 January 2023
IAS 1 (amendment) Presentation of Financial Statements and IFRS Practice Statement	- 1 January 2023
IAS 8 (amendment) Definition of accounting estimates	- 1 January 2023
IAS 12 (amendment) Deferred tax related to assets and liabilities arising from a single transaction	- 1 January 2023
IFRS 4 (amendment) Deferral of application of IFRS 9	- 1 January 2021
IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 Interest Rate Benchmark Reform Phase 2	- 1 January 2022
IFRS 16 (amendment) Covid-19 related rent concessions beyond 30 June 2021	- 1 January 2023
IFRS 3 IAS 16 and IAS 39 (amendments)	- 1 January 2022
Annual improvements to IFRS standards 2018-2020	- 1 January 2023

Neither the Group nor the Company anticipate a material impact on the financial statements by the adoption of these standards and interpretations in future periods.

SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

The Group and Company financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") in conformity with the requirements of the Companies Act 2006, and with those parts of the Companies Act 2006 that apply to financial statements prepared in accordance with IFRS.

Basis of preparation

The financial statements have been prepared under the historical cost convention, as modified by the revaluation of certain derivative financial instruments and share-based payments as fair value and on a going concern basis.

Business combinations

The Group accounts for business combinations using the acquisition method when control is transferred to the Group. The consideration for each acquisition is measured at the date of acquisition as the aggregate of the fair values of assets transferred and liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquired company. Acquisition-related costs are recognised in the Group's consolidated profit or loss account, as incurred. Subsequent changes in the fair value of contingent consideration classified as an asset or liability are accounted through profit or loss.
Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after reassessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company (The Character Group plc) and subsidiaries controlled by the Company as at the balance sheet date in accordance with the provisions of IFRS 10. Subsidiaries are entities over which the Group has the power over an investee, exposure or rights to variable returns from its involvement with the investee and ability to use its power to affect those returns. The results of such investees are included in the consolidated financial statements from the date on which control is transferred to the Group and cease to be consolidated from the date on which control is transferred out of the Group.

All intra-Group transactions, balances, income and expenses are eliminated on consolidation.

Exemptions

The directors have taken advantage of the exemption available under Section 408 of the Companies Act 2006 and have not presented an income statement or statement of comprehensive income for the Company alone.

FOREIGN CURRENCY TRANSLATION

Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The financial statements are presented in Sterling, which is the Company's functional and presentation currency.

Transactions and balances

Foreign currency transactions are translated into the functional currency at the rates applicable when they were completed and monetary assets and liabilities at the period end are translated at the rate at that date. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

Group companies

On consolidation, assets and liabilities of overseas subsidiaries are translated into sterling at closing rates of exchange. Income and cash flow statements are translated at average rates of exchange. The exchange differences arising as a result of translating income statements at average rates and restating opening net assets at closing rates are taken to the translation reserve.

Revenue recognition

Revenue comprises the invoiced value for the sale of goods net sales taxes, rebates and discounts.

The Group recognises revenue on Free on Board ("FOB") sales when goods are delivered to a destination specified by the customer, usually on board the customer's designated vessel.

The Group recognises revenue on non-FOB sales at point of despatch. Goods are delivered via a combination of customers' own hauliers and those appointed by the Group.

At the point of revenue recognition, the Group neither retains continuing involvement nor effective control over the goods as the performance obligations have been satisfied.

The Group has stringent procedures to ensure goods meet customer specifications and can predict with reasonable certainty that this will not affect the determination of when control passes. The amount of revenue recognised reflects the consideration to which the Group expects to be entitled to in exchange for the goods.

IMPAIRMENT OF NON-FINANCIAL ASSETS

Impairment reviews of non-financial assets are undertaken if there are indications that the carrying values may not be recoverable.

INTANGIBLE ASSETS

Goodwill

Goodwill arising in a business combination is recognised at fair value as an asset at the date control is acquired (the acquisition date). Goodwill is measured as the excess of the sum of the consideration payable over the Group's share, at the acquisition date, of the acquiree's identifiable net assets measured at fair value.

Goodwill is reviewed annually and when there are events or changes in circumstances that indicate a possible decline in the carrying value.

Product development expenditure

Development costs are capitalised if specific conditions are fulfilled and there is an intention to develop products for resale. Costs incurred on development projects (relating to the design and testing of new products) are recognised as intangible assets when it is probable that the project will be a success, considering its commercial and technical feasibility, and costs can be measured reliably and the intention is to finalise development prior to sales being made. The Group has capitalised those projects that have met these capitalisation criteria. Amortisation is calculated to allocate cost on a product by product basis in line with the related product's forecast sales up to a maximum of two years. The asset will be reviewed annually for impairment or whenever indicators suggest that the carrying amount may not be recovered. All other development costs are charged directly to expense in the income statement as incurred.

Patents, trademarks and design rights

Patents, trademarks and design rights acquired as part of a business acquisition are initially recognised at fair value and subsequently regarded as cost.

These intangible assets have a finite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight line method over the estimated useful life. These are tested for impairment annually, or if there is an indication that their value has declined.

TANGIBLE ASSETS

Property, Plant and Equipment

Property, plant and equipment is stated at historical cost net of accumulated depreciation and any impairment in value. Depreciation is provided on a straight-line basis on all such assets, except freehold land, at rates calculated to write off the cost of each asset over its expected useful life. The following principal rates per annum are used:

Freehold buildings	4%
Short leasehold improvements	over the unexpired term of the lease
Fixtures, fittings and equipment	20-33%
Motor vehicles	20-25%

Assets in the course of construction are not depreciated until they are brought into use.

Impairment reviews of fixed assets are undertaken if there are indications that the carrying values may not be recoverable. The recoverable amount is the higher of the asset's fair value or carrying value.

Investment Properties
Investment properties are properties held to earn rental income and/or for capital appreciation. Investment properties are recorded at cost less accumulated depreciation and any recognised impairment loss. Impairment reviews of investment properties are undertaken annually. The recoverable amount is the higher of the asset's fair value or carrying value.

Investment properties are depreciated on a straight-line basis at the following rates per annum:

Freehold land	nil
Freehold buildings	4%

Investments
Shares in subsidiary undertakings are stated at cost less provision for impairment. Provision is made against investments where diminution in value is considered to be permanent.

Inventories
Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average method. Net realisable value is based on estimated selling price less the estimated cost of disposal.

FINANCIAL INSTRUMENTS
Financial assets are recognised on the Group's balance sheet when the Group becomes a party to the contractual provisions of the instrument.

Derecognition of financial assets and liabilities
A financial asset or liability is generally derecognised when the contract that gives rise to it is settled, sold, cancelled or expires.

Impairment of financial assets
The Group and the Company assesses at each balance sheet date whether a financial asset or group of assets is impaired.

Derivative Financial Instruments
The Group has derivative financial instruments in respect of forward foreign exchange contracts and options to manage the Group's exposure to currency movements. The existing forward foreign exchange contracts and options used by the Group function as hedges, however do not meet the criteria for hedge accounting set out by IFRS9 and consequently are carried at their fair value in the Group balance sheet. Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at each balance sheet date. Resulting changes in fair value are recognised in the income statement. Further details are provided in note 18.

Non Derivative Financial Instruments
Non derivative financial instruments comprise trade and other receivables, cash and cash equivalents, loans and borrowings, and trade and other payables.

Unless otherwise indicated, the carrying amounts of the Group's and the Company's financial assets and liabilities are a reasonable approximation of their fair values.

Trade receivables
Trade receivables are measured at amortised cost using the effective interest method, less provision for allowances. Specific provisions are made against doubtful debts taking the value of trade receivables to an estimated value based on the most likely outcome of future cash flows. Two Group companies have agreements with finance companies (recourse) under which debts of customers are assigned to the relevant finance company. The Group retains all the risks and rewards of the underlying trade debt and continues to recognise the gross debtor balance net of specific provisions. Cash advanced under this arrangement has been treated as a finance advance under current liabilities.

Cash and cash equivalents
Cash and short-term deposits in the balance sheet comprise cash at banks and at hand and short-term deposits with a maturity of three months or less from the date of acquisition.

For the purposes of the consolidated cash flow statement, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

Trade payables
Trade payables are measured at amortised cost using the effective interest method.

Interest bearing loans and borrowings

All loans and borrowings are initially recognised at fair value less directly attributable transaction costs. After initial recognition, interest bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method.

Provisions

Provisions are recognised when the Group or the Company has a present obligation as a result of a past event and where it is probable that the Group or the Company will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The amount recognised as a provision is the best estimate of the consideration required to settle the obligation at the balance sheet date, taking into account the risks and uncertainties surrounding the obligation. If the effect of time value of money is material, the carrying value of the provision is the present value of the consideration.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

LEASES

The Group as Lessor

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease.

The Group or the Company as Lessee

The Group leases properties and motor vehicles.

Leases are recognised as a right of use asset and a corresponding lease liability at the date of which the leased asset is available for use by the Group or Company. The lease liability is discounted at the subsidiary's incremental borrowing rate. The right to use asset is depreciated on a straight-line basis over the lease term. Leases of periods of 12 months or less will continue to be reported as operating leases.

The finance cost is charged to the profit and loss over the lease period over the lease period is on an amortised cost basis.

Contracts for leases are negotiated individually and do not have any covernants other than the security interest of the lessor.

The intercompany lease arrangement is on terms that would be offered to an unconnected party and is recognised over a period that would be contracted with a non group entity.

Share-based payment

The Company issues equity settled awards to certain employees. The fair value of equity settled awards are measured using a binomial valuation model, taking into account the terms and conditions under which the option was granted. Options vest subject to the employee remaining in service during the vesting period and the relevant non-market related performance condition(s) being met. The fair value determined on this basis is expensed on a straight-line basis over the vesting period, based upon the Company's estimate of the number of shares that are expected to vest. The estimate of vesting is reviewed annually, with any impact on the cumulative charge being recognised immediately. The charge in respect of share-based payments is matched by an equal and opposite adjustment to equity. Further details are in note 25.

Employee benefits

The costs of short-term employee benefits are recognised when an employee has rendered service in exchange for those benefits.

Contributions to the occupational defined contribution pension scheme and personal pension schemes are charged to the income statement as services are rendered by the employees.

Segmental information

Operating segments are reported in a manner consistent with the internal reporting to the chief operating decision maker. The Board of directors of the Company is identified as the chief operating decision maker and is responsible for allocating resources and assessing performance of the operating segments.

The performance of reportable segments is assessed on a measure of operating profit, excluding non-recurring items, such as share-based payments charges, amortisation of intangible assets and unrealised gains/(losses) on financial instruments.

Taxation

Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the Group Income Statement except to the extent that it relates to items recognised in other comprehensive income or directly in equity, in which case it is recognised either in other comprehensive income or equity respectively..

The excess of the final tax deduction (current tax) or cumulative expected tax deduction (deferred tax) in excess of the cumulative amount arising on the share-based payment charged to the Group Income Statement, is recognised in equity.

The current tax includes UK and foreign tax payable or recoverable and is provided at tax rates and in accordance with the tax laws that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is provided on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes and is calculated using tax rates and laws enacted or substantively enacted at the reporting date that are expected to apply as and when the temporary differences reverse. Deferred tax is recognised in profit or loss , other comprehensive income or equity on a similar basis to current tax.

Deferred income tax liabilities are recognised for all taxable temporary differences except:

- where the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss;
- in respect of taxable temporary differences associated with investments in subsidiaries where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognised for all deductible temporary differences, and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and unused tax losses can be utilised.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised. Unrecognised deferred income tax assets are reassessed at each balance sheet date and are recognised if and to the extent that it is probable that future taxable profit that will allow an unrecognised deferred tax asset to be recovered.

Treasury shares

The Company's shares which have been purchased and not cancelled are held as treasury shares and deducted from equity.

SIGNIFICANT JUDGEMENTS AND ESTIMATES

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. Although these estimates are based on historical experience and other associated factors believed to be reasonable under the circumstances, actual results may differ from these estimates. Underlying assumptions are reviewed on an on-going basis. Accounting estimates are recognised in the period in which the estimate is revised or in the period of the revision and future periods

Intangible assets

Goodwill, patents, trademarks and design rights

Goodwill is not amortised but is reviewed for impairment at least annually. Other intangible assets are reviewed for impairment annually and when there are events or changes in circumstances that may affect the carrying value. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identified cash flows (cash generating units). An impairment loss is recognised for the amount by which assets' carrying amount exceeds its recoverable amount. An impairment loss recognised for goodwill is not reversed in a subsequent period.
The recoverable amount is the higher of fair value and value in use based on an internal discounted cash flow evaluation. This involves the calculation of estimated future cash flows, an assessment of the achievability of strategic plans such as distribution and licensing agreements and assumptions for the macroeconomic environment of the business.

Development

Development costs for products that will be sold and meet criteria for IFRS intangible asset recognition are capitalised. Assumptions are made with regard to the future economic benefits and the economic useful life. The capitalised development costs and useful economic life are assessed for impairment annually.

Investment Property

The Group reviews annually the fair value of the investment property with reference to current prices of properties in similar condition and location.

Stock obsolescence

The Group reviews the net realisable value of and demand for its inventory on an ongoing basis to ensure recorded inventory is stated at the lower of cost or net realisable value. In assessing the ultimate realisation of inventories, the Group is required to make judgements as to future demand requirements and to compare these with committed inventory levels. Assumptions have been made relating to the success of product ranges which would impact estimated demand and selling prices. Details of the charge recognised in the financial statements can be found in note 3.

Revenue recognition

Revenue is only recognised when control of goods passes to customers. This involves judgement to assess the point at which control of the goods has passed.

Customer returns & allowances

The Group operates in a highly competitive environment which is subject to seasonal demand. Timing and success of product ranges are major factors that determine the level of returns and allowances. Reserves for allowances are established on management's best estimate of the amounts necessary to meet claims by the Group's customers.

Fair value of derivatives

The Group uses derivatives to mitigate risks arising from foreign exchange. The calculation of fair value of derivatives is based on prevailing market conditions at the date of valuation and appropriate valuation models. The use of different market assumptions and/or valuation models may have a material effect on the estimated fair value amounts. The Group's derivative financial instruments are disclosed in note 18.

Deferred tax assets

The Group and the Company review the recoverability of deferred tax assets on a prudent basis in determining the recognition of deferred tax assets. Judgement is based on the best available information, historical experience and other assumptions that are consistent with the Group's and the Company's forecasts. The Group's and the Company's deferred income tax assets and liabilities are disclosed in note 7.

Share-based payments

The Company has used a binomial valuation model to estimate the fair value of share-based payments. The model makes various assumptions on factors outside the Company's control, such as share price volatility and risk-free interest rates. Details of the options and assumptions used in deriving the share-based payments are disclosed in note 26.

2 SEGMENT REPORT - GROUP

The Group's business in the UK, Scandinavia and Far East is the design, development and international distribution of toys, games and gifts.

For management purposes, the chief operating decision maker, the Board of Directors of the Company, considers the business from a geopraphical perspective based on the location of its operations.

Year ended 31 August 2021	UK £000's	Far East £000's	Scandinavia £000's	Unallocated £000's	Total £000's
Revenue - external (by origin)	62,346	65,196	12,455	-	139,997
Segment adjusted operating profit/(loss)	4,224	10,528	(1,016)	(510)	13,226
Amortisation of product development	-	-	-	-	(1,619)
Financial instruments fair value adjustments	-	-	-	-	2,128
Profit on sale of property	-	-	-	-	2,016
Share-based payments	-	-	-	-	(380)
Operating profit after significant items & exceptional items	-	-	-	-	15,371
Interest on right of use assets	-	(31)	(29)	-	(60)
Finance costs	-	-	-	-	(53)
Finance income	-	-	-	-	36
Profit before tax	-	-	-	-	15,294
Taxation	-	-	-	-	(3,090)
Profit for the year after tax	-	-	-	-	12,204
Segment assets	51,822	26,450	6,255	2,398	86,925
Segment liabilities	(10,375)	(27,737)	(2,800)	(1,161)	(42,073)
Other segment information					
Non-current assets	8,162	2,962	756	1,372	13,252
Capital additions	7,027	10	18	73	7,128
Assets written off	-	-	(310)	-	(310)
Capital disposals	(1,846)	-	-	-	(1,846)
Depreciation of property, plant and equipment	(418)	(49)	(39)	(61)	(567)
Depreciation of investment property	-	(65)	-	-	(65)

Analysis of unallocated assets and liabilities:

Assets	Total £000's	Liabilities	Total £000's
Corporate assets	297	Corporate creditors & accruals	(996)
Derivative financial instruments	75	Derivative financial instruments	(165)
Deferred tax asset	188	Income tax	
Corporate cash at bank and in hand	677		
Intangible assets – product development	887		
Corporate debtors & prepayments	274		
Unallocated assets	**2,398**	**Unallocated liabilities**	**(1,161)**

Unallocated expenses comprise corporate expenses.

2 SEGMENT REPORT - GROUP

Year ended 31 August 2020	UK £000's	Far East £000's	Scandinavia £000's	Unallocated £000's	Total £000's
Revenue - external (by origin)	56,151	35,517	17,199	-	108,867
Segment adjusted operating profit	1,172	6,583	(805)	382	7,332
Amortisation of intangible assets	-	-	-	-	(1,783)
Financial instruments fair value adjustments	-	-	-	-	(1,980)
Gain on buyback of loan	-	-	886	-	886
Share-based payments	-	-	-	-	(189)
Operating profit after significant items & exceptional items	-	-	-	-	4,266
Interest on right of use assets	-	(26)	(24)	-	(60)
Finance costs	-	-	-	-	(328)
Finance income	-	-	-	-	47
Profit before tax	-	-	-	-	3,925
Taxation	-	-	-	-	(936)
Profit for the year after tax	-	-	-	-	2,989
Segment assets	34,867	18,111	9,247	6,609	68,834
Segment liabilities	(7,450)	(18,319)	(6,470)	(2,549)	(34,788)
Other segment information					
Non-current assets	2,579	3,448	1,256	1,191	8,474
Capital additions	322	46	155	5	528
Capital disposals	(60)	-	-	-	(60)
Depreciation of property, plant and equipment	(293)	(52)	(156)	(43)	(544)
Depreciation of investment property	-	(65)	-	-	(65)

Analysis of unallocated assets and liabilities:

Assets	Total £000's	Liabilities	Total £000's
Corporate assets	286	Corporate creditors & accruals	(188)
Derivative financial instruments	75	Derivative financial instruments	(2,293)
Deferred tax asset	450	Income tax	(68)
Corporate cash at bank and in hand	4,644		
Intangible assets – product development	891		
Corporate debtors & prepayments	263		
Unallocated assets	**6,609**	**Unallocated liabilities**	**(2,549)**

Unallocated expenses comprise corporate expenses.

GEOGRAPHICAL DESTINATION OF REVENUE

	31 August 2021 £000's	31 August 2020 £000's
United Kingdom	**79,509**	69,078
Rest of the world	**60,488**	39,789
Total Group	**139,997**	108,867

Revenues of approximately £36,991,000 (2020: £25,051,000) were derived from 2 (2020: 2) external customers individually representing 10% or more of revenue.

3 EXPENSES BY NATURE - GROUP

	Note	12 months to 31 August 2021 £000's	12 months to 31 August 2020 £000's
Operating profit is stated after charging/(crediting):			
Cost of inventories recognised as an expense (included in cost of sales)		**88,729**	71,281
Product development costs incurred		**1,736**	1,863
Product development costs capitalised		**(1,615)**	(1,771)
Amortisation of capitalised product development costs		**1,619**	1,783
Product development costs expensed to cost of sales		**1,740**	1,875
(Credit)/debit financial instruments fair value adjustments		**(2,218)**	1,980
Inventories (credit)		**(1,022)**	(97)
Exchange losses		**130**	119
Staff costs	4	**13,958**	10,542
Depreciation of tangible fixed assets			
- owned assets	12	**567**	544
Depreciation of investment property	11	**65**	65
(Profit)/loss on disposal of property, plant and equipment		**(2,028)**	(9)
Depreciation – right of use assets		**556**	412
Operating leases — land, buildings and motor cars		**-**	233
Auditor's remuneration		**141**	141

ANALYSIS OF AUDITOR'S REMUNERATION

		12 months to 31 August 2021 £000's	12 months to 31 August 2020 £000's
Group Auditor's remuneration	— Statutory audit services current year	**51**	52
	— Interim review and other assurance services	**9**	8
Other Auditors' remuneration	— Statutory audit of the Group's subsidiaries	**75**	75
	— Taxation compliance	**6**	6
Total fees payable to Auditors		**141**	141

Other auditors remuneration includes fees payable of £34,000 (2020: £32,000) to other member firms of Baker Tilly International. Non-Baker Tilly firms have been paid £47,000 (2020: £49,000).

4 DIRECTORS AND EMPLOYEES REMUNERATION STAFF COSTS - GROUP

	Group		Company	
	12 months to 31 August 2021 £000's	12 months to 31 August 2020 £000's	12 months to 31 August 2021 £000's	12 months to 31 August 2020 £000's
Staff costs including directors' emoluments				
Wages and salaries	**12,068**	9,181	**1,505**	743
Social security costs	**1,029**	633	**223**	83
Pension costs	**481**	539	**37**	59
Share-based payments	**380**	189	**47**	11
	13,958	10,542	**1,812**	896
The average number of employees during the year was:	**Number**	Number	**Number**	Number
Management and administration	**83**	84	**11**	9
Selling and distribution	**126**	125	**-**	-
	209	209	**11**	9

Of the total average number of employees, 122 (2020: 121) were based in the UK, 23 in Scandinavia (2020: 24) and 64 (2020: 64) in Hong Kong and mainland China.

The amount payable to pension schemes as at the balance sheet date was £14,000 (2020: £19,000).

4 DIRECTORS AND EMPLOYEES REMUNERATION CONTINUED
KEY MANAGEMENT PERSONNEL

Key management compensation are amounts payable to the directors of The Character Group plc.

	12 months to 31 August 2021 £000's	12 months to 31 August 2020 £000's
Salaries, short-term benefits and pension contribution	**3,377**	1,360
Share-based payments	**69**	39
	3,446	1,399

ANALYSIS OF DIRECTORS' REMUNERATION

The following table shows a breakdown of the remuneration of the directors for the year ended 31 August 2021 and the year ended 31 August 2020.

Year ended 31 August 2021

	Salary/fees £	**Performance bonus £**	**Benefits in kind £**	**Pension contribution £**	**Total £**
R King (non-executive)	100,000	-	18,829	-	118,829
J J Diver	245,916	740,601	8,182	-	994,699
K P Shah	245,916	520,601	11,760	-	778,277
J J P Kissane	215,592	373,501	7,805	-	596,898
M S Hyde	245,875	245,875	1,138	22,696	515,584
J Healy	130,000	130,000	4,929	13,000	277,929
D Harris (non-executive)	40,000	-	-	-	40,000
C Crouch (non-executive)	40,000	-	-	-	40,000
C Warren (non-executive)*	14,848	-	-	-	14,848
	1,278,147	2,010,578	52,643	35,696	3,377,064

Year ended 31 August 2020

	Salary/fees £	Performance bonus £	Benefits in kind £	Pension contribution £	Total £
R King (non-executive)	100,000	-	18,072	-	118,072
J J Diver	245,916	-	10,139	-	256,055
K P Shah	245,916	-	10,953	-	256,869
J J P Kissane	215,592	-	8,018	-	223,610
M S Hyde	263,038	-	2,877	24,280	290,195
J Healy	118,000	-	5,074	11,800	134,874
D Harris (non-executive)	40,000	-	-	-	40,000
C Crouch (non-executive)	40,000	-	-	-	40,000
	1,268,462	-	55,133	36,080	1,359,675

In the year ended 31 August 2021 certain of the directors received remuneration (which is included in the amounts above) through payments by the Group to third parties as follows: £75,000 was paid to Bali Hai Consultancies for part of the services of R King (2020: £75,000); £40,000 was paid to Clive Crouch Media Insight Limited for the services of C Crouch (2020: £40,000); £40,000 was paid to Inva Trust Consultancy Limited for the services of D Harris (2020: £40,000).

*appointed 19 April 2021

4 DIRECTORS AND EMPLOYEES REMUNERATION CONTINUED
KEY MANAGEMENT PERSONNEL

Directors interests in long term incentive schemes

On 5 June 2018, options were granted under the Company's 2017 Share Option Plan at a price of 520 pence per share to M S Hyde and J Healy respectively over 100,000 and 72,000 existing Ordinary Shares held by the Company in treasury. On 2 October 2020, these options were surrendered and new options were granted to M S Hyde and J Healy under the Company's 2017 Share Option Plan at a price of 325.5 pence per share, respectively over 92,000 and 66,000 existing Ordinary Shares. Exercise of such options is conditional on the satisfaction of a predetermined, profit related performance target and, if satisfied, will become exercisable three years following the date of grant and will remain exercisable until the tenth anniversary of the date of grant.

At 31 August 2021, the mid-market price of an issued Ordinary Share in The Character Group plc was 672.5 pence. During the year the mid-market price ranged from 305 pence to 705 pence.

5 NET FINANCE COSTS - GROUP

	12 months to 31 August 2021 £000's	12 months to 31 August 2020 £000's
Finance costs:		
Interest payable on bank overdraft and similar charges	**(46)**	(53)
Interest payable on long term loan	**-**	(140)
Factor and invoice discounting advances	**(7)**	(135)
Interest on right of use assets	**(60)**	(60)
	(113)	(388)
Finance income:		
Interest earned on cash and cash equivalents	**36**	47
Net finance costs	**(77)**	(341)

6 TAXATION - GROUP

	Note	**12 months to 31 August 2021 £000's**	12 months to 31 August 2020 £000's
UK Corporation Tax			
Tax on profit for the period		**369**	76
Adjustments to tax charge in respect of previous periods		**-**	(8)
Total UK corporation tax		**369**	68
Foreign Tax			
Tax on profit for the period		**1,739**	1,021
Adjustments to tax charge in respect of previous periods		**(2)**	(4)
Total foreign tax		**1,737**	1,017
Total current tax		**2,106**	1,085
Deferred Tax			
Origination and reversal of timing differences	7	**984**	(149)
Total deferred tax		**984**	(149)
Tax on profit on ordinary activities		**3,090**	936
Factors affecting tax charge for the period			
Profit before highlighted items and taxation		**11,150**	3,039
Profit on highlighted items before taxation		**4,144**	886
Profit before taxation after highlighted items		**15,294**	3,925
Profit multiplied by standard rate of corporation tax in the UK of 19% (2020: 19%)		**2,906**	746
Effects of:			
Gain on buyback of loan		**-**	(195)
(Income)/expenses (not chargeable)/deductible for tax purposes		**(40)**	53
Capital allowances less than depreciation		**35**	47
Lower tax rate on overseas earnings		**(179)**	(156)
Unrecognised losses utilised		**-**	(4)
Tax losses not recognised for deferred tax		**307**	473
Effect of change of tax rate		**65**	(13)
Effect of exchange differences		**(2)**	(3)
Adjustments to tax charge in respect of previous periods		**(2)**	(12)
Tax charge reported in the income statement		**3,090**	936

Tax relating to items charged or (credited) or equity:

Income tax credit on exchange losses on intra Group balances	**(7)**	93
Deferred tax on share options	**(139)**	6
Net tax (credit)/debit to equity	**(146)**	99

The Finance bill 2021 was substantively enacted on 24 May 2021. The UK corporation tax rate increases from 19% to 25% on the 1 April 2023. The deferred tax assets and liabilities at the 31 August 2021 have been calculated based on a rate at which they are expected to crystalise which is likely to be 19% or 25%. Danish deferred tax asset of £105,000 has been charged to the Income Statement.

7 DEFERRED INCOME TAX - GROUP

Deferred tax is calculated on temporary differences under the liability method using a tax rate of 19% or 25% (2020: 19%) for UK differences and local rates for overseas differences.

The net movement on the deferred income tax account is as follows:

	2021 £000's	2020 £000's
As at 1 September	**683**	540
Credit / (charge) to the income statement	**(984)**	149
(Charge) / credit to equity	**139**	(6)
As at 31 August	**(162)**	683

Deferred tax assets and liabilities are only offset where there is a legally enforceable right of offset.

Deferred tax assets and liabilities are attributable to the following:

	Assets		**Liabilities**	
	2021 £000's	2020 £000's	**2021 £000's**	2020 £000's
Intangibles	**-**	-	**(1)**	-
Property, plant and equipment	**-**	-	**(421)**	(15)
Employee share scheme charges	**181**	13	**-**	-
Derivative financial instruments	**17**	421	**-**	-
Inventories	**70**	165	**-**	-
Short-term timing differences	**-**	-	**(8)**	(6)
Tax losses	**-**	105	**-**	-
Tax assets/(liabilities)	**268**	704	**(430)**	(21)
Net tax (liability)/asset	**-**	683	**(162)**	-

Movement in recognised deferred tax during the year:

	1 September 2020 £000's	**Recognised in income £000's**	**Recognised in equity £000's**	**31 August 2021 £000's**
Intangibles	-	(1)	-	**(1)**
Property, plant and equipment	(15)	(406)	-	**(421)**
Derivative financial instruments	421	(404)	-	**17**
Inventories	165	(95)	-	**70**
Employee share scheme charges	13	29	139	**181**
Short-term timing differences	(6)	(2)	-	**(8)**
Tax losses	105	(105)	-	**-**
	683	**(984)**	**139**	**(162)**

Movement in recognised deferred tax during the prior year:

	1 September 2019 £000's	Acquired £000's	Recognised in income £000's	Recognised in equity £000's	**31 August 2020 £000's**
Property, plant and equipment	32	-	(47)	-	(15)
Derivative financial instruments	43	-	378	-	421
Inventories	163	-	2	-	165
Employee share scheme charges	19	-	-	(6)	13
Short-term timing differences	(2)	-	(4)	-	(6)
Loss acquired	285	285	(180)	-	105
	540	285	149	(6)	683

Deferred tax assets amounting to £2,077,000 (2020: £730,000) have not been recognised in respect of certain trading losses and tax allowable deductions, due to the unpredictability of future taxable profit streams in certain subsidiaries.

7 DEFERRED INCOME TAX - COMPANY

Recognised deferred tax assets and liabilities:

	Assets		Liabilities	
	2021	2020	**2021**	2020
	£000's	£000's	**£000's**	£000's
Employee share scheme charges	**181**	13	**-**	-
Property, plant and equipment	**-**	1	**(11)**	-
Tax assets	**181**	14	**(11)**	-
Net tax asset	**170**	14	**-**	-

Movement in recognised deferred tax during the year:

	1 September 2020 £000's	**Recognised in income £000's**	**Recognised in equity £000's**	**31 August 2021 £000's**
Employee share scheme charges	13	29	139	**181**
Property, plant and equipment	1	(12)	-	**(11)**
	14	**17**	**139**	**170**

Movement in recognised deferred tax during the prior year:

	1 September 2019 £000's	Recognised in income £000's	Recognised in equity £000's	31 August 2020 £000's
Employee share scheme charges	19	-	(6)	13
Property, plant and equipment	2	(1)	-	1
	21	**(1)**	**(6)**	**14**

8 EARNINGS PER SHARE - GROUP

The earnings used in the calculation of basic and diluted earnings per share are as follows:

	Year ended 31 August 2021 Profit after taxation £	Year ended 31 August 2020 Profit after taxation £
Profit attributable to equity shareholders of the parent	**12,156,000**	3,154,000
Financial instruments fair value adjustments net of tax	**(1,724,000)**	1,604,000
Gain on buyback of loan	**-**	(886,000)
Profit on sale of property net of tax	**(1,683,000)**	-
Profit for adjusted earnings per share	**8,749,000**	3,872,000
Weighted average number of ordinary shares in issue during the year – basic	**21,379,781**	21,367,710
Weighted average number of dilutive potential ordinary shares	**291,974**	50,590
Weighted average number of ordinary shares for diluted earnings per share	**21,671,755**	21,418,300
Earnings per share before highlighted items		
Basic earnings per share (pence)	**40.92p**	18.12p
Diluted earnings per share (pence)	**40.37p**	18.08p
Earnings per share after highlighted items		
Basic earnings per share (pence)	**56.86p**	14.76p
Diluted earnings per share (pence)	**56.09p**	14.73p

9 DIVIDEND - GROUP

	12 months to 31 August 2021 £000's	12 months to 31 August 2020 £000's
On equity shares:		
Final dividend paid for the year ended 31 August 2020		
3.00 pence (2019: 13.00 pence) per share	**642**	2,777
Interim dividend paid for the year ended 31 August 2021		
6.00 pence (2020: 2.00 pence) per share	**1,282**	430
9.00 pence (2020: 15.00 pence) per share	**1,924**	3,207

The directors recommend a final dividend of 9.00 pence per share (2020: 3.00 pence) amounting to £1,924,000 (2020: £642,000). If approved by shareholders, the final dividend will be paid on 28 January 2022 to shareholders on the register on 14 January 2022.

10 INTANGIBLE FIXED ASSETS - GROUP

Cost	Goodwill £000's	Product development £000's	Patents, trademarks and design rights £000's	Total £000's
1 September 2019	3,132	3,250	-	6,382
Additions	-	1,771	-	1,771
Write off fully amortised assets	-	(1,568)	-	(1,568)
31 August 2020	**3,132**	**3,453**	**-**	**6,585**
Acquisitions	722	-	199	921
Additions	-	1,615	-	1,615
Write off fully amortised assets	-	(1,682)	-	(1,682)
31 August 2021	**3,854**	**3,386**	**199**	**7,439**
Amortisation & Impairment				
1 September 2019	**3,132**	**2,347**	**-**	**5,479**
Charge for the year	-	1,783	-	1,783
Write off fully amortised assets	-	(1,568)	-	(1,568)
31 August 2020	**3,132**	**2,562**	**-**	**5,694**
Charge for the year	-	1,619	2	1,621
Write off fully amortised assets	-	(1,682)	-	(1,682)
31 August 2021	**3,132**	**2,499**	**2**	**5,633**
Net book value				
31 August 2021	**722**	**887**	**197**	**1,806**
31 August 2020	-	891	-	891

On the 21 July 2021, the Group acquired from Toys "R" US ANZ Limited, the business and assets of the Chill Factor branded range of drink chilling bottles and slushy makers. The Group obtained control of the business through the acquisition of extensive international patents, design rights, trademarks and related intellectual property, production moulds and tooling. The Group also acquired the ability to continue using the same manufacturer and suppliers of the products. The Group has been involved with the range since 2013 and is its exclusive distributor in the UK and Scandinavia.
The acquisition was made to enhance the Group's existing range of products, utilise the Group's design capabilities and develop collaborations with licensors.

10 INTANGIBLE FIXED ASSETS - GROUP CONTINUED

The details of the cash outflow under "purchase of business" of £945,000 on the face of the Consolidated Group Cash Flow Statement in the year to 31 August 2021 is as follows:

	£000's
Total consideration	
Cash consideration excluding acquisition costs	**945**
The acquisition had the following effect on the Group's assets and liabilities:	
Acquisition fair value	
Fixed assets	14
Stock	10
Patents, trademarks and design rights	199
Issued share capital of Chill Factor Global Pry Ltd, nominal amount of US $1	-
Net identifiable assets	**223**
Goodwill	722
Total assets	**945**

The acquisition was settled in cash amounting to US $1.31 million. No further consideration is payable.
Goodwill is primarily growth expectations, expected future profitability, product range synergies and opportunities, relationships with suppliers, customers and brand reputation. Forecasts are prepared for up to ten years based on the management's experience with revenue growth rates of between 0% and 25% discounted at the Group's pretax cost of capital of 6.85%. Operating profits forecasted are based on historical experience adjusted for product cost savings. Goodwill has been allocated to the UK segment and is expected to be deductible for tax purposes.
There were no acquisition costs. The acquisition was made towards the end of the financial year and did not contribute to Group revenue. Administrative costs of £6,000 were incurred by the year end.

On 17 October 2018, the Group acquired 55% of the equity shareholding of OVG-PROXY A/S ("Proxy"), a Scandinavian toy distributer based in Copenhagen. On 31 May 2019, the Group acquired a further 20% of the issued share capital of Proxy for a nominal consideration of one Danish Krone. On 10 June 2020, the Group acquired a further 10% of the issued share capital for a nominal consideration of one Danish Krone. On 17 October 2020, the Group acquired the remaining 15% of the issued share capital (constituting the remaining issued shares of Proxy not held by the Group) for a nominal consideration of one Danish Krone.

11 INVESTMENT PROPERTY – GROUP

Cost	Total £000's
1 September 2019, 1 September 2020 and 31 August 2021	**2,194**
Depreciation	
1 September 2019	545
Charge for the year	65
31 August 2020	**610**
Charge for the year	65
31 August 2021	**675**
Net book value	
31 August 2021	**1,519**
31 August 2020	1,584

The investment property is held at depreciated historical cost. The fair value of the investment property has been assessed by an independent valuer at £2.9 million in November 2019. In the opinion of the directors, the fair value of the investment property is not materially different to the 2019 valuation. During the year the Group received gross rental income of £203,000 (2020: £235,000).

Expenses incurred in respect of occupied premises were £12,000 (2020: £10,000). Expenses in respect of unoccupied premises were £20,000 (2020: £23,000).

12 PROPERTY, PLANT AND EQUIPMENT – GROUP

Cost	Freehold land and buildings £000's	Property, plant, and equipment in construction £000's	Short leasehold improvements £000's	Fixtures, fittings and equipment £000's	Motor vehicles £000's	Total £000's
1 September 2019	**3,904**	**-**	**195**	**3,115**	**359**	**7,573**
Additions	-	-	85	443	-	528
Disposals	-	-	-	-	(60)	(60)
Translation differences	-	-	(3)	8	-	5
31 August 2020	**3,904**	**-**	**277**	**3,566**	**299**	**8,046**
Acquisitions	-	-	-	14	-	14
Additions	5,389	1,079	8	145	507	7,128
Assets written off	-	-	(40)	(270)	-	(310)
Disposals	(1,782)	-	-	(8)	(56)	(1,846)
Translation differences	-	-	(9)	(23)	-	(32)
31 August 2021	**7,511**	**1,079**	**236**	**3,424**	**750**	**13,000**
Depreciation						
1 September 2019	**1,401**	**-**	**187**	**2,479**	**255**	**4,322**
Charge for the year	104	-	35	364	41	544
Disposals	-	-	-	-	(57)	(57)
Translation differences	-	-	(3)	14	-	11
31 August 2020	**1,505**	**-**	**219**	**2,857**	**239**	**4,820**
Charge for the year	135	-	18	272	142	567
Assets written off	-	-	(23)	(155)	-	(178)
Disposals	(352)	-	-	(8)	(56)	(416)
Translation differences	-	-	(7)	(16)	-	(23)
31 August 2021	**1,288**	**-**	**207**	**2,950**	**325**	**4,770**
Net book value						
31 August 2021	**6,223**	**1,079**	**29**	**474**	**425**	**8,230**
31 August 2020	2,399	-	58	709	60	3,226

TANGIBLE FIXED ASSETS – COMPANY

Cost	Freehold land and buildings £000's	Fixtures, fittings and equipment £000's	Motor vehicles £000's	Total £000's
1 September 2019	1,182	257	-	1,439
Additions	**-**	**5**	**-**	**5**
31 August 2020	**1,182**	**262**	**-**	**1,444**
Additions	-	7	66	73
31 August 2021	**1,182**	**269**	**66**	**1,517**
Depreciation				
1 September 2019	**864**	**251**	**-**	**1,115**
Charge for the year	**39**	**4**	**-**	**43**
31 August 2020	**903**	**255**	**-**	**1,158**
Charge for the year	39	5	17	61
31 August 2021	**942**	**260**	**17**	**1,219**
Net book value				
31 August 2021	**240**	**9**	**49**	**298**
31 August 2020	279	7	-	286

A bank has a charge over the freehold properties.

13 FIXED ASSET INVESTMENTS – COMPANY

Cost	Shares in subsidiary undertakings £000's	Capital contribution £000's	Total £000's
1 September 2019	**3,200**	**2,530**	**5,730**
Additions	-	-	-
Share-based payment	-	179	179
At 31 August 2020	**3,200**	**2,709**	**5,909**
Additions	-	-	-
Share-based payment	-	333	333
At 31 August 2021	**3,200**	**3,042**	**6,242**
Amortisation and provisions			
1 September 2020 and 31 August 2021	1,896	-	1,896
Charge for the year	-	-	-
At 31 August 2021	**1,896**	**-**	**1,896**
Net book value			
31 August 2021	**1,304**	**3,042**	**4,346**
31 August 2020	1,304	2,709	4,013

The following is summarised financial information for Proxy prepared in accordance with IFRS. The information is stated before the elimination of inter-company transactions and balances that arise on consolidation.

	12 months to 31 August 2021 £000's	12 months to 31 August 2020 £000's
Revenue	12,455	17,199
Loss after tax	(1,158)	(619)
Profit /(loss) attributable to Non-controlling interest ("NCI")	**48**	**(165)**
Other comprehensive income	114	4
Total comprehensive loss	(1,044)	(615)
Total comprehensive profit/(loss) attributable to NCI	**43**	**(165)**
Current assets	5,097	4,882
Non-current assets	755	1,256
Current liabilities	(8,657)	(7,675)
Non-current liabilities	(520)	(745)
Net liabilities	**(3,325)**	**(2,282)**
Net liabilities attributable to NCI	**-**	**(343)**
Cash flows from operating activites	2,334	1,623
Cash flows from investing activities	(19)	(155)
Cash flows from financing activities	(241)	1,223
Net decrease in borrowings	**2,074**	**2,691**

13 FIXED ASSET INVESTMENTS – COMPANY CONTINUED

Details of the subsidiaries of the Group are set out below:

Subsidiaries	Country of incorporation and operation	Class of share capital held	Properportion held by Group %	Parent Company %	Nature of business
Character Options Limited	United Kingdom[1]	Ordinary	100	100	Design and distribution of toys and games
Toy Options (Far East) Limited	Hong Kong[2]	Ordinary	100	-	Design and distribution of toys and games
Charter Limited	Hong Kong[2]	Ordinary	100	-	Design and distribution of toys and games
Proxy (Far East) Limited	Hong Kong[2]	Ordinary	100	-	Distribution of toys and games
Character Games Limited	United Kingdom[1]	Ordinary	100	100	Design and distribution of toys and games
Character Gifts Limited	United Kingdom[1]	Ordinary	100	100	Gift importer and distributor
Q-Stat Limited	United Kingdom[1]	Ordinary	100	100	Property investment
Toy Options Limited	United Kingdom[1]	Ordinary	100	100	Intermediate holding company
OVG-Proxy A/S	Denmark[8]	Ordinary	100	-	Distribution of toys
Character Denmark ApS	Denmark[5]	Ordinary	100	100	Distribution of toys
Character Nordic Limited	United Kingdom[1]	Ordinary	100	100	Intermediate holding company
Character Promotions Limited	United Kingdom[1]	Ordinary	100	100	Holder of intellectual property
Toy Options Group plc	United Kingdom[1]	Ordinary	100	100	Non-trading
Character Games (Far East) limited	Hong Kong[2]	Ordinary	100	100	Intermediate holding company
Proxy Sweden AB	Sweden[6]	Ordinary	100	-	Distribution of toys
Proxy Norway AS	Norway[7]	Ordinary	100	-	Distribution of toys
Toy Options Technology (Shenzhen) Limited	China[3]		100	-	Product development and toy design
Prelude Worldwide Limited	United Kingdom[1]	Ordinary	100	100	Non-trading
WWL (UK) Limited	United Kingdom[1]	Ordinary	100	100	Non-trading
Universal Concepts (UK) Limited	United Kingdom[1]	Ordinary	100	100	Non-trading
Chill Factor Global Pty Limited	Australia[4]	Ordinary	100	-	Holder of IP

Registered offices

[1] CityPoint, 16th Floor, One Ropemaker Street, London EC2Y 9AW
[2] 2401, 24/F, Dominion Centre, 43-59 Queen's Road East, Hong Kong
[3] Room2001, 2003-2006, Shenhua Commercial Building,2018 Jiabin Road, LuoHu District, Shenzhen,China
[4] Level 1, 1121 High Street, Armadale, Victoria, 3143, Australia
[5] Bredgade 3, 1260 København K, Denmark
[6] Brunnsvägen 1 686 95, Västra Ämtervik, Värmland Sweden
[7] Sandakerveien 76F, 0484 Oslo, Norge
[8] Gothersgade 14, 3rd, 1123 København K, Denmark

14 LEASES

The Group leases land and buildings and motor cars.

Amounts recognised on the balance sheets:

RIGHT OF USE ASSETS - GROUP

Cost	Land & Buildings £000's	Motor cars £000's	Total £000's
Adoption IFRS 16	1,331	24	1,355
Additions	1,047	73	1,120
31 August 2020	**2,378**	**97**	**2,475**
Additions	-	12	12
Translation differences	(82)	(3)	(85)
31 August 2021	**2,296**	**106**	**2,402**
Depreciation			
Charge for the year	393	19	412
Translation differences	(6)	-	(6)
31 August 2020	**387**	**19**	**406**
Charge for the year	523	33	556
Translation differences	(13)	(1)	(14)
31 August 2021	**897**	**51**	**948**
Net book value			
31 August 2021	**1,399**	**55**	**1,454**
31 August 2020	1,991	78	2,069

RIGHT OF USE ASSETS - COMPANY

Cost	Land & Buildings £000's
Adoption IFRS 16	550
31 August 2020 & 31 August 2021	**550**
Depreciation	
1 September 2019	**-**
Charge for year	110
31 August 2020	**110**
1 September 2020	**110**
Charge for the year	110
31 August 2021	**220**
Net book value	
31 August 2021	**330**
31 August 2020	440

14 LEASES CONTINUED

Lease liabilities:

	Group		Company	
	31 August 2021 £000's	31 August 2020 £000's	**31 August 2021 £000's**	31 August 2020 £000's
Current	**557**	550	**110**	106
Non current – 2 to 5 years	**946**	1,547	**231**	341
	1,503	2,097	**341**	447

Maturity of contracted undiscounted lease liabilities:

	Group		Company	
	31 August 2021 £000's	31 August 2020 £000's	**31 August 2021 £000's**	31 August 2020 £000's
Lease liability less than one year	**598**	612	**119**	119
Lease liability greater than one year and less than five years	**978**	1,621	**239**	351
Finance charges included above	**(73)**	(136)	**(17)**	(23)
	1,503	2,097	**341**	447

Amounts recognised in comprehensive income:

	Group		Company	
	31 August 2021 £000's	31 August 2020 £000's	**31 August 2021 £000's**	31 August 2020 £000's
Interest on lease liabilities	**60**	60	**13**	17

Amounts recognised in the cash flow statement:

	Group		Company	
	31 August 2021 £000's	31 August 2020 £000's	**31 August 2021 £000's**	31 August 2020 £000's
Total cash outflow for lease rentals	**606**	378	**106**	102

15 INVENTORIES - GROUP

	2021 £000's	2020 £000's
Finished goods for resale	**10,893**	14,736

A Bank has a floating charge over the inventories to secure bank borrowings by the Group.

16 TRADE AND OTHER RECEIVABLES – GROUP AND COMPANY

	Group		Company	
	2021 £000's	2020 £000's	**2021 £000's**	2020 £000's
Current:				
Trade receivables	**22,223**	20,233	**-**	-
Less provision for impairment	**-**	(154)	**-**	-
Trade receivables – net	**22,223**	20,079	**-**	-
Due from subsidiary undertakings	**-**	-	**44,603**	37,700
Other receivables	**1,952**	1,469	**11**	39
	24,175	21,548	**44,614**	37,739
Prepayments	**1,844**	1,465	**263**	224
	26,019	23,013	**44,877**	37,963

Finance advances received against gross trade receivables (shown below) under the recourse facility amounting to £nil (2020: £3,168,000) are shown within current liabilities. All the risks and rewards of the trade receivables lie with the Group.

All amounts are short-term. The carrying values are considered to be a reasonable approximation of fair value.

16 TRADE AND OTHER RECEIVABLES – GROUP AND COMPANY CONTINUED

Trade receivables can be analysed as follows:

	2021 £000's	2020 £000's
Fully performing	**22,151**	20,066
Past due	**72**	13
Trade receivables	**22,223**	20,079

Ageing of past due, not impaired, receivables:

	2021 £000's	2020 £000's
1 – 90 days	**72**	13

Amounts relate to debtors for whom there is no recent history of default and there has been no significant change in credit quality.

The carrying amount of the Group's trade receivables are denominated in the following currencies:

	2021 £000's	2020 £000's
Pounds Sterling	**6,066**	10,966
US Dollars	**14,422**	6,809
Euros	**212**	61
Danish Kroner	**1,094**	1,403
Others	**429**	840
	22,223	20,079

17 INCOME TAX RECOVERABLE/ (PAYABLE) - GROUP

	2021		2020	
	Assets £000's	**Liabilities £000's**	Assets £000's	Liabilities £000's
UK income tax	**766**	**-**	244	(96)
Overseas income tax	**-**	**(1,610)**	-	(681)
	766	**(1,610)**	244	(777)

18 DERIVATIVE FINANCIAL INSTRUMENTS - GROUP

Numerical financial instrument disclosures are set out below. Additional disclosures are set out in the accounting policies in note 1 and in note 22 relating to financial instruments and note 23 relating to risk management.

	2021		2020	
	Assets £000's	**Liabilities £000's**	Assets £000's	Liabilities £000's
Forward foreign exchange contracts and options	**75**	**(165)**	75	(2,293)

Fair value hierarchy

The Group uses the following valuation hierarchy for determining and disclosing the fair value of financial instruments:

- Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;
- Level 2: other techniques for which all inputs which have significant effect on the recorded fair value are observable, either directly or indirectly; and
- Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data. Unlisted equity investments are included in level 3. The fair value of the embedded derivative is determined using the present value of the estimated future cash flow based on financial forecasts.

All derivative financial instruments are level 2 in the fair value hierarchy, the fair value of which has been determined using reports from the banks from whom the derivatives have been acquired.

19 CASH & CASH EQUIVALENTS – GROUP AND COMPANY

	Group		Company	
	2021	2020	**2021**	2020
	£000's	£000's	**£000's**	£000's
Cash and cash equivalents	**35,920**	22,292	**677**	4,644

Cash and cash equivalents are denominated in the following currencies:

Currency – floating rate financial assets	**2021 £000's**	2020 £000's	**2021 £000's**	2020 £000's
Sterling	**23,053**	10,110	**675**	4,622
US$	**11,204**	8,516	**3**	21
Euro	**159**	138	**(1)**	1
HKS$	**625**	887	**-**	-
Danish Kroner	**570**	2,321	**-**	-
Others	**309**	320	**-**	-
Total	**35,920**	22,292	**677**	4,644

Bank overdrafts and short-term borrowings are aggregated with cash and cash equivalents where there is a right of set-off. At 31 August 2021, the balances attracted interest at rates of between 0.08% and 0.47%.

20 BORROWINGS - GROUP

	31 August 2021			31 August 2020		
	Total	**Current**	**Non-current**	Total	Current	Non-current
	£000's	**£000's**	**£000's**	£000's	£000's	£000's
Finance Advances	**-**	**-**	**-**	3,168	3,168	-
Total	**-**	**-**	**-**	3,168	3,168	-

Finance advances are advances against trade receivables.

Analysis of borrowings by currency

	2021 £000's	2020 £000's
US$	**-**	831
Danish Kroner	**-**	1,864
Others	**-**	473
Total	**-**	3,168

The Group utilises short-term borrowings to implement its working capital strategy. UK facilities include a bank overdraft of £8.25 million and a trade finance facility of £15.0 million which expire within one year; these are repayable on demand. A UK subsidiary has an ongoing recourse invoice discounting facility of £20 million. The interest charged on these facilities is 1.43% per annum over LIBOR or bank base rate. The facilities are secured by various fixed and floating charges over the assets and undertakings of the Company and certain subsidiaries. The Group has entered into composite accounting agreements whereby the participating companies have provided a guarantee to the bank in respect of drawn facilities.

Certain Far East subsidiaries have bank overdraft and trade finance facilities equivalent to approximately £15.7 million. The interest charged is between 0.25% per annum and 2.8% per annum over Prime or HIBOR. A subsidiary has a pledged cash deposit with a bank amounting to approximately £1.2m (2020: £1.3 million), which has been included in cash and cash equivalents.

21 TRADE AND OTHER PAYABLES – GROUP AND COMPANY

	Group 2021 £000's	 2020 £000's	Company 2021 £000's	 2020 £000's
Trade creditors	24,728	18,661	-	-
Due to subsidiary undertakings	-	-	13	13
Other taxation and social security	2,418	2,480	130	45
Accruals and deferred income	11,244	5,291	866	143
	38,390	26,432	1,009	201

22 FINANCIAL INSTRUMENTS - GROUP

Financial assets Current financial assets	Note	31 August 2021 Total £000's	 At fair value to Income Statement £000's	 At amortised cost £000's	31 August 2020 Total £000's	 At fair value to Income Statement £000's	 At amortised cost £000's
Trade and other receivables	16	24,175	-	24,175	21,548	-	21,548
Derivative financial instruments	18	75	75	-	75	75	-
Cash and cash equivalents	19	35,920	-	35,920	22,292	-	22,292
		60,170	75	60,095	43,915	75	43,840

Financial liabilities Current & non-current financial liabilities	Note	31 August 2021 Total £000's	 At fair value to Income Statement £000's	 At amortised cost £000's	31 August 2020 Total £000's	 At fair value to Income Statement £000's	 At amortised cost £000's
Trade and other payables	21	24,728	-	24,728	18,661	-	18,661
Derivative financial instruments	18	165	165	-	2,293	2,293	-
Borrowings	20	-	-	-	3,168	-	3,168
		24,893	165	24,728	24,122	2,293	21,829

22 FINANCIAL INSTRUMENTS - COMPANY

Financial assets Current financial assets	Note	31 August 2021 Total £000's	 At fair value to Income Statement £000's	 At amortised cost £000's	31 August 2020 Total £000's	 At fair value to Income Statement £000's	 At amortised cost £000's
Trade and other receivables	16	44,614	-	44,614	37,739	-	37,739
Cash and cash equivalents	19	677	-	677	4,644	-	4,644
		45,291	-	45,921	42,383	-	42,383

Financial liabilities Current financial liabilities	Note	31 August 2021 Total £000's	 At fair value to Income Statement £000's	 At amortised cost £000's	31 August 2020 Total £000's	 At fair value to Income Statement £000's	 At amortised cost £000's
Trade and other payables	21	13	-	13	13	-	13
		13	-	13	13	-	13

The carrying amounts of financial assets and financial liabilities approximate to their fair values.

23 FINANCIAL RISK MANAGEMENT

The Group's operations expose it to a variety of financial risks that include the effects of changes in foreign currency exchange rates, market interest rates, concentration and counter party credit risk and its liquidity position.

The Group has in place a risk management programme that seeks to limit adverse effects on the financial performance of the Group by using foreign currency financial instruments.

The Board of directors reviews and agrees policies for managing each of these risks which are summarised below:

Foreign exchange risk

The Group is exposed to foreign exchange risks against Sterling and Danish Kroner, primarily on transactions in US dollars. It enters into forward contracts and other derivative financial instruments to hedge the cash flows of its product sourcing operation (i.e. it buys US dollars forward in exchange for Sterling) and usually looks forward 12 months on a rolling basis at forecast purchase volumes.

Foreign currency sensitivity

The Group is primarily exposed to US Dollars, Hong Kong Dollars, the Euro and Danish Kroner.

The sensitivity analysis below is based on a change in an assumption while holding all other assumptions constant. In practice this is unlikely to occur and changes in some of the assumptions may be correlated, for example a change in interest rate and a change in foreign currency exchange rates.

The following table details how the Group's income and equity would (decrease)/increase on a before tax basis, given a 10% revaluation in the Group's functional currencies, in accordance with IFRS 7, with all other variables assumed to remain constant. The 10% change represents a reasonably possible change in the specified foreign exchange rates in relation to the Group's functional currencies.

	Functional currencies strengthening		**Functional currencies weakening**	
2021	**Total Equity £000's**	**Profit or (Loss) £000's**	**Total Equity £000's**	**Profit or (Loss) £000's**
Euro	**(5)**	**(5)**	**5**	**5**
US$	**(1,990)**	**(1,990)**	**409**	**409**
HK$	**(39)**	**(39)**	**39**	**39**
Danish Krone	**(134)**	**(134)**	**134**	**134**
	(2,168)	**(2,168)**	**587**	**587**

	Functional currencies strengthening		Functional currencies weakening	
2020	Total Equity £000's	Profit or (Loss) £000's	Total Equity £000's	Profit or (Loss) £000's
Euro	(13)	(13)	13	13
US$	(7,773)	(7,773)	226	226
HK$	(198)	(198)	198	198
Danish Krone	(270)	(270)	270	270
	(8,254)	(8,254)	437	437

Interest rate risk

The Group has seasonal cash flow and uses short-term borrowings, namely bank overdrafts, finance advances and import loans to finance working capital requirements.

The Group places excess funds on short-term bank deposit that attracts interest at the ruling market rate.

The Group believes that an interest rate sensitivity analysis is not representative of the underlying risks due to the seasonality of cash flows and the short-term nature of borrowings and deposits.

Interest rate sensitivities have not been presented here as the amounts would not be material to the consolidated financial statements.

23 FINANCIAL RISK MANAGEMENT CONTINUED

Credit risk – Group and Company

The Group's and the Company's credit risk is attributable to trade and other receivables, cash and short-term bank deposits.

Exposure to credit risk is limited to the carrying amounts recognised at the balance sheet date, summarised as below:

	Group		Company	
Class of financial assets	**2021 £000's**	2020 £000's	**2021 £000's**	2020 £000's
Trade receivables	**22,223**	20,079	**-**	-
Due from subsidiary undertakings	**-**	-	**44,603**	37,700
Other receivables	**1,952**	1,469	**11**	39
Current tax assets	**766**	244	**-**	-
Cash	**35,920**	22,292	**677**	4,644
	60,861	44,084	**45,291**	42,383

The Group manages credit risk of debtors through a credit control process and (where possible) retention of title clauses. Credit limits are agreed and closely monitored. Credit insurance is held on the majority of trade debtors. In addition, the Group employs trade finance instruments, such as letters of credit and bills of exchange to minimise credit risk further.

The Group places its cash with banks with high quality credit standing.

Concentration risk

The Group is subject to significant concentration of credit risk within its business. Five major counterparties within trade receivables amounted to £9,764,000 (2020: £10,879,000). Individual balances are closely monitored and managed in accordance with the Group's credit risk policies detailed above.

Liquidity risk

The Group manages liquidity risk by maintaining adequate reserves, banking and borrowing facilities and by continuously monitoring forecast and actual cash flows. The Group has committed debt facilities to cover its liquidity requirements for at least the next 12 months.
The Group's liabilities have the following contractual maturities:

	2021		2020	
	Current £000's	**Non-current within five years £000's**	Current £000's	Non-current within five years £000's
Finance advances	**-**	-	3,168	-
Trade and other payables	**38,390**	-	26,432	-
Current tax liabilities	**1,610**	-	777	-
Derivative financial instruments	**165**	-	2,293	-
Lease liabilities	**557**	**946**	550	1,547
	40,722	**946**	33,220	1,547

24 CAPITAL RISK MANAGEMENT

The Group manages its capital to safeguard the Group's ability to continue as a going concern and to maximise returns for shareholders, reducing the cost of capital by optimising the capital structure.
In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders/effect share buy-backs or issue new shares. The Group holds shares in treasury, which it can release.
The Group considers its capital to comprise the equity attributable to equity holders of the parent.

25 CALLED UP SHARE CAPITAL (EQUITY)

	2021 £000's	2020 £000's
Authorised		
110,000,000 (2020: 110,000,000) ordinary shares of 5 pence each	**5,550**	5,550
Allotted, called up and fully paid		
23,608,501* (2020: 23,608,501) ordinary shares of 5 pence each	**1,181**	1,181

* Including 2,228,720 Ordinary Shares held in treasury (2020: 2,228,720).
Ordinary shares rank equally as regards to dividends, other distributions and return on capital. Each ordinary share carries the right to one vote.

Share capital movements in the year

No employees exercised their share options during the year (2020: nil).

Movement in issued capital is as follows:

Ordinary Shares of 5 pence each	2021	2020
In issue at the beginning of the financial year	**23,608,501**	23,655,001
Cancellations	**-**	(46,500)
In issue at the end of the financial year – fully paid	**23,608,501**	23,608,501

Share options

On 25 September 2014, options over a total of 1,070,800 Ordinary Shares held by the Company in treasury were granted under the Company's 2006 Share Option Plan (the "2006 Plan") to Group employees, including certain of the executive directors, at an exercise price of 213.00 pence per share.

The 2006 Plan expired on 21 February 2016 (being ten years following its adoption), though such expiry had no effect upon the validity of options granted under the 2006 Plan prior to its expiry. On 24 November 2017, the board adopted the rules of the Company's 2017 Share Option Plan (the "2017 Plan"). The 2017 Plan is substantially similar in structure, operation and administration to the 2006 Plan and is administered under the direction of the remuneration committee of the Board.
Under the 2017 Plan, all qualifying employees of the Group are eligible to receive conditional awards of share options depending on their performance, seniority, and length of service. The option enables an eligible employee to purchase up to a stated number of Ordinary Shares at market value at the date of grant. The options typically only vest after three years, subject to the achievement of the applicable vesting conditions. Vesting conditions required that the employee remains in employment at the time of exercise of the option and that performance conditions determined by the Remuneration Committee at the time of grant of the option are met or exceeded. Typically, the performance conditions require targets for profit before tax and interest for the relevant employee's employing company within the Group (adjusted to eliminate certain intra-group charges) or targets for the consolidated profit before tax and interest for the Group as a whole are met or exceeded.

The maximum term for options is ten years from the date of grant. There are no cash settlement alternatives. The 2017 utilises HMRC–approved options to the extent possible.

On 5 June 2018, options over a total of 861,650 Ordinary Shares held by the Company in treasury were granted under the 2017 Plan to Group employees, including certain of the executive directors, at an exercise price of 520.00 pence per share.
Options under this grant were surrendered by agreement with the Company and cancelled during the year.

On 24 December 2018, an option over a total of 10,000 Ordinary Shares held by the Company in treasury was granted under the 2017 Plan to a Group employee at an exercise price of 540.00 pence per share.
This option was surrendered by agreement with the Company and cancelled during the year.

On 2 October 2020, options over a total of 974,180 Ordinary Shares held by the company in treasury were granted under the 2017 Plan to Group employees, including certain of the executive directors, at an exercise price of 325.50 pence per share.

25 CALLED UP SHARE CAPITAL (EQUITY) CONTINUED

Share options continued

At 31 August 2021, rights to options over 1,115,480 Ordinary Shares of the Company held in treasury (treated as outstanding) were as follows:

	At 1 September 2020	Granted	Exercised/ surrendered	At 31 August 2021	Exercise Price	Exercise Period
2006 Scheme	151,000	-	-	151,000	213.00p	25 September 2017 to 24 September 2024
2017 Scheme	826,900	-	(826,900)	-	520.00p	5 June 2021 to 4 June 2028
2017 Scheme	10,000	-	(10,000)	-	540.00p	24 December 2021 to 23 December 2028
2017 Scheme	-	974,180	(9,700)	964,480	325.50p	2 October 2023 to 1 October 2023
	987,900	**974,180**	**(846,600)**	**1,115,480**		

Movements in share options in the previous year were as follows:

	At 1 September 2019	Granted	Exercised/ lapsed	At 31 August 2020	Exercise Price	Exercise Period
2006 Scheme	151,000	-	-	151,000	213.00p	25 September 2017 to 24 September 2024
2017 Scheme	831,650	-	(4,750)	826,900	520.00p	5 June 2021 to 4 June 2028
2017 Scheme	10,000	-	-	10,000	540.00p	24 December 2021 to 23 December 2028
	992,650	-	(4,750)	987,900		

No options were outstanding in respect of unissued Ordinary Shares of the Company as at 31 August 2021 and at 31 August 2020.

No amount is payable by any grantee of an option at the time of grant under any of the Company's share option schemes particularised above.

Movements in the weighted average values are as follows:

	2021 Number	**2021** Weighted average exercise price	2020 Number	2020 Weighted average exercise price
Outstanding at 1 September	**987,900**	**473.28p**	992,650	473.50p
Granted	**974,180**	**325.50p**	-	-
Surrendered	**(846,600)**	**518.01p**	(4,750)	520.00p
Outstanding at 31 August	**1,115,480**	**310.27p**	987,900	473.28p
Weighted average remaining contractual life in years		**8.3**		7.2

At 31 August 2021, options over 151,000 Ordinary Shares were exercisable (2020: 151,000).

26 SHARE-BASED PAYMENT

	12 months ended 31 August 2021 £000's	12 months ended 31 August 2020 £000's
Charge for share-based payment	**380**	189

The fair value of equity settled awards has been estimated at the date of grant using a binomial valuation model for which the inputs are summarised below:

	2006 Scheme	2017 Scheme		
Grant Date	**25 September 2014**	**5 June 2018**	**24 December 2018**	**2 October 2020**
Options outstanding 1 September 2020	151,000	826,900	10,000	-
Granted	-	-	-	974,180
Exercised	-	-	-	-
Lapsed	-	(826,900)	(10,000)	(9,700)
Options outstanding 31 August 2021	151,000	-	-	964,480
Contract term year(s)	10	10	10	10
Expected life of option	8	8	8	8
Exercise & share price at grant	213.0p	520.0p	540.0p	325.50p
Expected volatility	25% – 35%	22% – 27%	25%	31%
Annual risk-free rate	2.502%	1.40%	1.278%	0.2877%
Annual expected dividend	3.65% – 4%	4%	4%	1.44%
Fair value per share under option	46p	72p	72p	72p

Expected volatility was determined by calculating the historical volatility of the Group's share price over the previous 3 years. The expected life used in the model has been adjusted, based upon management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations. Option valuations are based upon the assumption that the dividend remains at this level in the future.

The Ordinary Shares issued or transferred out of treasury upon valid exercise of share options, shall have the same dividend and voting rights as the ordinary issued share capital.

27 COMMITMENTS

The Group has entered into contracts for minimum royalties in the amounts set out below which are contracted to be paid to licensors irrespective of sales. These royalties are not provided for in the financial statements as the directors believe that the required level of future sales will be achieved:

	2021 £000's	2020 £000's
Within one year	**441**	625
Between one and two years	**104**	136
	545	761

At the financial year end of 31 August 2021, the Group had capital expenture commitments of £566,000 (2020: nil).

THE GROUP AS LESSOR

The Group has future aggregate minimum lease receipts under non-cancellable operating leases in respect of rented premises which fall due as follows:

	2021 £000's	2020 £000's
Within one year	**198**	200
Between one and two years	**626**	371
	824	571

28 RELATED PARTY TRANSACTIONS

The Group has taken advantage of the exemption available under IAS 24 related party disclosures not to disclose transactions and balances between Group entities that have been eliminated on consolidation. There were no contracts with the Company or any of its subsidiaries existing at the end of the financial year in which a director of the Company was materially interested.

The principal subsidiary undertakings of the Company are shown in note 13.
Transactions between the Company and its subsidiaries are shown below; all such transactions were carried out in the normal course of business and all amounts outstanding are unsecured.

	2021 £000's	2020 £000's
Dividends received	**4,678**	15,914
Management fees received	**1,800**	1,800
Property rental income	**201**	201
Property rentals paid	**(119)**	(119)
Amounts due from subsidiary undertakings	**44,603**	37,700
Amounts owed to subsidiary undertakings	**(13)**	(13)

29 CONTINGENT LIABILITIES

The contingent liability for letters of credit raised in the normal course of business at 31 August 2021 amounted to £7,788,000 (2020: £4,003,000).

30 EVENTS OCCURING AFTER THE BALANCE SHEET DATE

On 14 October 2021, 2,500 Ordinary Shares of 5 pence each held as Treasury shares were transferred from Treasury following the exercise of an employee share options.

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