the CHARACTER group plc

Annual Report and Accounts

For the year ended 31 August 2010

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www.thecharacter.com
www.character-online.co.uk

DIRECTORS AND ADVISERS

Directors
R King
K P Shah
J J Diver
J J P Kissane
Lord Birdwood
D Harris

Secretary
K P Shah FCCA

Company registration number
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Auditors
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Standard Chartered Bank

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Neville Registrars Limited
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West Midlands B63 3DA

CHAIRMAN'S STATEMENT

Introduction

I am delighted to report a very strong performance for the business in the financial year under review and this trend is set to continue as we approach the end of one of the busiest times of the calendar year for the industry as a whole.

Also, as a Board, we are proud that our team has successfully created a strong portfolio of product which has been clearly met with confidence, enthusiasm and demand by both our customers and the consumer.

Our strategy of focusing on developing and refreshing a portfolio of lead brands remains key to our approach and the on-going future success of the business as a whole. By bringing new, innovative and exciting product to market, and building market share, we remain well positioned to further develop our business both at home and internationally.

Financials for the year ended 31 August 2010

The on-going success of our own brands and key distributed lines is reflected in both our revenue and profitability.

Group sales in the year amounted to £85.23 million, up 24.2% on 2009 sales of £68.62 million. International sales grew in line with UK sales.

Reflecting the significant improvement in trading for the Group as a result of a strong product offering, Group profit before tax amounted to £7.55 million against a loss of £2.17 million in 2009 (which included an exceptional cost of £1.06 million, relating to the bad debt suffered from the Woolworths Administration in 2009).

Basic earnings per share were 20.12 pence compared to a loss of 4.09 pence the year to August 2009.

In order to sustain the growth in sales in September and October 2010, stocks increased from £7.04 million at the August 2009 year-end to £9.32 million at end of the 2010 financial year.

Cash and cash equivalents at 31 August 2010 amounted to £16.4 million, against £11.4 million in the previous year. At the same time, short term borrowings have risen from £10.6 million to £16.9 million as at 31 August 2010, while trade and other payables have also risen to £19.9 million (2009: £10.6 million) reflecting the increase in trading activity. The Group continues to retain solid banking relationships and has substantial headroom under working capital facilities available to it.

Dividend

As a result of a solid and satisfactory trading performance for the Group and given the confidence the Board has in its visibility and opportunities going forward, the Directors are recommending a final dividend of 2.00 pence per Ordinary share (2009: 1.00 pence); this, together with the interim dividend paid in March of 2.00 pence makes a total for the year of 4.00 pence (2009:1.00 pence), a four-fold increase. The dividend is covered five times by earnings in the year to August 2010.

Subject to approval by shareholders at the Annual General Meeting to be held on 19 January 2011, the final dividend will be paid on 28 January 2011 to shareholders on the Register as at 7 January 2011. The shares will be marked ex-dividend on 5 January 2011.

The Year under Review to August 2010

Character's key brands have performed strongly in the financial year to 2010, and we believe we have entered the current financial year in a strong position to deliver further growth.

Below is a review of our key brands:

ZhuZhu Pets®

ZhuZhu Pets® has had a phenomenal year since its launch, and it is now the number one best-selling girls' collector brand in the UK. The brand has been enhanced with the introduction this year of Kung Zhu®, a boys' version, and both will see line extensions in 2011.

Peppa Pig®

Peppa Pig® is now firmly established as one of the top three brands within the sector, and a leading pre-school brand overall. The range has again performed well, and new line extensions should enhance the brand's performance in 2011.

Doctor Who®

This iconic brand has been refreshed and relaunched following the broadcast of the new series, which introduced a new Doctor. 2011 will see split scheduling, thus allowing broadcast in the all important Christmas quarter.

H. M. Armed Forces Collection™

This collection has established itself as a top 5 boys' concept since its launch in 2009 and is performing exceptionally well. New vehicles and figures, including sound figures will be introduced in the near future.

Fireman Sam®

Fireman Sam® has far exceeded our initial expectations and has established itself as a top 3 brand within the pre-school sector. New animation and products have been commissioned for the near future and we expect further growth in 2011.

Postman Pat®

Postman Pat® remains one of our classic pre-school licenses and, with sales growing year on year, has firmly established itself as a perennial within our portfolio.

Let's Cook®

This range is the leading brand within the toy food category and has performed solidly during the year. Line extensions being implemented bode well for the future.

Scooby-Doo®

Scooby-Doo® has had a fantastic year with sales increasing in each of the markets particularly in Spain, Italy and the US. The line has been totally refreshed for 2011 and we expect substantial growth in a number of territories.

The breadth of the product ranges has given the Group stability and at the same time given the customers confidence to enhance their support. The brands have longevity and should provide continued sales.

Our People

The Group average number of employees over the year was 156: 98 of these are based in the UK and the remaining 58 in Hong Kong and China (2009: 100 and 61 respectively). Once again, on behalf of the Board and all stakeholders, I would like to thank all our people for their hard work and commitment in what continues to be difficult and unprecedented times for everyone at home and around the globe.

In March 2010, Non-Executive Directors Alan Mackay and Ian Fenn stepped down from the Board and we thank them for their support and wise counsel over many years. The Board now consists of four Executive and two Non-Executive Directors and this is currently considered by the Board to be an appropriate balance for a company of Character's size and structure. We will however continue to review this position on a regular basis.

Outlook

What's ahead for 2011?

Next year promises to be a busy and exciting time for the Company both in terms of our own-developed brands and those we distribute and already we are seeing the 2011 Spring/Summer portfolio building on the success of 2010.

Recent developments include:-

- Our appointment in September 2010 as Master Toy Licensee in the UK and Eire for ***'Bob the Builder®'***, one of the most successful and popular pre-school brands. Under our multi-year agreement, we will be developing a complete range of new toy products and accessories based on ***'Bob the Builder®'*** and his 'can do' crew. The range will be launched in line with the new computer generated TV series in Autumn 2011. We are confident that we will create innovative and exciting products that will add value for this iconic brand.

  Once again we were delighted to be told in October that two of Character's products were in the Toy Retailers Association's (TRA) Christmas 2010 listings. These were ***Fireman Sam® Deluxe Fire Station*** and ***ZhuZhu Pets® Grooming Salon*** - this is the second year in succession that ZhuZhu Pets® has been in the Dream Dozen list. In addition, two further toys were represented in the TRA's list for best 'Boys Toys' with the ***Doctor Who® Sonic Screw Driver*** and the ***Kung Zhu Pets® Battle*** Arena predicted to be hot choices this Christmas. ***Lullaby Peppa Pig™*** is expected to be a favoured option for pre-school children; the recognition endorses our strategy of developing long-term brands that offer 'quality' and great 'play value'.

- Another new range for domestic market distribution is ***'Squinkies™'***, little collectable characters which come in a bubble and can be added to jewellery and other accessories.(for more information **www.squinkies.com**).

Currently, we are also working on a number of other exciting opportunities, including a new offering which will extend our current footprint within the industry. We are expecting to announce some of these in the New Year to coincide with the London Toy Fair at Olympia on 25 January 2011. We are confident that these developments and initiatives will take the business to a new level once again.

Trading

To date, we are very encouraged with the feedback from our customers to our 2011 product line up. Group sales in the first quarter of the current financial year are in line with management expectations and, with enthusiasm and demand coming from our key customers, we expect to deliver another solid performance next year.

However, the Board is mindful of the number of external macro factors which could, once again, slow global and UK economic recovery. The increases in raw material and freight costs are already feeding through and next year's programmed rise in UK VAT will add some pressure on margins in the short-term. There is no doubt that these challenges will prove tough across all businesses over the next few years but we have to work within these parameters in order to sustain a recovery for UK plc.

As a group, we will continue to focus on our core strategy - developing our key brands through strong innovative product introductions, enhanced marketing, promotional initiatives and pricing to sell well in the current difficult economic conditions. This will see the business exploit its current success by developing cost efficient, high quality, innovative and 'in-demand' product. Our aim is to trade through these difficult times, whilst enhancing our position in the market place.

The Board looks forward to updating shareholders on our trading performance at the time of our AGM in January.

Share Buy-Backs

Since June 2006, the Company has followed a policy of buying back its own shares in the market, whenever the Directors felt that the share price undervalued the Group and, when they considered it to be the best use of Group funds.

As at 31 August 2005, there were approximately 52.8 million ordinary shares of 5 pence each ("Ordinary Shares") in issue and today that number has been more than halved to approximately 24.57 million Ordinary Shares (excluding shares held in treasury). This has enabled significant enhancement in earnings per share. Had the buy-back not taken place, the basic earnings per share for the year under review would have been 11.7 pence compared to 20.12 pence. The implementation of the buy-back programme has been a great success and has: benefitted all those who wished to take the opportunity to liquidate some or all of their investment in the Company; made better use of cash generated by the Company's businesses than would otherwise have been the case; and, not least, been undertaken at times when the Board believed that the price of Ordinary Shares in the market undervalued the Company.

During the financial year ended 31 August 2010, the Company acquired a total of 8,619,000 Ordinary Shares for cancellation at an aggregate cost of approximately £10,564,000 (excluding stamp duty and dealing costs), the average cost being approximately 123 pence per Ordinary Share. Since the August year-end, the Company has purchased a further 1,893,000 Ordinary Shares in the market for cancellation at an aggregate cost of approximately £2,839,000 (excluding stamp duty and dealing costs), the average cost being 150 pence per Ordinary Share.

It remains part of the Group's overall strategy to continue to repurchase its shares when appropriate, thereby further enhancing shareholder value. Accordingly, the Board will be seeking a renewal of the authority to buy-back issued Ordinary Shares at its forthcoming Annual General Meeting, in January 2011.

Electronic Communications

The full Financial Statements, together with the notice convening the Company's 2011 Annual General Meeting, is available on the Group's website, **www.thecharacter.com**.

The Board believes that utilising electronic communications delivers savings to the Company in terms of administration, printing and postage, reduces the effect on the environment through reduced consumption of paper and inks as well as speed up communications with the market and investors.

Shareholder promotional discount

Shareholders can view the Company's product portfolio on-line. In addition, we are pleased to offer our shareholders a 20% discount to the sales price of products purchased on-line (subject to availability) from www.character-online.co.uk.

To take advantage of this offer, shareholders should contact the Company Secretary at the Company's Office: 2nd Floor, 86-88 Coombe Road, New Malden, Surrey, KT3 4QS, +44 (0) 20 8329 3377 or, email: info@charactergroup.plc.uk and request to receive a dedicated code to use on-line when ordering from our range.

Richard King

Richard King
Chairman
2 December 2010

DIRECTORS' BIOGRAPHIES

Richard King (aged 65), Executive Chairman, 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 works in close association with the management to develop and implement Group strategies.

Kiran Shah (aged 56), Group Finance Director and Joint Managing Director, is a member of the Chartered Association of Certified Accountants. After initially working in 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.

Jon Diver (aged 46), Group Marketing Director and Joint Managing Director, joined the Group 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. He has played a key role in product development and the development and implementation of the Group's marketing strategy.

Joe Kissane (aged 58), Managing Director of Character Options Limited, has considerable sales expertise both at retail and supplier base in and outside the toy industry, gained over a period of 35 years, notably with such companies as Nabisco, Lego and Tonka. He is one of the founders of the Group.

Lord Birdwood (aged 72), Independent Non-Executive Director, was appointed to the Board in September 1995. He has experience as a director of quoted and private companies. He has particular interests in executive placement and recruitment. He is also retained by private equity firms to advise on future technologies.

David Harris (aged 60), Senior Independent Non-Executive Director, was appointed to the Board in May 2004. He has very broad financial experience gained over a 30 year career in both executive and non-executive capacities. He is currently a non-executive director of Small Companies Dividend Trust plc, Manchester and London Investment Trust plc, Aseana Properties Ltd, COBRA Holdings plc, F&C Managed Portfolio Trust plc and Core VCTV plc, all of which are quoted companies on the London Stock Exchange. He is also a non-executive director of SDF Limited, a private company.

DIRECTORS' REPORT AND BUSINESS REVIEW

The directors present their report together with the financial statements for the year ended 31 August 2010.

Directors

The following are the directors that served during the year:

Richard King (Executive Chairman)
Kirankumar Premchand Shah FCCA (Group Finance Director and Joint Managing Director)
Jonathan James Diver (Group Marketing Director and Joint Managing Director)
Joseph John Patrick Kissane (Managing Director, Character Options Limited)
Lord Birdwood (Independent Non-Executive Director)
David Harris (Senior Independent Non-Executive Director)
Ian Stanley Fenn (resigned 26 March 2010)
Alan Browning MacKay (resigned 26 March 2010)

Biographies of the current directors are set out on page 7.

Principal activity

The Group is engaged in the design, development and international distribution of toys, games and gifts.

Business review, results and dividend

A review of the business is contained in the Chairman's Statement on pages 2 to 6 and the results are detailed in the consolidated income statement on page 21, the consolidated statements of comprehensive income on page 22, the consolidated balance sheet on page 23, the consolidated cash flow statement on page 24 and the consolidated statement of changes in equity on page 25. There was a profit for the year, after taxation, amounting to £6,187,000 (2009: loss £1,642,000).

The directors recommend a final dividend of 2.0 pence per share making a total dividend for the year of 4.0 pence per ordinary share (2009: 1.0 pence). If approved, the final dividend will be paid on 28 January 2011, to shareholders on the register on 7 January 2011.

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 2010 and 1 December 2010 (being the business day prior to the date of this report) were as follows:

Directors	Number of Ordinary Shares	1 December 2010 Ordinary Shares under option	Number of Ordinary Shares	31 August 2010 Ordinary Shares under option	Number of Ordinary Shares	31 August 2009 Ordinary Shares under option
R King	**2,959,459**	**550,000**	**2,959,459**	550,000	4,524,459	550,000
K P Shah	**6,463,250**	**550,000**	**7,178,250**	550,000	9,245,000	550,000
J J P Kissane	**645,000**	**715,000**	**715,000**	715,000	1,462,300	715,000
J J Diver	**1,146,003**	**715,000**	**1,436,003**	715,000	1,690,640	715,000
Lord Birdwood	**8,750**	**–**	**8,750**	–	8,750	–
D Harris	**49,097**	**–**	**49,097**	–	24,097	–
TOPS Pension Scheme*	**1,186,750**	**–**	**1,186,750**	–	696,867	–

(*R King is a trustee and a beneficiary under such pension scheme arrangements. Each of K P Shah and J J Diver was a trustee and a beneficiary until 29 September 2009)

Included in the interests of R King are his interests in Ordinary Shares held by Cedarberg Investments Limited, being 1,635,428 ordinary shares at 1 December 2010 and 31 August 2010 and 1,885,428 at 31 August 2009. There is also included in the interests of R King his interests in Ordinary Shares held by his spouse, Mrs M H King, being 320,000 Ordinary Shares at 1 December 2010, 31 August 2010 and at 31 August 2009.

Included in the interests of K P Shah are his interests in Ordinary Shares held by Sarissa Holdings Limited ("Sarissa"), being 5,830,000 Ordinary Shares at 1 December 2010, 6,545,000 at 31 August 2010 and 9,220,000 Ordinary Shares at 31 August 2009. Also included in the interests of K P Shah are 608,250 Ordinary Shares of Mr Shah's personal pension scheme at 1 December 2010 and 31 August 2010.

At 1 December 2010 and 31 August 2010, included in the interests of J J Diver are 401,867 Ordinary Shares held by Mr Diver's personal pension scheme.

Further, Orbis Pension Trustees Limited, the trustee of the Company's employee share ownership trust ("the Trust"), held 285,000 Ordinary Shares at 1 December 2010, 31 August 2010 and at 31 August 2009. Each of R King, K P Shah, J J P Kissane and J J Diver is deemed to be interested in such holding by virtue of being within the class of beneficiaries defined by the Trust.

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, marital status, race, 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 schemes.

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 2010, trade creditors of the Group represented an average of 72 (2009:51) days credit in relation to total purchases for the year.

Principal risks and uncertainties

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

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 at the factories. The Group manages this risk by having local offices in Hong Kong and China with teams that work closely with the factories.

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.

Foreign currency
A significant amount of the Group's purchases are 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.

Environmental
The Group places emphasis upon environmental compliance in its business and not only seeks to ensure ongoing compliance with relevant legislation in the major markets but also strives to ensure, as far as possible, that environmental best practice is incorporated into key processes. Following the Group's successful efforts in 2009 to reduce the packaging content of its products, every opportunity is now taken to review all product packaging with a view to reducing the impact on the environment.

Financial risks
The main risks arising from the Group's 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 22 to the Group financial statements.

Key Performance Indicators (KPIs)
The directors are of the opinion that the relevant KPIs for an assessment and measurement of the Group's performance and financial position are revenues, gross margins, operating profit, earnings per share and cash generation, the information for which is available in the accompanying annual report. The Group maintains a robust planning system and progress is monitored on a regular basis.

Directors' indemnity insurance

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

Substantial shareholders other than directors

At 1 December 2010, the following, other than the directors and their related interests, had notified the Company of an interest in 3% or more of the Company's issued Ordinary Shares:

Name	Number of Ordinary Shares	Shareholding % (excluding Ordinary Shares held in treasury)
Sweet Briar Investments Limited	1,375,000	5.6%

Changes in share capital

During the year, the Company repurchased for cancellation 8,619,000 Ordinary Shares.
534,750 Ordinary Shares were issued during the year to employees exercising their share options.
Details are given in note 27 to the Group financial statements.

Share option schemes

Details of the Company's share option schemes are given in note 27 to the Group financial statements.

Charitable and political donations

Payments to health and children's charities, and community support amounted to £61,500 (2009: £41,626). There were no political contributions in either year.

Annual General Meeting

A circular letter to shareholders, incorporating a notice convening the 2011 Annual General Meeting of the Company is available to download on the Company's website (www.thecharacter.com). A copy of the circular letter may also be obtained from the Company Secretary: The Character Group plc, 2nd Floor, 86-88 Coombe Road, New Malden, Surrey, KT3 4QS. Full details of the business to be transacted at that meeting are set out in the notice of the meeting.

Auditors

A resolution to reappoint MacIntyre Hudson LLP as auditors to the Company (having been appointed by the directors to fill the casual vacancy caused by the cessation of business of HLB Vantis Audit plc on 30 June 2010) 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.

CORPORATE GOVERNANCE STATEMENT

The rules relating to securities traded on the London Stock Exchange's AIM market (AIM) do not require AIM companies to report in accordance with the Combined Code. However, the Board believes in the principles of good corporate governance and is committed to applying the highest principles commensurate with its size.

Directors

The Board of directors comprises four executive directors and two non-executive directors, as detailed on page 7. The independent non-executive directors are Lord Birdwood and Mr Harris (who is the senior independent non-executive director). Whilst Lord Birdwood has served as a director of the Company for more than 9 years, the Board considers that he has demonstrated throughout his tenure that he is independent, both in character and judgment. The Board is structured so that no one individual or group dominates the decision-making process.

Board meetings are 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 Board meetings were held. The directors attended as follows:

	Attendance
R King	5
K P Shah	5
J J P Kissane	5
J J Diver	5
I S Fenn	2
Lord Birdwood	5
D Harris	5
A B MacKay	3

The Board has a formal schedule of matters reserved for its decision. It determines: the overall Group strategy; creation, acquisition or disposal of material corporate entities or assets; public announcements (including statutory financial statements); significant changes in accounting policy, capital structure and dividend policy; 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 conducted principally through the setting of clear objectives.

The Board has established an Audit Committee, a Remuneration Committee and a Nominations Committee, with duties and responsibilities formally delegated to them. The terms of reference set out each Committee's responsibilities. The terms of reference for the Audit Committee can be viewed at the Company's Registered Office.

In accordance with the terms of their appointments, each of the non-executive directors 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.

Evaluation of the Board, Board Committees and Directors

The performance evaluation of the Board, its Committees and directors is undertaken by the Chairman and implemented in collaboration with the Committee Chairmen. The 2010 Board evaluation was conducted by way of a discussion between the Chairman and each of the directors. The independent non-executive directors met separately to review the Chairman's performance and provide feedback to him. Following formal performance evaluation, the Chairman confirms that the performance of non-executive directors continues to be effective and demonstrates their commitment to the role.

Audit Committee

D Harris (Chairman) and Lord Birdwood

The Audit Committee is responsible for ensuring that the financial performance of the Group is properly measured and reported and for reviewing reports from the auditors relating to Group financial statements and the Group's internal control systems. The committee is also responsible for the development, implementation and monitoring of the Company's policy on external audit. The committee reserves oversight responsibility for monitoring the auditors' independence, objectivity and compliance with ethical and regulatory requirements. The committee also ensures that key partners within the external auditors are rotated from time to time, in accordance with UK rules. During the year, two meetings were held, which were attended by all members.

Remuneration Committee

Lord Birdwood (Chairman) and D Harris

The Remuneration Committee is responsible for setting the remuneration of the executive directors and the senior management and for the operation of the Company's share option schemes. The Directors' Remuneration Report is shown on pages 15 to 17. During the year, one meeting was held, which was attended by all members.

Nominations Committee

R King (Chairman), Lord Birdwood, and D Harris

The Nominations Committee is responsible for considering and recommending to the Board changes in the Board's composition and membership. No meetings were held during the year.

All non-executive directors of the Company who are members of these committees are entitled to seek, at the Company's expense, independent professional advice in connection with their roles on these committees.

Internal Control

The Board is ultimately responsible for the Group's system of internal control and for reviewing its effectiveness. However, such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives and can provide only reasonable, and not absolute, assurance against material misstatement or loss.

Following publication of 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 up to the date of approval of the annual report and financial statements and is regularly reviewed by the Board and accords with the guidance.

The Board has reviewed the effectiveness of the system of internal controls. In particular, it has reviewed and updated the 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 implementation of a recognised, organisational and management reporting structure within which individual executive directors have responsibility for the day-to-day running of the business;
- established and detailed procedures for the setting of annual budgets and monthly forecasts and the monitoring of actual financial performance against these targets, 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 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.

Relations with shareholders

The Board supports the principle of clear reporting of financial performance to shareholders. During a financial year, shareholders receive either a letter informing them that the Group's full annual report and an interim report are available to view and download from the investors section of the Company's website or, if they have so elected, hard copy of such reports . Other supplementary trading statements issued via the London Stock Exchange are also placed on the investors section of the Company's website and, where appropriate, may also be sent to shareholders in the post.

As indicated in the Chairman's statement, as well as speeding up the provision of information to shareholders, the Board believes that utilising electronic communications delivers savings to the Company in terms of administration, printing and postage, and also benefits the environment through reduced consumption of paper and inks.

Members of the Board will be available at the forthcoming Annual General Meeting to answer any questions from the shareholders.

Going Concern

After making enquiries, the Board considers that the Group has adequate resources to continue operating for the foreseeable future and has therefore adopted the going concern basis in preparing the financial statements.

By Order of the Board

K P Shah FCCA
Secretary

Registered Office:
2nd Floor
10 Chiswell Street
London
EC1Y 4UQ

Registered number 3033333
2 December 2010

DIRECTORS' REMUNERATION REPORT

The Board presents the Remuneration Report for the year ended 31 August 2010.

The Remuneration Committee

The Remuneration Committee consists of two independent non-executive directors: Lord Birdwood (Chairman) and Mr Harris.

Remuneration of Directors

Each executive director is paid a basic salary and is entitled to benefits, namely payments of pension contributions to a suitable scheme of his choice, the option of the use of a company car, fuel and/or mileage allowance and participation in a private health care scheme. Where a director chooses not take a pension allowance, an equivalent sum is added to his gross salary.

Each of the executive directors is also entitled under the terms of his service contract to a bonus of an amount up to his basic salary in the event that specified performance targets are met or exceeded. These targets require increases in earnings per share in each financial year of the Group, adjusted to exclude certain exceptional non-trading items. Messers 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.

The basic salaries referred to above are reviewed every year by the Remuneration Committee. The service contracts of the executive directors incorporate notice periods of 12 months.

These arrangements were originally agreed by the Board of directors in May 1995, just prior to the flotation of the Company on the London Stock Exchange, in consultation with their legal and financial advisers and have recently been reviewed by the Remuneration Committee. In originally establishing these arrangements, and in the recent review, due account was taken of other quoted companies of comparable size and business complexity and, in particular, of the need to put in place incentive arrangements for each executive director which would be challenging and compatible with sustainable growth in shareholder value, whilst not being over-complicated or manipulable. The Board's policy on pension arrangements is to favour money purchase schemes rather than defined benefit ("final salary") schemes.

The Company believes that share ownership by executive directors and senior executives strengthens the links between their personal interests and those of the shareholders. All executive directors are entitled to participate in the Company's 2003 Enterprise Management Incentive Share Option Scheme and its 2006 Executive Share Option Plan, details of which may also be found in note 27 to the financial statements.

The 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. Each of the non-executive directors is entitled to fees, currently at the rate of £25,000 per annum (2009: £20,000), plus expenses, without any right to compensation on early termination.

Audited Information

The following table shows a breakdown of the remuneration of the directors for the year ended 31 August 2010 and the year ended 31 August 2009.

Year ended 31 August 2010

	Salary/fees £	Performance bonus £	Benefits in kind £	Pension contribution £	Total £
R King	248,924	248,924	3,289	-	501,137
K P Shah	236,808	399,208	2,193	-	638,209
J J Diver	218,592	543,392	9,470	-	771,454
J J P Kissane	215,592	296,792	2,775	-	515,159
I S Fenn (non-executive)	11,667	-	-	-	11,667
Lord Birdwood (non-executive)	22,500	-	-	-	22,500
D Harris (non-executive)	22,500	-	-	-	22,500
A B MacKay (non-executive)	11,667	-	-	-	11,667
	988,250	1,488,316	17,727	-	2,494,293

Year ended 31 August 2009

	Salary/fees £	Performance bonus £	Benefits in kind £	Pension contribution £	Total £
R King	248,924	-	3,825	-	252,749
K P Shah	182,160	-	2,909	54,648	239,717
J J Diver	182,160	-	9,647	36,432	228,239
J J P Kissane	159,698	-	3,103	55,894	218,695
I S Fenn (non-executive)	20,000	-	-	-	20,000
Lord Birdwood (non-executive)	20,000	-	-	-	20,000
D Harris (non-executive)	20,000	-	-	-	20,000
A B MacKay (non-executive)	20,000	-	-	-	20,000
	852,942	-	19,484	146,974	1,019,400

On 5 February 2003, options over 185,000 new Ordinary Shares in the Company were granted to each of J J P Kissane and J J Diver. These options were granted pursuant to the Company's Enterprise Management Incentive Share Option Scheme, which was approved by shareholders on 22 January 2003. The options are exercisable at a price of 54 pence per share normally no earlier than three years and not later than ten years from the date of grant, subject to the achievement of a predetermined profit related performance target, which has been achieved.

On 11 May 2006, options were granted at a price of 63 pence per share over 960,000 new Ordinary Shares in the Company to the four executive directors. R King and K P Shah were each granted options over 250,000 new Ordinary Shares. J J Diver and J J P Kissane were each granted options over 230,000 new Ordinary Shares. These options were granted pursuant to the 2006 Share Option Plan, which was approved by shareholders on 29 November 2005 and adopted by the Company on 22 February 2006. The options are exercisable at a price of 63 pence per share normally no earlier than three years and not later than ten years from the date of grant, subject to the achievement of a predetermined profit related performance target, which has been achieved, for the options granted on 11 May 2006.

On 6 May 2009, options were granted at a price of 35.5 pence over 300,000 new Ordinary Shares in the Company to each of the four executive directors. These options were granted variously under the Company's 2003 Enterprise Management Incentive Share Option Scheme and its 2006 Share Option Plan and are normally exercisable no earlier than three years and not later than ten years from the date of grant and potentially vest in three equal tranches, subject to the achievement of predetermined profit related performance targets, which have been satisfied in respect of the first of these tranches.

K P Shah, J J P Kissane and J J Diver are the only directors to whom retirement benefits are accruing under a money purchase pension scheme.

At 31 August 2010, the mid-market price of an issued Ordinary Share in The Character Group plc was 128 pence. During the year the mid-market price ranged from 48.5 pence to 150 pence.

On behalf of the Board

Lord Birdwood
Chairman, Remuneration Committee
2 December 2010

DIRECTORS' STATEMENT OF RESPONSIBILITIES IN RELATION TO THE GROUP FINANCIAL STATEMENTS AND THE ANNUAL REPORT

The directors are responsible for preparing the annual report and the Group financial statements in accordance with applicable United Kingdom law and those applicable International Financial Reporting Standards (IFRS) as adopted by the European Union.

Company law requires the Directors to prepare financial statements for each financial year. Under company law, the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the Group and the financial performance and cash flows of the Group for that year. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies in accordance with IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors" and then apply them consistently;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements of IFRS is insufficient to enable users to understand the impact of particular transactions, or other events and conditions of the Group's financial position and financial performance;
- state that the Group has complied with IFRS, subject to any material departures disclosed and explained in the financial statements; and
- make judgements and accounting estimates that are reasonable and prudent.

The directors are responsible for keeping adequate accounting records which disclose, with reasonable accuracy at any time, the financial position of the Company and to 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 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.

The directors confirm that they have complied with the above requirements in preparing the financial statements.

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

We have audited the consolidated financial statements of The Character Group plc for the year ended 31 August 2010, which comprise the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, the Consolidated Balance Sheet, the Consolidated Cash Flow Statement, the Consolidated Statement of Changes in Equity and the related notes 1 to 29. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

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.

Respective responsibilities of directors and auditors

As explained more fully in the Statement of Directors' responsibilities in respect of the Group financial statements and the Annual Report , the directors are responsible for the preparation of the consolidated statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the consolidated financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements.

Opinion on financial statements

In our opinion the consolidated financial statements:

- give a true and fair view of the state of the Group's affairs as at 31 August 2010 and of its profit for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion:

- the information given in the Directors' Report for the financial year for which the consolidated financial statements are prepared is consistent with the consolidated financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following:

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- 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

Other matter

We have reported separately on pages 54 and 55 on the parent company financial statements of The Character Group plc for the year ended 31 August 2010.

Mark Dowding (Senior Statutory Auditor)
For and on behalf of MacIntyre Hudson LLP
Statutory Auditors and Chartered Accountants
New Bridge Street House
30-34 New Bridge Street
London
EC4V 6BJ

17 December 2010

CONSOLIDATED INCOME STATEMENT

for the year ended 31 August 2010

	Note	Total 2010 £000's	Total 2009 £000's
Continuing operations			
Revenue		**85,228**	68,622
Cost of sales		**(55,180)**	(48,587)
Gross profit		**30,048**	20,035
Net operating expenses			
Selling and distribution costs		**(7,458)**	(8,999)
Administration expenses		**(15,034)**	(12,265)
Other operating income		**30**	132
Operating profit/(loss) before exceptional items	3	**7,586**	(1,097)
Exceptional bad debt		**–**	(1,056)
Operating profit/(loss)		**7,586**	(2,153)
Net finance costs	6	**(34)**	(21)
Profit/(loss) before taxation		**7,552**	(2,174)
Taxation	7	**(1,365)**	532
Profit/(loss) for the year attributable to equity holders of the parent		**6,187**	(1,642)
Earnings/(loss) per share (pence)	9		
Basic		**20.12p**	(4.09p)
Fully diluted		**18.94p**	(4.09p)
Dividend per share (pence)	8	**3.0p**	-
EBITDA (earnings before interest, tax, depreciation and amortisation)		**9,797**	2,351

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 August 2010

	Note	**Total 2010 £000's**	Total 2009 £000's
Profit/(loss) for the year after tax		**6,187**	(1,642)
Exchange differences on translation of foreign operations		**(356)**	(387)
(Loss)/gains on cash flow hedges		**(232)**	163
Income tax on cash flow hedges		**65**	(46)
Total comprehensive income/(expense) for the year attributable to the equity holders of the parent		**5,664**	(1,912)

CONSOLIDATED BALANCE SHEET

as at 31 August 2010

	Note	2010 £000's	2009 £000's
Non – current assets			
Intangible assets – product development	11	**1,123**	823
Property, plant and equipment	12	**1,243**	1,174
		2,366	1,997
Current assets			
Inventories	14	**9,323**	7,043
Trade and other receivables	15	**15,786**	13,352
Derivative financial instruments	16	**232**	464
Cash and cash equivalents	18	**16,405**	11,428
		41,746	32,287
Current liabilities			
Short term borrowings	19	**(16,857)**	(10,574)
Trade and other payables	20	**(19,903)**	(10,599)
Income tax	17	**(481)**	(386)
Derivative financial instruments	16	**(301)**	(936)
		(37,542)	(22,495)
Net current assets		**4,204**	9,792
Non-current liabilities			
Deferred tax	7	**(114)**	–
Net assets		**6,456**	11,789
Equity			
Share capital	27	**1,521**	1,925
Shares held in treasury	27	**(3,373)**	(3,373)
Investment in own shares	29	**(908)**	(908)
Capital redemption reserve		**1,229**	798
Share based payment reserve		**891**	733
Share premium account		**12,928**	12,587
Merger reserve		**651**	651
Translation reserve		**2,075**	1,866
Profit and loss account		**(8,558)**	(2,490)
Total equity attributable to equity holders of the parent		**6,456**	11,789

The financial statements on pages 21 to 52 were approved by the Board of Directors on 2 December 2010.

R King
Chairman

K P Shah
Group Finance Director and Joint Managing Director

CONSOLIDATED CASH FLOW STATEMENT

for the year ended 31 August 2010

	Note	12 months to 31 August 2010 £000's	12 months to 31 August 2009 £000's
Cash flow from operating activities			
Profit/(loss) before taxation for the year		**7,552**	(2,174)
Adjustments for:			
Depreciation of property, plant and equipment		**285**	306
Amortisation of intangible assets		**1,926**	4,198
(Profit) on disposal of property, plant and equipment		**(18)**	(8)
Interest expense		**34**	21
Financial instruments fair value adjustments		**(634)**	2,143
Share based payments		**158**	199
(Increase)/decrease in inventories		**(2,280)**	2,759
(Increase)/decrease in trade and other receivables		**(2,435)**	5,790
Increase/(decrease) in trade and other creditors		**9,304**	(7,029)
Cash generated from operations		**13,892**	6,205
Interest paid		**(34)**	(21)
Income tax (paid)/refunded		**(1,091)**	58
Net cash inflow from operating activities		**12,767**	6,242
Cash flows from investing activities			
Payments for intangible assets		**(2,226)**	(2,606)
Payments for property, plant and equipment		**(372)**	(182)
Proceeds from disposal of property, plant and equipment		**37**	17
Net cash outflow from investing activities		**(2,561)**	(2,771)
Cash flows from financing activities			
Proceeds from issue of share capital		**326**	–
Purchase of own shares for cancellation		**(10,591)**	(2,132)
Purchase of treasury shares		**–**	(97)
Recovery of listing expenses		**42**	–
Dividends paid		**(932)**	–
Net cash used in financing activities		**(11,155)**	(2,229)
Net (decrease)/increase in cash and cash equivalents		**(949)**	1,242
Cash, cash equivalents and borrowings at the beginning of the year		**854**	3
Effects of exchange rate movements		**(357)**	(391)
Cash, cash equivalents and borrowings at the end of the year		**(452)**	854

Cash, cash equivalents and borrowings consist of:

Cash and cash equivalents	18	**16,405**	11,428
Short term borrowings	19	**(16,857)**	(10,574)
		(452)	854

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31 August 2010

	Called up share capital £000's	Investment in own shares £000's	Treasury shares £000's	Capital redemption reserve £000's	Share premium account £000's	Merger reserve £000's	Share based payment £000's	Translation reserve £000's	Profit and loss account £000's	Total £000's
The Group										
At 1 September 2008	**2,275**	**(908)**	**(3,277)**	**448**	**12,587**	**651**	**534**	**501**	**2,920**	**15,731**
Loss for the year after tax	-	-	-	-	-	-	-	-	(1,642)	(1,642)
Exchange differences on translating foreign operations	-	-	-	-	-	-	-	1,365	(1,752)	(387)
Net gain on cash flow hedged forward contract	-	-	-	-	-	-	-	-	117	117
Total comprehensive income and expense for the year	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**1,365**	**(3,277)**	**(1,912)**
Share-based payment	-	-	-	-	-	-	199	-	-	199
Shares cancelled	(350)	-	-	350	-	-	-	-	(2,132)	(2,132)
Shares purchased	-	-	(96)	-	-	-	-	-	(1)	(97)
At 1 September 2009	**1,925**	**(908)**	**(3,373)**	**798**	**12,587**	**651**	**733**	**1,866**	**(2,490)**	**11,789**
Profit for the year after tax	-	-	-	-	-	-	-	-	6,187	6,187
Exchange differences on translating foreign operations	-	-	-	-	-	-	-	209	(565)	(356)
Net loss on cash flow hedged contract	-	-	-	-	-	-	-	-	(167)	(167)
Total comprehensive income and expense for the year	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**209**	**5,455**	**5,664**
Share-based payment	-	-	-	-	-	-	158	-	-	158
Dividends	-	-	-	-	-	-	-	-	(932)	(932)
Shares issued	27	-	-	-	299	-	-	-	-	326
Shares cancelled	(431)	-	-	431	-	-	-	-	(10,591)	(10,591)
Recovery of listing expenses	-	-	-	-	42	-	-	-	-	42
At 31 August 2010	**1,521**	**(908)**	**(3,373)**	**1,229**	**12,928**	**651**	**891**	**2,075**	**(8,558)**	**6,456**

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 quoted on the AIM Market of the London Stock Exchange.

The Group's principal places of operations are the United Kingdom and the Far East. The principal activities of the Company and its subsidiaries ('the Group') are detailed in the Directors' Report on pages 8 to 11.

Standards, amendments and interpretations effective in the current period relevant to the Group's operations

The following new standards and amendments are mandatory for the first time for the financial period beginning 1 September 2009:

IAS 1 (Revised) Presentation of financial statements. The revised standard requires 'non-owner changes in equity' to be presented separately from 'owner changes in equity'. All 'non-owner changes in equity' such as adjustments arising from translating the financial statements of foreign operations, fair value adjustments of financial instruments and the tax effects of these items are required to be shown in a performance statement.

Entities can choose whether to present one performance statement (the statement of total comprehensive income) or two statements (the income statement and the statement of comprehensive income). The Group has elected to present two statements: income and a statement of comprehensive income.

As this standard affects presentation only, there is no impact on previously reported results.

IFRS 2 (Amendment) Share-based payment. This amendment to an existing standard deals with vesting conditions and cancellations. It clarifies that vesting conditions are service conditions and performance conditions only and that all cancellations whether by the entity or by other parties should receive the same accounting treatment. This change has no affect in the period on reported performance or equity.

IFRS 7 (Amendment) Financial Instruments: Disclosures. This amendment increases the disclosure requirements about fair value measurement and reinforces existing principles for disclosure about liquidity risk. The amendment introduces a three-level hierarchy for fair value measurement disclosure and requires some specific quantitative disclosures for financial instruments in the lowest level of the hierarchy. In addition, the amendment clarifies and enhances existing requirements for the disclosure of liquidity risk, primarily requiring a separate liquidity risk analysis for derivative and non-derivative financial liabilities. The amendment is only concerned with disclosure and has no impact on reported financial position or performance.

IFRS 8 Operating segments. IFRS 8 replaces IAS 14 Segment reporting. It requires a 'management approach' under which segment information is presented on the same basis as that internally reported to the chief operating decision maker. The chief operating decision-maker has been identified as the Board of Directors.

The adoption of IFRS 8 has not resulted in any change to the identified segments previously reported, nor had any impact on the results or net assets of the Group but has resulted in certain revised disclosures.

The following new standards, amendments to standards and interpretations are mandatory for the first time for the financial period ending 31 August 2010 but do not currently have a material impact on the Group:

IAS 23	(Revised) Borrowing Costs
IAS 27	(Revised) Consolidated and separate financial statements
IAS 32	(Amendment) Financial Instruments and IAS 1 (amendment) Presentation of financial statements – Puttable financial instruments and obligations arising on liquidation
IAS 39	(Amendment) Financial instruments: Recognition and Measurement, and consequential amendment to IFRS 7 Financial Instruments: Disclosures
IAS 39	(Amendment) Financial Instruments: Recognition and Measurement – Eligible Hedged Items
IFRS 1	First Time Adoption of IFRS & IAS 27 Consolidated and Separate Financial Statements
IFRS 3	(Revised) Business Combinations' and consequential amendments to IAS 28 Investments in Associates and IAS 31 Investments in Joint Ventures
IFRIC 9	Reassessment of Embedded derivatives & IAS 39 'Financial Instruments: Recognition and Measurement
IFRIC 15	Agreements for the Construction of Real Estate
IFRIC 16	Hedges of a Net Investment in a Foreign Operation
IFRIC 17	Distributions of Non-cash Assets to Owners
IFRIC 18	Transfers of Assets from Customers.
Improvements to IFRS	(issued May 2008) with an effective date of 1 January 2009
Improvements to IFRS	(issued April 2009) with an effective date of 1 July 2009

Standards 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 2010.

		Effective for annual periods beginning on or after:
IFRS 24	Related Party Disclosures	- 1 January 2011
IFRS 32	Financial Instruments: Presentation (Amendment: Classification of rights issues)	- 1 February 2010
IFRS 2	(Amendment) Group cash-settled share based payment transactions	- 1 January 2010
IFRS 9	Financial Instruments	- 1 January 2013
IFRIC 14 & IAS 19	The Limit on a Defined Benefit Asset, Minimum Funding Requirements & their Interaction	- 1 January 2011
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments	- 1 July 2010
Improvements to IFRS	(issued April 2009)	- 1 January 2010

Based on the current business model and accounting policies, the Group does not anticipate a material impact on the consolidated financial statements by the adoption of these standards and interpretations in future periods.

Statement of compliance

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards ('IFRS') as adopted by the European Union and are consistent with IFRS as issued by the International Accounting Standards Board and in accordance with the Companies Act 2006.

Basis of preparation

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

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. Subsidiaries are entities over which the Group has the power to control financial and operating policies so as to obtain benefits from their activities and 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. The results of subsidiaries acquired or disposed of during the period are included in the consolidated income statement 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.

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 ongoing basis. Areas of significant judgements are provisions for stock obsolescence, customer returns and allowances, product development, deferred tax and share based payments. Revisions to accounting estimates are recognised in the period in which the estimate is revised or in the period of the revision and future periods, if these are affected.

Foreign currency translation

In the Group companies' individual financial statements, transactions in foreign currencies are translated into their 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. Profits and losses on retranslation are dealt with in the income statement. 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.

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 consolidated financial statements are presented in Sterling, which is the Parent Company's functional and presentation currency.

INTANGIBLE ASSETS

Goodwill

Goodwill on consolidation represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets, liabilities and contingent liabilities acquired at the date of acquisition. Following the adoption of IFRS goodwill remains written off to reserves and no adjustment would be made on subsequent disposal. For acquisitions completed on or after 1 September 2006, and goodwill carried in the balance sheet from this date, goodwill is tested annually for impairment and carried at cost less accumulated impairment losses.

Product development expenditure

Under IFRS, development costs are capitalised if specific conditions are fulfilled. 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. 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.

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%
Shorthold leasehold improvements	over the unexpired term of the lease
Tooling	50-100%
Fixtures, fittings and equipment	20-33%
Motor vehicles	20-25%

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the first in, first out (FIFO) method. Net realisable value is based on estimated selling price less the estimated cost of disposal.

Financial assets

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

Impairment of financial assets

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

Trade receivables

Trade receivables do not carry any interest and are stated at their nominal value as reduced by appropriate allowances for estimated irrecoverable amounts. A Group company has an agreement (non-recourse) under which debts approved by the finance company are assigned to the finance company. Advances made by the finance company are non-refundable. The Group has no obligation to, and the directors do not intend that the Group will support any losses from such debts. 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.

FINANCIAL LIABILITIES

Finance advances

Finance advances are advances against trade debtors. Advances are interest bearing and are stated at their nominal value.

Trade payables

Trade payables are not interest bearing and are stated at their nominal value.

Import loans

Import loans are short term interest bearing trade finance instruments. Import loans are initially recorded at fair value and subsequently amortised using the effective interest rate 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.

Derivative financial instruments

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument. The Group designates certain derivatives as hedges of highly probable forecast transactions (cash flow hedge).

The Group documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in cash flows of hedged items.

a) Cash flow hedge

   The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised in equity. The gain or loss relating to the ineffective portion is recognised immediately in the income statement.

   Amounts accumulated in equity are recycled in the income statement in the periods in which the hedged items affect the income statement. However, when the forecast transaction that is hedged results in the recognition of a non-financial asset (for example, inventory) or a liability, the gains and losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the asset or liability.

   When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement.

b) Derivatives that do not qualify for hedge accounting

   Certain derivative instruments may not qualify for hedge accounting. Such derivatives are classified as at fair value through the income statement, and changes in the fair value are recognised immediately in the income statement.

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.

Provisions

Provisions are recognised when the Group has a present obligation as a result of a past event and where it is probable that the Group 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.

Share based payment

The Group issues equity settled awards to certain employees. The fair value of equity settled awards granted after 7 November 2002, and that will vest on or after 1 September 2006, 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 Group's estimate of the number of shares that will 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.

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.

Leases

Where the lessor maintains substantially all the risks and rewards of ownership, leases are treated as operating leases. Their annual rentals are charged to the income statement on a straight-line basis over the term of the lease.

All incentives for the agreement of a new or renewed operating lease are recognised as part of net consideration, irrespective of nature, form, or timing of payments. The aggregate benefit of incentive is generally recognised as a reduction of rental expense over the lease term, on a straight-line basis.

Revenue recognition

Revenue is measured at the fair value of consideration received or receivable for goods and services, after returns and allowances. Revenue is recognised as follows:

a) Sale of goods

   Revenue from the sale of goods is recognised when the goods are delivered.

b) Sales returns and allowance

   A provision is established at the year end for estimated customer returns, rebates and other allowances that reduce income.

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 Group 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.

Income taxes

Tax on income or expenses for the year comprise current and deferred tax and is recognised in the income statement, except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax

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 substantially enacted by the balance sheet date.

Deferred tax

Under International Accounting Standard (IAS) 12 "Income taxes", deferred tax is recognised on the temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method.

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, associates and interests in joint ventures, 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.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited to the income statement, except when it relates to items charged or credited directly to equity.

Own shares

Own shares deducted in arriving at total equity represents the cost of the Company's ordinary shares acquired by the Company's Employee Share Ownership Trust.

Treasury shares

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

2 SEGMENT REPORT

The Group operates in one business segment – design, development and international distribution of toys, games and gifts.

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

Year Ended 31 August 2010	UK £000's	Far East £000's	Unallocated £000's	Total £000's
Revenue – external (by origin)	54,761	30,467	–	85,228
Segment adjusted operating profit/(loss)	4,026	6,415	(1,405)	9,036
Amortisation of intangible assets				(1,926)
Financial instruments fair value adjustments				634
Share based payments	(98)	–	(60)	(158)
Operating Profit				7,586
Finance costs	(79)	(97)	(1)	(177)
Finance income	102	5	36	143
Profit before tax				7,552
Taxation	–	(1,186)	(179)	(1,365)
Profit for the year after tax				6,187
Segment assets	26,666	11,679	5,767	44,112
Segment liabilities	(22,032)	(14,941)	(683)	(37,656)
Other segment information				
Capital additions	181	191	–	372
Depreciation	(207)	(37)	(41)	(285)

There are no sales between the segments; assets and liabilities are net of intercompany balances.
Unallocated expenses comprise corporate expenses.
Unallocated assets and liabilities comprise corporate assets and liabilities, derivative financial instrument balances, intangible assets and resulting deferred tax balances.

2 SEGMENT REPORT CONTINUED

Year Ended 31 August 2009	UK £000's	Far East £000's	Unallocated £000's	Total £000's
Revenue – external (by origin)	50,122	18,500	–	68,622
Segment adjusted operating profit/(loss)	2,559	3,561	(677)	5,443
Exceptional bad debt				(1,056)
Amortisation of intangible assets				(4,198)
Financial instruments fair value adjustments				(2,143)
Share based payments	(119)	–	(80)	(199)
Operating Profit				(2,153)
Finance costs	(150)	(78)	–	(228)
Finance income	192	14	1	207
Profit before tax				(2,174)
Taxation	(3)	(345)	880	532
Loss for the year after tax				(1,642)
Segment assets	20,878	7,874	5,532	34,284
Segment liabilities	(13,575)	(7,668)	(1,252)	(22,495)
Other segment information				
Capital additions	170	7	5	182
Depreciation	249	15	42	306

There are no sales between the segments; assets and liabilities are net of intercompany balances.
Unallocated expenses comprise corporate expenses.
Unallocated assets and liabilities comprise corporate assets and liabilities, derivative financial instrument balances, intangible assets and resulting deferred tax balances.

GEOGRAPHICAL DESTINATION OF REVENUE

	31 August 2010 £000's	31 August 2009 £000's
United Kingdom	**70,853**	56,857
Rest of the world	**14,375**	11,765
Total Group	**85,228**	68,622

Revenues of approximately £40,771,000 (2009: £24,763,000) were derived from three external customers.
These revenues are attributable to both UK & Far East segments.

3 OPERATING PROFIT/(LOSS)

	Note	**12 months to 31 August 2010 £000's**	12 months to 31 August 2009 £000's
Operating profit/(loss) is stated after charging:			
Exchange losses		**49**	96
Cost of inventories recognised as an expense (included in cost of sales)		**50,199**	42,674
Inventories write down charge/(release)		**99**	(332)
Staff costs	5	**8,455**	6,091
Depreciation of tangible fixed assets			
— owned assets		**285**	306
Product development amortised (included in cost of sales)		**1,926**	4,198
Operating leases — land and buildings		**698**	760

4 AUDITOR'S REMUNERATION

		12 months to 31 August 2010 £000's	12 months to 31 August 2009 £000's
Group Auditor's remuneration			
	— Statutory audit services current year	**40**	49
	— (Over)/under provision for prior years	**(10)**	5
	Net statutory audit services	**30**	54
	— Financial reporting advisory services	**3**	3
	— Taxation compliance and advisory services	**11**	–
Other Auditors' remuneration			
	— The audit of the Group's subsidiaries pursuant to Legislation	**40**	37
	— Taxation compliance and advisory services	**5**	–
Total fees payable to Auditors		**89**	94

5 STAFF COSTS

	12 months to 31 August 2010 £000's	12 months to 31 August 2009 £000's
Staff costs including directors' emoluments		
Wages and salaries	**7,658**	5,220
Social security costs	**582**	377
Other pension costs	**77**	295
Share based payments	**138**	199
	8,455	6,091
The average number of employees during the year was:	**Number**	Number
Management and administration	**60**	61
Selling and distribution	**96**	100
	156	161

Of the total average number of employees, 98 (2009: 100) were based in the UK and 58 (2009: 61) in Hong Kong and mainland China.

The amount payable to pension schemes as at the balance sheet date was £48,000 (2009: £321,000).

KEY MANAGEMENT PERSONNEL

	12 months to 31 August 2010 £000's	12 months to 31 August 2009 £000's
Salaries and short-term benefits	**2,426**	792
Share-based payments	**74**	96
Post-employment benefits	**–**	147
	2,500	1,035

Key management comprise the executive directors of The Character Group plc.

A detailed numerical analysis of directors' remuneration and share options showing the highest paid director and number of directors accruing benefit under money purchase pension schemes, is included in the Directors' Remuneration Report on pages 15 to 17 and forms part of these financial statements.

6 NET FINANCE COSTS

	12 months to 31 August 2010 £000's	12 months to 31 August 2009 £000's
Finance costs:		
On bank overdraft and similar charges	**(121)**	(103)
Factor and invoice discounting advances	**(56)**	(125)
	(177)	(228)
Finance income:		
Bank interest	**143**	207
Net finance costs	**(34)**	(21)

7 TAXATION

	12 months to 31 August 2010 £000's	12 months to 31 August 2009 £000's
UK Corporation Tax		
Tax on profit/(loss) for the period	-	-
Adjustments to tax charge in respect of previous periods	-	3
Total UK corporation tax	-	3
Foreign Tax		
Tax on profit for the period	809	349
Adjustments to tax charge in respect of previous periods	377	(4)
Total foreign tax	1,186	345
Total current tax	1,186	348
Deferred Tax		
Origination and reversal of timing differences	179	(880)
Total deferred tax	179	(880)
Tax on profit/(loss) on ordinary activities	1,365	(532)
Factors affecting tax charge for the period		
Profit/(loss)on ordinary activities before taxation	7,552	(2,174)
Profit/(loss) on ordinary activities multiplied by standard rate of corporation tax in the UK of 28% (2009: 28%)	2,115	(609)
Effects of:		
Unrecognised timing differences	(67)	-
Income/expenses not chargeable/deductible for tax purposes	(71)	(188)
Capital allowances less than depreciation	45	72
Deduction for employee share options exercised	(103)	-
Lower tax rate on overseas earnings	(516)	(190)
Utilisation of tax losses	(512)	(104)
Tax losses not utilised	2	1
Tax losses not recognised for deferred tax	95	487
Adjustments to tax charge in respect of previous periods	377	(1)
Tax charge/(income) reported in the income statement	1,365	(532)

Tax relating to items charged or credited to equity:

Deferred Tax		
Deferred tax on hedged forward contract gain	65	(46)
Net Tax credited /(debited) to equity	65	(46)

7 TAXATION CONTINUED

Deferred taxation arising from temporary differences and unused tax losses can be summarised as follows.

Deferred tax is calculated using a tax rate of 28% (2009: 28%).

Recognised deferred tax liability:

	Short term temporary differences £000's	(Charge)/credit to income statement £000's	(Charge)/credit to equity £000's
31 August 2008	**(834)**		
Movement in the year	834	880	(46)
31 August 2009	**-**		
Movement in the year	(114)	(179)	65
31 August 2010	**(114)**		

Unrecognised deferred tax asset:

	Depreciation in advance of capital allowances £000's	Share based payment £000's	Short term temporary differences £000's	Unused tax losses £000's	Capital losses £000's	Unrelieved double taxation £000's	Total £000's
31 August 2008	**166**	**149**	**-**	**105**	**501**	**152**	**1,073**
Movement in the year	(17)	56	152	382	(501)	-	72
31 August 2009	**149**	**205**	**152**	**487**	**-**	**152**	**1,145**
Movement in the year	96	44	(152)	(400)	-	-	(412)
31 August 2010	**245**	**249**	**-**	**87**	**-**	**152**	**733**

A deferred tax asset has not been recognised in respect of certain trading losses, capital losses, unrelieved double taxation and tax allowable deductions, due to the unpredictability of future taxable profit streams in certain subsidiaries.

8 DIVIDEND

	12 months to 31 August 2010 £000's	12 months to 31 August 2009 £000's
On equity shares:		
Final dividend paid for the year ended 31 August 2009		
— 1.0 pence (2008: nil) per share	**342**	–
Interim dividend paid for the year ended 31 August 2010		
— 2.0 pence (2009: nil) per share	**590**	–
	932	–

The directors recommend a final dividend of 2.0 pence per share. If approved by shareholders, the final dividend will be paid on 28 January 2011 to shareholders on the register on 7 January 2011.

9 EARNINGS/(LOSS) PER SHARE

	12 months to 31 August 2010			12 months to 31 August 2009		
	Profit after taxation	**Weighted average number of ordinary shares**	**Pence per share**	(Loss) after taxation	Weighted average number of ordinary shares	Pence per share
Basic earnings/(loss) per share	**6,187,000**	**30,756,913**	**20.12**	(1,642,000)	40,204,746	(4.09)
Impact of share options	-	**1,916,574**	**(1.18)**	–	9,675	–
Diluted earnings per share*[1]	**6,187,000**	**32,673,487**	**18.94**	(1,642,000)	40,214,421	(4.09)

*[1]The weighted average number of shares used in the calculation of the diluted loss per share for the year ended 31 August 2009 is the same as that in respect of the basic loss per share calculation as the effect of exercising options would be to reduce the loss per share and is therefore not dilutive under the terms of IAS 33.

10 INTANGIBLE ASSETS — GOODWILL

Cost	**£000's**
1 September 2008 & 1 September 2009	902
Write off fully amortised assets	(902)
31 August 2010	–
Amortisation	
1 September 2008 & 1 September 2009	902
Write off fully amortised assets	(902)
31 August 2010	–
Net book value	
31 August 2010	–
31 August 2009	–

11 OTHER INTANGIBLE FIXED ASSETS
PRODUCT DEVELOPMENT

Cost	Total £000's
1 September 2008	7,176
Additions	2,606
31 August 2009	**9,782**
Additions	2,226
Write off fully amortised assets	(7,176)
31 August 2010	**4,832**
Amortisation	
1 September 2008	4,761
Charge for the year	4,198
31 August 2009	**8,959**
Charge for the year	1,926
Write off fully amortised assets	(7,176)
31 August 20010	**3,709**
Net book value	
31 August 2010	**1,123**
31 August 2009	823

12 PROPERTY, PLANT AND EQUIPMENT

Cost	Freehold land and buildings £000's	Short leasehold improvements £000's	Tooling £000's	Fixtures, fittings and equipment £000's	Motor vehicles £000's	Total £000's
1 September 2008	**1,182**	**7**	**26**	**1,898**	**298**	**3,411**
Additions	–	–	–	90	92	182
Disposals	–	–	–	–	(64)	(64)
Translation differences	–	1	–	10	–	11
1 September 2009	**1,182**	**8**	**26**	**1,998**	**326**	**3,540**
Additions	–	113	–	131	128	372
Write off fully depreciated assets	–	–	(26)	(622)	–	(648)
Disposals	–	(8)	–	–	(127)	(135)
Translation differences	–	–	–	5	–	5
31 August 2010	**1,182**	**113**	**–**	**1,512**	**327**	**3,134**
Depreciation						
1 September 2008	**431**	**5**	**26**	**1,444**	**202**	**2,108**
Charge for the year	39	2	–	203	62	306
Disposals	–	–	–	–	(55)	(55)
Translation differences	–	1	–	6	–	7
1 September 2009	**470**	**8**	**26**	**1,653**	**209**	**2,366**
Charge for the year	40	18	–	170	57	285
Write off fully depreciated assets	–	–	(26)	(622)	–	(648)
Disposals	–	(8)	–	–	(108)	(116)
Translation differences	–	–	–	4	–	4
31 August 2010	**510**	**18**	**–**	**1,205**	**158**	**1,891**
Net book value						
31 August 2010	**672**	**95**	**–**	**307**	**169**	**1,243**
31 August 2009	712	–	–	345	117	1,174

A bank has a charge over a freehold property.

13 PRINCIPAL GROUP SUBSIDIARY UNDERTAKINGS

Details of the principal subsidiary undertakings of the Company, which are included in the consolidated financial statements, are set out below:

Subsidiaries	Country of incorporation and operation	Class of share capital held	Proportion held by the parent Undertaking	Nature of business
Character Options Limited	United Kingdom	Ordinary	100%	Design and distribution of toys and games
Toy Options (Far East) Limited	Hong Kong	Ordinary	100%	Design and distribution of toys and games
Charter Limited	Hong Kong	Ordinary	100%	Design and distribution of toys and games
Character Games Limited	United Kingdom	Ordinary	100%	Design and distribution of toys and games
Character Gifts Limited	United Kingdom	Ordinary	100%	Gift importer and distributor

14 INVENTORIES

	2010 £000's	2009 £000's
Finished goods for resale	**9,323**	7,043

15 TRADE AND OTHER RECEIVABLES

	2010 £000's	2009 £000's
Current:		
Trade receivables	**13,772**	11,589
Less: provision for impairment of receivables	–	–
Trade receivables – net	**13,772**	11,589
Other receivables	**448**	539
	14,220	12,128
Prepayments	**1,566**	1,224
	15,786	13,352

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

Gross trade receivables can be analysed as follows:

	2010 £000's	2009 £000's
Fully performing	**13,483**	11,329
Past due	**289**	260
Impaired	–	–
Trade receivables	**13,772**	11,589

15 TRADE AND OTHER RECEIVABLES CONTINUED

Ageing of past due, not impaired, receivables:

	2010 £000's	2009 £000's
1 – 90 days	**285**	259
> 90 days	**4**	1
	289	260

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

Movement on the Group provision for impairment of trade receivables is as follows:

	2010 £000's	2009 £000's
As at 1 September	**–**	10
Release of provision	**–**	(10)
As at 31 August	**–**	–

Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation are considered indications that the trade receivable is impaired.

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

	2010 £000's	2009 £000's
Pounds Sterling	**7,474**	7,462
US Dollars	**6,242**	3,974
Euros	**56**	153
	13,772	11,589

16 DERIVATIVE FINANCIAL INSTRUMENTS

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

	2010		2009	
	Assets £000's	**Liabilities £000's**	Assets £000's	Liabilities £000's
Forward foreign exchange contracts-cash flow hedges	**232**	–	464	–
Other forward foreign exchange contracts and options	–	**(301)**	–	(936)
	232	**(301)**	464	(936)

The net fair value gain on open forward foreign exchange contracts that hedge foreign currency exchange risk of anticipated future purchases, will be transferred to the income statement when the related purchases are realised as cost of sales.

FAIR VALUE HIERARCHY

During the year, the Group has implemented the amendments to IFRS 7 for financial instruments. This requires a breakdown of fair value by valuation technique.

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 with whom the derivatives have been agreed.

17 INCOME TAX (PAYABLE)/RECOVERABLE

	2010		2009	
	Assets £000's	**Liabilities £000's**	Assets £000's	Liabilities £000's
UK income tax	–	–	–	–
Overseas income tax	–	**(481)**	–	(386)
	–	**(481)**	–	(386)

18 CASH & CASH EQUIVALENTS

	2010 £000's	2009 £000's
Cash and cash equivalents	**16,405**	11,428

Cash and cash equivalents are denominated in the following currencies

Currency	**At 31 August 2010 Floating rate financial assets £000's**	At 31 August 2009 Floating rate financial assets £000's
Sterling	**11,004**	6,596
US$	**4,050**	3,658
Euro	**48**	2
HKS$	**1,276**	1,150
Chinese renminbi	**27**	22
Total	**16,405**	11,428

At 31 August 2010, the balances attracted interest at rates of between 0.1% and 1.0 %.

19 SHORT TERM BORROWINGS

	2010 £000's	2009 £000's
Finance Advances	**11,083**	8,111
Import Loans	**5,774**	2,463
Total	**16,857**	10,574

Analysis of short term borrowings by currency

	2010 £000's	2009 £000's
Sterling	**8,774**	6,866
US$	**8,044**	3,708
Euro	**39**	-
Total	**16,857**	10,574

Finance advances are advances against trade debtors. Import loans are short term trade finance instruments.

The Group has a bank overdraft facility of £1million and a trade finance facility of £9.5million, which expire within one year and are repayable on demand. A UK subsidiary has an ongoing non-recourse invoice discounting facility of £20 million.
The interest charged on the above facilities is 2.5% per annum over base rate. The facilities are secured by various fixed and floating charges over the assets and undertakings of the Company and certain subsidiaries.

Certain Far East subsidiaries have bank overdraft and trade finance facilities equivalent to approximately £8.2million. The interest charged is between 0.25% per annum and 3.55% per annum over Prime or HIBOR. A subsidiary has a pledged cash deposit with a bank amounting to approximately £0.8million, which has been included in cash and cash equivalents.

20 TRADE AND OTHER PAYABLES

	2010 £000's	2009 £000's
Trade creditors	**14,207**	6,883
Other taxation and social security	**–**	1,001
Accruals and deferred income	**5,696**	2,715
	19,903	10,599

21 FINANCIAL INSTRUMENTS

The accounting policies for financial instruments have been applied to the line items below:

Financial Assets Current financial assets	Note	31 August 2010 Total £000's	Loans and receivables £000's	Derivatives used for hedging £000's	31 August 2009 Total £000's	Loans and receivables £000's	Derivatives used for hedging £000's
Trade and other receivables	**15**	**14,220**	**14,220**	**–**	12,128	12,128	–
Derivative financial instruments	**16**	**232**	**–**	**232**	464	–	464
Cash and cash equivalents	**18**	**16,405**	**16,405**	**–**	11,428	11,428	–
		30,857	**30,625**	**232**	24,020	23,556	464

Financial liabilities Current financial liabilities	Note	31 August 2010 Total £000's	Financial Liabilities £000's	Derivatives used for hedging £000's	31 August 2009 Total £000's	Financial Liabilities £000's	Derivatives used for hedging £000's
Trade and other payables	**20**	**19,903**	**19,903**	**–**	10,599	10,599	–
Derivative financial instruments	**16**	**301**	**301**	**–**	936	936	–
Short term borrowings	**19**	**16,857**	**16,857**	**–**	10,574	10,574	–
		37,061	**37,061**	**–**	22,109	22,109	–

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

22 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, primarily on transactions in US dollars. It enters into forward contracts 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. The Group has implemented procedures and documentation to enable certain forward derivative contracts to qualify for hedge accounting. The policy framework requires hedging imported purchases when appropriate.

FOREIGN CURRENCY SENSITIVITY

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

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 interest rates.

22 FINANCIAL RISK MANAGEMENT CONTINUED

The following table details how the Group's income and equity would (decrease)/increase on a before tax basis, given a 10% depreciation in the respective currencies against Sterling and in accordance with IFRS 7 all other variables remaining constant. A 10% depreciation in the value of Sterling against the respective currencies would have the opposite effect.

The 10% change represents a reasonably possible change in the specified foreign exchange rates in relation to the Group's functional currencies.

		2010			2009		
	Note	Total Equity £000's	Profit or (Loss) £000's	Other movements in equity £000's	Total Equity £000's	Profit or (Loss) £000's	Other movements in equity £000's
Euro		**(6)**	**(6)**	**-**	(15)	(15)	-
US$		**(1,204)**	**(616)**	**(588)**	(2,362)	(2,130)	(232)
HK$		**363**	**363**	**-**	902	902	-
		(847)	**(259)**	**(588)**	(1,475)	(1,243)	(232)

INTEREST RATE RISK

The Group has a seasonal cash flow and uses short term borrowings, namely bank overdrafts, finance advances and import loans.

The Group places excess funds on short term bank deposit that attracts interest within 0.5% of 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.

CREDIT RISK

The Group'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:

Class of financial assets	2010 £000's	2009 £000's
Trade receivables	**13,772**	11,589
Other receivables	**448**	539
Cash	**16,405**	11,428
	30,625	23,556

The Group manages credit risk of debtors through a credit control process and 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.

22 FINANCIAL RISK MANAGEMENT CONTINUED

CONCENTRATION RISK

The Group is subject to significant concentration of credit risk within its business. Five major counterparties within trade receivables amounted to £ 10,663,000. 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 positive cash balances and committed debt facilities to cover its liquidity requirements for at least the next 12 months.

At 31 August 2010, the Group's liabilities have the following contractual maturities:

	Current £000's	Non-current within five years £000's
Finance advances	**11,083**	-
Import loans	**5,774**	-
Trade payables	**19,903**	-
Current tax liabilities	**481**	-
Derivative financial instruments	**301**	-
Deferred tax liabilities	-	**114**
	37,542	**114**

23 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 or issue new shares. The Group holds shares in treasury, which it can release.

24 COMMITMENTS

a. The total of future aggregate minimum payments in respect of non-cancellable operating leases falling due are as follows:

	2010 £000's	2009 £000's
Not later than one year	**301**	521
Later than one year but not more than five years	**606**	29
	907	550

b. 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:

	2010 £000's	2009 £000's
Within one year	**751**	1,129
Between one and two years	**20**	1,625
Between two and five years	**–**	40
	771	2,794

25 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.

26 CONTINGENT LIABILITIES

The contingent liability for bills of exchange discounted in the normal course of business at 31 August 2010 amounted to £1,202,000 (2009:£381,000).

27 CALLED UP SHARE CAPITAL (EQUITY)

	2010 £000's	2009 £000's
Authorised		
110,000,000 (2009: 110,000,000) ordinary shares of 5 pence each	**5,500**	5,500
Allotted, called up and fully paid		
30,412,687* (2009: 38,496,937) ordinary shares of 5 pence each	**1,521**	1,925

* Including 4,019,456 ordinary shares of 5 pence each held in treasury (2009: 4,019,456).

Share capital movements in the year

534,750 (2009: nil) ordinary shares of 5 pence each (total nominal value £26,738) were issued during the year to employees exercising their share options as follows:

	Number of ordinary shares at exercise price			
Date	**24.25p**	**54.00p**	**63.00p**	**63.25p**
17 December 2009	–	6,750	2,250	–
29 January 2010	–	25,000	–	–
5 February 2010	–	–	3,500	–
8 February 2010	–	–	25,000	–
9 February 2010	–	–	37,000	–
10 February 2010	–	–	15,000	–
12 February 2010	2,500	8,500	2,500	–
18 February 2010	10,000	8,500	–	–
26 March 2010	–	–	2,500	–
5 May 2010	–	–	3,000	–
6 May 2010	500	–	63,750	–
11 May 2010	2,000	–	8,750	–
17 May 2010	–	–	3,500	–
28 May 2010	–	–	7,500	–
2 June 2010	–	10,000	15,000	–
9 June 2010	–	–	133,250	5,000
11 June 2010	–	–	60,000	55,000
18 June 2010	–	–	3,500	–
24 June 2010	–	–	15,000	–

27 CALLED UP SHARE CAPITAL (EQUITY) CONTINUED

Share capital movements in the year (continued)

During the year, the Company repurchased for cancellation 8,619,000 (2009: 7,000,000) ordinary shares of 5 pence each as follows:

Date	Number of shares	Price	% of the issued share capital immediately prior to cancellation (excluding shares held in treasury)
27 Jan 2010	80,711	84.00p	0.23%
28 Jan 2010	50,000	85.00p	0.15%
29 Jan 2010	85,890	86.00p	0.25%
1 Feb 2010	59,500	91.00p	0.17%
3 Feb 2010	95,000	97.00p	0.28%
4 Feb 2010	209,090	104.00p	0.61%
5 Feb 2010	738,500	105.00p	2.18%
8 Feb 2010	396,700	105.00p	1.20%
9 Feb 2010	642,564	105.00p	1.96%
10 Feb 2010	495,000	105.00p	1.54%
11 Feb 2010	601,372	105.00p	1.89%
12 Feb 2010	124,396	105.00p	0.40%
15 Feb 2010	1,241,604	105.00p	4.00%
4 May 2010	310,000	125.00p	1.04%
6 May 2010	56,000	130.00p	0.19%
17 May 2010	390,000	137.00p	1.32%
18 May 2010	43,250	137.00p	0.15%
20 May 2010	35,000	137.00p	0.12%
24 May 2010	134,500	137.00p	0.46%
25 May 2010	70,000	137.00p	0.24%
28 May 2010	30,500	137.00p	0.11%
4 Jun 2010	35,237	137.00p	0.12%
8 Jun 2010	198,000	147.00p	0.69%
9 Jun 2010	2,102,503	150.00p	7.35%
11 Jun 2010	393,683	145.00p	1.48%

During the year, the Company did not repurchase ordinary shares of 5 pence to be held in treasury (2009: 177,000).

At 31 August 2010 and 31 August 2009, a total of 4,019,456 ordinary shares of 5 pence were held in treasury.

27 CALLED UP SHARE CAPITAL (EQUITY) CONTINUED

Share options

The Company adopted the rules of an Inland Revenue approved executive share option scheme (the "1995 Scheme") on 3 May 1995. The 1995 Scheme terminated on 3 May 2005 but such termination has not affected the status of options granted under it prior to that date.

The Company adopted the rules of its unapproved executive share option scheme (the "1997 Scheme") on 2 June 1997. The directors resolved that no further options would be granted under the 1997 Scheme on or after 22 February 2006 but such resolution has not affected the status of options granted under it prior to that date.

The Company adopted the rules of a qualifying Enterprise Management Incentive share option scheme (the "EMI Scheme") with the sanction of shareholders following an extraordinary general meeting of the Company on 22 January 2003. On 5 February 2003, options over a total of 1,131,250 new ordinary shares of 5 pence were granted to Group employees under the 1995 Scheme at an exercise price of 54 pence per share.

On 6 May 2009, options over a total of 280,002 new ordinary shares of 5 pence each were granted under the EMI Scheme to certain executive directors at an exercise price of 35.5 pence.

The Company adopted the rules of a Share Option Plan (the "2006 Scheme") on 22 February 2006, following approval by H.M Revenue and Customs. On 11 May 2006, options over a total of 960,000 new ordinary shares of 5 pence each were granted under the 2006 Scheme to executive directors at an exercise price of 63 pence per share. On 15 May 2006, options over a total of 1,093,250 new ordinary shares of 5 pence each were granted under the 2006 Scheme to Group employees at an exercise price of 63 pence per share. On 18 August 2006, options over a total of 100,000 new ordinary shares of 5 pence each were granted under the 2006 Scheme to a Group employee at an exercise price of 66 pence per share.

On 11 July 2006, unapproved non-scheme options ("Non-Scheme Options") over a total of 165,000 new ordinary shares of 5 pence each were granted to Group employees at an exercise price of 63.25 pence per share.

On 6 May 2009, options over a total of 919,998 new ordinary shares of 5 pence each were granted under the 2006 scheme to executive directors at an exercise price of 35.5 pence per share. Also 6 May 2009, options over a total of 1,069,029 new ordinary shares of 5 pence were granted under the 2006 scheme to Group employees at an exercise price of 35.5 pence.

On 27 July 2010, a subsidiary entered into an exclusive distribution agreement with Cepia LLC, a major supplier to the Group. In consideration for the exclusive distribution rights of Cepia LCC's products in the United Kingdom and Ireland, an affiliate of Cepia LLC was granted an option to subscribe for 1,000,000 ordinary shares of 5 pence at an exercise price of 122.50 pence per share, subject (inter alia) to the distribution agreement having continued in existence throughout the three year vesting period and subsisting at the date of exercise.

27 CALLED UP SHARE CAPITAL (EQUITY) CONTINUED

At 31 August 2010, rights to options over 5,313,161 ordinary shares of 5 pence in the Company were outstanding as follows:

	At 1 September 2009	Granted	Exercised/ lapsed	At 31 August 2010	Exercise Price	Exercise Period
1995 Scheme						
	22,000	–	(15,000)	7,000	24.25p	15 February 2005 to 14 February 2012
1997 Scheme						
	31,750	–	(31,750)	–	54.0p	6 February 2006 to 5 February 2010
EMI Scheme						
	413,500	–	(27,000)	386,500	54.0p	5 February 2006 to 4 February 2013
	93,334	–	–	93,334	35.50p	6 May 2012 to 5 May 2019
	93,334	–	–	93,334	35.50p	6 May 2013 to 5 May 2019
	93,334	–	–	93,334	35.50p	6 May 2014 to 5 May 2019
2006 Scheme						
	960,000	–	–	960,000	63.0p	11 May 2009 to 10 May 2016
	932,750	–	(415,000)	517,750	63.0p	15 May 2009 to 14 May 2016
	100,000	–	–	100,000	66.0p	18 August 2009 to 17 August 2016
	660,859	–	(8,556)	652,303	35.50p	6 May 2012 to 5 May 2019
	660,859	–	(8,556)	652,303	35.50p	6 May 2013 to 5 May 2019
	660,859	–	(8,556)	652,303	35.50p	6 May 2014 to 5 May 2019
Non-Scheme options	165,000	–	(60,000)	105,000	63.25p	21 December 2007 to 19 December 2014
	–	1,000,000	–	1,000,000	122.50p	23 July 2013 to 22 July 2015
	4,887,579	1,000,000	(574,418)	5,313,161		

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:

	2010		2009	
	Number	**Weighted average exercise price**	Number	Weighted average exercise price
Outstanding at 1 September	**4,887,579**	**49.35p**	4,370,850	81.51p
Granted	**1,000,000**	**122.50p**	2,269,029	35.50p
Exercised	**(534,750)**	**60.95p**	-	-
Cancelled	**-**	**-**	(1,152,000)	115.25p
Lapsed	**(39,668)**	**45.21p**	(600,300)	104.73p
Outstanding at 31 August	**5,313,161**	**61.98p**	4,887,579	49.35p
Weighted average remaining contractual life in years		**6.5**		7.7

Options over 534,750 ordinary shares of 5 pence were exercised in the year (2009: nil). The weighted average share price (at the date of exercise) of options exercised during the year was 130.00p (2009: nil).

28 SHARE-BASED PAYMENT

	12 months ended 31 August 2010 £000's	12 months ended 31 August 2009 £000's
Charge for share based payment	**158**	199

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:

Non-Scheme & EMI Scheme Options

Option Scheme Grant Date	Non-Scheme 11 July 2006	Non-Scheme 23 July 2010	EMI Scheme 6 May 2009
Options outstanding 1 September 2009	165,000	–	280,002
Granted	–	1,000,000	–
Exercised	(60,000)	–	–
Options outstanding 31 August 2010	105,000	1,000,000	280,002
Contract term year(s)	8.5	5	10
Expected life of option	6	5	7
Exercise & share price at grant	63.25p	122.50p	35.50p
Expected volatility	55% – 65%	60% – 65%	65% – 75%
Annual risk free rate	4.69%	2.33%	3.17%
Annual expected dividend	2% – 3%	3% – 3.7%	0% – 1.60%
Fair value per share under option	32p	58p	25p

2006 Scheme

Grant Date	11 May 2006	15 May 2006	11 July 2006	6 May 2009
Options outstanding 1 September 2009	960,000	932,750	100,000	1,982,577
Exercised	–	(401,000)	–	–
Lapsed/Cancelled	–	(14,000)	–	(25,668)
Options outstanding 31 August 2010	960,000	517,750	100,000	1,956,909
Contract term year(s)	10	10	10	10
Expected life of option	6	6	6	7
Exercise & share price at grant	63.0p	63.0p	66.0p	35.50p
Expected volatility	55% – 65%	55% – 65%	55% – 65%	65% – 75%
Annual risk free rate	4.425%	4.425%	4.74%	3.17%
Annual expected dividend	2% – 3%	2% – 3%	2% – 3%	0% – 1.60%
Fair value per share under option	32p	32p	32p	25p

28 SHARE-BASED PAYMENT CONTINUED

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 share options, when exercised, shall have the same dividend and voting rights as the ordinary issued share capital.

29 THE CHARACTER GROUP plc EMPLOYEE SHARE OWNERSHIP TRUST

The Company's Employee Share Ownership Trust ("the Trust") is governed by a Trust Deed dated 19 June 1998. The Trustees may grant options over such shares in the Company acquired by them or otherwise provide benefits to the beneficiaries, as defined in the Trust Deed. The Trust is required to meet its own costs out of the trust fund but if such fund is insufficient such costs will be borne by the Company. At 31 August 2010, the Trust held 285,000 ordinary shares (2009: 285,000), which had a market value of £364,800 (2009: £148,200), upon which it has waived its right to dividend income. The cost of these shares was £908,000. At 31 August 2010, no options had been granted by the Trust.

DIRECTORS' STATEMENT OF RESPONSIBILITIES IN RELATION TO THE PARENT COMPANY FINANCIAL STATEMENTS

Statement of directors' responsibilities

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 financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law, the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements the directors are required to:

- select suitable accounting policies and apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and 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 corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

The directors confirm that they have complied with the above requirements in preparing the financial statements.

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

We have audited the parent company financial statements of The Character Group plc for the year ended 31 August 2010 which comprise the Company Balance Sheet and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an 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.

Respective responsibilities of directors and auditors

As explained more fully in the Statement of Directors' responsibilities in respect of the parent company, financial statements set out on page 53, the directors are responsible for the preparation of the parent company financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the parent company financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the parent company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements.

Opinion of financial statements

In our opinion the parent company financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 August 2010;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

- the information given in the Directors' Report for the financial year for which the parent company financial statements are prepared is consistent with the parent company financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements and the part of the Directors' Remuneration Report to be audited 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.

Other matter

We have reported separately on pages 19 and 20 on the consolidated financial statements of The Character Group plc for the year ended 31 August 2010.

Mark Dowding (Senior Statutory Auditor)
For and on behalf of MacIntyre Hudson LLP
Statutory Auditors and Chartered Accountants
New Bridge Street House
30-34 New Bridge Street
London
EC4V 6BJ

17 December 2010

COMPANY BALANCE SHEET

as at 31 August 2010

	Note	2010 £000's	2009 £000's
Fixed assets			
Tangible assets	2	**673**	714
Investments	3	**1,903**	1,805
		2,576	2,519
Current assets			
Debtors	4	**11,006**	11,600
Cash at bank and in hand		**3,501**	3,295
		14,507	14,895
Creditors: amounts falling due within one year	5	**(319)**	(349)
Net current assets		**14,188**	14,546
Total assets less current liabilities		**16,764**	17,065
Net Assets		**16,764**	17,065
Capital and reserves			
Called up share capital	7,8	**1,521**	1,925
Shares held in treasury	8	**(3,373)**	(3,373)
Investment in own shares	9	**(908)**	(908)
Capital redemption reserve	8	**1,229**	798
Share premium account	8	**12,928**	12,587
Share based payment reserve	8	**891**	733
Profit and loss account	8	**4,476**	5,303
Shareholders' funds		**16,764**	17,065

The financial statements on pages 56 to 65 were approved by the Board of directors on 2 December 2010.

R King
Director

K P Shah
Director

NOTES TO THE COMPANY FINANCIAL STATEMENTS

1 PRINCIPAL ACCOUNTING POLICIES

Basis of preparation

The separate financial statements of the Company are presented as required by the Companies Act 2006. As permitted by that Act, the separate financial statements have been prepared in accordance with UK GAAP.

The financial statements have been prepared under the historical cost convention and in accordance with all applicable United Kingdom accounting standards.

No profit and loss account is presented by the Company, as permitted by Section 408 Companies Act 2006. The profit for the year was £10,696,000 (2009: £2,820,000).

As permitted by Financial Reporting Standard (FRS) No.1 (Revised), "Cash flow statement", the Company has not included a Cash flow statement as the Company's results have been included within the Group's consolidated financial statements.

As permitted by FRS8 Related Party Disclosures, disclosures of related party transactions with other companies controlled by The Character Group plc are not provided and there were no reportable transactions with related parties.

The Company has taken advantage of the exemption in FRS 29 Financial Instruments Disclosures and has not disclosed information required by that Standard as the Group's consolidated financial statements provide equivalent disclosures for the Group under IFRS 7.

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.

TANGIBLE FIXED ASSETS

Tangible fixed assets are 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%
Fixtures, fittings and equipment	20-33%

FRS 20: Share-based payment

The Company issues equity settled awards to certain employees. The fair value of equity settled awards granted after 7 November 2002, and that will vest on or after 1 September 2006, 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 will 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.

The Company adopted UITF 44 in 2008. When the parent entity grants options over equity instruments directly to the employees of a subsidiary undertaking, then in the parent company financial statements the effect of the share based payment, as calculated in accordance with FRS 20, is capitalised as part of the investment in the subsidiary as a capital contribution, with a corresponding increase in equity.

Leases

Rentals paid under operating leases are charged to income as incurred.

Deferred taxation

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. Timing differences are differences between the Company's taxable profits and its results as stated in the financial statements that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the financial statements.

NOTES TO THE COMPANY FINANCIAL STATEMENTS
CONTINUED

Deferred tax assets in excess of liabilities are recognised to the extent that, in the directors' opinion, it is more likely than not that suitable taxable profits will arise from which the underlying timing differences can be deducted.

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantially enacted by the balance sheet date. Deferred tax is measured on a non-discounted basis.

Taxation

Current tax is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantially enacted at the balance sheet date.

Pension contributions

The Company operates defined contribution pension schemes. Contributions are allocated to the profit and loss account when due.

The Company had 6 employees in 2009 and 2010. Details of the remuneration of the directors are included within the directors' remuneration report on pages 15 to 17.

2 TANGIBLE FIXED ASSETS

Cost	Freehold land and buildings £000's	Fixtures, fittings and equipment £000's	Total £000's
1 September 2009	1,182	140	1,322
31 August 2010	**1,182**	**140**	**1,322**
Depreciation			
1 September 2009	471	137	608
Charge for the year	40	1	41
31 August 2010	**511**	**138**	**649**
Net book value			
31 August 2010	**671**	**2**	**673**
31 August 2009	711	3	714

3 FIXED ASSET INVESTMENTS

The Company

Cost	Shares in subsidiary undertakings £000's	Capital contribution £000's	Total £000's
1 September 2009	3,195	506	3,701
Share based payment	–	98	98
At 31 August 2010	**3,195**	**604**	**3,799**
Amortisation and provisions			
1 September 2009	1,896	–	1,896
Charge for the year	–	–	–
At 31 August 2010	1,896	–	1,896
Net book value			
31 August 2010	**1,299**	**604**	**1,903**
31 August 2009	1,299	506	1,805

At 31 August 2010, the Company held more than 10% of the equity of the following principal undertakings:

Subsidiaries	Country of incorporation and operation	Class of share capital held	Proportion held by the parent undertaking	Nature of business
Character Options Limited	United Kingdom	Ordinary	100%	Design and distribution of toys and games
Toy Options (Far East) Limited	Hong Kong	Ordinary	100%	Design and distribution of toys and games
Charter Limited	Hong Kong	Ordinary	100%	Design and distribution of toys and games
Character Games Limited	United Kingdom	Ordinary	100%	Design and distribution of toys and games
Character Gifts Limited	United Kingdom	Ordinary	100%	Gift importer and distributor

4 DEBTORS

	2010 £000's	2009 £000's
Due from subsidiary undertakings	**10,766**	11,365
Other debtors	**38**	24
Prepayments and accrued income	**200**	209
Other taxation and social security	**2**	2
	11,006	11,600

5 CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2010 £000's	2009 £000's
Due to subsidiary undertakings	**48**	35
Other taxation and social security	**4**	68
Accruals and deferred income	**267**	246
	319	349

6 CONTINGENT LIABILITIES

The Company has guaranteed the obligations of certain subsidiary companies to their finance companies, certain banks and others in the normal course of business. The finance company has a fixed and floating charge over the assets of the Company and some subsidiaries. The Company is a member of a group registration for Value Added Tax purposes.

7 CALLED UP SHARE CAPITAL (EQUITY)

	2010 £000's	2009 £000's
Authorised		
110,000,000 (2009: 110,000,000) ordinary shares of 5 pence each	**5,500**	5,500
Allotted, called up and fully paid		
30,412,687* (2009: 38,496,937) ordinary shares of 5 pence each	**1,521**	1,925

* Including 4,019,456 ordinary shares of 5 pence each held in treasury (2009: 4,019,456).

Share capital movements in the year

534,750 (2009: nil) ordinary shares of 5 pence each (total nominal value £26,738) were issued during the year to employees exercising their share options as follows:

	Number of ordinary shares at exercise price			
Date	**24.25p**	**54.00p**	**63.00p**	**63.25p**
17 December 2009	–	6,750	2,250	–
29 January 2010	–	25,000	–	–
5 February 2010	–	–	3,500	–
8 February 2010	–	–	25,000	–
9 February 2010	–	–	37,000	–
10 February 2010	–	–	15,000	–
12 February 2010	2,500	8,500	2,500	–
18 February 2010	10,000	8,500	–	–
26 March 2010	–	–	2,500	–
5 May 2010	–	–	3,000	–
6 May 2010	500	–	63,750	–
11 May 2010	2,000	–	8,750	–
17 May 2010	–	–	3,500	–
28 May 2010	–	–	7,500	–
2 June 2010	–	10,000	15,000	–
9 June 2010	–	–	133,250	5,000
11 June 2010	–	–	60,000	55,000
18 June 2010	–	–	3,500	–
24 June 2010	–	–	15,000	–

7 CALLED UP SHARE CAPITAL (EQUITY) CONTINUED

Share capital movements in the year (continued)

During the year, the Company repurchased for cancellation 8,619,000 (2009: 7,000,000) ordinary shares of 5 pence each as follows:

Date	Number of shares	Price	% of the issued share capital immediately prior to cancellation (excluding shares held in Treasury)
27 Jan 2010	80,711	84.00p	0.23%
28 Jan 2010	50,000	85.00p	0.15%
29 Jan 2010	85,890	86.00p	0.25%
1 Feb 2010	59,500	91.00p	0.17%
3 Feb 2010	95,000	97.00p	0.28%
4 Feb 2010	209,090	104.00p	0.61%
5 Feb 2010	738,500	105.00p	2.18%
8 Feb 2010	396,700	105.00p	1.20%
9 Feb 2010	642,564	105.00p	1.96%
10 Feb 2010	495,000	105.00p	1.54%
11 Feb 2010	601,372	105.00p	1.89%
12 Feb 2010	124,396	105.00p	0.40%
15 Feb 2010	1,241,604	105.00p	4.00%
4 May 2010	310,000	125.00p	1.04%
6 May 2010	56,000	130.00p	0.19%
17 May 2010	390,000	137.00p	1.32%
18 May 2010	43,250	137.00p	0.15%
20 May 2010	35,000	137.00p	0.12%
24 May 2010	134,500	137.00p	0.46%
25 May 2010	70,000	137.00p	0.24%
28 May 2010	30,500	137.00p	0.11%
4 Jun 2010	35,237	137.00p	0.12%
8 Jun 2010	198,000	147.00p	0.69%
9 Jun 2010	2,102,503	150.00p	7.35%
11 Jun 2010	393,683	145.00p	1.48%

During the year, the Company did not repurchase ordinary shares of 5 pence each to be held in treasury (2009: 177,000).

At 31 August 2010 and 31 August 2009, a total of 4,019,456 ordinary shares of 5 pence each were held in treasury.

7 CALLED UP SHARE CAPITAL (EQUITY) CONTINUED

Share options

The Company adopted the rules of an Inland Revenue approved executive share option scheme (the "1995 Scheme") on 3 May 1995. The 1995 Scheme terminated on 3 May 2005 but such termination has not affected the status of options granted under it prior to that date.

The Company adopted the rules of its unapproved executive share option scheme (the "1997 Scheme") on 2 June 1997. The directors resolved that no further options would be granted under the 1997 Scheme on or after 22 February 2006 but such resolution has not affected the status of options granted under it prior to that date.

The Company adopted the rules of a qualifying Enterprise Management Incentive share option scheme (the "EMI Scheme") with the sanction of shareholders following an extraordinary general meeting of the Company on 22 January 2003. On 5 February 2003, options over a total of 1,131,250 new ordinary shares of 5 pence each were granted to Group employees under the 1995 Scheme at an exercise price of 54 pence per share.

On 6 May 2009, options over a total of 280,002 new ordinary shares of 5 pence each were granted under the EMI Scheme to certain executive directors at an exercise price of 35.5 pence.

The Company adopted the rules of a Share Option Plan (the "2006 Scheme") on 22 February 2006, following approval by H.M Revenue and Customs. On 11 May 2006, options over a total of 960,000 new ordinary shares of 5 pence each were granted under the 2006 Scheme to executive directors at an exercise price of 63 pence per share. On 15 May 2006, options over a total of 1,093,250 new ordinary shares of 5 pence each were granted under the 2006 Scheme to Group employees at an exercise price of 63 pence per share. On 18 August 2006, options over a total of 100,000 new ordinary shares of 5 pence each were granted under the 2006 Scheme to a Group employee at an exercise price of 66 pence per share.

On 11 July 2006, unapproved non-scheme options ("Non-Scheme Options") over a total of 165,000 new ordinary shares of 5 pence each were granted to Group employees at an exercise price of 63.25 pence per share.

On 6 May 2009, options over a total of 919,998 new ordinary shares of 5 pence each were granted under the 2006 scheme to executive directors at an exercise price of 35.5 pence per share. Also 6 May 2009, options over a total of 1,069,029 new ordinary shares of 5 pence were granted under the 2006 scheme to Group employees at an exercise price of 35.5 pence.

On 27 July 2010, a subsidiary entered into an exclusive distribution agreement with Cepia LLC, a major supplier to the Group. In consideration for the exclusive distribution rights of Cepia LLC's products in the United Kingdom and Ireland, an affiliate of Cepia LLC was granted an option to subscribe for 1,000,000 ordinary shares of 5 pence at an exercise price of 122.50 pence per share, subject (inter alia) to the distribution agreement having continued in existence throughout the three year vesting period and subsisting at the date of exercise.

7 CALLED UP SHARE CAPITAL (EQUITY) CONTINUED

Share options (continued)

At 31 August 2010, rights to options over 5,313,161 ordinary shares of 5 pence each of the Company were outstanding as follows:

	At 1 September 2009	Granted	Exercised/ lapsed	At 31 August 2010	Exercise Price	Exercise Period
1995 Scheme						
	22,000	–	(15,000)	7,000	24.25p	15 February 2005 to 14 February 2012
1997 Scheme						
	31,750	–	(31,750)	–	54.0p	6 February 2006 to 5 February 2010
EMI Scheme						
	413,500	–	(27,000)	386,500	54.0p	5 February 2006 to 4 February 2013
	93,334	–	–	93,334	35.50p	6 May 2012 to 5 May 2019
	93,334	–	–	93,334	35.50p	6 May 2013 to 5 May 2019
	93,334	–	–	93,334	35.50p	6 May 2014 to 5 May 2019
2006 Scheme						
	960,000	–	–	960,000	63.0p	11 May 2009 to 10 May 2016
	932,750	–	(415,000)	517,750	63.0p	15 May 2009 to 14 May 2016
	100,000	–	–	100,000	66.0p	18 August 2009 to 17 August 2016
	660,859	–	(8,556)	652,303	35.50p	6 May 2012 to 5 May 2019
	660,859	–	(8,556)	652,303	35.50p	6 May 2013 to 5 May 2019
	660,859	–	(8,556)	652,303	35.50p	6 May 2014 to 5 May 2019
Non-Scheme options	165,000	–	(60,000)	105,000	63.25p	21 December 2007 to 19 December 2014
	–	1,000,000	–	1,000,000	122.50p	23 July 2013 to 22 July 2015
	4,887,579	1,000,000	(574,418)	5,313,161		

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:

	2010		2009	
	Number	Weighted average exercise price	Number	Weighted average exercise price
Outstanding at 1 September	**4,887,579**	**49.35p**	4,370,850	81.51p
Granted	**1,000,000**	**122.50p**	2,269,029	35.50p
Exercised	**(534,750)**	**60.95p**	-	-
Cancelled	**-**	**-**	(1,152,000)	115.25p
Lapsed	**(39,668)**	**45.21p**	(600,300)	104.73p
Outstanding at 31 August	**5,313,161**	**61.98p**	4,887,579	49.35p
Weighted average remaining contractual life in years		**6.5**		7.7

Options over 534,750 ordinary shares of 5 pence each were exercised in the year (2009: nil). The weighted average share price (at the date of exercise) of options exercised during the year was 130.00p (2009: nil).

7 CALLED UP SHARE CAPITAL (EQUITY) CONTINUED

Share options (continued)

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:

Non-Scheme & EMI Scheme Options

Option Scheme Grant Date	Non-Scheme 11 July 2006	Non-Scheme 23 July 2010	EMI Scheme 6 May 2009
Options outstanding 1 September 2009	165,000	–	280,002
Granted	–	1,000,000	–
Exercised	(60,000)	–	–
Options outstanding 31 August 2010	105,000	1,000,000	280,002
Contract term year(s)	8.5	5	10
Expected life of option	6	5	7
Exercise & share price at grant	63.25p	122.50p	35.50p
Expected volatility	55% – 65%	60% – 65%	65% – 75%
Annual risk free rate	4.69%	2.33%	3.17%
Annual expected dividend	2% – 3%	3% – 3.7%	0% – 1.60%
Fair value per share under option	32p	58p	25p

2006 Scheme

Grant Date	11 May 2006	15 May 2006	11 July 2006	6 May 2009
Options outstanding 1 September 2009	960,000	932,750	100,000	1,982,577
Exercised	–	(401,000)	–	–
Lapsed/Cancelled	–	(14,000)	–	(25,668)
Options outstanding 31 August 2010	960,000	517,750	100,000	1,956,909
Contract term year(s)	10	10	10	10
Expected life of option	6	6	6	7
Exercise & share price at grant	63.0p	63.0p	66.0p	35.50p
Expected volatility	55% – 65%	55% – 65%	55% – 65%	65% – 75%
Annual risk free rate	4.425%	4.425%	4.74%	3.17%
Annual expected dividend	2% – 3%	2% – 3%	2% – 3%	0% – 1.60%
Fair value per share under option	32p	32p	32p	25p

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 share options, when exercised, shall have the same dividend and voting rights as the ordinary issued share capital.

8 SHARE CAPITAL AND RESERVES – SHAREHOLDERS' FUNDS

	Called up share capital £000's	Treasury Shares £000's	Capital redemption reserve £000's	Share premium account £000's	Share Based Payment £000's	Profit and loss account £000's	Total £000's
1 September 2009	1,925	(3,373)	798	12,587	733	5,303	17,973
Share-based payment - Company	–	–	–	–	60	–	60
Share-based payment – subsidiary undertaking	–	–	–	–	98	–	98
Profit after tax	–	–	–	–	–	10,696	10,696
Dividend paid	–	–	–	–	–	(932)	(932)
Shares issued	27	–	–	299	–	–	326
Shares cancelled	(431)	–	431	–	–	(10,591)	(10,591)
VAT recovery of floatation expenses	–	–	–	42	–	–	42
31 August 2010	**1,521**	**(3,373)**	**1,229**	**12,928**	**891**	**4,476**	**17,672**

9 THE CHARACTER GROUP plc EMPLOYEE SHARE OWNERSHIP TRUST

The Company's Employee Share Ownership Trust ("the Trust") is governed by a Trust Deed dated 19 June 1998. The Trustees may grant options over such shares in the Company acquired by them or otherwise provide benefits to the beneficiaries, as defined in the Trust Deed. The Trust is required to meet its own costs out of the trust fund but if such fund is insufficient such costs will be borne by the Company. At 31 August 2010, the Trust held 285,000 ordinary shares (2009: 285,000), which had a market value of £364,800 (2009: £148,200), upon which it has waived its right to dividend income. The cost of these shares was £908,000. At 31 August 2010, no options had been granted by the Trust.

10 AUDITORS REMUNERATION

	2010 £000's	2009 £000's
Audit of the financial statements	**8**	11

Fees paid to MacIntyre Hudson LLP for non-audit services to the Company itself are not disclosed in the individual financial statements of The Character Group plc as group financial statements are prepared which are required to disclose such fees on a consolidated basis.

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