the

CHARACTER

group plc

Annual Report and Accounts

For the year ended 31 August 2020

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OVERVIEW

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

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

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

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

Over the last 15 months, in focusing on our quest to reduce the presence of plastics in our toy ranges, we have developed and produced a range of wooden toys, vehicles and accessories. This project, initially based on one major children's brand, has scaled well and greatly appeals not only to consumers who are looking to purchase sustainable, environmentally-friendly products but also to brand-owners who are seeking to reduce their association with plastics and to cement their "green" credentials. We intend to further develop this initiative in the coming years.

We do not own factories; our manufacturing takes place predominantly in China and is carried out on a closely managed and collaborative, sub-contract basis with strictly vetted, reputable suppliers. The Group owns and operates from three freehold properties in the UK. Our head office is based in New Malden, Surrey and our two distribution warehouses are located near Oldham, Greater Manchester. Our Far East operations are carried out from leased offices in Hong Kong and Shenzen, China and our Scandinavian operations are managed from leased offices in Copenhagen.

The Group's customer list includes the major UK and Scandinavian toy retailers, independent toy stores and a wide selection of distributors in many key overseas territories and the brands we represent are amongst the most recognisable to children and parents alike. We have a diverse and exciting product range which we believe offers something to all our target consumers.

Our top performing brands in 2020 and into 2021 include: *Peppa Pig, Goo Jit Zu, Pokémon, Little Live Pets*, *Shimmer 'n Sparkle, Squeakee the Balloon Dog, Laser Battle Hunters, PenSilly, Gotta' Go Flamingo, Treasure X* , *My Baby Tumbles*, *Project X*, *Tap It* and *flipside*.

CHAIRMAN'S STATEMENT

I could not be more proud of how the management and staff at all levels in the business have performed in year under review, particularly the second half. The effects of the pandemic from the end of February 2020 presented the most challenging conditions experienced in my working lifetime. During this period, the Group did not just preserve its business-critical operations but managed to deliver an operating profit for the year of £5.4m on a turnover of £108.9m; a truly remarkable feat and a testament to the spirit, determination and loyalty of our staff.

The effects of the pandemic were felt throughout all our markets but, since July 2020, sales have been buoyant, particularly in the US. Although our Scandinavian operations have yet to contribute a profit, the operations in Denmark have been rationalised and fully integrated into the Group and are now set to start making a positive contribution to Group profitability.

We are recommending a final dividend of 3.0p per share, which (together with the interim dividend of 2.0p per share paid in July 2020), brings the total dividend for the year to 5.0p per share.

Our preparations for the UK's withdrawal from the EU have been in place since September 2019 and, although placed "on ice" when the process was delayed, we are ready for the 1 January 2021 changes and anticipate that this will not have a material impact on the business. Our subsidiaries in Scandinavia will, in any event, assure us of continued access to EU markets from the commencement of the New Year.

The Group could not have achieved these results or have confidence going forward without an immensely talented, motivated and dedicated team and I thank everyone of them for their loyal service.

I look forward to updating shareholders at our annual general meeting on 22 January 2021 and take the opportunity to wish all our staff, shareholders, customers and suppliers a very happy New Year!

Richard King

Non-Executive Chairman
21 December 2020

EXECUTIVE REVIEW

KEY PERFORMANCE INDICATORS	**12 months ended 31 August 2020**	12 months ended 31 August 2019
Revenue	**£108.9m**	£120.4m
Operating profit before significant and exceptional items	**£5.4m**	£11.6m
Gross margin	**27.7%**	34.5%
Underlying pre-tax profit	**£5.0m**	£11.1m
EBITDA	**£8.2m**	£13.7m
Basic earnings per share before significant and exceptional items	**18.12p**	43.27p
Diluted earnings per share before significant and exceptional items	**18.08p**	42.96p
Basic earnings per share after significant and exceptional items	**14.76p**	37.21p
Diluted earnings per share after significant and exceptional items	**14.73p**	36.94p
Dividends declared per share for the year	**5.0p**	26.0p
Net assets	**£34.0m**	£34.1m
Net cash	**£19.1m**	£6.5m

INTRODUCTION

The strong performance that we had originally forecast at this time last year for the second half of the year being reported could not be realised due to the lockdowns and restrictions that subsequently impacted the global economy and our markets since March 2020. Overall, despite the challenges we have faced during the Covid-19 pandemic, we are pleased to be able to report that the Group traded satisfactorily, and we have finished the year with revenue of £108.9m and an operating profit before significant and exceptional items, and tax of £5.4m.

The Group has continued to be strongly cash-generative and, in the year to 31 August 2020, delivered £19.6m of cash from operations. Through our ongoing careful management of working capital, we ended the financial year with a strong net cash balance of £19.1m.

It is also encouraging to report that the performance of the Group since the end of the first lockdown in early July 2020 and in the lead up to this Christmas has been very strong. Consequently, the anticipated strengthening and growth of our business has not been lost, but merely been deferred, and is expected to be realised in the current financial year ending August 2021.

COVID-19

The supply side of the Group's operations in the Far East experienced temporary disruption soon after the Chinese New Year in February. However, full capabilities were rapidly restored, and most factories returned to near normal production capacity within a month. The demand side of the business, particularly in the UK, was adversely impacted in the early part of the first lockdown by closures of non-essential stores, shops and warehousing and distribution centres. At the beginning of this lockdown our online retail customers continued to place modest levels of orders but, as the duration of the initial lockdown was extended, these order levels built, benefiting from the migration of consumer purchasing to internet-based suppliers. From mid-June, when the first lockdown restrictions were eased and the non-essential bricks and mortar stores re-opened, our customer order levels strengthened considerably and this has continued into the new financial year, despite the imposition of the UK’s second lockdown through November.

The management team and staff continue to safely maintain operations at all of our facilities, initially in order to preserve the business-critical functions and service the lower levels of demand of the Group and subsequently to fulfil the improving demand for our goods. Clear and firmly applied COVID-19 procedures (in line with government guidelines and other good practice) have been in place at all our sites to ensure the safety and wellbeing of our staff and visitors to our premises. Due to the careful stewardship of our management and the sheer grit and determination of our operational, sales, administrative, product development and support teams in successfully safeguarding the essentials of our operations during the pandemic, the Company has emerged strongly from the effects of the global lockdowns.

OPERATIONAL PERFORMANCE

Group revenue in the year to 31 August 2020 was £108.9m, against a turnover of £120.4m in the comparable 2019 period. Of particular note was the substantial growth in sales in the USA, mainly due the successful launch of *Goo Jit Zu*.

The gross profit margin for the Group was 27.7% (FY 2019: 34.5%), reflecting the increased proportion of lower-margin, international FOB sales. On an absolute basis, the gross profit was £30.2m compared to £41.6m for the previous year.

A significant proportion of the Group's purchases are made in US dollars; the Group is therefore exposed to foreign currency fluctuations and manages the associated risk through the purchase of forward exchange contracts and derivative financial instruments. Under International Financial Reporting Standards (IFRS), at the end of each reporting period the Group is required to make an adjustment in its financial statements to incorporate a "mark to market" valuation of such financial instruments. The "mark to market" adjustment for this financial period results in a notional loss of £2.0m. This compares to a corresponding notional profit of £0.36m reported in the year to 31 August 2019. These "mark to market" adjustments are non-cash items calculated by reference to unpredictable and sometimes volatile currency spot rates at the relevant balance sheet dates. To present the results on a "normal" basis, these "mark to market" adjustments on FX derivative positions are excluded but shown as "significant items" to demonstrate the "underlying" profitability highlighted in this Report.

The Group is reporting a profit before tax, after significant and exceptional items, in the period under review of £3.9m (FY 2019: £9.8m). Underlying earnings before interest, tax, depreciation, and amortisation were £8.2m (FY 2019: £13.7m).

Underlying basic earnings per share before significant items amounted to 18.12p (FY 2019: 43.27p). Underlying diluted earnings per share, on the same basis, were 18.08p (FY 2019: 42.96p).

FINANCIAL POSITION, WORKING CAPITAL & CASH FLOW

We have worked diligently to ensure that we finished the financial year in a position that optimises our potential for future growth.

With the Group's net assets at 31 August 2020 totalling £34.0m (FY 2019: £34.1m), the capital base of the Company has been preserved at last year's level, notwithstanding the payment of dividends totalling £3.2m.

Inventories at the year-end were *c.*£1.7m lower at £14.7m (FY 2019 £16.4m), reflecting sensitive management of purchases in anticipation of reduced levels of demand in the year as the effects of the pandemic became apparent.

As we highlighted at the start of this Report, the Group generated cash from operations of £19.6m in the period (FY 2019: £10.4m). Interest charges on short-term use of working capital facilities during FY 2020 amounted to £0.34m (FY 2019: £0.47m). Most of this interest charge related to the Group's Danish subsidiary OVG-Proxy A/S ("Proxy").

At the end of the financial year, after making payments for dividends and share buy-backs (referred to in this Report), the Group had a net cash position of £19.1m, compared to £6.5m at 31 August 2019.

DIVIDEND

The Board remains committed to maintaining the final dividend as we believe this reflects our confidence in the Company's ability to grow profits and generate and develop further sustainable cash flow. The Board will be recommending to shareholders a final dividend of 3.0p (2019 H2: 13.0p per share). This constitutes an increase of 1.0p over the interim dividend declared in May 2020 and evinces the Board's commitment to re-establishing a progressive dividend policy. This, together with the interim dividend of 2.0p per share paid in July 2020, makes a total dividend for the year of 5.0p per share (FY 2019: 26.0p).

The 2020 final dividend is covered approximately 3.6 times by underlying annual earnings (2019: 1.66 times). Subject to approval by shareholders at the Annual General Meeting ("AGM") on Friday, 22 January 2021, the final dividend will be paid on 29 January 2021 to members on the register as at the close of business on 15 January 2021; the shares will be marked ex-dividend on 14 January 2021.

PROXY

The Scandinavian markets served by Proxy have also suffered from the effects of the global pandemic and this impacted its ability to achieve management's forecasts in the year under review. During the period, the operating loss sustained by the Group's Scandinavian operations was approximately £0.49m (excluding inter-company charges) on turnover of approximately £17.2m (FY 2019: loss of £0.75m on turnover of £13.0m). A loan of approximately £1.42m (including accrued interest), made by Vækstfonden (the Danish Growth Fund) to Proxy prior to it becoming a Character Group subsidiary in 2018, was acquired by a Group subsidiary during the year for approximately £0.52m. The gain of £0.9m on the acquisition of this loan is shown as an exceptional item in the Group's Income Statement.

The reorganisation of the Proxy business has been completed. Its product portfolio has now been fully rationalised so that it is largely aligned with that of the rest of the Group, allowing the Proxy business to be operating effectively as a "clone" of Character Options (the Group's principal UK trading subsidiary) in the Scandinavian territories. This coupled with Proxy's adoption and implementation of the sales reporting, forecasting and purchasing systems and processes of Character Options, has led to increased operational efficiencies. The Board believes that, with the restructuring costs being fully absorbed in the year under review, Proxy's prospects are encouraging and that it is on track for a return to profitability in the current financial year.

BREXIT

The Group assessed the potential impact of Brexit, particularly a "no deal" outcome, on the Group's operations in early 2019 and identified the areas that would need to be addressed to ensure the uninterrupted continuity of the Group's UK operations and its cross-border business with the EU. Proxy serves as the Group's "authorised representative" for the purposes of regulatory compliance with the EU's Toy Safety Directive. Product labelling and packaging changes have been implemented to comply with the requirements in both the UK and the EU.

The mainland UK business will be unaffected by the changes following Brexit, as the imports of its inventories are from the Far East. The FOB business supplying Europe from the Group's Far East operations will similarly not be affected by Brexit.

A small part of the Group's turnover derives from the supply to Irish customers (both sides of the border) from the UK. It is believed that challenges posed by a "hard" Brexit will be overcome and this will not have a material impact on the business.

SHARE BUY-BACK PROGRAMME

During FY 2020, the Company acquired for cancellation a total of 46,500 ordinary shares in the Company at an aggregate cost of approximately £162,000 (excluding associated costs), with the average cost being approximately £3.48 per ordinary share (FY 2019: 237,807 ordinary shares were acquired and cancelled at an aggregate cost of approximately £1.27m and an average cost of approximately £5.32 per ordinary share).

The Company currently has an authority to buy-back up to 3,200,000 ordinary shares, which has not been utilised since it was granted at the Annual General Meeting ("AGM") in January 2020 and which authority will expire at the 2021 AGM.

It remains part of the Group's overall strategy to continue to repurchase the Company's own shares, when considered appropriate. However, the restrictions on pricing and on volumes of buybacks imposed by the Market Abuse Regulation have frustrated this objective since January 2020.

The Board believes that it is in the Company's and all investors' interests to provide shareholders who wish to realise part or all of their investment in the Company with an opportunity to access liquidity that is not otherwise available in the market and to return excess capital to shareholders. Accordingly, the Board will be seeking to renew its authority to buy back up to 3,200,000 ordinary shares (constituting approximately 15% of the total voting rights in the Company) at the forthcoming 2021 AGM. In addition to enabling buybacks to be implemented by way of an announced buyback programme for the purpose of reducing the Company's share capital (as in the recent past), this authority will also allow the Company to make or arrange tenders for its issued shares. Whilst there is no current, fixed intention to exercise this share purchase authority, in line with the Board's buyback strategy, the Company will continue to repurchase the Company's own shares. as and when considered appropriate. Details of any intention to exercise this authority will be announced and any tender proposal(s) will be fully communicated to shareholders if and when the Board resolves to implement such arrangements.

TOTAL VOTING RIGHTS

As at today's date, the Company has 23,608,501 ordinary shares in issue, including shares held in treasury. The Company holds 2,228,720 ordinary shares in treasury, representing approximately 10.42 per cent. of the issued share capital (excluding these treasury shares), which do not carry voting or dividend rights. Therefore, the total number of voting rights in the Company is 21,379,781. This figure of 21,379,781 may be used by shareholders as the denominator for the calculations by which they may determine if they are required to notify their interest, or change to their notified interest, in the Company under the Financial Conduct Authority's Disclosure Guidance and Transparency Rules.

OUR PEOPLE

Our dedicated teams are our most important asset and remain the beating heart of our operations at locations in the UK, Scandinavia, and Asia. In total we employ 209 people (FY 2019: 212). The Board has highlighted in the past and continues to acknowledge the enormous debt of gratitude that the Company owes to the unstinting dedication, loyalty, and service of its employees at all levels in the business, particularly in managing and overcoming the challenges faced by the Group in recent months.

The imagination, enthusiasm, and commitment of all our staff has been inspiring and has produced: the diverse and exciting portfolio and pipeline of products detailed below; the new and developing markets for our products; the strong and fond relations with our new and existing brand owners, suppliers, and customers; and the operational efficiency to fulfil demand for our products.

ANNUAL GENERAL MEETING (AGM)

The Company's 2021 AGM will be held on 22 January 2021. Given UK government guidance on social distancing and the restrictions that currently apply, the AGM will be conducted as a closed meeting with the minimum necessary quorum of two shareholders present in person or by proxy. Regretfully, shareholders will not be able to attend or be admitted to the meeting. There will however be an opportunity for shareholders to submit questions to the Board in advance of this meeting and written responses will be published on the Company's website after the AGM. A separate circular letter will be sent to shareholders to convene the AGM, which will further detail arrangements and provide a summary of the business of that meeting. In accordance with established practice, the Company intends to issue a further trading update on the day of the AGM.

OUR PRODUCT PORTFOLIO

The demand for our toys has been sustained since the onset of the Covid-19 pandemic. Our ranges are performing well, with notable increased sales traction since the end of the UK's first lockdown.

We have a wide, diverse and exciting product range which we believe offers something to all our target consumers. Our top performing brands during the year under review and in the lead up to Christmas 2020 are:

Peppa Pig

This brand continues to be our star brand and has performed well, both in the UK and internationally. The hero item in this range, *Peppa Pig's Shopping Centre Playset,* was featured in the Dream Dozen toys and we have sold out of this item for Christmas.

Agreement has been reached, subject to contract, with the brand owner, Hasbro, to continue our current European *Peppa Pig* wood products licence through to 31 December 2023 and to significantly extend the product range under that licence. The new toy product categories to be added to this licence include basic plush, eco plush, feature plush and activity toys, including magnetic scribblers and a nursey product range. A further announcement will be made in relation to this anticipated brand extension following signing of the enabling amendments to this licence.

We, therefore, see the *Peppa Pig* brand continuing to be a central part of our product portfolio for many years to come.

Goo Jit Zu

With the first full 12 months' sales of this line of products reported in the year under review, it is apparent that the penetration of this brand has been significantly stronger than expected, both in the UK and overseas, particularly in the USA. Initially developed as a series of generic characters, the success of the range has been expanded, through licencing, to include a series featuring the well-loved *Marvel* characters.

Throughout 2021, this core brand will be rolled out to other major international territories and enlarged from the current *Marvel* and generic range to include figures based on the *DC Comics* cast of characters, *Sonic the Hedgehog* and *Jurassic Park*.

Pokémon

We have distribution rights in the UK, The Republic of Ireland, and Scandinavia for this greatly in-demand range of branded products. *Pokémon* sales have grown substantially this calendar year and several new products are being launched next year. Our stocks of the *Pokémon Advent Calendar* and the *Pokémon Carry Case Playset* from this range have fully sold out in the lead up to Christmas.

Little Live Pets

Little Live Pets, another well established, distributed product range now in its 7th year, has performed increasingly strongly throughout FY 2020 and continues to perform well in the lead up to this Christmas.

New developments in this range have spurred growth. *Gotta' Go Flamingo,* which has been featured in the Top 10 sell-through toys of many retailers and has received good TV coverage, including being listed as one of the top 'must haves' in last month's best festive toys feature on Phillip Schofield's "How to Spend it Well at Christmas" on ITV.

Shimmer 'n Sparkle

The enforced periods of social distancing, self-isolation and house-bound parenting have had a beneficial effect on the sale of the creative and engaging products in our Arts and Crafts category. The launch this year of *Shimmer 'n Sparkle InstaGlam* children's make-up range in the UK has been successful and we plan to roll this item out to multiple international markets next year.

We were excited to launch a range of wooden figures, vehicles and play buildings under a new *Peppa Pig* brand licence last summer and this was very well received in the market. On the back of this successful move into sustainable, environmentally-friendly, wooden toy products, we have secured and are in negotiations to win further licences from well-known brand owners that are keen to increase the "green" credentials of their own brands. These include *Batman*, *Disney Princess*, *Fireman Sam* and *Ben and Holly*. We aim to develop and bring to market further ranges of wooden toy products over the coming years.

Once again, Character Options featured strongly in the prestigious 12 "Dream Toys" list for Christmas 2020 revealed in October by the Toy Retailers Association (TRA). Three of Character's "hero" toys were selected:

- *Peppa Pig's Shopping Centre Playset* -a multi featured toy for fans of *Peppa*
- *Laser Battle Hunters* -the ultimate in remote control vehicles with a unique side winding action, and
- *Pokémon Carry Case Playset* -the first playset for this popular brand

In addition, five further Character toys were named as the most sought after in their categories:

- *Squeakee the Balloon Dog* and *Gotta' Go Flamingo*
- *Heroes of Goo Jit Zu* -Series 2 figures
- *PenSilly* -the family game, and
- *Stuff-a-loons* -a fun creative line

On top of these prestigious awards, two of the Group's toy products - *Gotta' Go Flamingo* and *PenSilly* were selected as the "hottest toys on sale" in their categories in ITV's "How to Spend it Well at Christmas" series hosted by Phillip Schofield and aired on television last month.

Apart from our successful core brands and welcome industry recognition for individual products from our portfolio range, we have had many other successes during the year with other products, including *Treasure X* , *My Baby Tumbles*, *Project X*, *Tap It* and *flipside*.

The kudos that these products have gained from these honours has been a terrific marketing tool and, as a consequence, demand for them has been further buoyed and we expect many of them to be sold out by Christmas.

Product development, which has been key to our success in broadening and strengthening our portfolio, has continued apace and our continued attention to this important aspect of the business has been instrumental in assuring the Group of a pipeline of additions to and refreshment of our product lines.

The current range and the developments in prospect bode well for an exciting future.

TRADING OUTLOOK

The quality of the Group's current portfolio of products has been endorsed by the strength of customer and consumer demand and further penetration being achieved for our products in the USA and other international markets since the commencement of the current financial year. We believe that the product portfolio is one of the strongest and best performing offerings that the Group has gone to market with in recent years.

The resilience of Character's performance has arisen from the ability of many of its customers to effectively service demand by migrating sales from bricks and mortar outlets to online shops and marketplaces, when needed. Character's success in preserving profitability in troubled times and positioning itself to take advantage of the current opportunities has been down to the management's ability to read and respond to fast evolving trends in the Group's markets.

The first UK lockdown spurred creativity in many aspects of the toy industry. The Group has developed an exciting and innovative line of new products, many of which are already in our current catalogue and others are in the pipeline for launch in the New Year. In recent months, the Group has developed ever closer and productive collaborations with its customers, brand owners and suppliers. As highlighted above, this has led to new and enlarged licencing opportunities with new and existing brand owners as our creative concepts successfully transition to sales of products.

We expect FY 2021 to be the beneficiary of the deferral of the strong trading that we originally anticipated for the second half of the year just ended. Trading in the lead up to Christmas 2020, despite the second UK lockdown, has been significantly ahead of the previous year's sales. Sales in Q1 are up by more than 30% over the same period last year and the prospects for the current financial year ending August 2021 are looking extremely positive.

The Board looks forward to further updating shareholders on the outcome of the 2020 Christmas trading period and prospects at the forthcoming AGM.

J J Diver
Joint Managing Director
21 December 2020

PRINCIPAL RISKS AND UNCERTAINTIES

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

Brexit

Brexit is a significant risk area for the Group, particularly in relation to supplies made to our customers in Ireland from the UK. Brexit will require additional labeling and other measures to be implemented by the Group to ensure that supplies between the UK and the EU/EEA member states may continue to be made in a manner that is compliant with the regulatory landscape in both trade areas. Those requirements have been identified and the relevant measures are place in readiness for Brexit, currently scheduled for 31 December 2020

COVID-19

The pandemic will continue to have a global impact for some time to come and it is not clear how this will impact our markets or supply chain. The Group has managed this risk by:

- adopting and fully implementing safe working practices at all of its premises (in line with government advice), making masks and sanitizer available as appropriate to all its staff and visitors and conducting entry temperature checks at all of its premises;
- working and liaising closely with all factories that the Group uses for its production;
- careful and timely management of its purchases;
- watchful management of freight movement difficulties;
- maintaining and servicing a retail customer base that is able to continue to operate in lock down/tightened tier restrictive conditions (e.g. essential businesses and businesses with online fulfilment capabilities).

Cyber crime

The risks from cyber-crime have grown considerably during the pandemic and are becoming increasingly more sophisticated. Phishing and, increasingly, smishing attacks are the most prevalent and effective weapons used by cyber criminals. Combining these attacks with social engineering, criminals are potentially able to gain access to enterprise systems, steal data and intellectual property and/or hold organisations to ransom. The Group manages this risk by maintaining a well-trained dedicated IT team (supported by accredited IT consultants), adopting and updating strong anti-virus and anti-spam software and filters and other software protections, maintaining off-network back-ups of critical data and information, providing regular staff training and update alerts (coupled with simulated cyber attacks on the Group's systems) and maintaining cyber risk insurance coverage.

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 using a wide range of suppliers and by operating through local offices in Hong Kong and China with teams that work closely with the factories.

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

Financial risks

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

Environmental/sustainable products

The threat to the environment from global industrial practices is an increasing point of focus for governments, businesses, social commentators, lobbyists and the general public and will be an area of greatly increased regulation in the coming years. The Group recognises its responsibility to reduce the potential for damage to the environment caused by its operations and production and is committed to reducing its environmental impact by continually improving our environmental performance as an integral part of our everyday business strategies and operating methods. We require all vendors in our supply chain to understand, and then to adopt and/or adapt work practices that are aligned with, our environmental policy requirements and aims.

SECTION S172 STATEMENT

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

S172(1)(a) of the Act - "Likely consequences of any decision in the long term"

The Directors have a responsibility to consider the likely long-term consequences of decisions that they make. The Directors understand the dynamic environment under which the business operates and the consequences of each of their decisions are carefully assessed. Examples of this are as follows:

- OVG-Proxy A/S ("Proxy")

During the year the Group acquired a further 10% interest in Proxy from the minority shareholders and, since the year-end, has acquired the balance, bringing its ownership interest in Proxy to 100%.
This was considered necessary and desirable to complement the reorganisation and rationalisation of Proxy's business that was carried out last year and to fully align the long-term interests of Proxy with the Group as a whole. It is now anticipated that Proxy will achieve profitability in the current financial year and the Group will enjoy the full benefit of this.

As stated earlier in this Strategic Report, Proxy has been appointed as the Group's authorised representative for the purposes of compliance with the EU's Toy Safety Directive, which will be necessary following Brexit and to ensure long-term access for the Group to EU markets for its products.

- Share Dividend

The continuation of the Group's progressive dividend policy was interrupted during the year under review, due to the COVID-19 pandemic. The directors are mindful of the need to balance shareholders expectations with the necessity to manage the Group's resources in a prudent manner in periods of uncertainty. The Group has grown its net cash position substantially over the year under review and has at its disposal substantial unutilised facilities, as detailed in note 20 to the financial statements. Taking account of the Group's capital expenditure, working capital requirements and an encouraging trading outlook for the Group, the Directors are confident in recommending a final dividend and signalling a resumption of a long-term, progressive dividend policy.

S172(1) (b) of the Act - "The interests of the Group's employees"

Ensuring the welfare of, and a safe working environment for, all Group employees is a duty that the Directors have particularly focused on in recent months. Our staff, at all levels of the business, are focussed, loyal, motivated and well-trained and are supported and enabled by a clear structure and framework, which has been instrumental in the success of the Group. In response to the pandemic, full operations were curtailed but all affected staff were retained with assistance from the UK Government's Job Retention Scheme.

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

S172(1) (c) "The need to foster the company's business relationships with suppliers, customers and others"

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

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

The Group has a published Ethical Policy & Code of Conduct applicable to staff and suppliers and this is regularly revised and updated, most recently to take account of developments in modern slavery and global initiatives regarding Xinjiang Province of China.

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

Dedicated marketing and sales teams collaboratively engage with our customers to coordinate product programs and maximise sales opportunities. Normally, this would include domestic and international trade exhibitions and viewings at our UK showrooms. Regretfully, as a result of the COVID-19 pandemic, these methods of engagement have not been possible. Consequently, the Group has made extensive use of electronic facilities to successfully showcase our products to our distributors and customers globally.

S172(1)(d) of the Act - "The impact of the company's operations on the community and the environment".

The impact of everyday work practices and product design on the environment are of increasing concern to the Group, its customers and consumers. In 2020, the Group formally adopted a coherent environmental policy. The policy focuses on continuously improving and monitoring the Environmental impact in the areas of:

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

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

- Character Options (the Group's principal UK trading subsidiary) invested in new machinery to produce its own shipping packaging that uses FSC managed forest certified cardboard and design software to reduce further the use of cardboard in our packaging;

- we resolved to ensure that all wood for our new wooden toy ranges is to be sourced only from FSC managed suppliers. This has been fully implemented and this approach will be expanded to include other aspects of sourcing our requirements from 2021;

- the Group was granted its own FSC Chain of custody licence, which will be used to promote and signify our use of FSC managed materials;

- the Group adopted the "REMOVE, REDUCE, RE-USE" design packaging guidelines for all Group designed products that include plastics in their packaging. This process assesses every use made of plastic in our packaging and the selection of plastic types (favouring recyclable material) from inception in the design process and promotes a circular economy approach. Ultimately, the aim of this approach is to eliminate the use of plastics in packaging, which is essential to achieve a reduction in the amount of the energy that is expended at both ends of a product's life cycle (i.e. production and end of life recycling);

- the Group revised its car policy to require that only electric cars will be acquired for its UK fleet and to encourage use of only electric cars for business mileage. Charging facilities have been installed at one UK site and being considered at other UK sites. The effects of this will be reported on in the Group's 2021 SECR report next year;

- the Group will shortly launch its own Eco plush toy range, produced entirely from widely recycled plastics, plastic free packaging and using FSC managed cardboard.

S172(1)(e) of the Act - "The desirability of the Company maintaining a reputation for high standards of business conduct".

The Group strives to maintain the highest standards of conduct, both within the Group and in its dealings with customers and suppliers. This is supported by extensive polices and processes that the Group has implemented, including our Ethical Policy & Code of Conduct, which is applicable to all of our suppliers. Employees and managers receive regular briefings on these policies and our policies are reviewed and updated, as necessary, in line with best practice.

S172(1)(f) of the Act - "The need to act fairly as between members of the company"

The Group has one class of share in issue and all shareholders benefit from the same rights and entitlements. All of the Directors are shareholders (a number of them with significant holdings) and the Board considers that the interests of the executive directors are, therefore, closely aligned with those of the shareholders. The Board has a regular dialogue with analysts and major shareholders and is aware of its legal and regulatory duties not to act in any manner that would provide any shareholder or group of shareholders with any unfair advantage compared to shareholders as a whole. The Group has a dedicated investors section on its website, which is available to all shareholders. The website includes regulatory and non- regulatory announcements and financial reports.

All shareholders are usually invited to the annual general meeting and encouraged to speak at the meeting or otherwise have discussions with the Directors after the meeting. Regretfully, due to the UK Government's restrictions at this time in response to the COVID19 pandemic, we are unable to extend this facility at the forthcoming AGM in January 2021. Instead, shareholders are being encouraged to submit written questions to the board and appropriate questions and the responses will be published on the Company's website after the AGM. The Company has established an email facility dedicated to shareholders enquiries (info@charactergroup.plc.uk) and encourages shareholders to submit questions as and when they wish to and the Company will endeavour to respond as soon as possible.

ENVIROMENTAL REPORT

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

Character Options Limited, the UK trading subsidiary appointed Comply Direct Limited to independently assess our Greenhouse gas (GHG) emissions. These emissions have been reported with reference to the latest Greenhouse Gas Protocol Corporate Accounting and Reporting standard (GHG Protocol). The 2020 UK Government GHG Conversion Factors for Company Reporting published by the UK Department for Environment Food & Rural Affairs (DEFRA) are used to convert energy use in our operations to emissions of CO_2e.
The Group's three UK sites are included in the assessment. The table below summarises these sites' GHG emissions for the reporting year 1 September 2019 to 31 August 2020.

Scope	Activity	Tonnes CO_2e
Scope 1	Site gas	167
	Company car travel	35
		202
Scope 2	Purchased electricity	99
Total Gross emissions		**301**

Total energy consumption	**1,443,758 (kWh)²**
Gross total emissions Scope 1, Scope 2 (market bases)	**295 tCO_2e**
Intensity metric: Gross tonnes of CO_2e per £m turnover (all scopes)	**5**

Energy Efficiency Action

Energy efficiency building works have been undertaken at the Group's main UK trading site. During the reporting year, the Group has implemented a transition for the car fleet to electric cars and charging points have been installed in preparation for this.

A pre-COVID strategic investment in video conferencing and other computer system developments enabled staff to effectively work from home during the pandemic, and further facilitated in a reduction in business miles travelled.

DIRECTORS' BIOGRAPHIES

Executive Directors

Jonathan Diver (aged 56), Joint Managing Director

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

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

Kiran Shah (aged 66), Joint Managing Director and Group Finance Director

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

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

Joseph Kissane (aged 68), Managing Director of UK Operations

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

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

Michael Hyde (aged 46), Managing Director of Far East Operations

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

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

Jeremiah Healy (aged 59), Group Marketing Director

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

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

Non-Executive Directors

Richard King (aged 75), Non-Executive Chairman

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

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

David Harris (aged 70), Senior Independent Non-Executive Director

David Harris was appointed to the Board in 2004; he has very broad financial experience gained over a 40 year career in both executive and non-executive capacities. He is currently a non-executive director of Manchester and London Investment Trust plc and BMO Managed Portfolio Trust plc, both of which are quoted companies on the London Stock Exchange. He is also a non-executive director of Chalfont Productions Limited, a private film production company.

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

Clive Crouch (aged 68), Non-Executive Director

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

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

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

Clive is Chairman of the Audit Committee and also a member of the Corporate Governance and Risk Management, Remuneration and Nomination Committees.

DIRECTORS' REPORT

The directors present their report together with the financial statements for the year ended 31 August 2020.

Dividend

The directors recommend a final dividend of 3.0 pence per share (2019: 13.00 pence) making a total dividend for the year of 5.0 pence per ordinary share (2019: 26.00 pence). If approved, the final dividend will be paid on 29 January 2021, to shareholders on the register on 15 January 2021.

Employment policies

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

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

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

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

Research and development

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

Policy and practice on payment of creditors

The Group does not follow any standard code of practice for paying its suppliers but, instead, agrees with each principal supplier the terms of payment for each transaction or series of transactions. The Group's policy is then to abide by those pre-arranged terms for payment. At 31 August 2020, trade creditors of the Group represented an average of 45 (2019: 47) days credit in relation to total purchases for the year.

Governance

Directors

The following directors served during the year:

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

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 2020 and 21 December 2020 (being the date of this report) were as follows:

	As at 21 December 2020		As at 31 August 2020		As at 31 August 2019	
Directors	**Number of Ordinary Shares**	**Ordinary Shares Under option**	**Number of Ordinary Shares**	**Ordinary Shares under option**	Number of Ordinary Shares	Ordinary Shares under option
K P Shah	**2,166,720**	**-**	**2,166,720**	**-**	2,152,001	-
J J Diver	**1,409,442**	**-**	**1,409,442**	**-**	1,381,003	-
J J P Kissane	**513,878**	**-**	**513,878**	**-**	506,500	-
M S Hyde	**309,681**	**92,000**	**309,681**	**100,000**	309,681	100,000
J Healy	**73,000**	**66,000**	**73,000**	**72,000**	73,000	72,000
R King	**336,286**	**-**	**336,286**	**-**	336,286	-
D Harris	**68,183**	**-**	**68,183**	**-**	60,181	-
C Crouch	**15,358**	**-**	**15,358**	**-**	15,358	-

Included in the interests of K P Shah are his interests in Ordinary Shares held by Sarissa Holdings Limited, being 2,000,000 Ordinary Shares at 21 December 2020, 31 August 2020 and 31 August 2019.

Included in the interests of J J Diver are his interests in Ordinary Shares held by Mr Diver's personal pension scheme being 551,867 Ordinary Shares at 21 December 2020, 31 August 2020 and 31 August 2019.

Included in the interests of R King are his interests in Ordinary Shares held by TOPS Pension Scheme being 176,120 Ordinary Shares at 31 August 2019 and nil as at 21 December 2020 and 31 August 2020.

Included in the interests of J Healy are his interests in Ordinary Shares held by Mr Healy's personal pension scheme being 5,000 Ordinary Shares at 21 December 2020, 31 August 2020 and 31 August 2019, and 52,000 Ordinary Shares held by his spouse, Mrs K Healy at 21 December 2020 and 31 August 2020 and 31 August 2019.

Included in the interests of D Harris are his interests in Ordinary Shares held by Mr Harris's personal pension scheme being 51,403 Ordinary Shares at 21 December 2020, 31 August 2020, and 31 August 2019.

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

Directors' indemnity insurance

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

Matters referred to in the Strategic Report

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

Environmental Report

As required by The Companies (Directors' Report) and Limited Liability Partnerships (Energy and Carbon Report) Regulations 2018, the Environmental Report is on page 16.

Share option schemes

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

Auditors

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

Statement of disclosure to auditors

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

By Order of the Board

R B Smyth
Secretary

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

Registered number 3033333
21 December 2020

CORPORATE GOVERNANCE REPORT

CHAIRMAN'S INTRODUCTION

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

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

As Chairman, I am responsible for:

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

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

CORPORATE GOVERNANCE REPORT

The Board

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

The Board comprises five executive directors and three non-executive directors, as detailed on pages 17 and 18. The Board has a formal schedule of matters reserved for its consideration. It is responsible for: setting the overall Group strategy and providing leadership to implement the strategy; supervising the management of the business; the acquisition or disposal of material corporate entities or assets; public announcements (including statutory financial statements); approving or making significant changes in accounting policy, the capital structure and dividend policy of the Group; Group remuneration policy; and Board structure, composition and succession.

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

During the year, four Board meetings were held. The directors attended as follows:

Director	Number of meetings attended
R King	4
K Shah	4
J Diver	4
J Kissane	4
M Hyde	4
J Healy	4
D Harris	4
C Crouch	4

In accordance with the terms of their appointment, each non-executive director of the Company is obliged to retire each year and is eligible for re-election at the Company's annual general meeting. The executive directors are not subject, either contractually or under the Company's Articles of Association, to a requirement to retire by rotation.

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

- the Audit Committee – Chairman, C Crouch;
- the Remuneration Committee – Chairman, D Harris (see the Committee's report set out on page 28).
- the Nominations Committee – Chairman, R King; and
- Corporate Governance and Risk Management Committee – Chairman, R King.

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

The QCA Principles

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

Before providing the disclosures required by the QCA Code, I provide the following update on developments with some practices that impact aspects of our Corporate Governance at the Company:

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

- Brexit is a significant risk area for the Group, particularly in relation to supplies made to our customers in Ireland from the UK. Brexit will require additional labeling and other measures to be implemented by the Group to ensure that supplies between the UK and the EU/EEA member states may continue to be made in a manner that is compliant with the regulatory landscape in both trade areas. Those requirements have been identified and the relevant measures were implemented well ahead of the initial Brexit deadline of 31 October 2019 and have been retained in place in readiness for the delayed Brexit, currently scheduled for 31 December 2020;

- the onset of the COVID-19 pandemic impacted the Group at its Far East bases of operation from late January 2020 and subsequently at its bases in the UK and Denmark. Measures were taken immediately to ensure the safety and wellbeing of all our personnel and the maintenance of our business-critical operations and, as the pandemic progressed, to ensure the ability of the Group to service demand for our products. Those measures have been developed and maintained in line with UK Government guidelines and will remain in place for the time being;

- the Non-Executive Directors arranged a virtual "away day" in November 2020 for the board to focus on and discuss a range of issues related to Corporate Governance, including board succession planning. The thoughts shared and developed and resolutions made during that session have been reflected in this report.

I also wish to report on an area where the position with the Company needs to be explained in order to demonstrate QCA Code compliance. This is in relation to the Board's assessment of the independence of one of its Non-Executive Directors.

David Harris was appointed as a Non-Executive Director of the Company in May 2004 and has, accordingly, held office (latterly as the Senior Independent Non-Executive Director) for in excess of 9 years. Principles of good governance require that, in those circumstances, particular consideration should be given by the Board to whether he should continue to be considered independent. The board does not see duration of service as a determining factor in assessing independence. The contributions made by a director and his/her ability to assert authority, by confidently and firmly challenging the executive members of the board when required, and to gain respect from the Board, as a whole, are considered to be more important factors in making this assessment.

David has strong, general business experience, good relations with "the City", a wealth of experience with publicly listed companies, is financially independent and has a direct manner. In the Board's view, the continuity, stability and experience that David brings to the Company adds significantly to the strength of the Board. In his time with the Company, we have seen recession, turmoil in the markets and, most recently, the pandemic and, throughout, David has maintained his calm and authoritative manner and shared his wisdom with the Board. In the circumstances, the Board is satisfied that David's independent credentials are clearly demonstrated and considers that we are very lucky to have him as one of our Non-Executive Directors.

Review of each of the QCA Code principles

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

Principle 1:
"Establish a strategy and business model which promote long-term value for shareholder."

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

Principle 2:
"Seek to understand and meet shareholder needs and expectations."

The Company engages with shareholders by:

- Announcements published via a Regulatory News Service ('RNS').
- Proactive Investor presentations and interviews.
- Conducting meetings with major shareholders on its results roadshows to obtain a balanced understanding of their issues and concerns. During the COVID-19 lockdowns and restrictions, these meetings have been conducted by audio-visual means or by telephone.
- Active engagement with shareholders at the Company's AGMs. Regretfully, the closed format of the AGM in January 2021 will not allow for this much welcomed interaction but shareholders are being urged to submitted written questions in advance of the AGM and those questions, together with the corresponding replies, will be published on the Company's website at www.thecharacter.com.
- Replying to investor questions sent to info@charactergroup.plc.uk, its registered office or otherwise submitted to the Company.

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

Principle 3:
"Take into account wider stakeholder and social responsibilities and their implications for long-term success."

The Company's key stakeholders are:

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

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

We embrace and are committed to the causes of protecting and preserving the environment and saving our planet that we know concerns many of our stakeholders. We actively seek to reduce plastics and other non-recyclable materials in, and the related packaging for, our products. The development, successful launch of, and our plans to further develop, our range of wooden toys, vehicles and accessories and the reductions that we have achieved, and continue to seek, in our packaging demonstrate this commitment. We will continue to work actively with our customers and suppliers to further reduce the impact from emissions and other harmful effects of our operations in the coming months and years.

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

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

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

In accordance with the guidance for directors on internal control "Internal Control: Guidance for Directors on the Combined Code", the Board confirms that there is an ongoing process for identifying, evaluating and managing the significant risks faced by the Group. This process has been in place throughout the year under review and is continuing. Key areas of focus in this effort since my last Corporate Governance Report have been the effects of COVID-19 and Brexit, the need to ever strengthen the protections for data controlled and/or processed by the Group and combating the increasing menace posed by Cyber criminals. Sophisticated enhancements and processes for detecting and minimising these risks have been developed and introduced and will continue to be part of our ongoing diligence in this area.

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

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

Control environment

- the setting of appropriate levels of authorisation, which must be adhered to as the Group conducts its business;
- the operation of a recognised, organisational and management reporting structure, within which individual executive directors have responsibility for the day-to-day running of the business;
- the operation of detailed procedures for the setting of annual budgets and monthly forecasts and the monitoring of actual financial performance against these targets and the impact on inventory levels, on a monthly basis, both at operational and Board level; and

a clearly defined and well-established set of accounting policies, which ensure that the financial performance is recorded on a consistent and appropriate basis throughout the Group's reporting entities.

Monitoring and corrective action

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

Risk management

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

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

As mentioned in my earlier comments regarding developments in the Company's corporate governance practices (see page 23), Brexit, and the need to ensure ease of access for the Group's products to EU markets after the UK finally leaves the EU, has been one of the foremost areas of focus for risk management in the past year. Whilst direct supplies from the Far East to the EU will not be affected by Brexit, the Board believes that the steps taken by the Group to satisfy the known dual-regulatory requirements of the EU and the UK going forward and the continued presence of the Group in the EU, through existence of its operations in Denmark, will assure the Group of continued access to the EU markets.

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

Reference is made to the section of this Report above entitled "Board" (see page 22).

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

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

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

The list and functions of the directors is set out on page 19 of this document and the skills of each member of the Board are set out in his biography on pages 17 and 18 of this document.

The Board has operates a structured approach for ensuring that the Directors are able to obtain training on relevant new developments that affect the Group's business or that may be beneficial to ensure that the Group's corporate governance practices are developed and enhanced. Whilst the Directors are free to select their own training/refresher/updating programs, if and as required (at the Company's cost), the Company is pro-active in encouraging a systematic approach to updating skills and relevant training for the Directors. Notably, the Company has in the last 12 months arranged seminars for Directors and other relevant personnel to attend, covering subjects such as data protection, the environment and Cyber crime.

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

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

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

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

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

In parallel with the evaluations of the Board and Directors, the Board has undertaken a full review of its composition, diversity and effectiveness. The findings of this review were discussed and considered at the "away day" (already mentioned in this report) that the Board held in November. With the increasing sophistication of audit requirements and financial controls, it is now apparent that the Board would benefit in the future from the addition of a further non-executive director with the experience and additional skill sets necessary to bolster the Board's ability to satisfy and fully implement the increasing governance requirements, particularly in the scope of the work and oversight of the Audit Committee of the Board. Accordingly, a process will be commenced early in the new year to recruit a suitable candidate. Whilst the Board considers experience and expertise fundamental to this appointment, particular attention will be paid to the principles of diversity and inclusion and the injection of "younger blood" to the boardroom in the selection criteria.

Succession has also been a matter of considerable deliberation by the Board, both for the executive and non-executive directors. It is recognised that plans need to be in place, and are being developed, to manage this important aspect of the Board's responsibilities to ensure the continued efficiency of the operation of the Board, the further development of the Group's strategy, the mentoring of its existing talent and the attraction of new valuable team members to our ranks.

A full review of the structure of the management teams has been undertaken and the current process of bringing emerging management talent to the boards of our main operating subsidiaries and then, when appropriate, to the main Board is to be accelerated.

A new appointment to the role of chief financial officer was made in November 2020. This position is not a board position but will greatly support the role of the Group Finance Director.

The office of company secretary has been held and discharged by Kiran Shah since 2017 but it is acknowledged by the Board that good corporate governance requires that the roles of executive director and company secretary should be separated. Accordingly, with thanks and gratitude to Kiran for his service in this role, he is relinquishing this position and, with effect from 18 December 2020, Ray Smyth, a solicitor and general counsel to the Group, has been appointed as the Company Secretary.

Both myself and David Harris (the Senior, Non-Executive Director) have proposed that the Board's succession planning should contemplate our retirement in the medium term and look to identify the means and manner of our replacement. The roles of Chairman and Senior, Non-Executive Director are crucial roles on the Board in challenging and mentoring the executive Directors, shaping the strategy for the Group, assessing and monitoring the risks for the Group and in their active involvement in the management of the Group's projects and issues and it is agreed that the planning for this succession should be foremost in the Board's thoughts. Both Mr Harris and I have confirmed that we will be happy to continue to serve on the Board for the time being, with the support of shareholders.

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

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

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

There is a spirit of collaboration at all levels of personnel within the Group (from the warehouse floors through to the boardroom), reinforced by a strong, informed and inclusive culture. This sees its expression in the continuous hard work, dedication and loyalty of the Group's personnel and in the strong and enduring bonds with the Group's customers and suppliers that has been exemplified by the performance of the Group since February 2020.

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

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

The principle governance structures within the Company are the Board and its Committees, details of which have been given earlier in this Report (see page 22). There are dynamics to the development of good governance practices and decision-making that require the Company to be ever vigilant to market, regulatory, fashion and macro-economic ontogenesis, as well as emerging technology, impacting its sphere of activity. The proven skills of our central management team, the depth of experience and knowledge of our Directors, our active market engagement through our partnerships with our customers and suppliers all ensure that the Board are alerted to and well briefed about all issues that affect our market and performance and able to make informed decisions on the short, medium and long term considerations that affect the Group's business model and/or strategy.

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

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

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

The report of the Remuneration Committee is set out on page 28 of this document.

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

The notice of AGM, the Annual and Interim reports since 2005 are available on the Company's website: www.thecharacter.com
The Company's website also includes the results of the votes cast at its most recent AGM.

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

Richard King
Chairman
21 December 2020

DIRECTORS' REMUNERATION REPORT

The Board presents the Remuneration Report for the year ended 31 August 2020.

The Remuneration Committee

The Remuneration Committee consisted of the non-executive directors: D Harris (Chairman), R King and C Crouch.

Remuneration of Directors

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

Each of the executive directors is eligible for a bonus in the event that specified performance targets are met or exceeded. These targets are based on certain profit levels being achieved in each financial year of the Group, adjusted to exclude certain exceptional non-trading items. Messrs Diver, Shah and Kissane are also entitled to a further bonus of 4%, 2% and 1% respectively of the consolidated, pre-tax profits of the Group in the event that a specified minimum target is met or exceeded. Half of this further bonus is satisfied in shares. All bonuses are capped. No bonuses were payable to the executive directors in respect of the year under review as the profit targets were not met.

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

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

Non-executive directors are appointed for a fixed term expiring at each Annual General Meeting of the Company, when they may offer themselves for re-election. The Non-Executive Chairman is entitled to fees of £100,000 per annum, plus expenses. The remaining non-executive directors are entitled to fees, currently at the rate of £40,000 per annum (2019: £40,000), plus expenses, without any right to compensation on early termination.

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

On behalf of the Board

D Harris
Chairman, Remuneration Committee
21 December 2020

DIRECTORS' RESPONSIBILITY STATEMENT

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

Company law requires the directors to prepare such financial statements for each financial year. Under that law the directors have prepared the Group and Parent Company financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union.

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and the Company and of the profit or loss of the Group for that period. In preparing these financial statements, the directors are required to:

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

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose, with reasonable accuracy at any time, the financial position of the Company and the Group and enable them to ensure that the financial statements comply with the requirements of the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and the Group and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

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

We have audited the financial statements of The Character Group plc.

The financial statements that we have audited comprise:

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

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.

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the parent Company's affairs as at 31 August 2020 and the Group's profit for the year then ended;
- the financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

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

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or

- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Group's or the parent Company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Key audit matters

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

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

Revenue recognition

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

Inventory valuation

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

Our application of materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

	Group financial statements	Parent company financial statements
Materiality	The materiality that we used for the Group financial statements was £880,000 (2019: £1m), which was determined as 8% of the three-year average of profit before tax after the impact of special items. Group performance materiality was set at 85% of materiality	The materiality that we used for the Parent Company financial statements was £324,000 (2019: £750,000), which was determined at 1% of the Parent Company's net assets Parent Company performance materiality was set at 85% of materiality
Rationale for the benchmark applied	The profit before tax for the three financial years ended 31 August 2018-2020 has been normalised in determining materiality to exclude items which, due to their variable financial impact and/or expected infrequency of the underlying events, are not considered indicative of continuing operations of the Group. These items do not form part of the Group's internally or externally monitored primary key performance indicators, and which if included, would distort materiality year on year. We consider this approach of using a three-year average to be more appropriate than an assessment based on current-year results alone, given the nature of the impact of the Covid-19 pandemic on the Group and the wider toy sector which has distorted the current year financial performance of the Group. We set our Group performance materiality of £748,000 (2019: £750,000) at a lower level than materiality to reduce the probability that in aggregate, uncorrected and undetected misstatements exceed the materiality for the financial statements as a whole.	We consider the chosen benchmark to be appropriate due to the nature of company's operations being a holding company of the Group. We set our Parent Company performance materiality of £275,000 (2019: £637,500) at a lower level than materiality to reduce the probability that in aggregate, uncorrected and undetected misstatements exceed the materiality for the financial statements as a whole.

An overview of the scope of our audit

In scoping our Group audit we first obtained an understanding of the Group and its environment, including its internal control environment. We also assessed the risks of material misstatement at the Group level.

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

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

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

Other information

The directors are responsible for the other information. The other information comprises the information included in the Annual Report and Accounts, other than the financial statements and our auditor's report thereon. Our opinion of the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In light of the knowledge and understanding of the Group and the parent Company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report and the directors' report.

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

- adequate accounting records have not been kept, or returns adequate for our audit have not been received by branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Responsibilities of directors

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

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

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs (UK), we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's or the parent Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group or the parent Company to cease as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Use of our report

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

John Coverdale FCA
Senior Statutory Auditor
for and on behalf of MHA MacIntyre Hudson
Chartered Accountants and Statutory Auditor
London
23 December 2020

GROUP INCOME STATEMENT

for the year ended 31 August 2020

	Note	**Total 2020 £000's**	Total 2019 £000's
Continuing operations			
Revenue	2	**108,867**	120,416
Cost of sales		**(78,704)**	(78,849)
Gross profit		**30,163**	41,567
Selling and distribution costs		**(7,355)**	(9,114)
Administration expenses		**(17,949)**	(21,111)
Other income		**501**	244
Operating profit before significant items and exceptional items		**5,360**	11,586
Impairment of goodwill	10	**-**	(3,132)
Contingent consideration not payable	10	**-**	1,547
Change in fair value of financial instruments		**(1,980)**	364
Gain on buy back of loan	20	**886**	-
Finance income	5	**47**	40
Discount charge on deferred consideration	5	**-**	(49)
Finance costs	5	**(388)**	(512)
Profit before income tax		**3,925**	9,844
Taxation	6	**(936)**	(2,339)
Profit for the period*		**2,989**	7,505

Note*			
Profit for the year excluding significant and exceptional items		**3,707**	8,792
Exceptional items			
Impairment of goodwill	10	**-**	(3,132)
Movements on deferred and contingent consideration	10	**-**	1,498
Gain on buy back of loan	20	**886**	-
Significant items			
Change in fair value of financial instruments		**(1,980)**	364
Tax on significant items		**376**	(66)
Profit for the period		**2,989**	7,505

Attributable to:			
Owners of the parent		**3,154**	7,905
Non-controlling interest		**(165)**	(400)
Profit for the period		**2,989**	7,505
Earnings per share before significant items and exceptional items (pence)	8		
Basic earnings per share		**18.12p**	43.27p
Diluted earnings per share		**18.08p**	42.96p
Earnings per share after significant items and exceptional items (pence)			
Basic earnings per share		**14.76p**	37.21p
Diluted earnings per share		**14.73p**	36.94p
Dividend per share (pence)	9	**15.00p**	25.00p
EBITDA (earnings before interest, tax, depreciation and amortisation)		**8,158**	13,715

GROUP STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 August 2020

	Note	**Total 2020 £000's**	Total 2019 £000's
Profit for the year after tax		**2,989**	7,505
Items that will not be reclassified subsequently to profit and loss			
Current tax credit relating to exercised share options	6	**-**	7
Deferred tax relating to share options	7	**(6)**	(9)
		(6)	(2)
Items that may be reclassified subsequently to profit and loss			
Exchange differences on translation of foreign operations		**(5)**	162
Income tax on exchange differences		**(93)**	29
		(98)	191
Other comprehensive (expense)/income for the year, net of income tax		**(104)**	189
Total comprehensive income for the year		**2,885**	7,694
Total comprehensive income for the year attributable to:			
Equity holders of the parent		**3,050**	8,104
Non-controlling interest		**(165)**	(410)
		2,885	7,694

GROUP BALANCE SHEET

as at 31 August 2020

	Note	2020 £000's	2019 £000's
Non – current assets			
Intangible assets – product development	10	**891**	903
Investment property	11	**1,584**	1,649
Property, plant and equipment	12	**3,226**	3,251
Right of use assets	14	**2,069**	-
Deferred tax assets	7	**704**	542
		8,474	6,345
Current assets			
Inventories	15	**14,736**	16,405
Trade and other receivables	16	**23,013**	34,973
Current income tax receivable	17	**244**	-
Derivative financial instruments	18	**75**	398
Cash and cash equivalents	19	**22,292**	29,990
		60,360	81,766
Current liabilities			
Short-term borrowings	20	**(3,168)**	(22,174)
Trade and other payables	21	**(26,432)**	(28,766)
Lease Liabilities	14	**(550)**	-
Income tax	17	**(777)**	(1,083)
Derivative financial instruments	18	**(2,293)**	(637)
		(33,220)	(52,660)
Net current assets		**27,140**	29,106
Non-current liabilities			
Deferred tax	7	**(21)**	(2)
Lease liabilities	14	**(1,547)**	-
Long term borrowings	20	**-**	(1,312)
		(1,568)	(1,314)
Net assets		**34,046**	34,137
Equity			
Called up share capital	25	**1,181**	1,183
Shares held in treasury		**(1,870)**	(1,912)
Capital redemption reserve		**1,776**	1,774
Share-based payment reserve		**3,369**	3,180
Share premium account		**17,324**	17,161
Merger reserve		**651**	651
Translation reserve		**727**	1,223
Profit and loss account		**11,231**	11,293
Attributable to equity holders of the parent		**34,389**	34,553
Non-controlling interest		**(343)**	(416)
Total equity		**34,046**	34,137

The financial statements on pages 36 to 72 were approved by the Board of Directors on 21 December 2020.

J J Diver
Joint Managing Director

K P Shah
Joint Managing Director and Group Finance Director

COMPANY BALANCE SHEET

as at 31 August 2020

	Note	2020 £000's	2019 £000's
Non – current assets			
Property, plant and equipment	12	**286**	324
Right of use asset	14	**440**	-
Investments in subsidiaries	13	**4,013**	3,834
Deferred tax assets	7	**14**	21
		4,753	4,179
Current assets			
Trade and other receivables	16	**37,963**	28,921
Cash and cash equivalents	19	**4,644**	1,183
		42,607	30,104
Current liabilities			
Trade and other payables	21	**(201)**	(833)
Lease liabilities	14	**(106)**	-
Income tax		**(68)**	-
		(375)	(833)
Net current assets		**42,232**	29,271
Non-current liabilities			
Lease liabilities	14	**(341)**	-
		(341)	-
Net assets		**46,644**	33,450
Equity			
Called up share capital	25	**1,181**	1,183
Shares held in treasury		**(1,870)**	(1,912)
Capital redemption reserve		**1,776**	1,774
Share-based payment reserve		**3,369**	3,180
Share premium account		**17,324**	17,161
Profit and loss account		**24,864**	12,064
Total equity attributable to equity holders of the parent		**46,644**	33,450

The financial statements on pages 36 to 72 were approved by the Board of Directors on 21 December 2020.

J J Diver
Joint Managing Director

K P Shah
Joint Managing Director and Group Finance Director

GROUP AND COMPANY CASH FLOW STATEMENT

for the year ended 31 August 2020

	Note	Group 2020 £000's	Group 2019 £000's	Company 2020 £000's	Company 2019 £000's
Cash flow from operating activities					
Profit before taxation for the year after significant and exceptional items		**3,925**	9,844	**16,243**	4,029
Adjustments for:					
Depreciation of property, plant and equipment	12	**544**	481	**43**	44
Depreciation of investment property	11	**65**	66	**-**	-
Depreciation of right of use assets	14	**412**	-	**110**	-
Amortisation of intangible assets	10	**1,783**	1,582	**-**	-
Gain on buyback of loan	20	**(886)**	-	**-**	-
Impairment of goodwill	10	**-**	3,132	**-**	-
Contingent consideration not payable	10	**-**	(1,547)	**-**	-
(Profit) / Loss on disposal of property, plant and equipment		**(9)**	1	**-**	-
Discount on deferred consideration	5	**-**	49	**-**	-
Net interest expense	5	**341**	472	**42**	26
Financial instruments fair value adjustments	18	**1,980**	(364)	**-**	-
Share-based payments	26	**189**	190	**11**	11
Decrease / (Increase) in inventories		**1,669**	(1,831)	**-**	-
Decrease / (Increase) in trade and other receivables		**11,960**	(1,283)	**(9,042)**	(387)
(Decrease) in trade and other creditors		**(2,334)**	(438)	**(632)**	(131)
Cash generated from operations		**19,639**	10,354	**6,775**	3,592
Finance income	5	**47**	40	**-**	-
Finance expense	5	**(388)**	(512)	**(42)**	(26)
Income tax paid		**(1,728)**	(1,999)	**-**	-
Net cash inflow from operating activities		**17,570**	7,883	**6,733**	3,566
Cash flows from investing activities					
Purchase of investment in subsidiary company	13	**-**	-	**-**	(5)
Purchase of subsidiary company	10	**-**	(8,925)	**-**	-
Payments for intangible assets	10	**(1,771)**	(1,682)	**-**	-
Payments for property, plant and equipment	12	**(528)**	(449)	**(5)**	(6)
Proceeds from disposal of property, plant and equipment		**12**	28	**-**	-
Net cash outflow from investing activities		**(2,287)**	(11,028)	**(5)**	(11)
Cash flows from financing activities					
Reduction of borrowings	20	**1,408**	-	**-**	-
Buyback of loan	20	**(521)**	-	**-**	-
Payment of lease liabilities		**(378)**	-	**(102)**	-
Proceeds from issue of share capital		**205**	519	**205**	519
Purchase of own shares for cancellation		**(163)**	(1,270)	**(163)**	(1,270)
Dividends paid	9	**(3,207)**	(5,316)	**(3,207)**	(5,316)
Unwinding of discount on deferred consideration		**-**	(15)	**-**	-
Net cash used in financing activities		**(2,656)**	(6,082)	**(3,267)**	(6,067)
Net increase / (decrease) in cash and cash equivalents		**12,627**	(9,227)	**3,461**	(2,512)
Cash, cash equivalents and borrowings at the beginning of the year		**6,504**	15,580	**1,183**	3,695
Effects of exchange rate movements		**(7)**	151	**-**	-
Cash, cash equivalents and borrowings at the end of the year		**19,124**	6,504	**4,644**	1,183

Cash, cash equivalents and borrowings consist of:

	Note	Group 2020 £000's	Group 2019 £000's	Company 2020 £000's	Company 2019 £000's
Cash and cash equivalents	19	**22,292**	29,990	**4,644**	1,183
Total borrowings	20	**(3,168)**	(23,486)	**-**	-
Cash, cash equivalents and borrowings at the end of the year		**19,124**	6,504	**4,644**	1,183

GROUP STATEMENT OF CHANGES IN EQUITY

for the year ended 31 August 2020

	Note	Called up share capital £000's	Shares held in treasury £000's	Capital redemption reserve £000's	Share premium account £000's	Merger reserve £000's	Share-based payment reserve £000's	Translation reserve £000's	Profit and loss account £000's	Non-controlling interest £000's	Total £000's
The Group											
At 1 September 2018		**1,195**	**(2,242)**	**1,762**	**16,258**	**651**	**2,990**	**898**	**10,249**	**-**	**31,761**
Profit/(loss) for the year after tax		-	-	-	-	-	-	-	7,905	(400)	7,505
Other comprehensive (expense)/income											
Net exchange differences on translation of foreign operations		-	-	-	-	-	-	325	(124)	(10)	191
Deferred tax debit relating to share options	7	-	-	-	-	-	-	-	(9)	-	(9)
Current tax credit relating to exercised share options	6	-	-	-	-	-	-	-	7	-	7
Total other comprehensive expense								**325**	**(126)**	**(10)**	**189**
Total comprehensive income for the year								**325**	**7,779**	**(410)**	**7,694**
Transactions with owners, recorded directly in equity											
Non controlling interest on acquisition of subsidiary	10	-	-	-	-	-	-	-	-	(155)	(155)
Change in non controlling interest	10	-	-	-	-	-	-	-	(149)	149	-
Share-based payment	26	-	-	-	-	-	190	-	-	-	190
Dividends	9	-	-	-	-	-	-	-	(5,316)	-	(5,316)
Shares issued as consideration for acquisition of subsidiary	10	-	126	-	588	-	-	-	-	-	714
Shares issued	25	-	204	-	315	-	-	-	-	-	519
Shares cancelled	25	(12)	-	12	-	-	-	-	(1,270)	-	(1,270)
At 31 August 2019		**1,183**	**(1,912)**	**1,774**	**17,161**	**651**	**3,180**	**1,223**	**11,293**	**(416)**	**34,137**
Profit/(loss) for the year after tax									3,154	(165)	2,989
Other comprehensive (expense)/income											
Net exchange differences on translation of foreign operations		-	-	-	-	-	-	(496)	398	-	(98)
Deferred tax debit relating to share options	7	-	-	-	-	-	-	-	(6)	-	(6)
Total other comprehensive expense								**(496)**	**392**	**-**	**(104)**
Total comprehensive income for the year								**(496)**	**3,546**	**(165)**	**2,885**
Transactions with owners, recorded directly in equity											
Change in non controlling interest	10	-	-	-	-	-	-	-	(238)	238	-
Share-based payment	26	-	-	-	-	-	189	-	-	-	189
Dividends	9	-	-	-	-		-	-	(3,207)	-	(3,207)
Shares issued	25		42		163	-	-	-	-	-	205
Shares cancelled	25	(2)	-	2	-	-	-	-	(163)	-	(163)
At 31 August 2020		**1,181**	**(1,870)**	**1,776**	**17,324**	**651**	**3,369**	**727**	**11,231**	**(343)**	**34,046**

COMPANY STATEMENT OF CHANGES IN EQUITY

for the year ended 31 August 2020

	Note	Called up share capital £000's	Shares held in treasury £000's	Capital redemption reserve £000's	Share premium account £000's	Share-based payment reserve £000's	Profit and loss account £000's	Total £000's
At 1 September 2018		**1,195**	**(2,242)**	**1,762**	**16,258**	**2,990**	**14,756**	**34,719**
Profit for the year		-	-	-	-	-	3,896	3,896
Total comprehensive income for the year		-	-	-	-	-	**3,896**	**3,896**
Transactions with owners, recorded directly in equity								
Shares issued	25	-	126	-	588	-	-	714
Shares issued as consideration on acquisition	25	-	204	-	315	-	-	519
Shares cancelled	25	(12)	-	12	-	-	(1,270)	(1,270)
Share-based payment – Company	26	-	-	-	-	11	-	11
Share-based payment – Subsidiary undertaking	26	-	-	-	-	179	-	179
Deferred tax on share options	7	-	-	-	-	-	(2)	(2)
Dividend paid	9	-	-	-	-	-	(5,316)	(5,316)
At 31 August 2019		**1,183**	**(1,912)**	**1,774**	**17,161**	**3,180**	**12,064**	**33,450**
Profit for the year		-	-	-	-	-	16,176	16,176
Total comprehensive income for the year		**-**	**-**	**-**	**-**	**-**	**16,176**	**16,176**
Transactions with owners, recorded directly in equity								
Shares issued	25	-	42	-	163	-	-	205
Shares cancelled	25	(2)	-	2	-	-	(163)	(163)
Share-based payment – Company	26	-	-	-	-	10	-	10
Share-based payment – Subsidiary undertaking	26	-	-	-	-	179	-	179
Deferred tax on share options	7	-	-	-	-	-	(6)	(6)
Dividend paid	9	-	-	-	-	-	(3,207)	(3,207)
At 31 August 2020		**1,181**	**(1,870)**	**1,776**	**17,324**	**3,369**	**24,864**	**46,644**

Capital and Reserves

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

NOTES TO THE FINANCIAL STATEMENTS

1 PRINCIPAL ACCOUNTING POLICIES

General information

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

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

Standards, amendments and interpretations effective in the current period

	Effective for annual periods beginning on or after:
IFRS 9 (amendment) Prepayment Features with Negative Compensation	- 1 January 2019
IFRS 16 Leases	- 1 January 2019
IFRIC 23 Uncertainty over Income Tax Treatment	- 1 January 2019
IFRS 2015-17 Annual improvements	- 1 January 2019

The Group has adopted IFRS 16 from 1 September 2019 using the modified retrospective approach, comparatives have not been restated. The Group has applied exemptions available under the standard relating to short term leases. No other standard or interpretation that came into effect for the first time for the financial year beginning 1 September 2019 have had an impact on the Group.

Standards, amendments and interpretations in issue not yet adopted

The following new standards, amendments and interpretations are yet to become mandatory and have not been applied in the Group's consolidated financial statements for the year ended 31 August 2020.

	Effective for annual periods beginning on or after:
IAS 1 (amendment) Presentation of Financial Statements on classification of liabilities	- 1 January 2022
IAS 1 & IAS 8 (amendments) – Definition of material	- 1 January 2020
IFRS 3 (amendment) Business Combinations	- 1 January 2020
IFRS 16 (amendment) – Covid-19 related rent concessions	- 1 June 2020
Amendments to References to the Conceptual Framework in IFRS Standards	- 1 January 2020

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

SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

The Group and the Company financial statements have been prepared in accordance with applicable International Financial Reporting Standards ('IFRS') including International Accounting Standards (IAS) and IFRS Interpretations Committee (IFRS IC) interpretations as adopted for use in the European Union and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS.

Basis of preparation

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

CHANGES IN SIGNIFICANT ACCOUNTING POLICIES

Adoption of IFRS 16 "Leases"

The Group has adopted IFRS 16 "Leases" as at 1 September 2019 using the modified retrospective approach. Previously the Group' leases were classified as operating leases under IAS 17, which were off-balance sheet and charged to the income statement on a straight-line basis over the term of the lease. On adoption of IFRS 16 a right of use asset and a lease liability is included on the balance sheet and depreciation and interest has been charged to the income statement instead of existing rental expenses. The Group has elected on adoption not to recognise right of use assets and lease liabilities for leases with a remaining term of less than one year. The lease payments associated with these agreements is recognised on a straight-line basis over the remaining lease term.

Lease payments have been discounted at the lessees incremental borrowing rates ranging between 2.9605% to 5.35%.

Reconciliation of lease liabilities

Operating lease commitments at 31 August 2019	1,830
Impact of discounting minimum lease payments	(95)
Short term leases	(264)
Translation differences	(116)
Lease Liability at 1 September 2019	**1,355**

A summary of the impact on the Group income statement and balance sheet is as follows:

	12 months to 31 August 2020 £000's
Operating costs:	
Rent	438
Depreciation	(412)
Translation differences	6
Net reduction to Operating costs	32
Finance costs (interest)	(60)
Net decrease to Profit Before Tax	**(28)**

Impact on the Group balance sheet

	31 August 2020 £000's
Right of use asset	2,069
Lease liability	(2,097)
Retained Earnings	**(28)**

Business combinations

The acquisition method of accounting is used to record and report the acquisition of subsidiaries. The consideration for each acquisition is measured at the date of acquisition as the aggregate of the fair values of assets transferred and liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquired company. Acquisition-related costs are recognised in the Group's consolidated profit or loss account, as incurred.
Subsequent changes in the fair value of contingent consideration classified as an asset or liability are accounted through profit or loss.

Basis of consolidation

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

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

Exemptions

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

FOREIGN CURRENCY TRANSLATION

Functional and presentation currency

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

Transactions and balances

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

Group companies

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

Revenue recognition

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

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

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

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

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

IMPAIRMENT OF NON-FINANCIAL ASSETS

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

INTANGIBLE ASSETS

Goodwill

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

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

Product development expenditure

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

TANGIBLE ASSETS

Property, Plant and Equipment

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

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

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

Investment Properties

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

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

Freehold land	nil
Freehold buildings	4%

Investments

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

Inventories

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

FINANCIAL INSTRUMENTS

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

Derecognition of financial assets and liabilities

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

Impairment of financial assets

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

Derivative Financial Instruments

The Group has derivative financial instruments in respect of forward foreign exchange contracts and options to manage the Group's exposure to currency movements. Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at each balance sheet date. Resulting changes in fair value are recognised in the income statement. Further details are provided in note 18.

Non Derivative Financial Instruments

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

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

Trade receivables

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

Cash and cash equivalents

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

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

Trade payables

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

Interest bearing loans and borrowings

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

Provisions

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

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

LEASES

The Group as Lessor

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

The Group or the Company as Lessee

The Group leases properties and motor vehicles.

The accounting policy on leases up to 31 August 2019 was as follows:

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.

This policy has been amended in accordance with IFRS 16 as follows:

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

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

Share-based payment

The Company issues equity settled awards to certain employees. The fair value of equity settled awards 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.

Employee benefits

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

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

Segmental information

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

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

Taxation

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

Current and deferred tax in excess of the amount arising on the share-based payment charged to the Group Income Statement, is recognised in equity.

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

Deferred tax is provided on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

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.

Treasury shares

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

SIGNIFICANT JUDGEMENTS AND ESTIMATES

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

Intangible assets

Goodwill

Goodwill is reviewed for impairment annually and when there are events or changes in circumstances that may affect the carrying value. Determining whether goodwill is impaired requires an estimate of the value in use of the business being tested. This involves the calculation of estimated future cash flows, an assessment of the achievability of strategic plans and assumptions for the macroeconomic environment of the business.

Development

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

Investment Property

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

Stock obsolescence

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

Revenue recognition

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

Customer returns & allowances

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

Fair value of derivatives

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

Deferred tax assets

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

Share-based payments

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

2 SEGMENT REPORT - GROUP

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

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

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

Analysis of unallocated assets and liabilities:

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

Unallocated expenses comprise corporate expenses.

2 SEGMENT REPORT - GROUP

Year ended 31 August 2019	UK £000's	Far East £000's	Scandinavia £000's	Unallocated £000's	Total £000's
Revenue - external (by origin)	70,206	37,207	13,003	–	120,416
Segment adjusted operating profit	7,021	7,366	(843)	(186)	13,358
Amortisation of intangible assets	–	–	–	–	(1,582)
Financial instruments fair value adjustments	–	–	–	–	364
Impairment of goodwill	–	–	–	–	(3,132)
Contingent consideration not payable	–	–	–	–	1,547
Share-based payments	–	–	–	–	(190)
Operating profit after significant items & exceptional items					10,365
Discount charge on deferred consideration					(49)
Finance costs					(512)
Finance income					40
Profit before tax					9,844
Taxation					(2,339)
Profit for the year after tax					7,505
Segment assets	57,096	17,477	10,403	3,135	88,111
Segment liabilities	(27,953)	(18,898)	(5,666)	(1,457)	(53,974)
Other segment information					
Non-current assets	2,205	2,394	499	1,247	6,345
Capital on acquisition of subsidiary	–	–	173	–	173
Capital additions	329	14	100	6	449
Capital disposals	(86)	–	–	–	(86)
Depreciation of property, plant and equipment	(302)	(71)	(64)	(44)	(481)
Depreciation of investment property	–	(66)	–	–	(66)

Analysis of unallocated assets and liabilities:

Assets	Total £000's	Liabilities	Total £000's
Corporate assets	324	Corporate creditors & accruals	(820)
Derivative financial instruments	398	Derivative financial instruments	(637)
Deferred tax asset	64		
Corporate cash at bank and in hand	1,183		
Intangible assets – product development	903		
Corporate debtors & prepayments	263		
Unallocated assets	**3,135**	**Unallocated liabilities**	**(1,457)**

Unallocated expenses comprise corporate expenses.

GEOGRAPHICAL DESTINATION OF REVENUE

	31 August 2020 £000's	31 August 2019 £000's
United Kingdom	**69,078**	85,143
Rest of the world	**39,789**	35,273
Total Group	**108,867**	120,416

Revenues of approximately £25,051,000 (2019: £33,648,000) were derived from 2 (2019: 2) external customers individually representing 10% or more of revenue. These revenues are attributable to both UK & Far East geographic segments. Revenues from the Group's Scandinavian operations have been included from 18 October 2018.

3 EXPENSES BY NATURE - GROUP

	Note	12 months to 31 August 2020 £000's	12 months to 31 August 2019 £000's
Operating profit is stated after charging/(crediting):			
Cost of inventories recognised as an expense (included in cost of sales)		**71,281**	71,477
Product development costs incurred		**1,863**	1,810
Product development costs capitalised		**(1,771)**	(1,682)
Amortisation of capitalised product development costs		**1,783**	1,582
Product development costs expensed to cost of sales		**1,875**	1,710
Debit/(credit) financial instruments fair value adjustments		**1,980**	(364)
Inventories (credit)/write down		**(97)**	(256)
Exchange losses		**119**	82
Staff costs	4	**10,542**	13,827
Depreciation of tangible fixed assets			
- owned assets	12	**544**	481
Depreciation of investment property	11	**65**	66
(Profit)/loss on disposal of property, plant and equipment		**(9)**	1
Depreciation – right of use assets		**412**	-
Operating leases — land, buildings and motor cars		**233**	490
Auditor's remuneration		**141**	137

ANALYSIS OF AUDITOR'S REMUNERATION

		12 months to 31 August 2020 £000's	12 months to 31 August 2019 £000's
Group Auditor's remuneration			
	— Statutory audit services current year	**52**	45
	— Interim review and other assurance services	**8**	8
Other Auditors' remuneration			
	— Statutory audit of the Group's subsidiaries	**75**	78
	— Taxation compliance	**6**	6
Total fees payable to Auditors		**141**	137

4 DIRECTORS AND EMPLOYEES REMUNERATION STAFF COSTS - GROUP

	12 months to 31 August 2020 £000's	12 months to 31 August 2019 £000's
Staff costs including directors' emoluments		
Wages and salaries	**9,181**	12,087
Social security costs	**633**	961
Pension costs	**539**	589
Share-based payments	**189**	190
	10,542	13,827
The average number of employees during the year was:	**Number**	Number
Management and administration	**84**	86
Selling and distribution	**125**	126
	209	212

Of the total average number of employees, 121 (2019: 124) were based in the UK, 24 in Scandinavia (2019:24) and 64 (2019: 64) in Hong Kong and mainland China.

The amount payable to pension schemes as at the balance sheet date was £19,000 (2019: £10,000).

4 DIRECTORS AND EMPLOYEES REMUNERATION CONTINUED
KEY MANAGEMENT PERSONNEL

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

	12 months to 31 August 2020 £000's	12 months to 31 August 2019 £000's
Salaries, short-term benefits and pension contribution	**1,360**	3,473
Share-based payments	**39**	39
	1,399	3,512

ANALYSIS OF DIRECTORS' REMUNERATION

The following table shows a breakdown of the remuneration of the directors for the year ended 31 August 2020 and the year ended 31 August 2019.

Year ended 31 August 2020

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

Year ended 31 August 2019

	Salary/fees £	Performance bonus £	Benefits in kind £	Pension contribution £	Total £
R King (non-executive)	100,000	-	16,840	-	116,840
J J Diver	245,916	778,135	10,708	-	1,034,759
K P Shah	245,916	558,176	9,855	-	813,947
J J P Kissane	215,592	406,439	7,255	-	629,286
M S Hyde	258,701	258,701	4,970	23,880	546,252
J Healy	118,000	118,000	4,324	11,800	252,124
D Harris (non-executive)	40,000	-	-	-	40,000
C Crouch (non-executive)	40,000	-	-	-	40,000
	1,264,125	2,119,451	53,952	35,680	3,473,208

In the year ended 31 August 2020 certain of the directors received remuneration (which is included in the amounts above) through payments by the Group to third parties as follows: £75,000 was paid to Bali Hai Consultancies for part of the services of R King (2019: £75,000); £40,000 was paid to Clive Crouch Media Insight Limited for the services of C Crouch (2019: £40,000); £40,000 was paid to Inva Trust Consultancy Limited for the services of D Harris (2019: £40,000).

4 DIRECTORS AND EMPLOYEES REMUNERATION CONTINUED
KEY MANAGEMENT PERSONNEL

Directors interests in long term incentive schemes

On 25 September 2014, options were granted under the 2006 Plan at a price of 213 pence per share to J Healy over 72,000 existing Ordinary Shares held by the Company in treasury. Such options were subject to satisfaction of a predetermined, profit related performance target, which has been satisfied, and became exercisable three years following the date of grant and until the tenth anniversary of the date of grant. J Healy exercised his option entitlement: in respect of 14,000 Ordinary Shares on 21 December 2018 (at which time the mid-market price of an issued Ordinary Share was 540 pence): in respect of 18,000 Ordinary Shares on 2 January 2019 (at which time the mid-market price of an issued Ordinary Share was 550 pence): and in respect of 40,000 Ordinary Shares on 4 February 2019 (at which time the mid-market price of an issued Ordinary Share was 532 pence). J Healy's net gain from such option exercises amounted to £234,040.

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

At 31 August 2020, the mid-market price of an issued Ordinary Share in The Character Group plc was 348 pence. During the year the mid-market price ranged from 190 pence to 430 pence.

5 NET FINANCE COSTS - GROUP

	12 months to 31 August 2020 £000's	12 months to 31 August 2019 £000's
Finance costs:		
Interest payable on bank overdraft and similar charges	**(53)**	(229)
Interest payable on long term loan	**(140)**	(145)
Discount charge on deferred consideration	**-**	(49)
Factor and invoice discounting advances	**(135)**	(138)
Interest on right of use assets	**(60)**	-
	(388)	(561)
Finance income:		
Interest earned on cash and cash equivalents	**47**	40
Net finance costs	**(341)**	(521)

6 TAXATION - GROUP

	Note	12 months to 31 August 2020 £000's	12 months to 31 August 2019 £000's
UK Corporation Tax			
Tax on profit for the period		**76**	1,047
Adjustments to tax charge in respect of previous periods		**(8)**	11
Total UK corporation tax		**68**	1,058
Foreign Tax			
Tax on profit for the period		**1,021**	1,157
Adjustments to tax charge in respect of previous periods		**(4)**	(78)
Total foreign tax		**1,017**	1,079
Total current tax		**1,085**	2,137
Deferred Tax			
Origination and reversal of timing differences	7	**(149)**	202
Total deferred tax		**(149)**	202
Tax on profit on ordinary activities		**936**	2,339
Factors affecting tax charge for the period			
Profit before significant and exceptional items and taxation		**3,039**	11,065
Profit / (loss) on significant and exceptional items before taxation		**886**	(1,221)
Profit before taxation after significant and exceptional items		**3,925**	9,844
Profit multiplied by standard rate of corporation tax in the UK of 19% (2019: 19%)		**746**	1,870
Effects of:			
Gain on buyback of loan		**(195)**	-
Impairment of goodwill		**-**	595
Contingent consideration not payable		**-**	(293)
(Income)/expenses (not chargeable)/deductible for tax purposes		**53**	105
Capital allowances less than depreciation		**47**	34
Lower tax rate on overseas earnings		**(156)**	(203)
Unrecognised losses utilised		**(4)**	-
Tax losses not recognised for deferred tax		**473**	284
Effect of change of tax rate		**(13)**	14
Effect of exchange differences		**(3)**	-
Adjustments to tax charge in respect of previous periods		**(12)**	(67)
Tax charge reported in the income statement		**936**	2,339

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

Income tax credit on exercise of employee share options	**-**	(7)
Income tax debit / (credit) on exchange losses on intra Group balances	**93**	(29)
Deferred tax on share options	**6**	9
Net tax debit / (credit) to equity	**99**	(27)

The Finance Bill 2015 was substantively enacted on 26 October 2015 and reduced the Corporation Tax rate to 19% with effect from 1 April 2017 and 18% from 1 April 2020. The Finance Bill 2016 was substantively enacted on 6 September 2016 and further reduced the applicable rate from 1 April 2020 to 17%. This was reversed in the Finance Bill 2020 substantially enacted on 17 March 2020 with the corporation tax rate remaining at 19%. The deferred tax assets and liabilities at 31 August 2020 have been calculated based on a tax rates of 19% for UK deferred tax assets and liabilities and 22% for Danish deferred tax assets.

7 DEFERRED INCOME TAX - GROUP

Deferred tax is calculated on temporary differences under the liability method using a tax rate of 19% (2019: 17%) for UK differences and local rates for overseas differences.

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

	2020 £000's	2019 £000's
As at 1 September	**540**	466
Acquired	**-**	285
Credit / (charge) to the income statement	**149**	(202)
(Charge) / credit to equity	**(6)**	(9)
As at 31 August	**683**	540

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

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities	
	2020 £000's	2019 £000's	2020 £000's	2019 £000's
Property, plant and equipment	**-**	32	**(15)**	-
Employee share scheme charges	**13**	19	**-**	-
Derivative financial instruments	**421**	43	**-**	-
Inventories	**165**	163	**-**	-
Short-term timing differences	**-**	-	**(6)**	(2)
Tax losses	**105**	285	**-**	-
Tax assets/(liabilities)	**704**	542	**(21)**	(2)
Net tax asset	**683**	540	**-**	-

Movement in recognised deferred tax during the year:

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

Movement in recognised deferred tax during the prior year:

	1 September 2018 £000's	Acquired £000's	Recognised in income £000's	Recognised in equity £000's	31 August 2019 £000's
Property, plant and equipment	35	-	(3)	-	32
Derivative financial instruments	115	-	(72)	-	43
Inventories	167	-	(4)	-	163
Employee share scheme charges	152	-	(124)	(9)	19
Short-term timing differences	(3)	-	1	-	(2)
Loss acquired	-	285	-	-	285
	466	285	(202)	(9)	540

Deferred tax assets amounting to £730,000 (2019: £303,000) have not been recognised in respect of certain trading losses and tax allowable deductions, due to the unpredictability of future taxable profit streams in certain subsidiaries.

7 DEFERRED INCOME TAX - COMPANY

Recognised deferred tax assets and liabilities:

	Assets		Liabilities	
	2020	2019	**2020**	2019
	£000's	£000's	**£000's**	£000's
Employee share scheme charges	**13**	19	**-**	-
Property, plant and equipment	**1**	2	**-**	-
Tax assets	**14**	21	**-**	-
Net tax asset	**14**	21	**-**	-

Movement in recognised deferred tax during the year:

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

Movement in recognised deferred tax during the prior year:

	1 September 2018 £000's	Recognised in income £000's	Recognised in equity £000's	31 August 2019 £000's
Employee share scheme charges	152	(124)	(9)	19
Property, plant and equipment	4	(2)	-	2
	156	(126)	(9)	21

8 EARNINGS PER SHARE - GROUP

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

	Year ended 31 August 2020 Profit after taxation £	Year ended 31 August 2019 Profit after taxation £
Profit attributable to equity shareholders of the parent	**3,154,000**	7,905,000
Financial instruments fair value adjustments net of tax	**1,604,000**	(298,000)
Gain on buyback of loan	**(886,000)**	-
Impairment of goodwill	**-**	3,132,000
Contingent consideration not payable	**-**	(1,547,000)
Profit for adjusted earnings per share	**3,872,000**	9,192,000
Weighted average number of ordinary shares in issue during the year – basic	**21,367,710**	21,241,756
Weighted average number of dilutive potential ordinary shares	**50,590**	152,886
Weighted average number of ordinary shares for diluted earnings per share	**21,418,300**	21,394,642
Earnings per share before significant items and exceptional items		
Basic earnings per share (pence)	**18.12p**	43.27p
Diluted earnings per share (pence)	**18.08p**	42.96p
Earnings per share after significant items and exceptional items		
Basic earnings per share (pence)	**14.76p**	37.21p
Diluted earnings per share (pence)	**14.73p**	36.94p

9 DIVIDEND - GROUP

	12 months to 31 August 2020 £000's	12 months to 31 August 2019 £000's
On equity shares:		
Final dividend paid for the year ended 31 August 2019		
13.00 pence (2018: 12.00 pence) per share	**2,777**	2,539
Interim dividend paid for the year ended 31 August 2020		
2.00 pence (2019: 13.00 pence) per share	**430**	2,777
15.00 pence (2019: 25.00 pence) per share	**3,207**	5,316

The directors recommend a final dividend of 3.0 pence per share (2019: 13.00 pence) amounting to £641,000 (2019: £2,777,000). If approved by shareholders, the final dividend will be paid on 29 January 2021 to shareholders on the register on 15 January 2021.

10 INTANGIBLE FIXED ASSETS - GROUP

Cost	Goodwill £000's	Product development £000's	Total £000's
1 September 2018	**-**	**3,118**	**3,118**
Acquired	3,132	-	3,132
Additions	-	1,682	1,682
Write off fully amortised assets	-	(1,550)	(1,550)
31 August 2019	**3,132**	**3,250**	**6,382**
Additions	-	1,771	1,771
Write off fully amortised assets	-	(1,568)	(1,568)
31 August 2020	**3,132**	**3,453**	**6,585**
Amortisation & Impairment			
1 September 2018	**-**	**2,315**	**2,315**
Impairment	3,132	-	3,132
Charge for the year	-	1,582	1,582
Write off fully amortised assets	-	(1,550)	(1,550)
31 August 2019	**3,132**	**2,347**	**5,479**
Charge for the year	-	1,783	1,783
Write off fully amortised assets	-	(1,568)	(1,568)
31 August 2020	**3,132**	**2,562**	**5,694**
Net book value			
31 August 2020	**-**	**891**	**891**
31 August 2019	-	903	903

On 17 October 2018, the Group acquired 55% of the equity shareholding of OVG-PROXY A/S ("Proxy"), a Scandinavian toy distributer based in Copenhagen. The consideration paid to date to the Proxy vendors amounted to £1.44 million, satisfied by the transfer from treasury of 150,000 ordinary shares in the Company and the payment of £0.73 million in cash. No further consideration is payable.

On 31 May 2019, the Group acquired a further 20% of the issued share capital of Proxy for a nominal consideration of one Danish Krone. On 10 June 2020, the Group acquired a further 10% of the issued share capital for a nominal consideration of one Danish Krone.

10 INTANGIBLE FIXED ASSETS - GROUP CONTINUED

The cash outflow under "purchase of subsidiary company" of £8,925,000 on the face of the Consolidated Group Cash Flow Statement in the year to 31 August 2019 relates to the acquisition of Proxy:

	£000's
Initial consideration	294
First year earn-out	421
Invoice discounting	4,694
Bank borrowings	2,296
Long term loan	1,220
Cash consideration excluding acquisition costs	**8,925**
Fair value of 150,000 ordinary shares of The Character Group plc	714
Discounted contingent consideration	1,513
Total consideration	**11,152**
The acquisition had the following effect on the Group's assets and liabilities:	
Acquisition fair value	£000's
Fixed assets	173
Stock	3,683
Trade & other receivables	8,135
Trade & other payables	(4,538)
Current & deferred tax	412
Net identifiable assets	**7,865**
Goodwill	3,132
Non-controlling interest	155
	11,152

The principal factor contributing to the goodwill relates to the Proxy management team and their extensive knowledge and experience of toy distribution in Scandinavia. There are no other separately identifiable acquired intangible assets.
The goodwill and the contingent consideration was written back in the Group Income Statement in the year ended 31 August 2019.

11 INVESTMENT PROPERTY - GROUP

Cost	**Total £000's**
1 September 2018, 1 September 2019 and 31 August 2020	**2,194**
Depreciation	
1 September 2018	479
Charge for the year	66
31 August 2019	**545**
Charge for the year	65
31 August 2020	**610**
Net book value	
31 August 2020	**1,584**
31 August 2019	1,649

The investment property is held at depreciated historical cost. The fair value of the investment property has been assessed by an independent valuer at £2.9 million in November 2019. During the year the Group received gross rental income of £235,000 (2019: £220,000).

Expenses incurred in respect of occupied premises were £10,000 (2019: £3,000). Expenses in respect of unoccupied premises were £23,000 (2019: £5,000).

12 PROPERTY, PLANT AND EQUIPMENT – GROUP

Cost	Freehold land and buildings £000's	Short leasehold improvements £000's	Fixtures, fittings and equipment £000's	Motor vehicles £000's	Total £000's
1 September 2018	**3,904**	**192**	**2,520**	**393**	**7,009**
Additions	-	-	401	48	449
Acquisitions	-	1	172	-	173
Disposals	-	-	(2)	(84)	(86)
Translation differences	-	2	24	2	28
31 August 2019	**3,904**	**195**	**3,115**	**359**	**7,573**
Additions	-	85	443	-	528
Disposals	-	-	-	(60)	(60)
Translation differences	-	(3)	8	-	5
31 August 2020	**3,904**	**277**	**3,566**	**299**	**8,046**
Depreciation					
1 September 2018	**1,297**	**169**	**2,175**	**238**	**3,879**
Charge for the year	104	18	288	71	481
Disposals	-	-	(1)	(56)	(57)
Translation differences	-	-	17	2	19
31 August 2019	**1,401**	**187**	**2,479**	**255**	**4,322**
Charge for the year	104	35	364	41	544
Disposals	-	-	-	(57)	(57)
Translation differences	-	(3)	14	-	11
31 August 2020	**1,505**	**219**	**2,857**	**239**	**4,820**
Net book value					
31 August 2020	**2,399**	**58**	**709**	**60**	**3,226**
31 August 2019	2,503	8	636	104	3,251

TANGIBLE FIXED ASSETS - COMPANY

Cost	Freehold land and buildings £000's	Fixtures, fittings and equipment £000's	Total £000's
1 September 2018	1,182	251	1,433
Additions	-	6	6
31 August 2019	**1,182**	**257**	**1,439**
Additions	-	5	5
31 August 2020	**1,182**	**262**	**1,444**
Depreciation			
1 September 2018	825	246	1,071
Charge for the year	39	5	44
31 August 2019	**864**	**251**	**1,115**
Charge for the year	39	4	43
31 August 2020	**903**	**255**	**1,158**
Net book value			
31 August 2020	**279**	**7**	**286**
31 August 2019	318	6	324

A bank has a charge over the freehold properties.

13 FIXED ASSET INVESTMENTS - COMPANY

Cost	Shares in subsidiary undertakings £000's	Capital contribution £000's	Total £000's
1 September 2018	3,195	2,351	5,546
Additions	5	-	5
Share-based payment	-	179	179
At 31 August 2019	**3,200**	**2,530**	**5,730**
Additions	-	-	-
Share-based payment	-	179	179
At 31 August 2020	**3,200**	**2,709**	**5,909**
Amortisation and provisions			
1 September 2019 and 31 August 2020	1,896	-	1,896
Charge for the year	-	-	-
At 31 August 2020	**1,896**	**-**	**1,896**
Net book value			
31 August 2020	**1,304**	**2,709**	**4,013**
31 August 2019	1,304	2,530	3,834

At 31 August 2020, 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
Q-Stat Limited	United Kingdom	Ordinary	100%	Property investment
Toy Options Limited	United Kingdom	Ordinary	100%	Intermediate holding company
OVG-Proxy A/S*	Denmark	Ordinary	85%	Distribution of toys
Character Denmark ApS	Denmark	Ordinary	100%	Distribution of toys
Character Nordic Limited	United Kingdom	Ordinary	100%	Intermediate holding company

*15% (2019: 25%) constitutes a non-controlling interest.

13 FIXED ASSET INVESTMENTS - COMPANY CONTINUED

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

	12 months to 31 August 2020 £000's	18 October 2018 to 31 August 2019 £000's
Revenue	17,199	15,871
Loss after tax	(619)	(1,280)
Loss attributable to Non-controlling interest ("NCI")	**(165)**	**(400)**
Other comprehensive income / (loss)	4	(42)
Total comprehensive loss	(615)	(1,322)
Total comprehensive loss attributable to NCI	**(165)**	**(410)**
Current assets	4,882	5,800
Non-current assets	1,256	499
Current liabilities	(7,675)	(6,654)
Non-current liabilities	(745)	(1,312)
Net liabilities	**(2,282)**	**(1,667)**
Net liabilities attributable to NCI	**(343)**	**(416)**
Cash flows from operating activites	1,623	3,790
Cash flows from investing activities	(155)	(100)
Cash flows from financing activities	1,223	-
Net decrease in borrowings	**2,691**	**3,690**

14 RIGHT OF USE ASSETS - GROUP

Cost	Land & Buildings £000's	Motor cars £000's	Total £000's
1 September 2019	**-**	**-**	**-**
Adoption IFRS 16	1,331	24	1,355
Additions	1,047	73	1,120
31 August 2020	**2,378**	**97**	**2,475**
Depreciation			
1 September 2019	**-**	**-**	**-**
Charge for the year	393	19	412
Translation differences	(6)	-	(6)
31 August 2020	**387**	**19**	**406**
Net book value			
31 August 2020	**1,991**	**78**	**2,069**
31 August 2019	-	-	-

14 RIGHT OF USE ASSETS - COMPANY

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

Lease liabilities:

	Group		Company	
	31 August 2020 £000's	31 August 2019 £000's	**31 August 2020 £000's**	31 August 2019 £000's
Current	**550**	-	**106**	-
Non current – 2 to 5 years	**1,547**	-	**341**	-
	2,097	-	**447**	-

15 INVENTORIES - GROUP

	2020 £000's	2019 £000's
Finished goods for resale	**14,736**	16,405

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

16 TRADE AND OTHER RECEIVABLES – GROUP AND COMPANY

	Group		Company	
	2020 £000's	2019 £000's	**2020 £000's**	2019 £000's
Current:				
Trade receivables	**20,233**	29,635	**-**	-
Less provision for impairment	**(154)**	-	**-**	-
Trade receivables – net	**20,079**	29,635	**-**	-
Due from subsidiary undertakings	**-**	-	**37,700**	28,658
Other receivables	**1,469**	3,402	**39**	46
	21,548	33,037	**37,739**	28,704
Prepayments	**1,465**	1,936	**224**	217
	23,013	34,973	**37,963**	28,921

Finance advances received against gross trade receivables (shown below) under the recourse facility amounting to £3,168,000 (2019: £21,152,000) are shown within current liabilities. All the risks and rewards of the trade receivables lie with the Group.

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

16 TRADE AND OTHER RECEIVABLES – GROUP AND COMPANY CONTINUED

Trade receivables can be analysed as follows:

	2020 £000's	2019 £000's
Fully performing	**20,066**	29,380
Past due	**13**	255
Trade receivables	**20,079**	29,635

Ageing of past due, not impaired, receivables:

	2020 £000's	2019 £000's
1 – 90 days	**13**	255

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

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

	2020 £000's	2019 £000's
Pounds Sterling	**10,966**	17,298
US Dollars	**6,809**	8,363
Euros	**61**	238
Danish Kroner	**1,403**	1,924
Others	**840**	1,812
	20,079	29,635

17 INCOME TAX RECOVERABLE/ (PAYABLE) - GROUP

	2020		2019	
	Assets £000's	Liabilities £000's	Assets £000's	Liabilities £000's
UK income tax	**244**	**(96)**	-	(408)
Overseas income tax	**-**	**(681)**	-	(675)
	244	**(777)**	-	(1,083)

18 DERIVATIVE FINANCIAL INSTRUMENTS - GROUP

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

	2020		2019	
	Assets £000's	Liabilities £000's	Assets £000's	Liabilities £000's
Forward foreign exchange contracts and options	**75**	**(2,293)**	398	(637)

Fair value hierarchy

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

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

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

19 CASH & CASH EQUIVALENTS – GROUP AND COMPANY

	Group		Company	
	2020	2019	**2020**	2019
	£000's	£000's	**£000's**	£000's
Cash and cash equivalents	**22,292**	29,990	**4,644**	1,183

Cash and cash equivalents are denominated in the following currencies:

Currency – floating rate financial assets	**2020 £000's**	2019 £000's	**2020 £000's**	2019 £000's
Sterling	**10,110**	24,166	**4,622**	1,128
US$	**8,516**	4,219	**21**	51
Euro	**138**	117	**1**	4
HKS$	**887**	839	**-**	-
Danish Kroner	**2,321**	594	**-**	-
Others	**320**	55	**-**	-
Total	**22,292**	29,990	**4,644**	1,183

Bank overdrafts and short-term borrowings are aggregated with cash and cash equivalents where there is a right of set-off. At 31 August 2020, the balances attracted interest at rates of between 0.001% and 0.04%.

20 BORROWINGS - GROUP

	31 August 2020			31 August 2019		
	Total	**Current**	**Non-current**	Total	Current	Non-current
	£000's	**£000's**	**£000's**	£000's	£000's	£000's
Finance Advances	**3,168**	**3,168**	**-**	21,152	21,152	-
Short-term borrowings	**-**	**-**	**-**	992	992	-
Subordinated loan	**-**	**-**	**-**	1,342	30	1,312
Total	**3,168**	**3,168**	**-**	23,486	22,174	1,312

Finance advances are advances against trade receivables.

Analysis of borrowings by currency

	2020 £000's	2019 £000's
Sterling	**-**	17,578
US$	**831**	2,335
Danish Kroner	**1,864**	3,037
Others	**473**	536
Total	**3,168**	23,486

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

Certain Far East subsidiaries have bank overdraft and trade finance facilities equivalent to approximately £17.6 million. 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 £1.3m (2019: £1.4 million), which has been included in cash and cash equivalents.

During the year, a Danish subsidiary and its subsidiaries had an ongoing recourse factoring facility of up to approximately £6.0 million. This facility terminated without being renewed in September 2020 and the amount drawn down under this facility at the time of termination is being paid down. The interest charged on this facility is CIBOR 3 month/BOR plus 4.85% per annum. This facility is secured by a fixed and floating charge over the assets and undertakings of a Danish subsidiary and its subsidiaries.

The Danish subsidiary's subordinated loan of approximately £1.42m (including accrued interest) was acquired by a Group subsidiary during the year for £0.52m. The gain on the acquisition of this loan is shown as an exceptional item in the Group's Income Statement.

21 TRADE AND OTHER PAYABLES – GROUP AND COMPANY

	Group 2020 £000's	Group 2019 £000's	Company 2020 £000's	Company 2019 £000's
Trade creditors	**18,661**	17,829	**-**	-
Due to subsidiary undertakings	**-**	-	**13**	13
Other taxation and social security	**2,480**	606	**45**	101
Accruals and deferred income	**5,291**	10,331	**143**	719
	26,432	28,766	**201**	833

22 FINANCIAL INSTRUMENTS - GROUP

Financial assets Current financial assets	Note	31 August 2020 Total £000's	31 August 2020 At fair value to Income Statement £000's	31 August 2020 At amortised cost £000's	31 August 2019 Total £000's	31 August 2019 At fair value to Income Statement £000's	31 August 2019 At amortised cost £000's
Trade and other receivables	**16**	**21,548**	**-**	**21,548**	33,037	-	33,037
Derivative financial instruments	**18**	**75**	**75**	-	398	398	-
Cash and cash equivalents	**19**	**22,292**	**-**	**22,292**	29,990	-	29,990
		43,915	**75**	**43,840**	63,425	398	63,027

Financial liabilities Current & non-current financial liabilities	Note	31 August 2020 Total £000's	31 August 2020 At fair value to Income Statement £000's	31 August 2020 At amortised cost £000's	31 August 2019 Total £000's	31 August 2019 At fair value to Income Statement £000's	31 August 2019 At amortised cost £000's
Trade and other payables	**21**	**18,661**	**-**	**18,661**	17,829	-	17,829
Derivative financial instruments	**18**	**2,293**	**2,293**	**-**	637	637	-
Borrowings	**20**	**3,168**	-	**3,168**	23,486	-	23,486
		24,122	**2,293**	**21,829**	41,952	637	41,315

22 FINANCIAL INSTRUMENTS - COMPANY

Financial assets Current financial assets	Note	31 August 2020 Total £000's	31 August 2020 At fair value to Income Statement £000's	31 August 2020 At amortised cost £000's	31 August 2019 Total £000's	31 August 2019 At fair value to Income Statement £000's	31 August 2019 At amortised cost £000's
Trade and other receivables	**16**	**37,739**	**-**	**37,739**	28,704	-	28,704
Derivative financial instruments	**18**	**-**	**-**	**-**	-	-	-
Cash and cash equivalents	**19**	**4,644**	**-**	**4,644**	1,183	-	1,183
		42,383	-	**42,383**	29,887	-	29,887

Financial liabilities Current financial liabilities	Note	31 August 2020 Total £000's	31 August 2020 At fair value to Income Statement £000's	31 August 2020 At amortised cost £000's	31 August 2019 Total £000's	31 August 2019 At fair value to Income Statement £000's	31 August 2019 At amortised cost £000's
Trade and other payables	**21**	**13**	**-**	**13**	13	-	13
Derivative financial instruments	**18**	**-**	**-**	**-**	-	-	-
Short-term borrowings	**20**	**-**	**-**	**-**	-	-	-
		13	**-**	**13**	13	-	13

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

23 FINANCIAL RISK MANAGEMENT

The Group's operations expose it to a variety of financial risks that include the effects of changes in foreign currency exchange rates, market interest rates, concentration and counter party credit risk and its liquidity position.
The Group has in place a risk management programme that seeks to limit adverse effects on the financial performance of the Group by using foreign currency financial instruments.
The Board of directors reviews and agrees policies for managing each of these risks which are summarised below:

Foreign exchange risk

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

Foreign currency sensitivity

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

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

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

	Functional currencies strengthening		Functional currencies weakening	
2019	Total Equity £000's	Profit or (Loss) £000's	Total Equity £000's	Profit or (Loss) £000's
Euro	7	7	(7)	(7)
US$	(3,375)	(3,375)	821	821
HK$	587	587	(587)	(587)
Danish Krone	(336)	(336)	336	336
	(3,117)	(3,117)	563	563

Interest rate risk

The Group has seasonal cash flow and uses short-term borrowings, namely bank overdrafts, finance advances and import loans to finance working capital requirements. The Group has a long-term loan at a fixed interest rate.

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

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

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

23 FINANCIAL RISK MANAGEMENT CONTINUED

Credit risk – Group and Company

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

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

Class of financial assets	Group 2020 £000's	Group 2019 £000's	Company 2020 £000's	Company 2019 £000's
Trade receivables	**20,079**	29,635	**-**	-
Due from subsidiary undertakings	**-**	-	**37,700**	28,658
Other receivables	**1,469**	3,402	**39**	46
Current tax assets	**244**	-	**-**	-
Cash	**22,292**	29,990	**4,644**	1,183
	44,084	63,027	**42,383**	29,887

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

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

Concentration risk

The Group is subject to significant concentration of credit risk within its business. Five major counterparties within trade receivables amounted to £10,879,000 (2019: £15,767,000). Individual balances are closely monitored and managed in accordance with the Group's credit risk policies detailed above.

Liquidity risk

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

	2020 Current £000's	2020 Non-current within five years £000's	2019 Current £000's	2019 Non-current within five years £000's
Finance advances	**3,168**	-	21,152	-
Subordinated loan	**-**	-	30	1,312
Trade and other payables	**26,432**	-	28,766	-
Current tax liabilities	**777**	-	1,083	-
Derivative financial instruments	**2,293**	-	637	-
Deferred tax liabilities	**-**	**21**	-	2
	32,670	**21**	51,668	1,314

24 CAPITAL RISK MANAGEMENT

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

25 CALLED UP SHARE CAPITAL (EQUITY)

	2020 £000's	2019 £000's
Authorised		
110,000,000 (2019: 110,000,000) ordinary shares of 5 pence each	**5,550**	5,550
Allotted, called up and fully paid		
23,608,501* (2019: 23,655,001) ordinary shares of 5 pence each	**1,181**	1,183

* Including 2,228,720 Ordinary Shares held in treasury (2019: 2,278,756).

Share capital movements in the year

During the year, the Company issued out of treasury 50,036 ordinary shares to certain of its executive directors at £4.10 per share. During the previous year the Company issued out of Treasury 150,000 ordinary shares to the minority shareholders of OVG-Proxy A/S as part satisfaction of the amount due to them as earn-out consideration under the terms of the share purchase agreement dated 17 October 2018.

No employees exercised their share options during the year (2019: 244,000).

During the year, the Company repurchased for cancellation 46,500 (2019: 237,807) Ordinary Shares as follows:

Date	Number of shares	Price	% of the issued share capital immediately prior to cancellation (excluding shares held in Treasury)
13 September 2019	8,500	365.00p	0.04%
26 September 2019	1,495	330.00p	0.01%
7 October 2019	2,902	350.00p	0.01%
9 October 2019	5,000	348.00p	0.02%
11 October 2019	28,603	345.00p	0.10%

At 31 August 2020, a total of 2,228,720 Ordinary Shares were held in treasury. (2019: 2,278,756).

Movement in issued capital is as follows:

Ordinary Shares of 5 pence each	2020	2019
In issue at the beginning of the financial year	**23,655,001**	23,892,808
Issued on exercise of share options	**-**	-
Cancellations	**(46,500)**	(237,807)
In issue at the end of the financial year – fully paid	**23,608,501**	23,655,001

Share options

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

The 2006 Plan expired on 21 February 2016 (being ten years following its adoption), though such expiry has no effect upon the validity of options granted under the 2006 Plan prior to its expiry. On 24 November 2017, the board adopted the rules of the Company's 2017 Share Option Plan (the "2017 Plan"). The 2017 Plan is substantially similar in structure, operation and administration to the 2006 Plan and will be administered under the direction of the remuneration committee of the Board.

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

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

25 CALLED UP SHARE CAPITAL (EQUITY) CONTINUED

Share options continued

At 31 August 2020, rights to options over 987,900 Ordinary Shares of the Company held in treasury (treated as outstanding) were as follows:

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

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

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

Movements in the weighted average values are as follows:

	2020		2019	
	Number	**Weighted average exercise price**	Number	Weighted average exercise price
Outstanding at 1 September	**992,650**	**473.50p**	1,252,250	423.16p
Granted	**-**	**-**	10,000	540.00p
Exercised	**-**	**-**	(244,000)	213.00p
Lapsed	**(4,750)**	**520.00p**	(25,600)	520.00p
Outstanding at 31 August	**987,900**	**473.28p**	992,650	473.50p
Weighted average remaining contractual life in years	**7.2**			8.2

No options over Ordinary Shares were exercised in the year (2019: 244,000). The weighted average price of an issued Ordinary Share in the Company at the date of exercise of options exercised during the previous year 538.80p.

At 31 August 2020, options over 151,000 Ordinary Shares were exercisable (2019: 151,000).

26 SHARE-BASED PAYMENT

	12 months ended 31 August 2020 £000's	12 months ended 31 August 2019 £000's
Charge for share-based payment	**189**	190

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

	2006 Scheme	2017 Scheme	
Grant Date	**25 September 2014**	**5 June 2018**	**24 December 2018**
Options outstanding 1 September 2019	151,000	831,650	10,000
Granted	–	–	–
Exercised	–	–	–
Lapsed	–	(4,750)	–
Options outstanding 31 August 2020	151,000	826,900	10,000
Contract term year(s)	10	10	10
Expected life of option	8	8	8
Exercise & share price at grant	213.0p	520.0p	540.0p
Expected volatility	25% – 35%	22% – 27%	25%
Annual risk-free rate	2.502%	1.40%	1.278%
Annual expected dividend	3.65% – 4%	4%	4%
Fair value per share under option	46p	72p	72p

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

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

27 COMMITMENTS

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

	2020 £000's	2019 £000's
Within one year	**625**	490
Between one and two years	**136**	192
	761	682

THE GROUP AS LESSOR

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

	2020 £000's	2019 £000's
Within one year	**200**	173
Between one and two years	**371**	109
	571	282

28 RELATED PARTY TRANSACTIONS

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

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

	2020 £000's	2019 £000's
Dividends received	**15,914**	5,500
Management fees received	**1,800**	1,800
Property rental income	**201**	201
Property rentals paid	**(119)**	(96)
Amounts due from subsidiary undertakings	**37,700**	28,658
Amounts owed to subsidiary undertakings	**(13)**	(13)

29 CONTINGENT LIABILITIES

Bills of exchange

The contingent liability for bills of exchange discounted in the normal course of business at 31 August 2020 amounted to £996,000 (2019: £1,302,000).

30 EVENTS OCCURING AFTER THE BALANCE SHEET DATE

On 17 October 2020, the remaining 15% equity in OVG-Proxy A/S was acquired for 1 Danish Krone.

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