the CHARACTER group plc

Annual Report and Accounts

For the year ended 31 August 2016

CONTENTS

	Page
Summary Information	2
Strategic Report	3
Executive Review	3
Directors' Biographies	6
Directors' Report	8
Corporate Governance Statement	13
Directors' Remuneration Report	16
Directors' Responsibility Statement	17
Independent Auditor's Report	18
Group Income Statement	20
Group Statement of Comprehensive Income	21
Group Balance Sheet	22
Company Balance Sheet	23
Group and Company Cash Flow Statement	24
Group Statement of Changes in Equity	25
Company Statement of Changes in Equity	26
Notes to the Financial Statements	27
Notice of Annual General Meeting	56

www.thecharacter.com
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DIRECTORS AND ADVISERS

Directors
K P Shah
J J Diver
J J P Kissane
M S Hyde
M T Dowding
J Healy
R King
D Harris
C Crouch

Company Secretary
M T Dowding

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Bankers
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Standard Chartered Bank

Nominated Adviser and Broker
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Joint Broker
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Registrar
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SUMMARY INFORMATION

Introduction

The Character Group plc is the largest independent toy company based in the United Kingdom. Under licence, we design and manufacture toys based on television, film and digital characters and distribute these products in the UK and overseas. We also distribute finished product in the UK developed by overseas based toy producers.

Our diverse product ranges sit within a small number of niches; these include Pre-school (where we consider ourselves as market leader), Boys, Activity and Girls.

Our corporate strategy is to continue working with our core brands where we continually add new products, to develop new products for newly acquired brands; this we believe will enable the group to increase market share in the UK and overseas.

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

Our top performing brands during the year ended 31 August 2016 included Peppa Pig, Little Live Pets, Teletubbies, Minecraft, Scooby Doo, Mashems, Fireman Sam and Ben & Holly. We are also adding the iconic Stretch Armstrong during the 2017 financial year, for which we have a global licence.

Our customer list includes the major UK Toy Retailers, the UK Independent toy stores and a wide selection of overseas distributers.

Financial Summary

Key Performance Indicators	**Year ended 31 August 2016**	Year ended 31 August 2015	*% change*
Revenue from UK customers	**£89.3m**	£78.0m	+14.5%
Revenue from international customers	**£31.7m**	£21.1m	+50.2%
Total revenue	**£121.0m**	£99.1m	+22.1%
Underlying operating profit*	**£12.7m**	£10.4m	+22.1%
Operating profit	**£13.3m**	£12.5m	+6.4%
Underlying pre-tax profit*	**£12.5m**	£10.2m	+22.5%
Pre-tax profit	**£13.1m**	£12.3m	+6.5%
Underlying basic earnings per share*	**47.63p**	38.83p	+22.7%
Underlying diluted earnings per share*	**45.16p**	36.57p	+23.5%
Basic earnings per share	**50.30p**	48.56p	+3.6%
Diluted earnings per share	**48.54p**	45.73p	+6.1%
Dividend per share	**15.0p**	11.0p	+36.4%
Underlying EBITDA*	**£15.1m**	£11.9m	+27.0%
EBITDA	**£15.7m**	£13.9m	+12.9%
Net assets	**£22.9m**	£15.2m	+50.7%
Net cash	**£6.9m**	£4.5m	+53.3%

Mark to market profit adjustments on FX derivative positions	**£0.6m**	£2.1m

*Key performance measures included above are after excluding mark to market year end profit adjustments on foreign exchange derivative positions held by the group. All other measures listed herein are those stated in the financial statements under Generally Accepted Accounting Practice as adopted and applied consistently by the Group.

STRATEGIC REPORT AND EXECUTIVE REVIEW

Strategic Report

A fair review of the Group during the financial year, a description of the principle risks and uncertainties facing the Group, the development and performance of the Group during the financial year, the Group's position at the financial year end and an analysis of the Group's key performance indicators can be found in the Summary Information on page 2, the Executive Review on pages 3 to 5 and the Director's Report and Business Review on pages 8 to 12.

Executive Review

Introduction

The Board is delighted to report another excellent year of trading for the business resulting in the Group achieving an increase in revenue to £121.0m up 22.5% over the comparative 2015 period; underlying profit before tax for FY 2016 was £12.5m, this compares with underlying profit before tax of £10.2m in the same period last year. Our expanding core of product groups, marketed at "value for money" price points contributed to our overall performance, in both the UK and International markets. Revenue from International customers, which is generated in US Dollars grew to £31.7m, an increase of 50.3% when compared to FY 2015.

Our brands

Our top performing brands which include Peppa Pig, Little Live Pets, Teletubbies, Minecraft, Scooby Doo, and Mashems continue to show resilience and remain ever popular with the consumer and our customers alike. Although Peppa remains our lead brand we have witnessed strong demand across several new categories and ranges including the iconic Teletubbies, re-launched at the start of this calendar year. Other notable successes in this reporting period include Little Live Pets and a character based squidgy collectible range called Mashems.

As we highlighted at the interim stage in April, we added a number of new licenses to our portfolio including the iconic Stretch Armstrong; subsequently we launched products on a global basis including in the USA. To date we have been very encouraged by this range's early performance, and with a planned widening of the Stretch product portfolio for calendar year 2017 we are very excited by the prospect of the brand's potential to contribute significantly to future profitability.

Our strong product offering, continued demand for our brands combined with the Company's continually strengthening financial position, underpin our reputation and continued position within the industry as the UK's leading independent toy company.

Performance on continuing operations

The Group's portfolio continues to be derived from, both our own-developed in-house ranges, including those produced 'under licence', and others sourced through exclusive distribution agreements. We are very fortunate not only to have strength and depth across our brands but also long term trusted relationships across a wide spectrum of customers and suppliers.

Revenue in the year ended 31 August 2016 was up 22.1% to £121.0m, against £99.1m in the comparable 2015 period. Total revenue generated in the UK market was £89.3m (FY 2015 £78.0m), in International markets total revenue was £31.7m (FY 2015 £21.1m).

Underlying gross profit margin in the year being reported amounted to 31.2%, compared to 34.9% for the 2015 financial year. Underlying margins remained consistent overall and reflect the fact that growing international sales making up a higher proportion of total revenue. On an absolute basis underlying gross profit was £37.7m for the financial year compared to £34.6m for FY 2015.

The Group is reporting an underlying profit before tax in the period under review of £12.5 m, up 22.5% (FY2015 £10.2m). Underlying earnings before interest, tax, depreciation and amortisation were £15.1m, up 27% on the comparative period (FY 2015 £11.9m.)

Underlying basic earnings per share amounted to 47.63 pence, an increase of 22.7% (FY2015 38.83p). Underlying diluted earnings per share, on the same basis, were 47.70 pence, up 4.3% (FY2015: 45.73p).

A significant proportion of the Group's purchases are made in US dollars; it 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 an additional profit of £0.6m being reported. This compares to an additional profit of £2.1m reported in the year to 31 August 2015. These "mark to market" adjustments are non-cash items calculated by reference to unpredictable and sometimes volatile currency spot rates at the various balance sheet dates. In order to highlight profitability on a normal basis these adjustments have been added back to arrive at the "underlying" profit measures presented in this report.

Dividend

The Board is recommending an increased final dividend of 8 pence per share. This reflects our continued confidence in the Company's ability to generate sustainable cash flow and evidences the delivery of the progressive dividend policy.
This, together with the interim dividend of 7 pence per share paid in July makes a total dividend of 15 pence per share, an increase of 36.4% (FY2015 11.00p). The 2016 dividend is covered 3.4 times by annual earnings.
Subject to approval by shareholders at the Annual General Meeting ("AGM") on 20 January 2017, the final dividend will be paid on 27 January 2017 to Members on the Register as at the close of business on 6 January 2017; the shares will be marked ex-dividend on 5 January 2017.

Financial position, working capital and cash flow

The Group's capital base has been further strengthened in the period, with net assets at 31 August 2016 totalling £22.9m an increase of 50.7% on the position at 31 August 2015.

Inventories at 31 August 2016 were £10.3m (FY2015 £9.0m); this increase reflects the required level of stock to meet the high demand for our products and ensure the on-going efficiency of our UK operation; since year end a significant proportion of this stock has been sold through to customers and our current levels are lean but sufficient to meet current orders and anticipated demand for product early in the New Year.

During the period the Group generated cash from continuing operations of £10.8m (FY 2015 £18.3m). The decrease is a temporary reflection of the Group's investment in an increased level of trade debt and inventory, since the year end these investments have been realised and converted into cash.

The Group has no long term debt. Interest charges on the use of working capital facilities during the period were £0.2m (FY 2015 £0.2m).

At the end of the financial year, after making payments for dividends and share buy-backs (referenced in this Report), the Group had net cash on the balance sheet of £6.9m a 53.3% on the position at the end of the 2015 comparative period.

Share buy-back programme

During the financial year, the Company acquired a total of 258,936 ordinary shares in the Company at an aggregate cost of approximately £1.2m (excluding stamp duty and dealing costs), with the average cost being approximately £4.78 per ordinary share (FY2015: 2,336,330 ordinary shares were acquired and cancelled at an aggregate cost of approximately £6.1m and an average cost of approximately £2.60p per ordinary share).

The Company currently has an unutilised authority to buy-back up to a further 2,791,298ordinary shares. It remains part of the Group's overall strategy to continue to repurchase the Company's own shares when appropriate under its current share buy-back programme and, as previously indicated, the Directors could also be prepared to participate in any future share buy-back programme the Company proposes.

Total voting rights

As at today's date, the Company has 21,211,152 ordinary shares in issue. The Company holds 3,269,456 ordinary shares in treasury, representing approximately 15.41 percent of the share capital excluding these treasury shares, which do not carry voting or dividend rights. The figure of 21,211,152 may be used by shareholders as the denominator for the calculations by which they will determine if they are required to notify their interest, or change to their notified interest, in the Company under the Disclosure and Transparency Rules.

Our people

As shareholders are aware over the last year we have further strengthened the operational management team and the PLC Board, in order to help deliver the Group's strategic objectives. We are pleased to report that these transformational changes have been successful and our teams are well placed to navigate the Group through the challenges that lie ahead.

In total the business employs 194 people across its locations in the UK and Asia. Once again, the Board would like to take the opportunity, on behalf of all stakeholders, to thank every one of its colleagues around the business for their continuous hard work, dedication and loyalty, which underpins the strength in all of the Group's external relationships and its continued capability to perform overall.

Strategy, current trading and outlook

Our strategic focus remains: *"to seek out and develop exciting products which meet domestic and international market demand"*. Overall, current trading continues to meet our expectations, with particular satisfactory levels of contribution being generated from our established cornerstone brands. We are very satisfied with the inroads that we continue to make in overseas markets as demonstrated by the improved level of international sales; and we fully expect such growth to be a prominent factor in achieving improved results going forward.

Shareholders will no doubt be aware that the increasing strength of the US Dollar against the value of Pound Sterling, our reporting currency continues to put pressure on Group profitability. Nevertheless, the Board remains of the view that it can continue to mitigate the resulting increased costs. This is being achieved through the expansion of our international business, which generates revenue and profit in US Dollars, and by our continuing active programme of monitoring all costs and rationalising operations where possible through increased efficiencies.

The Board look forward to updating shareholders on the Christmas trading period and future prospects at the time of the forthcoming AGM in January 2017.

By Order of the Board

M T Dowding
Secretary
23 December 2016

DIRECTORS' BIOGRAPHIES

Executive Directors

Jonathan Diver (aged 52), Group 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 the current 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 62), Group Joint Managing 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 and until recently he was Group Finance Director.

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.

Joseph Kissane (aged 64), 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 35 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, trustee and past chairman of the Toy Industry's leading children's charity The Fence Club.

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

Michael Hyde (aged 42), 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.

Mark Dowding (aged 51), Group Finance Director and Company Secretary

Mark Dowding joined the Group in 2012 as Chief Financial Officer; in 2013 he took on the additional role of Group Company Secretary and he was appointed Group Finance Director in February 2016 He is an experienced Chartered Accountant who also holds a Master of Business Administration (MBA) degree. He originally trained with a leading firm of accountants and prior to joining the Group was a partner in a national accounting firm.

Mark is responsible for Group financial management, accounting, tax and company legal matters.

Jeremiah Healy (aged 54), 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 71), 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 recently the Group's Executive Chairman.

Richard is responsible for ensuring the effectiveness of the Board as a working group. He is Chairman of the Nominations Committee and a member of the Audit and Remuneration Committees.

David Harris (aged 66), Senior Independent Non-Executive Director.

David Harris was appointed to the Board in 2004; he has very broad financial experience gained over a 30 year career in both executive and non-executive capacities. He is currently a non-executive director of Small Companies Dividend Trust plc, Manchester and London Investment Trust plc, Aseana Properties Ltd and F&C Managed Portfolio Trust plc, all of which are quoted companies on the London Stock Exchange. He is also a non-executive director of SDF Limited, a private film production company.

David is Chairman of the Audit and Remuneration Committees and also a member of the Nominations Committee.

Clive Crouch (aged 63), Non-Executive Director

Clive Crouch was appointed to the Board in February 2016. His 35-year career in media has included senior roles within GMTV, a company he helped launch and position. From 1992 to 2007, he was GMTV's Sales and Marketing Director and then served as its Chief Operating Officer until 2010. Clive now operates his own media consulting business and he remains actively involved in the toy industry, advising on such matters as promotional activity and licensing. He brings a wealth of relevant management and industry experience to the Board.

Clive is a member of the Audit, Remuneration and Nomination Committees.

DIRECTORS' REPORT

The directors present their report together with the financial statements for the year ended 31 August 2016.

Business Review

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

Results
A review of the business is contained in the Strategic Report and Executive Review on pages 3 to 5 and the results are detailed in the group income statement on page 20, the group statement of comprehensive income on page 21, the group balance sheet on page 22, the Company balance sheet on page 23, the group and company cash flow statement on page 24 and the group and company statement of changes in equity on pages 25 and 26. There was a profit for the year, after taxation, amounting to £10,787,000 (2015: £10,239,000).

Dividend
The directors recommend a final dividend of 8.00 pence per share (2015: 6.00 pence) making a total dividend for the year of 15.00 pence per ordinary share (2015: 11.00 pence). If approved, the final dividend will be paid on 27 January 2017, to shareholders on the register on 6 January 2017.

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

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

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

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

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

Policy and practice on payment of creditors
The Group does not follow any standard code of practice for paying its suppliers but, instead, agrees with each principal supplier the terms of payment for each transaction or series of transactions. The Group's policy is then to abide by those pre-arranged terms for payment. At 31 August 2016, trade creditors of the Group represented an average of 48 (2015: 67) days credit in relation to total purchases for the year.

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

Principal risks and uncertainties

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

Suppliers

In order to achieve competitively priced products, the Group has outsourced production, mainly to China. Risks and uncertainties of this strategy include management and quality control issues at the factories. The Group manages this risk by 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 are made in US dollars. The Group is therefore exposed to foreign currency fluctuations. The Group manages its foreign exchange risk with forward foreign exchange contracts and other derivative financial instruments such as currency options, to reduce the exposure.

Environmental

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

Financial risks

The main risks arising from the financial instruments are foreign currency risk, credit risk, concentration risk, interest rate and liquidity risk.

The Board reviews and agrees policies for managing each of these risks. A summary of these risks is disclosed in note 22 to the financial statements.

Governance

Directors

The following directors served during the year:

Jonathan James Diver (Group Joint Managing Director)
Kirankumar Premchand Shah (Group Joint Managing Director)
Joseph John Patrick Kissane (Managing Director, Character Options Limited)
Michael Spencer Hyde (Managing Director, Far East Operations)
Mark Dowding (Group Finance Director, appointed 1 February 2016)
Jeremiah Healy (Group Marketing Director, appointed 1 February 2016)
Richard King (Non-Executive Chairman)
David Harris (Senior Independent Non-Executive Director)
Clive Crouch (Non-Executive Director, appointed 1 February 2016)

Biographies of the directors are set out on page 6.

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 2016 and 22 December 2016 (being the business day prior to the date of this report) were as follows:

Directors	As at 22 December 2016 Number of Ordinary Shares	Ordinary Shares Under option	As at 31 August 2016 Number of Ordinary Shares	Ordinary Shares under option
K P Shah	**2,140,001**	**-**	**2,287,001**	**-**
J J Diver	**1,356,003**	**-**	**1,356,003**	**-**
J J P Kissane	**500,000**	**-**	**500,000**	**-**
M S Hyde	**209,681**	**100,000**	**209,681**	**100,000**
M T Dowding (appointed 1 February 2016)	**83,841**	**36,000**	**73,841**	**36,000**
J Healy (appointed 1 February 2016)	**36,000**	**72,000**	**-**	**144,000**
R King	**336,286**	**-**	**336,286**	**-**
D Harris	**56,000**	**-**	**51,403**	**-**
C Crouch (appointed 1 February 2016)	**5,555**	**-**	**5,555**	**-**

Directors	As at 31 August 2015 Number of Ordinary Shares	Ordinary Shares under option
K P Shah	4,117,001	-
J J Diver	1,206,003	797,000
J J P Kissane	500,000	-
M S Hyde	209,681	100,000
R King	336,286	-
D Harris	44,097	-

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 22 December 2016, and at 31 August 2016, and 3,830,000 Ordinary Shares at 31 August 2015.

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 22 December 2016 and, 31 August 2016, and 31 August 2015.

Included in the interests of M T Dowding are his interests in Ordinary Shares held by Mr Dowding's personal pension scheme being 83,841 Ordinary Shares at 22 December 2016, and 73,841 Ordinary Shares at 31 August 2016.

Included in the interests of R King are his interests in Ordinary Shares held by TOPS Pension Scheme being 176,120 Ordinary Shares at 22 December 2016 and 31 August 2016 and at 31 August 2015.

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 22 December 2016, 31 August 2016, and 44,097 at 31 August 2015.

Details of the directors share options are disclosed in note 4.

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

Substantial shareholders other than directors
At 22 December 2016, the following, other than the directors and their related interests, had notified the Company of an interest in 3% or more of the Company's issued Ordinary Shares:

Name	Number of Ordinary Shares	Shareholding % (excluding Ordinary Shares held in treasury)
GLG Partners LP	1,576,522	7.43%
Ruffer LLP	1,306,715	6.16%
Sweet Briar Investments Limited	1,275,000	6.01%

Changes in share capital
During the year, the Company repurchased for cancellation 258,936 Ordinary Shares, which represents 1.21% of the issued share capital at 31 August 2016, excluding shares held in Treasury. 82,000 Ordinary Shares were issued during the year to employees exercising their share options. 750,000 Ordinary Shares were transferred from Treasury during the year following the exercise of share options by an executive director. Further details are given in note 24 to the financial statements.

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

Share option schemes
Details of the Company's share option schemes are given in note 24 to the financial statements.

Charitable and political donations
Payments to health and children's charities, and community support amounted to £33,411 (2015: £28,640). There were no political contributions in either year.

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.

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

Annual General Meeting

Notice convening an Annual General Meeting of the Company is set out on pages 56 to 58 of this document. Full details of the business to be transacted at that meeting are set out in that notice.

The business of the meeting will include special business, proposing the consideration of resolutions to:

- renew the directors' general authority to allot unissued shares in the capital of the Company and to grant rights to subscribe for or to convert any security into shares in the Company up to an aggregate nominal amount of £357,100 (7,142,000 Ordinary Shares). This authority, which replaces the existing authority to allot relevant securities granted at the annual general meeting held in January 2016, will expire on whichever is the earlier of the conclusion of the annual general meeting of the Company to be held in 2018 or the date falling 15 months following the passing of this resolution. The directors have no present intention of exercising this authority, which represents approximately 33.3% of the issued share capital of the Company at 31 August 2016, excluding shares held in treasury;
- authorise the Company to make purchases of the Company's issued Ordinary Shares in the market for cancellation, or to be held in treasury up to a maximum of 3,214,700 Ordinary Shares, representing approximately 15% of the issued share capital of the Company at 31 August 2016 (excluding shares held in treasury). The resolution specifies the minimum and maximum prices which may be paid for any Ordinary Shares purchased under this authority, which reflect current best practice and the applicable requirements of the Market Abuse Regulations in the UK. The directors intend to exercise this authority if and when to do so will, in the opinion of the directors, enhance shareholder value. If all options granted by the Company (pursuant to the Group's share option schemes particularised in note 24 to the Group Financial Statements) and subsisting as at 22 December 2016 (being the business day prior to the date of this report) were exercised a total of 19,700 of new Ordinary Shares would be allotted, representing approximately 0.09% of the enlarged issue share capital of the Company following such exercise (excluding shares held in treasury). If the authority proposed for the buy-back of shares by the Company was to be exercised in full, then the number of shares to be issued on exercise of the said options would constitute approximately 0.10% of the issued share capital as enlarged by such allotments and issue of shares (excluding shares held in treasury);
- approve a disapplication of shareholder pre-emption rights to enable the issue of equity securities in connection with any rights issue and/or an offer of issued shares held in treasury by way of rights made by the Company, with certain adjustments to shareholder entitlements to be made for practical purposes to deal with fractional entitlements and overseas restrictions on offers of shares in UK companies and further limited disapplications of these pre-emption rights applying in relation to:
    - (i) the allotment for cash of up to an aggregate nominal amount of £107,100 (2,142,000 Ordinary Shares), representing approximately 10% of the nominal value of the issued ordinary share capital of the Company as at 31 August 2016 (excluding shares held in treasury);
    - (ii) the sale of all or any of the 3,269,456 Ordinary Shares in the capital of the Company held in treasury as at 22 December 2016.

By Order of the Board

M T Dowding
Secretary

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

Registered number 3033333
23 December 2016

CORPORATE GOVERNANCE STATEMENT

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

Directors

The Board of directors comprises six executive directors and three non-executive director, as detailed on page 5.
On 1 February 2016 two new executive directors were appointed to the Board, Mr M T Dowding took over the role of Group Finance Director, Mr J Healy was appointed Group Marketing Director. On the same date Mr R King became Non-Executive Chairman and Mr C Crouch was appointed a non-executive director. The Board is structured so that no one individual or group dominates the decision-making process.

Board meetings are held at least four times a year and at other times as required to address requirements arising between these scheduled meetings.

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

	Meetings prior to 1 February 2016	Meetings after 1 February 2016
K P Shah	3	2
J J Diver	3	2
J J P Kissane	3	2
M S Hyde	3	2
M T Dowding	3*	2
J Healy	-	2
R King	3	2
D Harris	3	2
C Crouch	-	2

*Prior to 1 February 2016 M T Dowding attended Board Meetings in his capacity as Company Secretary.

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

The Board delegates to management, through the executive directors, the overall performance of the Group, which is conducted principally through the setting of clear objectives and monitoring of performance against those objectives.

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

In accordance with the terms of their 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.

Evaluation of the Board, Board Committees and Directors

The performance evaluation of the Board, its Committees and directors is undertaken by the Non-Executive Chairman and implemented in collaboration with the Committee Chairmen. The 2016 Board evaluation was conducted by way of a discussion between the Non-Executive Chairman and each of the directors. The other non-executive directors met separately during the year to review the Non-Executive Chairman's performance and provide feedback to him. Following formal performance evaluations, the Non-Executive Chairman confirms that the performance of the executive and non-executive director continues to be effective and demonstrates commitment to the roles.

Audit Committee

D Harris (Chairman), R King and C Crouch

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

Remuneration Committee

D Harris (Chairman), R King and C Crouch

The Remuneration Committee is responsible for setting the remuneration of the executive directors and the senior management and for the operation of the Company's share option schemes. The Directors' Remuneration Report is shown on page 13. During the year, one meeting was held, which was attended by all members.

Nominations Committee

R King (Chairman), D Harris and C Crouch

The Nominations Committee is responsible for considering and recommending to the Board changes in the Board's composition and membership. One meeting was held during the year.

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

Internal Control

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

Following publication of the guidance for directors on internal control "Internal Control: Guidance for Directors on the Combined Code", the Board confirms that there is an ongoing process for identifying, evaluating and managing the significant risks faced by the Group. This process has been in place throughout the year under review and up to the date of approval of the annual report and financial statements and is regularly reviewed by the Board and accords with the guidance.

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

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

Control environment

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

Monitoring and corrective action

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

Risk management

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

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

Relations with shareholders

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

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

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

DIRECTORS' REMUNERATION REPORT

The Board presents the Remuneration Report for the year ended 31 August 2016.

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 also entitled under the terms of his service contract to 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.

The basic salaries referred to above are reviewed every year by the Remuneration Committee. 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 2006 Executive Share Option Plan, details of which may be found in note 24.

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. From 1 September 2016 the Non-Executive Chairman is entitled to fees of £100,000 per annum. The remaining non-executive directors are entitled to fees, currently at the rate of £25,000 per annum (2015: £25,000), 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
23 December 2016

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 for the year ended 31 August 2016, which comprise the Group income statement, the Group statement of comprehensive income, the Group and the Parent Company balance sheets, the Group and the Parent Company statement of cash flows, the Group and the Parent Company statement of changes in equity and the related notes 1 to 30. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

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

Respective responsibilities of directors and auditors

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

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the Group's and the Parent Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

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 2016 and of the Group's profit for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

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

- adequate accounting records have not been kept by the Parent Company, or returns adequate for our audit have not been received from branches visited by us; or
- the Parent Company 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; or

John Coverdale, (Senior Statutory Auditor)
For and on behalf of MHA MacIntyre Hudson
Statutory Auditors and Chartered Accountants
New Bridge Street House
30-34 New Bridge Street
London
EC4V 6BJ

23 December 2016

GROUP INCOME STATEMENT

for the year ended 31 August 2016

	Note	Total 2016 £000's	Total 2015 £000's
Continuing operations			
Revenue	2	**120,967**	99,054
Cost of sales		**(82,694)**	(62,399)
Gross profit		**38,273**	36,655
Net operating expenses			
Selling and distribution costs		**(7,128)**	(7,310)
Administration expenses		**(18,447)**	(17,753)
Other operating income		**602**	892
Operating profit	3	**13,300**	12,484
Finance income	5	**47**	14
Finance costs	5	**(215)**	(230)
Profit before income tax		**13,132**	12,268
Taxation	6	**(2,345)**	(2,029)
Profit for the year attributable to equity holders of the parent		**10,787**	10,239
Earnings per share (pence)	8		
Basic		**50.30p**	48.56p
Fully diluted		**48.54p**	45.73p
Dividend per share (pence)	9	**13.00p**	8.95p
EBITDA (earnings before interest, tax, depreciation and amortisation)		**15,689**	13,934

GROUP STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 August 2016

	Note	**Total 2016 £000's**	Total 2015 £000's
Profit for the year after tax		**10,787**	10,239
Items that will not be reclassified subsequently to profit and loss			
Current tax credit relating to exercised share options	6	**421**	582
Deferred tax relating to share options	7	**(414)**	674
		7	1,256
Items that may be reclassified subsequently to profit and loss			
Exchange differences on translation of foreign operations		**(820)**	(251)
Income tax on exchange differences	6	**144**	24
		(676)	(227)
Total comprehensive income for the year attributable to the equity holders of the parent		**10,118**	11,268

GROUP BALANCE SHEET

as at 31 August 2016

	Note	2016 £000's	2015 £000's
Non – current assets			
Intangible assets – product development	10	**1,117**	837
Investment property	11	**1,845**	1,911
Property, plant and equipment	12	**3,357**	3,551
Deferred tax assets	7	**474**	1,058
		6,793	7,357
Current assets			
Inventories	14	**10,303**	8,965
Trade and other receivables	15	**25,082**	15,535
Current income tax receivable	16	**7**	22
Derivative financial instruments	17	**533**	234
Cash and cash equivalents	18	**28,560**	25,781
		64,485	50,537
Current liabilities			
Short term borrowings	19	**(21,647)**	(21,246)
Trade and other payables	20	**(25,418)**	(19,015)
Income tax	16	**(1,106)**	(1,862)
Derivative financial instruments	17	**(89)**	(363)
		(48,260)	(42,486)
Net current assets		**16,225**	8,051
Non-current liabilities			
Deferred tax	7	**(99)**	(167)
Net assets		**22,919**	15,241
Equity			
Called up share capital	24	**1,235**	1,244
Shares held in treasury	24	**(2,743)**	(3,373)
Capital redemption reserve		**1,717**	1,704
Share based payment reserve		**2,778**	2,631
Share premium account		**15,450**	14,642
Merger reserve		**651**	651
Translation reserve		**1,274**	1,374
Profit and loss account		**2,557**	(3,632)
Total equity attributable to equity holders of the parent		**22,919**	15,241

The financial statements on pages 20 to 55 were approved by the Board of Directors on 23 December 2016.

J J Diver
Group Joint Managing Director

M T Dowding
Group Finance Director

COMPANY BALANCE SHEET

as at 31 August 2016

	Note	2016 £000's	2015 Restated £000's	2014 Restated £000's
Non – current assets				
Property, plant and equipment	12	**471**	526	585
Investments in subsidiaries	13	**3,506**	3,424	3,344
Deferred tax assets	7	**299**	844	704
		4,276	4,794	4,633
Current assets				
Trade and other receivables	15	**17,559**	14,250	15,453
Cash and cash equivalents	18	**4,854**	4,112	2,050
		22,413	18,362	17,503
Current liabilities				
Trade and other payables	20	**(1,343)**	(1,029)	(706)
Net current assets		**21,070**	17,333	16,797
Net assets		**25,346**	22,127	21,430
Equity				
Called up share capital	24	**1,235**	1,244	1,266
Shares held in treasury	24	**(2,743)**	(3,373)	(3,373)
Investment in own shares		**-**	-	(908)
Capital redemption reserve		**1,717**	1,704	1,587
Share based payment reserve		**2,778**	2,631	2,487
Share premium account		**15,450**	14,642	13,808
Profit and loss account		**6,909**	5,279	6,563
Total equity attributable to equity holders of the parent		**25,346**	22,127	21,430

The financial statements on pages 20 to 55 were approved by the Board of Directors on 23 December 2016.

J J Diver
Group Joint Managing Director

M T Dowding
Group Finance Director

CASH FLOW STATEMENT

for the year ended 31 August 2016

	Note	Group 2016 £000's	Group 2015 £000's	Company 2016 £000's	Company 2015 £000's
Cash flow from operating activities					
Profit before taxation for the year		**13,132**	12,268	**6,204**	6,528
Adjustments for:					
Depreciation of property, plant and equipment		**441**	425	**59**	59
Depreciation of investment property		**65**	65	**-**	-
Amortisation of intangible assets		**1,925**	960	**-**	-
(Profit) on disposal of property, plant and equipment		**(1)**	(14)	**-**	-
Interest expense		**168**	216	**7**	12
Financial instruments fair value adjustments		**(573)**	(2,051)	**-**	-
Share based payments		**147**	144	**65**	64
(Increase) in inventories		**(1,338)**	(111)	**-**	-
(Increase) / Decrease in trade and other receivables		**(9,547)**	7,882	**(3,309)**	1,203
Increase / (Decrease) in trade and other creditors		**6,403**	(1,530)	**314**	323
Cash generated from operations		**10,822**	18,254	**3,340**	8,189
Interest paid		**(168)**	(216)	**(7)**	(12)
Income tax (paid) / received		**(2,419)**	(725)	**-**	-
Net cash inflow from operating activities		**8,235**	17,313	**3,333**	8,177
Cash flows from investing activities					
Payments for intangible assets		**(2,205)**	(1,559)	**-**	-
Payments for property, plant and equipment		**(247)**	(349)	**(4)**	-
Proceeds from disposal of property, plant and equipment		**14**	14	**-**	-
Net cash outflow from investing activities		**(2,438)**	(1,894)	**3,329**	8,177
Cash flows from financing activities					
Proceeds from disposal of investment in own shares		**-**	908	**-**	908
Proceeds from issue of share capital		**1,442**	929	**1,442**	929
Purchase of own shares for cancellation		**(1,244)**	(6,088)	**(1,244)**	(6,088)
Dividends paid		**(2,785)**	(1,864)	**(2,785)**	(1,864)
Net cash used in financing activities		**(2,587)**	(6,115)	**(2,587)**	(6,115)
Net increase in cash and cash equivalents		**3,210**	9,304	**742**	2,062
Cash, cash equivalents and borrowings at the beginning of the year		**4,535**	(4,515)	**4,112**	2,050
Effects of exchange rate movements		**(832)**	(254)	**-**	-
Cash, cash equivalents and borrowings at the end of the year		**6,913**	4,535	**4,854**	4,112

Cash, cash equivalents and borrowings consist of:

	Note	Group 2016 £000's	Group 2015 £000's	Company 2016 £000's	Company 2015 £000's
Cash and cash equivalents	18	**28,560**	25,781	**4,854**	4,112
Short term borrowings	19	**(21,647)**	(21,246)	**-**	-
Cash, cash equivalents and borrowings at the end of the year		**6,913**	4,535	**4,854**	4,112

GROUP STATEMENT OF CHANGES IN EQUITY

for the year ended 31 August 2016

	Note	Called up share capital £000's	Investment in own shares £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	Total £000's
The Group											
At 1 September 2014		**1,266**	**(908)**	**(3,373)**	**1,587**	**13,808**	**651**	**2,487**	**1,508**	**(7,082)**	**9,944**
Profit for the year after tax		-	-	-	-	-	-	-	-	10,239	10,239
Net Exchange differences on translation of foreign operations		-	-	-	-	-	-	-	(134)	(93)	(227)
Deferred tax credit relating to share options	7	-	-	-	-	-	-	-	-	674	674
Current tax credit relating to exercised share options	6	-	-	-	-	-	-	-	-	582	582
Total comprehensive income for the year		**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(134)**	**11,402**	**11,268**
Disposal of Investment in own shares		-	908	-	-	-	-	-	-	-	908
Share-based payment	25	-	-	-	-	-	-	144	-	-	144
Dividends	9	-	-	-	-	-	-	-	-	(1,864)	(1,864)
Shares issued	24	95	-	-	-	834	-	-	-	-	929
Shares cancelled	24	(117)	-	-	117	-	-	-	-	(6,088)	(6,088)
At 31 August 2015		**1,244**	**-**	**(3,373)**	**1,704**	**14,642**	**651**	**2,631**	**1,374**	**(3,632)**	**15,241**
Profit for the year after tax		-	-	-	-	-	-	-	-	10,787	10,787
Net Exchange differences on translation of foreign operations		-	-	-	-	-	-	-	(100)	(576)	(676)
Deferred tax credit relating to share options	7	-	-	-	-	-	-	-	-	(414)	(414)
Current tax relating to exercised share options	6	-	-	-	-	-	-	-	-	421	421
Total comprehensive income for the year		**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(100)**	**10,218**	**10,118**
Share-based payment	25	-	-	-	-	-	-	147	-	-	147
Dividends	9	-	-	-	-	-	-	-	-	(2,785)	(2,785)
Shares issued	24	4	-	630	-	808	-	-	-	-	1,442
Shares cancelled	24	(13)	-	-	13	-	-	-	-	(1,244)	(1,244)
At 31 August 2016		**1,235**	**-**	**(2,743)**	**1,717**	**15,450**	**651**	**2,778**	**1,274**	**2,557**	**22,919**

COMPANY STATEMENT OF CHANGES IN EQUITY

for the year ended 31 August 2016

	Note	Called up share capital £000's	Investment in own shares £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 2014		1,266	(908)	(3,373)	1,587	13,808	2,487	6,563	21,430
Profit for the year		-	-	-	-	-	-	6,650	6,650
Total comprehensive for the year		-	-	-	-	-	-	6,650	6,650
Disposal of Investment in own shares		-	908	-	-	-	-	-	908
Shares issued	24	95	-	-	-	834	-	-	929
Shares cancelled	24	(117)	-	-	117	-	-	(6,088)	(6,088)
Share-based payment – Company	25	-	-	-	-	-	64	-	64
Share-based payment – Subsidiary undertaking	25	-	-	-	-	-	80	-	80
Deferred tax on share options	7	-	-	-	-	-	-	18	18
Dividend paid	9	-	-	-	-	-	-	(1,864)	(1,864)
At 31 August 2015		1,244	-	(3,373)	1,704	14,642	2,631	5,279	22,127
At 1 September 2015		1,244	-	(3,373)	1,704	14,642	2,631	5,279	22,127
Profit for the year		-	-	-	-	-	-	6,073	6,073
Total comprehensive income for the year		**-**	**-**	**-**	**-**	**-**	**-**	**6,073**	**6,073**
Shares issued	25	4	-	630	-	808	-	-	1,442
Shares cancelled	25	(13)	-	-	13	-	-	(1,244)	(1,244)
Share-based payment – Company	26	-	-	-	-	-	65	-	65
Share-based payment – Subsidiary undertaking	26	-	-	-	-	-	82	-	82
Deferred tax on share options		-	-	-	-	-	-	(414)	(414)
Dividend paid	9	-	-	-	-	-	-	(2,785)	(2,785)
At 31 August 2016		**1,235**	**-**	**(2,743)**	**1,717**	**15,450**	**2,778**	**6,909**	**25,346**

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 24.

NOTES TO THE FINANCIAL STATEMENTS

1 PRINCIPAL ACCOUNTING POLICIES

General information

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

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

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 financial statements for the year ended 31 August 2016.

	Effective for annual periods beginning on or after:
IAS 1 (amendment) Disclosure Initiative	- 1 January 2016
IAS 12 Income Taxes – Recognition of Deferred Tax Assets and Assets for Unrealised Losses (amendment)	- 1 January 2017
IAS 16 & IAS 38 Clarification of Acceptable Methods of Depreciation and Amortisation	- 1 January 2016
IAS 16 & IAS 41 Agriculture: Bearer Plants	- 1 January 2016
IAS 27 (amendment) Equity Method in Separate Financial Statements	- 1 January 2016
IFRS 2 Share Based Payments – Classification and Measurement (amendment)	- 1 January 2018
IFRS 9 Financial Instruments	- 1 January 2018
IFRS 10, IFRS 12 & IAS 28 Investments Entities (amendments) – Consolidation exception	- 1 January 2016
IFRS 11 Joint Arrangements – Accounting for Interests in Joint Operations	- 1 January 2016
IFRS 14 Regulatory Deferral Accounts	- 1 January 2016
IFRS 15 Revenue from Contracts with Customers	- 1 January 2017
IFRS 16 Leases	- 1 January 2019
Annual Improvements to IFRS (2012-14)	- 1 January 2016

Based on the current business model and accounting policies, 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.

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.

Parent company first time adoption of IFRS

These financial statements include first time adoption of IFRS by the Company; accordingly an explanation of how the transition from UK GAAP in the previous financial year to the restated position under IFRS is included in note 30 to these financial statements.

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 is measured at the fair value of consideration received or receivable for goods and services, after returns and allowances. Revenue is recognised when it can be reliably measured and future economic benefits are likely to arise, as follows:

a) Sale of goods

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

b) Sales returns and allowance

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

INTANGIBLE ASSETS

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. The Group does not hold derivative financial instruments for trading purposes. The effective portion of changes in fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income. The existing forward foreign exchange contracts and options used by the Group function as hedges, however do not meet the criteria for hedge accounting set out by IAS 39 and consequently are carried at their fair value in the Group balance sheet. Changes in the fair value of forward foreign exchange contracts and options are recognised through the Group income statement within cost of sales. Further details are provided in note 16 and page 38.

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 recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. 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. A Group company has an agreement (recourse) under which debts of customers approved by the finance company are assigned to the 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 recognised initially at fair value and subsequently 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

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.

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 enacted by the balance sheet date.

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

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

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.

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. Allowances reserves 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 17.

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 25.

2 SEGMENT REPORT – GROUP

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

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

Year Ended 31 August 2016	Other EU £000's	UK £000's	Far East £000's	Unallocated £000's	Total £000's
Revenue - external (by origin)	–	65,628	55,339	–	120,967
Segment adjusted operating profit	–	5,558	9,673	(432)	14,799
Amortisation of intangible assets	–	–	–	–	(1,925)
Financial instruments fair value adjustments	–	–	–	–	573
Share based payments	–	–	–	–	(147)
Operating Profit					13,300
Finance costs					(215)
Finance income					47
Profit before tax					13,132
Taxation					(2,345)
Profit for the year after tax					10,787
Segment assets	24	43,665	19,924	7,665	71,278
Segment liabilities	(1)	(23,923)	(22,918)	(1,517)	(48,359)
Other segment information					
Non-current assets	–	2,016	2,716	1,587	6,319
Capital additions	–	212	31	4	247
Capital disposals	–	(103)	–	–	(103)
Depreciation of property, plant and equipment	–	319	62	60	441
Depreciation of investment property	–	–	65	–	65

Analysis of unallocated assets and liabilities:

Assets	Total £000's	Liabilities	Total £000's
Corporate assets	471	Corporate creditors & accruals	(1,329)
Derivative financial instruments	533	Derivative financial instruments	(89)
Deferred tax asset	474	Deferred tax balances	(99)
Corporate cash at bank and in hand	4,854		
Intangible assets – product development	1,117		
Corporate debtors & prepayments	216		
Unallocated assets	**7,665**	**Unallocated liabilities**	**(1,517)**

Assets and liabilities are net of intercompany balances.
Unallocated items relate geographically to corporate activities in the UK.

2 SEGMENT REPORT CONTINUED

Year Ended 31 August 2015	Other EU £000's	UK £000's	Far East £000's	Unallocated £000's	Total £000's
Revenue - external (by origin)	55	62,488	36,511	–	99,054
Segment adjusted operating profit	6	4,499	7,361	(329)	11,537
Amortisation of intangible assets	–	–	–	–	(960)
Financial instruments fair value adjustments	–	–	–	–	2,051
Share based payments	–	–	–	–	(144)
Operating Profit					12,484
Finance costs					(230)
Finance income					14
Profit before tax					12,268
Taxation					(2,029)
Profit for the year after tax					10,239
Segment assets	212	35,840	15,022	6,820	57,894
Segment liabilities	(1)	(24,273)	(16,834)	(1,545)	(42,653)
Other segment information					
Non-current assets	–	2,136	2,800	1,363	6,299
Capital additions	–	289	60	–	349
Capital disposals	–	(55)	(13)	–	(68)
Depreciation of property, plant and equipment	–	(305)	(61)	(59)	(425)
Depreciation of investment property	–	–	(65)	–	(65)

Analysis of unallocated assets and liabilities:

Assets	Total £000's	Liabilities	Total £000's
Corporate assets	526	Corporate creditors & accruals	(1,015)
Derivative financial instruments	234	Derivative financial instruments	(363)
Deferred tax asset	915	Deferred tax balances	(167)
Corporate cash at bank and in hand	4,112		
Intangible assets – product development	837		
Corporate debtors & prepayments	196		
Unallocated assets	**6,820**	**Unallocated liabilities**	**(1,545)**

Assets and liabilities are net of intercompany balances.
Unallocated items relate geographically to corporate activities in the UK.

GEOGRAPHICAL DESTINATION OF REVENUE

	31 August 2016 £000's	31 August 2015 £000's
United Kingdom	**86,743**	77,988
Rest of the world	**34,224**	21,066
Total Group	**120,967**	99,054

Revenues of approximately £26,793,000 (2015: £26,309,000) were derived from two (2015: 2) external customers individually representing 10% or more of revenue. These revenues are attributable to both UK & Far East geographic segments.

3 EXPENSES BY NATURE – GROUP

	Note	**12 months to 31 August 2016 £000's**	12 months to 31 August 2015 £000's
Operating profit is stated after charging/(crediting):			
Cost of inventories recognised as an expense (included in cost of sales)		**75,790**	58,666
Amortisation of capitalised product development costs		**1,925**	960
(Credit)/charge financial instruments fair value adjustments		**(573)**	(2,051)
Inventories write down (credit)/charge		**(728)**	449
Exchange losses		**155**	77
Staff costs	4	**11,476**	11,208
Depreciation of tangible fixed assets			
— owned assets	12	**441**	425
Depreciation of investment property	11	**65**	65
(Profit) on disposal of property, plant and equipment		**(1)**	(14)
Operating leases — land and buildings		**313**	272
Auditor remuneration		**88**	74

ANALYSIS OF AUDITOR'S REMUNERATION

		12 months to 31 August 2016 £000's	12 months to 31 August 2015 £000's
Group Auditor's remuneration			
	— Statutory audit services current year	**42**	35
	— Interim review and other assurance services	**9**	6
Other Auditors' remuneration			
	— Statutory audit of the Group's subsidiaries	**33**	29
	— Taxation compliance	**4**	4
Total fees payable to Auditors		**88**	74

4 DIRECTORS AND EMPLOYEES REMUNERATION STAFF COSTS – GROUP

	12 months to 31 August 2016 £000's	12 months to 31 August 2015 £000's
Staff costs including directors' emoluments		
Wages and salaries	**9,818**	9,575
Social security costs	**1,223**	1,233
Pension costs	**288**	256
Share based payments	**147**	144
	11,476	11,208
The average number of employees during the year was:	**Number**	Number
Management and administration	**73**	76
Selling and distribution	**121**	113
	194	189

Of the total average number of employees, 130 (2015: 129) were based in the UK and 64 (2015: 60) in Hong Kong and mainland China.

The amount payable to pension schemes as at the balance sheet date was £8,000 (2015: £8,000).

4 DIRECTORS AND EMPLOYEES REMUNERATION CONTINUED

KEY MANAGEMENT PERSONNEL

Key management comprise the directors of The Character Group plc.

	12 months to 31 August 2016 £000's	12 months to 31 August 2015 £000's
Salaries, short-term benefits and pension contribution	**4,078**	3,876
Share-based payments	**24**	14
	4,102	3,890

ANALYSIS OF DIRECTORS' REMUNERATION

The following table shows a breakdown of the remuneration of the directors for the year ended 31 August 2016 and the year ended 31 August 2015.

Year ended 31 August 2016

	Salary/fees £	**Performance bonus £**	**Benefits in kind £**	**Pension contribution £**	**Total £**
R King	275,927	-	12,296	-	288,223
K P Shah	245,916	746,430	6,174	-	998,520
J J Diver	245,916	1,030,537	10,752	-	1,287,205
J J P Kissane	215,592	547,367	6,514	-	769,473
M S Hyde	225,369	114,660	1,071	10,294	351,394
M T Dowding	64,167	110,000	918	-	175,085
J Healy	62,032	94,340	2,332	9,434	168,138
D Harris (non-executive)	25,000	-	-	-	25,000
C Crouch (non-executive)	14,583	-	-	-	14,583
	1,374,502	2,643,334	40,057	19,728	4,077,621

Year ended 31 August 2015

	Salary/fees £	Performance bonus £	Benefits in kind £	Pension contribution £	Total £
R King	258,164	349,745	11,038	-	618,947
K P Shah	245,916	694,159	5,699	-	945,774
J J Diver	245,916	957,965	10,577	-	1,214,458
J J P Kissane	215,592	509,189	6,287	-	731,068
M S Hyde	202,939	101,470	2,054	9,366	315,829
Lord Birdwood (non-executive)	25,000	-	-	-	25,000
D Harris (non-executive)	25,000	-	-	-	25,000
	1,218,527	2,612,528	35,655	9,366	3,876,076

M T Dowding, J Healy and C Crouch were appointed on 1 February 2016.

In the year ended 31 August 2016 certain of the directors received remuneration (which is included in the amounts above) through payments by the group to third parties as follows: £250,927 was paid to Bali Hai Consultancies for the services of R King (2015 £582,911); £14,583 was paid to Clive Crouch Media Insight Limited for the service of C Crouch; £25,000 was paid to Inva Trust Consultancy Limited for the services of D Harris (2015 £25,000).

4 DIRECTORS AND EMPLOYEES REMUNERATION CONTINUED
KEY MANAGEMENT PERSONNEL

Directors interests in long term incentive schemes

On 6 May 2009, options were granted at a price of 35.5 pence over 72,000 new Ordinary Shares to J Healy These options were granted variously under the Company's 2006 Share Option Plan and are normally exercisable no earlier than three years and not later than ten years from the date of grant and potentially vest in three equal tranches, subject to the achievement of predetermined profit related performance targets, which have been satisfied. On 12 December 2016 J Healy exercised options in respect of 72,000 Ordinary Shares. The share price on the day of exercise was 525 pence.

On 2 February 2011, an unapproved, option over a total of 750,000 existing Ordinary Shares held by the Company in treasury was granted to J J Diver, a director of the Company, at an exercise price of 187 pence per share. This option was granted in exercise of the power to sell shares held by the Company as treasury shares granted to the directors (in accordance with section 570 of the Companies Act 2006) at the Annual General Meeting of the Company held on 19 January 2011. The options were exercised in full on 15 September 2015 at a price of 187 pence per share.

On 25 September 2014 options over 208,000 existing Ordinary Shares of 5 pence held by the Company in treasury were granted under the 2006 scheme at an exercise price of 213.00 pence per share. M S Hyde was granted options over 100,000 Ordinary Shares, M T Dowding was granted options over 36,000 Ordinary Shares and J Healy was granted options over 72,000 Ordinary Shares.

At 31 August 2016, the mid-market price of an issued Ordinary Share in The Character Group plc was 505 pence. During the year the mid-market price ranged from 430 pence to 567.5 pence.

5 NET FINANCE COSTS - GROUP

	12 months to 31 August 2016 £000's	12 months to 31 August 2015 £000's
Finance costs:		
Interest payable on bank overdraft and similar charges	**(188)**	(206)
Factor and invoice discounting advances	**(27)**	(24)
	(215)	(230)
Finance income:		
Interest earned on cash and cash equivalents	**47**	14
Net finance costs	**(168)**	(216)

6 TAXATION – GROUP

	Note	12 months to 31 August 2016 £000's	12 months to 31 August 2015 £000's
UK Corporation Tax			
Tax on profit for the period		**914**	716
Adjustments to tax charge in respect of previous periods		**(2)**	(5)
Total UK corporation tax		**912**	711
Foreign Tax			
Tax on profit for the period		**1,415**	1,009
Adjustments to tax charge in respect of previous periods		**(84)**	3
Total foreign tax		**1,331**	1,012
Total current tax		**2,243**	1,723
Deferred Tax			
Origination and reversal of timing differences	7	**102**	306
Total deferred tax		**102**	306
Tax on profit on ordinary activities		**2,345**	2,029
Factors affecting tax charge for the period			
Profit on ordinary activities before taxation		**13,132**	12,268
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 20% (2015: 20.6%)		**2,626**	2,525
Effects of:			
Unrecognised timing differences		**-**	(200)
(Income)/expenses (not chargeable)/deductible for tax purposes		**44**	48
Capital allowances less than depreciation		**34**	13
Employee share options		**7**	(111)
Lower tax rate on overseas earnings		**(284)**	(229)
Tax losses not recognised for deferred tax		**1**	(1)
Effect of change of tax rate		**3**	(14)
Adjustments to tax charge in respect of previous periods		**(86)**	(2)
Tax charge reported in the income statement		**2,345**	2,029

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

Income Tax		
Tax credit on exercise of employee share options	**(421)**	(582)
Income tax credit on exchange losses on intra group balances	**(144)**	(24)
Net tax credit to equity	**565**	(606)

The Finance Act 2013 included legislation to reduce the main rate of corporation tax from 23% to 21% from 1 April 2014 and to 20% from 1 April 2015. The proposed reduction from 23% to 20% was substantively enacted on 2 July 2013. The finance bill 2015 further reduced the main rate of corporation tax to 19% with effect from 1 April 2017 and to 18% from 1 April 2020, and was substantively enacted on 26 October 2015. This will reduce the Group's future current tax charge accordingly. The deferred tax balances have been calculated based on the rate of 19% substantively enacted at the balance sheet date.

7 DEFERRED INCOME TAX - GROUP

Deferred tax is calculated on temporary differences under the liability method using a tax rate of 20% (2015: 20%) for UK differences and local rates for overseas differences.

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

	2016 £000's	2015 £000's
As at 1 September	**891**	523
(Charge)/to the income statement	**(102)**	(306)
(Charge)/credit to equity	**(414)**	674
As at 31 August	**375**	891

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	
	2016 £000's	2015 £000's	2016 £000's	2015 £000's
Product development	**-**	-	**(95)**	(167)
Property, plant and equipment	**42**	50	**-**	-
Employee share scheme charges	**299**	842	**-**	-
Derivative financial instruments	**-**	26	**-**	-
Inventories	**133**	135	**-**	-
Short term timing differences	**-**	5	**(4)**	-
Tax assets/(liabilities)	**474**	1,058	**(99)**	(167)
Net tax asset/(liability)	**375**	891	**-**	-

Movement in recognised deferred tax during the year:

	1 September 2015 £000's	Recognised in income £000's	Recognised in equity £000's	31 August 2016 £000's
Product development	(167)	72	-	**(95)**
Property, plant and equipment	50	(8)	-	**42**
Derivative financial instruments	26	(26)	-	**-**
Inventories	135	(2)	-	**133**
Employee share scheme charges	842	(129)	(414)	**299**
Short term timing differences	5	(9)	-	**(4)**
	891	**(102)**	**(414)**	**375**

Movement in recognised deferred tax during the prior year:

	1 September 2014 £000's	Recognised in income £000's	Recognised in equity £000's	31 August 2015 £000's
Product development	(48)	(119)	-	**(167)**
Property, plant and equipment	-	50	-	**50**
Derivative financial instruments	436	(410)	-	**26**
Inventories	125	10	-	**135**
Employee share scheme charges	-	168	674	**842**
Short term timing differences	10	(5)	-	**5**
	523	**(306)**	**674**	**891**

Deferred tax assets amounting to £18,000 (2015: £18,000) 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	
	2016 £000's	2015 £000's	**2016 £000's**	2015 £000's
Employee share scheme charges	**299**	842	**-**	-
Short term timing differences	**-**	2	**-**	-
Tax assets	**299**	844	**-**	-
Net tax asset	**299**	-	**-**	-

Movement in recognised deferred tax during the year:

	1 September 2015 £000's	Recognised in income £000's	Recognised in equity £000's	31 August 2016 £000's
Employee share scheme charges	842	(129)	(414)	**299**
Short term timing differences	2	(2)	-	**-**
	844	**(131)**	**(414)**	**299**

Movement in recognised deferred tax during the prior year:

	1 September 2014 £000's	Recognised in income £000's	Recognised in equity £000's	31 August 2015 £000's
Employee share scheme charges	702	122	18	**842**
Short term timing differences	2	-	-	**2**
	704	**122**	**18**	**844**

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 2016 Profit after taxation £	Year Ended 31 August 2015 Profit after taxation £
Profit for the year used in the calculation of basic and diluted earnings per share	**10,787,000**	10,239,000

The weighted average number of ordinary shares used for the calculation of basic and diluted earnings per share are as follows:

	Year Ended 31 August 2016	Year Ended 31 August 2015
Weighted average number of ordinary shares used in the calculation of basic earnings per share	**21,445,576**	21,085,023
Weighted average number of share options	**775,967**	1,305,141
Weighted average number of ordinary shares used in the calculation of diluted earnings per share	**22,221,543**	22,390,164

9 DIVIDEND – GROUP

	12 months to 31 August 2016 £000's	12 months to 31 August 2015 £000's
On equity shares:		
Final dividend paid for the year ended 31 August 2015		
— 6.00 pence (2014: 3.95 pence) per share	**1,285**	838
Interim dividend paid for the year ended 31 August 2016		
— 7.00 pence (2015: 5.00 pence) per share	**1,500**	1,026
13.00 pence (2015: 8.95 pence) per share	**2,785**	1,864

The directors recommend a final dividend of 8.00 pence per share (2015: 6.00 pence) amounting to £1,691,000 (2015: £1,297,000). If approved by shareholders, the final dividend will be paid on 27 January 2017 to shareholders on the register on 6 January 2017.

10 INTANGIBLE FIXED ASSETS – GROUP
PRODUCT DEVELOPMENT

Cost	Total £000's
1 September 2014	**3,235**
Additions	**1,559**
Write off fully amortised assets	(1,899)
31 August 2015	**2,895**
Additions	**2,205**
Write off fully amortised assets	(1,336)
31 August 2016	**3,764**
Amortisation	
1 September 2014	**2,997**
Charge for the year	960
Write off fully amortised assets	(1,899)
31 August 2015	**2,058**
Charge for the year	1,925
Write off fully amortised assets	(1,336)
31 August 2016	**2,647**
Net book value	
31 August 2016	**1,117**
31 August 2015	837

11 INVESTMENT PROPERTY – GROUP

Cost	Total £000's
1 September 2014 and 31 August 2015	**2,194**
Depreciation	
1 September 2014	**218**
Charge for the year	65
1 September 2015	**283**
Charge for the year	66
31 August 2016	**349**
Net book value	
31 August 2016	**1,845**
31 August 2015	1,911

The investment property is held at depreciated historical cost which, in the opinion of the directors, at 31 August 2016 approximates its open market value. During the year the Group received gross rental income of £172,000 (2015: £147,000) in respect of the investment property.

A bank has a charge over the freehold investment property.

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 2014	**3,904**	**108**	**2,442**	**336**	**6,790**
Additions	–	9	187	153	349
Write off fully depreciated assets	–	–	(259)	–	(259)
Disposals	–	–	(5)	(63)	(68)
Translation differences	–	–	19	–	19
31 August 2015	**3,904**	**117**	**2,384**	**426**	**6,831**
Additions	–	9	216	22	247
Write off fully depreciated assets	–	–	(441)	–	(441)
Disposals	–	–	–	(103)	(103)
Translation differences	–	21	41	5	67
31 August 2016	**3,904**	**147**	**2,200**	**350**	**6,601**
Depreciation					
1 September 2014	**877**	**104**	**1,963**	**223**	**3,167**
Charge for the year	105	12	246	62	425
Write off fully depreciated assets	–	–	(259)	–	(259)
Disposals	–	–	(5)	(63)	(68)
Translation differences	–	–	15	–	15
31 August 2015	**982**	**116**	**1,960**	**222**	**3,280**
Charge for the year	105	3	262	71	441
Write off fully depreciated assets	–	–	(441)	–	(441)
Disposals	–	–	–	(90)	(90)
Translation differences	–	20	34	–	54
31 August 2016	**1,087**	**139**	**1,815**	**203**	**3,244**
Net book value					
31 August 2016	**2,817**	**8**	**385**	**147**	**3,357**
31 August 2015	2,922	1	424	204	3,551

TANGIBLE FIXED ASSETS – COMPANY

Cost	Freehold land and buildings £000's	Fixtures, fittings and equipment £000's	Total £000's
1 September 2014 and 31 August 2015	1,182	244	1,426
Additions	-	4	4
31 August 2016	**1,182**	**248**	**1,430**
Depreciation			
1 September 2014	667	174	841
Charge for the year	39	20	59
31 August 2015	706	194	900
Charge for the year	39	20	59
31 August 2016	**745**	**214**	**959**
Net book value			
31 August 2016	**437**	**34**	**471**
31 August 2015	476	50	526
31 August 2014	515	70	585

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 2014	3,195	2,045	5,240
Share based payment	–	80	80
At 31 August 2015	3,195	2,125	5,320
Share based payment	–	82	82
At 31 August 2016	**3,195**	**2,207**	**5,402**
Amortisation and provisions			
1 September 2014 and 31 August 2015	1,896	–	1,896
Charge for the year	–	–	–
At 31 August 2016	**1,896**	–	**1,896**
Net book value			
31 August 2016	**1,299**	**2,207**	**3,506**
31 August 2015	1,299	2,125	3,424
31 August 2014	1,299	2,045	3,344

At 31 August 2016, 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
Character Poland SP z.o.o	Poland	Ordinary	100%	Design and distribution of toys and games
Q-Stat Limited	United Kingdom	Ordinary	100%	Property investment
Toy Options Limited	United Kingdom	Ordinary	100%	Intermediate holding company

14 INVENTORIES – GROUP

	2016 £000's	2015 £000's
Finished goods for resale	**10,303**	8,965

15 TRADE AND OTHER RECEIVABLES - GROUP AND COMPANY

	Group		Company		
	2016	2015	**2016**	2015	2014
	£000's	£000's	**£000's**	£000's	£000's
Current:					
Trade receivables	**21,959**	12,091	**-**	-	-
Due from subsidiary undertakings	**-**	-	**17,343**	14,055	15,235
Other receivables	**1,020**	501	**32**	6	15
	22,979	12,592	**17,375**	14,061	15,250
Prepayments	**2,103**	2,943	**184**	189	203
	25,082	15,535	**17,559**	14,250	15,453

Finance advances received against gross trade receivables (shown below) under the recourse invoice discounting facility amounting to £12,929,000 (2014: £13,315,000) 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.

Gross trade receivables can be analysed as follows:

	2016	2015
	£000's	£000's
Fully performing	**19,465**	11,964
Past due	**2,494**	127
Trade receivables	**21,959**	12,091

Ageing of past due, not impaired, receivables:

	2016	2015
	£000's	£000's
1 – 90 days	**2,390**	80
> 90 days	**104**	47
	2,494	127

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

	2016	2015
	£000's	£000's
Pounds Sterling	**10,314**	7,084
US Dollars	**11,554**	4,768
Euros	**91**	239
	21,959	12,091

16 INCOME TAX RECOVERABLE/ (PAYABLE) – GROUP

	2016		2015	
	Assets	**Liabilities**	Assets	Liabilities
	£000's	**£000's**	£000's	£000's
UK income tax	**–**	**(105)**	15	–
Overseas income tax	**7**	**(1,001)**	7	(1,862)
	7	**(1,106)**	22	(1,862)

17 DERIVATIVE FINANCIAL INSTRUMENTS – GROUP

Numerical financial instruments disclosures are set out below. Additional disclosures are set out in the accounting policies in notes 1 and 20 and note 21 relating to risk management.

	2016		2015	
	Assets £000's	**Liabilities £000's**	Assets £000's	Liabilities £000's
Forward foreign exchange contracts and options	**533**	**(89)**	234	(363)
	533	**(89)**	234	(363)

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.

18 CASH & CASH EQUIVALENTS - GROUP AND COMPANY

	Group		Company		
	2016 £000's	2015 £000's	**2016 £000's**	2015 £000's	2014 £000's
Cash and cash equivalents	**28,560**	25,781	**4,854**	4,112	2,050

Cash and cash equivalents are denominated in the following currencies

Currency – floating rate financial assets	**2016 £000's**	2015 £000's	**2016 £000's**	2015 £000's	2014 £000's
Sterling	**24,510**	16,926	**4,639**	4,103	2,029
US$	**3,163**	7,692	**218**	10	20
Euro	**140**	380	**(3)**	(1)	1
HKS$	**698**	613	**-**	-	-
Polish Zloty	**12**	38	**-**	-	-
Chinese Renminbi	**37**	132	**-**	-	-
Total	**28,560**	25,781	**4,854**	4,112	2,050

Bank overdrafts and short term loans are aggregated with cash and cash equivalents where there is a right of set-off. At 31 August 2016, the balances attracted interest at rates of between 0.05% and 0.6%.

19 SHORT TERM BORROWINGS – GROUP

	2016 £000's	2015 £000's
Finance Advances	**17,180**	12,929
Import Loans	**4,467**	8,317
Total	**21,647**	21,246

Analysis of short term borrowings by currency

	2016 £000's	2015 £000's
Sterling	**14,709**	11,219
US$	**6,901**	9,819
Euro	**37**	208
Total	**21,647**	21,246

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

19 SHORT TERM BORROWINGS CONTINUED

The Group utilises short term borrowings to implement its working capital strategy. UK facilities include a bank overdraft £6 million and a trade finance facility of £13.5 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 between 1.65% to 1.70% 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 £12.3 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 £1.05 million (2015: £0.5 million), which has been included in cash and cash equivalents.

20 TRADE AND OTHER PAYABLES - GROUP AND COMPANY

	Group		Company		
	2016 £000's	2015 £000's	**2016 £000's**	2015 £000's	2014 £000's
Trade creditors	**15,094**	11,161	**-**	-	-
Due to subsidiary undertakings	**-**	-	**14**	14	13
Other taxation and social security	**886**	997	**136**	123	99
Accruals and deferred income	**9,438**	6,857	**1,193**	892	594
	25,418	19,015	**1,343**	1,029	706

21 FINANCIAL INSTRUMENTS – GROUP

Financial assets		**31 August 2016**			31 August 2015		
Current financial assets	**Note**	**Total £000's**	**Held at fair value through Profit & loss £000's**	**Loans and receivables £000's**	Total £000's	Held at fair value through Profit & loss £000's	Loans and receivables £000's
Trade and other receivables	**15**	**22,979**	**–**	**22,979**	12,592	–	12,592
Derivative financial instruments	**17**	**533**	**533**	**–**	234	234	–
Cash and cash equivalents	**18**	**28,560**	**–**	**28,560**	25,781	–	25,781
		52,072	**533**	**51,539**	38,607	234	38,373

Financial liabilities		**31 August 2016**			31 August 2015		
Current financial liabilities	**Note**	**Total £000's**	**Held at fair value through Profit & loss £000's**	**Financial liabilities at amortised cost £000's**	Total £000's	Held at Fair value through Profit & loss £000's	Financial liabilities at amortised cost £000's
Trade and other payables	**20**	**15,094**	–	**15,094**	11,161	–	11,161
Derivative financial instruments	**17**	**89**	**89**	–	363	363	–
Short term borrowings	**19**	**21,647**	–	**21,647**	21,246	–	21,246
		36,830	**89**	**36,741**	32,770	363	32,407

FINANCIAL INSTRUMENTS – COMPANY

Financial assets Current financial assets	Note	31 August 2016 Total £000's	Held at fair value through Profit & loss £000's	Loans and receivables £000's	31 August 2015 Total £000's	Held at fair value through Profit & loss £000's	Loans and receivables £000's
Trade and other receivables	15	17,375	–	17,375	14,061	–	14,061
Derivative financial instruments	17	–	–	–	–	–	–
Cash and cash equivalents	18	4,854	–	4,854	4,112	–	4,112
		22,229	–	22,229	18,173	–	18,173

Financial liabilities Current financial liabilities	Note	31 August 2016 Total £000's	Held at fair value through Profit & loss £000's	Financial liabilities at amortised cost £000's	31 August 2015 Total £000's	Held at Fair value through Profit & loss £000's	Financial liabilities at amortised cost £000's
Trade and other payables	20	14	–	14	14	–	14
Derivative financial instruments	17	–	–	–	–	–	–
Short term borrowings	19	–	–	–	–	–	–
		14	–	14	14	–	14

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

22 FINANCIAL RISK MANAGEMENT

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

Foreign exchange risk

The Group is exposed to foreign exchange risks against Sterling, primarily on transactions in US dollars. It enters into forward contracts 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. The Group has implemented procedures and documentation to enable certain forward derivative contracts to qualify for hedge accounting.

Foreign currency sensitivity

The Group is primarily exposed to US Dollars, Hong Kong Dollars and the Euro.
The sensitivity analysis below is based on a change in an assumption while holding all other assumptions constant. In practice this is unlikely to occur and changes in some of the assumptions may be correlated, for example a change in interest rate and a change in foreign currency 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 respective currencies against Sterling and in accordance with IFRS 7 all other variables remaining constant. The 10% change represents a reasonably possible change in the specified foreign exchange rates in relation to the Group's functional currencies.

	Sterling strengthening		**Sterling weakening**	
2016	**Total Equity £000's**	**Profit or (Loss) £000's**	**Total Equity £000's**	**Profit or (Loss) £000's**
Euro	**1**	**1**	**(1)**	**(1)**
US$	**(2,184)**	**(2,184)**	**1,442**	**1,442**
HK$	**441**	**441**	**(441)**	**(441)**
	(1,742)	**(1,742)**	**1,000**	**1,000**

	Sterling strengthening		Sterling weakening	
2015	Total Equity £000's	Profit or (Loss) £000's	Total Equity £000's	Profit or (Loss) £000's
Euro	(26)	(26)	26	26
US$	(6,728)	(6,728)	275	275
HK$	(50)	(50)	50	50
	(6,804)	(6,804)	351	351

Interest rate risk

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

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

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

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

22 FINANCIAL RISK MANAGEMENT CONTINUED

Credit risk – Group and Company

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

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

	Group		Company	
Class of financial assets	**2016 £000's**	2015 £000's	**2016 £000's**	2015 £000's
Trade receivables	**21,959**	12,091	**-**	-
Due from subsidiary undertakings	**-**	-	**17,343**	14,055
Other receivables	**1,020**	501	**32**	6
Current tax assets	**7**	22	**-**	-
Cash	**28,560**	25,781	**4,854**	4,112
	51,546	38,395	**22,229**	18,173

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

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

Concentration risk

The Group is subject to significant concentration of credit risk within its business. Five major counterparties within trade receivables amounted to £13,346,000 (2015: £7,109,000). 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:

	2016		2015	
	Current £000's	**Non-current within five years £000's**	Current £000's	Non-current within five years £000's
Finance advances	**17,180**	-	12,929	-
Import loans	**4,467**	-	8,317	-
Trade and other payables	**25,418**	-	19,015	-
Current tax liabilities	**1,106**	-	1,862	-
Derivative financial instruments	**89**	-	363	-
Deferred tax liabilities	**-**	**99**	-	167
	48,260	**99**	42,486	167

23 CAPITAL RISK MANAGEMENT

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

24 CALLED UP SHARE CAPITAL (EQUITY)

	2016 £000's	2015 £000's	2014 £000's
Authorised			
110,000,000 (2015: 110,000,000) ordinary shares of 5 pence each	**5,550**	5,550	5,550
Allotted, called up and fully paid			
24,701,010* (2015: 24,877,946, 2014: 25,302,146) ordinary shares of 5 pence each	**1,235**	1,244	1,266

* Including 3,269,456 Ordinary Shares held in treasury (2015: 4,019,456).

Share capital movements in the year

832,000 (2015: 1,912,130) Ordinary Shares, total nominal value £41,600 (2015: £95,607), were issued during the year to employees exercising their share options as follows:

	Number of Ordinary Shares at exercise price		
Date	**35.5p**	**63.00p**	**187.00p**
17 September 2015	–	–	750,000
21 December 2015	–	6,000	–
15 January 2016	–	18,000	–
5 May 2016	–	15,000	–
5 July 2016	43,000	–	–

During the year, the Company repurchased for cancellation 258,936 (2015: 2,336,330) Ordinary Shares as follows:

Date	Number of shares	Price	% of the issued share capital immediately prior to cancellation (excluding shares held in Treasury)
18 December 2015	85,000	478.8235p	0.39%
29 December 2015	124,263	465.00p	0.58%
30 December 2015	4,673	463.93p	0.02%
21 June 2016	35,000	515.00p	0.16%
22 June 2016	10,000	515.00p	0.05%

At 31 August 2016 a total of 3,269,456 Ordinary Shares were held in treasury. (2015: 4,019,456).

Share options

The Company adopted the rules of a Share Option Plan (the "2006 Scheme") on 22 February 2006, following approval by H.M Revenue and Customs. On 11 May 2006, options over a total of 960,000 new ordinary shares of 5 pence each were granted under the 2006 Scheme to executive directors at an exercise price of 63 pence per share. On 15 May 2006, options over a total of 1,093,250 new ordinary shares of 5 pence each were granted under the 2006 Scheme to Group employees at an exercise price of 63 pence per share. As at 31 August 2016, there were no options subsisting (2015: 129,150).

On 6 May 2009, options over a total of 991,998 new ordinary shares of 5 pence each were granted under the 2006 Scheme to executive directors at an exercise price of 35.5 pence per share. Also on 6 May 2009, options over a total of 997,029 new ordinary shares of 5 pence each were granted under the 2006 Scheme to Group employees at an exercise price of 35.5 pence per share.

On 23 July 2010, a subsidiary of the Group entered into an exclusive distribution agreement with Cepia LLC, a former major supplier to the Group. In consideration for the exclusive distribution rights of all Cepia LLC's products in the United Kingdom and Ireland, an affiliate of Cepia LLC, Cepia HK Limited, was granted an option to subscribe for 639,735 ordinary shares of 5 pence each at an exercise price of 191.50 pence per share (as revised by a Variation of Capital Adjustment), subject (inter alia) to the exclusive distribution agreement having continued in existence throughout the three year vesting period and beyond the date of any exercise. Cepia HK Limited purported to exercise the said option on 22 July 2015 but the directors believed that the conditions for a valid exercise of the option had not been satisfied. Cepia HK Limited issued proceedings against the Company seeking to enforce the option and claiming damages for the loss of benefit of exercising the option to date. The Company has since the balance sheet date successfully defended the action and the claim was dismissed in the High Court on 8 December 2016.

24 CALLED UP SHARE CAPITAL (EQUITY) CONTINUED

Share options *continued*

On 2 February 2011, an unapproved non-scheme option over a total of 750,000 existing ordinary shares of 5 pence each held by the company in treasury was granted to an executive director at an exercise price of 187 pence per share (together with the options granted on 11 July 2006 and 23 July 2010 referred to as "Non Scheme Options"). This option is exercisable no earlier than three years and not later than ten years from the date of grant. This option was exercised in full on 17 September 2015.

On 25 September 2014, options over a total of 1,070,800 existing ordinary shares of 5 pence each held by the company in treasury were granted under the 2006 Scheme to Group employees at an exercise price of 213.00 pence per share. Included within these grants are options over 208,000 Ordinary Shares to executive directors.

At 31 August 2016, rights to options over 1,124,000 Ordinary Shares of the Company (treated as outstanding) were as follows:

	At 1 September 2015	Exercised/ lapsed	At 31 August 2016	Exercise Price	Exercise Period
2006 Scheme					
	47,000	(47,000)	–	63.0p	11 May 2009 to 10 May 2016
	82,150	(82,150)	–	63.0p	15 May 2009 to 14 May 2016
	37,900	(9,000)	28,900	35.50p	6 May 2012 to 5 May 2019
	45,900	(17,000)	28,900	35.50p	6 May 2013 to 5 May 2019
	50,900	(17,000)	33,900	35.50p	6 May 2014 to 5 May 2019
	1,052,600	(20,300)	1,032,300	213.00p	25 September 2017 to 24 September 2024
Non-Scheme	639,735	(639,735)	-	191.50p	23 July 2013 to 22 July 2015
Non-Scheme	750,000	(750,000)	–	187.0p	02 February 2014 to 01 February 2021
	2,706,185	(1,582,185)	1,124,000		

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:

	2016 Number	2016 Weighted average exercise price	2015 Number	2015 Weighted average exercise price
Outstanding at 1 September	**2,706,185**	**184.72p**	3,932,430	93.78p
Granted	**-**	**-**	1,070,800	213.00p
Variation of capital adjustment	**-**	**-**	(360,265)	191.50p
Exercised	**(832,000)**	**173.36p**	(1,912,130)	48.59p
Lapsed	**(750,185)**	**176.64p**	(24,650)	166.65p
Outstanding at 31 August	**1,124,000**	**198.52p**	2,706,185	184.72p
Weighted average remaining contractual life in years		**8.01**		6.10

Options over 832,000 Ordinary Shares were exercised in the year (2015: 1,912,130). The weighted average share price (at the date of exercise) of options exercised during the year was 507.21p (2015: 224.95p).

At 31 August 2016, options over 91,700 Ordinary Shares were exercisable (2015: 1,013,850).

25 SHARE-BASED PAYMENT

	12 months ended 31 August 2016 £000's	12 months ended 31 August 2015 £000's
Charge for share based payment	**147**	144

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

Non-Scheme Options

Grant Date	23 July 2010	2 February 2011
Options outstanding 1 September 2015	639,735	750,000
Exercised/lapsed	(639,735)	(750,000)
Options outstanding 31 August 2016	-	–
Contract term year(s)	5	10
Expected life of option	5	5
Exercise & share price at grant	191.50p	187.0p
Expected volatility	60% - 65%	60% – 65%
Annual risk free rate	2.33%	2.74%
Annual expected dividend	3% - 3.7%	3% – 3.7%
Fair value per share under option	58p	90p

2006 Scheme

Grant Date	11 May 2006	15 May 2006	6 May 2009	25 September 2014
Options outstanding 1 September 2015	47,000	82,150	134,700	1,052,600
Exercised	–	(39,000)	(43,0000)	–
Lapsed	(47,000)	(43,150)	–	(20,300)
Options outstanding 31 August 2016	–	–	91,700	1,032,300
Contract term year(s)	10	10	10	10
Expected life of option	6	6	7	8
Exercise & share price at grant	63.0p	63.0p	35.50p	213.00p
Expected volatility	55% – 65%	55% – 65%	65% – 75%	25% – 35%
Annual risk free rate	4.425%	4.425%	3.17%	2.502%
Annual expected dividend	2% – 3%	2% – 3%	0% – 1.60%	3.65% – 4.0%
Fair value per share under option	32p	32p	25p	46p

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

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

26 COMMITMENTS

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

	2016 £000's	2015 £000's
Not later than one year	**310**	115
Later than one year but not more than five years	**404**	-
	714	115

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

	2016 £000's	2015 £000's
Within one year	**579**	854
Between one and two years	**937**	1,489
Between two and five years	**-**	417
	1,516	2,760

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:

	2016 £000's	2015 £000's
Within one year	**225**	128
Between one and two years	**670**	293
Between two and five years	**2**	-
	897	421

27 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 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.

	2016 £000's	2015 £000's
Dividends received	**6,708**	6,933
Management fees received	**1,800**	1,750
Property rental income	**201**	201
Property rentals paid	**(96)**	(92)
Amounts due from subsidiary undertakings	**17,343**	14,055
Amounts owed to subsidiary undertakings	**(14)**	(14)

28 CONTINGENT LIABILITIES

The contingent liability for bills of exchange discounted in the normal course of business at 31 August 2016 amounted to £977,000 (2015:£995,000).

29 EVENTS OCCURING AFTER THE BALANCE SHEET DATE

During September 2016, the Company repurchased for cancellation 292,402 Ordinary Shares at an average cost of £4.47 per Ordinary Share.

On 8 December 2016, a High Court claim against the Company, details of which are included in note 24 to the financial statements, was dismissed. The claim related to a share option granted by the Company in exchange for certain exclusive distribution rights. Further to the court's decision, the Company has excluded the varied number of share options when calculating diluted earnings per share for the year ended 31 August 2016 as it has been held that the relevant option is not capable of exercise.

30 RECONCILIATION OF EQUITY – COMPANY

	Note	UK GAAP £000's	31 August 2014 Effect of transition IFRS £000's	IFRS £000's	UK GAAP £000's	31 August 2015 Effect of transition IFRS £000's	IFRS £000's
Fixed assets							
Tangible assets		585	-	585	526	-	526
Investments		3,344	-	3,344	3,424	-	3,424
Deferred tax	(i)	-	704	704	-	844	844
		3,929	704	4,633	3,950	844	4,794
Current assets							
Debtors		15,453	-	15,453	14,250	-	14,250
Cash in bank and in hand		2,050	-	2,050	4,112	-	4,112
Current liabilities		17,503	-	17,503	18,362	-	18,362
Creditors: amount falling due within one year	(ii)	(695)	(11)	(706)	(1,018)	(11)	(1,029)
Net current assets		16,808	(11)	16,797	17,344	(11)	17,333
Total assets less current liabilities		20,737	693	21,430	21,294	833	22,127
Capital and reserves							
Called up share capital		1,266	-	1,266	1,244	-	1,244
Shares held in treasury		(3,373)	-	(3,373)	(3,373)	-	(3,373)
Investment in own shares		(908)	-	(908)	-	-	-
Capital redemption reserve		1,587	-	1,587	1,704	-	1,704
Share premium account		13,808	-	13,808	14,642	-	14,642
Share based payment reserve		2,487	-	2,487	2,631	-	2,631
Profit and loss account	(iii)	5,870	693	6,563	4,446	833	5,279
Equity shareholders' funds		20,737	693	21,430	21,294	833	22,127

(i) The adjustment to deferred tax on transition to IFRS is the recognition of deferred tax assets relating to the recognition of the fair value of the Company's share options and short term employee benefits.

(ii) IFRS requires short term employee benefits to be charged to the profit and loss account as the employee service is received. This has resulted in the company recognising a liability for holiday pay of £11,000 on transition to IFRS. Previously holiday pay accruals were not recognised and were charged to the profit and loss account as they were paid. The liability at 31 August 2015 was £11,000.

(iii) Under IFRS, the retained earnings has been adjusted for the following (charges)/credits.

	2014 £000's	2015 £000's
Short term employee benefits net of deferred tax	**(9)**	(9)
Deferred tax on share options	702	842
	693	833

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN THAT the 2017 Annual General Meeting of The Character Group plc will be held at the offices of Duane Morris, 2nd Floor, 10 Chiswell Street, London, EC1Y 4UQ on Friday 20 January 2017 at 11:00 a.m. to transact the following business:

ORDINARY BUSINESS

1. To receive and adopt the directors' report and the accounts of the company for the year ended 31 August 2016 and the report of the auditors thereon.
2. To declare a final dividend on the ordinary shares in the capital of the company (other than ordinary shares held by the company in treasury) for the year ended 31 August 2016 of 8 pence per share.
3. To consider an ordinary resolution of the company that Mr. R. King, who retires in accordance with the terms of his letter of appointment, be and is hereby re-elected as a director of the company.
4. To consider an ordinary resolution of the company that Mr. D. Harris, who retires in accordance with the terms of his letter of appointment, be and is hereby re-elected as a director of the company.
5. To consider an ordinary resolution of the company that Mr. C. Crouch, who retires in accordance with the terms of his letter of appointment, be and is hereby re-elected as a director of the company.
6. To consider an ordinary resolution of the company that MacIntyre Hudson LLP be and are hereby re-appointed as auditors of the company, on terms as to remuneration to be determined by the directors.

SPECIAL BUSINESS

To consider and, if thought fit, to pass the following resolutions of the company:

Ordinary Resolution

7. That, in accordance with section 551 of the Companies Act (the "Act"), the directors be and are hereby generally and unconditionally authorised to allot shares in the company or grant rights to subscribe for or to convert any security into shares in the company ("Rights") up to an aggregate nominal amount of £357,100, such authority to expire on the earlier of fifteen months following the date upon which this resolution was passed and the conclusion of the Annual General Meeting of the company next following the date upon which this resolution was passed, unless renewed, varied or revoked by the company in general meeting provided that the company may at any time before the expiry, variation or revocation of such authority make offers or agreements which will or might require shares in the company to be allotted or Rights to be granted and the directors may allot shares or grant Rights after the expiry, variation or revocation of such authority as if such authority had not expired or been varied or revoked. This authority shall replace all existing authorities conferred on the directors in respect of the allotment of shares in the company or grant Rights under section 551 of the Act to the extent that the same have not previously been utilised.

Ordinary Resolution

8. That the company be and is hereby generally and unconditionally authorised for the purposes of section 701 of the Act to make market purchases (as defined in section 693(4) of the Act) of ordinary shares of 5p each in the capital of the company provided that:

    (A) the maximum number of ordinary shares 5p each in the capital of the company hereby authorised to be acquired is 3,214,700;

    (B) the minimum price (exclusive of all expenses) which may be paid for such shares is 5p per share;

    (C) the maximum price (exclusive of expenses) which may be paid for such shares is, in respect of a share contracted to be purchased on any day, is an amount equal to the higher of;

    (i) 105 per cent of the average closing middle market prices ofordinary shares of 5p in the company as derived from the London Stock Exchange's Daily Official List for the five business days immediately preceding the day on which such share is contracted to be purchased, and

    (ii) where the relevant purchase is carried out so as to comply with Article 5(1) of Regulation (EU) No 596/2014, the value of an ordinary share of 5p in the company calculated on the basis of the higher of the price of the last independent trade; and the highest current independent purchase bid on the trading venue where the relevant purchase is contracted..

    (D) the authority hereby conferred shall expire at the earlier of the conclusion of the next Annual General Meeting following the date upon which this resolution was passed or 15 months following the date upon which this resolution was passed; and

    (E) the company may contract to purchase its own shares under the authority hereby conferred prior to the expiry of such authority, which will or may be executed wholly or partly after the expiry of such authority, and may make a purchase of its own shares in pursuant of any such contract.

Special Resolution

9. That:

(A) in accordance with section 570 of the Companies Act 2006 (the "Act"), the directors be and are hereby given the general power to allot equity securities (as defined in Section 560 of the Act) pursuant to the authority conferred on them for the purposes of Section 551 of the Act by an ordinary resolution of the company of even date herewith and/or to sell equity securities held as treasury shares (within the meaning of section 724 of the Act) for cash in each case as if Section 561(1) of the Act did not apply to any such allotment or sale, provided that this power shall be limited:

(i) to the allotment and/or sale of equity securities in connection with any offer by way of rights to holders of ordinary shares in the capital of the company (other than to the holder(s) of treasury shares) notwithstanding that, by reason of such exclusions or other arrangements as the directors may deem necessary or desirable to deal with legal or other problems arising in any overseas territory, in connection with fractional entitlements, record dates or otherwise howsoever, the equity securities to be allotted are not offered to all such holders in proportion to the respective number of ordinary shares held by them;

(ii) the allotment (otherwise than pursuant to paragraph (i) above) of equity securities up to an aggregate nominal value of £107,100;

(iii) the sale of (otherwise than pursuant to paragraph (i) above) of equity securities held as treasury shares up to an aggregate nominal value of £163,472.80 (equivalent to 3,269,456 ordinary shares of 5p each in the company);

(B) the power hereby conferred shall expire at the earlier of the conclusion of the next Annual General Meeting following the date on which this resolution was passed or fifteen months following the date upon which this resolution was passed;

(C) the power hereby conferred shall enable the company to make an offer or agreement that would or might require equity securities to be allotted and/or sale after such power expires and the directors may allot and/or sell equity securities in pursuance of any such offer or agreement made within the limits prescribed in paragraph (A) above as if the power hereby conferred had not expired; and

(D) this power shall replace all existing powers granted to the directors to allot and/or sell equity securities as if the said Section 561(1) of the Act did not apply to the extent that the same have not been previously utilised.

By order of the Board,

M.T. Dowding	Registered Office:
Secretary	2nd Floor,10 Chiswell Street
23 December 2016	London EC1Y 4UQ

Notes:

1. The register of directors' interests and copies of the directors' service agreements or (as appropriate) their letters of appointment and the Articles of Association of the company will be available for inspection at the registered office during normal business hours from the date of this notice until the date of the Annual General Meeting and on that day will be available for inspection at the place of the meeting from 10:00 a.m. until the conclusion of the meeting.

2. A member entitled to attend and vote at the Annual General Meeting convened by the Notice above is entitled to appoint a proxy or proxies to attend, speak and vote in his/her place. A member may only appoint more than one proxy if each proxy is appointed to exercise the voting rights attached to different shares. A member may not appoint more than one proxy to exercise rights attached to the same shares.

3. To be valid, forms of proxy must be lodged with Neville Registrars Limited, 18 Laurel Lane, Halesowen, West Midlands B63 3DA not less than 48 hours before the time appointed for holding the Annual General Meeting. A form of proxy is enclosed with this notice. If you do not have a proxy form and believe that you should have one, or if you require additional forms, please contact Neville Registrars Limited. In the case of joint holders of shares, the vote of the first named in the register of members who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of other joint holders.

4. A member that is a company or other organisation not having a physical presence cannot attend in person but can appoint someone to represent it. This can be done in one of two ways: either by the appointment of a proxy (described in Notes 2 and 3 above and notes 8 – 11 below) or of a corporate representative. Members considering the appointment of a corporate representative should check their own legal position, the company's articles of association and the relevant provision of the Companies Act 2006.

5. Completion of a form of proxy or any CREST Proxy Instruction (as described in note 9 below) will not prevent a member from attending and voting at the Annual General Meeting should he or she so wish.

6. For the purposes of Regulation 41 of the Uncertificated Securities Regulations 2001, the members entitled to attend, speak and/or vote at the Annual General Meeting shall be those entered on the company's register of members at 6:00 p.m. on 18 January 2017 (or if the meeting is adjourned, on the day which is two business days before the time fixed for the adjourned meeting). Changes to entries on the register of members after that time will be disregarded in determining the rights of any person to attend and/or vote at the meeting.

7. As at 22 December 2016 (being the last business day prior to the publication of this Notice) the company's issued share capital (excluding shares held in treasury) comprised 21,211,152 ordinary shares, carrying one vote each. Therefore, the total voting rights in the company as at 22 December 2016 was 21,211,152.

8. CREST members who wish to appoint a proxy or proxies through the CREST electronic proxy appointment service may do so by using the procedures described in the CREST Manual. CREST Personal Members or other CREST sponsored members, and those CREST members who have appointed a voting service provider(s), should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf.

9. In order for a proxy appointment or instruction made using the CREST service to be valid, the appropriate CREST message (a "CREST Proxy Instruction") must be properly authenticated in accordance with Euroclear UK & Ireland Limited's specifications, and must contain the information required for such instruction, as described in the CREST Manual. The message, regardless of whether it constitutes the appointment of a proxy or is an amendment to the instruction given to a previously appointed proxy must, in order to be valid, be transmitted so as to be received by the company's agent (ID 7RA11) by 11:00 a.m. on 18 January 2017. For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp applied to the message by the CREST Application Host) from which the issuer's agent is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. After this time any change of instructions to proxies appointed through CREST should be communicated to the appointee through other means.

10. CREST members and, where applicable, their CREST sponsors, or voting service providers should note that Euroclear UK & Ireland Limited does not make available special procedures in CREST for any particular message. Normal system timings and limitations will, therefore, apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member, or sponsored member, or has appointed a voting service provider, to procure that his CREST sponsor or voting service provider(s) take(s)) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members and, where applicable, their CREST sponsors or voting system providers are referred, in particular, to those sections of the CREST Manual concerning practical limitations of the CREST system and timings.

11. The company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001.

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