CHAIRMAN'S STATEMENT

Dear Shareholder

During the 2000/2001 financial year, the Group has undergone major structural changes and has refocused on its core strengths. Although the outcome is substantially improved from the previous year's performance, the result was not sufficient to provide a positive outcome for the year as a whole.

Our recovery was severely hampered by the poor December 2000 Christmas trading period experienced by the Group which left us with substantial overstocks in all Group companies. The Directors believe that adequate provisions have been made in the period under review for the disposal of these stocks.

Whilst it is disappointing that we did not achieve a complete turnaround to profitability, we have taken positive actions throughout the year to improve all facets of the business and it is the Directors opinion that, the Group has not yet received the full benefits of the annual cost savings implemented in the period under review.

Results for the year ended 31 August 2001

Sales for the year were £58.9 million against £79.8 million in the comparable period, a reduction of 26.2%. Despite lower sales, we have not only reduced our total overheads by 33.3%, but we have also reduced them by 3.7 percentage points on sales.

At the same time, we have increased our gross margin by 4.9 percentage points, cut our stock levels by 32.5%, and more importantly reduced our losses for the year by almost 65% to £4.875 million from £13.824 million in the year ended 31st August 2000.

The loss per share was 23.89 pence compared to a loss of 58.56 pence last year.

It is not proposed to pay a dividend.

Review

At the commencement of the year, the Group was faced with many challenges ranging from under-performing businesses, substantial overstocks from the previous year, an excessive cost structure, a very weakened and potentially fatal Balance Sheet, as well as a generally poorer product range than in previous years.

However, during the year, the management team has worked hard in difficult market conditions and financial constraints to return the Group towards its historic position in terms of trading and profitability. At the same time the product offering has been greatly improved which will benefit the Group in the lead up to the important 2002 Christmas period, and will be reflected in both this and next years results. It is interesting to note that, with the exception of Character Options, the principal trading company within the Group, our other continuing businesses were all profitable during the year.

Since August 2000, the number of trading companies within the Group, and the locations from where they operate, has been consolidated from 11 to 6. We have also reduced the number of Group employees by 46% to under 170, with no reduction in capacity within our continuing businesses.

On 22nd June, 2001 we announced details of a proposed Rights Issue of up to 23,119,663 new shares in the Company at 20 pence per share and the creation and issue of a £4.6 million Convertible Loan Note. This much needed refinancing package, which raised £7.84 million net for the Company was completed in August and was supported by Toys Investment S.A., our Italian trade investors, and Executive Directors Kiran Shah, Joe Kissane, Jon Diver and myself, together with our families' and associated interests. The transaction had taken considerably longer to complete than first envisaged and the delay resulted in certain trading opportunities being delayed or lost.

Current Trading and Prospects

The Group has entered the 2001/2002 financial year both leaner and fitter, with the real prospect of making the long awaited breakthrough to profitability for the year as a whole.

The effects of the World Trade Center catastrophe have of course impacted on us, in common with most businesses, most notably in the USA where trading almost stopped for some weeks. However, trade in all areas is now returning to more normal patterns and we do not foresee any long-term problems arising from this tragic event.

The Group is now focused on three main trading areas:

- *Gifts* through Downpace,
- *Digital Products* through World Wide Licenses ("WWL").
- *Toys and Games* through Character Options, Toy Options (Far East), Character Games and Character Games (Far East)

Gifts

Following a solid year, Downpace had a slow start to this current financial year principally through de-stocking by customers at the retail level together with a lack of a real "winner" in the licensing area. However, with new products being continually introduced throughout the year, we remain confident that the year will produce another profitable result for this part of the business.

Some examples of new licensed products to be introduced during the year are giftware associated *"Lord of the Rings", "Mr Bean", "Itsy Bitsy", "Rainbow"* and *"E.T."*

Digital Products

Although WWL has progressed more slowly than anticipated, it is now abreast of the latest trends in digital imaging and is well positioned to capitalise on them. WWL has continued to develop its product portfolio especially in the digital imaging product area where it is achieving an increasing market share.

It has turned round a substantial loss in 2000 to a profit in 2001 and following the completion of our reorganisation in Hong Kong and the recent introduction of several new cameras together with advanced plans for further new products, WWL has a very real opportunity of achieving another improved performance in this financial year.

New products from WWL include; ***"TV-CAM"*** which is a digital camera that eliminates the requirement of a computer and allows the user to plug directly into TV and view the images as a slide show. The unit also allows the images to be copied on to a floppy disc and stored or used for processing; ***"MOVI-CAM"***, a digital camera that can also take up to 35 minutes of video and can fit in a shirt pocket and ***"COOL-IKARA"***, a digital karaoke microphone which is a complete unit in itself and plugs directly into any TV to display the text and play the music. It comes pre-loaded with a variety of popular songs and lyrics. Internet buffs can also download up to 500 music files with accompanying lyrics and retain them in its memory. This is the first truly portable and self contained karaoke unit.

WWL is currently in the process of developing several new cameras in the mega-pixel arena with major releases being introduced at the Consumer Electronics Show in Las Vegas in January 2002. WWL will be one of the first to launch a mega-pixel camera with a low cost STN colour LCD screen which will come complete with a light strobe and removable memory (SMC card).

WWL will be offering a full range of mega-pixel cameras starting from a basic model that is no bigger than a matchbox, right through to our top of the range cameras which come complete with all the accessories.

CHAIRMAN'S STATEMENT

Toys

Character Options and Toy Options (Far East), as previously mentioned were affected by the weak and disappointing Christmas sales of 2000. As a result, it left us with a large overhang of stock which, Character Options has had to dispose of at the same time as dealing with the stocks from other businesses whilst operating within a difficult marketplace. Additionally, the financial constraints had a substantial impact on sales throughout the year.

Both companies have now undergone substantial downsizing during the year under review with the costs having been taken within the year.

Prospects for this Christmas are very much improved on last year with better selling products, lower stocks and a more focused and exciting portfolio of products for the Calendar year 2002.

We are pleased to say that we have several product ranges which have been successful this year and which will be carried forward post 2001 Christmas. *"Scooby Doo", "Super Soaker", "Starcastles", "Sabrina", "Power Puff Girls", "Rumble Robots"* and *"Taiyo"* are good examples.

Important new products being introduced, during the year (2002) include *"Clifford"* and *"Wheels on the Bus"*, our entry into pre-school via two very exciting licenses, plus *"Cubix"*, based on a successful animated series, *"Rumbling Wars"*, an extension of *"Rumbling Robots"*, and *"Ready Steady Cook"*, a girls range of working kitchen appliances based on the TV series.

Progress has been made in 2001 and we believe that the much improved product range and the cost savings now implemented will in the Directors opinion give us a satisfactory result in 2002.

Games

Character Games and Character Games (Far East) have developed well over the past year, bringing a number of innovative new products successfully to market. Such products include novelty jigsaws; licensed chess sets and puzzles.

With further innovative new product and licenses going forward relating to amongst others, *"Harry Potter", "Lord of the Rings", "Mr Bean", "The Simpsons", "Spiderman"* and on a limited basis *"Star Wars"*. We expect to build positively on last year's success and further enhance our brands in both the UK and internationally.

Summary

Downsizing and turning round the Group in difficult trading conditions has taken longer and was a more difficult task than first envisaged. We have, however, put in the work and the Directors are cautiously optimistic that the progress we have made to date will be continued in 2002.

I would like to thank all of our employees for doing their best during the difficult times. Without their dedication, effort and loyalty, we would not have been able to achieve the current position where we can look forward to a better year.

Finally, with reference to Directors share dealings made on 12th September 2001, the Board would like to point out that, contrary to the implications reported in various press articles, the result of the transactions was completely neutral as detailed in the Report of the Directors in that the various transactions left the aggregate beneficial interests of the Directors (including TOPS pension scheme) totally unaffected.

The Directors have supported the Group throughout these difficult periods and continue to believe strongly in its future.

Richard King
CHAIRMAN

REPORT OF THE DIRECTORS

The directors present their report together with the accounts for the year ended 31 August 2001.

Directors

The following are the directors that served during the year:

Richard King *(Executive Chairman)*
Enrico Preziosi *(Chief Executive Officer and Managing Director)**
Kirankumar Premchand Shah FCCA *(Group Finance Director)*
Joseph John Patrick Kissane *(Managing Director - Character Options Limited)*
Jonathan James Diver *(Group Marketing Director)*
Ian Stanley Fenn *(Senior Independent Non-Executive Director)*
Lord Birdwood *(Independent Non-Executive Director)*
Maurizio Ferdinando Vincenzo Cellai *(Non-Executive Director)***

*Appointed as an executive director on 29 May 2001, previously a non-executive director.
**Appointed 29 May 2001

Principal activity

The Group is engaged in the design, development and international distribution and sale of branded and character-licensed toys and games, watches, clocks, giftware, toiletries, stationery, computer accessories, digital and digital imaging products.

Business review, results and dividend

A review of the business is contained in the Chairman's Statement on pages 1-3 and the results are detailed in the consolidated profit and loss account on page 15 and the consolidated cash flow statement on page 18. There was a loss for the year, after taxation, amounting to £5,753,000. No dividend is proposed.

Directors and their interests in shares

The directors and their beneficial interests (including family interests) in the shares of The Character Group plc are:

	30 November 2001		31 August 2001		1 September 2000	
Directors	**Number of ordinary shares**	**Ordinary shares under option**	**Number of ordinary shares**	**Ordinary shares under option**	**Number of ordinary shares**	**Ordinary shares under option**
R King*	5,770,428	-	5,345,428	-	4,058,000	-
E Preziosi	11,885,898	-	11,885,898	-	3,467,949	-
K P Shah*	5,620,000	-	6,620,000	-	3,310,000	-
J J P Kissane*	1,662,300	100,000	1,947,300	100,000	970,000	100,000
J J Diver*	1,690,640	100,000	2,130,640	100,000	1,065,320	100,000
I S Fenn	9,000	-	9,000	-	9,000	-
Lord Birdwood	8,750	-	8,750	-	8,750	-
M F V Cellai	-	-	-	-	-	-
TOPS Pension Scheme**	1,600,000	-	300,000	-	150,000	-

(* the holding of this director reduced/increased following a sale/purchase made by him on 18 September 2001. Each such sale and purchase was made at a price of 18p per share. The resulting aggregate beneficial interests of these four directors, including the TOPS Pension Scheme, remained unaffected by such dealings.)

(**each of R King, K P Shah and J J Diver is a trustee and a beneficiary under such pension scheme arrangements.)

Included in the interests of R King are his interests in shares held by Cedarberg Investments Limited, being 442,714 ordinary shares at 1 September 2000, 885,428 ordinary shares at 31 August 2001 and 1,885,428 ordinary shares at 30 November 2001. There is also included in the interests of R King his interests in shares held by his spouse, Mrs M H King, being 160,000 shares at 1 September 2000 and 320,000 ordinary shares at 31 August 2001 and 30 November 2001.

Included in the interests of E Preziosi are his interests in shares held by Toys Investment S.A., being 3,467,949 ordinary shares at 1 September 2000 and 11,885,898 ordinary shares at 31 August 2001 and 30 November 2001.

Included in the interests of K P Shah are his interests in shares held by Sarissa Holdings Limited, being 3,310,000 ordinary shares at 1 September 2000, 6,620,000 ordinary shares at 31 August 2001 and 5,620,000 ordinary shares at 30 November 2001.

Further, Orbis Pension Trustees Limited, the trustee of the Company's employee share ownership trust (**"ESOT"**), held 285,000 ordinary shares at 1 September 2000, 31 August 2001 and at 30 November 2001. Each of R King, K P Shah, J J P Kissane and J J Diver is deemed to be interested in such holding by virtue of being within the class of beneficiaries defined by the ESOT.

Pursuant to the requirements of their appointment letters, Lord Birdwood, Mr Fenn and Mr Cellai retire at the Annual General Meeting and, being eligible, offer themselves for re-election or re-appointment (as appropriate).

Lord Birdwood (aged 63) is a non-executive director and has considerable experience as a director of quoted and private companies. He has a particular interest in executive placement and recruitment.

Mr Fenn (aged 58) is a non-executive director and has had extensive experience in corporate finance, gained in stockbroking and merchant banking in the City of London.

Mr Cellai (aged 42) was appointed to the board as a non-executive director on 29 May 2001. He is the managing director of Giochi Preziosi S.p.A., one of Italy's leading toy companies, and is responsible for its corporate affairs. He is also a director of Toys Investment S.A.

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 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 the share option schemes.

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 2001, trade creditors of the Group represented an average of 67 days credit in relation to total purchases for the year.

Statement of directors' responsibilities
We are required under company law to prepare accounts for each financial year which give a true and fair view of the state of affairs of the Group and the Company, and of the Group profit or loss for that year.

In preparing these accounts we are required to:

- select suitable accounting policies and apply them consistently
- make reasonable and prudent judgements and estimates
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the accounts
- prepare the accounts on a going concern basis unless, in our view, the Group and the Company will be unable to continue in business.

We are also responsible for:

- keeping proper accounting records
- safeguarding the Group's and the Company's assets
- taking reasonble steps for the prevention and detection of fraud.

Share capital
Between 8 and 14 August 2001, 18,168,246 new ordinary shares with an aggregate nominal value of £908,412.30 were allotted for cash at a price of 20 pence per share pursuant to a partially underwritten rights issue, full details of which were set out in the prospectus dated 22 June 2001.

Substantial shareholders other than directors
At 30 November 2001 the following, other than the directors and their family interests, had notified the Company of a interest in 3% or more of the Company's ordinary shares:

Name	Number of ordinary shares	Shareholding %
Sweet Briar Investments Limited	1,875,000	4.54

Share option schemes
Details of the share option schemes are given in note 17 to the accounts.

Charitable and political donations
Payments of a charitable nature made during the year amounted to £5,000 (2000: £30,413). There were no political contributions.

Auditors
A resolution to re-appoint HLB Kidsons as auditors to the Company will be proposed at the Annual General Meeting.

By Order of the Board

K P Shah FCCA
Secretary

Registered Office:
80 Fleet Street
London EC4Y 1NA

19 December 2001

REPORT OF THE REMUNERATION COMMITTEE

The following is a report from the Remuneration Committee, which has been approved and adopted by the Board for submission to shareholders.

The Remuneration Committee
The Remuneration Committee consists of two independent non-executive directors, Lord Birdwood and Mr Fenn. The policy of the Remuneration Committee is framed to give consideration to the provisions as to best practice set out in the Combined Code.

Remuneration of Directors
Each executive director is paid a basic salary and is entitled to benefits, namely payments of pension contributions to a suitable scheme of his choice, the use of a company car, fuel and participation in a private health care scheme.

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

The basic salaries referred to above are reviewed annually on 1 June in every year by the Remuneration Committee. The service contracts of the executive directors incorporate notice periods of 12 months.

These arrangements were agreed by the Board of Directors in May 1995, just prior to the flotation of the Company on the London Stock Exchange, in consultation with their legal and financial advisers. In doing so, they took account of other listed companies of comparable size and business complexity, and in particular of the need to put in place incentive arrangements for each executive director which would be challenging and compatible with sustainable growth in shareholder value whilst not being over-complicated or manipulable. The Board's policy on pension arrangements is to favour money purchase schemes rather than defined benefits ("final salary") schemes.

The Company believes that share ownership by executive directors and senior executives strengthens the links between their personal interests and those of the shareholders. Executive directors holding less than 10% of the Company's issued share capital are eligible to participate in the Company's Inland Revenue approved executive share option scheme, details of which can be found in note 17 to the accounts. All executive directors are entitled to participate in the Company's unapproved executive share option scheme, details of which may also be found in note 17 to the accounts.

The non-executive directors are appointed for a fixed term expiring at each Annual General Meeting of the Company, when they may offer themselves for re-election. Lord Birdwood and Mr Fenn are each entitled to fees, currently at the rate of £15,000 per annum, plus expenses, without any right to compensation on early termination. Mr E Preziosi and Mr M Cellai do not receive any remuneration.

The following table shows a breakdown of the remuneration of the directors for the years ended 31 August 2001 and 31 August 2000.

Year ended 31 August 2001

	Salary/fees	Performance bonus	Benefit in kind	Pension contribution	Total
R King	135,000	-	24,168	47,250	206,418
E Preziosi	-	-	-	-	-
K P Shah	130,000	-	8,905	32,500	171,405
J J P Kissane	110,000	-	12,761	27,500	150,261
J J Diver	110,000	-	15,912	22,000	147,912
I S Fenn (non-executive)	15,000	-	-	-	15,000
Lord Birdwood (non-executive)	15,000	-	-	-	15,000
M F V Cellai (non-executive)	-	-	-	-	-
	£515,000	-	£61,746	£129,250	£705,996

Year ended 31 August 2000

	Salary/fees	Performance bonus	Benefit in kind	Pension contribution	Total
R King	135,000	-	22,311	40,500	197,811
K P Shah	130,000	-	9,258	26,000	165,258
J J P Kissane	110,000	-	11,791	27,500	149,291
J J Diver	110,000	-	14,587	22,000	146,587
E Preziosi (non-executive)	-	-	-	-	-
I S Fenn (non-executive)	15,000	-		-	15,000
Lord Birdwood (non-executive)	15,000	-		-	15,000
	£515,000	-	£57,947	£116,000	£688,947

On 28 March 1996, J J P Kissane and J J Diver were each granted options over 100,000 ordinary shares in the Company at an exercise price of 107p per share, exercisable between 28 March 1999 and 27 March 2006.

At 31 August 2001 the mid-market price of a The Character Group plc ordinary share was 17.75 pence, and during the year the price ranged from 59.97 pence to 17.75 pence.

Lord Birdwood
Chairman - Remuneration Committee

19 December 2001

CORPORATE GOVERNANCE

The directors have considered the provisions set out in the Principles of Good Governance and Code of Best Practice ("the Combined Code") appended to the Listing Rules.

Directors
The Board of directors comprises five executive directors and three non-executive directors, as detailed on page 4. The independent non-executive directors are Lord Birdwood and Mr Fenn. The Board is structured so that no one individual or group dominates the decision-making process.

Board meetings are held four times a year. A formal schedule of matters specifically reserved to the Board, including inter alia, overall strategy and monitoring of financial performance, has been adopted.

The Board has established an Audit Committee, a Remuneration Committee and a Nominations Committee with duties and responsibilities formally delegated to them.

Audit Committee
I S Fenn (Chairman), Lord Birdwood, R King
The Audit Committee is responsible for ensuring that the financial performance of the Group is properly measured and reported and for reviewing reports from auditors relating to Group accounts and the Group's internal control systems.

Remuneration Committee
Lord Birdwood (Chairman), I S Fenn
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 report of the Remuneration Committee is shown on pages 8 and 9.

Nominations Committee
R King (Chairman), Lord Birdwood, I S Fenn.
The Nominations Committee is responsible for considering and recommending to the Board changes in the Board's composition and membership.

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 assurances 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 Turnbull guidance"), 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 accounts and is regularly reviewed by the Board and accords with the guidance.

The Board has reviewed the effectiveness of the system of internal control. 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.

Management are responsible for the identification and evaluation of significant risks applicable to their areas of 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 sources, including control breakdowns, disruption in information systems, natural catastrophe and regulatory requirements.
Management report to the Risk Committee regularly on their review of risks and how they have managed the risks. The Risk Committee reviews the key risks inherent in the business and the system of control necessary to manage such risks and presents their findings to the Board.

Key elements of the Group's system of internal control 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 ongoing 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

The Board believes that there are ongoing procedures in place for monitoring the system on internal financial controls. The remit of the Audit Committee includes meeting to review the effectiveness of the Group's system of internal financial controls. The Group does not have an internal audit function. The Board believes that the current size of the Group does not warrant the establishment of an internal audit function.

Risk management

Group management is responsible for the identification and evaluation of key risks applicable to their areas of business. These risks are assessed on a continual basis and may be associated with a variety of internal and external sources including control breakdowns, disruption in information systems, competition, natural catastrophe and regulatory requirements.

Liquidity risk

The Group finances itself through a combination of equity and short term debt. The Group satisfied its liquidity requirements during the period under review. The Group's main working capital facility is provided by factoring. There was also continued use of short term bank facilities. As at 31 August 2001, the Group had committed bank facilities of £1.5 million, of which £1.4 million was undrawn.

Foreign currency risk

The Group faces foreign currency exposures on translation of the net assets and results of its overseas subsidiaries and on trading transactions undertaken mainly in US dollars. The Group seeks to mitigate the effect of its currency exposures by buying currency forward. The Group does not hedge its results translation exposures as these are accounting rather than cash exposures.

Relations with shareholders

The Board supports the principle of clear reporting of financial performance to shareholders. Each year, shareholders receive a full annual report and an interim report.

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

Compliance statement

Throughout the year the group has fully complied with the Combined Code's Code of Best Practice with the following exceptions:

- From 1 September 2000 to 29 May 2001, Richard King held the position of Chairman and Chief Executive Officer as this arrangement was considered by the Board to be satisfactory given the size and method of operation of the Group. This arrangement did not comply with the code provisions set out in section 1 of the Combined Code. Following the appointment of Enrico Preziosi as Chief Executive Officer on 29 May 2001 this code provision is now met.

- Code provision D.3.1 states that the Audit Committee should consist of at least three directors, all of which should be non executive. The Board consider that the inclusion of R King on the Audit Committee is appropriate, given the method of operation of the Group.

- Code provision A6.2 states that all directors should be subject to re-election at intervals of no more than three years. The executive directors service contracts were prepared before the Combined Code was issued, and as such do not contain such re-election provisions. An amendment cannot be made unilaterally by the Company to an executive director's service contract and any such amendment will, accordingly, have to be negotiated in turn with each executive director. The board is mindful of the requirements of the Combined Code in this respect but did not wish to undertake a re-negotiation of service agreements with executive directors during the year under review given the need to focus all attention on the restructuring of the businesses within the Group and on the planning and implementation of the re-financing proposals for the Group. The position will, however, be reviewed during the course of the current year, in the context of an overall review of directors' remuneration and incentives, and it is hoped that progress in this regard can be reported in the directors' report for the current year.

Going Concern

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

R King
CHAIRMAN

19 December 2001

REPORT OF THE AUDITORS TO THE SHAREHOLDERS

We have audited the financial statements which comprise the profit and loss account, the balance sheet, the cashflow statement, the statement of total recognised gains and losses and the related notes (including the additional disclosures relating to the remuneration of the directors specified for our review by the UK Financial Services Authority) which have been prepared under the historical cost convention and the accounting policies set out in the principal accounting policies in note 1.

Respective responsibilities of directors and auditors

The directors responsibilities for preparing the annual report and financial statements in accordance with applicable United Kingdom law and accounting standards are set out in the Statement of Directors responsibilities. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board, the Listing Rules of the Financial Services Authority and our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the United Kingdom Companies Act. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law or the Listing Rules regarding directors' remuneration and transactions is not disclosed.

We read the other information contained in the Annual Report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

We review whether the corporate governance statement reflects the company's compliance with the seven provisions of the Combined Code specified for our review by the UK Financial Services Authority, and we report if it does not. We are not required to consider whether the board's statements on internal control covers all the risks and controls, or to form an opinion on the effectiveness of the company's or group's corporate governance procedures or its risk and control procedures.

Basis of opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

REPORT OF THE AUDITORS TO THE SHAREHOLDERS

Opinion
In our opinion the financial statements give a true and fair view of the state of the group's and company's affairs as at 31 August 2001 and of the loss and cash flows of the group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

H L B Kidsons

Chartered Accountants and Registered Auditors

Ocean House
Waterloo Lane
Chelmsford
Essex CM1 1BD

19 December 2001

CONSOLIDATED PROFIT AND LOSS ACCOUNT

	Note	12 months to 31 August 2001 £000's	12 months to 31 August 2000 £000's
Turnover including share of joint venture's	2		
Continuing operations		58,887	75,856
Discontinued		-	4,035
		58,887	79, 891
Less: share of joint venture's turnover – continuing		-	(105)
Group turnover		58,887	79,786
Cost of sales		(42,809)	(61,935)
Gross profit		16,078	17,851
Net operating expenses			
Selling and distribution costs		(7,356)	(11,349)
Administration expenses		(13,171)	(19,435)
Other operating income		440	308
Group operating loss	3		
Continuing operations		(4,009)	(11,646)
Discontinued		-	(791)
		(4,009)	(12,437)
Share of operating loss in joint venture		-	(188)
Total operating loss including share of joint venture		(4,009)	(12,625)
Interest	5	(866)	(1,199)
Loss on ordinary activities before taxation		(4,875)	(13,824)
Taxation	6	(878)	1,471
Loss on ordinary activities after taxation, transfer from reserves		(5,753)	(12,353)
Loss per share – basic	7	(23.89)p	(58.56)p
Loss per share – fully diluted	7	(23.89)p	(58.05)p

There were no material recognised gains or losses other than items dealt with in the profit and loss account above. For exchange rate movements taken to reserves see note 18 to the accounts.

CONSOLIDATED BALANCE SHEET

	Note	31 August 2001 £000's	31 August 2000 £000's
Fixed assets			
Intangible assets	8	818	1,748
Tangible assets	9	2,012	2,491
Investments	10	53	153
		2,883	4,392
Current assets			
Stocks	11	7,785	11,530
Trade debtors subject to finance arrangements		5,957	11,332
Factor advances		(4,432)	(11,209)
		1,525	123
Trade and other debtors	12	5,894	7,251
Cash at bank and in hand		1,638	1,258
		16,842	20,162
Creditors: amounts falling due within one year	13	(13,953)	(19,999)
Net current assets		2,889	163
Total assets less current liabilities		5,772	4,555
Creditors: amounts falling due after more than one year:	14		
Convertible loan note		(4,600)	-
Other creditors		(5)	(39)
		(4,605)	(39)
Provision for liabilities and charges	15		
Investment in joint venture:			
Share of gross assets		-	91
Share of gross liabilities		(13)	(282)
Net assets		1,154	4,325
Capital and reserves			
Called up share capital	17	2,064	1,156
Shares to be issued	23	908	1,808
Capital redemption reserve	18	15	15
Share premium	18	7,843	5,473
Merger reserve	18	651	651
Profit and loss account	18	(10,327)	(4,778)
Equity shareholders' funds	16	1,154	4,325

The accounts on pages 15 to 32 were approved by the Board of Directors on 19 December 2001.

R King Director
K P Shah Director

PARENT COMPANY BALANCE SHEET

	Note	31 August 2001 £000's	31 August 2000 £000's
Fixed assets			
Intangible assets	8	818	1,748
Tangible assets	9	1,182	1,209
Investments	10	1,351	3,689
		3,351	6,646
Current assets			
Debtors	12	11,482	4,581
Cash at bank and in hand		2,669	-
		14,151	4,581
Creditors: amounts falling due within one year	13	(362)	(1,176)
Net current assets		13,789	3,405
Total assets less current liabilities		17,140	10,051
Creditors: amounts falling due after more than one year Convertible loan note	14	(4,600)	-
Net assets		12,540	10,051
Capital and reserves			
Called up share capital	17	2,064	1,156
Shares to be issued	23	908	1,808
Capital redemption reserve	18	15	15
Share premium	18	7,843	5,473
Profit and loss account	18	1,710	1,599
Equity shareholders' funds	16	12,540	10,051

The accounts on pages 15 to 32 were approved by the Board of Directors on 19 December 2001.

R King Director
K P Shah Director

CONSOLIDATED CASH FLOW STATEMENT

	Note	12 months to 31 August 2001 £000's	12 months to 31 August 2000 £000's
Cash flow from operating activities	20	(6,488)	(4,173)
Returns on investment and servicing of finance			
Interest received		70	76
Interest paid		(928)	(1,256)
Interest element of finance lease rental payments		(8)	(19)
Net cash outflow for returns on investments and servicing of finance		(866)	(1,199)
Taxation		474	(1,550)
Capital expenditure and financial investment			
Payments to acquire tangible fixed assets		(355)	(881)
Sale of tangible fixed assets		45	144
Purchase of shares for Employees Share Ownership Trust		-	(477)
Net cash outflow for capital expenditure and financial investment		(310)	(1,214)
Acquisitions and disposals			
Purchase of subsidiary undertakings		-	(80)
Net cash outflow for acquisitions		-	(80)
Equity dividends paid		-	(984)
Cash outflow before use of liquid resources and financing		(7,190)	(9,200)
Financing			
Issue of ordinary share capital		3,278	1,960
Issue of Convertible loan note		4,600	-
Capital element of finance lease rentals		(49)	(108)
Short term bank loan		(259)	(938)
Net cash inflow from financing		7,570	914
Increase/(decrease) in cash in the year	22	380	(8,286)
Decrease/(increase) in net debt in the year	22	688	(7,238)

1 Principal accounting policies

Basis of accounting
The accounts have been prepared in accordance with applicable accounting standards and under the historical cost accounting rules.

The principal accounting policies of the Group are set out below:

Basis of consolidation
The Group accounts for the year ended 31 August 2001 comprise the accounts of the Company and its subsidiaries all of which are made up to the end of the Company's financial year.

Where part of the purchase consideration for an acquisition is dependant on future profits of the acquired company, and can be satisfied, at the Group's option, by the issue of new shares, provision is made for the estimated future consideration, and shown in the Balance Sheet as 'shares to be issued' in accordance with the requirement of Financial Reporting Standard Number 7. The profit and loss account for the parent company has not been included, as permitted by Section 230 of the Companies Act 1985.

Joint venture
The Group profit and loss account includes the Group's share of turnover, operating loss and interest charges of the joint venture. The investment in the joint venture is shown in the Group's balance sheet using the gross equity method. The gross equity method records the Group's share of the gross assets and gross liabilities in its joint venture.

Goodwill
Goodwill arising on acquisitions of businesses, associated undertakings and subsidiary undertakings is calculated as the excess of the fair value of the consideration given and costs of acquisition over the fair value of the separable net assets acquired. Goodwill arising on acquisitions before 1 September 1998 was written off against reserves immediately on acquisition. In accordance with FRS 10, goodwill arising on acquisitions on or after 1 September 1998 is capitalised as an intangible fixed asset and amortised over its estimated useful economic life. Goodwill previously written off directly to reserves has not been reinstated on the balance sheet, but written off against the profit and loss reserve in accordance with the transitional provisions of FRS 10.

On the subsequent disposal or termination of a previously acquired business, the profit or loss on disposal or termination is calculated after charging the amount of any related goodwill taken directly to reserves on acquisition and the net book value of any related goodwill capitalised in the balance sheet.

Depreciation
Depreciation is provided on all tangible fixed assets at rates calculated to write off the cost of each asset evenly 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%
Tooling	20 - 50%

Impairment write downs are made in accordance with FRS 11 by comparing the net realisable value to the value in use.

Stocks
Stocks are stated at the lower of cost and net realisable value. Net realisable value is based on estimated selling price less the estimated cost of disposal.

Factoring arrangements
Certain subsidiaries have factoring agreements under which debts approved by the factor companies are assigned to them without recourse. Non-refundable advances are made by the factor companies. The directors do not intend that the companies will support any losses from factored debts, and the factor companies can only seek recourse of funds from the asset financed and will not seek any other recourse. A linked presentation of the relevant balances is therefore

1 Principal accounting policies (continued)

Factoring arrangements (continued)
shown on the face of the balance sheet in accordance with the requirements of Financial Reporting Standard Number 5. The factoring charges are charged to the profit and loss account as they accrue.

Foreign currencies
In the financial statements of individual group undertakings, transactions in foreign currencies are recorded in the local currency using the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated using the rate of exchange ruling at the balance sheet date and the gains and losses on translation are included in the profit and loss account. In the consolidated financial statements, the results and the balance sheets of overseas subsidiary undertakings are translated at the year end exchange rates. Exchange differences resulting from the re-translation of opening net assets are dealt with in reserves. All other exchange differences are dealt with in the profit and loss account.

Leasing and hire purchase contracts
Assets held under finance leases and hire purchase contracts are capitalised in the balance sheet and are depreciated over their useful lives. The interest element of the rental obligations is charged to the profit and loss account over the period of the lease and represents a constant proportion of the balance of capital repayments outstanding. Rentals paid under operating leases are charged to income as incurred.

Financial instruments
Financial assets are recognised on the balance sheet at the lower of cost and net realisable value. Discount and premia are charged or credited to the profit and loss account over the life of the asset or liability to which they relate. The Group has taken advantage of the exemption available for short term debtors and creditors.

Deferred taxation
Deferred taxation is provided on the liability method in respect of the taxation effect of all timing differences to the extent that tax liabilities are likely to crystallise in the foreseeable future.

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

2 Turnover and segmental analysis

a) Turnover

Turnover represents the amount derived from the provision of goods and services which arise from the Group's ordinary activities, stated net of value added tax. An analysis of turnover by geographical market is given below:

	12 months to 31 August 2001 Total £000's	12 months to 31 August 2000 Total £000's	Continuing £000's	Discontinued £000's
United Kingdom: Group	41,465	63,673	63,633	40
Rest of the world: Group	17,422	16,113	12,118	3,995
Total Group	58,887	79,786	75,751	4,035

b) Operating loss

Turnover	58,887	79,786	75,751	4,035
Cost of sales	(42,809)	(61,935)	(58,158)	(3,777)
Gross profit	16,078	17,851	17,593	258
Selling and distribution costs	(7,356)	(11,349)	(11,083)	(266)
Administrative expenses	(13,171)	(19,435)	(18,651)	(784)
Other operating income	440	308	307	1
Operating loss	(4,009)	(12,625)	(11,834)	(791)

All the Group's activities during the 12 months ended 31 August 2001 are classed as continuing. The directors consider that the disclosure of further disaggregated information would be seriously prejudicial to the interests of the Group.

3 Operating loss

	12 months to 31 August 2001 £000's	12 months to 31 August 2000 £000's
Operating loss is stated after charging:		
Staff costs (note 4)	6,643	8,520
Auditors' remuneration - Audit services	90	111
- Non audit services	75	21
Operating leases - land and buildings	369	393
- plant	-	6
Depreciation of tangible fixed assets		
- owned assets	705	1,048
- assets held under finance leases and HP contracts	31	64
	736	1,112
Goodwill amortisation	30	60
Impairment write down	-	200

4 Directors and employees

	12 months to 31 August 2001 £000's	12 months to 31 August 2000 £000's
Staff costs including directors' emoluments		
Wages and salaries	5,806	7,536
Social security costs	583	688
Other pension costs	254	296
	6,643	8,520
The average number of employees during the year was:	**Number**	**Number**
Management and administration	101	147
Selling and distribution	126	153
	227	300

The amount payable to pension schemes as at the balance sheet date was £43,000 (2000: £124,888).

	12 months to 31 August 2001 £000's	12 months to 31 August 2000 £000's
Directors		
Emoluments including pension contributions	706	689
Emoluments, excluding pension contributions, of Chairman and highest paid director	159	157

Directors' Remuneration

Disclosures on directors' remuneration, share options and pension contributions required by the Companies Act 1985 and those specified for audit by the Listing Rules are included in the Report of the Remuneration Committee and form part of these audited accounts.

5 Interest

	12 months to 31 August 2001 £000's	12 months to 31 August 2000 £000's
Total interest receivable	70	76
Total interest payable:		
On bank overdraft and similar charges	(333)	(507)
Finance leases and hire purchase contracts	(8)	(19)
Factor advances	(595)	(747)
Joint venture	-	(2)
	(866)	(1,199)

6 Taxation

	12 months to 31 August 2001 £000's	12 months to 31 August 2000 £000's
Hong Kong profits tax at 16.0% (2000: 16.0%)	89	194
Corporation tax (credit)/charge on results on ordinary activities at average 30.0% (2000: 30.0%)	-	(1,549)
Underprovision/(overprovision) in previous years	789	(116)
	878	(1,471)

There are losses available to be carried forward to set against future profits of the same trade for United Kingdom tax purposes. No account has been taken of the value of these losses in preparing these accounts.

7 Loss per share – pence

	12 months to 31 August 2001			12 months to 31 August 2000		
	Loss after taxation	Weighted average number of ordinary shares	Pence per share	Loss after taxation	Weighted average number of ordinary shares	Pence per share
Basic loss per share	(5,753,000)	24,079,063	(23.89)	(12,353,000)	21,093,524	(58.56)
Impact of share options	-	-	-	-	185,214	0.51
Diluted loss per share	(5,753,000)	24,079,063	(23.89)	(12,353,000)	21,278,738	(58.05)

8 Intangible assets – Goodwill

The Group and the Company

Cost	**£000's**
1 September 2000	1,808
Adjustment (see note 23)	(900)
31 August 2001	908
Amortisation	
1 September 2000	60
Charge for year	30
31 August 2001	90
Net book value	
31 August 2001	818
31 August 2000	1,748

9 Tangible fixed assets

The Group

Cost	**Freehold land and buildings £000's**	**Short leasehold improvement £000's**	**Tooling £000's**	**Fixtures fittings and equipment £000's**	**Motor vehicles £000's**	**Total £000's**
1 September 2000	1,182	93	1,029	1,671	1,088	5,063
Additions	-	-	124	166	65	355
Disposals	-	(67)	(799)	(221)	(208)	(1,295)
Differences on exchange	-	(3)	1	2	(1)	(1)
31 August 2001	1,182	23	355	1,618	944	4,122
Depreciation						
1 September 2000	122	53	894	1,077	426	2,572
Charge for year	39	18	102	322	255	736
Disposals	-	(57)	(792)	(205)	(144)	(1,198)
31 August 2001	161	14	204	1,194	537	2,110
Net book value						
31 August 2001	1,021	9	151	424	407	2,012
31 August 2000	1,060	40	135	594	662	2,491

The net book value of motor vehicles includes £19,984 (2000: £161,703) in respect of assets held under finance leases and hire purchase contracts, the depreciation of which is shown in note 3.

The Company

Cost	**Freehold land and buildings £000's**	**Fixtures fittings and equipment £000's**	**Motor vehicles £000's**	**Total £000's**
1 September 2000	1,182	30	207	1,419
Additions	-	75	-	75
31 August 2001	1,182	105	207	1,494
Depreciation				
1 September 2000	122	11	77	210
Charge for year	40	20	42	102
31 August 2001	162	31	119	312
Net book value				
31 August 2001	1,020	74	88	1,182
31 August 2000	1,060	19	130	1,209

The net book value of motor vehicles includes £0 (2000: £16,590) in respect of assets held under finance leases and hire purchase contracts, the depreciation of which was £0 (2000: £5,530).

10 Fixed asset investments (continued)

The Company (continued)

At 31 August 2001 the Group 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%	Distribution of toys, games and puzzles, watches, clocks, stationery, computer accessories and digital products
Toy Options (Far East) Limited	Hong Kong	Ordinary	100%	Toy exporter
World Wide Licenses Limited	Hong Kong	Ordinary	100%	Design and distribution of watches, clocks, stationery, giftware, computer accessories and digital products
Downpace Limited	United Kingdom	Ordinary	100%	Gift importer and distributor
WWL (UK) Limited	United Kingdom	Ordinary	100%	non-trading
Universal Concepts (UK) Limited	United Kingdom	Ordinary	100%	non-trading
Character Games Limited	United Kingdom	Ordinary	100%	Design and distribution of games and puzzles
Prelude (Far East) Limited	Hong Kong	Ordinary	100%	non-trading
Q-Stat (Far East) Limited	Hong Kong	Ordinary	100%	non-trading
Character Games (Far East) Limited	Hong Kong	Ordinary	100%	Distribution of games and puzzles
Joint Venture				
Character Promotions Limited	United Kingdom	Ordinary	50%	Euro 2000 merchandise distributor

All of the subsidiary undertakings have been included in these consolidated accounts.

11 Stocks

	The Group 2001 £000's	The Group 2000 £000's
Components	1,245	-
Finished goods for resale	6,540	11,530
	7,785	11,530

12 Debtors

	The Group 2001 £000's	The Group 2000 £000's	The Company 2001 £000's	The Company 2000 £000's
Due from subsidiary undertakings	-	-	11,027	3,008
Trade debtors (non financing)	3,891	4,262	-	-
Other debtors	857	704	155	106
Prepayments and accrued income	1,146	787	251	69
Other taxation & social security	-	-	49	20
Corporation Tax	-	1,373	-	1,253
Joint venture	-	125	-	125
	5,894	7,251	11,482	4,581

10 Fixed asset investments

The Group

	Own shares £000's	Shares listed in the UK £000's	Total £000's
Cost			
At 1 September 2000 and 31 August 2001	908	2	910
Amortisation and provisions			
At 1 September 2000	(757)	-	(757)
Provision	(100)	-	(100)
As at 31 August 2001	(857)	-	(857)
Net book value			
As at 31 August 2001	51	2	53
As at 31 August 2000	151	2	153

The market value of the listed investments is £1,717 (2000: £1,565)

The Company

	Shares in subsidiary undertakings £000's	Joint venture £000's	Own shares £000's	Total £000's
Cost				
At 1 September 2000 and 31 August 2001	3,537	1	908	4,446
Amortisation and provisions				
At 1 September 2000	-	-	(757)	(757)
Provision	(2,238)	-	(100)	(2,338)
As at 31 August 2001	(2,238)	-	(857)	(3,095)
Net book value				
As at 31 August 2001	1,299	1	51	1,351
As at 31 August 2000	3,537	1	151	3,689

Issued shares in the Company are held by the trustee of the Company's Employee Share Ownership Trust ("the Trust") for the benefit of the Group's employees, former employees and their respective families. At 31 August 2001 the Trust held 285,000 shares (2000: 285,000) which had a market value of £51,000 (2000: £151,000). In accordance with UITF 13 these shares have been written down to market value.

13 Creditors: amounts falling due within one year

	The Group 2001 £000's	The Group 2000 £000's	The Company 2001 £000's	The Company 2000 £000's
Trade creditors	9,218	15,284	-	-
Short-term bank loan	94	353	-	327
Due to subsidiary undertakings	-	-	-	425
Corporation tax	69	-	-	-
Other taxation and social security	366	456	-	-
Accruals and deferred income	4,170	3,855	362	424
Finance leases and hire purchase contracts	36	51	-	-
	13,953	19,999	362	1,176

Banks and a major trade creditor who offers trade finance are secured by debentures over the assets and undertakings of subsidiary companies. The short-term bank loan is secured by a fixed and floating charge over the assets of a subsidiary, and is further guaranteed by the Company.

14 Creditors: amounts falling due after more than one year

	The Group 2001 £000's	The Group 2000 £000's	The Company 2001 £000's	The Company 2000 £000's
Convertible loan note	4,600	-	4,600	-

On 16 July 2001 the Company issued a convertible loan note.

The earliest redemption date is 16 July 2004. The outstanding, unconverted amount of the loan note is repayable at its nominal value at the option of the Company or the noteholder at any time on or after this date, subject to a notice period of 30 days.

The note is convertible in whole or in part into up to 11,500,000 ordinary shares of 5p each at a rate of 40p nominal per share at any time prior to 16 July 2004, at the option of the noteholder.

The note will become repayable forthwith in the event of a default, which means any of the following:
(i) the Company is 14 days late with any payment
(ii) the Company fails to comply with any term of the loan note agreement, after 30 days notice thereof is given to the Company
(iii) The Company is wound up or a receiver or administrator is appointed.

	The Group 2001 £000's	The Group 2000 £000's
Other creditors		
Finance leases and hire purchase contracts repayable in less than five years	5	39

15 Provision for liabilities and charges

Investment in joint venture
The movement in the share of gross assets less the share of gross liabilities in the investment in the joint venture was as follows:

	The Group 2001 £000's	The Group 2000 £000's
1 September 2000	191	-
Loss for the year transferred from fixed asset investments	-	191
Movement in provision	(178)	-
31 August 2001	13	191

16 Reconciliation of shareholders' funds

	The Group 12 months to 31 August 2001 £000's	The Group 12 months to 31 August 2000 £000's	The Company 12 months to 31 August 2001 £000's	The Company 12 months to 31 August 2000 £000's
(Loss)/profit for the financial period	(5,753)	(12,353)	111	65
Movement in goodwill relating to acquisitions in prior years	-	2,240	-	-
Movement in goodwill relating to subsidiary sold	-	18	-	-
Exchange differences taken to reserves	204	383	-	-
Issue of shares	3,278	1,960	3,278	1,960
Movement in shares to be issued	(900)	(512)	(900)	(512)
Net (subtraction from)/addition to shareholders' funds	(3,171)	(8,264)	2,489	1,513
Opening shareholders' funds	4,325	12,589	10,051	8,538
Closing shareholders' funds	1,154	4,325	12,540	10,051

17 Called up share capital

	2001 £000's	2000 £000's
Authorised		
110,000,000 (2000: 31,760,000) ordinary shares of 5 pence each	5,500	1,588
Allotted called up and fully paid		
41,287,909 (2000: 23,119,663) ordinary shares of 5 pence each	2,064	1,156

For details of shares allotted during the year, see 'Report of the Directors' on page 6.

Share options

The Company adopted the rules of an Inland Revenue approved executive scheme on 3 May 1995. At 31 August 2001, options to acquire up to a total of 247,000 ordinary shares remained outstanding under this scheme, details of which were as follows:

No. of shares	Date Granted	Exercise Period	Exercise Price
200,000	28 March 1996	28 March 1999 to 27 March 2006	107p
26,000	5 March 1997	5 March 2000 to 4 March 2007	101p
21,000	5 December 1997	5 December 2000 to 4 December 2007	136.5p

On 2 June 1997, the Company adopted rules constituting the Company's unapproved executive share option scheme, whose rules were approved by shareholders at the Extraordinary General Meeting held on 14 January 1997. On 5 December 1997, options were granted to 92 employees to acquire in aggregate up to 298,500 shares at 136.5 pence per share. At 31 August 2001, options to acquire 175,500 shares remained outstanding under the scheme exercisable from 5 December 2000 until 4 December 2007.

18 Share capital and reserves

	Called up share capital £000's	Shares to be Issued £000's	Capital redemption reserve £000's	Share premium account £000's	Merger reserve £000's	Profit and loss account £000's	Total £000's
The Group							
1 September 2000	1,156	1,808	15	5,473	651	(4,778)	4,325
Shares issued	908	-	-	2,370	-	-	3,278
Movement in shares to be issued (Note 23)	-	(900)	-	-	-	-	(900)
Exchange differences	-	-	-	-	-	204	204
Loss retained	-	-	-	-	-	(5,753)	(5,753)
31 August 2001	2,064	908	15	7,843	651	(10,327)	1,154
The Company							
1 September 2000	1,156	1,808	15	5,473	-	1,599	10,051
Shares issued	908	-	-	2,370	-	-	3,278
Movement in shares to be issued (Note 23)	-	(900)	-	-	-	-	(900)
Profit retained	-	-	-	-	-	111	111
31 August 2001	2,064	908	15	7,843	-	1,710	12,540

In accordance with FRS 10, goodwill previously written off against reserves has not been reinstated and the goodwill has been offset against the profit and loss account reserve. The cumulative amount of positive goodwill written off against reserves is £5,645,000 (31 August 2000: £5,645,000).

19 Guarantees and other financial commitments

(a) Financial commitments under non-cancellable operating leases will result in the following payments falling due in the year to 31 August 2002.

	2001		2000	
	Land & Buildings £000's	**Plant & Equipment £000's**	**Land & Buildings £000's**	**Plant & Equipment £000's**
Expiring within one year	202	-	3	-
Expiring within two to five years	125	-	519	-
Expiring within five years or more	121	-	121	-
	448	-	643	-

(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 and are not provided for in the financial statements as the directors believe that the required level of future sales will be achieved:

	2001 £000's	**2000 £000's**
Within one year	330	366
Between one to two years	296	304
	626	670

(c) The future minimum hire purchase and finance lease payments to which the Group were committed at 31 August 2001 are:

	2001 £000's	**2000 £000's**
Net amounts payable within one year	36	51
Between two and five years	5	39
	41	90

20 Reconciliation of operating loss to net cash outflow from operating activities

	12 months to 31 August 2001 £000's	12 months to 31 August 2000 £000's
Operating loss	(4,009)	(12,625)
Depreciation, impairment and amortisation	766	1,372
Provision in respect of own shares	100	757
Loss on disposal of fixed assets and subsidiary	52	75
Decrease in stocks	3,745	5,133
(Increase)/decrease in debtors	(1,398)	4,169
Decrease in creditors	(5,948)	(3,382)
Exchange movement	204	328
Net cash outflow from operating activities	(6,488)	(4,173)

21 Reconciliation of net cash flow to movement in net debt

	12 months to 31 August 2001 £000's	12 months to 31 August 2000 £000's
Increase/(decrease) in cash in the period	380	(8,286)
Cash inflow from movement in debt and lease financing	308	1,048
Movement in net debt resulting from cash flows	688	(7,238)
Net debt at 1 September 2000	815	8,053
Net debt at 31 August 2001	1,503	815

22 Analysis of net debt

	Cash at bank & in hand £000's	Short term bank loan £000's	Lease finance £000's	Total £000's
1 September 1999	9,544	(1,293)	(198)	8,053
Cash flow	(8,286)	940	108	(7,238)
31 August 2000	1,258	(353)	(90)	815
Cash flow	380	259	49	688
31 August 2001	1,638	(94)	(41)	1,503

23 Shares to be issued

	£000's
1 September 2000	1,808
Adjustment in relation to an acquisition in 2000	(900)
31 August 2001	908

24 Financial instruments

The Group's use of financial instruments is explained under the heading of 'Risk Management' in Corporate Governance on page 11. As permitted by FRS 13 short term debtors and creditors have been excluded from all financial instrument disclosures.

(a) **Exchange risk**

The tables below show the Group's currency exposures; in other words those transactional exposures that give rise to the net currency gains and losses recognised in the profit and loss account. Such exposures comprise the monetary assets and monetary liabilities of the Group that are not denominated in the operating currency of the operating company involved.

At 31 August 2001 these currency exposures were as follows:

	Functional currency of group operation		
	Sterling	**HK$**	**Total**
Net foreign currency monetary assets	**£000's**	**£000's**	**£000's**
Sterling	-	-	-
US$	395	683	1,078
HK$	-	-	-
Total	395	683	1,078

At 31 August 2000

	Functional currency of group operation		
	Sterling	**HK$**	**Total**
Net foreign currency monetary assets/(liabilities)	**£000's**	**£000's**	**£000's**
Sterling	-	-	-
US$	(680)	692	12
HK$	-	-	-
Total	(680)	692	12

(b) **Fair values**

The fair value of all financial instruments at 31 August 2001 and 31 August 2000 was not materially different from their book value.

(c) **Maturity of financial liabilities**

The maturity profile of the Group's financial liabilities at 31 August 2001 was as follows:

	2001	**2000**
	£000's	**£000's**
In one year or less, or on demand	130	404
In more than one year, but not more than two years	5	39
In more than two years, but not more than 5 years	4,600	-
In more than five years	-	-
Total	4,735	443

(d) **Borrowing facilities**

The Group has various available borrowing facilities. The undrawn committed facilities available in respect of which all conditions precedented had been met at that date, were as follows:

	2001	**2000**
	£000's	**£000's**
Expiring in one year or less	1,406	1,500
Expiring in more than one year, but not more than two years	-	-
Expiring in more than two years	-	-
Total	1,406	1,500

24 Financial instruments (continued)

(e) **Interest rate risk profile of financial assets and financial liabilities**

Financial assets

Financial assets comprise cash at bank.

At 31 August 2001

Currency	Floating rate financial assets £000's	Fixed rate financial assets £000's	Financial assets on which no interest received £000's	Total £000's
Sterling	554	-	-	554
US$	1,072	-	-	1,072
HK$	12	-	-	12
Total	1,638	-	-	1,638

At 31 August 2000

Currency	Floating rate financial assets £000's	Fixed rate financial assets £000's	Financial assets on which no interest received £000's	Total £000's
Sterling	1,116	-	-	1,116
US$	12	-	-	12
HK$	130	-	-	130
Total	1,258	-	-	1,258

Financial liabilities

At 31 August 2001

Currency	Floating rate financial liabilities £000's	Fixed rate financial liabilities £000's	Financial liabilities on which no interest is paid £000's	Total £000's
Sterling	135	4,600	-	4,735
US$	-	-	-	-
HK$	-	-	-	-
Total	135	4,600	-	4,735

At 31 August 2000

Currency	Floating rate financial liabilities £000's	Fixed rate financial liabilities £000's	Financial liabilities on which no interest is paid £000's	Total £000's
Sterling	443	-	-	443
US$	-	-	-	-
HK$	-	-	-	-
Total	443	-	-	443

24 Financial instruments (continued)

The floating rate financial liabilities comprise:

- Sterling denominated bank borrowings and overdrafts that bear interest at rates based on LIBOR or NatWest bank base rates.
- Obligations under finance leases and hire purchase contracts.

The fixed rate financial liability comprises the convertible loan note. Interest is payable at the rate of 5% per annum. Further details regarding the convertible loan note are set out in Note 14.

25 The Character Group plc Employee Share Ownership Trust

The Employee Share Ownership Trust ("the Trust") is governed by a Trust Deed dated 19 June 1998. The Trustees may grant options over such shares in the Company acquired by them or otherwise provide benefits to the beneficiaries, as defined in the Trust Deed. The Trust is required to meet its own costs, and has waived its right to dividend income. At 31 August 2001, no options had been granted by the Trust. Details of the shares held by the Trust are set out in note 10.

26 Contingent liabilities

The Company has guaranteed the obligations of certain subsidiary companies to their factor companies, trade finance companies, certain banks, licensors and others in the normal course of business. The factor company has a fixed and floating charge over the assets of the Company and some subsidiaries.

The Company is a member of a Group registration for Value Added Tax purposes.

27 Related party transactions

During the year the company entered into transactions with Giochi Preziosi S.p.A., a company of which Enrico Preziosi and Maurizio Cellai are directors. Further, Toys Investment S.A., a company in which Enrico Preziosi is interested and of which Maurizio Cellai is a director, holds approximately 28.8% of the issued share capital of The Character Group plc.

Trade was carried out on a arms length basis and is summarised below:

	2001 £000's	**2000 £000's**
Total net sales to Giochi Preziosi S.p.A.	1,987	1,775
Total net purchase from Giochi Preziosi S.p.A.	189	156
Balance due from (due to) Giochi Preziosi S.p.A.	338	(31)

There were no other material related party transactions.