the

CHARACTER

group plc

Annual Report and Accounts

For the year ended 31 August 2018

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

DIRECTORS AND ADVISERS

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

Company Secretary
K P Shah FCCA

Company registration number 3033333

Registered office
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Bankers
Barclays Bank plc
Standard Chartered Bank
DBS (Hong Kong) Ltd

Nominated Adviser and Broker
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One New Change
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Registrar
Neville Registrars Limited
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OVERVIEW

The Character Group plc is the largest independent toy company based in the United Kingdom. We design and manufacture toys and games, many produced under licence and based on popular television, film and digital characters and distribute all of these products in the UK and in many territories overseas. We also partner on an exclusive basis with other overseas based toy producers to market and distribute their products in the UK.

Our diverse product ranges focus on a number of key areas within the toy sector; 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 look to add new and relevant products; and to develop innovative products for newly acquired brands; this we believe has enabled, and will continue to enable, the Group to increase market share in the UK and overseas. Since the year end, we have acquired a 55% shareholding in OVG-PROXY A/S, a toy distributor in Denmark.

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

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

Our top performing brands during the year ended 31 August 2018 included ***Peppa Pig***, ***Little Live Pets***, ***Stretch***, ***Mashems, Teletubbies, Soft 'n Slo Squishies*** and ***Cra.Z.Slimy***.

CHAIRMAN'S STATEMENT

As anticipated at the time of the publication of the Group's preliminary results in December 2017, the Group experienced a "game of two halves" in the year under review. As a consequence of a particularly strong performance in the second half, I am pleased to report that the Group has delivered results in line with market expectations and returned to a growth pattern.

The challenging conditions in our markets this year, particularly at retail (as witnessed by the demise of Toys R Us), have tested:

- the agility of our business model;
- the veracity of the forecasting and management skills of our executive team; and
- the commitment and loyalty of all of our personnel,

and I am delighted to say that all have been fully proven.

I have commented in the past that the ability to read and react to the economic cycle that applies to our markets is critical to minimising damage in the tough times and maximising benefits in the good. I believe that this year's results demonstrate that our management team certainly has this ability.

Once again, we ended the year with a further strengthened balance sheet, clean inventories, a solid cash position and a terrific line up of products for the year ahead. On a turnover of £106.2m (2017: £115.3m), the Group delivered a profit before tax of £11.6m which comfortably achieved market expectation. Net assets increased by £5m to £31.8m (2017: £26.8m) and net cash increased by £4.1m to £15.6m (2017: £11.5m). I am immensely proud of these achievements. We are recommending a final dividend of 12p per share, an increase of 20%. Together with the interim dividend of 11p per share paid in July 2018, the total dividend for the year is 23p per share, an increase of 21%.

Whilst our record sales performance in the second half of the year in the UK market shows that there continues to be scope for growth in our home markets, we are also actively seeking to develop our overseas sales and distribution. Our strategy in this regard has seen its expression in our acquisition of a 55% controlling stake in OVG-PROXY A/S, the biggest toy distributor operating throughout the Nordic region, which will assure us of access to EU markets post-Brexit, and in the fostering of closer collaborations with our international partners.

This Group could not have achieved these results or have confidence going forward without a dedicated, loyal and thoroughly professional team. We are truly blessed to have them.

I look forward to updating shareholders at our annual general meeting on 18 January 2019 and take the opportunity to wish all our staff, shareholders, customers and suppliers a happy and rewarding New Year!

On behalf of the Board

Richard King

Chairman
19 December 2018

EXECUTIVE REVIEW

KEY PERFORMANCE INDICATORS	12 months ended 31 August 2018	12 months ended 31 August 2017
Revenue	**£106.2m**	£115.3m
Operating profit	**£11.7m**	£13.6m
Pre-tax profit	**£11.6m**	£13.4m
EBITDA	**£13.6m**	£16.0m
Basic earnings per share before significant items	**45.09p**	52.01p
Diluted earnings per share before significant items	**44.38p**	50.54p
Basic earnings per share after significant items	**45.63p**	47.46p
Diluted earnings per share after significant items	**44.91p**	46.11p
Dividends declared per share for the year	**23.0p**	19.0p
Net assets	**£31.8m**	£26.8m
Net cash	**£15.6m**	£11.5m

INTRODUCTION

As reported in our last trading update in October 2018, the business has had a solid finish to the 2018 financial year. The Board is delighted to report that the Group finished the financial year in a strong position, comfortably achieving market expectations. This is a particularly pleasing outcome as it endorses the optimism that we expressed at the time of the HY1 results announcement in April, when we projected that we would see a return to profitable growth progression during the second half of the year.

As shareholders are aware, trading during the HY1 period was difficult, mainly due to the failure of a global retailer, Toys R Us. During the HY2 we have, through a combination of our collaborative culture (both within the Group as well as in partnerships with customers and suppliers), the agility of our business model in addressing changes and challenges within our market and the proven skills of our central management team, successfully delivered a second half performance that produced record sales within our UK domestic business.

The Group's trading results for the financial year ended 31 August 2018 delivered, as expected, a profit before tax of £11.6m (FY2017: £13.4m). In addition, the cash generative nature of our model has ensured that the Group continues to strengthen its balance sheet.

OUR PRODUCT PORTFOLIO

Our core product ranges, such as *Peppa Pig, Little Live Pets, Teletubbies* and *Stretch*, have remained in demand and the additions that we have made to these ranges during the course of the year, to supplement and refresh these lines, have been very well received by our customers and the consumer, with sales continuing to grow. This strong and diverse, core portfolio has been complemented, and our sales efforts well supported, by our "craze" lines, such as *Soft 'n Slo Squishies, Cakepop Cuties* and *Cra.Z.Slimy*.

We were delighted that earlier this month two of our novel lines were listed in the Toy Retailer Association's (TRA) **2018 DreamToys Dream Dozen.** This respected and informative listing is compiled by the TRA from data, feedback and opinions provided to it by large chain retailers, small multiples and independent retailers across the UK and reliably predicts the top selling Christmas toys. It is also worth highlighting that, in addition to being in the **DreamToys'** dream dozen list, 10 further toys and games from the Character portfolio were among the 72 toys and games named by the TRA as being ones to watch out for this Christmas.

Featuring in the TRA's **DreamToys** listings for Christmas 2018 are the following products from the Character catalogue:

Category	Products
Pre-school:	*Peppa Pig Mobile Medical Centre*
Girls toys:	*Little Live Pets - Sparkles My Dancing Unicorn*
	Little Live Pets - Wrapples
Boys toys:	*Laser X 2 PlayerPack*
	Treasure X Single Pack
	Really R.A.D Robots Mibro
	Mini Stretch Justice League Stretch Figures
Activity toys:	*Cra-Z-Slimy Creations Super Slime Studio*
Novelty collectibles:	*Odditeez Ultra Slimiballz*
	Soft n' Slo Squishes Sweet Shop Original
	Soft n' Slo Squishes Fun Food Ultra
	Bubbleezz Animalzz Mega

The Group will be introducing new products and range extensions to its portfolio in the coming months, which will further strengthen the Group's offering for the coming year.

Our full product ranges can be viewed at www.character-online.co.uk.

OPERATIONAL PERFORMANCE

The Group's portfolio continues to be derived from both our own-developed in-house ranges, including those produced 'under licence', and other products sourced on an 'exclusive' basis. We place a high degree of importance on new product categories and have successfully developed our brands and a reputation for reliability and integrity in our relationships across a wide spectrum of customers and suppliers globally. These relationships are long-term, tested and trusted and leverage our ability to gain successful and well supported access to market for our new ranges and product additions.

Overall, Group revenue in the year ended 31 August 2018 was £106.2m, against £115.3m in the comparable 2017 period. The revenue generated in the year from UK sales increased to £87.1m (FY2017: £86.7m – 75% of sales), representing 82% of Group total revenue, whilst revenue relating to our international sales was lower at £19.1m being 18% of total sales (FY2017: £28.6m – 25% of sales). This shift in sales mix has resulted in the gross profit margin increasing from 32.6% in 2017 to 34.2% in the year being reported. On an absolute basis, despite the reduction of approximately 8% in the Group's turnover, gross profit was £36.3m compared to £37.5m for the previous year.

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 £0.14m. This compares to an additional loss of £1.2m reported in the year to 31 August 2017. 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. To highlight profitability on a normal basis, these adjustments are shown separately as significant items to demonstrate the "underlying" profit measures presented in this report.

The Group is reporting a profit before tax in the period under review of £11.6m (FY 2017: £13.4m). Underlying earnings before interest, tax, depreciation and amortisation were £13.5m (FY 2017: £15.9m).

Underlying basic earnings per share before significant items amounted to 45.09p (FY 2017: 52.01p). Underlying diluted earnings per share, on the same basis, was 44.38p, (FY 2017: 50.54p).

DIVIDEND

We are committed to maintaining our progressive dividend policy as we believe this reflects our confidence in the Company's ability to continue to generate and develop further sustainable cash flow. The Board will be recommending to shareholders a final dividend of 12.0p, an increase of 20% over last year (2017 H2: 10.0p per share). This, together with the interim dividend of 11.0p per share paid in July 2018, makes a total dividend for the year of 23.0p per share, an increase of 21% over the previous year (FY 2017: 19.0p). The 2018 dividend is covered 1.96 times by underlying annual earnings. Subject to approval by shareholders at the Annual General Meeting ("AGM") at 11am on Friday, 18 January 2019, the final dividend will be paid on 25 January 2019 to Members on the Register as at the close of business on 4 January 2019; the shares will be marked ex-dividend on 3 January 2019.

FINANCIAL POSITION, WORKING CAPITAL & CASH FLOW

Despite the well documented sector disruption and tough retail environment in the UK, we have worked diligently to ensure that we finished the year in a much-improved trading position, with increased positive cashflow and stocks firmly under control.

The Group's capital base has been further strengthened in the period, with net assets at 31 August 2018 totalling £31.8m (FY 2017: £26.8m), up 18.4% on last year.

Reflecting the record level of sales in the UK in the period, inventories were *c.*£1.9m higher at the end of the financial period at £10.9m (FY 2017 £9.0m).

During the financial year under review, the Group also generated cash from operations of £14.0m, a similar level to that in 2017. The Group continues to have no long-term debt. Interest charges on short-term use of working capital facilities during the year reduced to £0.1m (FY 2017: £0.2m).

At the end of the financial year, after making payments for dividends and share buy-backs (referred to in this Report), the Group had a net cash position of £15.6m, compared to £11.5m at the end of the 2017 comparative period, an increase of 35%.

SHARE BUY-BACK PROGRAMME

During the 2018 financial year, the Company acquired a total of 338,700 ordinary shares in the Company at an aggregate cost of approximately £1.36m (excluding associated costs), with the average cost being approximately £4.475 per ordinary share (FY 2017: 564,402 ordinary shares were acquired and cancelled at an aggregate cost of approximately £2.6m and an average cost of approximately £4.58 per ordinary share). In the period following the year end to the date of this report, the Company has acquired for cancellation a further 156,993 ordinary shares in the Company at an aggregate cost of approximately £823,600 (excluding associated costs) with the average cost being approximately £5.25 per ordinary share.

The Company currently has an unutilised authority to buy-back up to a further 2,963,707 ordinary shares. As we have previously indicated, it remains part of our overall strategy to continue to repurchase the Company's own shares when appropriate under its current share buy-back programme with the Directors also prepared to participate in any future share buy-back programme the Company proposes.

TOTAL VOTING RIGHTS

As at today's date, the Company has 21,073,709 ordinary shares in issue, excluding shares held in treasury. The Company holds 2,662,106 ordinary shares in treasury, representing approximately 12.6 per cent. of the issued share capital (excluding these treasury shares), which do not carry voting or dividend rights. The figure of 21,073,709 may be used by shareholders as the denominator for the calculations by which they may determine if they are required to notify their interest, or change to their notified interest, in the Company under the Financial Conduct Authority's Disclosure Guidance and Transparency Rules.

OUR PEOPLE

At the year end the Group employed a total of 186 people across its locations in the UK and Asia. Our highly experienced teams are dedicated to developing, marketing and distributing innovative and exciting toys that meet today's high expectations of both our customers and consumer demand in terms of quality and value.

Once again, the Board takes this opportunity to thank everyone in the business for their continuous hard work, enthusiasm and commitment. The loyalty, spirit and work ethic demonstrated by the teams through to relationships with our customers and suppliers underpins the strength of the Group's model and provides us with the dynamics that assure us of the ability to deliver performance-led results.

POST BALANCE SHEET EVENT

On 17 October 2018, we completed the acquisition of a 55% shareholding in OVG-PROXY A/S ("PROXY"), a Danish toy distributor based in Copenhagen. The purchase price comprised an initial cash consideration of DKK 2.5 million (approximately £300,000), with further "earn-out" consideration of up to DKK 25 million (approximately £3 million) payable, subject to achieving agreed performance targets, in each of the years ending 31 December 2018, 2019 and 2020. Part of the initial earn-out entitlements will be satisfied in shares in the Company (up to 150,000 Ordinary Shares) with any balance payable in cash.

The remaining 45% of the equity in PROXY is held by Morten Geschwendtner (CEO) and Mikkel Kjærsgaard (CFO), both of whom have over 25 years of experience in the toy industry and have worked in collaboration with the Character team over several years.

PROXY sources and secures exclusive rights to toy products and then markets and sells them to retailers in the Nordic region (principally Denmark, Sweden, Norway and Finland). This strategic acquisition gives Character the opportunity to further extend its European reach, to offer a more compelling marketing/distribution proposition for toy companies and brand owners seeking UK and EU market access and to provide a vehicle for growth of the Group's non-UK sales of its own-developed product ranges. PROXY will also benefit from being able to access the wider knowledge and skills of Character as well as its sourcing, purchasing and marketing capabilities. It also potentially gives the Group frictionless access to EU markets post-Brexit.

Since completion of this acquisition and with the backing of the Group, PROXY has secured the exclusive distribution rights for the Nordic region of the *FUNKO* range including its *Fortnite* figurines.

The acquisition is expected to be earnings enhancing in the first full year in the enlarged Group.

To find out more about PROXY, please visit the website at https://www.proxyas.com.

OUTLOOK

Character has delivered a solid performance in the second half of the year under review and we have started the current year in a healthy position, with a strong and balanced product portfolio and robust UK demand from our customers for our core ranges and new introductions.

Macroeconomic factors, including currency volatility, the potential implications of Brexit and the performance of the UK economy generally, will continue to dictate market behaviour in the coming months and our business is not immune from these factors. Notwithstanding this, the Board remains confident in its strategy and the Group's flexibility to adapt to change and will continue to strive to grow the business, while facing any challenges as and when they arise.

The new financial year has started well and in line with management expectations; we are confident in the prospects for the current autumn/winter trading period, which includes the all-important Christmas season. In addition, we are delighted to be working closely with the team at PROXY. We believe that there is considerable scope to progress with joint initiatives in product development and marketing with the PROXY team, which should enable us to increase further our respective current market shares in the financial year ending 31 August 2019 and beyond.

The Board look forward to further updating shareholders on the 2018 Christmas trading period and prospects at the time of the forthcoming AGM on 18 January 2019.

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.

J J Diver
Joint Managing Director
19 December 2018

DIRECTORS' BIOGRAPHIES

Executive Directors

Jonathan Diver (aged 54), Joint Managing Director

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

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

Kiran Shah (aged 64), Joint Managing Director, Group Finance Director and Company Secretary

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

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

Joseph Kissane (aged 66), Managing Director of Character Options Limited

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

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

Michael Hyde (aged 44), Managing Director of Far East Operations

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

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

Jeremiah Healy (aged 57), 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 73), Non-Executive Chairman

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

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

David Harris (aged 68), Senior Independent Non-Executive Director

David Harris was appointed to the Board in 2004; he has very broad financial experience gained over a 40 year career in both executive and non-executive capacities. He is currently a non-executive director of Manchester and London Investment Trust plc and F&C Managed Portfolio Trust plc, both 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 Remuneration Committee and also a member of the Corporate Governance and Risk Management, Audit and Nominations Committees.

Clive Crouch (aged 66), 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. He attended The London Business School Senior Executive Programme in 2003. From 2007 he served as GMTV's Chief Operating Officer until 2010, taking responsibility for the Channel's License and Compliance to the Ofcom Broadcasting Codes.

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

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

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

DIRECTORS' REPORT

The directors present their report together with the financial statements for the year ended 31 August 2018.

Dividend

The directors recommend a final dividend of 12.00 pence per share (2017: 10.00 pence) making a total dividend for the year of 23.00 pence per ordinary share (2017: 19.00 pence). If approved, the final dividend will be paid on 25 January 2019, to shareholders on the register on 4 January 2019.

Employment policies

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

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

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

Employees are encouraged to become involved in the financial performance of the Group through participation in the Group's share option 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 2018, trade creditors of the Group represented an average of 65 (2017: 47) days credit in relation to total purchases for the year.

Governance

Directors

The following directors served during the year:

Jonathan James Diver (Joint Managing Director)
Kirankumar Premchand Shah (Joint Managing Director and, from 14 September 2017, Group Finance Director)
Joseph John Patrick Kissane (Managing Director, Character Options Limited)
Michael Spencer Hyde (Managing Director, Far East Operations)
Mark Timothy Dowding (Group Finance Director, until the termination of his employment on 14 September 2017)
Jeremiah Healy (Group Marketing Director)
Richard King (Non-Executive Chairman)
David Harris (Senior Independent Non-Executive Director)
Clive William Crouch (Non-Executive Director)

Directors and their interests in shares

The directors and their interests (all of which are beneficial) in ordinary shares of 5p each in the capital of The Character Group plc ("Ordinary Shares") as at 31 August 2018 and 18 December 2018 (being the business day prior to the date of this report) were as follows:

Directors	As at 18 December 2018 Number of Ordinary Shares	As at 18 December 2018 Ordinary Shares Under option	As at 31 August 2018 Number of Ordinary Shares	As at 31 August 2018 Ordinary Shares under option
K P Shah	**2,140,001**	**-**	**2,140,001**	**-**
J J Diver	**1,356,003**	**-**	**1,356,003**	**-**
J J P Kissane	**500,000**	**-**	**500,000**	**-**
M S Hyde	**309,681**	**100,000**	**309,681**	**100,000**
J Healy	**41,000**	**144,000**	**41,000**	**144,000**
R King	**336,286**	**-**	**336,286**	**-**
D Harris	**60,181**	**-**	**60,181**	**-**
C Crouch	**15,358**	**-**	**15,358**	**-**

Directors	As at 31 August 2017 Number of Ordinary Shares	As at 31 August 2017 Ordinary Shares under option
K P Shah	2,140,001	-
J J Diver	1,356,003	-
J J P Kissane	500,000	-
M S Hyde	209,681	100,000
M T Dowding*	108,000	36,000
J Healy	41,000	72,000
R King	336,286	-
D Harris	56,000	-
C Crouch	15,358	-

Included in the interests of K P Shah are his interests in Ordinary Shares held by Sarissa Holdings Limited, being 2,000,000 Ordinary Shares at 18 December 2018, 31 August 2018 and 31 August 2017.

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 18 December 2018, 31 August 2018 and 31 August 2017.

Included in the interests of R King are his interests in Ordinary Shares held by TOPS Pension Scheme being 176,120 Ordinary Shares at 18 December 2018, 31 August 2018 and 31 August 2017.

Included in the interests of J Healy are his interests in Ordinary Shares held by Mr Healy's personal pension scheme being 5,000 Ordinary Shares at 18 December 2018 and 31 August 2018, and 20,000 Ordinary Shares held by his spouse, Mrs K Healy at 18 December 2018.

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 18 December 2018, 31 August 2018, and 31 August 2017.

* M T Dowding's employment and office as a director terminated on 14 September 2017.

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

Directors' indemnity insurance

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

Matters referred to in the Strategic Report

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

Share option schemes

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

Auditors

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

Statement of disclosure to auditors

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

By Order of the Board

K P Shah
Secretary

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

Registered number 3033333
19 December 2018

CORPORATE GOVERNANCE REPORT

CHAIRMAN'S INTRODUCTION

Following changes to the AIM Rules for Companies implemented earlier this year and the publication by the Quoted Companies Alliance (the "**QCA**") of the new QCA Corporate Governance Code 2018 (the "**QCA Code**"), the Board carefully reviewed and then resolved to apply the new QCA Code to the Company. I am pleased to report that the process of implementing the QCA Code within the Company and its Group has proved to be more a case of codifying, organising and clearly articulating our existing practices than a radical change to those practices. We identify whole-heartedly with the underlying philosophy and objectives of the QCA Code as we have a well-developed, collaborative culture amongst the personnel within the Group and with our critical stakeholders (i.e. shareholders, customers and suppliers), which sees us very much aligned to this central core principle of the QCA Code.

I have had the privilege to serve as the Chairman of the Company since its formation in 1991. My role as Chairman has evolved over the years and, although I ceased full-time executive duties with the Company in February 2016, I remain engaged with the business, its directors, advisers and, where necessary, customers and suppliers and with the formulation, development and the review of the efficacy of its strategy and its key procedures and processes.

The QCA Code charges me, as Chairman, with the responsibilities of:

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

I accept these responsibilities and aim to discharge them in this first full report on Corporate Governance under the QCA Code and on an continuous basis going forward.

CORPORATE GOVERNANCE REPORT

The Board

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

The Board comprises five executive directors and three non-executive directors, as detailed on pages 9 and 10. The Board has a formal schedule of matters reserved for its consideration. It is responsible for: setting the overall Group strategy and providing leadership to implement the strategy; supervising the management of the business; the acquisition or disposal of material corporate entities or assets; public announcements (including statutory financial statements); approving or making significant changes in accounting policy, the capital structure and dividend policy of the Group; Group remuneration policy; and Board structure, composition and succession.

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

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

Director	Number of meetings attended
R King	6
K Shah	6
J Diver	6
J Kissane	6
M Hyde	6
J Healy	6
M T Dowding*	0
D Harris	6
C Crouch	6

* M T Dowding's employment and office as a director terminated on 14 September 2017.

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

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

- the Audit Committee – Chairman, C Crouch ;
- the Remuneration Committee – Chairman, D Harris (see the Committee's report set out on page 20);
- the Nominations Committee – Chairman, R King; and
- Corporate Governance and Risk Management Committee – Chairman, R King.

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

The QCA Principles

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

Before providing the disclosures required by the QCA Code, I provide the following update on developments with the Corporate Governance practices at the Company:

- although not a requirement of the QCA Code, the Board resolved in September 2018 that a new committee should be formed to manage and be responsible for the initial appraisal and to oversee the implementation of the requirements of the QCA Code, and, thereafter, to monitor ongoing compliance with the QCA Code and to develop further good corporate governance practices within the Group. This committee (the "Corporate Governance and Risk Management Committee") is comprised solely of non-executive directors, under my chairmanship;

- the Corporate Governance and Risk Management Committee has had 2 meetings so far and, in compliance with the new AIM Rule implemented earlier this year, drafted and published on its website at the end of September the Company's first Corporate Governance Statement. A revised Corporate Governance Statement has been issued simultaneously with this report and available to view at: http://www.thecharacter.com/corporate-governance/;

- the process of evaluation of overall board and individual director performance has been an annual task for me in my role as Chairman and, in the case of my own performance, by the Independent Non-Executive Directors, led by the Senior Non-Executive Director (currently David Harris), in consultation with the other . This has been a relatively informal process in the past but, in the coming months, a review will be undertaken to formulate a process for a more formalised approach. The findings of that review will be considered initially by the Corporate Governance and Risk Management Committee and then by the full Board and any recommendations made or measures proposed by the Corporate Governance and Risk Management Committee discussed and, as appropriate, implemented;

- the Corporate Governance and Risk Management Committee has undertaken a review of the terms of reference of each of the other committees of the Board (the Audit, Remuneration and Nominations committees) and revised and updated these terms of reference, which revisions have been approved and adopted by the Board. Those revised terms of reference, along with the terms of reference for the Corporate Governance and Risk Management Committee, are available to view on the Company's website at: http://www.thecharacter.com/company-documents/;

- whilst the duties of monitoring and developing risk management policies for certain risk areas have been discharged by the pre-existing committees (e.g. responsibility for internal financial control systems is with the audit committee and succession planning is with the Remuneration Committee), the monitoring of the Group's overall risk profile was, until September 2018, the responsibility of the full Board. Consistent with the QCA Code requirements, the responsibility for overseeing the development of a comprehensive risk management policy framework by the Board and the implementation of appropriate risk management practices throughout the Company's operations and systems has now been placed with the Corporate Governance and Risk Management Committee.

I also wish to report on an area where the position with the Company is not fully in accordance with the expectations set by the QCA Code:

- length of service is a factor required to be taken into account in determining the independence of non-executive directors under the QCA Code. David Harris was appointed as a Non-Executive Director of the Company in May 2004. Notwithstanding his duration of service, the Directors consider that David has demonstrated the utmost regard for his independence, appropriately challenging the Board during his tenure as a director, and has maintained high standards of corporate governance. Accordingly, the Board believes that David exercises independent judgement in all matters relating to the Company and is "independent" for the purposes of the QCA Code;

Review of each of the QCA Code principles

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

Principle 1:

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

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

Principle 2:

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

The Company engages with shareholders by:

- Announcements published via a Regulatory News Service ('RNS').
- Replying to investor questions sent to info@charactergroup.plc.uk or its registered office.
- Proactive Investor presentations and interviews.
- Conducting meetings with major shareholders on its results roadshows to obtain a balanced understanding of their issues and concerns.
- Active engagement with shareholders at the Company's AGMs.

Principle 3:

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

The Company's key stakeholders are:

- its shareholders;
- its customers;
- its suppliers; and
- its employees.

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

Principle 4:

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

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.

In accordance with the guidance for directors on internal control "Internal Control: Guidance for Directors on the Combined Code", the Board confirms that there is an ongoing process for identifying, evaluating and managing the significant risks faced by the Group. This process has been in place throughout the year under review and up to the date of approval of the annual report and financial statements. The primary responsibility for this ongoing process has now been assumed by the Corporate Governance and Risk Management Committee.

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

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

Control environment

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

Monitoring and corrective action

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

Risk management

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

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

One area of risk that has been a focus of the board since the UK's "Brexit" referendum in 2016 is the question of continued ease of access for the Group's products to EU markets after the UK finally leaves the EU. There are still many uncertainties in this regard but it is believed that the Group's recent acquisition of 55% of the share capital of OVG-PROXY A/S, a company incorporated in Denmark that distributes toys in Denmark, Sweden and Finland (all EU countries), will assure the Group of continued access to these and other EU markets and enable it to manage that risk.

The Corporate Governance and Risk Management Committee now has primary responsibility for overseeing the development of a comprehensive risk management policy framework by the Company and the implementation of appropriate risk management practices throughout the Company's operations and systems. Updates on the progress of this initiative will be given in due course.

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

Reference is made to the section of this Report above entitled "Board".
The executive Directors are full-time working directors. The Non-Executive Directors do not have prescribed working hours in their appointment letters but are required to expend such time in discharging their duties as is necessary or required to fulfil their respective roles.

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

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

The list and functions of the directors is set out on page 11 of this document and the skills of each member of the Board are set out in his biography on pages 9 and 10 of this document.

At the present time, the Directors select their own training/refresher/updating programs, if and as required (at the Company's cost). The Board proposes to introduce a more structured facility for Directors to be able to obtain training on relevant new developments as considered appropriate, from time to time, and to be more pro-active in encouraging a systematic approach to updating skills and training for the Directors.

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

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

The performance evaluation of the Board, its Committees and directors was undertaken earlier this year by me, in my capacity as the Non-Executive Chairman. This was implemented in collaboration with the other Committee Chairmen. This evaluation was conducted by way of a discussion between me and each of the directors. The other non-executive directors met separately during the year to review my performance and provide feedback to me. Following those performance evaluations, I confirm that the performance of the executive and non-executive director continues to be effective and demonstrates commitment to the roles.

Reference has already been made in this Report to the Corporate Governance and Risk Management Committee's review of the process for, and the intention to move to a more formalised approach to, evaluation of overall board and individual director performance and updates will be provided on that position in due course.

The Company has not adopted a policy on succession planning. The Joint-Managing Directors, however, are required to give not less than 12 months' notice under their contract of employment if either of them wishes to leave the Company. The Board will consider succession planning as part of its regular review of Board effectiveness at each of its meetings.

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

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

The Group employs a total of 186 people across its locations in the UK and Asia. The team is dedicated to and focused on developing, manufacturing, marketing and distributing innovative and exciting toys that meet the high expectations that the Group's customers and the consumer demand, both in terms of quality and value.

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

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

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

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

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

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

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

The report of the Remuneration Committee is set out on page 20 of this document.

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

The notice of AGM, the Annual and Interim reports since 2005 are available on the Company's website: www.thecharacter.com
The Company will make sure that in the future the Company's website also includes the results of the votes cast during its AGMs.

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

Richard King
Chairman
19 December 2018

DIRECTORS' REMUNERATION REPORT

The Board presents the Remuneration Report for the year ended 31 August 2018.

The Remuneration Committee

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

Remuneration of Directors

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

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

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 Group's 2017 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. 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 £40,000 per annum (2017: £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
19 December 2018

DIRECTORS' RESPONSIBILITY STATEMENT

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

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

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

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

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

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

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

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

The financial statements that we have audited comprise:

- Group Income Statement
- Group Statement of Comprehensive Income
- Group Balance Sheet
- Company Balance Sheet
- Group and Company Cash Flow Statement
- Group Statement of Changes In Equity
- Company Statement of Changes in Equity
- Notes 1 to 29 of the financial statements, including Accounting Policies.

The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the parent Company's affairs as at 31 August 2018 and the Group's profit for the year then ended;
- the financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

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

Conclusions relating to going concern

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

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

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

Key audit matters

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

Revenue recognition

Key matter

As described in the accounting policy note 1 a provision is established at the year end for estimated sales returns and allowances. These are adjustments made to revenue, outside of the group's core transactional processes which represent a key area of focus for the audit due to its material significance.

How the scope of our work responded to the key matter

Our procedures included assessing the design and implementation of key controls around the allowances approval process. We have also performed procedures to assess the completeness of these allowances. In addition, we performed substantial analytical procedures on the revenue in the year to understand the revenue profile in the year and the completeness of the allowances provision.

Key observations

Following our audit procedures, we found that revenue had been recorded appropriately.

Inventory valuation

Key matter

As described in the accounting policy for stock obsolescence the group is required to make judgement to the future demand of product ranges in determining whether inventory will be expected to be fully realised at an amount in excess of the carrying value of the inventory. As this assessment requires judgements it is considered a key area of focus for the audit due to the material amount of the carrying value of inventories.

How the scope of our work responded to the key matter

We obtained a detailed understanding and evaluated the design and implementation of controls that the group has established in relation to inventory valuation. We have obtained assurance over the appropriateness of management's assumptions applied in calculating the value of inventory provisions by:

- critically evaluating the group's policy of provisioning for slow moving inventory;
- verifying the compliance with that policy through the testing of a sample of inventory items;
- verifying the sample of inventory to confirm whether it is held at the lower of cost and net realisable value, through comparison to vendor invoices and sale prices; and
- considering the historical accuracy of these provisions.

Key observations

We concluded that the total amount of the stock obsolescence provision is within an acceptable range and had been recorded appropriately.

Our application of materiality

Our definition of materiality considers the value of error or omission on the financial statements that would change or influence the economic decision of a reasonably knowledgeable person. Materiality is used in planning the scope of our work, executing that work and evaluating the results.

The materiality that we used in the current year was £1.6M which was determined on the basis of 1.5% of group revenue.

An overview of the scope of our audit

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

The results of that assessment have meant that our Group audit scope has focused primarily on the financial results of two components of the group: Character Options Limited and Toy Options (Far East) Limited. These entities trade from the UK and Hong Kong respectively. These entities have been subjected to a full audit with the nature and extent of testing driven by our assessment of the risks of material misstatement and of the materiality determined at the component level. The results of these entities represented 97.7% of total Group revenue and 99.9% of the Group's profit before tax.

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

The audit of Character Options Limited and the parent company The Character Group plc was performed by us and we have acted as the group engagement team in directing the audit of Toy Options (Far East) Limited. Our work in this respect was performed in accordance with the International Standards on auditing specifically ISA 600 (UK).

Other information

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

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

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

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

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

Matters on which we are required to report by exception

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

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

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

Responsibilities of directors

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

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

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

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

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

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

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

Use of our report

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

John Coverdale FCA
(Senior Statutory Auditor)
for and on behalf of MHA MacIntyre Hudson
Chartered Accountants and Statutory Auditor
New Bridge Street House
30-34 New Bridge Street
London EC4V 6BJ
20 December 2018

GROUP INCOME STATEMENT

for the year ended 31 August 2018

	Note	Total 2018 £000's	Total 2017 (restated)* £000's
Continuing operations			
Revenue	2	**106,229**	115,319
Cost of sales		**(69,891)**	(77,770)
Gross profit		**36,338**	37,549
Net operating expenses			
Selling and distribution costs		**(7,355)**	(6,947)
Administration expenses		**(17,874)**	(17,657)
Other operating income		**543**	628
Operating profit	3	**11,652**	13,573
Finance income	5	**45**	57
Finance costs	5	**(91)**	(204)
Profit before income tax		**11,606**	13,426
Taxation	6	**(2,108)**	(2,418)
Profit for the year before significant items		**9,498**	11,008
Significant items			
Movements in fair value of financial instruments		**141**	(1,188)
Tax relating to fair value movements of financial instruments		**(27)**	230
Profit for the period attributable to equity holders of the parent		**9,612**	10,050
Earnings per share before significant items (pence)	8		
Basic earnings per share		**45.09p**	52.01p
Diluted earnings per share		**44.38p**	50.54p
Earnings per share after significant items (pence)			
Basic earnings per share		**45.63p**	47.46p
Diluted earnings per share		**44.91p**	46.11p
Dividend per share (pence)	9	**21.00p**	17.00p
EBITDA (earnings before interest, tax, depreciation and amortisation)		**13,578**	16,008

*The movement in fair value of financial instruments for the year ended 31 August 2017 was previously included within cost of sales. To highlight profitability on a normal basis, these items are now presented separately as significant items. The comparative figures of cost of sales and taxation have been restated.

GROUP STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 August 2018

	Note	**Total 2018 £000's**	Total 2017 £000's
Profit for the year after tax		**9,612**	10,050
Items that will not be reclassified subsequently to profit and loss			
Current tax credit relating to exercised share options	6	**6**	70
Deferred tax relating to share options	7	**25**	(6)
		31	64
Items that may be reclassified subsequently to profit and loss			
Net exchange differences on translation of foreign operations		**(247)**	(195)
Other comprehensive expense for the year, net of income tax		**(216)**	(131)
Total comprehensive income for the year attributable to the equity holders of the parent		**9,396**	9,919

GROUP BALANCE SHEET

as at 31 August 2018

	Note	2018 £000's	2017 £000's
Non – current assets			
Intangible assets – product development	10	**803**	698
Investment property	11	**1,715**	1,780
Property, plant and equipment	12	**3,130**	3,204
Deferred tax assets	7	**469**	607
		6,117	6,289
Current assets			
Inventories	14	**10,890**	8,994
Trade and other receivables	15	**25,555**	25,817
Current income tax receivable	16	**14**	8
Derivative financial instruments	17	**167**	24
Cash and cash equivalents	18	**34,630**	28,752
		71,256	63,595
Current liabilities			
Short term borrowings	19	**(19,050)**	(17,216)
Trade and other payables	20	**(24,666)**	(22,700)
Income tax	16	**(1,123)**	(2,369)
Derivative financial instruments	17	**(770)**	(768)
		(45,609)	(43,053)
Net current assets		**25,647**	20,542
Non-current liabilities			
Deferred tax	7	**(3)**	(3)
Net assets		**31,761**	26,828
Equity			
Called up share capital	24	**1,195**	1,211
Shares held in treasury		**(2,242)**	(2,743)
Capital redemption reserve		**1,762**	1,745
Share based payment reserve		**2,990**	2,928
Share premium account		**16,258**	15,483
Merger reserve		**651**	651
Translation reserve		**898**	1,145
Profit and loss account		**10,249**	6,408
Total equity attributable to equity holders of the parent		**31,761**	26,828

The financial statements on pages 27 to 63 were approved by the Board of Directors on 19 December 2018.

J J Diver
Joint Managing Director

K P Shah
Joint Managing Director and Group Finance Director

COMPANY BALANCE SHEET

as at 31 August 2018

	Note	2018 £000's	2017 £000's
Non – current assets			
Property, plant and equipment	12	**362**	418
Investments in subsidiaries	13	**3,650**	3,589
Deferred tax assets	7	**156**	309
		4,168	4,316
Current assets			
Trade and other receivables	15	**27,820**	16,191
Cash and cash equivalents	18	**3,695**	5,571
		31,515	21,762
Current liabilities			
Trade and other payables	20	**(964)**	(1,027)
Net current assets		**30,551**	20,735
Net assets		**34,719**	25,051
Equity			
Called up share capital	24	**1,195**	1,211
Shares held in treasury		**(2,242)**	(2,743)
Capital redemption reserve		**1,762**	1,745
Share based payment reserve		**2,990**	2,928
Share premium account		**16,258**	15,483
Profit and loss account		**14,756**	6,427
Total equity attributable to equity holders of the parent		**34,719**	25,051

The financial statements on pages 27 to 63 were approved by the Board of Directors on 19 December 2018.

J J Diver
Joint Managing Director

K P Shah
Joint Managing Director and Group Finance Director

GROUP AND COMPANY CASH FLOW STATEMENT

for the year ended 31 August 2018

		Group		Company	
	Note	**2018 £000's**	2017 £000's	**2018 £000's**	2017 £000's
Cash flow from operating activities					
Profit before taxation for the year after significant items		**11,747**	12,238	**14,284**	5,705
Adjustments for:					
Depreciation of property, plant and equipment	12	**398**	401	**56**	56
Depreciation of investment property	11	**65**	65	**-**	-
Amortisation of intangible assets	10	**1,463**	1,969	**-**	-
(Profit) on disposal of property, plant and equipment		**(8)**	(6)	**-**	-
Net interest expense	5	**46**	147	**10**	10
Financial instruments fair value adjustments	17	**(141)**	1,188	**-**	-
Share based payments	25	**62**	150	**1**	67
(Increase) / Decrease in inventories		**(1,896)**	1,309	**-**	-
Decrease /(Increase) in trade and other receivables		**262**	(735)	**(11,629)**	1,368
Increase / (Decrease) in trade and other creditors		**1,966**	(2,718)	**(63)**	(316)
Cash generated from operations		**13,964**	14,008	**2,659**	6,890
Net interest paid	5	**(46)**	(147)	**(10)**	(10)
Income tax paid	5	**(3,219)**	(1,075)	**-**	-
Net cash inflow from operating activities		**10,699**	12,786	**2,649**	6,880
Cash flows from investing activities					
Payments for intangible assets	10	**(1,568)**	(1,550)	**-**	-
Payments for property, plant and equipment	12	**(326)**	(249)	**-**	(3)
Proceeds from disposal of property, plant and equipment		**11**	7	**-**	-
Net cash outflow from investing activities		**(1,883)**	(1,792)	**-**	(3)
Cash flows from financing activities					
Proceeds from issue of share capital		**1,277**	37	**1,277**	37
Purchase of own shares for cancellation		**(1,367)**	(2,597)	**(1,367)**	(2,597)
Dividends paid	9	**(4,435)**	(3,600)	**(4,435)**	(3,600)
Net cash used in financing activities		**(4,525)**	(6,160)	**(4,525)**	(6,160)
Net increase/(decrease) in cash and cash equivalents		**4,291**	4,834	**(1,876)**	717
Cash, cash equivalents and borrowings at the beginning of the year		**11,536**	6,913	**5,571**	4,854
Effects of exchange rate movements		**(247)**	(211)	**-**	-
Cash, cash equivalents and borrowings at the end of the year		**15,580**	11,536	**3,695**	5,571

Cash, cash equivalents and borrowings consist of:

Cash and cash equivalents	18	**34,630**	28,752	**3,695**	5,571
Short term borrowings	19	**(19,050)**	(17,216)	**-**	-
Cash, cash equivalents and borrowings at the end of the year		**15,580**	11,536	**3,695**	5,571

GROUP STATEMENT OF CHANGES IN EQUITY

for the year ended 31 August 2018

	Note	Called up share capital £000's	Shares held in treasury £000's	Capital redemption reserve £000's	Share premium account £000's	Merger reserve £000's	Share based payment reserve £000's	Translation reserve £000's	Profit and loss account £000's	Total £000's
The Group										
At 1 September 2016		**1,235**	**(2,743)**	**1,717**	**15,450**	**651**	**2,778**	**1,274**	**2,557**	**22,919**
Profit for the year after tax		-	-	-	-	-	-	-	10,050	10,050
Other comprehensive (expense)/income										
Net Exchange differences on translation of foreign operations		-	-	-	-	-	-	(129)	(66)	(195)
Deferred tax credit relating to share options	7	-	-	-	-	-	-	-	(6)	(6)
Current tax credit relating to exercised share options	6	-	-	-	-	-	-	-	70	70
Total other comprehensive expense								**(129)**	**(2)**	**(131)**
Total comprehensive income for the year								**(129)**	**10,048**	**9,919**
Transactions with owners, recorded directly in equity										
Share-based payment	25	-	-	-	-	-	150	-	-	150
Dividends	9	-	-	-	-	-	-	-	(3,600)	(3,600)
Shares issued	24	4	-	-	33	-	-	-	-	37
Shares cancelled	24	(28)	-	28	-	-	-	-	(2,597)	(2,597)
At 31 August 2017		**1,211**	**(2,743)**	**1,745**	**15,483**	**651**	**2,928**	**1,145**	**6,408**	**26,828**
Profit for the year after tax		-	-	-	-	-	-	-	9,612	9,612
Other comprehensive (expense)/income										
Net Exchange differences on translation of foreign operations		-	-	-	-	-	-	(247)	-	(247)
Deferred tax credit relating to share options	7	-	-	-	-	-	-	-	25	25
Current tax credit relating to exercised share options	6	-	-	-	-	-	-	-	6	6
Total other comprehensive expense								**(247)**	**31**	**(216)**
Total comprehensive income for the year								**(247)**	**9,643**	**9,396**
Transactions with owners, recorded directly in equity										
Share-based payment	25	-	-	-	-	-	62	-	-	62
Dividends	9	-	-	-	-	-	-	-	(4,435)	(4,435)
Shares issued	24	1	501	-	775	-	-	-	-	1,277
Shares cancelled	24	(17)	-	17	-	-	-	-	(1,367)	(1,367)
At 31 August 2018		**1,195**	**(2,242)**	**1,762**	**16,258**	**651**	**2,990**	**898**	**10,249**	**31,761**

COMPANY STATEMENT OF CHANGES IN EQUITY

for the year ended 31 August 2018

	Note	Called up share capital £000's	Shares held in treasury £000's	Capital redemption reserve £000's	Share premium account £000's	Share based payment reserve £000's	Profit and loss account £000's	Total £000's
At 1 September 2016		1,235	(2,743)	1,717	15,450	2,778	6,909	25,346
Profit for the year		-	-	-	-	-	5,721	5,721
Total comprehensive income for the year		**-**	**-**	**-**	**-**	**-**	**5,721**	**5,721**
Transactions with owners, recorded directly in equity								
Shares issued	24	4	-	-	33	-	-	37
Shares cancelled	24	(28)	-	28	-	-	(2,597)	(2,597)
Share-based payment – Company	25	-	-	-	-	67	-	67
Share-based payment – Subsidiary undertaking	25	-	-	-	-	83	-	83
Deferred tax on share options	7	-	-	-	-	-	(6)	(6)
Dividend paid	9	-	-	-	-	-	(3,600)	(3,600)
At 31 August 2017		**1,211**	**(2,743)**	**1,745**	**15,483**	**2,928**	**6,427**	**25,051**
At 1 September 2017		1,211	(2,743)	1,745	15,483	2,928	6,427	25,051
Profit for the year		-	-	-	-	-	14,106	14,106
Total comprehensive income for the year		**-**	**-**	**-**	**-**	**-**	**14,106**	**14,106**
Transactions with owners, recorded directly in equity								
Shares issued	24	1	501	-	775	-	-	1,277
Shares cancelled	24	(17)	-	17	-	-	(1,367)	(1,367)
Share-based payment – Company	25	-	-	-	-	1	-	1
Share-based payment – Subsidiary undertaking	25	-	-	-	-	61	-	61
Deferred tax on share options	7	-	-	-	-	-	25	25
Dividend paid	9	-	-	-	-	-	(4,435)	(4,435)
At 31 August 2018		**1,195**	**(2,242)**	**1,762**	**16,258**	**2,990**	**14,756**	**34,719**

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 traded on the AIM Market of the London Stock Exchange.

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

Standards, amendments and interpretations in issue not yet adopted

The following new standards, amendments and interpretations are yet to become mandatory and have not been applied in the Group's consolidated financial statements for the year ended 31 August 2018.

	Effective for annual periods beginning on or after:
IAS 40 (amendment) Transfers of Investment Property	- 1 January 2018
IFRS 2 (amendment) Classification and Measurement of Share Based Payment Transactions	- 1 January 2018
IFRS 9 Financial Instruments	- 1 January 2018
IFRS 15 Revenue from Contracts with Customers	- 1 January 2018
IFRS 16 Leases	- 1 January 2019
IFRC 22 Foreign Currency Transactions and Advance Consideration	- 1 January 2018

Work has been done to assess the impact of the new standards and interpretations on the Group's Financial Statements. The Group's current accounting policies and practices are substantially in line with IFRS 9 and IFRS 15. The Group does not anticipate a material impact on the financial statements on the adoption of the new standards.

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.

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 are included in significant items. Further details are provided in note 17 on page 53.

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 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. Reserves for allowances are established on management's best estimate of the amounts necessary to meet claims by the Group's customers.

Fair value of derivatives

The Group uses derivatives to mitigate risks arising from foreign exchange. The calculation of fair value of derivatives is based on prevailing market conditions at the date of valuation and appropriate valuation models. The use of different market assumptions and/or valuation models may have a material effect on the estimated fair value amounts. The Group's derivative financial instruments are disclosed in note 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's business in the UK and Far East is the design, development and international distribution of toys, games and gifts.

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

Year Ended 31 August 2018	UK £000's	Far East £000's	Unallocated £000's	Total £000's
Revenue - external (by origin)	73,518	32,711	–	106,229
Segment adjusted operating profit	6,885	6,447	(155)	13,177
Amortisation of intangible assets	–	–	–	(1,463)
Financial instruments fair value adjustments	–	–	–	141
Share based payments	–	–	–	(62)
Operating Profit after significant items				11,793
Finance costs				(91)
Finance income				45
Profit before tax				11,747
Taxation				(2,135)
Profit for the year after tax				9,612
Segment assets	57,082	14,784	5,507	77,373
Segment liabilities	(29,288)	(14,603)	(1,721)	(45,612)
Other segment information				
Non-current assets	1,971	2,512	1,165	5,648
Capital additions	306	20	–	326
Capital disposals	(62)	(40)	–	(102)
Depreciation of property, plant and equipment	(270)	(72)	(56)	(398)
Depreciation of investment property	–	(65)	–	(65)

Analysis of unallocated assets and liabilities:

Assets	Total £000's	Liabilities	Total £000's
Corporate assets	362	Corporate creditors & accruals	(951)
Derivative financial instruments	167	Derivative financial instruments	(770)
Deferred tax asset	271		
Corporate cash at bank and in hand	3,695		
Intangible assets – product development	803		
Corporate debtors & prepayments	209		
Unallocated assets	**5,507**	**Unallocated liabilities**	**(1,721)**

Unallocated expenses comprise corporate expenses.

2 SEGMENT REPORT - GROUP

Year Ended 31 August 2017	UK £000's	Far East £000's	Unallocated £000's	Total £000's
Revenue - external (by origin)	68,363	46,956	–	115,319
Segment adjusted operating profit	7,591	8,297	(196)	15,692
Amortisation of intangible assets	–	–	–	(1,969)
Financial instruments fair value adjustments	–	–	–	(1,188)
Share based payments	–	–	–	(150)
Operating Profit after significant items				12,385
Finance costs				(204)
Finance income				57
Profit before tax				12,238
Taxation				(2,188)
Profit for the year after tax				10,050
Segment assets	46,954	15,498	7,432	69,884
Segment liabilities	(25,054)	(16,220)	(1,782)	(43,056)
Other segment information				
Non-current assets	1,937	2,629	1,116	5,682
Capital additions	197	49	3	249
Capital disposals	(65)	(8)	–	(73)
Depreciation of property, plant and equipment	(275)	(70)	(56)	(401)
Depreciation of investment property	–	(65)	–	(65)

Analysis of unallocated assets and liabilities:

Assets	Total £000's	Liabilities	Total £000's
Corporate assets	418	Corporate creditors & accruals	(1,014)
Derivative financial instruments	24	Derivative financial instruments	(768)
Deferred tax asset	450		
Corporate cash at bank and in hand	5,571		
Intangible assets – product development	698		
Corporate debtors & prepayments	271		
Unallocated assets	**7,432**	**Unallocated liabilities**	**(1,782)**

Unallocated expenses comprise corporate expenses.

GEOGRAPHICAL DESTINATION OF REVENUE

	31 August 2018 £000's	31 August 2017 £000's
United Kingdom	**87,106**	86,750
Rest of the world	**19,123**	28,569
Total Group	**106,229**	115,319

Revenues of approximately £33,244,000 (2017: £40,083,000) were derived from 2 (2017: 3) 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 2018 £000's**	12 months to 31 August 2017 £000's
Operating profit is stated after charging/(crediting):			
Cost of inventories recognised as an expense (included in cost of sales)		**60,904**	70,209
Product development costs incurred		**1,805**	1,594
Product development costs capitalised		**(1,568)**	(1,550)
Amortisation of capitalised product development costs		**1,463**	1,969
Product development costs expensed to cost of sales		**1,700**	2,013
(Credit) / Charge financial instruments fair value adjustments		**(141)**	1,188
Inventories write down / (credit)		**901**	(437)
Exchange losses		**48**	59
Staff costs	4	**10,990**	11,135
Depreciation of tangible fixed assets			
- owned assets	12	**398**	401
Depreciation of investment property	11	**65**	65
(Profit) on disposal of property, plant and equipment		**(8)**	(6)
Operating leases — land and buildings		**366**	371
Auditor remuneration		**88**	91

ANALYSIS OF AUDITOR'S REMUNERATION

		12 months to 31 August 2018 £000's	12 months to 31 August 2017 £000's
Group Auditor's remuneration			
	— Statutory audit services current year	**36**	36
	— Interim review and other assurance services	**7**	8
Other Auditors' remuneration			
	— Statutory audit of the Group's subsidiaries	**39**	42
	— Taxation compliance	**6**	5
Total fees payable to Auditors		**88**	91

4 DIRECTORS AND EMPLOYEES REMUNERATION STAFF COSTS - GROUP

	12 months to 31 August 2018 £000's	12 months to 31 August 2017 £000's
Staff costs including directors' emoluments		
Wages and salaries	**9,655**	9,751
Social security costs	**942**	923
Pension costs	**331**	311
Share based payments	**62**	150
	10,990	11,135
The average number of employees during the year was:	**Number**	Number
Management and administration	**73**	76
Selling and distribution	**113**	117
	186	193

Of the total average number of employees, 122 (2017: 127) were based in the UK and 64 (2017: 66) in Hong Kong and mainland China.

The amount payable to pension schemes as at the balance sheet date was £8,000 (2017: £8,000).

4 DIRECTORS AND EMPLOYEES REMUNERATION CONTINUED
KEY MANAGEMENT PERSONNEL

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

	12 months to 31 August 2018 £000's	12 months to 31 August 2017 £000's
Salaries, short-term benefits and pension contribution	**3,618**	3,906
Share-based payments	**9**	30
	3,627	3,936

ANALYSIS OF DIRECTORS' REMUNERATION

The following table shows a breakdown of the remuneration of the directors for the year ended 31 August 2018 and the year ended 31 August 2017.

Year ended 31 August 2018

	Salary/fees £	**Performance bonus £**	**Benefits in kind £**	**Pension contribution £**	**Total £**
R King (non-executive)	100,000	-	15,444	-	115,444
J J Diver	245,916	845,170	9,882	-	1,100,968
K P Shah	245,916	613,170	10,488	-	869,574
J J P Kissane	215,592	450,168	7,220	-	672,980
M S Hyde	246,289	246,289	4,327	16,103	513,008
M T Dowding*	31,865	-	650	-	32,515
J Healy	114,112	118,000	4,805	11,411	248,328
D Harris (non-executive)	32,500	-	-	-	32,500
C Crouch (non-executive)	32,500	-	-	-	32,500
	1,264,690	2,272,797	52,816	27,514	3,617,817

Year ended 31 August 2017

	Salary/fees £	Performance bonus £	Benefits in kind £	Pension contribution £	Total £
R King (non-executive)	100,000	-	13,507	-	113,507
J J Diver	245,916	1,015,751	9,489	-	1,271,156
K P Shah	245,916	723,052	8,210	-	977,178
J J P Kissane	215,592	523,636	7,118	-	746,346
M S Hyde	264,112	128,094	4,820	12,190	409,216
M T Dowding*	110,000	-	1,338	-	111,338
J Healy	106,340	106,340	4,491	10,232	227,403
D Harris (non-executive)	25,000	-	-	-	25,000
C Crouch (non-executive)	25,000	-	-	-	25,000
	1,337,876	2,496,873	48,973	22,422	3,906,144

* M T Dowding's employment and office as a director terminated on 14 September 2017.

In the year ended 31 August 2018 certain of the directors received remuneration (which is included in the amounts above) through payments by the Group to third parties as follows: £75,000 was paid to Bali Hai Consultancies for part of the services of R King (2017: £75,000); £32,500 was paid to Clive Crouch Media Insight Limited for the services of C Crouch (2017: £25,000); £32,500 was paid to Inva Trust Consultancy Limited for the services of D Harris (2017: £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 to J Healy at a price of 35.5 pence per share over 72,000 new Ordinary Shares. These options were granted under the Company's 2006 Share Option Plan (the "2006 Plan") and were exercisable no earlier than three years and not later than ten years from the date of grant and vested in three equal tranches, upon the achievement of predetermined profit related performance targets. On 12 December 2016 J Healy exercised this option entitlement in full. The mid-market price of an issued Ordinary Share on the day of exercise was 525 pence, and the net gain amounted to £352,440.

On 25 September 2014, options were granted under the 2006 Plan at a price of 213 pence per share to M S Hyde and J Healy respectively over 100,000 and 72,000 existing Ordinary Shares held by the Company in treasury. Such options were subject to satisfaction of a predetermined, profit related performance target, which has been satisfied, and became exercisable three years following the date of grant and will remain exercisable until the tenth anniversary of the date of grant. On 5 January 2018, M S Hyde exercised his option entitlement in respect of 100,000 Ordinary Shares in full. The mid-market price of an issued Ordinary Share on the day of exercise was 452.5 pence, and the net gain amounted to £239,500.

On 5 June 2018, options were granted under the Company's 2017 Share Option Plan at a price of 520 pence per share to M S Hyde and J Healy respectively over 100,000 and 72,000 existing Ordinary Shares held by the Company in treasury. Such options were subject to satisfaction of a predetermined profit related performance target, which has been satisfied, and will become exercisable three years following the date of grant and will remain exercisable until the tenth anniversary of the date of grant.

At 31 August 2018, the mid-market price of an issued Ordinary Share in The Character Group plc was 520 pence. During the year the mid-market price ranged from 385 pence to 540 pence.

5 NET FINANCE COSTS – GROUP

	12 months to 31 August 2018 £000's	12 months to 31 August 2017 £000's
Finance costs:		
Interest payable on bank overdraft and similar charges	**(68)**	(178)
Factor and invoice discounting advances	**(23)**	(26)
	(91)	(204)
Finance income:		
Interest earned on cash and cash equivalents	**45**	57
Net finance costs	**(46)**	(147)

6 TAXATION - GROUP

	Note	**12 months to 31 August 2018 £000's**	12 months to 31 August 2017 £000's
UK Corporation Tax			
Tax on profit for the period		**1,013**	1,339
Adjustments to tax charge in respect of previous periods		**(1)**	(73)
Total UK corporation tax		**1,012**	1,266
Foreign Tax			
Tax on profit for the period		**965**	1,163
Adjustments to tax charge in respect of previous periods		**(5)**	(6)
Total foreign tax		**960**	1,157
Total current tax		**1,972**	2,423
Deferred Tax			
Origination and reversal of timing differences	7	**163**	(235)
Total deferred tax		**163**	(235)
Tax on profit on ordinary activities		**2,135**	2,188
Factors affecting tax charge for the period			
Profit on ordinary activities before taxation		**11,747**	12,238
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 19% (2017: 19.581%)		**2,232**	2,396
Effects of:			
Unrecognised timing differences		**7**	84
(Income)/expenses (not chargeable)/deductible for tax purposes		**40**	35
Capital allowances less than depreciation		**20**	34
Lower tax rate on overseas earnings		**(162)**	(287)
Tax losses not recognised for deferred tax		**4**	1
Effect of change of tax rate		**-**	4
Adjustments to tax charge in respect of previous periods		**(6)**	(79)
Tax charge reported in the income statement		**2,135**	2,188

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

Income tax credit on exercise of employee share options	**(6)**	(70)
Income tax credit on exchange losses on intra Group balances	**-**	(16)
Deferred tax on share options	**(25)**	6
Net tax credit to equity	**(31)**	(80)

The Finance Bill 2015 was substantively enacted on 26 October 2015 and reduced the Corporation Tax rate to 19% with effect from 1 April 2017 and 18% from 1 April 2020. The Finance Bill 2016 was substantively enacted on 6 September 2016 and further reduced the applicable rate from 1 April 2020 to 17%. The deferred tax assets and liabilities at 31 August 2018 have been calculated based on a tax rate of 19%.

7 DEFERRED INCOME TAX – GROUP

Deferred tax is calculated on temporary differences under the liability method using a tax rate of 19% (2017: 19%) for UK differences and local rates for overseas differences.

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

	2018 £000's	2017 £000's
As at 1 September	**604**	375
(Charge) / Credit to the income statement	**(163)**	235
Credit / (Charge) to equity	**25**	(6)
As at 31 August	**466**	604

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	
	2018 £000's	2017 £000's	2018 £000's	2017 £000's
Property, plant and equipment	**35**	36	**-**	-
Employee share scheme charges	**152**	307	**-**	-
Derivative financial instruments	**115**	141	**-**	-
Inventories	**167**	123	**-**	-
Short term timing differences	**-**	-	**(3)**	(3)
Tax assets/(liabilities)	**469**	607	**(3)**	(3)
Net tax asset	**466**	604	**-**	-

Movement in recognised deferred tax during the year:

	1 September 2017 £000's	Recognised in income £000's	Recognised in equity £000's	31 August 2018 £000's
Property, plant and equipment	36	(1)	-	**35**
Derivative financial instruments	141	(26)	-	**115**
Inventories	123	44	-	**167**
Employee share scheme charges	307	(180)	25	**152**
Short term timing differences	(3)	-	-	**(3)**
	604	**(163)**	**25**	**466**

Movement in recognised deferred tax during the prior year:

	1 September 2016 £000's	Recognised in income £000's	Recognised in equity £000's	31 August 2017 £000's
Product development	(95)	95	-	-
Property, plant and equipment	42	(6)	-	36
Derivative financial instruments	-	141	-	141
Inventories	133	(10)	-	123
Employee share scheme charges	299	14	(6)	307
Short term timing differences	(4)	1	-	(3)
	375	235	(6)	604

Deferred tax assets amounting to £17,000 (2017: £17,000) 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	
	2018	2017	**2018**	2017
	£000's	£000's	**£000's**	£000's
Employee share scheme charges	**152**	307	**-**	-
Property, plant and equipment	**4**	2	**-**	-
Tax assets	**156**	309	**-**	-
Net tax asset	**156**	309	**-**	-

Movement in recognised deferred tax during the year:

	1 September 2017 £000's	Recognised in income £000's	Recognised in equity £000's	31 August 2018 £000's
Employee share scheme charges	307	(180)	25	**152**
Property, plant and equipment	2	2	-	**4**
	309	**(178)**	**25**	**156**

Movement in recognised deferred tax during the prior year:

	1 September 2016 £000's	Recognised in income £000's	Recognised in equity £000's	31 August 2017 £000's
Employee share scheme charges	299	14	(6)	307
Short term timing differences	-	2	-	2
	299	16	(6)	309

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 2018 Profit after taxation £	Year Ended 31 August 2017 Profit after taxation £
Profit attributable to equity shareholders of the parent	**9,612,000**	10,050,000
Financial instruments fair value adjustments net of tax	**(114,000)**	958,000
Profit for adjusted earnings per share	**9,498,000**	11,008,000
In issue during the year – basic	**21,065,941**	21,175,949
Dilutive potential ordinary shares	**337,283**	618,399
Weighted average number of ordinary shares for diluted earnings per share	**21,403,224**	21,794,348
Earnings per share before significant items		
Basic earnings per share (pence)	**45.09p**	52.01p
Diluted earnings per share (pence)	**44.38p**	50.54p
Earnings per share after significant items		
Basic earnings per share (pence)	**45.63p**	47.46p
Diluted earnings per share (pence)	**44.91p**	46.11p

9 DIVIDEND - GROUP

	12 months to 31 August 2018 £000's	12 months to 31 August 2017 £000's
On equity shares:		
Final dividend paid for the year ended 31 August 2017		
— 10.00 pence (2016: 8.00 pence) per share	**2,101**	1,697
Interim dividend paid for the year ended 31 August 2018		
— 11.00 pence (2017: 9.00 pence) per share	**2,334**	1,903
21.00 pence (2017: 17.00 pence) per share	**4,435**	3,600

The directors recommend a final dividend of 12.00 pence per share (2017: 10.00 pence) amounting to £2,529,000 (2017: £2,091,000). If approved by shareholders, the final dividend will be paid on 29 January 2019 to shareholders on the register on 4 January 2019.

10 INTANGIBLE FIXED ASSETS - GROUP
PRODUCT DEVELOPMENT

Cost	Total £000's
1 September 2016	**3,764**
Additions	**1,550**
Write off fully amortised assets	(1,559)
31 August 2017	**3,755**
Additions	**1,568**
Write off fully amortised assets	(2,205)
31 August 2018	**3,118**
Amortisation	
1 September 2016	**2,647**
Charge for the year	1,969
Write off fully amortised assets	(1,559)
31 August 2017	**3,057**
Charge for the year	1,463
Write off fully amortised assets	(2,205)
31 August 2018	**2,315**
Net book value	
31 August 2018	**803**
31 August 2017	698

11 INVESTMENT PROPERTY - GROUP

Cost	Total £000's
1 September 2016, 1 September 2017 and 31 August 2018	**2,194**
Depreciation	
1 September 2016	**349**
Charge for the year	65
1 September 2017	**414**
Charge for the year	65
31 August 2018	**479**
Net book value	
31 August 2018	**1,715**
31 August 2017	1,780

The investment property is held at depreciated historical cost which, in the opinion of the directors, at 31 August 2018 approximates its open market value. During the year the Group received gross rental income of £231,000 (2017: £256,000) and incurred expenses of £2,000 (2017: £13,000). The property was occupied throughout the current and previous year.

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 2016	**3,904**	**147**	**2,200**	**350**	**6,601**
Additions	–	38	179	32	249
Disposals	–	–	(20)	(53)	(73)
Translation differences	–	1	2	–	3
31 August 2017	**3,904**	**186**	**2,361**	**329**	**6,780**
Additions	–	4	196	126	326
Write off fully depreciated assets	–	–	(40)	–	(40)
Disposals	–	–	–	(62)	(62)
Translation differences	–	2	3	–	5
31 August 2018	**3,904**	**192**	**2,520**	**393**	**7,009**
Depreciation					
1 September 2016	**1,087**	**139**	**1,815**	**203**	**3,244**
Charge for the year	105	12	213	71	401
Disposals	–	–	(19)	(53)	(72)
Translation differences	–	1	2	–	3
31 August 2017	**1,192**	**152**	**2,011**	**221**	**3,576**
Charge for the year	105	15	202	76	398
Wright off fully depreciated assets	–	–	(40)	–	(40)
Disposals	–	–	–	(59)	(59)
Translation differences	–	2	2	–	4
31 August 2018	**1,297**	**169**	**2,175**	**238**	**3,879**
Net book value					
31 August 2018	**2,607**	**23**	**345**	**155**	**3,130**
31 August 2017	2,712	34	350	108	3,204

TANGIBLE FIXED ASSETS - COMPANY

Cost	Freehold land and buildings £000's	Fixtures, fittings and equipment £000's	Total £000's
1 September 2016	1,182	248	1,430
Additions	–	3	3
31 August 2017	**1,182**	**251**	**1,433**
Additions	–	–	–
31 August 2018	**1,182**	**251**	**1,433**
Depreciation			
1 September 2016	745	214	959
Charge for the year	40	16	56
31 August 2017	**785**	**230**	**1,015**
Charge for the year	40	16	56
31 August 2018	**825**	**246**	**1,071**
Net book value			
31 August 2018	**357**	**5**	**362**
31 August 2017	397	21	418

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 2016	3,195	2,207	5,402
Share based payment	–	83	83
At 31 August 2017	3,195	2,290	5,485
Share based payment	–	61	61
At 31 August 2018	**3,195**	**2,351**	**5,546**
Amortisation and provisions			
1 September 2017 and 31 August 2018	1,896	–	1,896
Charge for the year	–	–	–
At 31 August 2018	**1,896**	–	**1,896**
Net book value			
31 August 2018	**1,299**	**2,351**	**3,650**
31 August 2017	1,299	2,290	3,589

At 31 August 2018, 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

	2018 £000's	2017 £000's
Finished goods for resale	**10,890**	8,994

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

15 TRADE AND OTHER RECEIVABLES – GROUP AND COMPANY

	Group		Company	
	2018	2017	**2018**	2017
	£000's	£000's	**£000's**	£000's
Current:				
Trade receivables	**22,516**	23,287	**–**	–
Less provision for impairment	**(150)**	(150)	**–**	–
Trade receivables - net	**22,366**	23,137	**–**	–
Due from subsidiary undertakings	**–**	–	**27,611**	15,920
Other receivables	**991**	1,033	**18**	71
	23,357	24,170	**27,629**	15,991
Prepayments	**2,198**	1,647	**191**	200
	25,555	25,817	**27,820**	16,191

Finance advances received against gross trade receivables (shown below) under the recourse invoice discounting facility amounting to £19,050,000 (2017: £16,419,000) 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.

Net trade receivables can be analysed as follows:

	2018	2017
	£000's	£000's
Fully performing	**21,725**	22,278
Past due	**641**	859
Trade receivables	**22,366**	23,137

Ageing of past due, not impaired, receivables:

	2018	2017
	£000's	£000's
1 – 90 days	**641**	859

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:

	2018	2017
	£000's	£000's
Pounds Sterling	**16,871**	15,139
US Dollars	**5,493**	7,865
Euros	**2**	133
	22,366	23,137

16 INCOME TAX RECOVERABLE/ (PAYABLE) - GROUP

	2018		2017	
	Assets	**Liabilities**	Assets	Liabilities
	£000's	**£000's**	£000's	£000's
UK income tax	**–**	**(533)**	–	(775)
Overseas income tax	**14**	**(590)**	8	(1,594)
	14	**(1,123)**	8	(2,369)

17 DERIVATIVE FINANCIAL INSTRUMENTS - GROUP

Numerical financial instrument disclosures are set out below. Additional disclosures are set out in the accounting policies in notes 1 and 21 and note 22 relating to risk management.

	2018		2017	
	Assets £000's	**Liabilities £000's**	Assets £000's	Liabilities £000's
Forward foreign exchange contracts and options	**167**	**(770)**	24	(768)
	167	**(770)**	24	(768)

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	
	2018 £000's	2017 £000's	**2018 £000's**	2017 £000's
Cash and cash equivalents	**34,630**	28,752	**3,695**	5,571

Cash and cash equivalents are denominated in the following currencies:

Currency – floating rate financial assets	**2018 £000's**	2017 £000's	**2018 £000's**	2017 £000's
Sterling	**27,845**	21,904	**3,608**	5,385
US$	**5,540**	5,803	**81**	198
Euro	**346**	263	**6**	(12)
HKS$	**815**	699	**–**	–
Polish Zloty	**27**	13	**–**	–
Chinese Renminbi	**57**	70	**–**	–
Total	**34,630**	28,752	**3,695**	5,571

Bank overdrafts and short term loans are aggregated with cash and cash equivalents where there is a right of set-off. At 31 August 2018, the balances attracted interest at rates of between 0.05% and 1.7%.

19 SHORT TERM BORROWINGS - GROUP

	2018 £000's	2017 £000's
Finance Advances	**19,050**	16,419
Import Loans	**–**	797
Total	**19,050**	17,216

Analysis of short term borrowings by currency

	2018 £000's	2017 £000's
Sterling	**17,476**	15,393
US$	**1,574**	1,823
Total	**19,050**	17,216

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 of £6 million and a trade finance facility of £15.0 million which expire within one year; these are repayable on demand. A UK subsidiary has an ongoing recourse invoice discounting facility of £20 million.

The interest charged on these facilities is 1.43% per annum over LIBOR or bank base rate. The facilities are secured by various fixed and floating charges over the assets and undertakings of the Company and certain subsidiaries.

Certain Far East subsidiaries have bank overdraft and trade finance facilities equivalent to approximately £17.9 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 £1.2 million (2017: £1.0 million), which has been included in cash and cash equivalents.

20 TRADE AND OTHER PAYABLES – GROUP AND COMPANY

	Group		Company	
	2018 £000's	2017 £000's	**2018 £000's**	2017 £000's
Trade creditors	**15,551**	13,181	**–**	–
Due to subsidiary undertakings	**–**	–	**13**	13
Other taxation and social security	**1,229**	1,161	**102**	130
Accruals and deferred income	**7,886**	8,358	**849**	884
	24,666	22,700	**964**	1,027

21 FINANCIAL INSTRUMENTS - GROUP

Financial assets		**31 August 2018**			31 August 2017		
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**	**23,357**	–	**23,357**	24,163	–	24,163
Derivative financial instruments	**17**	**167**	**167**	–	24	24	–
Cash and cash equivalents	**18**	**34,630**	–	**34,630**	28,752	–	28,752
		58,154	**167**	**57,987**	52,939	24	52,915

Financial liabilities		**31 August 2018**			31 August 2017		
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**	**15,551**	–	**15,551**	13,181	–	13,181
Derivative financial instruments	**17**	**770**	**770**	–	768	768	–
Short term borrowings	**19**	**19,050**	–	**19,050**	17,216	–	17,216
		35,371	**770**	**34,601**	31,165	768	30,397

FINANCIAL INSTRUMENTS - COMPANY

Financial assets Current financial assets	Note	31 August 2018 Total £000's	Held at fair value through Profit & loss £000's	Loans and receivables £000's	31 August 2017 Total £000's	Held at fair value through Profit & loss £000's	Loans and receivables £000's
Trade and other receivables	15	27,629	–	27,629	15,991	–	15,991
Derivative financial instruments	17	–	–	–	–	–	–
Cash and cash equivalents	18	3,695	–	3,695	5,571	–	5,571
		31,324	–	31,324	21,562	–	21,562

Financial liabilities Current financial liabilities	Note	31 August 2018 Total £000's	Held at fair value through Profit & loss £000's	Financial liabilities at amortised cost £000's	31 August 2017 Total £000's	Held at Fair value through Profit & loss £000's	Financial liabilities at amortised cost £000's
Trade and other payables	20	13	–	13	13	–	13
Derivative financial instruments	17	–	–	–	–	–	–
Short term borrowings	19	–	–	–	–	–	–
		13	–	13	13	–	13

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.

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**	
2018	**Total Equity £000's**	**Profit or (Loss) £000's**	**Total Equity £000's**	**Profit or (Loss) £000's**
Euro	**(57)**	**(57)**	**57**	**57**
US$	**(3,643)**	**(3,643)**	**566**	**566**
HK$	**242**	**242**	**(242)**	**(242)**
	(3,458)	**(3,458)**	**381**	**381**

	Sterling strengthening		Sterling weakening	
2017	Total Equity £000's	Profit or (Loss) £000's	Total Equity £000's	Profit or (Loss) £000's
Euro	(34)	(34)	34	34
US$	(6,474)	(6,474)	346	346
HK$	596	596	(596)	(596)
	(5,912)	(5,912)	(216)	(216)

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	**2018 £000's**	2017 £000's	**2018 £000's**	2017 £000's
Trade receivables	**22,366**	23,137	–	–
Due from subsidiary undertakings	–	–	**27,611**	15,920
Other receivables	**991**	1,033	**18**	71
Current tax assets	**14**	8	–	–
Cash	**34,630**	28,752	**3,695**	5,571
	58,001	52,930	**31,324**	21,562

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 £13,871,000 (2017: £13,100,000). 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:

	2018		2017	
	Current £000's	**Non-current within five years £000's**	Current £000's	Non-current within five years £000's
Finance advances	**19,050**	–	16,419	–
Import loans	–	–	797	–
Trade and other payables	**24,666**	–	22,700	–
Current tax liabilities	**1,123**	–	2,369	–
Derivative financial instruments	**770**	–	768	–
Deferred tax liabilities	–	**3**	–	3
	45,609	**3**	43,053	3

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)

	2018 £000's	2017 £000's
Authorised		
110,000,000 (2017: 110,000,000) ordinary shares of 5 pence each	**5,550**	5,550
Allotted, called up and fully paid		
23,892,808* (2017: 24,215,808) ordinary shares of 5 pence each	**1,195**	1,211

* Including 2,672,756 Ordinary Shares held in treasury (2017: 3,269,456).

Share capital movements in the year

15,700 (2017: 79,200) New Ordinary Shares, total nominal value £785 (2017: £3,960), were issued during the year to employees exercising their share options.

596,700 (2017: nil) Ordinary Shares were transferred from treasury during the year to employees exercising their share options.

Date	Number of new Ordinary Shares issued at exercise price of 35.5p	Number of Ordinary Shares transferred from treasury at price of 213.00p
4 September 2017	1,800	–
26 September 2017	–	160,950
13 October 2017	–	12,000
17 October 2017	–	4,000
18 October 2017	–	2,500
20 October 2017	–	6,000
24 October 2017	–	6,000
26 October 2017	–	50,500
21 December 2017	–	19,000
5 January 2018	–	110,000
9 January 2018	–	12,000
15 January 2018	–	14,700
24 January 2018	–	2,400
29 January 2018	–	2,900
1 February 2018	–	500
8 February 2018	–	1,800
13 February 2018	–	700
16 February 2018	–	1,200
20 February 2018	–	52,000
22 February 2018	–	6,200
1 March 2018	–	22,000
9 March 2018	–	2,400
13 March 2018	–	500
16 March 2018	–	8,000
23 March 2018	–	1,200
2 May 2018	–	17,000
10 May 2018	–	15,550
14 May 2018	12,000	16,000
17 May 2018	–	14,600
14 June 2018	–	2,800
20 June 2018	450	–
21 June 2018	–	24,000
20 July 2018	–	3,600
10 August 2018	1,000	–
16 August 2018	450	3,700

24 CALLED UP SHARE CAPITAL (EQUITY) CONTINUED

Share capital movements in the year continued

During the year, the Company repurchased for cancellation 338,700 (2017: 564,402) Ordinary Shares as follows:

Date	Number of shares	Price	% of the issued share capital immediately prior to cancellation (excluding shares held in Treasury)
11 October 2017	50,000	380.00p	0.24%
11 October 2017	70,000	385.00p	0.33%
13 October 2017	112,000	400.00p	0.53%
26 October 2017	50,500	405.00p	0.24%
13 December 2017	25,000	438.00p	0.12%
5 January 2018	10,000	455.00p	0.05%
24 January 2018	21,200	455.00p	0.10%

At 31 August 2018, a total of 2,672,756 Ordinary Shares were held in treasury. (2017: 3,269,456).

Movement in issued capital is as follows:

Ordinary Shares of 5 pence each	2018	2017
In issue at the beginning of the financial year	**24,215,808**	24,701,010
Issued on exercise of share options	**15,700**	79,200
Cancellations	**(338,700)**	(564,402)
In issue at the end of the financial year – fully paid	**23,892,808**	24,215,808

Share options

On 6 May 2009, options over a total of 1,989,027 new Ordinary Shares were granted under the Company's 2006 Share Option Plan (the "2006 Plan") to Group employees, including the executive directors, at an exercise price of 35.5 pence per share.

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

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

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

24 CALLED UP SHARE CAPITAL (EQUITY) CONTINUED

At 31 August 2018, rights to options over 1,252,250 Ordinary Shares of the Company (treated as outstanding) were as follows:

	At 1 September 2017	Granted	Exercised/ lapsed	At 31 August 2018	Exercise Price	Exercise Period
2006 Scheme						
	4,900	–	(4,900)	–	35.50p	6 May 2012 to 5 May 2019
	4,900	–	(4,900)	–	35.50p	6 May 2013 to 5 May 2019
	7,700	–	(7,700)	–	35.50p	6 May 2014 to 5 May 2019
	1,025,800	–	(630,800)	395,000	213.00p	25 September 2017 to 24 September 2024
2017 Scheme						
	–	861,650	(4,400)	857,250	520.00p	5 June 2021 to 4 June 2028
	1,043,300	861,650	(652,700)	1,252,250		

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:

	2018 Number	2018 Weighted average exercise price	2017 Number	2017 Weighted average exercise price
Outstanding at 1 September	**1,043,300**	**210.02p**	1,124,000	198.52p
Granted	**861,650**	**520.00p**	–	–
Exercised	**(612,400)**	**208.45p**	(79,200)	46.71p
Lapsed	**(40,300)**	**238.59p**	(1,500)	213.00p
Outstanding at 31 August	**1,252,250**	**423.16p**	1,043,300	210.02p
Weighted average remaining contractual life in years		**8.7**		7.0

Options over 612,400 Ordinary Shares were exercised in the year (2017: 79,200). The weighted average share price (at the date of exercise) of options exercised during the year was 468.58p (2017: 526.36p).

At 31 August 2018, options over 395,000 Ordinary Shares were exercisable (2017: 17,500).

25 SHARE-BASED PAYMENT

	12 months ended 31 August 2018 £000's	12 months ended 31 August 2017 £000's
Charge for share based payment	**62**	150

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

	2006 Scheme		2017 Scheme
Grant Date	**6 May 2009**	**25 September 2014**	**5 June 2018**
Options outstanding 1 September 2017	17,500	1,025,800	–
Granted	–	–	861,650
Exercised	(15,700)	(596,700)	–
Lapsed	(1,800)	(34,100)	(4,400)
Options outstanding 31 August 2018	–	395,000	857,250
Contract term year(s)	10	10	10
Expected life of option	7	8	8
Exercise & share price at grant	35.50p	213.0p	520.0p
Expected volatility	65% – 75%	25% – 35%	22% – 27%
Annual risk free rate	3.17%	2.502%	1.40%
Annual expected dividend	0% – 1.6%	3.65% – 4%	4%
Fair value per share under option	25p	46p	72p

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

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

26 COMMITMENTS

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

	2018 £000's	2017 £000's
Not later than one year	**386**	381
Later than one year but not more than five years	**165**	563
	551	944

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:

	2018 £000's	2017 £000's
Within one year	**1,731**	916
Between one and two years	**368**	277
	2,099	1,193

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:

	2018 £000's	2017 £000's
Within one year	**221**	235
Between one and two years	**237**	458
	458	693

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 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.

	2018 £000's	2017 £000's
Dividends received	**14,436**	5,978
Management fees received	**1,800**	1,800
Property rental income	**201**	201
Property rentals paid	**(96)**	(96)
Amounts due from subsidiary undertakings	**27,611**	15,920
Amounts owed to subsidiary undertakings	**(13)**	(13)

28 CONTINGENT LIABILITIES

Bills of exchange

The contingent liability for bills of exchange discounted in the normal course of business at 31 August 2018 amounted to £1,269,000 (2017: £1,441,000).

Litigation

A claim has been made against the Company by a former director/employee for unfair dismissal. The Company is vigorously defending that claim. No accurate quantification of any cost which may arise can be made due to inherent uncertainties.

29 EVENTS OCCURING AFTER THE BALANCE SHEET DATE

On 17 October 2018, Character Nordic Limited (a newly incorporated subsidiary of the Company) acquired shares representing 55% of the issued share capital of OVG-PROXY A/S ("Proxy"), a toy distributor based in Copenhagen, Denmark. The purchase price comprised an initial cash consideration of DKK 2.5 million (approximately £300,000), with further earn-out consideration of up to DKK 25 million (approximately £3 million) payable, subject to Proxy achieving stipulated performance targets, in each of the years ending 31 December 2018, 2019 and 2020. Part of the initial earn-out entitlement will be satisfied in shares in the Company (up to 150,000 Ordinary Shares) with any balance payable in cash. Given the timing of the acquisition, the fair value of the net assets acquired has yet to be assessed.

During December 2018, employees exercised options over 10,650 Ordinary Shares in respect of shares held in treasury. During December 2018, the Company repurchased for cancellation 156,993 Ordinary Shares at an aggregate cost of £823,563.

NOTICE OF ANNUAL GENERAL MEETING

The Character Group plc

(*incorporated and registered in England with registered no. 3033333*)

NOTICE IS HEREBY GIVEN THAT the 2019 Annual General Meeting of The Character Group plc will be held at the offices of Duane Morris, CityPoint, 16th Floor, One Ropemaker Street, London, EC2Y 9AW on Friday 18 January 2019 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 2018 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 2018 of 12 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 £353,600, 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 of 5p each in the capital of the company hereby authorised to be acquired is 3,183,000;

   (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 of ordinary 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 £106,000;

(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 £71,025.30 (equivalent to 1,420,506 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 (or Section 89(1) of the Companies Act 1985) did not apply to the extent that the same have not been previously utilised.

By order of the Board,

K.P. Shah Secretary 20 December 2018	Registered Office: Citypoint, 16th Floor, One Ropemaker Street, London, EC2Y 9AW

Notes:

1. The register of directors' interests and copies of the directors' service agreements or (as appropriate) their letters of appointment or memoranda summarising the terms thereof 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, Neville House, Steelpark Road, Halesowen, B62 8HD 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 the Company Secretary. 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 16 January 2019 (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 (including as to the number of votes they may they may cast) will be disregarded in determining the rights of any person to attend and/or vote at the meeting.

7. As at 19 December 2018 (being the last business day prior to the publication of this Notice) the company's issued share capital (excluding shares held in treasury) consisted of 21,073,709 ordinary shares, carrying one vote each. Therefore, the total voting rights in the company as at 19 December 2018 was 21,073,709.

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 issuer's agent (ID 7RA11) by 11:00 a.m. on 16 January 2019. 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.

SUMMARY OF THE SPECIAL BUSINESS TO BE CONSIDERED AT THE 2019 ANNUAL GENERAL MEETING

It is proposed that the following resolutions will be proposed as special business at the Company's 2019 Annual General Meeting (the "**AGM**"):

Resolution 7 – Authority to allot unissued shares

Pursuant to section 551 of the Companies Act 2006 (the "**Act**"), the directors of a company may be authorised by its shareholders to allot shares in the company or grant rights ("Rights") to subscribe for or to convert any security into shares in the company.

Resolution 7 is an ordinary resolution that seeks approval from shareholders to renew the Directors' authority to allot unissued ordinary shares of 5 pence each in the capital of the Company ("**Ordinary Shares**") and/or to grant Rights up to an aggregate nominal amount of £353,600, which represents 7,072,000 Ordinary Shares (approximately 33.3 per cent. of the issued share capital of the Company as at 31 August 2018, excluding shares held in treasury). A corresponding authority was given to the Directors at the last annual general meeting and that authority expires at the conclusion of the AGM.

The Company will consider the allotment of unissued Ordinary Shares and/or Rights to finance business opportunities, to reduce gearing and/or to raise further working capital for the Group if/as appropriate. The Directors will use their discretion to exercise this authority in a manner calculated to manage the Company's capital base as effectively as possible and generally in a manner most likely to promote the success of the Company for the benefit of shareholders.

Other than to allot up to 150,000 Ordinary Shares to the sellers of shares in OVG-PROXY A/S to a subsidiary of the Company to satisfy any earn-out consideration entitlement arising, there are no present plans to allot unissued Ordinary Shares pursuant to this authority.

The authority proposed by resolution 7 will expire at the conclusion of the next annual general meeting to be held after the passing of this resolution or (if sooner) on the date being 15 months following the passing of the resolution.

Resolution 8 – Authority to make market purchases of own shares

Where it is proposed that a company is to be authorised to make market purchases of its own shares, the exercise of that authority is subject to that authority being granted in accordance with the requirements of section 701 of the Act.

Resolution 8 is an ordinary resolution that seeks approval from shareholders of the grant of an authority for the Company to make market purchases of Ordinary Shares, either for cancellation or into treasury, if and when the Directors consider that it would be in the best interests of the Company and shareholders generally to do so. An authority was given to the Directors in this fashion at the 2018 annual general meeting of the Company and that authority expires at the conclusion of the AGM.

The maximum number of shares that may be acquired through exercise of this proposed authority is 3,183,000 Ordinary Shares, representing approximately 15 per cent. of the issued share capital of the Company as at 31 August 2018 (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 Regulation.

The authority proposed by resolution 8 will expire at the conclusion of the next annual general meeting to be held after the passing of this resolution or (if sooner) on the date being 15 months following the passing of the resolution.

Resolution 9 – Disapplication of pre-emption rights

Where shares are allotted pursuant to a general authority, as provided in resolution 7, and they are to be subscribed for in cash, that allotment must be made subject to the provisions of section 570 of the Act, where applicable. This section requires that any new shares to be allotted or treasury shares to be sold are offered on a pre-emptive basis to existing shareholders, i.e. in proportion to their existing holdings prior to being allotted or sold in any other fashion. There may, however, be circumstances where the Directors wish to allot or sell shares for cash other than to shareholders strictly pro-rata to their holdings but this may not be done unless shareholders have first waived their pre-emption rights. A disapplication of these provisions was granted at the last annual general meeting and that disapplication expires at the conclusion of the AGM.

Resolution 9, which will be proposed as a Special Resolution of the Company, seeks approval from shareholders to a renewal of the disapplication of the statutory pre-emption rights to allow the Directors to allot equity securities (which includes Ordinary Shares) or sell Ordinary Shares held in treasury for cash, as if section 561(1) of the Act did not apply to such allotment. The authority will allow the Directors to allot equity securities or sell Ordinary Shares held in treasury for cash other than in accordance with section 570 of the Act in connection with rights issues and other offers of shares pro-rata to existing holdings (but allowing for 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 those preemption rights in relation to the allotment of Ordinary Shares for cash of up to an aggregate nominal amount of £106,000, representing 2,120,000 Ordinary Shares (equivalent to approximately 10 per cent. of the issued share capital of the Company as at 31 August 2018, excluding shares held in treasury).

Further, it is intended to allow the Directors to sell shares held in treasury for cash, if it is considered by the Board to be in the best interests of the Company and its shareholders as a whole. The statutory pre-emption rights set out in section 570 of the Act also apply to shares held in treasury and, accordingly, it will be necessary to disapply those pre-emption rights specifically in relation to shares held in treasury, if the Directors are to be granted this power. Resolution 9, accordingly, also proposes that the Directors be authorised to sell equity securities held as treasury shares for cash other than in accordance with section 570 of the Act up to the limit of 1,420,506 Ordinary Shares, £71,025.30 in nominal aggregate value (equivalent to approximately 6.69 per cent. of the issued share capital of the Company as at 31 August 2018, excluding shares held in treasury), being the number of shares held in treasury and not subject to the grant of options under the Company's 2006 Share Option Plan and its 2017 Share Options Plan at the date of this document.

The disapplication proposed by resolution 9 will expire at the conclusion of the next annual general meeting to be held after the passing of this resolution or (if sooner) on the date being 15 months following the passing of the resolution.

There is no present intention on the part of the Directors to exercise this authority, either in respect of unissued shares in the Company or shares held in treasury.

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