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Annual Report and Accounts

For the year ended 31 August 2014

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[www.thecharacter.com](http://www.thecharacter.com)  
[www.character-online.co.uk](http://www.character-online.co.uk)

## DIRECTORS AND ADVISERS

<i>Directors</i>	<i>Registered office</i>	<i>Nominated Advisers and Broker</i>
R King	2 <sup>nd</sup> Floor	Charles Stanley Securities
K P Shah	10 Chiswell Street	131 Finsbury Pavement
J J Diver	London EC1Y 4UQ	London EC2A 1NT
J J P Kissane		
M S Hyde	<i>Solicitors</i>	<i>Bankers</i>
Lord Birdwood	Duane Morris	Barclays Bank plc
D Harris	2 <sup>nd</sup> Floor	Standard Chartered Bank
	10 Chiswell Street	
	London EC1Y 4UQ	
<i>Secretary</i>		<i>Registrars</i>
M T Dowding	<i>Auditors</i>	Neville Registrars Limited
	MHA MacIntyre Hudson	Neville House
<i>Company registration</i>	New Bridge Street House	18 Laurel Lane
<i>number</i>	30-34 New Bridge Street	Halesowen
3033333	London EC4V 6BJ	

## STRATEGIC REPORT AND CHAIRMAN'S STATEMENT

### Strategic Report

A fair review of the Group during the financial year, a description of the principal risks and uncertainties facing the Group, the development and performance of the Group during the financial year, the Group's position at the financial year end and an analysis of the Group's key performance indicators can be found in the Chairman's Statement on pages 2 to 4 and the Director's Report and Business Review on pages 6 to 7.

### Chairman's Statement

#### Introduction

We are delighted to report that the sales growth predicted in last year's Chairman's statement has been achieved, resulting in Group net profit before tax of £7.11 million. The Group continued to benefit from the quality of the established brands within its product portfolio as well as from the introduction of new product lines throughout the year.

It is especially pleasing to note that our top nine branded product lines account for approximately 75% of our total turnover. As these brands continue to mature we expect to see further growth overall as we continue to apply our development and marketing skills to them. The revenue growth has been driven both domestically and internationally and this trend is expected to be further enhanced following the introduction of new products to be officially unveiled at The BTHA Toy Fair in London next month.

Our sales growth in the year under review saw an increase in our market share and reinforced our position as one of the UK's leading toy companies. The new financial year has started off well, with very pleasing sales at the consumer level which in the lead up to the crucial Christmas season is building ahead of our expectations, and we look forward to further growth in the current year.

#### Key performance indicators for the year ended 31 August 2014

As stated above, net profit before tax on continuing operations was £7.11 million (£0.20m 2013). Group revenue in the year was £97.89 million compared to £67.19 million for the last financial year, an uplift of 45.7%. Both domestic and international sales increased by over 40%.

Gross profit increased from £17.89 million in 2013 to £29.14 million in the same period last year with margins increasing year on year to 29.8% (2013: 26.6%), a creditable performance given the ongoing competitive conditions in the UK marketplace and the lower level of margin on international sales. The Group's total operating profit amounted to £7.46 million (2013: £0.61m), whilst profit before tax on continuing operations was £7.11 million against £0.20 million in 2013.

Inventories increased mirroring the stronger demand for our ranges whereby at 31 August 2014 these stood at £8.85 million compared to £6.18 million at the end of 2013 financial year end. Cash and cash equivalents at 31 August 2014 were £17.70 million (2013: £9.24m). At the same date, short-term borrowings were £22.22 million (2013: £15.26m). Net current assets increased to £3.58 million (2013: £2.41m). The Group continues to have substantial headroom within its working capital facilities.

A significant proportion of the Group's purchases are made in US dollars. The Group is therefore exposed to foreign currency fluctuations and manages the associated risk through the purchase of forward exchange contracts and derivative financial instruments. Under International Financial Reporting Standards (IFRS), at the end of each reporting period the Group is required to make an adjustment in its financial statements to incorporate a 'mark to market' valuation of such financial instruments. The weakness of the US dollar against sterling at the year-end has resulted in a related charge to the income statement of £1.93 million (2013: £0.46 m). The profit before tax of £7.11 million is stated after charging £1.93 million in relation to this 'mark to market' valuation. This charge is a non-cash item in these financial statements.

Basic earnings per share from continuing operations for the year under review were 27.66 pence compared to 0.71 pence, in the year ended 31 August 2013.

#### Dividend

The Directors are proposing a final dividend of 3.95 pence per ordinary share (2013: 3.30p). This, together with the interim dividend paid in May 2014 of 3.30 pence would make a total for the year of 7.25 pence (a 10% increase over 2013). The Group strategy of maintaining a progressive dividend policy is expected to be continued. Subject to approval by shareholders at the Annual General Meeting to be held on Friday, 16 January 2015, the final dividend of 3.95 pence will be paid on Friday, 30 January 2015 to shareholders on the Register as at Friday, 9 January 2015. The shares will be marked ex-dividend on Thursday, 8 January 2015. The dividend is covered 3.8 times by earnings.

#### Share Buy-Back Programme

The Company has continued its policy of buying back its own shares in the market. During the financial year ended 31 August 2014, the Company acquired a total of 2,148,002 ordinary shares of 5 pence each in the capital of the Company ("Ordinary Shares") at an aggregate cost of £3,928,336 (excluding stamp duty and dealing costs), with the average cost being £1.83 per Ordinary Share (2013: 411,500 Ordinary Shares at an aggregate cost of £514,000 and an average cost of £1.25 per Ordinary Share).

Since the August 2014 year-end, the Company has purchased for cancellation a further 1,608,239 Ordinary Shares in the market at an aggregate cost of £3,425,549 (excluding stamp duty and dealing costs), with the average cost being £2.13 per Ordinary Share.

The Company has an unutilised authority to buy-back up to a further 3,827,439 Ordinary Shares. As at today's date, the Company has, excluding shares held in treasury, 21,478,084 Ordinary Shares in issue ("Issued Voting Share Capital"). The Company holds 4,019,456 Ordinary Shares in treasury, representing approximately 18.71 per cent of the Issued Voting Share Capital, which do not carry voting or dividend rights.

It will remain part of the Group's overall strategy to continue to repurchase its own shares when appropriate. Accordingly, the Board will once again be seeking a renewal of the authority to buy-back issued Ordinary Shares at its forthcoming Annual General Meeting. As previously indicated, the Directors could also be prepared to participate in any future share buy-back programme the Company proposes.

#### Review of the year

Building on last year's results and the solid H1 performance, we are pleased to report that we continue to benefit from the strength and breadth of our branded product portfolio.

Growth of UK sales across several categories has increased substantially. Through our partnering philosophy and quality portfolio, we have received a very solid level of support from our retail partners, which has translated into strong domestic sales coming from across our key ranges, such as *Peppa Pig*, *Teksta*, *ChillFactor*, *Minecraft*, *Doctor Who*, *Fireman Sam*, *The Zelfs*, and *Disney Princess Palace Pets*. *Peppa Pig* (in Europe and Australia) and *Doctor Who* (in the USA) have been at the forefront of our international sales growth.

#### New licenses and products

We have also successfully secured a number of new and exciting licenses which will see us add further new ranges and complementary products to the Character basket across key categories. These properties will reinforce our position as market leader in the licensed, pre-school category in the UK as well as building on our growth internationally. Examples include:

##### ➤ *The Clangers*

We secured this well-known brand at the start of 2014 and over the last year we have created an exciting range which we look forward to unveiling at the London International Toy Fair. We expect this range to be at retail by June 2015.

##### ➤ *Teletubbies*

Post the August 2014 year-end under review and as announced on 8 September 2014, we are delighted to

have been appointed as the global Master Toy Partner for the BBC's iconic brand *Teletubbies* through an agreement between Character Options Limited and DHX Brands, the dedicated brands and consumer products arm of DHX Media Ltd.

This partnership is a good example of how we work to seek out and develop exciting products which meet domestic and international market demand. *Teletubbies* is a worldwide phenomenon originally launched in 1997. It has retained a global iconic profile, is instantly recognised, keenly followed by many, changed the landscape of children's television and still today remains a much-loved pre-school series. Recently, the brand was named at the prestigious Prix Jeunesse International as one of the four category winners for the prize of Best Children's TV Programmes of the last 50 years. A new sixty-episode series of *Teletubbies* is in production and will feature the same well-known characters and bring a refreshed, contemporary look to one of the world's most well-known pre-school properties. Character plans to launch its *Teletubbies* product ranges at retail in the UK in 2016, with other territories to follow.

#### Record number of inclusions in the 2014 DreamToys

The official DreamToys listing is independent and widely viewed as the most accurate prediction of the toys that will be in most demand at Christmas. Each year, the Toy Retailers Association (TRA), the UK's toy retail sector's representative body (which includes professionals from the industry and many retailers), creates a list of what it considers to be the year's DreamToys.

In the listing released last month, we were delighted that once again Character's products strongly featured in the 2014 wish lists – with two products from our current portfolio in the TRA's *Top 12* and seven other Character products in the TRA's full list of 72 toys compiled by the leading UK toy retailers.

This is a fantastic achievement and we believe a clear reflection of the strength of our current ranges which are at "great price points" and "value for money".

Leading the list for Character this year are: the *Little Live Pets Bird Cage* and the *Minecraft* Figures both distributed exclusively in the UK and Eire by Character Options Ltd (the Group's principal UK trading subsidiary). The other toys from Character's portfolio which are featured in the full list are:

- ✓ *Minecraft Animal Mobs*
- ✓ *Peppa Pig Weebles Wind & Wobble Playhouse*
- ✓ *Peppa Pig Muddly Puddle Jumbo Jets*

- ✓ **ChillFactor Ice Cream Maker**
- ✓ **Teksta T-Rex**
- ✓ **Cra-Z-loom Bracelet Maker** (from the Shimmer 'n Sparkle collection)
- ✓ **Cra-Z-Knit Ultimate Designer Knitting Station** (from the Shimmer 'n Sparkle collection)

### Strategy for growth

We have a quality basket of products across our brands which highlight and underpin the strength and depth of Character's portfolio with no single product or brand accounting for more than 18% of our UK sales. We are confident that our diverse product portfolio should provide the engine for continued growth. Our strategy remains unchanged, i.e. *"to seek out and develop exciting products which meet domestic and international market demand"*. Our portfolio will continue to be derived from, both our own-developed in-house ranges, including those produced 'under licence', and others sourced through exclusive distribution agreements.

### Our people

The Company employs a total of 181 members of staff, of which 121 are employed in the UK with the remaining 60 working within our Far East operations in Hong Kong, and Shenzhen.

Implementing the Group's strategy is down to our people and their skills and expertise. Once again, the Board on behalf of all shareholders would like to thank everyone in our teams around the world for their continuous hard work, dedication and loyalty, which has contributed greatly to the Group's overall performance.


### Awards

Following on from winning the prestigious "Toy of the Year" award for Teksta, the electronic puppy, in the year under review, we continue to place great importance on the working relationships we develop with all our customers, so it has been very gratifying to receive accolades from a number of them during the year as this truly reflects the investment our people make in developing long term partnerships with our customers. Examples of this are "Supplier of the Year" awards from two of UK's major toy retailers - Argos and Tesco. These awards recognise our people who, on a daily basis strive to deliver 'quality product' supported by a 'first class service'. **Teksta T-Rex** also received the Creative Play Award in the electronics and multimedia section for 2014 ([www.creativesteps.co.uk](http://www.creativesteps.co.uk)). On behalf of all shareholders, once again, we congratulate everyone across our business as the whole of the Character Team has earned this recognition.

### Current trading and outlook

The business is benefiting from the Group's stronger and enhanced product offering which has been accepted enthusiastically both in our home market and internationally. The lead up to this festive trading season has been ahead of

our expectations and we remain confident that the Company can deliver another year of solid progress resulting in enhanced profitability. We will be in a better position to report on this at the AGM in January and look forward to updating shareholders further at that time.



**Richard King**

Chairman

3 December 2014

## DIRECTORS' BIOGRAPHIES

**Richard King** (aged 69), Executive Chairman, has extensive experience in the toy industry and has been involved in importing consumer products from the Far East since 1969. He established the original business of The Character Group plc jointly with Mr Kissane and Mr Shah in 1991 and works in close association with the management to develop and implement Group strategies.

**Kiran Shah** (aged 60), Group Finance Director and Joint Managing Director, 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.

**Jon Diver** (aged 50), Group Marketing Director and Joint Managing Director, joined the Group in September 1991 from Rainbow Toys Limited, where he was Senior Marketing Executive. He became Group Marketing Director in August 1994 and has developed close working relationships with the Group's suppliers. He has played a key role in product development and the development and implementation of the Group's marketing strategy.

**Joe Kissane** (aged 62), Managing Director of Character Options Limited, has considerable sales expertise both at retail and supplier base in and outside the toy industry, gained over a period of over 35 years, notably with such companies as Nabisco, Lego and Tonka. He is one of the founders of the Group.

**Michael Hyde** (aged 40), Managing Director of Far East Operations, has been in charge of the Group's Far East operations since joining the Company in 2005. Prior to joining Character, Michael spent six 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 attained a Bachelor of Arts (BA) in Mandarin Chinese from Brigham Young University, Utah and a Master of Business Administration (MBA) from Loyola Marymount University, California.

**Lord Birdwood** (aged 76), Independent Non-Executive Director, was appointed to the Board in September 1995. He has experience as a director of quoted and private companies. He has particular interests in executive placement and recruitment. He is also retained by private equity firms to advise on future technologies and is on the board of a specialist investment fund focusing on new defence products. He chairs a hotel acquisition and development company which he co-founded.

**David Harris** (aged 64), Senior Independent Non-Executive Director, was appointed to the Board in May 2004. He has very broad financial experience gained over a 30 year career in both executive and non-executive capacities. He is currently a non-executive director of Small Companies Dividend Trust plc, Manchester and London Investment Trust plc, Aseana Properties Ltd, F&C Managed Portfolio Trust plc and Core VCTV plc, all of which are quoted companies on the London Stock Exchange. He is also a non-executive director of SDF Limited, a private film production company.

## DIRECTORS' REPORT

The directors present their report together with the financial statements for the year ended 31 August 2014.

### Business Review

#### Principal activity

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

#### Results

A review of the business is contained in the Chairman's Statement on pages 2 to 4 and the results are detailed in the consolidated income statement on page 18, the consolidated statement of comprehensive income on page 19, the consolidated balance sheet on page 20, the consolidated statement of cash flows on page 21 and the consolidated statement of changes in equity on page 22. There was a profit for the year, after taxation, amounting to £5,945,000 (2013: £683,000).

#### Dividend

The directors recommend a final dividend of 3.95 pence per share (2013: 3.3 pence) making a total dividend for the year of 7.25 pence per ordinary share (2013: 6.6 pence). If approved, the final dividend will be paid on 30 January 2015, to shareholders on the register on 9 January 2015.

#### Employment policies

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

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

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

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

#### Research and development

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

#### Principal risks and uncertainties

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

#### Suppliers

In order to achieve competitively priced products, the Group has outsourced production, mainly to China. Risks and uncertainties of this strategy include management and quality control issues at the factories. The Group manages this risk by having local offices in Hong Kong and China with teams that work closely with the factories.

#### 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 2014, trade creditors of the Group represented an average of 85 (2013: 78) days credit in relation to total purchases for the year.



**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 Group's financial instruments are foreign currency risk, credit risk, concentration risk, interest rate and liquidity risk.

The Board reviews and agrees policies for managing each of these risks. A summary of these risks is disclosed in note 23 to the Group financial statements.

**Key performance indicators (KPIs)**

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

**Governance****Directors**

The following are the directors that served during the year:

Richard King (Executive Chairman)  
Kirankumar Premchand Shah FCCA (Group Finance Director and Joint Managing Director)  
Jonathan James Diver (Group Marketing Director and Joint Managing Director)  
Joseph John Patrick Kissane (Managing Director, Character Options Limited)  
Michael Spencer Hyde (Managing Director, Far East Operations)  
Lord Birdwood (Independent Non-Executive Director)  
David Harris (Senior Independent Non-Executive Director)

Biographies of the directors are set out on page 5.



### 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 2014 and 2 December 2014 (being the business day prior to the date of this report) were as follows:

Directors	As at 2 December 2014		As at 31 August 2014		As at 31 August 2013	
	Number of Ordinary Shares	Ordinary Shares Under option	Number of Ordinary Shares	Ordinary Shares under option	Number of Ordinary Shares	Ordinary Shares under option
R King	2,418,210	-	2,418,210	362,999	3,871,543	409,666
K P Shah	4,117,001	-	3,995,001	362,999	5,613,584	409,666
J J Diver	1,206,003	797,000	1,026,003	1,280,000	1,026,003	1,280,000
J J P Kissane	500,000	47,000	500,000	530,000	600,000	530,000
M S Hyde	209,681	100,000	172,000	0	148,000	24,000
Lord Birdwood	8,750	-	8,750	0	8,750	-
D Harris	44,097	-	44,097	-	44,097	-

Included in the interests of R King are his interests in Ordinary Shares held by Cedarberg Investments Limited, being 1,635,428 Ordinary Shares at 2 December 2014, 31 August 2014 and 31 August 2013. There is also included in the interests of R King his interests in Ordinary Shares held by TOPS Pension Scheme being nil at 2 December 2014 and at 31 August 2014 and 818,750 at 31 August 2013.

Included in the interests of K P Shah are his interests in Ordinary Shares held by Sarissa Holdings Limited, being 3,830,000 Ordinary Shares at 2 December 2014 and 31 August 2014, and 4,830,000 at 31 August 2013. Also included in the interests of K P Shah are his interests in Ordinary Shares held by Mr Shah's personal pension scheme being nil at 2 December 2014 and 31 August 2014 and 618,250 at 31 August 2013.

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 at 2 December 2014 and 31 August 2014, and 401,867 at 31 August 2013.

Further, Orbis Pension Trustees Limited, the trustee of the Company's employee share ownership trust ("the Trust"), held 285,000 Ordinary Shares at 2 December 2014, 31 August 2014 and at 31 August 2013. Each of R King, K P Shah, J J P Kissane, J J Diver and M S Hyde is deemed to be interested in such holding by virtue of being within the class of beneficiaries defined by the Trust.

Details of the directors share options are disclosed in note 5.

### Directors' indemnity insurance

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

### Substantial shareholders other than directors

At 2 December 2014, the following, other than the directors and their related interests, had notified the Company of an interest in 3% or more of the Company's issued Ordinary Shares:

Name	Number of Ordinary Shares	Shareholding % (excluding Ordinary Shares held in treasury)
Ruffer LLP	2,000,000	9.31%
Sweet Briar Investments Limited	1,275,000	5.94%
Vanshap Capital Fund LP	1,162,889	5.41%

## DIRECTORS' REPORT CONTINUED

### Changes in share capital

During the year, the Company repurchased for cancellation 2,148,002 Ordinary Shares, which represents 10.09% of the issued share capital at 31 August 2014, excluding shares held in Treasury. 394,979 Ordinary Shares were issued during the year to employees exercising their share options. Details are given in note 28 to the Group financial statements.

### Share option schemes

Details of the Company's share option schemes are given in note 28 to the Group financial statements.

### Charitable and political donations

Payments to health and children's charities, and community support amounted to £28,640 (2013: £20,275). There were no political contributions in either year.

## DIRECTORS' REPORT CONTINUED

### Annual General Meeting

Notice convening an Annual General Meeting of the Company is set out on pages 64 to 66 of this document. Full details of the business to be transacted at that meeting are set out in that notice.

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

- renew the directors' general authority to allot unissued shares in the capital of the Company and to grant rights to subscribe for or to convert any security into shares in the Company up to an aggregate nominal amount of £354,700 (7,094,000 Ordinary Shares). This authority, which replaces the existing authority to allot relevant securities granted at the annual general meeting held in January 2014, will expire on whichever is the earlier of the conclusion of the annual general meeting of the Company to be held in 2016 or the date falling 15 months following the passing of this resolution. The directors have no present intention of exercising this authority, which represents approximately 33.3% of the issued share capital of the Company at 31 August 2014, excluding shares held in treasury;
- authorise the directors to make purchases of the Company's issued Ordinary Shares in the market for cancellation, or to be held in treasury, if and when the directors consider that it would be in the best interest of the Company and shareholders generally to do so, up to a maximum of 5,320,500 Ordinary Shares, representing approximately 25% of the issued share capital of the Company at 31 August 2014 (excluding shares held in treasury). The price at which an Ordinary Share in the Company may be purchased in exercise of this authority is subject to a maximum price of 150% of the average middle market values of an issued share in the Company in the five business days prior to purchase and a minimum of 5 pence, being the nominal value of an issued share in the Company. The directors intend to exercise this authority if and when to do so will, in the opinion of the directors, enhance shareholder value. If all options granted by the Company (pursuant to the Group's share option schemes particularised in note 28 to the Group Financial Statements) and subsisting as at 2 December 2014 (being the business day prior to the date of this report) were exercised a total of 1,378,797 of new Ordinary Shares would be allotted and 1,820,800 Ordinary Shares would be issued out of treasury, representing approximately 12.95% of the enlarged issue share capital of the Company following such exercise (excluding shares continuing to be held in treasury). If the authority proposed for the buy-back of shares by the Company was to be exercised in full, then the number of shares to be issued on exercise of the said options would constitute approximately 16.55% of the issued share capital as enlarged by such allotments and issue of shares (excluding shares held in treasury);
- approve a disapplication of shareholder pre-emption rights to enable the issue of equity securities in connection with any rights issue and/or an offer of issued shares held in treasury by way of rights made by the Company, with certain adjustments to shareholder entitlements to be made for practical purposes to deal with fractional entitlements and overseas restrictions on offers of shares in UK companies and further limited disapplications of these pre-emption rights applying in relation to:
  - (i) the allotment for cash of up to an aggregate nominal amount of £106,400 (2,128,000 Ordinary Shares), representing approximately 10% of the nominal value of the issued ordinary share capital of the Company as at 31 August 2014 (excluding shares held in treasury);
  - (ii) the sale of all or any of the 4,019,456 Ordinary Shares in the capital of the Company held in treasury as at 2 December 2014.

### 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.

## CORPORATE GOVERNANCE STATEMENT

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

### Directors

The Board of directors comprises five executive directors and two non-executive directors, as detailed on page 5. The independent non-executive directors are Lord Birdwood and Mr Harris (who is the senior independent non-executive director). Whilst Lord Birdwood has served as a director of the Company for more than 9 years, the Board considers that he has demonstrated throughout his tenure that he is independent, both in character and judgment. The Board is structured so that no one individual or group dominates the decision-making process.

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

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

	Attendance
R King	5
K P Shah	5
J J Diver	5
J J P Kissane	5
M S Hyde	5
Lord Birdwood	5
D Harris	5

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

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

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

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

### Evaluation of the Board, Board Committees and Directors

The performance evaluation of the Board, its Committees and directors is undertaken by the Chairman and implemented in collaboration with the Committee Chairmen. The 2014 Board evaluation was conducted by way of a discussion between the Chairman and each of the directors. The independent non-executive directors met separately to review the Chairman's performance and provide feedback to him. Following formal performance evaluation, the Chairman confirms that the performance of non-executive directors continues to be effective and demonstrates their commitment to the role.

### Audit Committee

D Harris (Chairman) and Lord Birdwood

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

**Remuneration Committee**

Lord Birdwood (Chairman) and D Harris

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

**Nominations Committee**

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

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

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

**Internal Control**

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

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

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

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

**Control environment**

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

**Monitoring and corrective action**

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

**Risk management**

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

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

**Relations with shareholders**

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

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

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

**Going Concern**

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

By Order of the Board

**M T Dowding**

Secretary

Registered Office:  
2<sup>nd</sup> Floor  
10 Chiswell Street  
London  
EC1Y 4UQ

Registered number 3033333  
3 December 2014

## DIRECTORS' REMUNERATION REPORT

The Board presents the Remuneration Report for the year ended 31 August 2014.

### The Remuneration Committee

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

### Remuneration of Directors

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

Each of the executive directors is also entitled under the terms of his service contract to a bonus in the event that specified performance targets are met or exceeded. These targets require increases in earnings per share in each financial year of the Group, adjusted to exclude certain exceptional non-trading items. Messers Diver, Shah and Kissane are also entitled to a further bonus of 4%, 2% and 1% respectively of the consolidated, pre-tax profits of the Group in the event that a specified minimum target is met or exceeded.

The basic salaries referred to above are reviewed every year by the Remuneration Committee. 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. All executive directors are entitled to participate in the Company's 2003 Enterprise Management Incentive Share Option Scheme and its 2006 Executive Share Option Plan, details of which may be found in note 28.

The non-executive directors are appointed for a fixed term expiring at each Annual General Meeting of the Company, when they may offer themselves for re-election. Each of the non-executive directors is entitled to fees, currently at the rate of £25,000 per annum (2013: £25,000), plus expenses, without any right to compensation on early termination.

Details of the directors' remuneration are disclosed in note 5.

On behalf of the Board

Lord Birdwood  
Chairman, Remuneration Committee  
3 December 2014



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

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors are required to prepare the Group 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 Company and of the Group and the financial performance and cash flows of the Group for that year. In preparing these financial statements, the directors are required to:

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

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

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

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

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

We have audited the consolidated financial statements of The Character Group plc for the year ended 31 August 2014, which comprise the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, the Consolidated Balance Sheet, the Consolidated Statement of Cash Flows, the Consolidated Statement of Changes in Equity and the related notes 1 to 31. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

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

### Respective responsibilities of directors and auditors

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

### Scope of the audit of the financial statements

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

### Opinion on financial statements

In our opinion the consolidated financial statements:

- give a true and fair view of the state of the Group's affairs as at 31 August 2014 and of its profit for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

### Opinion on other matter prescribed by the Companies Act 2006

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

### Matters on which we are required to report by exception

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

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

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

### Other matter

We have reported separately on pages 52 and 53 on the parent company financial statements of The Character Group plc for the year ended 31 August 2014.

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

19 December 2014

## CONSOLIDATED INCOME STATEMENT

for the year ended 31 August 2014

	Note	Total 2014 £'000's	Total 2013 £'000's
<b>Continuing operations</b>			
Revenue		97,889	67,188
Cost of sales		(68,752)	(49,299)
<b>Gross profit</b>		<b>29,137</b>	<b>17,889</b>
<b>Net operating expenses</b>			
Selling and distribution costs		(7,389)	(5,812)
Administration expenses		(15,273)	(12,437)
Other operating income		984	973
<b>Operating profit</b>	3	<b>7,459</b>	<b>613</b>
Finance income	6	8	6
Finance costs	6	(360)	(418)
<b>Profit before income tax</b>		<b>7,107</b>	<b>201</b>
Taxation	7	(1,162)	(42)
<b>Profit for the year from continuing operations</b>		<b>5,945</b>	<b>159</b>
<b>Profit on discontinued operation</b>			
Reclassification of net exchange gain on discontinued foreign operation	3	-	524
<b>Profit for the year attributable to equity holders of the parent</b>		<b>5,945</b>	<b>683</b>
<b>Earnings per share from continuing and discontinued operations</b>			
<b>Basic earnings per share (pence)</b>	10		
From continuing operations		27.66p	0.71p
From discontinued operations		-	2.34p
From profit for the year		27.66p	3.05p
<b>Diluted earnings per share (pence)</b>			
From continuing operations		25.18p	0.65p
From discontinued operations		-	2.15p
From profit for the year		25.18p	2.80p
<b>Dividend per share (pence)</b>	9	<b>6.6p</b>	<b>6.6p</b>
<b>EBITDA (earnings before interest, tax, depreciation and amortisation)</b>		<b>9,784</b>	<b>3,565</b>

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 August 2014

	Total 2014	Total 2013
Note	£000's	£000's
<b>Profit for the year after tax</b>	<b>5,945</b>	683
<b>Items that may be reclassified subsequently to profit and loss</b>		
Exchange differences on translation of foreign operations	(80)	(24)
Income tax on exchange differences	17	–
<b>Total comprehensive income for the year attributable to the equity holders of the parent</b>	<b>5,882</b>	659

## CONSOLIDATED BALANCE SHEET

as at 31 August 2014

		2014	2013
	Note	£'000's	£'000's
<b>Non – current assets</b>			
Intangible assets – product development	11	238	748
Investment property	13	1,976	2,042
Property, plant and equipment	12	3,623	3,678
Deferred tax assets	8	571	312
		<b>6,408</b>	<b>6,780</b>
<b>Current assets</b>			
Inventories	15	8,854	6,178
Trade and other receivables	16	23,417	18,722
Current income tax receivable	18	16	863
Derivative financial instruments	17	144	360
Cash and cash equivalents	19	17,702	9,242
		<b>50,133</b>	<b>35,365</b>
<b>Current liabilities</b>			
Short term borrowings	20	(22,217)	(15,260)
Trade and other payables	21	(20,545)	(16,541)
Income tax	18	(1,463)	(550)
Derivative financial instruments	17	(2,324)	(607)
		<b>(46,549)</b>	<b>(32,958)</b>
<b>Net current assets</b>		<b>3,584</b>	<b>2,407</b>
<b>Non-current liabilities</b>			
Deferred tax	8	(48)	(219)
<b>Net assets</b>		<b>9,944</b>	<b>8,968</b>
<b>Equity</b>			
Called up share capital	28	1,266	1,353
Shares held in treasury	28	(3,373)	(3,373)
Investment in own shares	30	(908)	(908)
Capital redemption reserve		1,587	1,480
Share based payment reserve		2,487	2,361
Share premium account		13,808	13,675
Merger reserve		651	651
Translation reserve		1,508	1,346
Profit and loss account		(7,082)	(7,617)
<b>Total equity attributable to equity holders of the parent</b>		<b>9,944</b>	<b>8,968</b>

The financial statements on pages 18 to 50 were approved by the Board of Directors on 3 December 2014.

**R King**  
Chairman

**K P Shah**  
Group Finance Director and Joint Managing Director

## CONSOLIDATED STATEMENT OF CASH FLOWS

for the year ended 31 August 2014

	Note	12 months to 31 August 2014	12 months to 31 August 2013
		£'000's	£'000's
Cash flow from operating activities			
Profit before taxation for the year		7,107	725
Adjustments for:			
Depreciation of property, plant and equipment		413	401
Depreciation of investment property		66	65
Amortisation of intangible assets		1,846	2,486
(Profit) on disposal of property, plant and equipment		(16)	(8)
Interest expense		352	412
Reclassification of net exchange gain on discontinued foreign operation		–	(524)
Financial instruments fair value adjustments		1,932	457
Share based payments		126	469
(Increase) / decrease in inventories		(2,676)	1,178
(Increase) in trade and other receivables		(4,695)	(1,617)
Increase in trade and other creditors		4,004	3,152
Cash generated from operations		8,459	7,196
Interest paid		(352)	(412)
Income tax received / (paid)		185	(1,165)
Net cash inflow from operating activities		8,292	5,619
Cash flows from investing activities			
Payments for intangible assets		(1,336)	(1,899)
Payments for property, plant and equipment		(361)	(219)
Proceeds from disposal of property, plant and equipment		17	18
Net cash outflow from investing activities		(1,680)	(2,100)
Cash flows from financing activities			
Proceeds from issue of share capital		153	386
Purchase of own shares for cancellation		(3,955)	(518)
Dividends paid		(1,392)	(1,485)
Net cash used in financing activities		(5,194)	(1,617)
Net increase in cash and cash equivalents		1,418	1,902
Cash, cash equivalents and borrowings at the beginning of the year		(6,018)	(7,896)
Effects of exchange rate movements		85	(24)
Cash, cash equivalents and borrowings at the end of the year		(4,515)	(6,018)

Cash, cash equivalents and borrowings consist of:

Cash and cash equivalents	19	17,702	9,242
Short term borrowings	20	(22,217)	(15,260)
Cash, cash equivalents and borrowings at the end of the year		(4,515)	(6,018)



## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31 August 2014

	Called up share capital £000's	Investment in own shares £000's	Shares held in treasury £000's	Capital redemption reserve £000's	Share premium account £000's	Merger reserve £000's	Share based payment reserve £000's	Translation reserve £000's	Profit and loss account £000's	Total £000's
<b>The Group</b>										
<b>At 1 September 2012</b>	<b>1,331</b>	<b>(908)</b>	<b>(3,373)</b>	<b>1,459</b>	<b>13,332</b>	<b>651</b>	<b>1,892</b>	<b>1,880</b>	<b>(6,283)</b>	<b>9,981</b>
Profit for the year after tax	-	-	-	-	-	-	-	-	683	683
Reclassification of net exchange gain on discontinued foreign operation	-	-	-	-	-	-	-	(524)	-	(524)
Exchange differences on translation of foreign operations	-	-	-	-	-	-	-	(10)	(14)	(24)
<b>Total comprehensive income and expense for the year</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(534)</b>	<b>669</b>	<b>135</b>
Share-based payment	-	-	-	-	-	-	469	-	-	469
Dividends	-	-	-	-	-	-	-	-	(1,485)	(1,485)
Shares issued	43	-	-	-	343	-	-	-	-	386
Shares cancelled	(21)	-	-	21	-	-	-	-	(518)	(518)
<b>At 1 September 2013</b>	<b>1,353</b>	<b>(908)</b>	<b>(3,373)</b>	<b>1,480</b>	<b>13,675</b>	<b>651</b>	<b>2,361</b>	<b>1,346</b>	<b>(7,617)</b>	<b>8,968</b>
Profit for the year after tax	-	-	-	-	-	-	-	-	5,945	5,945
Exchange differences on translation of foreign operations	-	-	-	-	-	-	-	162	(63)	99
<b>Total comprehensive income and expense for the year</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>162</b>	<b>5,882</b>	<b>6,044</b>
Share-based payment	-	-	-	-	-	-	126	-	-	126
Dividends	-	-	-	-	-	-	-	-	(1,392)	(1,392)
Shares issued	20	-	-	-	133	-	-	-	-	153
Shares cancelled	(107)	-	-	107	-	-	-	-	(3,955)	(3,955)
<b>At 31 August 2014</b>	<b>1,266</b>	<b>(908)</b>	<b>(3,373)</b>	<b>1,587</b>	<b>13,808</b>	<b>651</b>	<b>2,487</b>	<b>1,508</b>	<b>(7,082)</b>	<b>9,944</b>

### 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 investment in own shares and shares held in treasury can be found in notes 28 and 30.

# NOTES TO THE GROUP FINANCIAL STATEMENTS

## 1 PRINCIPAL ACCOUNTING POLICIES

### General information

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

The Group's principal places of operations are the United Kingdom and the Far East.

The principal activities of the Company and its subsidiaries ('the Group') are detailed in the Directors' Report on page 6.

### Standards, amendments and interpretations effective in the current period

The following new standards and amendments are mandatory for the first time for the financial period beginning 1 September 2013 but do not currently have a material impact on the Group:

	Effective for annual periods beginning on or after:
IAS 12 Income Taxes (Amendment) – Deferred Taxes: Recovery of Underlying Assets	- 1 January 2013
IAS 19 Employee Benefits (amendment)	- 1 January 2013
IFRS 1 First Time Adoption (amendment) – Government Loans	- 1 January 2013
IFRS 7 Disclosures (amendment) – Offsetting Financial Assets and Financial Liabilities	- 1 January 2013
IFRS 13 Fair value measurement	- 1 January 2013
IFRIC 20 Stripping Costs in the Production Phase of a Surface Mine	- 1 January 2013
Annual Improvements to IFRS (2009-11)	- 1 January 2013

### 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 2014.

	Effective for annual periods beginning on or after:
IAS 16 & IAS 38 Clarification of Acceptable Methods of Depreciation and Amortisation	- 1 January 2016
IAS 16 & IAS 41 Agriculture: Bearer Plants	- 1 January 2016
IAS 19 Defined Benefit Plans – Employee contributions	- 1 July 2014
IAS 27 (revised 2011) Separate Financial Statements	- 1 January 2014
IAS 28 (revised 2011) Associates and Joint Ventures	- 1 January 2014
IAS 32 Offsetting Financial Assets and Financial Liabilities (amendment)	- 1 January 2014
IAS 36 (amendment) Recoverable Amount Disclosures for Non-Financial Assets	- 1 January 2014
IAS 39 (amendment) Novation of Derivatives and Continuation of Hedge Accounting	- 1 January 2014
IFRS 7 Disclosures (amendment) – Mandatory effective Date and Transition Disclosures	- 1 January 2015
IFRS 9 Financial Instruments – Classification and Measurement	- 1 January 2018
IFRS 10 Consolidated Financial Statements	- 1 January 2014
IFRS 10, IFRS 12 & IAS 27 Investments Entities (amendments)	- 1 January 2014
IFRS 11 Joint Arrangements	- 1 January 2014
IFRS 11 Joint Arrangements – Accounting for Interests in Joint Operations	- 1 January 2016
IFRS 12 Disclosures of Interests in Other Entities	- 1 January 2014
IFRS 14 Regulatory Deferral Accounts	- 1 July 2014
IFRS 15 Revenue from Contracts with Customers	- 1 January 2017
IFRIC 21 Levies	- 1 January 2014
Annual Improvements to IFRS (2010-12)	- 1 July 2014
Annual Improvements to IFRS (2011-13)	- 1 July 2014

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

**Statement of compliance**

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

**Basis of preparation**

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

**Basis of consolidation**

The consolidated financial statements comprise the financial statements of the Company (The Character Group plc) and subsidiaries controlled by the Company as at the balance sheet date. Subsidiaries are entities over which the Group has the power to control financial and operating policies so as to obtain benefits from their activities and are included in the consolidated financial statements from the date on which control is transferred to the Group and cease to be consolidated from the date on which control is transferred out of the Group. The results of subsidiaries acquired or disposed of during the period are included in the consolidated income statement from the date on which control is transferred to the Group and cease to be consolidated from the date on which control is transferred out of the Group.

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

**Significant judgements and estimates**

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. Although these estimates are based on historical experience and other associated factors believed to be reasonable under the circumstances, actual results may differ from these estimates. Underlying assumptions are reviewed on an on-going basis. Areas of significant judgements are provisions for stock obsolescence, customer returns and allowances, product development, fair value of derivatives, investment properties, deferred tax and share based payments. Revisions to accounting estimates are recognised in the period in which the estimate is revised or in the period of the revision and future periods, if these are affected. Information about the Group's judgement and recognition of product development is contained in the accounting policies and in note 13 in relation to investment property. The other key areas are summarised below:

**Stock obsolescence**

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

**Customer returns & allowances**

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

**Fair value of derivatives**

The Group uses derivatives to mitigate risks arising from foreign exchange. The calculation of fair value of derivatives is based on prevailing market conditions at the date of valuation and appropriate valuation models. The use of different market assumptions and/or valuation models may have a material effect on the estimated fair value amounts. The Group's derivative financial instruments are disclosed in note 17.

**Deferred tax assets**

The Group reviews 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 forecasts. The Group's deferred income tax assets and liabilities are disclosed in note 8.

**Share based payments**

The Group has used a binomial valuation model to estimate the fair value of share based payments. The model makes various assumptions on factors outside the Group'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 29.

**Foreign currency translation**

In the Group companies' individual financial statements, transactions in foreign currencies are translated into their functional currency at the rates applicable when they were completed and monetary assets and liabilities at the period end are translated at the rate at that date. Profits and losses on retranslation are dealt with in the income statement. On consolidation, assets and liabilities of overseas subsidiaries are translated into sterling at closing rates of exchange. Income and cash flow statements are translated at average rates of exchange. The exchange differences arising as a result of translating income statements at average rates and restating opening net assets at closing rates are taken to the translation reserve.

**Functional and presentation currency**

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

**INTANGIBLE ASSETS****Product development expenditure**

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

**TANGIBLE ASSETS****Property, Plant and Equipment**

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

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

**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.

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

Freehold land	nil
Freehold buildings	4%

**Inventories**

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

**Financial assets**

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

**Impairment of financial assets**

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

**Trade receivables**

Trade receivables do not carry any interest and are stated at their nominal value as reduced by appropriate allowances for estimated irrecoverable amounts. A Group company has an agreement (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.

**FINANCIAL LIABILITIES****Trade payables**

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

**Interest bearing loans and borrowings**

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

**Derivative financial instruments**

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

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

a) Cash flow hedge

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

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

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

b) Derivatives that do not qualify for hedge accounting

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

**Derecognition of financial assets and liabilities**

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

## NOTES TO THE GROUP FINANCIAL STATEMENTS CONTINUED

### Provisions

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

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

### Share based payment

The Group issues equity settled awards to certain employees. The fair value of equity settled awards granted after 7 November 2002, and that will vest on or after 1 September 2006, are measured using a binomial valuation model, taking into account the terms and conditions under which the option was granted. Options vest subject to the employee remaining in service during the vesting period and the relevant non-market related performance condition(s) being met. The fair value determined on this basis is expensed on a straight line basis over the vesting period, based upon the Group's estimate of the number of shares that will vest. The estimate of vesting is reviewed annually, with any impact on the cumulative charge being recognised immediately. The charge in respect of share based payments is matched by an equal and opposite adjustment to equity.

### Employee benefits

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

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

### Leases

#### 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 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.

### Revenue recognition

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

- a) Sale of goods

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

- b) Sales returns and allowance

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

### Segmental information

Operating segments are reported in a manner consistent with the internal reporting to the chief operating decision maker. The Board of directors of the 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.

### Income taxes

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

**Current tax**

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

**Deferred tax**

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

Deferred income tax liabilities are recognised for all taxable temporary differences except:

- where the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss;
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognised for all deductible temporary differences, and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and unused tax losses can be utilised.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised. Unrecognised deferred income tax assets are reassessed at each balance sheet date and are recognised if and to the extent that it is probable that future taxable profit that will allow an unrecognised deferred tax asset to be recovered.

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

**Own shares**

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

**Treasury shares**

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



## NOTES TO THE GROUP FINANCIAL STATEMENTS

## CONTINUED

### 2 SEGMENT REPORT

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

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

Year Ended 31 August 2014	Other EU £000's	UK £000's	Far East £000's	Unallocated £000's	Total £000's
Revenue - external	541	55,825	41,523	-	97,889
- internal	-	-	17	-	17
Revenue total	541	55,825	41,540	-	97,906
Segment adjusted operating profit	103	2,217	8,792	251	11,363
Amortisation of intangible assets	-	-	-	-	(1,846)
Financial instruments fair value adjustments	-	-	-	-	(1,932)
Share based payments	-	-	-	-	(126)
Operating Profit	-	-	-	-	7,459
Finance costs	-	-	-	-	(360)
Finance income	-	-	-	-	8
Profit before tax					7,107
Taxation					(1,162)
Profit for the year after tax					5,945
Segment assets	232	36,750	15,887	3,672	56,541
Segment liabilities	(9)	(28,574)	(14,947)	(3,067)	(46,597)
Other segment information					
Non-current assets	1	2,151	2,862	823	5,837
Capital additions	-	261	18	82	361
Capital disposals	-	(79)	-	-	(79)
Depreciation	(1)	(294)	(123)	(61)	(479)

Analysis of unallocated assets and liabilities:

Assets	Total £000's	Liabilities	Total £000's
Corporate assets	585	Corporate creditors & accruals	(695)
Derivative financial instruments	144	Derivative financial instruments	(2,324)
Deferred tax asset	436	Deferred tax balances	(48)
Cash at bank and in hand	2,050		
Intangible assets – product development	238		
Corporate debtors & prepayments	218		
<b>Unallocated assets</b>	<b>3,672</b>	<b>Unallocated liabilities</b>	<b>(3,067)</b>

Assets and liabilities are net of intercompany balances.

Unallocated expenses comprise corporate expenses.

# NOTES TO THE GROUP FINANCIAL STATEMENTS

# CONTINUED

## 2 SEGMENT REPORT CONTINUED

Year Ended 31 August 2013	Other EU £000's	UK £000's	Far East £000's	Unallocated £000's	Total £000's
Revenue - external	885	36,335	29,968	–	67,188
- internal	171	–	100	–	271
Revenue total	1,056	36,335	30,068	–	67,459
Segment adjusted operating profit/(loss)	159	(381)	4,997	(750)	4,025
Amortisation of intangible assets	–	–	–	–	(2,486)
Financial instruments fair value adjustments	–	–	–	–	(457)
Share based payments	–	–	–	–	(469)
Operating Profit	–	–	–	–	613
Finance costs	–	(158)	(110)	(150)	(418)
Finance income	–	5	1	–	6
Reclassification of net exchange gain on discontinued foreign operation					524
Profit before tax					725
Taxation					(42)
Profit for the year after tax					683
Segment assets	512	21,875	16,839	2,919	42,145
Segment liabilities	(192)	(17,239)	(14,713)	(1,033)	(33,177)
Other segment information					
Non-current assets	2	2,185	2,970	1,311	6,468
Capital additions	3	199	15	2	219
Capital disposals	–	(81)	(1)	–	(82)
Depreciation	(1)	(282)	(137)	(46)	(466)

Analysis of unallocated assets and liabilities:

Assets	Total £000's	Liabilities	Total £000's
Corporate assets	563	Corporate creditors & accruals	(208)
Derivative financial instruments	360	Derivative financial instruments	(607)
Deferred tax asset	127	Deferred tax balances	(218)
Cash at bank and in hand	850		
Intangible assets – product development	748		
Corporate debtors & prepayments	271		
<b>Unallocated assets</b>	<b>2,919</b>	<b>Unallocated liabilities</b>	<b>(1,033)</b>

Assets and liabilities are net of intercompany balances.

Unallocated expenses comprise corporate expenses.

## GEOGRAPHICAL DESTINATION OF REVENUE

	31 August 2014 £000's	31 August 2013 £000's
United Kingdom	69,324	46,964
Rest of the world	28,565	20,224
Total Group	97,889	67,188

Revenues of approximately £15,199,000 (2013: £9,724,000) were derived from an external customer representing 10% or more of revenue. These revenues are attributable to both UK & Far East geographic segments.

**3 OPERATING PROFIT**

	Note	12 months to 31 August 2014 £'000's	12 months to 31 August 2013 £'000's
Operating profit is stated after charging/(crediting):			
Exchange losses		41	20
Cost of inventories recognised as an expense (included in cost of sales)		62,798	43,194
Inventories write down (credit)/charge		(273)	(753)
Staff costs	5	8,716	7,037
Depreciation of tangible fixed assets			
— owned assets		413	401
Depreciation of investment property		66	65
(Profit) on disposal of property, plant and equipment		(16)	(8)
Product development amortisation (included in cost of sales)		1,846	2,486
Operating leases — land and buildings		253	246

During the preceding year a solvent overseas non-trading subsidiary was formally wound up. As a consequence accumulated foreign currency translation gains amounting to £524,000 were reclassified from the translation reserve to the profit and loss account within the consolidated income statement. This reclassification did not have an impact on the net assets of the Group. There were no other gains or losses in the current or preceding year.

**4 AUDITOR'S REMUNERATION**

		12 months to 31 August 2014 £'000's	12 months to 31 August 2013 £'000's
Group Auditor's remuneration			
— Statutory audit services current year		38	45
— Taxation compliance and advisory services		4	4
Other Auditors' remuneration			
— The audit of the Group's subsidiaries pursuant to Legislation		26	27
— Taxation compliance and advisory services		10	10
Total fees payable to Auditors		78	86

**5 DIRECTORS AND EMPLOYEES REMUNERATION**  
**STAFF COSTS**

	12 months to 31 August 2014 £'000's	12 months to 31 August 2013 £'000's
Staff costs including directors' emoluments		
Wages and salaries	7,682	6,052
Social security costs	684	454
Pension costs	224	235
Share based payments	126	296
	8,716	7,037
The average number of employees during the year was:	Number	Number
Management and administration	74	66
Selling and distribution	107	111
	181	177

Of the total average number of employees, 121 (2013: 110) were based in the UK and 60 (2013: 67) in Hong Kong and mainland China.

The amount payable to pension schemes as at the balance sheet date was £22,000 (2013: £4,000).

**5 DIRECTORS AND EMPLOYEES REMUNERATION CONTINUED****KEY MANAGEMENT PERSONNEL**

	12 months to 31 August 2014 £'000's	12 months to 31 August 2013 £'000's
Salaries, short-term benefits and pension contribution	2,760	1,226
Share-based payments	113	268
	<b>2,873</b>	<b>1,494</b>

Key management comprise the directors of The Character Group plc.

The following table shows a breakdown of the remuneration of the directors for the year ended 31 August 2014 and the year ended 31 August 2013.

Year ended 31 August 2014

	Salary/fees £	Performance bonus £	Benefits in kind £	Pension contribution £	Total £
R King	239,438	243,400	10,157	-	492,995
K P Shah	245,916	400,416	5,204	-	651,536
J J Diver	245,916	554,916	11,130	-	811,962
J J P Kissane	215,592	292,592	6,502	-	514,686
M S Hyde	184,578	46,145	64	8,519	239,306
Lord Birdwood (non-executive)	25,000	-	-	-	25,000
D Harris (non-executive)	25,000	-	-	-	25,000
	<b>1,181,440</b>	<b>1,537,469</b>	<b>33,057</b>	<b>8,519</b>	<b>2,760,485</b>

Year ended 31 August 2013

	Salary/fees £	Performance bonus £	Benefits in kind £	Pension contribution £	Total £
R King	248,924	-	8,522	-	257,446
K P Shah	245,916	-	4,373	-	250,289
J J Diver	245,916	-	11,471	-	257,387
J J P Kissane	215,592	-	2,046	-	217,638
M S Hyde	170,655	-	18,672	4,355	193,682
Lord Birdwood (non-executive)	25,000	-	-	-	25,000
D Harris (non-executive)	25,000	-	-	-	25,000
	<b>1,177,003</b>	<b>-</b>	<b>45,084</b>	<b>4,355</b>	<b>1,226,442</b>

In the year ended 31 August 2014 certain of the directors received remuneration through payments by the group to third parties as follows: £334,675 was paid to Bali Hai Consultancies for the services of R King (2013 £nil); £25,000 was paid to Martlett Limited for the services of Lord Birdwood (2013 £25,000); £25,000 was paid to Inva Trust Consultancy Limited for the services of D Harris (2013 £25,000).

**Directors interests in long term incentive schemes**

On 5 February 2003, options over 185,000 new Ordinary Shares were granted to each of J J P Kissane and J J Diver. These options were granted pursuant to the Company's Enterprise Management Incentive Share Option Scheme (the "EMI Scheme"), which was approved by shareholders on 22 January 2003. The options are exercisable at a price of 54 pence per share, normally no earlier than three years and not later than ten years from the date of grant, subject to the achievement of a predetermined profit related performance target, which has been achieved. During the year ended 31 August 2013, J J P Kissane and J J Diver each respectively exercised options over 185,000 Ordinary Shares. The share price on the day of exercise was 125.0 pence.

## 5 DIRECTORS AND EMPLOYEES REMUNERATION CONTINUED

### KEY MANAGEMENT PERSONNEL

On 11 May 2006, options were granted at a price of 63 pence per share over 960,000 new Ordinary Shares to the four executive directors. R King and K P Shah were each granted options over 250,000 new Ordinary Shares. J J Diver and J J P Kissane were each granted options over 230,000 new Ordinary Shares. These options were granted pursuant to the 2006 Share Option Plan, which was approved by shareholders on 29 November 2005 and adopted by the Company on 22 February 2006. The options are exercisable at a price of 63 pence per share, normally no earlier than three years and not later than ten years from the date of grant, subject to the achievement of a predetermined profit related performance target, which has been achieved. During the year ended 31 August 2013 R King exercised an option in respect of 47,000 Ordinary Shares. The share price on the day of exercise was 134.0 pence.

On 6 May 2009, options were granted at a price of 35.5 pence over 1,272,000 new Ordinary Shares to the five executive directors. R King, K P Shah, J J Diver and J J P Kissane were each granted options over 300,000 new Ordinary Shares. M S Hyde was granted options over 72,000 new Ordinary Shares. These options were granted variously under the Company's 2003 Enterprise Management Incentive Share Option Scheme and its 2006 Share Option Plan and are normally exercisable no earlier than three years and not later than ten years from the date of grant and potentially vest in three equal tranches, subject to the achievement of predetermined profit related performance targets, which have been satisfied. During the year ended 31 August 2013 R King and K P Shah each respectively exercised options over 93,334 Ordinary Shares and M S Hyde exercised an option in respect of 24,000 Ordinary Shares. The share price on the date of the exercise of these options was 125 pence. During the year ended 31 August 2014 R King and K P Shah each respectively exercised options over 46,667 Ordinary Shares and M S Hyde exercised an option in respect of 24,000 Ordinary Shares. The share price on the date of the exercise of these options was 196.5 pence.

On 2 February 2011, an unapproved, option over a total of 750,000 existing Ordinary Shares held by the Company in treasury was granted to J J Diver, a director of the Company, at an exercise price of 187 pence per share. This option was granted in exercise of the power to sell shares held by the Company as treasury shares granted to the directors (in accordance with section 570 of the Companies Act 2006) at the Annual General Meeting of the Company held on 19 January 2011. The options are exercisable at a price of 187 pence per share no earlier than three years and not later than ten years from the date of grant.

At 31 August 2014, the mid-market price of an issued Ordinary Share in The Character Group plc was 205.0 pence. During the year the mid-market price ranged from 138.5 pence to 207.5 pence.

## 6 NET FINANCE COSTS

	12 months to 31 August 2014 £000's	12 months to 31 August 2013 £000's
Finance costs:		
Interest payable on bank overdraft and similar charges	(309)	(311)
Factor and invoice discounting advances	(51)	(107)
	(360)	(418)
Finance income:		
Interest earned on cash and cash equivalents	8	6
Net finance costs	(352)	(412)

## 7 TAXATION

	Note	12 months to 31 August 2014 £'000's	12 months to 31 August 2013 £'000's
<b>UK Corporation Tax</b>			
Tax on profit for the period		190	(446)
Adjustments to tax charge in respect of previous periods		16	20
Total UK corporation tax		206	(426)
<b>Foreign Tax</b>			
Tax on profit for the period		1,387	692
Adjustments to tax charge in respect of previous periods		(1)	68
Total foreign tax		1,386	760
Total current tax			334
<b>Deferred Tax</b>			
Origination and reversal of timing differences	8	(430)	(292)
Total deferred tax		(430)	(292)
Tax on profit on ordinary activities		1,162	42
<b>Factors affecting tax charge for the period</b>			
Profit on ordinary activities before taxation		7,107	725
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 22.162% (2013: 23.581%)		1,575	171
Effects of:			
Unrecognised timing differences		1	4
(Income)/expenses (not chargeable)/deductible for tax purposes		62	16
Capital allowances less than depreciation		3	20
Deduction for employee share options exercised		(105)	(137)
Lower tax rate on overseas earnings		(454)	(232)
Tax losses not recognised for deferred tax		5	147
Effect of change of tax rate		60	(35)
Adjustments to tax charge in respect of previous periods		15	88
Tax charge reported in the income statement		1,162	42

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

<b>Income Tax</b>		
Income tax (credit)/charge on exchange (losses)/gains on intra group balances	(18)	-
Net Tax (credit)/charge to equity	(18)	-

The Finance Act 2013 included legislation to reduce the main rate of corporation tax from 23% to 21% from 1 April 2014 and to 20% from 1 April 2015. The proposed reduction from 23% to 20% was substantively enacted on 2 July 2013. The full year effective tax includes the impact to the income statement of calculations of UK deferred tax balances at the reduced UK rates of 20%.

**8 DEFERRED INCOME TAX**

Deferred tax is calculated on temporary differences under the liability method using a tax rate of 20% (2013: 21%) for UK differences and local rates for overseas differences.

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

	2014 £'000's	2013 £'000's
As at 1 September	93	(199)
Credit/(charge) to the income statement	430	292
As at 31 August	523	93

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	
	2014 £'000's	2013 £'000's	2014 £'000's	2013 £'000's
Product development	-	-	(48)	(157)
Derivative financial instruments	436	127	-	(61)
Inventories	125	103	-	-
Carry forward tax losses	-	82	-	-
Short term timing differences	10	-	-	(1)
<b>Tax assets/(liabilities)</b>	<b>571</b>	<b>312</b>	<b>(48)</b>	<b>(219)</b>
<b>Net tax asset/(liability)</b>	<b>523</b>	<b>93</b>	<b>-</b>	<b>-</b>

Movement in recognised deferred tax during the year:

	1 September 2013 £'000's	Recognised in income £'000's	Recognised in equity £'000's	31 August 2014 £'000's
Product development	(157)	109	-	(48)
Derivative financial instruments	66	370	-	436
Inventories	103	22	-	125
Carry forward tax losses	82	(82)	-	-
Short term timing differences	(1)	11	-	10
	<b>93</b>	<b>430</b>	<b>-</b>	<b>523</b>

Movement in recognised deferred tax during the prior year:

	1 September 2012 £'000's	Recognised in income £'000's	Recognised in equity £'000's	31 August 2013 £'000's
Product development	(307)	150	-	(157)
Derivative financial instruments	(48)	114	-	66
Inventories	135	(32)	-	103
Carry forward tax losses	-	82	-	82
Short term timing differences	21	(22)	-	(1)
	<b>(199)</b>	<b>292</b>	<b>-</b>	<b>93</b>

Deferred tax assets amounting to £792,000 (2013: £666,000) 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.



**9 DIVIDEND**

	12 months to 31 August 2014 £'000's	12 months to 31 August 2013 £'000's
On equity shares:		
Final dividend paid for the year ended 31 August 2013 — 3.3 pence (2012: 3.3 pence) per share	693	734
Interim dividend paid for the year ended 31 August 2014 — 3.3 pence (2013: 3.3 pence) per share	699	751
	<b>1,392</b>	<b>1,485</b>

The directors recommend a final dividend of 3.95 pence per share (2013: 3.3 pence) amounting to £848,000 (2013: £699,000). If approved by shareholders, the final dividend will be paid on 30 January 2015 to shareholders on the register on 9 January 2015.

**10 EARNINGS PER SHARE**

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

	Year Ended 31 August 2014 Profit after taxation £	Year Ended 31 August 2013 Profit after taxation £
Profit for the year used in the calculation of basic and diluted earnings per share	5,945,000	683,000
Profit for the year from discontinued operations used in the calculation of basic and diluted earnings per share from discontinued operations	-	(524,000)
Profit used in the calculation of basic and diluted earnings per share from continuing operations	<b>5,945,000</b>	<b>159,000</b>

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

	Year Ended 31 August 2014	Year Ended 31 August 2013
Weighted average number of ordinary shares used in the calculation of basic earnings per share	21,492,265	22,398,806
Weighted average share options	2,116,022	1,974,791
Weighted average number of ordinary shares used in the calculation of diluted earnings per share	<b>23,608,287</b>	<b>24,373,597</b>

## 11 INTANGIBLE FIXED ASSETS – PRODUCT DEVELOPMENT

Cost	Total £000's
<b>1 September 2012</b>	<b>6,442</b>
Additions	1,899
Write off fully amortised assets	(3,405)
<b>31 August 2013</b>	<b>4,936</b>
Additions	1,336
Write off fully amortised assets	(3,037)
<b>31 August 2014</b>	<b>3,235</b>
<b>Amortisation</b>	
<b>1 September 2012</b>	<b>5,107</b>
Charge for the year	2,486
Write off fully amortised assets	(3,405)
<b>31 August 2013</b>	<b>4,188</b>
Charge for the year	1,846
Write off fully amortised assets	(3,037)
<b>31 August 2014</b>	<b>2,997</b>
<b>Net book value</b>	
<b>31 August 2014</b>	<b>238</b>
31 August 2013	748

## 12 PROPERTY, PLANT AND EQUIPMENT

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
<b>1 September 2012</b>	<b>3,904</b>	<b>110</b>	<b>2,014</b>	<b>363</b>	<b>6,391</b>
Additions	–	–	148	71	219
Disposals	–	(1)	–	(81)	(82)
Translation differences	–	(1)	(4)	–	(5)
<b>1 September 2013</b>	<b>3,904</b>	<b>108</b>	<b>2,158</b>	<b>353</b>	<b>6,523</b>
Additions	–	–	299	62	361
Disposals	–	–	–	(79)	(79)
Translation differences	–	–	(15)	–	(15)
<b>31 August 2014</b>	<b>3,904</b>	<b>108</b>	<b>2,442</b>	<b>336</b>	<b>6,790</b>
<b>Depreciation</b>					
<b>1 September 2012</b>	<b>667</b>	<b>91</b>	<b>1,517</b>	<b>246</b>	<b>2,521</b>
Charge for the year	105	12	215	69	401
Disposals	–	–	–	(72)	(72)
Translation differences	–	(1)	(4)	–	(5)
<b>1 September 2013</b>	<b>772</b>	<b>102</b>	<b>1,728</b>	<b>243</b>	<b>2,845</b>
Charge for the year	105	2	248	58	413
Disposals	–	–	–	(78)	(78)
Translation differences	–	–	(13)	–	(13)
<b>31 August 2014</b>	<b>877</b>	<b>104</b>	<b>1,963</b>	<b>223</b>	<b>3,167</b>
<b>Net book value</b>					
<b>31 August 2014</b>	<b>3,027</b>	<b>4</b>	<b>479</b>	<b>113</b>	<b>3,623</b>
31 August 2013	3,132	6	430	110	3,678

A bank has a charge over the freehold properties.

**13 INVESTMENT PROPERTY**

Cost	Total £'000's
<b>1 September 2012 and 31 August 2014</b>	<b>2,194</b>
<b>Depreciation</b>	
1 September 2012	87
Charge for the year	65
<b>1 September 2013</b>	<b>152</b>
Charge for the year	66
<b>31 August 2014</b>	<b>218</b>
<b>Net book value</b>	
<b>31 August 2014</b>	<b>1,976</b>
31 August 2013	2,042

The investment property is held at depreciated historical cost which, in the opinion of the directors, at 31 August 2014 approximates its open market value. During the year the Group received gross rental income of £179,000 (2013: £190,000) in respect of the investment property.

A bank has a charge over the freehold investment property.

**14 PRINCIPAL GROUP SUBSIDIARY UNDERTAKINGS**

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

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

**15 INVENTORIES**

	2014 £'000's	2013 £'000's
Finished goods for resale	8,854	6,178

**16 TRADE AND OTHER RECEIVABLES**

	2014 £'000's	2013 £'000's
<b>Current:</b>		
Trade receivables	20,956	15,214
Less: provision for impairment of receivables	(111)	—
Trade receivables – net	20,845	15,214
Other receivables	470	931
	21,315	16,145
Prepayments	2,102	2,577
	23,417	18,722

**16 TRADE AND OTHER RECEIVABLES CONTINUED**

Advances received under the recourse invoice discounting facility amounting to £13,315,000 (2013: £9,258,000) are shown within current liabilities. All the risks and rewards of the trade receivables lie with the Group.

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

Gross trade receivables can be analysed as follows:

	2014 £'000's	2013 £'000's
Fully performing	20,531	14,580
Past due	314	634
Impaired	-	-
<b>Trade receivables</b>	<b>20,845</b>	<b>15,214</b>

Ageing of past due, not impaired, receivables:

	2014 £'000's	2013 £'000's
1 – 90 days	292	376
> 90 days	22	258
	<b>314</b>	<b>634</b>

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

	2014 £'000's	2013 £'000's
Pounds Sterling	12,047	8,168
US Dollars	8,564	6,988
Euros	234	25
Polish Zloty	-	33
	<b>20,845</b>	<b>15,214</b>

**17 DERIVATIVE FINANCIAL INSTRUMENTS**

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

	2014		2013	
	Assets £'000's	Liabilities £'000's	Assets £'000's	Liabilities £'000's
Forward foreign exchange contracts and options	144	(2,324)	360	(607)
	<b>144</b>	<b>(2,324)</b>	<b>360</b>	<b>(607)</b>

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

**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 INCOME TAX RECOVERABLE/ (PAYABLE)**

	2014		2013	
	Assets £000's	Liabilities £000's	Assets £000's	Liabilities £000's
UK income tax	–	(85)	838	–
Overseas income tax	16	(1,378)	25	(550)
	16	(1,463)	863	(550)

**19 CASH & CASH EQUIVALENTS**

	2014 £000's	2013 £000's
Cash and cash equivalents	17,702	9,242

Cash and cash equivalents are denominated in the following currencies

Currency	At 31 August 2014 Floating rate financial assets £000's	At 31 August 2013 Floating rate financial assets £000's
Sterling	13,441	1,894
US\$	3,512	6,622
Euro	331	189
HK\$	373	471
Polish Zloty	40	34
Chinese Renminbi	5	32
Total	17,702	9,242

Bank overdrafts and short term loans are aggregated with cash and cash equivalents where there is a right of set-off.

At 31 August 2014, the balances attracted interest at a rate of 0.29%.

**20 SHORT TERM BORROWINGS**

	2014 £000's	2013 £000's
Finance Advances	13,315	9,258
Import Loans	8,902	6,002
Total	22,217	15,260

Analysis of short term borrowings by currency

	2014 £000's	2013 £000's
Sterling	12,442	8,142
US\$	9,576	7,092
Euro	199	26
Total	22,217	15,260

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

**20 SHORT TERM BORROWINGS CONTINUED**

The Group has a bank overdraft facility of £1 million, a trade finance facility of £13.5 million and a £5 million revolving loan facility which expire within one year and are repayable on demand. A UK subsidiary has an ongoing recourse invoice discounting facility of £20 million.

The interest charged on these facilities is between 1.75% to 1.95% 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 £9.2 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 £0.9 million (2013: £0.9 million), which has been included in cash and cash equivalents.

**21 TRADE AND OTHER PAYABLES**

	2014 £'000's	2013 £'000's
Trade creditors	11,681	12,050
Other taxation and social security	1,153	1,036
Accruals and deferred income	7,711	3,455
	<b>20,545</b>	<b>16,541</b>

**22 FINANCIAL INSTRUMENTS**

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

		31 August 2014		31 August 2013	
Financial assets		Total	Loans and	Total	Loans and
Current financial assets	Note	£'000's	receivables £'000's	£'000's	receivables £'000's
Trade and other receivables	16	21,315	21,315	16,145	16,145
Derivative financial instruments	17	144	144	360	360
Cash and cash equivalents	19	17,702	17,702	9,242	9,242
		<b>39,161</b>	<b>39,161</b>	<b>25,747</b>	<b>25,747</b>

		31 August 2014			31 August 2013		
Financial liabilities		Total	Held at fair value through Profit & loss £'000's	Financial liabilities at amortised cost £'000's	Total	Held at Fair value through Profit & loss £'000's	Financial liabilities at amortised cost £'000's
Current financial liabilities	Note	£'000's	£'000's	£'000's	£'000's	£'000's	£'000's
Trade and other payables	21	20,545	-	20,545	16,541	-	16,541
Derivative financial instruments	17	2,324	2,324	-	607	607	-
Short term borrowings	20	22,217	-	22,217	15,260	-	15,260
		<b>45,086</b>	<b>2,324</b>	<b>42,762</b>	<b>32,408</b>	<b>607</b>	<b>31,801</b>

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

## 23 FINANCIAL RISK MANAGEMENT

The Group's operations expose it to a variety of financial risks that include the effects of changes in foreign currency exchange rates, market interest rates, concentration and counter party credit risk and its liquidity position.

The Group has in place a risk management programme that seeks to limit adverse effects on the financial performance of the Group by using foreign currency financial instruments.

The Board of directors reviews and agrees policies for managing each of these risks which are summarised below:

### FOREIGN EXCHANGE RISK

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

### FOREIGN CURRENCY SENSITIVITY

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

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

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

2014	Sterling strengthening		Sterling weakening	
	Total Equity £'000's	Profit or (Loss) £'000's	Total Equity £'000's	Profit or (Loss) £'000's
Euro	18	18	(18)	(18)
US\$	(8,289)	(8,289)	481	481
HK\$	84	84	(84)	(84)
	(8,187)	(8,187)	379	379

2013	Sterling strengthening		Sterling weakening	
	Total Equity £'000's	Profit or (Loss) £'000's	Total Equity £'000's	Profit or (Loss) £'000's
Euro	(7)	(7)	7	7
US\$	(570)	(570)	570	570
HK\$	(293)	(293)	293	29
	(870)	(870)	870	870

### INTEREST RATE RISK

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

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

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

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

**23 FINANCIAL RISK MANAGEMENT CONTINUED****CREDIT RISK**

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

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

Class of financial assets	2014 £000's	2013 £000's
Trade receivables	20,845	15,214
Other receivables	470	931
Current tax assets	16	863
Cash	17,702	9,242
	<b>39,033</b>	<b>26,250</b>

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 £13,096,000 (2013: £6,736,000). 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:

	2014		2013	
	Current £000's	Non-current within five years £000's	Current £000's	Non-current within five years £000's
Finance advances	13,315	-	9,258	-
Import loans	8,902	-	6,002	-
Trade and other payables	20,545	-	16,541	-
Current tax liabilities	1,463	-	550	-
Derivative financial instruments	2,324	-	607	-
Deferred tax liabilities	-	48	-	219
	<b>46,549</b>	<b>48</b>	<b>32,958</b>	<b>219</b>

**24 CAPITAL RISK MANAGEMENT**

The Group manages its capital to safeguard the Group's ability to continue as a going concern and to maximise returns for shareholders, reducing the cost of capital by optimising the capital structure.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders or issue new shares. The Group holds shares in treasury, which it can release.

The Group considers its capital to comprise the equity attributable to equity holders of the parent.



**25 COMMITMENTS**

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

	2014 £'000's	2013 £'000's
Not later than one year	255	205
Later than one year but not more than five years	106	275
	<b>421</b>	<b>480</b>

- 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:

	2014 £'000's	2013 £'000's
Within one year	1,684	2,185
Between one and two years	442	1,389
Between two and five years	-	161
	<b>2,126</b>	<b>3,735</b>

**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:

	2014 £'000's	2013 £'000's
Within one year	150	195
Between one and two years	369	424
Between two and five years	14	79
	<b>533</b>	<b>698</b>

**26 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.

**27 CONTINGENT LIABILITIES**

The contingent liability for bills of exchange discounted in the normal course of business at 31 August 2014 amounted to £289,000 (2013:£ 821,000).

## 28 CALLED UP SHARE CAPITAL (EQUITY)

	2014 £'000's	2013 £'000's
<b>Authorised</b>		
110,000,000 (2013: 110,000,000) ordinary shares of 5 pence each	5,550	5,550
<b>Allotted, called up and fully paid</b>		
25,302,146* (2013: 27,055,169) ordinary shares of 5 pence each	1,266	1,353

\* Including 4,019,456 Ordinary Shares held in treasury (2013: 4,019,456).

**Share capital movements in the year**

394,979 (2013: 854,435) Ordinary Shares, total nominal value £19,749 (2013: £42,722), were issued during the year to employees exercising their share options as follows:

Date	Number of Ordinary Shares at exercise price	
	35.5p	63.00p
16 September 2013	300	—
20 September 2013	4,000	—
24 September 2013	800	—
25 September 2013	17,000	—
19 December 2013	16,000	26,000
23 January 2014	4,000	—
27 January 2014	—	17,000
4 February 2014	—	1,250
5 February 2014	600	—
8 May 2014	1,600	—
13 May 2014	125,334	—
16 May 2014	51,586	—
21 May 2014	5,534	—
27 May 2014	4,667	—
28 May 2014	4,000	—
29 May 2014	3,500	—
30 May 2014	800	—
4 June 2014	1,200	—
5 June 2014	68,000	—
10 June 2014	36,508	—
27 June 2014	800	—
10 July 2014	600	3,500
18 July 2014	400	—

**28 CALLED UP SHARE CAPITAL (EQUITY) CONTINUED****Share capital movements in the year (continued)**

During the year, the Company repurchased for cancellation 2,148,002 (2013: 411,500) Ordinary Shares as follows:

Date	Number of shares	Price	% of the issued share capital immediately prior to cancellation (excluding shares held in Treasury)
20 September 2013	29,000	145.00p	0.13%
25 September 2013	31,430	145.00p	0.14%
4 December 2013	75,000	176.00p	0.33%
10 December 2013	1,100,000	182.00p	4.80%
11 December 2013	110,000	182.00p	0.50%
13 December 2013	15,000	182.00p	0.07%
23 December 2013	465,250	182.00p	2.14%
15 May 2014	42,870	193.88p	0.20%
19 May 2014	171,102	195.00p	0.80%
21 May 2014	10,200	195.00p	0.05%
23 May 2014	4,667	195.00p	0.02%
29 May 2014	6,300	195.00p	0.03%
4 June 2014	58,009	200.00p	0.27%
6 June 2014	29,174	200.00p	0.14%

At 31 August 2014 and 31 August 2013, a total of 4,019,456 Ordinary Shares were held in treasury.

**28 CALLED UP SHARE CAPITAL (EQUITY) CONTINUED****Share options**

The Company adopted the rules of a qualifying Enterprise Management Incentive share option scheme (the “EMI Scheme”) with the sanction of shareholders given at an extraordinary general meeting of the Company on 22 January 2003. There were no options subsisting under the EMI Scheme as at 31 August 2014.

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

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

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

On 23 July 2010, a subsidiary of the Group entered into an exclusive distribution agreement with Cepia LLC. In consideration for the exclusive distribution rights of Cepia LLC’s products in the United Kingdom and Ireland, an affiliate of Cepia LLC was granted an option to subscribe for 1,000,000 ordinary shares of 5 pence each at an exercise price of 122.50 pence per share, subject (inter alia) to the distribution agreement having continued in existence throughout the three year vesting period and subsisting at the date of exercise. Cepia LLC has indicated that its affiliate intends to exercise this option but the directors believe that conditions subject to which this option was granted may not have been satisfied. Further, the formalities for a due exercise of the option have not been complied with.

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

## NOTES TO THE GROUP FINANCIAL STATEMENTS CONTINUED

### 28 CALLED UP SHARE CAPITAL (EQUITY) CONTINUED

At 31 August 2014, rights to options over 3,932,430 Ordinary Shares of the Company were outstanding as follows:

	At 1 September 2013	Granted	Exercised/ lapsed	At 31 August 2014	Exercise Price	Exercise Period
EMI Scheme	93,334	–	(93,334)	–	35.50p	6 May 2014 to 5 May 2019
2006 Scheme	866,000	–	–	866,000	63.0p	11 May 2009 to 10 May 2016
	165,230	–	(47,750)	117,480	63.0p	15 May 2009 to 14 May 2016
	372,016	–	(14,950)	357,066	35.50p	6 May 2012 to 5 May 2019
	401,966	–	(34,600)	367,366	35.50p	6 May 2013 to 5 May 2019
	623,863	–	(204,345)	419,518	35.50p	6 May 2014 to 5 May 2019
Non-Scheme Options	55,000	–	–	55,000	63.25p	21 December 2007 to 19 December 2014
	1,000,000	–	–	1,000,000	122.50p	23 July 2013 to 22 July 2015
	750,000	–	–	750,000	187.0p	02 February 2014 to 01 February 2021
	4,327,409	–	(394,979)	3,932,430		

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:

	2014		2013	
	Number	Weighted average exercise price	Number	Weighted average exercise price
Outstanding at 1 September 2013	4,327,409	88.77p	5,191,612	81.49p
Exercised	(394,979)	38.83p	(854,435)	45.19p
Lapsed	–	–	(9,768)	35.50p
Outstanding at 31 August 2014	3,932,430	93.78p	4,327,409	88.77p
Weighted average remaining contractual life in years		3.3		4.3

Options over 394,979 Ordinary Shares were exercised in the year (2013: 854,435). The weighted average share price (at the date of exercise) of options exercised during the year was 192.20p (2013: 126.00p).

At 31 August 2014, options over 3,932,430 Ordinary Shares were exercisable (2013: 2,860,212).

## 29 SHARE-BASED PAYMENT

	12 months ended 31 August 2014 £'000's	12 months ended 31 August 2013 £'000's
Charge for share based payment	126	469

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

## Non-Scheme &amp; EMI Scheme Options

Option Scheme Grant Date	Non-Scheme 11 July 2006	Non-Scheme 23 July 2010	Non-Scheme 2 February 2011	EMI Scheme 6 May 2009
Options outstanding 1 September 2013	55,000	1,000,000	750,000	93,334
Exercised/(lapsed)	—	—	—	(93,334)
Options outstanding 31 August 2014	55,000	1,000,000	750,000	—
Contract term year(s)	8.5	5	10	10
Expected life of option	6	5	5	7
Exercise & share price at grant	63.25p	122.50p	187.0p	35.50p
Expected volatility	55% – 65%	60% – 65%	60% – 65%	65% – 75%
Annual risk free rate	4.69%	2.33%	2.74%	3.17%
Annual expected dividend	2% – 3%	3% – 3.7%	3% – 3.7%	0% – 1.60%
Fair value per share under option	32p	58p	90p	25p

## 2006 Scheme

Grant Date	11 May 2006	15 May 2006	6 May 2009
Options outstanding 1 September 2013	866,000	165,230	1,397,845
Exercised	—	(47,750)	(253,895)
Lapsed/cancelled	—	—	—
Options outstanding 31 August 2014	866,000	117,480	1,143,950
Contract term year(s)	10	10	10
Expected life of option	6	6	7
Exercise & share price at grant	63.0p	63.0p	35.50p
Expected volatility	55% – 65%	55% – 65%	65% – 75%
Annual risk free rate	4.425%	4.425%	3.17%
Annual expected dividend	2% – 3%	2% – 3%	0% – 1.60%
Fair value per share under option	32p	32p	25p

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

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

**30 THE CHARACTER GROUP plc EMPLOYEE SHARE OWNERSHIP TRUST**

The Company's Employee Share Ownership Trust ("the Trust") is governed by a Trust Deed dated 19 June 1998. The Trustees may grant options over such shares in the Company acquired by them or otherwise provide benefits to the beneficiaries, as defined in the Trust Deed. The Trust is required to meet its own costs out of the trust fund but if such fund is insufficient such costs will be borne by the Company. At 31 August 2014, the Trust held 285,000 Ordinary Shares (2013: 285,000), which had a market value of £584,250 (2013: £399,000), upon which it has waived its right to dividend income. The cost of these shares was £908,000. At 31 August 2014, no options had been granted by the Trust.

**31 EVENTS OCCURRING AFTER THE BALANCE SHEET DATE**

1,803,633 Ordinary Shares were issued to employees exercising share options, at an average exercise price of 48.54 pence per Ordinary Share during September 2014. During September 2014, the Company repurchased for cancellation 1,608,239 Ordinary Shares at an average cost of £2.13 per Ordinary Share.

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

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

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

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

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

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

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



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

We have audited the parent company financial statements of The Character Group plc for the year ended 31 August 2014 which comprise the Company Balance Sheet and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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

### Respective responsibilities of directors and auditors

As explained more fully in the Statement of Directors' Responsibilities in relation to the Parent Company Financial Statements set out on page 50, the directors are responsible for the preparation of the parent company financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the parent company financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

### Scope of the audit of the financial statements

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

### Opinion on financial statements

In our opinion the parent company financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 August 2014;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

### Opinion on other matters prescribed by the Companies Act 2006

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

### Matters on which we are required to report by exception

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

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements 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.

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

### Other matter

We have reported separately on pages 16 and 17 on the consolidated financial statements of The Character Group plc for the year ended 31 August 2014.

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

17 December 2014

## COMPANY BALANCE SHEET

as at 31 August 2014

	Note	2014 £'000's	2013 £'000's
<b>Fixed assets</b>			
Tangible assets	2	585	563
Investments	3	3,344	3,232
		<b>3,929</b>	3,795
<b>Current assets</b>			
Debtors	4	15,453	16,201
Cash at bank and in hand		2,050	850
		<b>17,503</b>	17,051
<b>Current liabilities</b>			
Creditors: amounts falling due within one year	5	(695)	(221)
<b>Net current assets</b>		<b>16,808</b>	16,830
<b>Total assets less current liabilities</b>		<b>20,737</b>	20,625
<b>Net Assets</b>		<b>20,737</b>	20,625
<b>Capital and reserves</b>			
Called up share capital	7,8	1,266	1,353
Shares held in treasury	8	(3,373)	(3,373)
Investment in own shares	9	(908)	(908)
Capital redemption reserve	8	1,587	1,480
Share premium account	8	13,808	13,675
Share based payment reserve	8	2,487	2,361
Profit and loss account	8	5,870	6,037
<b>Equity shareholders' funds</b>		<b>20,737</b>	20,625

The financial statements on pages 54 to 63 were approved by the Board of directors on 3 December 2014.

**R King**  
Director

**K P Shah**  
Director

Registered number 3033333

## NOTES TO THE COMPANY FINANCIAL STATEMENTS

### 1 PRINCIPAL ACCOUNTING POLICIES

#### Basis of preparation

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

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

No profit and loss account is presented by the Company, as permitted by Section 408 Companies Act 2006. The profit for the year was £5,180,000 (2013: £3,910,000).

As permitted by Financial Reporting Standard (FRS) 1 (Revised), “Cash flow statement”, the Company has not included a Cash flow statement as the Company’s results have been included within the Group’s consolidated financial statements.

As permitted by FRS 8 Related Party Disclosures, disclosures of related party transactions with other companies controlled by The Character Group plc are not provided and there were no reportable transactions with related parties.

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

#### Investments

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

### TANGIBLE FIXED ASSETS

Tangible fixed assets are stated at historical cost net of accumulated depreciation and any impairment in value.

Depreciation is provided on a straight line basis on all such assets, except freehold land, at rates calculated to write off the cost of each asset over its expected useful life. The following principal rates per annum are used:

Freehold buildings	4%
Fixtures, fittings and equipment	20-33%

#### FRS 20: Share-based payment

The Company issues equity settled awards to certain employees. The fair value of equity settled awards granted after 7 November 2002, and that will vest on or after 1 September 2006, are measured using a binomial valuation model, taking into account the terms and conditions under which the option was granted. Options vest subject to the employee remaining in service during the vesting period and the relevant non-market related performance condition(s) being met. The fair value determined on this basis is expensed on a straight line basis over the vesting period, based upon the Company’s estimate of the number of shares that will vest. The estimate of vesting is reviewed annually with any impact on the cumulative charge being recognised immediately. The charge in respect of share based payments is matched by an equal and opposite adjustment to equity.

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

#### Leases

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

#### Deferred taxation

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

## NOTES TO THE COMPANY FINANCIAL STATEMENTS

### CONTINUED

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

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

#### Taxation

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

#### Pension contributions

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

The Company had 8 employees in 2014 and 7 employees in 2013. Details of the remuneration of the directors are included in note 5 directors and employees remuneration staff costs, on pages 31 to 33.

## 2 TANGIBLE FIXED ASSETS

Cost	Freehold land and buildings £000's	Fixtures, fittings and equipment £000's	Total £000's
1 September 2013	1,182	162	1,344
Additions	—	82	82
<b>31 August 2014</b>	<b>1,182</b>	<b>244</b>	<b>1,426</b>
<b>Depreciation</b>			
31 August 2013	628	153	781
Charge for the year	39	21	60
<b>31 August 2014</b>	<b>667</b>	<b>174</b>	<b>841</b>
<b>Net book value</b>			
<b>31 August 2014</b>	<b>515</b>	<b>70</b>	<b>585</b>
31 August 2013	554	9	563

## NOTES TO THE COMPANY FINANCIAL STATEMENTS CONTINUED

### 3 FIXED ASSET INVESTMENTS

#### The Company

Cost	Shares in subsidiary undertakings £000's	Capital contribution £000's	Total £000's
1 September 2013	3,195	1,933	5,128
Share based payment	–	112	112
<b>At 31 August 2014</b>	<b>3,195</b>	<b>2,045</b>	<b>5,240</b>
<b>Amortisation and provisions</b>			
1 September 2013	1,896	–	1,896
Charge for the year	–	–	–
At 31 August 2014	1,896	–	1,896
<b>Net book value</b>			
<b>31 August 2014</b>	<b>1,299</b>	<b>2,045</b>	<b>3,344</b>
31 August 2013	1,299	1,933	3,232

At 31 August 2014, 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

### 4 DEBTORS

	2014 £000's	2013 £000's
Due from subsidiary undertakings	15,235	15,930
Other debtors	15	54
Prepayments and accrued income	203	209
	<b>15,453</b>	<b>16,201</b>

### 5 CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2014 £000's	2013 £000's
Due to subsidiary undertakings	13	13
Accruals and deferred income	583	208
Other taxation and social security	99	–
	<b>695</b>	<b>221</b>

## NOTES TO THE COMPANY FINANCIAL STATEMENTS

### CONTINUED

#### 6 CONTINGENT LIABILITIES

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

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

The amount payable under the Group registration scheme at 31 August 2014 was £775,000 (2013: £941,000).

#### 7 CALLED UP SHARE CAPITAL (EQUITY)

	2014 £'000's	2013 £'000's
<b>Authorised</b>		
110,000,000 (2013: 110,000,000) ordinary shares of 5 pence each	5,550	5,550
<b>Allotted, called up and fully paid</b>		
25,302,146* (2013: 27,055,169) ordinary shares of 5 pence each	1,266	1,353

\* Including 4,019,456 Ordinary Shares held in treasury (2013: 4,019,456).

#### Share capital movements in the year

394,979 (2013: 854,435) Ordinary Shares, total nominal value £19,749 (2013: £42,722), were issued during the year to employees exercising their share options as follows:

Date	35.50p	63.00p
16 September 2013	300	—
20 September 2013	4,000	—
24 September 2013	800	—
25 September 2013	17,000	—
19 December 2013	16,000	26,000
23 January 2014	4,000	—
27 January 2014	—	17,000
4 February 2014	—	1,250
5 February 2014	600	—
8 May 2014	1,600	—
13 May 2014	125,334	—
16 May 2014	51,586	—
21 May 2014	5,534	—
27 May 2014	4,667	—
28 May 2014	4,000	—
29 May 2014	3,500	—
30 May 2014	800	—
4 June 2014	1,200	—
5 June 2014	68,000	—
10 June 2014	36,508	—
27 June 2014	800	—
10 July 2014	600	3,500
18 July 2014	400	—

## NOTES TO THE COMPANY FINANCIAL STATEMENTS CONTINUED

### 7 CALLED UP SHARE CAPITAL (EQUITY) CONTINUED

#### Share capital movements in the year (continued)

During the year, the Company repurchased for cancellation 2,148,002 (2013: 411,500) Ordinary Shares as follows:

Date	Number of shares	Price	% of the issued share capital immediately prior to cancellation (excluding shares held in Treasury)
20 September 2013	29,000	145.00p	0.13%
25 September 2013	31,430	145.00p	0.14%
4 December 2013	75,000	176.00p	0.33%
10 December 2013	1,100,000	182.00p	4.80%
11 December 2013	110,000	182.00p	0.50%
13 December 2013	15,000	182.00p	0.07%
23 December 2013	465,250	182.00p	2.14%
15 May 2014	42,870	193.88p	0.20%
19 May 2014	171,102	195.00p	0.80%
21 May 2014	10,200	195.00p	0.05%
23 May 2014	4,667	195.00p	0.02%
29 May 2014	6,300	195.00p	0.03%
4 June 2014	58,009	200.00p	0.27%
6 June 2014	29,174	200.00p	0.14%

At 31 August 2014 and 31 August 2013, a total of 4,019,456 Ordinary Shares were held in treasury.



## NOTES TO THE COMPANY FINANCIAL STATEMENTS CONTINUED

### 7 CALLED UP SHARE CAPITAL (EQUITY) CONTINUED

#### Share options

The Company adopted the rules of a qualifying Enterprise Management Incentive share option scheme (the “EMI Scheme”) with the sanction of shareholders given at an extraordinary general meeting of the Company on 22 January 2003. There were no options subsisting under the EMI Scheme as at 31 August 2014.

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

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

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

On 23 July 2010, a subsidiary of the Group entered into an exclusive distribution agreement with Cepia LLC. In consideration for the exclusive distribution rights of Cepia LLC’s products in the United Kingdom and Ireland, an affiliate of Cepia LLC was granted an option to subscribe for 1,000,000 ordinary shares of 5 pence each at an exercise price of 122.50 pence per share, subject (inter alia) to the distribution agreement having continued in existence throughout the three year vesting period and subsisting at the date of exercise. Cepia LLC has indicated that its affiliate intends to exercise this option but the directors believe that conditions subject to which this option was granted may not have been satisfied. Further, the formalities for a due exercise of the option have not been complied with.

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

## NOTES TO THE COMPANY FINANCIAL STATEMENTS CONTINUED

### 7 CALLED UP SHARE CAPITAL (EQUITY) CONTINUED

#### Share options (continued)

At 31 August 2014, rights to options over 3,932,430 Ordinary Shares of the Company were outstanding as follows:

	At 1 September 2013	Granted	Exercised/ lapsed	At 31 August 2014	Exercise Price	Exercise Period
EMI Scheme	93,334	—	(93,334)	—	35.50p	6 May 2014 to 5 May 2019
2006 Scheme	866,000	—	—	866,000	63.0p	11 May 2009 to 10 May 2016
	165,230	—	47,750))	117,480	63.0p	15 May 2009 to 14 May 2016
	372,016	—	(14,950)	357,066	35.50p	6 May 2012 to 5 May 2019
	401,966	—	(34,600)	367,366	35.50p	6 May 2013 to 5 May 2019
	623,863	—	(204,345)	419,518	35.50p	6 May 2014 to 5 May 2019
Non-Scheme Options	55,000	—	—	55,000	63.25p	21 December 2007 to 19 December 2014
	1,000,000	—	—	1,000,000	122.50p	23 July 2013 to 22 July 2015
	750,000	—	—	750,000	187.0p	02 February 2014 to 01 February 2021
	4,327,409	—	(394,979)	3,932,430		

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:

	2014		2013	
	Number	Weighted average exercise price	Number	Weighted average exercise price
Outstanding at 1 September 2013	4,327,409	88.77p	5,191,612	81.49p
Exercised	(394,979)	38.83p	(854,435)	45.19p
Lapsed	—	—	(9,768)	35.50p
Outstanding at 31 August 2014	3,932,430	93.78p	4,327,409	88.77p
Weighted average remaining contractual life in years	3.3		4.3	

Options over 394,979 Ordinary Shares were exercised in the year (2013: 854,435). The weighted average share price (at the date of exercise) of options exercised during the year was 192.20p (2013: 126.00p).

At 31 August 2014, options over 3,932,430 Ordinary Shares were exercisable (2013: 2,860,212).

## NOTES TO THE COMPANY FINANCIAL STATEMENTS

### CONTINUED

#### 7 CALLED UP SHARE CAPITAL (EQUITY) CONTINUED

##### Share options (continued)

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

##### Non-Scheme & EMI Scheme Options

Option Scheme Grant Date	Non-Scheme 11 July 2006	Non-Scheme 23 July 2010	Non-Scheme 2 February 2011	EMI Scheme 6 May 2009
Options outstanding 1 September 2013	55,000	1,000,000	750,000	93,334
Exercised/(lapsed)	—	—	—	(93,334)
Options outstanding 31 August 2014	55,000	1,000,000	750,000	—
Contract term year(s)	8.5	5	10	10
Expected life of option	6	5	5	7
Exercise & share price at grant	63.25p	122.50p	187.0p	35.50p
Expected volatility	55% – 65%	60% – 65%	60% – 65%	65% – 75%
Annual risk free rate	4.69%	2.33%	2.74%	3.17%
Annual expected dividend	2% – 3%	3% – 3.7%	3% – 3.7%	0% – 1.60%
Fair value per share under option	32p	58p	90p	25p

##### 2006 Scheme

Grant Date	11 May 2006	15 May 2006	6 May 2009
Options outstanding 1 September 2013	866,000	165,230	1,397,845
Exercised	—	(47,750)	(253,895)
Lapsed/cancelled	—	—	—
Options outstanding 31 August 2014	866,000	117,480	1,143,950
Contract term year(s)	10	10	10
Expected life of option	6	6	7
Exercise & share price at grant	63.0p	63.0p	35.50p
Expected volatility	55% – 65%	55% – 65%	65% – 75%
Annual risk free rate	4.425%	4.425%	3.17%
Annual expected dividend	2% – 3%	2% – 3%	0% – 1.60%
Fair value per share under option	32p	32p	25p

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

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

## NOTES TO THE COMPANY FINANCIAL STATEMENTS CONTINUED

### 8 SHARE CAPITAL AND RESERVES - SHAREHOLDERS' FUNDS

	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
1 September 2013	1,353	(3,373)	1,480	13,675	2,361	6,037	21,533
Share-based payment – Company	–	–	–	–	14	–	14
Share-based payment – subsidiary undertaking	–	–	–	–	112	–	112
Profit after tax	–	–	–	–	–	5,180	5,180
Dividend paid	–	–	–	–	–	(1,392)	(1,392)
Shares issued	20	–	–	133	–	–	153
Shares cancelled	(107)	–	107	–	–	(3,955)	(3,955)
<b>31 August 2014</b>	<b>1,266</b>	<b>(3,373)</b>	<b>1,587</b>	<b>13,808</b>	<b>2,487</b>	<b>5,870</b>	<b>21,645</b>

### 9 THE CHARACTER GROUP plc EMPLOYEE SHARE OWNERSHIP TRUST

The Company's Employee Share Ownership Trust ("the Trust") is governed by a Trust Deed dated 19 June 1998. The Trustees may grant options over such shares in the Company acquired by them or otherwise provide benefits to the beneficiaries, as defined in the Trust Deed. The Trust is required to meet its own costs out of the trust fund but if such fund is insufficient such costs will be borne by the Company. At 31 August 2014, the Trust held 285,000 Ordinary Shares (2013: 285,000), which had a market value of £584,250 (2013: £399,000), upon which it has waived its right to dividend income. The cost of these shares was £908,000. At 31 August 2014, no options had been granted by the Trust.

### 10 AUDITOR'S REMUNERATION

	2014 £000's	2013 £000's
Audit of the financial statements	6	7

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

### 11 EVENTS OCCURRING AFTER THE BALANCE SHEET DATE

1,803,633 Ordinary Shares were issued to employees exercising share options, at an average exercise price of 48.54 pence per Ordinary Share during September 2014. During September 2014 the Company repurchased for cancellation 1,608,239 Ordinary Shares at an average cost of £2.13 per Ordinary Share.

## NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN THAT the 2015 Annual General Meeting of The Character Group plc will be held at the offices of Duane Morris, 2<sup>nd</sup> Floor, 10 Chiswell Street, London, EC1Y 4UQ on Friday 16 January 2015 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 2014 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 2014 of 3.95 pence per share.
3. To consider an ordinary resolution of the company that Lord Birdwood, 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 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

6. 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 £354,700, 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

7. That the company be and is hereby generally and unconditionally authorised for the purposes of section 701 of the Act to make market purchases (as defined in section 693(4) of the Act) of ordinary shares of 5p each in the capital of the company provided that:
  - (A) the maximum number of ordinary shares 5p each in the capital of the company hereby authorised to be acquired is 5,320,500;
  - (B) the minimum price (exclusive of all expenses) which may be paid for such shares is 5p per share;
  - (C) the maximum price which may be paid for such shares is, in respect of a share contracted to be purchased on any day, an amount equal to 150 per cent. of the average of the middle-market prices shown in the quotations for ordinary shares of the company in the Daily Official List of the London Stock Exchange on the five business days immediately preceding the day on which the share is contracted to be purchased;
  - (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

8. 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

## NOTICE OF ANNUAL GENERAL MEETING CONTINUED

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 £106,400;
  - (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 £200,972.80 (equivalent to 4,019,456 ordinary shares of 5p each in the company);
- (B) the power hereby conferred shall expire at the earlier of the conclusion of the next Annual General Meeting following the date on which this resolution was passed or fifteen months following the date upon which this resolution was passed;
- (C) the power hereby conferred shall enable the company to make an offer or agreement that would or might require equity securities to be allotted and/or sale after such power expires and the directors may allot and/or sell equity securities in pursuance of any such offer or agreement made within the limits prescribed in paragraph (A) above as if the power hereby conferred had not expired; and
- (D) this power shall replace all existing powers granted to the directors to allot and/or sell equity securities as if the said Section 561(1) of the Act (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,

M.T. Dowding Secretary 19 December 2014	Registered Office: 10 Chiswell Street, London EC1Y 4UQ
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### Notes:

- The register of directors' interests and copies of the directors' service agreements or (as appropriate) their letters of appointment and the Articles of Association of the company will be available for inspection at the registered office during normal business hours from the date of this notice until the date of the Annual General Meeting and on that day will be available for inspection at the place of the meeting from 10:00 a.m. until the conclusion of the meeting.
- 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.
- To be valid, forms of proxy must be lodged with Neville Registrars Limited, 18 Laurel Lane, Halesowen, West Midlands B33 3DA not less than 48 hours before the time appointed for holding the Annual General Meeting. A form of proxy is enclosed with this notice. If you do not have a proxy form and believe that you should have one, or if you require additional forms, please contact Neville Registrars Limited. In the case of joint holders of shares, the vote of the first named in the register of members who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of other joint holders.
- 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

## NOTICE OF ANNUAL GENERAL MEETING CONTINUED

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 14 January 2015 (or if the meeting is adjourned, on the day which is two business days before the time fixed for the adjourned meeting). Changes to entries on the register of members after that time will be disregarded in determining the rights of any person to attend and/or vote at the meeting.
7. As at 18 December 2014 (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 21,478,084 ordinary shares, carrying one vote each. Therefore, the total voting rights in the company as at 18 December 2014 was 21,478,084.
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 14 January 2015. 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.

**The Character Group plc**

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