the CHARACTER group plc

Annual Report and Accounts
For the year ended 31 August 2013

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

DIRECTORS AND ADVISERS

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

Secretary
M T Dowding

Company registration number
3033333

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London EC1Y 4UQ

Solicitors
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London EC1Y 4UQ

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Nominated Advisers and Broker
Charles Stanley Securities
131 Finsbury Pavement
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Bankers
Barclays Bank plc
Standard Chartered Bank

Registrars
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Neville House
18 Laurel Lane
Halesowen

CHAIRMAN'S STATEMENT

Introduction

The Board is very pleased to report that the Group witnessed a much stronger and profitable second half performance, which fully reversed the loss reported at the interim stage.

It is also particularly pleasing to witness significant growth coming from our international sales, which have grown by over 25%. Total Group sales for the second half were up approximately 19% over the comparable period last year. This major turnaround in the second half of the year enabled the Group to make a profit for the year as a whole.

Although it is too early to anticipate the outcome for the new 2014 financial year, we are comforted by the fact that 8 out of the Top 10 of our predicted 'best-selling' ranges are already in distribution and, with the benefit of the current sales information, we are confident that we shall see sales growth continue throughout the year. We are also confident that Character's current product and license portfolio, together with further planned introductions, will provide us with one of the strongest product ranges we have had and should underpin our performance and position as one of the UK's leading toy companies.

Financials for the year ended 31 August 2013

Group sales in the year were £67.19 million, compared to £74.95 million for the previous year; a decrease of 10%; however, the decline of 31% in the first half was reversed to growth of 19% for the second half of the year, when compared to the previous year.

Gross profit for the year was £17.89 million, against £24.46 million in the same period last year. The reduction in margin to 26.6% (2012: 32.6%) reflects not only the competitive marketplace and the higher mark downs on excess stocks but also, the increased level of international sales which are generally executed at a lower margin. The Group's total operating profit amounted to £0.61 million, against £7.46 million in 2012, and normalised profit before tax was £0.20 million (2012: £7.08m). During the year, a net exchange gain of £0.52 million, relating to the discontinuance of an overseas operation previously included in translation reserve was transferred to profit and loss account.

Inventories at 31 August 2013 reduced £1.18 million to £6.18 million (2012: £7.36m).

The Group continues to have substantial headroom within its working capital facilities. Cash and cash equivalents at 31 August 2013 were £9.24 million (2012: £5.91m). At the same date, short-term borrowings were £15.26 million (2012: £13.80m).

Basic earnings per share for the year under review were 3.05 pence, compared to 25.58 pence in the year ended 31 August 2012.

Dividend

The Directors are proposing a final dividend of 3.30 pence per ordinary share (2012: 3.30p); this, together with the interim dividend paid in July 2013 of 3.30 pence would make a total for the year of 6.60 pence (unchanged from 2012).

Subject to approval by shareholders at the Annual General Meeting to be held on Friday, 17 January 2014, the final dividend of 3.30 pence will be paid on 31 January 2014 to shareholders on the Register as at 10 January 2014. The shares will be marked ex-dividend on 8 January 2014.

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 2013, the Company acquired a total of 411,500 ordinary shares of 5 pence each in the capital of the Company ("Ordinary Shares") at an aggregate cost of approximately £514,000 (excluding stamp duty and dealing costs), with the average cost being £1.25 pence per Ordinary Share. Since the August year-end, the Company has purchased for cancellation a further 60,430 Ordinary Shares in the market at an aggregate cost of approximately £87,600 (excluding stamp duty and dealing costs), with the average cost for these shares being £1.45 per Ordinary Share.

The Company has an unutilised authority to buy-back up to a further 5,587,570 Ordinary Shares. As at today's date, the Company has, excluding shares held in treasury, 22,997,383 Ordinary Shares in issue ("Issued Voting Share Capital"). The Company holds 4,019,456 Ordinary Shares in treasury, representing approximately 17.48 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 shares when appropriate, thereby further enhancing shareholder value. 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.

Employee acknowledgements

Post the period being reported upon, we were delighted to announce that the Company's Chief Financial Officer, Mark Dowding, has been appointed Company Secretary with effect from November 2013. It is a natural progression for Mark to take on this role and his experience will further strengthen the overall effectiveness of our management team. Consequently, Kiran Shah, who has been responsible for secretariat activities since the Group's incorporation in 1995, relinquished this additional role and continues with his responsibilities as Group Finance Director and Joint Managing Director.

The Company employs 177 members of staff, of which 110 are employed in the UK; with the remaining 67 working within our Far East operations in Hong Kong, and Shenzhen.

Once again, the Board acknowledges the hard work, dedication and loyalty of all employees around the world, as each has contributed to the Group's overall performance. As we build on this solid trading performance, we can look forward to working together and further improving on our overall productivity and earnings.

Current trading & outlook

We are pleased to report a positive result at the year end, having come through such a difficult period, and are fortunate to have a very well balanced portfolio of products and licenses which have enabled the start of the new financial year to continue the growth seen in the second half of 2013.

The 2013 dream toy list:

The Company was delighted to see five of the toys from its current portfolio featured by the UK Toy Retailers Association in its listings at the industry's annual 'Christmas Dream Toys' preview last month. The 'Dream Toys' list is independent and widely viewed as the most accurate prediction of the toys that will be in most demand in the UK this Christmas. 10% of all toys in the 'Dream Toys Top 50' were from Character Options' portfolio, which is a clear indication of the strength of our current ranges. These were:-

Teksta®

"acknowledged as 'one of the most wished for', for Christmas"

This product has already achieved a lot of attention since its launch in August 2013, having also been named by many major retailers in their own personal top toy lists. We expect demand will far outstrip supply in the run up to Christmas.

"helping to drive sales of this very popular range"

Theme Park Balloon Ride

"firmly positioned within the girls aisles"
top girls' collectible range

Remote control Drive and Steer Jupiter Fire Engine
"enhancing an already solid performance from this established brand"

ChillFactor™
"Squeeze Cup Slushy Maker – already a best seller, having sold 500,000+ units in 2013"

Whilst we continue to seek out great product either to develop in-house or to distribute, we gain great satisfaction that so many of our products and ranges are not only already in distribution but with exciting sales in the run up to Christmas.

One such product range is ***Minecraft™*** where Character is the distributor of action figures, plush and paper craft products. ***Minecraft™*** is the virtual building game where players create 3D inhabited worlds from textured cubes. The game is topping the charts on all popular gaming systems, with over 22 million copies sold to date, and as a downloadable app for iOs and Android, where over 56 million users are registered. The first shipments have just gone into retail distribution and have performed exceptionally well.

In addition to these items, we consider that our ranges are well balanced with ***Peppa Pig®***, ***Fireman Sam®***, ***Postman Pat®*** being joined by ***Ben and Holly®*** and ***Weebles®***.

In our girls offering, ***The Zelfs™***, ***Disney® Palace Pets™***, ***Scooby-Doo®*** and ***Teksta®*** lead the way; whilst the boys offering includes ***Doctor Who®*** and ***Teksta®***.

Other products for all children include the ***ChillFactor™*** (which for 2014 will include an ice-cream maker) and ***LiteBrix™*** Superlight Building System.

Outlook

With trading so far in this new financial year (ending 31 August 2014) making solid progress, both at home and abroad, and building on the strong finish of last year, we can report that, at this stage, the Group's forecasted sales remain on track for the 2013 calendar year, which, in turn, should lead to a substantially better result for the 2014 financial/calendar year as a whole.

Richard King

Richard King

Chairman

3 December 2013

DIRECTORS' BIOGRAPHIES

Richard King (aged 68), 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 59), 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 49), 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 61), 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 39), 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 75), 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 63), 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 AND BUSINESS REVIEW

The directors present their report together with the financial statements for the year ended 31 August 2013.

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.

Principal activity

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

Business review, results and dividend

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 17, the consolidated statement of comprehensive income on page 18, the consolidated balance sheet on page 19, the consolidated statement of cash flows on page 20 and the consolidated statement of changes in equity on page 21. There was a profit for the year, after taxation, amounting to £683,000 (2012: £5,750,000).

The directors recommend a final dividend of 3.3 pence per share (2012: 3.3 pence) making a total dividend for the year of 6.6 pence per ordinary share (2012: 6.6 pence). If approved, the final dividend will be paid on 31 January 2014, to shareholders on the register on 10 January 2014.

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 2013 and 2 December 2013 (being the business day prior to the date of this report) were as follows:

	As at 31 August 2013		As at 31 August 2012	
Directors	**Number of Ordinary Shares**	**Ordinary Shares under option**	Number of Ordinary Shares	Ordinary Shares under option
R King	**3,871,543**	**409,666**	3,731,209	550,000
K P Shah	**5,613,584**	**409,666**	5,520,250	503,000
J J Diver	**1,026,003**	**1,280,000**	1,026,003	1,465,000
J J P Kissane	**600,000**	**530,000**	600,000	715,000
M S Hyde	**148,000**	**24,000**	124,000	48,000
Lord Birdwood	**8,750**	**–**	8,750	–
D Harris	**44,097**	**–**	44,097	–

At 2 December 2013 the directors' shareholdings were as at 31 August 2013 except for R King who held 2,371,543 ordinary shares.

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 2013, 31 August 2013 and 31 August 2012. 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 2013, 818,750 at 31 August 2013 and 771,750 at 31 August 2012.

Included in the interests of K P Shah are his interests in Ordinary Shares held by Sarissa Holdings Limited ("Sarissa"), being 4,830,000 Ordinary Shares at 2 December 2013, 31 August 2013, and at 31 August 2012. Also included in the interests of K P Shah are 618,250 Ordinary Shares of Mr Shah's personal pension scheme at 2 December 2013, 31 August 2013 and at 31 August 2012.

At 2 December 2013, 31 August 2013 and 31 August 2012, included in the interests of J J Diver are 401,867 Ordinary Shares held by Mr Diver's personal pension scheme.

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 2013, 31 August 2013 and at 31 August 2012. 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.

Employment policies

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

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

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

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

Research and development

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

Policy and practice on payment of creditors

The Group does not follow any standard code of practice for paying its suppliers but, instead, agrees with each principal supplier the terms of payment for each transaction or series of transactions. The Group's policy is then to abide by those pre-arranged terms for payment. At 31 August 2013, trade creditors of the Group represented an average of 78 (2012: 63) days credit in relation to total purchases for the year.

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.

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.

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 2013, 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	2,227,579	9.69%
Vanshap Capital Fund LP	1,162,889	5.06%
Sweet Briar Investments Limited	1,275,000	5.54%

Changes in share capital

During the year, the Company repurchased for cancellation 411,500 Ordinary Shares, which represents 1.79% of the issued share capital at 31 August 2013, excluding shares held in Treasury. 854,435 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 £20,275 (2012: £70,259). There were no political contributions in either year.

Annual General Meeting

Notice convening an Annual General Meeting of the Company is set out on pages 63 to 65 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 £383,500 (7,670,000 Ordinary Shares). This authority, which replaces the existing authority to allot relevant securities granted at the annual general meeting held in January 2013, will expire on whichever is the earlier of the conclusion of the annual general meeting of the Company to be held in 2015 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 2013, excluding shares held in treasury;
- authorise the directors to offer to allot new shares in the Company to shareholders who elect to accept the same in lieu of any cash dividend entitlement;
- 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 5,758,000 Ordinary Shares, representing approximately 25% of the issued share capital of the Company at 31 August 2013 (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 2013 (being the business day prior to the date of this report) were exercised a total of 3,577,409 of new Ordinary Shares would be allotted and 750,000 Ordinary Shares would be issued out of treasury , representing approximately 15.81% 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 20.03% 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 £115,178 (2,303,560 Ordinary Shares), representing approximately 10% of the nominal value of the issued ordinary share capital of the Company as at 31 August 2013 (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 2013.

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	4
M S Hyde	5
Lord Birdwood	5
D Harris	4

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 2013 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 auditors 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:
2nd Floor
10 Chiswell Street
London
EC1Y 4UQ

Registered number 3033333
3 December 2013

DIRECTORS' REMUNERATION REPORT

The Board presents the Remuneration Report for the year ended 31 August 2013.

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 (2012: £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 2013

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 2013, 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 statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the Group 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. 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 2013 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 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

Other matter

We have reported separately on pages 51 and 52 on the parent company financial statements of The Character Group plc for the year ended 31 August 2013.

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 2013

CONSOLIDATED INCOME STATEMENT

for the year ended 31 August 2013

	Note	Total 2013 £000's	Total 2012 £000's
Continuing operations			
Revenue		**67,188**	74,947
Cost of sales		**(49,299)**	(50,486)
Gross profit		**17,889**	24,461
Net operating expenses			
Selling and distribution costs		**(5,812)**	(4,820)
Administration expenses		**(12,437)**	(12,920)
Other operating income		**973**	741
Operating profit	3	**613**	7,462
Finance income	6	**6**	1
Finance costs	6	**(418)**	(380)
Profit before income tax		**201**	7,083
Taxation	7	**(42)**	(1,333)
Profit for the year from continuing operations		**159**	5,750
Profit on discontinued operation			
Reclassification of net exchange gain on discontinued foreign operation	3	**524**	–
Profit for the year attributable to equity holders of the parent		**683**	5,750
Earnings per share from continuing and discontinued operations			
Basic earnings per share (pence)	10		
From continuing operations		**0.71p**	25.58p
From discontinued operations		**2.34p**	–
From profit for the year		**3.05p**	25.58p
Diluted earnings per share (pence)			
From continuing operations		**0.65p**	22.99p
From discontinued operations		**2.15p**	–
From profit for the year		**2.80p**	22.99p
Dividend per share (pence)	9	**6.6p**	6.3p
EBITDA (earnings before interest, tax, depreciation and amortisation)		**3,565**	11,272

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 August 2013

	Note	**Total 2013 £000's**	Total 2012 £000's
Profit for the year after tax		**683**	5,750
Items that may be reclassified subsequently to profit and loss			
Exchange differences on translation of foreign operations		**(24)**	(122)
Income tax on exchange differences		–	17
Total comprehensive income for the year attributable to the equity holders of the parent		**659**	5,645

CONSOLIDATED BALANCE SHEET

as at 31 August 2013

	Note	2013 £000's	2012 £000's
Non – current assets			
Intangible assets – product development	11	**748**	1,335
Investment property	13	**2,042**	2,107
Property, plant and equipment	12	**3,678**	3,870
Deferred tax assets	8	**312**	210
		6,780	7,522
Current assets			
Inventories	15	**6,178**	7,356
Trade and other receivables	16	**18,722**	17,105
Current income tax receivable	18	**863**	222
Derivative financial instruments	17	**360**	445
Cash and cash equivalents	19	**9,242**	5,908
		35,365	31,036
Current liabilities			
Short term borrowings	20	**(15,260)**	(13,804)
Trade and other payables	21	**(16,541)**	(13,389)
Income tax	18	**(550)**	(740)
Derivative financial instruments	17	**(607)**	(235)
		(32,958)	(28,168)
Net current assets		**2,407**	2,868
Non-current liabilities			
Deferred tax	8	**(219)**	(409)
Net assets		**8,968**	9,981
Equity			
Called up share capital	28	**1,353**	1,331
Shares held in treasury	28	**(3,373)**	(3,373)
Investment in own shares	30	**(908)**	(908)
Capital redemption reserve		**1,480**	1,459
Share based payment reserve		**2,361**	1,892
Share premium account		**13,675**	13,332
Merger reserve		**651**	651
Translation reserve		**1,346**	1,880
Profit and loss account		**(7,617)**	(6,283)
Total equity attributable to equity holders of the parent		**8,968**	9,981

The financial statements on pages 17 to 49 were approved by the Board of Directors on 3 December 2013.

R King
Chairman

K P Shah
Group Finance Director and Joint Managing Director

CONSOLIDATED STATEMENT OF CASH FLOWS

for the year ended 31 August 2013

	Note	12 months to 31 August 2013 £000's	12 months to 31 August 2012 £000's
Cash flow from operating activities			
Profit before taxation for the year		**725**	7,083
Adjustments for:			
Depreciation of property, plant and equipment		**401**	413
Depreciation of investment property		**65**	65
Amortisation of intangible assets		**2,486**	3,332
(Profit) on disposal of property, plant and equipment		**(8)**	(4)
Interest expense		**412**	379
Reclassification of net exchange gain on discontinued foreign operation		**(524)**	–
Financial instruments fair value adjustments		**457**	(1,453)
Share based payments		**469**	542
Decrease in inventories		**1,178**	4,207
(Increase) /decrease in trade and other receivables		**(1,617)**	1
Increase/(decrease) in trade and other creditors		**3,152**	(7,140)
Cash generated from operations		**7,196**	7,425
Interest paid		**(412)**	(379)
Income tax paid		**(1,165)**	(2,709)
Net cash inflow from operating activities		**5,619**	4,337
Cash flows from investing activities			
Payments for intangible assets		**(1,899)**	(3,037)
Payments for property, plant and equipment		**(219)**	(433)
Proceeds from disposal of property, plant and equipment		**18**	4
Net cash outflow from investing activities		**(2,100)**	(3,466)
Cash flows from financing activities			
Proceeds from issue of share capital		**386**	189
Purchase of own shares for cancellation		**(518)**	(2,542)
Dividends paid		**(1,485)**	(1,419)
Net cash used in financing activities		**(1,617)**	(3,772)
Net increase/(decrease) in cash and cash equivalents		**1,902**	(2,901)
Cash, cash equivalents and borrowings at the beginning of the year		**(7,896)**	(4,868)
Effects of exchange rate movements		**(24)**	(127)
Cash, cash equivalents and borrowings at the end of the year		**(6,018)**	(7,896)

Cash, cash equivalents and borrowings consist of:

Cash and cash equivalents	19	**9,242**	5,908
Short term borrowings	20	**(15,260)**	(13,804)
Cash, cash equivalents and borrowings at the end of the year		**(6,018)**	(7,896)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31 August 2013

	Called up share capital £000's	Investment in own shares £000's	Shares held in treasury £000's	Capital redemption reserve £000's	Share premium account £000's	Merger reserve £000's	Share based payment reserve £000's	Translation reserve £000's	Profit and loss account £000's	Total £000's
The Group										
At 1 September 2011	**1,390**	**(908)**	**(3,373)**	**1,380**	**13,163**	**651**	**1,350**	**1,934**	**(8,021)**	**7,566**
Profit for the year after tax	-	-	-	-	-	-	-	-	5,750	5,750
Net exchange differences on translating foreign operations	-	-	-	-	-	-	-	(54)	(51)	(105)
Total comprehensive income and expense for the year	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(54)**	**5,699**	**5,645**
Share-based payment	-	-	-	-	-	-	542	-	-	542
Dividends	-	-	-	-	-	-	-	-	(1,419)	(1,419)
Shares issued	20	-	-	-	169	-	-	-	-	189
Shares cancelled	(79)	-	-	79	-	-	-	-	(2,542)	(2,542)
At 1 September 2012	**1,331**	**(908)**	**(3,373)**	**1,459**	**13,332**	**651**	**1,892**	**1,880**	**(6,283)**	**9,981**
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)
Total comprehensive income and expense for the year	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(534)**	**669**	**135**
Share-based payment	-	-	-	-	-	-	469	-	-	469
Dividends	-	-	-	-	-	-	-	-	(1,485)	(1,485)
Shares issued	43	-	-	-	343	-	-	-	-	386
Shares cancelled	(21)	-	-	21	-	-	-	-	(518)	(518)
At 31 August 2013	**1,353**	**(908)**	**(3,373)**	**1,480**	**13,675**	**651**	**2,361**	**1,346**	**(7,617)**	**8,968**

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 pages 6 to 9.

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 2012 but do not currently have a material impact on the Group:

		Effective for annual periods beginning on or after:
IAS 1	Financial Statements Presentation – Items of Other Comprehensive Income	- 1 July 2012

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 2013.

		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
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 1	First Time Adoption (amendment) – Government Loans	- 1 January 2013
IFRS 7	Disclosures (amendment) – Offsetting Financial Assets and Financial Liabilities	- 1 January 2013
IFRS 7	Disclosures (amendment) – Mandatory effective Date and Transition Disclosures	- 1 January 2015
IFRS 9	Financial Instruments – Classification and Measurement	- 1 January 2015
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 12	Disclosures of Interest in Other Entities	- 1 January 2014
IFRS 13	Fair value measurement	- 1 January 2013
IFRIC 20	Stripping Costs in the Production Phase of a Surface Mine	- 1 January 2013
IFRIC 21	Levies	- 1 January 2014
Annual Improvements to IFRS (2009-11)		- 1 January 2013

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

Finance advances

Finance advances are advances against trade debtors. Advances are interest bearing and are stated at their nominal value.

Trade payables

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

Import loans

Import loans are short term interest bearing trade finance instruments. Import loans are initially recorded at fair value and subsequently amortised using the effective interest rate method.

Interest bearing loans and borrowings

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

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.

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.

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 geopraphical perspective based on the location of its operations.

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					
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		
Unallocated assets	**2,919**	**Unallocated liabilities**	**(1,033)**

Assets and liabilities are net of intercompany balances.
Unallocated expenses comprise corporate expenses.

2 SEGMENT REPORT CONTINUED

Year Ended 31 August 2012	UK £000's	Far East £000's	Unallocated £000's	Total £000's
Revenue – external (by origin)	49,276	25,671	–	74,947
Segment adjusted operating profit/(loss)	4,651	6,020	(788)	9,883
Amortisation of intangible assets	–	–	–	(3,332)
Financial instruments fair value adjustments	–	–	–	1,453
Share based payments	(489)	–	(53)	(542)
Operating Profit				7,462
Finance costs	(224)	(122)	(34)	(380)
Finance income	–	1	–	1
Profit before tax				7,083
Taxation				(1,333)
Profit for the year after tax				5,750
Segment assets	20,745	14,336	3,477	38,558
Segment liabilities	(14,384)	(13,468)	(725)	(28,577)
Other segment information				
Capital additions	395	20	18	433
Capital disposals	(50)	–	–	(50)
Depreciation	(271)	(162)	(45)	(478)

Analysis of unallocated assets and liabilities:

Assets	Total £000's	Liabilities	Total £000's
Corporate assets	607	Corporate creditors & accruals	(81)
Derivative financial instruments	445	Derivative financial instruments	(235)
Deferred tax asset	54	Deferred tax balances	(409)
Cash at bank and in hand	734		
Intangible assets – product development	1,335		
Corporate debtors & prepayments	302		
Unallocated assets	**3,477**	**Unallocated liabilities**	**(725)**

There are no sales between the segments; assets and liabilities are net of intercompany balances.
Unallocated expenses comprise corporate expenses.

GEOGRAPHICAL DESTINATION OF REVENUE

	31 August 2013 £000's	31 August 2012 £000's
United Kingdom	**46,964**	60,041
Rest of the world	**20,224**	14,906
Total Group	**67,188**	74,947

Revenues of approximately £9,724,000 (2012: £22,302,000) were derived from an external customer (2012: two customers individually) representing 10% or more of revenue.
These revenues are attributable to both UK & Far East segments.

	2013 £000's	2012 £000's
Customer 1	**9,724**	11,644
Customer 2	–	10,658
	9,724	22,302

3 OPERATING PROFIT

	Note	12 months to 31 August 2013 £000's	12 months to 31 August 2012 £000's
Operating profit is stated after charging/(crediting):			
Exchange losses		**20**	278
Cost of inventories recognised as an expense (included in cost of sales)		**43,194**	41,590
Inventories write down (credit)/charge		**(753)**	271
Staff costs	5	**7,037**	6,780
Depreciation of tangible fixed assets			
— owned assets		**401**	413
Depreciation of investment property		**65**	65
(Profit) on disposal of property, plant and equipment		**(8)**	(4)
Product development amortisation (included in cost of sales)		**2,486**	3,332
Operating leases — land and buildings		**246**	218

During the 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 2013 £000's	12 months to 31 August 2012 £000's
Group Auditor's remuneration			
	— Statutory audit services current year	**45**	48
	— Taxation compliance and advisory services	**9**	11
Other Auditors' remuneration			
	— The audit of the Group's subsidiaries pursuant to Legislation	**27**	36
	— Taxation compliance and advisory services	**5**	5
Total fees payable to Auditors		**86**	100

5 DIRECTORS AND EMPLOYEES REMUNERATION
STAFF COSTS

	12 months to 31 August 2013 £000's	12 months to 31 August 2012 £000's
Staff costs including directors' emoluments		
Wages and salaries	**6,052**	5,645
Social security costs	**454**	634
Other pension costs	**235**	153
Share based payments	**296**	348
	7,037	6,780
The average number of employees during the year was:	**Number**	Number
Management and administration	**66**	63
Selling and distribution	**111**	109
	177	172

Of the total average number of employees, 110 (2012: 108) were based in the UK and 67 (2012: 64) in Hong Kong and mainland China.

The amount payable to pension schemes as at the balance sheet date was £4,000 (2012: £nil).

5 DIRECTORS AND EMPLOYEES REMUNERATION CONTINUED
KEY MANAGEMENT PERSONNEL

	12 months to 31 August 2013 £000's	12 months to 31 August 2012 £000's
Salaries, short-term benefits and pension contribution	**1,226**	1,224
Share-based payments	**268**	299
	1,494	1,523

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 2013 and the year ended 31 August 2012.

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
	1,177,003	-	45,084	4,355	1,226,442

Year ended 31 August 2012

	Salary/fees £	Performance bonus £	Benefits in kind £	Pension contribution £	Total £
R King	248,924	-	10,411	-	259,335
K P Shah	245,916	-	3,941	-	249,857
J J Diver	245,916	-	10,102	-	256,018
J J P Kissane	215,592	-	1,703	-	217,295
M S Hyde	173,302	-	14,348	4,293	191,943
Lord Birdwood (non-executive)	25,000	-	-	-	25,000
D Harris (non-executive)	25,000	-	-	-	25,000
	1,179,650	-	40,505	4,293	1,224,448

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, 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 JJP Kissane and JJ Diver each respectively exercised options over 185,000 Ordinary Shares. The share price on the day of exercise was 125.0 pence

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 R King exercised an option in respect of 47,000 Ordinary Shares. The share price on the day of exercise was 134.0 pence.

5 DIRECTORS AND EMPLOYEES REMUNERATION CONTINUED
KEY MANAGEMENT PERSONNEL

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 R King and K P Shah each respectively exercised options over 93,334 Ordinary Shares. The share price on the day of exercise was 125.0 pence. Also during the year M S Hyde exercised an option in respect of 24,000 share options. The share price on the day of exercise was 125.0 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 Jonathan 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 2013, the mid-market price of an issued Ordinary Share in The Character Group plc was 140.0 pence. During the year the mid-market price ranged from 123 pence to 140 pence.

6 NET FINANCE COSTS

	12 months to 31 August 2013 £000's	12 months to 31 August 2012 £000's
Finance costs:		
On bank overdraft and similar charges	**(311)**	(200)
Factor and invoice discounting advances	**(107)**	(180)
	(418)	(380)
Finance income:		
Bank interest	**6**	1
Net finance costs	**(412)**	(379)

7 TAXATION

	Note	12 months to 31 August 2013 £000's	12 months to 31 August 2012 £000's
UK Corporation Tax			
Tax on profit for the period		**(446)**	501
Adjustments to tax charge in respect of previous periods		**20**	(122)
Total UK corporation tax		**(426)**	379
Foreign Tax			
Tax on profit for the period		**692**	732
Adjustments to tax charge in respect of previous periods		**68**	(149)
Total foreign tax		**760**	583
Total current tax		**334**	962
Deferred Tax			
Origination and reversal of timing differences	8	**(292)**	371
Total deferred tax		**(292)**	371
Tax on profit on ordinary activities		**42**	1,333
Factors affecting tax charge for the period			
Profit on ordinary activities before taxation		**725**	7,083
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 23.581% (2012: 25.164%)		**171**	1,782
Effects of:			
Unrecognised timing differences		**4**	23
(Income)/expenses (not chargeable)/deductible for tax purposes		**16**	141
Capital allowances less than depreciation		**20**	3
Deduction for employee share options exercised		**(137)**	(83)
Lower tax rate on overseas earnings		**(232)**	(321)
Marginal relief		**-**	(2)
Tax losses not recognised for deferred tax		**147**	79
Effect of change of tax rate		**(35)**	(18)
Adjustments to tax charge in respect of previous periods		**88**	(271)
Tax charge reported in the income statement		**42**	1,333

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

Income Tax		
Income tax (credit)/charge on exchange (losses)/gains on intra group balances	**-**	(17)
Net Tax (credit)/charge to equity	**-**	(17)

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 at the balance sheet date. 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 21%.

8 DEFERRED INCOME TAX

Deferred tax is calculated on temporary differences under the liability method using a tax rate of 21% (2012: 23%) for UK differences and local rates for overseas differences.

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

	2013 £000's	2012 £000's
As at 1 September	**(199)**	172
Credit/(charge) to the income statement	**292**	(371)
As at 31 August	**93**	(199)

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	
	2013 £000's	2012 £000's	2013 £000's	2012 £000's
Product development	**-**	-	**(157)**	(307)
Derivative financial instruments	**127**	54	**(61)**	(102)
Inventories	**103**	135	**-**	-
Carry forward tax losses	**82**	-	**-**	-
Short term timing differences	**-**	21	**(1)**	-
Tax assets/(liabilities)	**312**	**210**	**(219)**	**(409)**
Net tax asset/(liability)	**93**	**-**		**(199)**

Movement in recognised deferred tax during the 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)**
	(199)	**292**	-	**93**

Movement in recognised deferred tax during the prior year:

	1 September 2011 £000's	Recognised in income £000's	Recognised in equity £000's	31 August 2012 £000's
Product development	(408)	101	-	(307)
Derivative financial instruments	281	(329)	-	(48)
Inventories	226	(91)	-	135
Short term timing differences	73	(52)	-	21
	172	**(371)**	**-**	**(199)**

Deferred tax assets amounting to £666,000 (2012: £672,000) 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 2013 £000's	12 months to 31 August 2012 £000's
On equity shares:		
Final dividend paid for the year ended 31 August 2012		
— 3.0 pence (2011: 3.0 pence) per share	**734**	680
Interim dividend paid for the year ended 31 August 2013		
— 3.3 pence (2012: 3.3 pence) per share	**751**	739
	1,485	1,419

The directors recommend a final dividend of 3.3 pence per share (2012: 3.3 pence) amounting to £747,000 (2012: £736,000). If approved by shareholders, the final dividend will be paid on 31 January 2014 to shareholders on the register on 10 January 2014.

10 EARNINGS PER SHARE

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

	Year Ended 31 August 2013 Profit after taxation £	Year Ended 31 August 2012 Profit after taxation £
Profit for the year used in the calculation of basic and diluted earnings per share	**683,000**	5,750,000
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	**159,000**	5,750,000

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

	Year Ended 31 August 2013	Year Ended 31 August 2012
Weighted average number of ordinary shares used in the calculation of basic earnings per share	**22,398,806**	22,478,751
Share Options	**1,974,791**	2,532,881
Weighted average number of ordinary shares used in the calculation of diluted earnings per share	**24,373,597**	25,011,632

11 INTANGIBLE FIXED ASSETS - PRODUCT DEVELOPMENT

Cost	Total £000's
1 September 2011	**8,237**
Additions	3,037
Write off fully amortised assets	(4,832)
31 August 2012	**6,442**
Additions	1,899
Write off fully amortised assets	(3,405)
31 August 2013	**4,936**
Amortisation	
1 September 2011	**6,607**
Charge for the year	3,332
Write off fully amortised assets	(4,832)
31 August 2012	**5,107**
Charge for the year	2,486
Write off fully amortised assets	(3,405)
31 August 2013	**4,188**
Net book value	
31 August 2013	**748**
31 August 2012	1,335

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
1 September 2011	**3,904**	**107**	**1,636**	**352**	**5,999**
Additions	–	–	372	61	433
Disposals	–	–	–	(50)	(50)
Translation differences	–	3	6	–	9
1 September 2012	**3,904**	**110**	**2,014**	**363**	**6,391**
Additions	–	–	148	71	219
Disposals	–	(1)	–	(81)	(82)
Translation differences	–	(1)	(4)	–	(5)
31 August 2013	**3,904**	**108**	**2,158**	**353**	**6,523**
Depreciation					
1 September 2011	**559**	**53**	**1,321**	**221**	**2,154**
Charge for the year	108	37	193	75	413
Disposals	–	–	–	(50)	(50)
Translation differences	–	1	3	–	4
1 September 2012	**667**	**91**	**1,517**	**246**	**2,521**
Charge for the year	105	12	215	69	401
Disposals	–	–	–	(72)	(72)
Translation differences	–	(1)	(4)	–	(5)
31 August 2013	**772**	**102**	**1,728**	**243**	**2,845**
Net book value					
31 August 2013	**3,132**	**6**	**430**	**110**	**3,678**
31 August 2012	3,237	19	497	117	3,870

A bank has a charge over the freehold properties.

13 INVESTMENT PROPERTY

Cost	Total £000's
1 September 2011 and 31 August 2013	**2,194**
Depreciation	
1 September 2011	22
Charge for the year	65
1 September 2012	**87**
Charge for the year	65
31 August 2013	**152**
Net book value	
31 August 2013	**2,042**
31 August 2012	2,107

The investment property is held at depreciated historical cost which, in the opinion of the directors, at 31 August 2013 approximates its open market value. During the year the Group received rental income of £190,000 (2012: £181,000) 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

	2013 £000's	2012 £000's
Finished goods for resale	**6,178**	7,356

16 TRADE AND OTHER RECEIVABLES

	2013 £000's	2012 £000's
Current:		
Trade receivables	**15,214**	12,941
Less: provision for impairment of receivables	**–**	–
Trade receivables – net	**15,214**	12,941
Other receivables	**931**	772
	16,145	13,713
Prepayments	**2,577**	3,392
	18,722	17,105

16 TRADE AND OTHER RECEIVABLES CONTINUED

Advances received under the recourse invoice discounting facility amounting to £9,258,000 (2012: £9,276,000) 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:

	2013 £000's	2012 £000's
Fully performing	**14,580**	12,628
Past due	**634**	313
Impaired	**–**	–
Trade receivables	**15,214**	12,941

Ageing of past due, not impaired, receivables:

	2013 £000's	2012 £000's
1 – 90 days	**376**	113
> 90 days	**258**	200
	634	313

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

	2013 £000's	2012 £000's
Pounds Sterling	**8,168**	6,895
US Dollars	**6,988**	5,913
Euros	**25**	133
Polish Zloty	**33**	–
	15,214	12,941

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.

	2013		2012	
	Assets £000's	Liabilities £000's	Assets £000's	Liabilities £000's
Forward foreign exchange contracts and options	**360**	**(607)**	445	(235)
	360	**(607)**	445	(235)

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)

	2013		2012	
	Assets £000's	**Liabilities £000's**	Assets £000's	Liabilities £000's
UK income tax	**838**	**–**	222	–
Overseas income tax	**25**	**(550)**	–	(740)
	863	**(550)**	222	(740)

19 CASH & CASH EQUIVALENTS

	2013 £000's	2012 £000's
Cash and cash equivalents	**9,242**	5,908

Cash and cash equivalents are denominated in the following currencies

	At 31 August 2013	At 31 August 2012
Currency	**Floating rate financial assets £000's**	Floating rate financial assets £000's
Sterling	**1,894**	(718)
US$	**6,622**	6,210
Euro	**189**	121
HKS$	**471**	256
Polish Zloty	**34**	-
Chinese Renminbi	**32**	39
Total	**9,242**	5,908

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

At 31 August 2013, the balances attracted interest at rates of between 0.15% and 0.4 %.

20 SHORT TERM BORROWINGS

	2013 £000's	2012 £000's
Finance Advances	**9,258**	9,276
Import Loans	**6,002**	4,528
Total	**15,260**	13,804

Analysis of short term borrowings by currency

	2013 £000's	2012 £000's
Sterling	**8,142**	7,708
US$	**7,092**	6,091
Euro	**26**	5
Total	**15,260**	13,804

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 2.5% 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 £9.6 million. The interest charged is between 0.25% per annum and 3.55% per annum over Prime or HIBOR. A subsidiary has a pledged cash deposit with a bank amounting to approximately £0.9 million (2012: £0.9 million), which has been included in cash and cash equivalents.

21 TRADE AND OTHER PAYABLES

	2013 £000's	2012 £000's
Trade creditors	**12,050**	9,184
Other taxation and social security	**1,036**	778
Accruals and deferred income	**3,455**	3,427
	16,541	13,389

22 FINANCIAL INSTRUMENTS

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

Financial assets Current financial assets	**Note**	**31 August 2013** **Total £000's**	**Loans and receivables £000's**	31 August 2012 Total £000's	Loans and receivables £000's
Trade and other receivables	**16**	**16,145**	**16,145**	13,713	13,713
Derivative financial instruments	**17**	**360**	**360**	445	445
Cash and cash equivalents	**19**	**9,242**	**9,242**	5,908	5,908
		25,747	**25,747**	20,066	20,066

Financial liabilities Current financial liabilities	**Note**	**31 August 2013** **Total £000's**	**Financial Liabilities £000's**	31 August 2012 Total £000's	Financial Liabilities £000's
Trade and other payables	**21**	**16,541**	**16,541**	13,389	13,389
Derivative financial instruments	**17**	**607**	**607**	235	235
Short term borrowings	**20**	**15,260**	**15,260**	13,804	13,804
		32,408	**32,408**	27,428	27,428

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 interest rates.

The following table details how the Group's income and equity would (decrease)/increase on a before tax basis, given a 10% depreciation in the respective currencies against Sterling and in accordance with IFRS 7 all other variables remaining constant. A 10% depreciation in the value of Sterling against the respective currencies would have the opposite effect.

The 10% change represents a reasonably possible change in the specified foreign exchange rates in relation to the Group's functional currencies.

	2013		2012	
	Total Equity £000's	**Profit or (Loss) £000's**	Total Equity £000's	Profit or (Loss) £000's
Euro	**(7)**	**(7)**	(31)	(31)
US$	**(570)**	**(570)**	(192)	(192)
HK$	**(293)**	**(293)**	(6)	(6)
	(870)	**(870)**	(229)	(229)

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	2013 £000's	2012 £000's
Trade receivables	**15,214**	12,941
Other receivables	**931**	772
Current tax assets	**863**	222
Cash	**9,242**	5,908
	26,250	19,843

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 £6,736,000 (2012: £7,200,000). 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:

	2013		2012	
	Current £000's	Non-current within five years £000's	Current £000's	Non-current within five years £000's
Finance advances	**9,258**	**-**	9,276	-
Import loans	**6,002**	**-**	4,528	-
Trade and other payables	**16,541**	**-**	13,389	-
Current tax liabilities	**550**	**-**	740	-
Derivative financial instruments	**607**	**-**	235	-
Deferred tax liabilities	**-**	**219**	-	409
	32,958	**219**	28,168	409

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:

	2013 £000's	2012 £000's
Not later than one year	**205**	152
Later than one year but not more than five years	**275**	20
	480	172

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:

	2013 £000's	2012 £000's
Within one year	**2,185**	2,199
Between one and two years	**1,389**	1,917
Between two and five years	**161**	1,392
	3,735	5,508

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:

	2013 £000's	2012 £000's
Within one year	**195**	188
Between one and two years	**424**	555
Between two and five years	**79**	140
	698	883

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 2013 amounted to £821,000 (2012: £ 204,000).

28 CALLED UP SHARE CAPITAL (EQUITY)

	2013 £000's	2012 £000's
Authorised		
110,000,000 (2012: 110,000,000) ordinary shares of 5 pence each	**5,550**	5,550
Allotted, called up and fully paid		
27,055,169* (2012: 26,612,234) ordinary shares of 5 pence each	**1,353**	1,331

* Including 4,019,456 Ordinary Shares held in treasury (2012: 4,019,456).

Share capital movements in the year

854,435 (2012: 408,417) Ordinary Shares, total nominal value £42,722 (2012: £20,421), were issued during the year to employees exercising their share options as follows:

	Number of Ordinary Shares at exercise price		
Date	**54.00p**	**63.00p**	**35.5p**
28 September 2012	–	–	800
21 December 2012	370,000	–	–
22 February 2013	–	47,000	–
2 May 2013	–	–	2,667
8 May 2013	–	–	2,400
9 May 2013	–	–	17,400
13 May 2013	–	–	14,100
17 May 2013	–	–	2,667
21 May 2013	–	–	33,571
22 May 2013	–	–	2,000
23 May 2013	–	–	4,200
28 May 2013	–	–	10,202
31 May 2013	–	–	68,210
6 June 2013	–	–	24,000
10 June 2013	–	–	4,000
14 June 2013	–	5,000	2,400
18 June 2013	–	–	2,000
2 July 2013	–	–	4,000
3 July 2013	–	–	234,668
30 July 2013	–	–	150
2 August 2013	–	–	1,600
5 August 2013	–	–	300
15 August 2013	–	–	1,100

28 CALLED UP SHARE CAPITAL (EQUITY) CONTINUED

Share capital movements in the year (continued)

During the year, the Company repurchased for cancellation 411,500 (2012: 1,584,220) Ordinary Shares as follows:

Date	Number of shares	Price	% of the issued share capital immediately prior to cancellation (excluding shares held in Treasury)
21 December 2012	320,000	125.00p	1.39%
31 December 2012	35,000	124.42p	0.15%
2 January 2013	5,000	125.00p	0.02%
7 January 2013	10,000	120.18p	0.04%
10 January 2013	5,700	125.00p	0.03%
10 January 2013	10,000	124.00p	0.04%
15 January 2013	25,800	125.00p	0.11%

At 31 August 2013 and 31 August 2012, 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 an Inland Revenue approved executive share option scheme (the "1995 Scheme") on 3 May 1995. The 1995 Scheme terminated on 3 May 2005 but such termination has not affected the status of options granted under it prior to that date.

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. On 5 February 2003, options over a total of 1,131,250 new ordinary shares of 5 pence each were granted to Group employees under the 1995 Scheme at an exercise price of 54 pence per share. On 6 May 2009, options over a total of 280,002 new ordinary shares of 5 pence each were granted under the EMI Scheme to certain executive directors at an exercise price of 35.5 pence per share.

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, a major supplier to the Group. 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.

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.

28 CALLED UP SHARE CAPITAL (EQUITY) CONTINUED

At 31 August 2013, rights to options over 4,327,409 Ordinary Shares of the Company were outstanding as follows:

	At 1 September 2012	Granted	Exercised/ lapsed	At 31 August 2013	Exercise Price	Exercise Period
EMI Scheme						
	370,000	–	(370,000)	–	54.0p	5 February 2006 to 4 February 2013
	93,334	–	(93,334)	–	35.50p	6 May 2012 to 5 May 2019
	93,334	–	(93,334)	–	35.50p	6 May 2013 to 5 May 2019
	93,334	–	–	93,334	35.50p	6 May 2014 to 5 May 2019
2006 Scheme						
	913,000	–	(47,000)	866,000	63.0p	11 May 2009 to 10 May 2016
	170,230	–	(5,000)	165,230	63.0p	15 May 2009 to 14 May 2016
	390,718	–	(18,702)	372,016	35.50p	6 May 2012 to 5 May 2019
	631,331	–	(229,365)	401,966	35.50p	6 May 2013 to 5 May 2019
	631,331	–	(7,468)	623,863	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
	5,191,612	–	(864,203)	4,327,409		

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:

	2013		2012	
	Number	**Weighted average exercise price**	Number	Weighted average exercise price
Outstanding at 1 September	**5,191,612**	**81.49p**	5,629,203	78.70p
Granted	**–**	**–**	–	–
Exercised	**(854,435)**	**45.19p**	(408,417)	46.28p
Lapsed	**(9,768)**	**35.50p**	(29,174)	35.50p
Outstanding at 31 August	**4,327,409**	**88.77p**	5,191,612	81.49p
Weighted average remaining contractual life in years		**4.3**		5.1

Options over 854,435 Ordinary Shares were exercised in the year (2012: 408,417). The weighted average share price (at the date of exercise) of options exercised during the year was 126.00p (2012: 152.00p).

At 31 August 2013, options over 2,860,212 Ordinary Shares were exercisable (2012: 1,992,282).

29 SHARE-BASED PAYMENT

	12 months ended 31 August 2013 £000's	12 months ended 31 August 2012 £000's
Charge for share based payment	**469**	542

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 2012	55,000	1,000,000	750,000	280,002
Exercised	–	–	–	(186,668)
Options outstanding 31 August 2013	55,000	1,000,000	750,000	93,334
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 2012	913,000	170,230	1,653,380
Exercised	(47,000)	(5,000)	(245,767)
Lapsed/cancelled	–	–	(9,768)
Options outstanding 31 August 2013	866,000	165,230	1,397,845
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 2013, the Trust held 285,000 Ordinary Shares (2012: 285,000), which had a market value of £399,000 (2012: £367,650), upon which it has waived its right to dividend income. The cost of these shares was £908,000. At 31 August 2013, no options had been granted by the Trust.

31 EVENTS OCCURING AFTER THE BALANCE SHEET DATE

22,100 Ordinary Shares were issued to employees exercising share options, at an average exercise price of 35.5 pence per Ordinary Share during September 2013 and October 2013. During September 2013, the Company repurchased for cancellation 60,430 Ordinary Shares at an average cost of £1.45 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 2013 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 respect of 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. 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 2013;
- 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.

Other matter

We have reported separately on pages 15 and 16 on the consolidated financial statements of The Character Group plc for the year ended 31 August 2013.

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 2013

COMPANY BALANCE SHEET

as at 31 August 2013

	Note	2013 £000's	2012 £000's
Fixed assets			
Tangible assets	2	**563**	607
Investments	3	**3,232**	2,794
		3,795	3,401
Current assets			
Debtors	4	**16,201**	14,077
Cash at bank and in hand		**850**	734
		17,051	14,811
Current liabilities			
Creditors: amounts falling due within one year	5	**(221)**	(350)
Net current assets		**16,830**	14,461
Total assets less current liabilities		**20,625**	17,862
Net Assets		**20,625**	17,862
Capital and reserves			
Called up share capital	7,8	**1,353**	1,331
Shares held in treasury	8	**(3,373)**	(3,373)
Investment in own shares	9	**(908)**	(908)
Capital redemption reserve	8	**1,480**	1,459
Share premium account	8	**13,675**	13,332
Share based payment reserve	8	**2,361**	1,892
Profit and loss account	8	**6,037**	4,129
Equity shareholders' funds		**20,625**	17,862

The financial statements on pages 53 to 62 were approved by the Board of directors on 3 December 2013.

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 £3,910,000 (2012: £6,086,000).

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 7 employees in 2013 and 6 employees in 2012. Details of the remuneration of the directors are included in note 5 directors and employees remuneration staff costs, on pages 30 to 32.

2 TANGIBLE FIXED ASSETS

Cost	**Freehold land and buildings £000's**	**Fixtures, fittings and equipment £000's**	**Total £000's**
1 September 2012	1,182	160	1,342
Additions	–	2	2
31 August 2013	**1,182**	**162**	**1,344**
Depreciation			
31 August 2012	589	146	735
Charge for the year	39	7	46
31 August 2013	**628**	**153**	**781**
Net book value			
31 August 2013	**554**	**9**	**563**
31 August 2012	593	14	607

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 2012	3,195	1,495	4,690
Share based payment	–	438	438
At 31 August 2013	**3,195**	**1,933**	**5,128**
Amortisation and provisions			
1 September 2012	1,896	–	1,896
Charge for the year	–	–	–
At 31 August 2013	1,896	–	1,896
Net book value			
31 August 2013	**1,299**	**1,933**	**3,232**
31 August 2012	1,299	1,495	2,794

At 31 August 2013, 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

	2013 £000's	2012 £000's
Due from subsidiary undertakings	**15,930**	13,775
Other debtors	**54**	14
Prepayments and accrued income	**209**	284
Other taxation and social security	**8**	4
	16,201	14,077

5 CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2013 £000's	2012 £000's
Due to subsidiary undertakings	**13**	269
Accruals and deferred income	**208**	81
	221	350

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 2013 was £941,000 (2012: £771,000).

7 CALLED UP SHARE CAPITAL (EQUITY)

	2013 £000's	2012 £000's
Authorised		
110,000,000 (2012: 110,000,000) ordinary shares of 5 pence each	**5,550**	5,550
Allotted, called up and fully paid		
27,055,169* (2012: 26,612,234) ordinary shares of 5 pence each	**1,353**	1,331

* Including 4,019,456 Ordinary Shares held in treasury (2012: 4,019,456).

Share capital movements in the year

854,435 (2012: 408,417) Ordinary Shares, total nominal value £42,722 (2012: £20,421), were issued during the year to employees exercising their share options as follows:

	Number of Ordinary Shares at exercise price		
Date	**54.00p**	**63.00p**	**35.5p**
28 September 2012	–	–	800
21 December 2012	370,000	–	–
22 February 2013	–	47,000	–
2 May 2013	–	–	2,667
8 May 2013	–	–	2,400
9 May 2013	–	–	17,400
13 May 2013	–	–	14,100
17 May 2013	–	–	2,667
21 May 2013	–	–	33,571
22 May 2013	–	–	2,000
23 May 2013	–	–	4,200
28 May 2013	–	–	10,202
31 May 2013	–	–	68,210
6 June 2013	–	–	24,000
10 June 2013	–	–	4,000
14 June 2013	–	5,000	2,400
18 June 2013	–	–	2,000
2 July 2013	–	–	4,000
3 July 2013	–	–	234,668
30 July 2013	–	–	150
2 August 2013	–	–	1,600
5 August 2013	–	–	300
15 August 2013	–	–	1,100

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 411,500 (2012: 1,584,220) Ordinary Shares as follows:

Date	Number of shares	Price	% of the issued share capital immediately prior to cancellation (excluding shares held in Treasury)
21 December 2012	320,000	125.00p	1.39%
31 December 2012	35,000	124.42p	0.15%
2 January 2013	5,000	125.00p	0.02%
7 January 2013	10,000	120.18p	0.04%
10 January 2013	5,700	125.00p	0.03%
10 January 2013	10,000	124.00p	0.04%
15 January 2013	25,800	125.00p	0.11%

At 31 August 2013 and 31 August 2012, a total of 4,019,456 Ordinary Shares were held in treasury.

7 CALLED UP SHARE CAPITAL (EQUITY) CONTINUED

Share options

The Company adopted the rules of an Inland Revenue approved executive share option scheme (the "1995 Scheme") on 3 May 1995. The 1995 Scheme terminated on 3 May 2005 but such termination has not affected the status of options granted under it prior to that date.

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. On 5 February 2003, options over a total of 1,131,250 new ordinary shares of 5 pence each were granted to Group employees under the 1995 Scheme at an exercise price of 54 pence per share. On 6 May 2009, options over a total of 280,002 new ordinary shares of 5 pence each were granted under the EMI Scheme to certain executive directors at an exercise price of 35.5 pence per share.

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, a major supplier to the Group. 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.

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.

7 CALLED UP SHARE CAPITAL (EQUITY) CONTINUED

Share options (continued)

At 31 August 2013, rights to options over 4,327,409 Ordinary Shares of the Company were outstanding as follows:

	At 1 September 2012	Granted	Exercised/ lapsed	At 31 August 2013	Exercise Price	Exercise Period
EMI Scheme						
	370,000	–	(370,000)	–	54.0p	5 February 2006 to 4 February 2013
	93,334	–	(93,334)	–	35.50p	6 May 2012 to 5 May 2019
	93,334	–	(93,334)	–	35.50p	6 May 2013 to 5 May 2019
	93,334	–	–	93,334	35.50p	6 May 2014 to 5 May 2019
2006 Scheme						
	913,000	–	(47,000)	866,000	63.0p	11 May 2009 to 10 May 2016
	170,230	–	(5,000)	165,230	63.0p	15 May 2009 to 14 May 2016
	390,718	–	(18,702)	372,016	35.50p	6 May 2012 to 5 May 2019
	631,331	–	(229,365)	401,966	35.50p	6 May 2013 to 5 May 2019
	631,331	–	(7,468)	623,863	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
	5,191,612	–	(864,203)	4,327,409		

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:

	2013		2012	
	Number	**Weighted average exercise price**	Number	Weighted average exercise price
Outstanding at 1 September	**5,191,612**	**81.49p**	5,629,203	78.70p
Granted	**–**	**–**	–	–
Exercised	**(854,435)**	**45.19p**	(408,417)	46.28p
Lapsed	**(9,768)**	**35.50p**	(29,174)	35.50p
Outstanding at 31 August	**4,327,409**	**88.77p**	5,191,612	81.49p
Weighted average remaining contractual life in years		**4.3**		5.1

Options over 854,435 Ordinary Shares were exercised in the year (2012: 408,417). The weighted average share price (at the date of exercise) of options exercised during the year was 126.00p (2012: 152.00p).

At 31 August 2013, options over 2,860,212 Ordinary Shares were exercisable (2012: 1,992,282).

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 2012	55,000	1,000,000	750,000	280,002
Exercised	–	–	–	(186,668)
Options outstanding 31 August 2013	55,000	1,000,000	750,000	93,334
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 2012	913,000	170,230	1,653,380
Exercised	(47,000)	(5,000)	(245,767)
Lapsed/cancelled	–	–	(9,768)
Options outstanding 31 August 2013	866,000	165,230	1,397,845
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 2012	1,331	(3,373)	1,459	13,332	1,892	4,129	18,770
Share-based payment - Company	–	–	–	–	31	–	31
Share-based payment – subsidiary undertaking	–	–	–	–	438	–	438
Profit after tax	–	–	–	–	–	3,910	3,910
Dividend paid	–	–	–	–	–	(1,485)	(1,485)
Shares issued	43	–	–	343	–	–	386
Shares cancelled	(21)	–	21	–	–	(517)	(517)
31 August 2013	**1,353**	**(3,373)**	**1,480**	**13,675**	**2,361**	**6,037**	**21,533**

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 2013, the Trust held 285,000 Ordinary Shares (2012: 285,000), which had a market value of £399,000 (2012: £367,650), upon which it has waived its right to dividend income. The cost of these shares was £908,000. At 31 August 2013, no options had been granted by the Trust.

10 AUDITOR'S REMUNERATION

	2013 £000's	2012 £000's
Audit of the financial statements	**7**	8

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 OCCURING AFTER THE BALANCE SHEET DATE

22,100 Ordinary Shares were issued to employees exercising share options, at an average exercise price of 35.5 pence per Ordinary Share during September 2013 and October 2013. During September 2013, the Company repurchased for cancellation 60,430 Ordinary Shares at an average cost of £1.45 per Ordinary Share.

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN THAT the 2013 Annual General Meeting of The Character Group plc will be held at the offices of Duane Morris, 2nd Floor, 10 Chiswell Street, London, EC1Y 4UQ on Friday 17 January 2014 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 2013 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 2013 of 3.3 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 MHA MacIntyre Hudson 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 £383,500, 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 the grant of Rights under section 551 of the Act to the extent that the same have not previously been utilised.

Ordinary Resolution

7. Subject to and conditional upon the passing of resolution 6 above, that the directors be and are hereby authorised for the purposes of Article 191 of the Articles of Association of the company, to offer to members of the company, in accordance with the provisions of the said Article, the right to elect to receive ordinary shares, credited as fully paid, in whole or in part instead of cash in respect of all or any dividends declared or paid by the company or the directors pursuant to the Articles of Association of the company at any time after the date of the passing of this resolution and the conclusion of the Annual General Meeting of the company next following the date upon which this resolution was passed and that the directors be and are hereby authorised to make any such offer on such terms and conditions to such members of the company, subject always to the provisions of the Articles of Association of the company, as they shall in their absolute discretion determine.

Ordinary Resolution

8. That the company be and is hereby generally and unconditionally authorised for the purposes of section 701 of the Act to make market purchases (as defined in section 693(4) of the Act) of ordinary shares of 5p each in the capital of the company provided that:
   (A) the maximum number of ordinary shares of 5p each in the capital of the company hereby authorised to be acquired is 5,758,000;
   (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

Ordinary Resolution

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

Special Resolution

9. That:

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

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

(ii) the allotment (otherwise than pursuant to paragraph (i) above) of equity securities up to an aggregate nominal value of £115,178;

(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 17 December 2013	Registered Office: 10 Chiswell Street, London EC1Y 4UQ

Notes:

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

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

3. To be valid, forms of proxy must be lodged with Neville Registrars Limited, 18 Laurel Lane, Halesowen, West Midlands 63 3DA not later than 11:00 a.m on 15 January 2014. A form of proxy has been despatched separately to each shareholder. If you do not have a proxy form and believe that you should have one, or if you require additional forms, please contact the company Secretary.

4. Completion of a form of proxy or any CREST Proxy Instruction (as described in paragraph 8 below) will not prevent a member from attending and voting at the Annual General Meeting should he or she so wish.

5. 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 15 January 2014. 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.

6. As at 17 December 2013 (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 21,697,383 ordinary shares, carrying one vote each. Therefore, the total voting rights in the company as at 17 December 2013 was 21,697,383.

7. 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 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.

8. 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 CRESTCo'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 15 January 2014. 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.

9. 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.

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

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