Annual Report and Accounts

For the year ended 31 August 2019

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

DIRECTORS AND ADVISERS

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

Company Secretary
K P Shah FCCA

Company registration number 3033333

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

Solicitors
Duane Morris
CityPoint, 16th Floor
One Ropemaker Street
London EC2Y 9AW

Auditors
MHA MacIntyre Hudson
2 London Wall Place
London EC2Y 5AU

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

Nominated Adviser and Broker
Panmure Gordon (UK) Limited
One New Change
London EC4M 9AF

Joint Broker
Allenby Capital Limited
5 St Helen's Place
London EC3A 6AB

Registrar
Neville Registrars Limited
Neville House
Steelpark Road
Halesowen
West Midlands B62 8HD

OVERVIEW

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

Our diverse product ranges focus on key areas within the toy sector; these include Pre-school (where we consider ourselves as market leader), Boys, Activity and Girls.

Our corporate strategy is to expand and refresh our existing, successful core brands, where we continually look to add new and relevant products, to develop innovative products for newly emerging or established brands, both in-house and third party and to further our sales penetration into markets outside our domestic markets. We believe that this approach will enable the Group to develop further sales in our home territories in the UK and Scandinavia and overseas.

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

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

Our top performing brands during the year ended 31 August 2019 included *Peppa Pig*, *Pokémon*, *Teletubbies, Doctor Who, Little Live Pets*, *Shimmer and Sparkle*, *Mashems, Treasure X*, *Goo Jit Zu* and *Stretch*.

CHAIRMAN'S STATEMENT

In the year under review, the Group produced an operating profit of £11.6 million, matching the level in the previous year, which, taking into account the well-publicised challenging conditions which prevailed generally in the Group's markets as well as the particular difficulties that arose in the Scandinavian market, was a very commendable result.

Despite the unfavourable conditions and the contraction in our UK domestic market, our UK operations held up well in the period and the groundwork was laid for significant growth in our international sales in the second half of the current financial year and beyond. Our Scandinavian operations were adversely affected by the collapse and liquidation of the region's largest retailer and the board is currently undertaking a full review of the Group's operations in this region with the local management.

Although the increase in our inventories and losses in our Scandinavian operations did reduce our net cash position to £6.5 million as at 31 August 2019 (2018: £15.6m), we ended the year with a further strengthened balance sheet and a strong line up of products for the current financial year and Christmas 2020. On a turnover of £120.0m (2018: £106.2m), the Group delivered a profit before tax of £11.1m (2018: £11.6m). Net assets increased by £2.3m to £34.1m (2018: £31.8m).

We are recommending a final dividend of 13p per share (2018 H2: 12p per share), an increase of 8.3%. Together with the interim dividend of 13p per share paid in July 2019, the total dividend for the year is 26p per share (2018: 23p per share), an increase of 13%.

Our preparations for withdrawal from the EU have been in place since September 2019 but our subsidiaries in Scandinavia will, in any event, assure us of access to EU markets post-Brexit.

Whilst the challenging conditions will continue to have an adverse impact in the first half of the current financial year (including this Christmas), we are optimistic for the prospects in the second half and beyond.

The Group could not have achieved these results or have confidence going forward without an immensely talented, motivated and dedicated team and I thank everyone of them for their loyal service.

I look forward to updating shareholders at our annual general meeting on 17 January 2020 and take the opportunity to wish all our staff, shareholders, customers and suppliers a very happy New Year!

Richard King

Non-executive Chairman
20 December 2019

EXECUTIVE REVIEW

KEY PERFORMANCE INDICATORS	12 months ended 31 August 2019	12 months ended 31 August 2018
Revenue	**£120.4m**	£106.2m
Operating profit	**£11.6m**	£11.7m
Gross margin	**34.5%**	34.2%
Pre-tax profit	**£11.1m**	£11.6m
EBITDA	**£13.7m**	£13.6m
Basic earnings per share before significant and exceptional items	**43.27p**	45.09p
Diluted earnings per share before significant and exceptional items	**42.96p**	44.38p
Basic earnings per share after significant and exceptional items	**37.21p**	45.63p
Diluted earnings per share after significant and exceptional items	**36.94p**	44.91p
Dividends declared per share for the year	**26.0p**	23.0p
Net assets	**£34.1m**	£31.8m
Net cash	**£6.5m**	£15.6m

INTRODUCTION

As stated in the trading update issued by the Company in September, the year under review was challenging for the Group. The principal factors in this were the failure of the Scandinavian toy market to recover fully from the demise of Top Toy (formerly the largest toy retailer in that market), the continued decline of the UK toy market (believed by the Board to be as much as 15% over the last two years) and the weakness of Sterling. These factors, together with the well-publicised effects of Brexit on the entire UK retail market, have had a negative impact on the Group as a whole. Although this was somewhat disappointing and led to a downward revision in market expectations for the year under review and for the current financial year, the Group's market share in the UK did not materially change in the period.

Against this backdrop, the Board presents the Group's results:

OPERATIONAL PERFORMANCE

Overall, Group revenue in the year ended 31 August 2019 was £120.4m, against £106.2m in the comparable 2018 period, with Proxy contributing £13m. The gross profit margin for the Group was 34.5% (FY2018: 34.2%). On an absolute basis, the gross profit was £41.6m compared to £36.3m for the previous year.

As already remarked, a significant proportion of the Group's purchases are made in US dollars; the Group is therefore exposed to foreign currency fluctuations and manages the associated risk through the purchase of forward exchange contracts and derivative financial instruments. Under International Financial Reporting Standards (IFRS), at the end of each reporting period the Group is required to make an adjustment in its financial statements to incorporate a "mark to market" valuation of such financial instruments. The "mark to market" adjustment for this financial period results in an additional profit of £0.36m. This compares to an additional profit of £0.14m reported in the year to 31 August 2018. These "mark to market" adjustments are non-cash items calculated by reference to unpredictable and sometimes volatile currency spot rates at the various balance sheet dates. To highlight profitability on a normal basis, these adjustments are shown separately as significant items to demonstrate the "underlying" profit measures presented in this Report.

The Group is reporting a profit before tax in the period under review of £11.1m (FY 2018: £11.6m). Underlying earnings before interest, tax, depreciation and amortisation were £13.7m (FY 2018: £13.6m).

Underlying basic earnings per share before significant items amounted to 43.27p (FY 2018: 45.09p). Underlying diluted earnings per share, on the same basis, was 42.96p, (FY 2018: 44.38p).

FINANCIAL POSITION, WORKING CAPITAL & CASH FLOW

Despite the factors mentioned in the introduction to this statement, we have worked diligently to ensure that we finished the year in an improved trading position.

The Group's capital base has been further strengthened in the period, with net assets at 31 August 2019 totalling £34.1m (FY 2018: £31.8m), up 7.5% on last year.

Inventories were *c.*£5.6m higher at the end of the financial period at £16.4m (FY 2018 £10.9m). £4.3m of the increase reflects the level of inventory held at the year end by a Danish subsidiary.

During the financial year, the Group generated cash from operations of £10.4m (FY 2018: £14.0m). Interest charges during the year amounted to £0.47m (FY 2018: £0.1m). Most of this interest charge was from Proxy.

At the end of the financial year, after making payments for dividends and share buy-backs (referred to in this Report), the Group had a net cash position of £6.5m, compared to £15.6m at the end of the 2018 comparative period.

DIVIDEND

As stated in our trading update of 13 September 2019, we remain committed to maintaining the final dividend as we believe this reflects our confidence in the Company's ability to generate and develop further sustainable cash flow. The Board will be recommending to shareholders a final dividend of 13.0p, an increase of approximately 8.3% over last year (2018 H2: 12.0p per share). This, together with the interim dividend of 13.0p per share paid in July 2019, makes a total dividend for the year of 26.0p per share, an increase of approximately 13.0% over the prior year (FY 2018: 23.0p).

The 2019 final dividend is covered approximately 1.66 times by underlying annual earnings (2018: 1.96 times). Subject to approval by shareholders at the Annual General Meeting ("AGM") at 11am on Friday, 17 January 2020, the final dividend will be paid on 31 January 2020 to members on the register as at the close of business on 17 January 2020; the shares will be marked ex-dividend on 16 January 2020.

PROXY

During the period under review, the operating loss sustained by OVG-Proxy A/S ("Proxy") the Group's Danish subsidiary, was approximately £0.75m on a turnover of approximately £13.0m. As a consequence of the losses sustained by Proxy and in light of the forecasts for its business going forward, the Board is of the view that no further consideration will become payable under the terms of the Acquisition announced on 18 October 2018. The goodwill attributable to Proxy has been fully impaired.

The total consideration paid to date to the Proxy vendors amounts to £1.44m, satisfied as to £0.73m in cash and the balance by the transfer from treasury of 150,000 ordinary shares in the Company.

The Proxy team is focused on reducing the current inventories of slower moving lines. A full review of the Proxy business model is underway with the Proxy management and it is anticipated that, in addition to tighter Group controls over purchases and a substantial reduction/rationalisation of the product lines distributed by Proxy already agreed, this will lead to cost cutting measures being implemented. Whilst the challenging market conditions in Scandinavia are continuing, the Board is hopeful of a significant improvement in Proxy's performance in the current financial year.

OUR PRODUCT PORTFOLIO

Character's portfolio is performing well and will be strengthened further by some exciting new products that will be launched at The London Toy Fair in January 2020 and through to the spring/early summer 2020.

Our in-house developed lines based on licensed-in brands such as *Peppa Pig, Teletubbies, Scooby-Doo, Doctor Who* and *Stretch* all feature in our portfolio for 2020.

Once again, we were delighted that products from our portfolio have featured in the UK's "Dream Toys" wish list which was announced last month with our *Peppa Pig Stage Playset* being named in the "Dream Toys Dozen" for this Christmas and six further toys from our ranges in the top toys round-up for various categories.

Our collaboration with Moose Toys has led to the production of an imaginative new range of compound-filled, collectable characters under the *Goo Jit Zu* brand, which was launched in summer 2019. *Goo Jit Zu* has already gained acclaim in the industry, receiving a nomination in the final selections for the UK's Dream Toy Top Toy award in the "Let's Get Busy" category and becoming a finalist in the US action figure Toy of the Year for 2020. The line has also been exceptionally well received by our customers and distributors and, although it did not feature significantly in the sales in the year under review (due to the launch taking place in the latter part of the year), we anticipate achieving significant sales and distribution in over 30 territories around the world by the end of the current year and the revenue forecasts for this line in 2020 look strong. Further developments for the *Goo Jit Zu* branded range include a series of *Marvel* collectable characters, for which the Group has secured a European and Middle Eastern licence from Disney.

In spring/early summer 2020 we will be launching two new in-house brands, which are receiving great reactions from our early presentations and we will be updating shareholders with further news of these when they are launched.

As well as our in-house lines, our portfolio features exciting branded product lines produced by overseas toy companies, which we distribute on an exclusive basis in our domestic territories, including *Pokémon, Little Live Pets, Shimmer and Sparkle, Mashems* and *Treasure X*. New third-party lines are in negotiation and will be added to our portfolio in 2020.
Following the announcement in August this year of the proposed takeover of Entertainment One Limited ("E1") by Hasbro, Inc., it was gratifying to note that our current *Peppa Pig* licence was extended until 30 June 2021. Additionally, we are delighted to announce that yesterday we signed an additional, new licence with E1 to produce a range of wooden *Peppa Pig* toys and products. This new multi-territory licence deal (which includes Europe and Australia) will run through to December 2022. The initial reaction to the concepts, product ideas and designs for this wooden range from our customers has been extremely positive. The line, likely to be launched in July 2020, seems to be assured of good retail support, given its strong sustainable, recyclable and environmentally friendly credentials.

The international sales of our lines, particularly our *Goo Jit Zu* , *Goo Jit Zu Marvel* and *Peppa Pig,* have been very encouraging and, coupled with the introductions of our new brands (the *Peppa Pig* wooden range and other in-house developed products), we anticipate significant growth in international sales in the current financial year and beyond.

SHARE BUY-BACK PROGRAMME

During the 2019 financial year, the Company acquired a total of 237,807 ordinary shares in the Company at an aggregate cost of approximately £1.27m (excluding associated costs), with the average cost being approximately £5.32 per ordinary share (FY 2018: 338,700 ordinary shares were acquired and cancelled at an aggregate cost of approximately £1.36m and an average cost of approximately £4.03 per ordinary share).

The Company currently has an unutilised authority to buy-back up to a further 3,055,686 ordinary shares. As we have previously indicated, it remains part of our overall strategy to continue to repurchase the Company's own shares when appropriate under its current share buy-back programme.

TOTAL VOTING RIGHTS

As at today's date, the Company has 21,329,745 ordinary shares in issue, excluding shares held in treasury. The Company holds 2,278,756 ordinary shares in treasury, representing approximately 10.7 per cent. of the issued share capital (excluding these treasury shares), which do not carry voting or dividend rights. The figure of 21,329,745 may be used by shareholders as the denominator for the calculations by which they may determine if they are required to notify their interest, or change to their notified interest, in the Company under the Financial Conduct Authority's Disclosure Guidance and Transparency Rules.

OUR PEOPLE

The Group employs a total of 212 people across its locations in the UK, Scandinavia and Asia (FY 2018: 186). Our highly experienced teams are dedicated to developing, marketing and distributing innovative and exciting toys that meet today's high expectations of both our customers and consumer demand in terms of quality and value.

The Board has spoken in the past of the agility and vision of the Group's management and the dedication and loyalty of its employees at all levels in the business in facing and overcoming the challenges faced by the Group in seeking to continue to grow the business profitably. Despite the unsettled market conditions that existed in the year under review and that continue, the enthusiasm and commitment of all our staff at all levels within the business has been unstinting and the Board greatly appreciates that support.

OUTLOOK

The challenging trading in prospect for Christmas 2019 will affect the first half of our current financial year. By contrast, the prospects for the second half look positive. *Goo Jit Zu*, *Goo Jit Zu Marvel* and the new *Peppa Pig* wooden range will feature increasingly in sales in the current year and sales will be further bolstered with the launch of the exciting new concepts and products that we are bringing to market in 2020, as mentioned in the Product Portfolio section above. As well as positively impacting domestic sales, we anticipate that our international sales penetration for these lines in the second half of the current financial year and beyond will be significant and enable the Group to further increase its sales growth beyond its domestic markets.

The strength of the portfolio of brands and products that Character is taking into 2020 greatly underpins our confidence that we will achieve market expectations for the current financial year.

The Board look forward to further updating shareholders on the Christmas trading period and prospects at the time of the forthcoming AGM on 17 January 2020.

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:

Brexit

Although the outcome of the recent general election in the UK makes the timing and shape of the UK's withdrawal from the EU more certain, the longer-term impact of Brexit on the UK economy and Group's domestic business remains unknown. The Group has implemented measures to ensure that its products and their associated labeling satisfy the regulatory requirements of both the UK and the EU and, through its Danish based subsidiaries, will maintain a physical presence in the EU following Brexit, which will ensure freedom of movement of our products into, from and within the EU. The Group's focus on developing further its international sales beyond the EU (which are unaffected by Brexit but which may, in time, benefit from new, bi-lateral trade deals with other important trading nations/areas) is also seen as an important risk management initiative.

Environmental/sustainable products

The public awareness of the threat to the environment from global industrial practices is growing rapidly and it seems likely that this will become an area of greatly increased regulation in the coming years. The Group recognises that it has a responsibility beyond environmental, legal and regulatory requirements and is committed to reducing its environmental impact by continually improving our environmental performance as an integral part of our everyday business strategies and operating methods. Our expectations of our supply chain and other stakeholders is to understand, adopt and/or adapt work practices that are aligned with our environmental policy requirements and aims.

The Group particularly recognises its responsibility to the young generation that its products are aimed at and its duty to work along-side those who seek to safeguard the environment by reducing the potential for damage to the environment from its operations. The Group endeavours not only to comply with all relevant environmental regulatory requirements but also to:

- continually monitor and improve its environmental impact performance in the areas of:
  - transportation;
  - use of timber products from sustainable (managed) forests;
  - recyclability of packaging materials;
  - reduction of plastics in packaging;
  - minimising waste;
  - efficient use of water and energy;
  - adopt procedures to minimise noise disturbance to neighbours;
- improve and reduce our environmental impacts by creating a series of measurables which can be reported against;
- increase employee and supply chain awareness and training.

Suppliers

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

Competition

The Group operates in a highly competitive market. As a result, there is a constant pressure on margins and the additional risk of being unable to meet customers' expectations. Policies of supply chain management and product development are in place to mitigate such risks.

Foreign currency

A significant amount of the Group's purchases is 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.

Financial risks

The main risks arising from the financial instruments are foreign currency risk, credit risk, concentration risk, interest rate and liquidity risk. The Board reviews and agrees policies for managing each of these risks. A summary of these risks is disclosed in note 22 to the financial statements.

J J Diver
Joint Managing Director
20 December 2019

DIRECTORS' BIOGRAPHIES

Executive Directors

Jonathan Diver (aged 55), Joint Managing Director

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

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

Kiran Shah (aged 65), Joint Managing Director, Group Finance Director and Company Secretary

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

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

Joseph Kissane (aged 67), Managing Director of UK Operations

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

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

Michael Hyde (aged 45), Managing Director of Far East Operations

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

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

Jeremiah Healy (aged 58), Group Marketing Director

Jerry Healy joined Character Options Limited (the Group's principal trading subsidiary) in 2004 as Head of Marketing; he was promoted to Marketing Director in 2006 and then became Group Marketing Director in February 2016. He has a wealth of marketing experience gained within the toy industry; prior to joining the Group he worked with Hornby Hobbies, Matchbox and Mattel, both in the UK and Europe and also at Sony Computer Entertainment Europe. Jerry holds a Bachelor of Arts (BA) degree in Business Studies.

Jerry is responsible for setting and managing the Group's product and customer focused marketing plans.

Non-Executive Directors

Richard King (aged 74), Non-Executive Chairman

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

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

David Harris (aged 69), Senior Independent Non-Executive Director

David Harris was appointed to the Board in 2004; he has very broad financial experience gained over a 40 year career in both executive and non-executive capacities. He is currently non-executive Chairman of Manchester and London Investment Trust plc and a non-executive director of BMO Managed Portfolio Trust plc, both of which are quoted companies on the London Stock Exchange.

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

Clive Crouch (aged 67), Non-Executive Director

Clive Crouch was appointed to the Board in February 2016. His 35-year career in media included senior roles within GMTV a company he launched together with his fellow directors. From 1992 to 2007, he was GMTV's Sales and Marketing Director. He attended The London Business School Senior Executive Programme in 2003. From 2007 he served as GMTV's Chief Operating Officer until 2010, taking responsibility for the Channel's License and Compliance to the Ofcom Broadcasting Codes.

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

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

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

DIRECTORS' REPORT

The directors present their report together with the financial statements for the year ended 31 August 2019.

Dividend

The directors recommend a final dividend of 13.00 pence per share (2018: 12.00 pence) making a total dividend for the year of 26.00 pence per ordinary share (2018: 23.00 pence). If approved, the final dividend will be paid on 31 January 2020, to shareholders on the register on 17 January 2020.

Employment policies

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

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

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

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

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 2019, trade creditors of the Group represented an average of 47 (2018: 65) days credit in relation to total purchases for the year.

Governance

Directors

The following directors served during the year:

Jonathan James Diver (Joint Managing Director)
Kirankumar Premchand Shah (Joint Managing Director and Group Finance Director)
Joseph John Patrick Kissane (Managing Director, UK Operations)
Michael Spencer Hyde (Managing Director, Far East Operations)
Jeremiah Healy (Group Marketing Director)
Richard King (Non-Executive Chairman)
David Harris (Senior Independent Non-Executive Director)
Clive William Crouch (Non-Executive Director)

Directors and their interests in shares

The directors and their interests (all of which are beneficial) in ordinary shares of 5p each in the capital of The Character Group plc ("Ordinary Shares") as at 31 August 2019 and 19 December 2019 (being the business day prior to the date of this report) were as follows:

	As at 19 December 2019		**As at 31 August 2019**		As at 31 August 2018	
Directors	**Number of Ordinary Shares**	**Ordinary Shares Under option**	**Number of Ordinary Shares**	**Ordinary Shares under option**	Number of Ordinary Shares	Ordinary Shares under option
K P Shah	**2,152,001**	**-**	**2,152,001**	**-**	2,140,001	-
J J Diver	**1,381,003**	**-**	**1,381,003**	**-**	1,356,003	-
J J P Kissane	**506,500**	**-**	**506,500**	**-**	500,000	-
M S Hyde	**309,681**	**100,000**	**309,681**	**100,000**	309,681	100,000
J Healy	**73,000**	**72,000**	**73,000**	**72,000**	41,000	144,000
R King	**336,286**	**-**	**336,286**	**-**	336,286	-
D Harris	**68,183**	**-**	**60,181**	**-**	60,181	-
C Crouch	**15,358**	**-**	**15,358**	**-**	15,358	-

Included in the interests of K P Shah are his interests in Ordinary Shares held by Sarissa Holdings Limited, being 2,000,000 Ordinary Shares at 19 December 2019, 31 August 2019 and 31 August 2018.

Included in the interests of J J Diver are his interests in Ordinary Shares held by Mr Diver's personal pension scheme being 551,867 Ordinary Shares at 19 December 2019, 31 August 2019 and 31 August 2018.

Included in the interests of R King are his interests in Ordinary Shares held by TOPS Pension Scheme being 176,120 Ordinary Shares at 19 December 2019, 31 August 2019 and 31 August 2018.

Included in the interests of J Healy are his interests in Ordinary Shares held by Mr Healy's personal pension scheme being 5,000 Ordinary Shares at 19 December 2019, 31 August 2019 and 31 August 2018, and 52,000 Ordinary Shares held by his spouse, Mrs K Healy at 19 December 2019 and 31 August 2019 and 20,000 Ordinary Shares held by Mrs K Healy at 31 August 2018.

Included in the interests of D Harris are his interests in Ordinary Shares held by Mr Harris's personal pension scheme being 51,403 Ordinary Shares at 19 December 2019, 31 August 2019, and 31 August 2018.

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

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

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

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

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

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

By Order of the Board

K P Shah
Secretary

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

Registered number 3033333
20 December 2019

CORPORATE GOVERNANCE REPORT

CHAIRMAN'S INTRODUCTION

The Company applies the principles of the Quoted Companies Alliance's (the "**QCA**") Corporate Governance Code 2018 (the "**QCA Code**") to the Company's corporate governance. I am pleased to report on the further process in implementing the QCA Code within the Company and its Group since the QCA Code was adopted by the Company in 2018. As I commented in my report last year, this has proved to be very much a case of codifying, organising and clearly articulating our historic practices rather than a radical change to those practices. We identify whole-heartedly with the underlying philosophy and objectives of the QCA Code. The well-developed, collaborative culture amongst the personnel within the Group and with our critical stakeholders (i.e. shareholders, customers and suppliers) sees us very much aligned to this central core principle of the QCA Code.

I continue to be engaged with the business, its directors, advisers and, where necessary, customers and suppliers and with the formulation, development and the review of the efficacy of its strategy and its key procedures and processes.

As Chairman, I am responsible for:

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

I accept these responsibilities and aim to show how these have been addressed in this report.

CORPORATE GOVERNANCE REPORT

The Board

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

The Board comprises five executive directors and three non-executive directors, as detailed on pages 10 and 11. The Board has a formal schedule of matters reserved for its consideration. It is responsible for: setting the overall Group strategy and providing leadership to implement the strategy; supervising the management of the business; the acquisition or disposal of material corporate entities or assets; public announcements (including statutory financial statements); approving or making significant changes in accounting policy, the capital structure and dividend policy of the Group; Group remuneration policy; and Board structure, composition and succession.

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

During the year, 5 Board meetings were held. The directors attended as follows:

Director	**Number of meetings attended**
R King	5
K Shah	5
J Diver	5
J Kissane	5
M Hyde	5
J Healy	5
D Harris	5
C Crouch	5

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

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

- the Audit Committee – Chairman, C Crouch;
- the Remuneration Committee – Chairman, D Harris (see the Committee's report set out on page 21);
- the Nominations Committee – Chairman, R King; and
- Corporate Governance and Risk Management Committee – Chairman, R King.

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

The QCA Principles

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

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

- A revised Corporate Governance Statement has been published on the Company's website simultaneously with the publication of this report and is available to view at: http://www.thecharacter.com/corporate-governance/;

- the process of evaluation of the Board and its committees, which had been a relatively informal process conducted by me in the past, has now become a more formalised process. Further details of the evaluation process conducted this year are given in relation to Principle 7 below;

- individual director performance is an annual task for me in my role as Chairman or, in the case of my own performance, a task for the Independent Non-Executive Directors, led by the Senior Non- Executive Director (currently David Harris). Again, this had, until this year, been a relatively informal process but this year a more formalised approach has been adopted and further details of this evaluation process are given in relation to Principle 7 below;

- Brexit has emerged as a significant risk area for the Group, particularly in relation to supplies made to our customers in Ireland from the UK. Brexit will require additional labeling and other measures to be implemented by the Group to ensure that supplies between the UK and the EU/EEA member states may continue to be made in a manner that is compliant with the regulatory landscape in both trade areas. Those requirements have been identified and the relevant measures were implemented ahead of the initial Brexit deadline of 31 October 2019 and have been retained in place in readiness for Brexit as currently scheduled by the end of January 2020.

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

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

Review of each of the QCA Code principles

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

Principle 1:

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

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

Principle 2:
"*Seek to understand and meet shareholder needs and expectations.*"

The Company engages with shareholders by:

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

Principle 3:
"*Take into account wider stakeholder and social responsibilities and their implications for long-term success.*"

The Company's key stakeholders are:

- its shareholders;
- its customers in its domestic markets in the UK and Scandinavia and (as we increasingly seek to grow our markets internationally) elsewhere around the world;
- its suppliers; and
- its employees.

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

Principle 4:
"Embed effective risk management, considering both opportunities and threats, throughout the organisation."

Although the Board is ultimately responsible for the Group's system of internal control and for reviewing its effectiveness, the Corporate Governance and Risk Management Committee has primary responsibility for overseeing the development of a comprehensive risk management policy framework by the Company, the implementation of appropriate risk management practices throughout the Company's operations and systems and reporting to the Board on its work in this area.

Whilst a risk management policy framework is designed to identify and then manage risks to a business, it cannot totally eliminate the risk of failure to achieve business objectives but does provide a reasonable (though not absolute) assurance against material misstatement or loss.

In accordance with the guidance for directors on internal control "Internal Control: Guidance for Directors on the Combined Code", the Board confirms that there is an ongoing process for identifying, evaluating and managing the significant risks faced by the Group. This process has been in place throughout the year under review and is continuing.

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

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

Control environment

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

Monitoring and corrective action

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

Risk management

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

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

As mentioned in my earlier comments regarding developments in the Company's corporate governance practices (see page 16), Brexit, and the need to ensure ease of access for the Group's products to EU markets after the UK finally leaves the EU, has been one of the foremost areas of focus for risk management in the past year. Whilst direct supplies from the Far East to the EU will not be affected by Brexit, the Board believes that the steps taken by the Group to satisfy the known dual-regulatory requirements of the EU and the UK going forward and the continued presence of the Group in the EU, through existence of its operations in Denmark, will assure the Group of continued access to the EU markets.

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

Reference is made to the section of this Report above entitled "The Board" (see page 15).

The executive Directors are full-time working directors. The Non-Executive Directors do not have prescribed working hours in their appointment letters but are required to expend such time in discharging their duties as is necessary or required to fulfil their respective roles.

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

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

The list and functions of the directors is set out on page 12 of this document and the skills of each member of the Board are set out in his biography on pages 10 and 11 of this document.
The Board has in the past year introduced a more structured approach for ensuring that the Directors are able to obtain training on relevant new developments that affect the Group's business or that may be beneficial to ensure that the Group's corporate governance practices are developed and enhanced. Whilst the Directors are free to select their own training/refresher/updating programs, if and as required (at the Company's cost), the Company has become more pro-active in encouraging a systematic approach to updating skills and relevant training for the Directors. Notably, the Company has in the last 12 months arranged four seminars for Directors and other relevant personnel to attend, covering subjects such as data protection, the environment, trademark protection and an update on the work of the audit committee of an AIM company.

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

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

A new approach to evaluation of the performance of the Board, its Committees and directors was undertaken this past year. This process required each Director to complete a form of questionnaire designed to probe his views on various facets of the role, activities and performance of the Board, its committees and the Chairman. A report was then complied from the responses and comments (on an anonymized basis) and circulated to each of the Directors and discussed at meetings respectively of the Corporate Governance and Risk Management Committee and the Board. This exercise has been very instructive in highlighting some areas where the processes adopted by the Board and its committees may be enhanced and measures to effect appropriate changes to those processes have now been implemented.

A more formalised approach to individual director performance evaluation was also undertaken this past year. Again, a questionnaire-based approach, designed to determine/question strengths and weaknesses in a range of areas, has been adopted. I undertook the evaluation for all of the Directors apart from myself and the evaluation of my performance was undertaken by the Independent Non-Executive Directors, led by the Senior Non- Executive Director (David Harris).

Following those performance evaluations, I am pleased to confirm that the performance of the executive and non-executive Directors continues to be effective and demonstrates commitment to the roles, though adjustments and changes made in certain practices/processes will, it is believed, enhance performance still further.

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

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

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

The Group employs a total of 212 people across its locations in the UK, Scandinavia and Asia. The team is dedicated to and focused on developing, manufacturing, marketing and distributing innovative and exciting toys that meet the high expectations that the Group's customers and the consumer demand, both in terms of quality and value.

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

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

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

The principle governance structures within the Company are the Board and its Committees, details of which have been given earlier in this Report (see pages 15 and 16). There are dynamics to the development of good governance practices and decision-making that require the Company to be ever vigilant to market, regulatory, fashion and macro-economic ontogenesis, as well as emerging technology, impacting its sphere of activity. The proven skills of our central management team, the depth of experience and knowledge of our Directors, our active market engagement throughout the partnerships with our customers and suppliers all ensure that the Board are alerted to and well briefed about all issues that affect our market and performance and able to make informed decisions on the short, medium and long term considerations that affect the Group's business model and/or strategy.

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

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

The Company makes sure that a good flow of communication exists between the Board and all its stakeholders, including shareholders, to enable all interested parties to come to informed decisions over any interaction with the Company.
The report of the Remuneration Committee is set out on page 21 of this document.

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

The notice of AGM, the Annual and Interim reports since 2005 are available on the Company's website: www.thecharacter.com
The Company's website also includes proxy reports and the results of the votes cast at its AGMs since January 2019.

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

On behalf of the Board

Richard King
Chairman
20 December 2019

DIRECTORS' REMUNERATION REPORT

The Board presents the Remuneration Report for the year ended 31 August 2019.

The Remuneration Committee

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

Remuneration of Directors

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

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

The basic salaries referred to above are reviewed every year by the Remuneration Committee. No director has a service contract incorporating a notice period of more than 12 months.

The Company believes that share ownership by executive directors and senior executives strengthens the links between their personal interests and those of the shareholders. Executive directors are entitled to participate in the Group's 2017 Share Option Plan, details of which may be found in note 24.

Non-executive directors are appointed for a fixed term expiring at each Annual General Meeting of the Company, when they may offer themselves for re-election. The Non-Executive Chairman is entitled to fees of £100,000 per annum. The remaining non-executive directors are entitled to fees, currently at the rate of £40,000 per annum (2018: £40,000), plus expenses, without any right to compensation on early termination.

Details of the directors' remuneration are disclosed in note 4.

On behalf of the Board

D Harris
Chairman, Remuneration Committee
20 December 2019

DIRECTORS' RESPONSIBILITY STATEMENT

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

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

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

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

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

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

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

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

The financial statements that we have audited comprise:

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

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

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the parent Company's affairs as at 31 August 2019 and the Group's profit for the year then ended;
- the financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

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

Conclusions relating to going concern

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

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

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

Key audit matters

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

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Revenue recognition

Key audit matter description	As described in the accounting policy note 1 a provision is established at the year end for estimated sales returns and allowances. These are adjustments made to revenue, outside of the Group's core transactional processes which represent a key area of focus for the audit due to its material significance.
How the scope of our work responded to the key matter	Our procedures included assessing the design and implementation of key controls around the allowances approval process. We have also performed procedures to assess the completeness of these allowances. In addition, we performed substantial analytical procedures on the revenue in the year to understand the revenue profile in the year and the completeness of the allowances provision.
Key observations	Following our audit procedures, we found that revenue had been recorded appropriately.

Inventory valuation

Key audit matter description	As described in the accounting policy for stock obsolescence the Group is required to make judgement to the future demand of product ranges in determining whether inventory will be expected to be fully realised at an amount in excess of the carrying value of the inventory. As this assessment requires judgements it is considered a key area of focus for the audit due to the material amount of the carrying value of inventories.
How the scope of our work responded to the key matter	We obtained a detailed understanding and evaluated the design and implementation of controls that the Group has established in relation to inventory valuation. We have obtained assurance over the appropriateness of management's assumptions applied in calculating the value of inventory provisions by: • critically evaluating the Group's policy of provisioning for slow moving inventory; • verifying the compliance with that policy through the testing of a sample of inventory items; • verifying the sample of inventory to confirm whether it is held at the lower of cost and net realisable value, through comparison to vendor invoices and sale prices; and • considering the historical accuracy of these provisions.
Key observations	We concluded that the total amount of the stock obsolescence provision is within an acceptable range and had been recorded appropriately.

Impairment of goodwill

Key audit matter description	The Group acquired goodwill of £3.1 million during the year but at the balance sheet date this had been fully impaired 31 August 2019: £Nil (2018: £Nil). Management identified an impairment indicator related to the carrying value of goodwill due to recent performance combined with a challenging trading environment. The Group's assessment of impairment in accordance with IAS 36 Impairment of Assets is a judgemental process which requires estimating future cash flows based on management's view of future business prospects. Given the significant level of judgement involved, we identified this as a key area of focus.
How the scope of our work responded to the key matter	We performed the following procedures in response to the key audit matter identified: • Met with Group management to understand and critically challenge the key underlying assumptions used in the forecasts that form the basis of the Group's impairment review; • Performed an assessment of the accuracy of previously prepared forecasts; this included reviewing trading performance in 2019 to determine management's ability to forecast accurately and understand the reasons for any material variances; • Reviewed the disclosures in the financial statements, including the disclosure of the events and circumstances that led to the recognition of the impairment charge and sensitivities.
Key observations	Based on the audit procedures performed we are satisfied that the impairment charge recognised and the valuation of goodwill at year end is appropriate.

Acquisition accounting

Key audit matter description	On 17 October 2018, the Group completed the acquisition of a 55% shareholding in OVG-PROXY A/S ("PROXY"), a Danish toy distributor based in Copenhagen. The purchase price comprised an initial cash consideration of DKK 2.5 million (approximately £300,000), with further "earn-out" consideration of up to DKK 25 million (approximately £3 million) payable, subject to achieving agreed performance targets, in each of the years ending 31 December 2018, 2019 and 2020. Part of the initial earn-out entitlements has been satisfied in shares in the Company (up to 150,000 Ordinary Shares) with any balance payable in cash. This transaction falls under the scope of IFRS 3 Business Combinations which requires significant management judgement in determining the fair value of assets acquired, including intangible assets which are inherently judgemental. Our key audit matter focuses on the valuation of assets acquired (including intangibles) and the completeness of liabilities associated with the acquisition. Given the significant level of judgement involved, we identified this key audit matter.
How the scope of our work responded to the key matter	We performed the following procedures in response to the key audit matter identified: • Evaluated management's assessment of the due diligence findings and the actions taken; • Risk assessed, appropriately scoped and tested the opening balance sheet for the acquired business; • Tested and challenged the inputs used in the valuation model; and • Reviewed the disclosures in the financial statements.
Key observations	Based on the audit procedures performed we are satisfied the carrying value of assets recorded is appropriate.

Our application of materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

	Group financial statements	Parent company financial statements
Materiality	£1m (2018: £1.6m)	£750,000 (2018: £750,000)
Basis for determining materiality	We have determined materiality by using 8% of profit before tax.	2% of Parent Company's net assets
Rationale for the benchmark applied	The profit before tax for the year has been normalised in determining materiality to exclude items which, due to their variable financial impact and/or expected infrequency of the underlying events, are not considered indicative of continuing operations of the Group. These items do not form part of the Group's internally or externally monitored primary key performance indicators, and which if included, would distort materiality year on year.	We consider the chosen benchmark to be appropriate due to the nature of company's operations being a holding company of the Group.

We set our 2019 performance materiality of £750,000 (2018: £1,350,000) at a level lower than materiality to reduce the probability that, in aggregate, uncorrected and undetected misstatements exceed the materiality for the financial statements as a whole. Group performance materiality therefore is set at 75% of Group materiality for the 2019 audit (2018: 85%).

An overview of the scope of our audit

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

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

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

The audit of Character Options Limited and the parent Company, The Character Group plc was performed by us and we have acted as the Group engagement team in directing the audit of Toy Options (Far East) Limited and Charter Limited, and the agreed upon procedures for OVG Proxy A/S and Character Denmark ApS. Our work in this respect was performed in accordance with the International Standards on auditing specifically ISA 600 (UK).

Other information

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

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

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

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

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

Matters on which we are required to report by exception

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

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

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

Responsibilities of directors

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

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

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

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

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

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

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

Use of our report

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

John Coverdale FCA
Senior Statutory Auditor
for and on behalf of MHA MacIntyre Hudson
Chartered Accountants and Statutory Auditor
London
23 December 2019

GROUP INCOME STATEMENT

for the year ended 31 August 2019

	Note	Total 2019 £000's	Total 2018 £000's
Continuing operations			
Revenue	2	**120,416**	106,229
Cost of sales		**(78,849)**	(69,891)
Gross profit		**41,567**	36,338
Net operating expenses			
Selling and distribution costs		**(9,114)**	(7,355)
Administration expenses		**(21,111)**	(17,874)
Other operating income		**244**	543
Operating profit	3	**11,586**	11,652
Discount charge on deferred consideration	5	**(49)**	-
Finance income	5	**40**	45
Finance costs	5	**(512)**	(91)
Profit before income tax		**11,065**	11,606
Taxation	6	**(2,273)**	(2,108)
Profit for the year before significant items and exceptional items		**8,792**	9,498
Significant items			
Movements in fair value of financial instruments		**364**	141
Tax relating to fair value movements of financial instruments	6	**(66)**	(27)
Exceptional items			
Impairment of goodwill	10	**(3,132)**	**-**
Contingent consideration not payable	10	**1,547**	**-**
Profit for the period		**7,505**	9,612
Attributable to:			
Owners of the parent		**7,905**	9,612
Non-controlling interest		**(400)**	-
Profit for the period		**7,505**	9,612
Earnings per share before significant items and exceptional items (pence)	8		
Basic earnings per share		**43.27p**	45.09p
Diluted earnings per share		**42.96p**	44.38p
Earnings per share after significant items and exceptional items (pence)			
Basic earnings per share		**37.21p**	45.63p
Diluted earnings per share		**36.94p**	44.91p
Dividend per share (pence)	9	**25.00p**	21.00p
EBITDA (earnings before interest, tax, depreciation and amortisation)		**13,715**	13,578

GROUP STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 August 2019

	Note	**Total 2019 £000's**	Total 2018 £000's
Profit for the year after tax		**7,505**	9,612
Items that will not be reclassified subsequently to profit and loss			
Current tax credit relating to exercised share options	6	**7**	6
Deferred tax relating to share options	7	**(9)**	25
		(2)	31
Items that may be reclassified subsequently to profit and loss			
Exchange differences on translation of foreign operations		**162**	(247)
Income tax on exchange differences		**29**	-
		191	(247)
Other comprehensive income/(expense) for the year, net of income tax		**189**	(216)
Total comprehensive income for the year		**7,694**	9,396
Total comprehensive income for the year attributable to:			
Equity holders of the parent		**8,104**	9,396
Non-controlling interest		**(410)**	-
		7,694	9,396

GROUP BALANCE SHEET

as at 31 August 2019

	Note	2019 £000's	2018 £000's
Non – current assets			
Goodwill	10	**-**	-
Intangible assets – product development	10	**903**	803
Investment property	11	**1,649**	1,715
Property, plant and equipment	12	**3,251**	3,130
Deferred tax assets	7	**542**	469
		6,345	6,117
Current assets			
Inventories	14	**16,405**	10,890
Trade and other receivables	15	**34,973**	25,555
Current income tax receivable	16	**-**	14
Derivative financial instruments	17	**398**	167
Cash and cash equivalents	18	**29,990**	34,630
		81,766	71,256
Current liabilities			
Short-term borrowings	19	**(22,174)**	(19,050)
Trade and other payables	20	**(28,766)**	(24,666)
Income tax	16	**(1,083)**	(1,123)
Derivative financial instruments	17	**(637)**	(770)
		(52,660)	(45,609)
Net current assets		**29,106**	25,647
Non-current liabilities			
Deferred tax	7	**(2)**	(3)
Long term borrowings	19	**(1,312)**	-
		(1,314)	(3)
Net assets		**34,137**	31,761
Equity			
Called up share capital	24	**1,183**	1,195
Shares held in treasury		**(1,912)**	(2,242)
Capital redemption reserve		**1,774**	1,762
Share-based payment reserve		**3,180**	2,990
Share premium account		**17,161**	16,258
Merger reserve		**651**	651
Translation reserve		**1,223**	898
Profit and loss account		**11,293**	10,249
Attributable to equity holders of the parent		**34,553**	31,761
Non-controlling interest		**(416)**	-
Total equity		**34,137**	31,761

The financial statements on pages 31 to 68 were approved by the Board of Directors on 20 December 2019.

J J Diver
Joint Managing Director

K P Shah
Joint Managing Director and Group Finance Director

COMPANY BALANCE SHEET

as at 31 August 2019

	Note	2019 £000's	2018 £000's
Non – current assets			
Property, plant and equipment	12	**324**	362
Investments in subsidiaries	13	**3,834**	3,650
Deferred tax assets	7	**21**	156
		4,179	4,168
Current assets			
Trade and other receivables	15	**28,921**	27,820
Cash and cash equivalents	18	**1,183**	3,695
		30,104	31,515
Current liabilities			
Trade and other payables	20	**(833)**	(964)
Net current assets		**29,271**	30,551
Net assets		**33,450**	34,719
Equity			
Called up share capital	24	**1,183**	1,195
Shares held in treasury		**(1,912)**	(2,242)
Capital redemption reserve		**1,774**	1,762
Share-based payment reserve		**3,180**	2,990
Share premium account		**17,161**	16,258
Profit and loss account		**12,064**	14,756
Total equity attributable to equity holders of the parent		**33,450**	34,719

The financial statements on pages 31 to 68 were approved by the Board of Directors on 20 December 2019.

J J Diver
Joint Managing Director

K P Shah
Joint Managing Director and Group Finance Director

GROUP AND COMPANY CASH FLOW STATEMENT

for the year ended 31 August 2019

	Note	Group 2019 £000's	Group 2018 £000's	Company 2019 £000's	Company 2018 £000's
Cash flow from operating activities					
Profit before taxation for the year after significant and exceptional items		**9,844**	11,747	**4,029**	14,284
Adjustments for:					
Depreciation of property, plant and equipment	12	**481**	398	**44**	56
Depreciation of investment property	11	**66**	65	**-**	-
Amortisation of intangible assets	10	**1,582**	1,463	**-**	-
Impairment of goodwill	10	**3,132**	-	**-**	-
Contingent consideration not payable	10	**(1,547)**	-	**-**	-
Loss / (Profit) on disposal of property, plant and equipment		**1**	(8)	**-**	-
Discount on deferred consideration		**49**	-	**-**	-
Net interest expense	5	**472**	46	**26**	10
Financial instruments fair value adjustments	17	**(364)**	(141)	**-**	-
Share-based payments	25	**190**	62	**11**	1
Increase in inventories		**(1,831)**	(1,896)	**-**	-
(Increase) / Decrease in trade and other receivables		**(1,283)**	262	**(387)**	(11,629)
(Decrease) / Increase in trade and other creditors		**(438)**	1,966	**(131)**	(63)
Cash generated from operations		**10,354**	13,964	**3,592**	2,659
Net interest paid	5	**(472)**	(46)	**(26)**	(10)
Income tax paid		**(1,999)**	(3,219)	**-**	-
Net cash inflow from operating activities		**7,883**	10,699	**3,566**	2,649
Cash flows from investing activities					
Purchase of investment in subsidiary company	13	**-**	-	**(5)**	-
Purchase of subsidiary company	10	**(8,925)**	-	**-**	-
Payments for intangible assets	10	**(1,682)**	(1,568)	**-**	-
Payments for property, plant and equipment	12	**(449)**	(326)	**(6)**	-
Proceeds from disposal of property, plant and equipment		**28**	11	**-**	-
Net cash outflow from investing activities		**(11,028)**	(1,883)	**(11)**	-
Cash flows from financing activities					
Proceeds from issue of share capital		**519**	1,277	**519**	1,277
Purchase of own shares for cancellation		**(1,270)**	(1,367)	**(1,270)**	(1,367)
Dividends paid	9	**(5,316)**	(4,435)	**(5,316)**	(4,435)
Unwinding of discount on deferred consideration		**(15)**	-	**-**	-
Net cash used in financing activities		**(6,082)**	(4,525)	**(6,067)**	(4,525)
Net (decrease) / increase in cash and cash equivalents		**(9,227)**	4,291	**(2,512)**	(1,876)
Cash, cash equivalents and borrowings at the beginning of the year		**15,580**	11,536	**3,695**	5,571
Effects of exchange rate movements		**151**	(247)	**-**	-
Cash, cash equivalents and borrowings at the end of the year		**6,504**	15,580	**1,183**	3,695

Cash, cash equivalents and borrowings consist of:

	Note	Group 2019 £000's	Group 2018 £000's	Company 2019 £000's	Company 2018 £000's
Cash and cash equivalents	18	**29,990**	34,630	**1,183**	3,695
Total borrowings	19	**(23,486)**	(19,050)	**-**	-
Cash, cash equivalents and borrowings at the end of the year		**6,504**	15,580	**1,183**	3,695

GROUP STATEMENT OF CHANGES IN EQUITY

for the year ended 31 August 2019

	Note	Called up share capital £000's	Shares held in treasury £000's	Capital redemption reserve £000's	Share premium account £000's	Merger reserve £000's	Share-based payment reserve £000's	Translation reserve £000's	Profit and loss account £000's	Non-controlling interest £000's	Total £000's
The Group											
At 1 September 2017		**1,211**	**(2,743)**	**1,745**	**15,483**	**651**	**2,928**	**1,145**	**6,408**	**-**	**26,828**
Profit for the year after tax		-	-	-	-	-	-	-	9,612	-	9,612
Other comprehensive (expense)/income											
Net exchange differences on translation of foreign operations		-	-	-	-	-	-	(247)	-	-	(247)
Deferred tax credit relating to share options	7	-	-	-	-	-	-	-	25	-	25
Current tax credit relating to exercised share options	6	-	-	-	-	-	-	-	6	-	6
Total other comprehensive expense								**(247)**	**31**	**-**	**(216)**
Total comprehensive income for the year								**(247)**	**9,643**	**-**	**9,396**
Transactions with owners, recorded directly in equity											
Share-based payment	25	-	-	-	-	-	62	-	-	-	62
Dividends	9	-	-	-	-	-	-	-	(4,435)	-	(4,435)
Shares issued	24	1	501	-	775	-	-	-	-	-	1,277
Shares cancelled	24	(17)	-	17	-	-	-	-	(1,367)	-	(1,367)
At 31 August 2018		**1,195**	**(2,242)**	**1,762**	**16,258**	**651**	**2,990**	**898**	**10,249**	**-**	**31,761**
Profit / (loss) for the year after tax		-	-	-	-	-	-	-	7,905	(400)	7,505
Other comprehensive (expense)/income											
Net exchange differences on translation of foreign operations		-	-	-	-	-	-	325	(124)	(10)	191
Deferred tax credit relating to share options	7	-	-	-	-	-	-	-	(9)	-	(9)
Current tax credit relating to exercised share options	6	-	-	-	-	-	-	-	7	-	7
Total other comprehensive expense								**325**	**(126)**	**(10)**	**189**
Total comprehensive income for the year								**325**	**7,779**	**(410)**	**7,694**
Transactions with owners, recorded directly in equity											
Non controlling interest on acquisition of subsidiary	10	-	-	-	-	-	-	-	-	(155)	(155)
Change in non controlling interest	10	-	-	-	-	-	-	-	(149)	149	-
Share-based payment	25	-	-	-	-	-	190	-	-	-	190
Dividends	9	-	-	-	-	-	-	-	(5,316)	-	(5,316)
Shares issued as consideration for acquisition of subsidiary	10	-	126	-	588	-	-	-	-	-	714
Shares issued	24	-	204	-	315	-	-	-	-	-	519
Shares cancelled	24	(12)	-	12	-	-	-	-	(1,270)	-	(1,270)
At 31 August 2019		**1,183**	**(1,912)**	**1,774**	**17,161**	**651**	**3,180**	**1,223**	**11,293**	**(416)**	**34,137**

COMPANY STATEMENT OF CHANGES IN EQUITY

for the year ended 31 August 2019

	Note	Called up share capital £000's	Shares held in treasury £000's	Capital redemption reserve £000's	Share premium account £000's	Share-based payment reserve £000's	Profit and loss account £000's	Total £000's
At 1 September 2017		1,211	(2,743)	1,745	15,483	2,928	6,427	25,051
Profit for the year		-	-	-	-	-	14,106	14,106
Total comprehensive income for the year		**-**	**-**	**-**	**-**	**-**	**14,106**	**14,106**
Transactions with owners, recorded directly in equity								
Shares issued	24	1	501	-	775	-	-	1,277
Shares cancelled	24	(17)	-	17	-	-	(1,367)	(1,367)
Share-based payment – Company	25	-	-	-	-	1	-	1
Share-based payment – Subsidiary undertaking	25	-	-	-	-	61	-	61
Deferred tax on share options	7	-	-	-	-	-	25	25
Dividend paid	9	-	-	-	-	-	(4,435)	(4,435)
At 31 August 2018		**1,195**	**(2,242)**	**1,762**	**16,258**	**2,990**	**14,756**	**34,719**
Profit for the year		-	-	-	-	-	3,896	3,896
Total comprehensive income for the year		-	-	-	-	-	**3,896**	**3,896**
Transactions with owners, recorded directly in equity								
Shares issued	24	-	126	-	588	-	-	714
Shares issued as consideration on acquisition	24	-	204	-	315	-	-	519
Shares cancelled	24	(12)	-	12	-	-	(1,270)	(1,270)
Share-based payment – Company	25	-	-	-	-	11	-	11
Share-based payment – Subsidiary undertaking	25	-	-	-	-	179	-	179
Deferred tax on share options	7	-	-	-	-	-	(2)	(2)
Dividend paid	9	-	-	-	-	-	(5,316)	(5,316)
At 31 August 2019		**1,183**	**(1,912)**	**1,774**	**17,161**	**3,180**	**12,064**	**33,450**

Capital and Reserves

- Called up share capital represents the nominal value of equity shares allotted, called up and fully paid.
- Share premium represents the excess of the fair value of consideration received for the equity shares, net of expenses of the share issue over the nominal value of the equity shares.
- Capital redemption reserve represents the buyback and cancellation of shares at nominal value.
- Merger reserve represents the premium arising on shares issued as consideration for the acquisition of subsidiaries and which qualified for merger relief.
- Share-based payment reserve represents the amounts recognised in profit and loss in respect of share-based payments.
- Translation reserve represents the cumulative foreign exchange differences on the translation of the net assets of the Group's foreign operations to the presentation currency of the parent.
- Profit and loss account represents retained profit and losses.
- Details of shares held in treasury can be found in notes 24.

NOTES TO THE FINANCIAL STATEMENTS

1 PRINCIPAL ACCOUNTING POLICIES

General information

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

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

Standards, amendments and interpretations effective in the current period

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

IFRS 9 applies to the classification and measurement of financial assets and liabilities, their impairment and hedge accounting. The Group adopted the new standard on 1 September 2018 and the measurement and classification of the Group's financial assets and liabilities remain unchanged. Assessment of impairment arising on credit risk on financial assets under the revised Expected Credit Losses (ECL) methodology was not material, due to the Group's limited credit risk.

IFRS 15 established a five-step model to account for revenue arising from contracts with customers. The focus of the new standard is to recognise revenue at an amount that reflects the consideration due in exchange for transferring goods and services. The Group adopted the new standard on 1 September 2018 and its application did not result in changes in revenue recognition.

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 2019.

	Effective for annual periods beginning on or after:
IFRS 9 (amendment) Prepayment Features with Negative Compensation	- 1 January 2019
IFRS 16 Leases	- 1 January 2019
IFRIC 23 Uncertainty over Income Tax Treatment	- 1 January 2019
IFRS 2015-17 Annual improvements	- 1 January 2019

Adoption of IFRS 16 will require material leases to be recognised on the consolidated balance sheet as a right to use assets and will be depreciated on a straight-line basis. The lease liability will be measured at a discounted value and related interest will be charged to finance charges in the Group income statement. The charge to the Group income statement for operating lease payments will be replaced by depreciation on the right to use asset and the interest charge inherent in the lease.

Neither the Group nor the Company anticipate a material impact on the financial statements by the adoption of these standards and interpretations in future periods.

SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

The Group and the Company financial statements have been prepared in accordance with applicable International Financial Reporting Standards ('IFRS') including International Accounting Standards (IAS) and IFRS Interpretations Committee (IFRS IC) interpretations as adopted for use in the European Union and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS.

Basis of preparation

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

Business combinations

The acquisition method of accounting is used to record and report the acquisition of subsidiaries. The consideration for each acquisition is measured at the date of acquisition as the aggregate of the fair values of assets transferred and liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquired company. Acquisition-related costs are recognised in the Group's consolidated profit or loss account, as incurred.

Subsequent changes in the fair value of contingent consideration classified as an asset or liability are accounted through profit or loss.

Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company (The Character Group plc) and subsidiaries controlled by the Company as at the balance sheet date in accordance with the provisions of IFRS 10. Subsidiaries are entities over which the Group has the power over an investee, exposure or rights to variable returns from its involvement with the investee and ability to use its power to affect those returns. The results of such investees are included in the consolidated financial statements from the date on which control is transferred to the Group and cease to be consolidated from the date on which control is transferred out of the Group.

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

Exemptions

The directors have taken advantage of the exemption available under Section 408 of the Companies Act 2006 and have not presented an income statement or statement of comprehensive income for the Company alone.

FOREIGN CURRENCY TRANSLATION

Functional and presentation currency

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

Transactions and balances

Foreign currency transactions are translated into the functional currency at the rates applicable when they were completed and monetary assets and liabilities at the period end are translated at the rate at that date. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

Group companies

On consolidation, assets and liabilities of overseas subsidiaries are translated into sterling at closing rates of exchange. Income and cash flow statements are translated at average rates of exchange. The exchange differences arising as a result of translating income statements at average rates and restating opening net assets at closing rates are taken to the translation reserve.

Revenue recognition

Revenue comprises the invoiced value for the sale of goods net sales taxes, rebates and discounts.

The Group recognises revenue on Free on Board ("FOB") sales when goods are delivered to a destination specified by the customer, usually on board the customer's designated vessel.

The Group recognises revenue on non-FOB sales at point of despatch. Goods are delivered via a combination of customers' own hauliers and those appointed by the Group.

At the point of revenue recognition, the Group neither retains continuing involvement nor effective control over the goods as the performance obligations have been satisfied.

The Group has stringent procedures to ensure goods meet customer specifications and can predict with reasonable certainty that this will not affect the determination of when control passes. The amount of revenue recognised reflects the consideration to which the Group expects to be entitled to in exchange for the goods.

IMPAIRMENT OF NON-FINANCIAL ASSETS

Impairment reviews of non-financial assets are undertaken if there are indications that the carrying values may not be recoverable.

INTANGIBLE ASSETS

Goodwill

Goodwill arising in a business combination is recognised at fair value as an asset at the date control is acquired (the acquisition date). Goodwill is measured as the excess of the sum of the consideration payable over the Group's share, at the acquisition date, of the acquiree's identifiable net assets measured at fair value.

Goodwill is reviewed annually and when there are events or changes in circumstances that indicate a possible decline in the carrying value.

Product development expenditure

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

TANGIBLE ASSETS

Property, Plant and Equipment

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

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

Impairment reviews of fixed assets are undertaken if there are indications that the carrying values may not be recoverable. The recoverable amount is the higher of the asset's fair value or carrying value.

Investment Properties

Investment properties are properties held to earn rental income and/or for capital appreciation. Investment properties are recorded at cost less accumulated depreciation and any recognised impairment loss. Impairment reviews of investment properties are undertaken annually. The recoverable amount is the higher of the asset's fair value or carrying value.

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

Freehold land	nil
Freehold buildings	4%

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

Inventories
Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average method. Net realisable value is based on estimated selling price less the estimated cost of disposal.

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

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

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

Derivative Financial Instruments
The Group has derivative financial instruments in respect of forward foreign exchange contracts and options to manage the Group's exposure to currency movements. Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at each balance sheet date. Resulting changes in fair value are recognised in the income statement. Further details are provided in note 17.

Non Derivative Financial Instruments
Non derivative financial instruments comprise trade and other receivables, cash and cash equivalents, loans and borrowings, and trade and other payables.

Unless otherwise indicated, the carrying amounts of the Group's and the Company's financial assets and liabilities are a reasonable approximation of their fair values.

Trade receivables
Trade receivables are measured at amortised cost using the effective interest method, less provision for allowances. Specific provisions are made against doubtful debts taking the value of trade receivables to an estimated value based on the most likely outcome of future cash flows. Two Group companies have agreements with finance companies (recourse) under which debts of customers are assigned to the relevant finance company. The Group retains all the risks and rewards of the underlying trade debt and continues to recognise the gross debtor balance net of specific provisions. Cash advanced under this arrangement has been treated as a finance advance under current liabilities.

Cash and cash equivalents
Cash and short-term deposits in the balance sheet comprise cash at banks and at hand and short-term deposits with a maturity of three months or less from the date of acquisition.

For the purposes of the consolidated cash flow statement, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

Trade payables
Trade payables are measured at amortised cost using the effective interest method.

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

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

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

LEASES

The Group as Lessor

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease.

The Group or the Company as Lessee

Where the lessor maintains substantially all the risks and rewards of ownership, leases are treated as operating leases. Their annual rentals are charged to the income statement on a straight-line basis over the term of the lease.

All incentives for the agreement of a new or renewed operating lease are recognised as part of net consideration, irrespective of nature, form, or timing of payments. The aggregate benefit of incentive is generally recognised as a reduction of rental expense over the lease term, on a straight-line basis.

Share-based payment

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

Employee benefits

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

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

Segmental information

Operating segments are reported in a manner consistent with the internal reporting to the chief operating decision maker. The Board of directors of the Company is identified as the chief operating decision maker and is responsible for allocating resources and assessing performance of the operating segments.

The performance of reportable segments is assessed on a measure of operating profit, excluding non-recurring items, such as share-based payments charges, amortisation of intangible assets and unrealised gains/(losses) on financial instruments.

Taxation

Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the Group Income Statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current and deferred tax in excess of the amount arising on the share-based payment charged to the Group Income Statement, is recognised in equity.

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

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

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

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

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

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

Treasury shares

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

SIGNIFICANT JUDGEMENTS AND ESTIMATES

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. Although these estimates are based on historical experience and other associated factors believed to be reasonable under the circumstances, actual results may differ from these estimates. Underlying assumptions are reviewed on an on-going basis. Accounting estimates are recognised in the period in which the estimate is revised or in the period of the revision and future periods

Intangible assets

Goodwill

Goodwill is reviewed for impairment annually and when there are events or changes in circumstances that may affect the carrying value. Determining whether goodwill is impaired requires an estimate of the value in use of the business being tested. This involves the calculation of estimated future cash flows, an assessment of the achievability of strategic plans and assumptions for the macroeconomic environment of the business.

Development

Development costs for products that will be sold and meet criteria for IFRS intangible asset recognition are capitalised. Assumptions are made with regard to the future economic benefits and the economic useful life. The capitalised development costs and useful economic life are assessed for impairment annually.

Investment Property

The Group reviews annually the fair value of the investment property with reference to current prices of properties in similar condition and location.

Stock obsolescence

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

Revenue recognition

Revenue is only recognised when control of goods passes to customers. This involves judgement to assess the point at which control of the goods has passed.

Customer returns & allowances

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

Fair value of derivatives

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

Deferred tax assets

The Group and the Company review the recoverability of deferred tax assets on a prudent basis in determining the recognition of deferred tax assets. Judgement is based on the best available information, historical experience and other assumptions that are consistent with the Group's and the Company's forecasts. The Group's and the Company's deferred income tax assets and liabilities are disclosed in note 7.

Share-based payments

The Company has used a binomial valuation model to estimate the fair value of share-based payments. The model makes various assumptions on factors outside the Company's control, such as share price volatility and risk-free interest rates. Details of the options and assumptions used in deriving the share-based payments are disclosed in note 25.

2 SEGMENT REPORT - GROUP

The Group's business in the UK, Scandinavia and Far East is the design, development and international distribution of toys, games and gifts.

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

Year ended 31 August 2019	UK £000's	Far East £000's	Scandinavia £000's	Unallocated £000's	Total £000's
Revenue - external (by origin)	70,206	37,207	13,003	–	120,416
Segment adjusted operating profit	7,021	7,366	(843)	(186)	13,358
Amortisation of intangible assets	–	–	–	–	(1,582)
Financial instruments fair value adjustments	–	–	–	–	364
Impairment of goodwill	–	–	–	–	(3,132)
Contingent consideration not payable	–	–	–	–	1,547
Share-based payments	–	–	–	–	(190)
Operating profit after significant items & exceptional items					10,365
Discount charge on deferred consideration					(49)
Finance costs					(512)
Finance income					40
Profit before tax					9,844
Taxation					(2,339)
Profit for the year after tax					7,505
Segment assets	57,096	17,477	10,403	3,135	88,111
Segment liabilities	(27,953)	(18,898)	(5,666)	(1,457)	(53,974)
Other segment information					
Non-current assets	2,205	2,394	499	1,247	6,345
Capital on acquisition of subsidiary	–	–	173	–	173
Capital additions	329	14	100	6	449
Capital disposals	(86)	–	–	–	(86)
Depreciation of property, plant and equipment	(302)	(71)	(64)	(44)	(481)
Depreciation of investment property	–	(66)	–	–	(66)

Analysis of unallocated assets and liabilities:

Assets	Total £000's	Liabilities	Total £000's
Corporate assets	324	Corporate creditors & accruals	(820)
Derivative financial instruments	398	Derivative financial instruments	(637)
Deferred tax asset	64		
Corporate cash at bank and in hand	1,183		
Intangible assets – product development	903		
Corporate debtors & prepayments	263		
Unallocated assets	**3,135**	**Unallocated liabilities**	**(1,457)**

Unallocated expenses comprise corporate expenses.

2 SEGMENT REPORT - GROUP

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

Analysis of unallocated assets and liabilities:

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

Unallocated expenses comprise corporate expenses.

GEOGRAPHICAL DESTINATION OF REVENUE

	31 August 2019 £000's	31 August 2018 £000's
United Kingdom	**85,143**	87,106
Rest of the world	**35,273**	19,123
Total Group	**120,416**	106,229

Revenues of approximately £33,648,000 (2018: £33,244,000) were derived from 2 (2018: 2) external customers individually representing 10% or more of revenue. These revenues are attributable to both UK & Far East geographic segments. Revenues from the Group's Scandinavian operations have been included from 18 October 2018.

3 EXPENSES BY NATURE - GROUP

	Note	**12 months to 31 August 2019 £000's**	12 months to 31 August 2018 £000's
Operating profit is stated after charging/(crediting):			
Cost of inventories recognised as an expense (included in cost of sales)		**71,477**	60,904
Product development costs incurred		**1,810**	1,805
Product development costs capitalised		**(1,682)**	(1,568)
Amortisation of capitalised product development costs		**1,582**	1,463
Product development costs expensed to cost of sales		**1,710**	1,700
(Credit) financial instruments fair value adjustments		**(364)**	(141)
Inventories (credit)/write down		**(256)**	901
Exchange losses		**82**	48
Staff costs	4	**13,827**	10,990
Depreciation of tangible fixed assets			
- owned assets	12	**481**	398
Depreciation of investment property	11	**66**	65
Loss/(Profit) on disposal of property, plant and equipment		**1**	(8)
Operating leases — land and buildings		**490**	366
Auditor's remuneration		**137**	88

ANALYSIS OF AUDITOR'S REMUNERATION

		12 months to 31 August 2019 £000's	12 months to 31 August 2018 £000's
Group Auditor's remuneration			
	— Statutory audit services current year	**45**	36
	— Interim review and other assurance services	**8**	7
Other Auditors' remuneration			
	— Statutory audit of the Group's subsidiaries	**78**	39
	— Taxation compliance	**6**	6
Total fees payable to Auditors		**137**	88

4 DIRECTORS AND EMPLOYEES REMUNERATION STAFF COSTS - GROUP

	12 months to 31 August 2019 £000's	12 months to 31 August 2018 £000's
Staff costs including directors' emoluments		
Wages and salaries	**12,087**	9,655
Social security costs	**961**	942
Pension costs	**589**	331
Share-based payments	**190**	62
	13,827	10,990
The average number of employees during the year was:	**Number**	Number
Management and administration	**86**	73
Selling and distribution	**126**	113
	212	186

Of the total average number of employees, 124 (2018: 122) were based in the UK, 24 in Scandinavia and 64 (2018: 64) in Hong Kong and mainland China.

The amount payable to pension schemes as at the balance sheet date was £10,000 (2018: £8,000).

4 DIRECTORS AND EMPLOYEES REMUNERATION CONTINUED
KEY MANAGEMENT PERSONNEL

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

	12 months to 31 August 2019 £000's	12 months to 31 August 2018 £000's
Salaries, short-term benefits and pension contribution	**3,473**	3,618
Share-based payments	**39**	9
	3,512	3,627

ANALYSIS OF DIRECTORS' REMUNERATION

The following table shows a breakdown of the remuneration of the directors for the year ended 31 August 2019 and the year ended 31 August 2018.

Year ended 31 August 2019

	Salary/fees £	**Performance bonus £**	**Benefits in kind £**	**Pension contribution £**	**Total £**
R King (non-executive)	100,000	-	16,840	-	116,840
J J Diver	245,916	778,135	10,708	-	1,034,759
K P Shah	245,916	558,176	9,855	-	813,947
J J P Kissane	215,592	406,439	7,255	-	629,286
M S Hyde	258,701	258,701	4,970	23,880	546,252
J Healy	118,000	118,000	4,324	11,800	252,124
D Harris (non-executive)	40,000	-	-	-	40,000
C Crouch (non-executive)	40,000	-	-	-	40,000
	1,264,125	2,119,451	53,952	35,680	3,473,208

Year ended 31 August 2018

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

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

In the year ended 31 August 2019 certain of the directors received remuneration (which is included in the amounts above) through payments by the Group to third parties as follows: £75,000 was paid to Bali Hai Consultancies for part of the services of R King (2018: £75,000); £40,000 was paid to Clive Crouch Media Insight Limited for the services of C Crouch (2018: £32,500); £40,000 was paid to Inva Trust Consultancy Limited for the services of D Harris (2018: £32,500).

4 DIRECTORS AND EMPLOYEES REMUNERATION CONTINUED
KEY MANAGEMENT PERSONNEL

Directors interests in long term incentive schemes

On 25 September 2014, options were granted under the 2006 Plan at a price of 213 pence per share to M S Hyde and J Healy respectively over 100,000 and 72,000 existing Ordinary Shares held by the Company in treasury. Such options were subject to satisfaction of a predetermined, profit related performance target, which has been satisfied, and became exercisable three years following the date of grant and will remain exercisable until the tenth anniversary of the date of grant. On 5 January 2018, M S Hyde exercised his option entitlement in respect of 100,000 Ordinary Shares in full. The mid-market price of an issued Ordinary Share on the day of exercise was 452.5 pence, and the net gain realised by M S Hyde amounted to £239,500. J Healy exercised his option entitlement: in respect of 14,000 Ordinary Shares on 21 December 2018 (at which time the mid-market price of an issued Ordinary Share was 540 pence): in respect of 18,000 Ordinary Shares on 2 January 2019 (at which time the mid-market price of an issued Ordinary Share was 550 pence): and in respect of 40,000 Ordinary Shares on 4 February 2019 (at which time the mid-market price of an issued Ordinary Share was 532 pence). J Healy's net gain from such option exercises amounted to £234,040.

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

At 31 August 2019, the mid-market price of an issued Ordinary Share in The Character Group plc was 424 pence. During the year the mid-market price ranged from 420 pence to 588 pence.

5 NET FINANCE COSTS - GROUP

	12 months to 31 August 2019 £000's	12 months to 31 August 2018 £000's
Finance costs:		
Interest payable on bank overdraft and similar charges	**(229)**	(68)
Interest payable on long term loan	**(145)**	-
Discount charge on deferred consideration	**(49)**	-
Factor and invoice discounting advances	**(138)**	(23)
	(561)	(91)
Finance income:		
Interest earned on cash and cash equivalents	**40**	45
Net finance costs	**(521)**	(46)

6 TAXATION - GROUP

	Note	12 months to 31 August 2019 £000's	12 months to 31 August 2018 £000's
UK Corporation Tax			
Tax on profit for the period		**1,047**	1,013
Adjustments to tax charge in respect of previous periods		**11**	(1)
Total UK corporation tax		**1,058**	1,012
Foreign Tax			
Tax on profit for the period		**1,157**	965
Adjustments to tax charge in respect of previous periods		**(78)**	(5)
Total foreign tax		**1,079**	960
Total current tax		**2,137**	1,972
Deferred Tax			
Origination and reversal of timing differences	7	**202**	163
Total deferred tax		**202**	163
Tax on profit on ordinary activities		**2,339**	2,135
Factors affecting tax charge for the period			
Profit before significant and exceptional items and taxation		**11,065**	11,606
Loss/profit on significant and exceptional items before taxation		**(1,221)**	141
Profit before taxation after significant and exceptional items		**9,844**	11,747
Profit multiplied by standard rate of corporation tax in the UK of 19% (2018: 19%)		**1,870**	2,232
Effects of:			
Impairment of goodwill		**595**	-
Contingent consideration not payable		**(293)**	-
Unrecognised timing differences		**-**	7
(Income)/expenses (not chargeable)/deductible for tax purposes		**105**	40
Capital allowances less than depreciation		**34**	20
Lower tax rate on overseas earnings		**(203)**	(162)
Tax losses not recognised for deferred tax		**284**	4
Effect of change of tax rate		**14**	-
Adjustments to tax charge in respect of previous periods		**(67)**	(6)
Tax charge reported in the income statement		**2,339**	2,135

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

Income tax credit on exercise of employee share options		**(7)**	(6)
Income tax credit on exchange losses on intra Group balances		**(29)**	-
Deferred tax on share options		**9**	(25)
Net tax credit to equity		**(27)**	(31)

The Finance Bill 2015 was substantively enacted on 26 October 2015 and reduced the Corporation Tax rate to 19% with effect from 1 April 2017 and 18% from 1 April 2020. The Finance Bill 2016 was substantively enacted on 6 September 2016 and further reduced the applicable rate from 1 April 2020 to 17%. The deferred tax assets and liabilities at 31 August 2019 have been calculated based on a tax rate of 17%.

7 DEFERRED INCOME TAX - GROUP

Deferred tax is calculated on temporary differences under the liability method using a tax rate of 17% (2018: 19%) for UK differences and local rates for overseas differences.

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

	2019 £000's	2018 £000's
As at 1 September	**466**	604
Acquired	**285**	-
(Charge) to the income statement	**(202)**	(163)
(Charge) / credit to equity	**(9)**	25
As at 31 August	**540**	466

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**	
	2019 £000's	2018 £000's	**2019 £000's**	2018 £000's
Property, plant and equipment	**32**	35	**-**	-
Employee share scheme charges	**19**	152	**-**	-
Derivative financial instruments	**43**	115	**-**	-
Inventories	**163**	167	**-**	-
Short-term timing differences	**-**	-	**(2)**	(3)
Losses acquired	**285**	-	**-**	-
Tax assets/(liabilities)	**542**	469	**(2)**	(3)
Net tax asset	**540**	466	**-**	-

Movement in recognised deferred tax during the year:

	1 September 2018 £000's	**Acquired £000's**	**Recognised in income £000's**	**Recognised in equity £000's**	**31 August 2019 £000's**
Property, plant and equipment	35	-	(3)	-	**32**
Derivative financial instruments	115	-	(72)	-	**43**
Inventories	167	-	(4)	-	**163**
Employee share scheme charges	152	-	(124)	(9)	**19**
Short-term timing differences	(3)	-	1	-	**(2)**
Losses acquired	-	285	-	-	**285**
	466	**285**	**(202)**	**(9)**	**540**

Movement in recognised deferred tax during the prior year:

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

Deferred tax assets amounting to £303,000 (2018: £17,000) have not been recognised in respect of certain trading losses and tax allowable deductions, due to the unpredictability of future taxable profit streams in certain subsidiaries.

7 DEFERRED INCOME TAX - COMPANY

Recognised deferred tax assets and liabilities:

	Assets		Liabilities	
	2019 £000's	2018 £000's	**2019 £000's**	2018 £000's
Employee share scheme charges	**19**	152	**-**	-
Property, plant and equipment	**2**	4	**-**	-
Tax assets	**21**	156	**-**	-
Net tax asset	**21**	156	**-**	-

Movement in recognised deferred tax during the year:

	1 September 2018 £000's	**Recognised in income £000's**	**Recognised in equity £000's**	**31 August 2019 £000's**
Employee share scheme charges	152	(124)	(9)	**19**
Property, plant and equipment	4	(2)	-	**2**
	156	**(126)**	**(9)**	**21**

Movement in recognised deferred tax during the prior year:

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

8 EARNINGS PER SHARE - GROUP

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

	Year ended 31 August 2019 Profit after taxation £	Year ended 31 August 2018 Profit after taxation £
Profit attributable to equity shareholders of the parent	**7,905,000**	9,612,000
Financial instruments fair value adjustments net of tax	**(298,000)**	(114,000)
Impairment of goodwill	**3,132,000**	-
Contingent consideration not payable	**(1,547,000)**	-
Profit for adjusted earnings per share	**9,192,000**	9,498,000
Weighted average number of ordinary shares in issue during the year – basic	**21,241,756**	21,065,941
Weighted average number of dilutive potential ordinary shares	**152,886**	337,283
Weighted average number of ordinary shares for diluted earnings per share	**21,394,642**	21,403,224
Earnings per share before significant items and exceptional items		
Basic earnings per share (pence)	**43.27p**	45.09p
Diluted earnings per share (pence)	**42.96p**	44.38p
Earnings per share after significant items and exceptional items		
Basic earnings per share (pence)	**37.21p**	45.63p
Diluted earnings per share (pence)	**36.94p**	44.91p

9 DIVIDEND - GROUP

	12 months to 31 August 2019 £000's	12 months to 31 August 2018 £000's
On equity shares:		
Final dividend paid for the year ended 31 August 2018		
— 12.00 pence (2017: 10.00 pence) per share	**2,539**	2,101
Interim dividend paid for the year ended 31 August 2019		
— 13.00 pence (2018: 11.00 pence) per share	**2,777**	2,334
25.00 pence (2018: 21.00 pence) per share	**5,316**	4,435

The directors recommend a final dividend of 13.00 pence per share (2018: 12.00 pence) amounting to £2,773,000 (2018: £2,529,000). If approved by shareholders, the final dividend will be paid on 31 January 2020 to shareholders on the register on 17 January 2020.

10 INTANGIBLE FIXED ASSETS - GROUP

Cost	Goodwill £000's	Product development £000's	Total £000's
1 September 2017	**–**	**3,755**	**3,755**
Additions	–	1,568	1,568
Write off fully amortised assets	–	(2,205)	(2,205)
31 August 2018	**–**	**3,118**	**3,118**
Acquired	3,132	–	3,132
Additions	–	1,682	1,682
Write off fully amortised assets	–	(1,550)	(1,550)
31 August 2019	**3,132**	**3,250**	**6,382**
Amortisation & Impairment			
1 September 2017	**–**	**3,057**	**3,057**
Charge for the year	–	1,463	1,463
Write off fully amortised assets	–	(2,205)	(2,205)
31 August 2018	**–**	**2,315**	**2,315**
Impairment	3,132	–	3,132
Charge for the year	–	1,582	1,582
Write off fully amortised assets	–	(1,550)	(1,550)
31 August 2019	**3,132**	**2,347**	**5,479**
Net book value			
31 August 2019	**–**	**903**	**903**
31 August 2018	–	803	803

On 17 October 2018, the Group acquired 55% of the equity shareholding of OVG-PROXY A/S ("Proxy"), a Scandinavian toy distributer based in Copenhagen. The purchase price comprised an initial cash consideration of DKK2.5 million (approximately £0.3 million), with further "earn-out" consideration of up to DKK25.0 million (approximately £2.9 million) depending on performance, in each of the years ending 31 December 2018, 2019 and 2020. The consideration paid to date to the Proxy vendors amounts to £1.44 million, satisfied by the transfer from treasury of 150,000 ordinary shares in the Company and the payment of £0.73 million in cash.

On 31 May 2019, the Group acquired a further 20% of the issued share capital of Proxy for a nominal consideration of one Danish Krone.

10 INTANGIBLE FIXED ASSETS - GROUP CONTINUED

The cash outflow under "purchase of subsidiary company" of £8,925,000 on the face of the Consolidated Group Cash Flow Statement in the year to 31 August 2019 relates to the acquisition of Proxy:

	£000's
Initial consideration	294
First year earn-out	421
Invoice discounting	4,694
Bank borrowings	2,296
Long term loan	1,220
Cash consideration excluding acquisition costs	**8,925**
Fair value of 150,000 ordinary shares of The Character Group plc	714
Discounted contingent consideration	1,513
Total consideration	**11,152**
The acquisition had the following effect on the Group's assets and liabilities:	
Acquisition fair value	£000's
Fixed assets	173
Stock	3,683
Trade & other receivables	8,135
Trade & other payables	(4,538)
Current & deferred tax	412
Net identifiable assets	**7,865**
Goodwill	3,132
Non-controlling interest	155
	11,152

The principal factor contributing to the goodwill relates to the Proxy management team and their extensive knowledge and experience of toy distribution in Scandinavia. There are no other separately identifiable acquired intangible assets.

In view of the losses sustained by Proxy in the year under review and in light of the forecasts for its business going forward, the Board is of the view that no further consideration will become payable and that the goodwill attributable to Proxy should be fully impaired. Accordingly, the goodwill has been fully impaired and the contingent consideration written back in the Group Income Statement.

11 INVESTMENT PROPERTY - GROUP

Cost	**Total £000's**
1 September 2017, 1 September 2018 and 31 August 2019	**2,194**
Depreciation	
1 September 2017	414
Charge for the year	65
31 August 2018	**479**
Charge for the year	66
31 August 2019	**545**
Net book value	
31 August 2019	**1,649**
31 August 2018	1,715

The investment property is held at depreciated historical cost. The fair value of the investment property has been assessed by an independent valuer at £2.9 million. During the year the Group received gross rental income of £220,000 (2018: £231,000).

Expenses incurred in respect of occupied premises were £3,000 (2018: £2,000). Expenses in respect of unoccupied premises were £5,000 (2018: nil). The premises were fully occupied in the previous year.

12 PROPERTY, PLANT AND EQUIPMENT – GROUP

Cost	Freehold land and buildings £000's	Short leasehold improvements £000's	Fixtures, fittings and equipment £000's	Motor vehicles £000's	Total £000's
1 September 2017	**3,904**	**186**	**2,361**	**329**	**6,780**
Additions	–	4	196	126	326
Write off fully depreciated assets	–	–	(40)	–	(40)
Disposals	–	–	–	(62)	(62)
Translation differences	–	2	3	–	5
31 August 2018	**3,904**	**192**	**2,520**	**393**	**7,009**
Additions	–	–	401	48	449
Acquisitions	–	1	172	–	173
Disposals	–	–	(2)	(84)	(86)
Translation differences	–	2	24	2	28
31 August 2019	**3,904**	**195**	**3,115**	**359**	**7,573**
Depreciation					
1 September 2017	**1,192**	**152**	**2,011**	**221**	**3,576**
Charge for the year	105	15	202	76	398
Write-off fully depreciated assets	–	–	(40)	–	(40)
Disposals	–	–	–	(59)	(59)
Translation differences	–	2	2	–	4
31 August 2018	**1,297**	**169**	**2,175**	**238**	**3,879**
Charge for the year	104	18	288	71	481
Disposals	–	–	(1)	(56)	(57)
Translation differences	–	–	17	2	19
31 August 2019	**1,401**	**187**	**2,479**	**255**	**4,322**
Net book value					
31 August 2019	**2,503**	**8**	**636**	**104**	**3,251**
31 August 2018	2,607	23	345	155	3,130

TANGIBLE FIXED ASSETS - COMPANY

Cost	Freehold land and buildings £000's	Fixtures, fittings and equipment £000's	Total £000's
1 September 2017	1,182	251	1,433
Additions	–	–	–
31 August 2018	**1,182**	**251**	**1,433**
Additions	–	6	6
31 August 2019	**1,182**	**257**	**1,439**
Depreciation			
1 September 2017	785	230	1,015
Charge for the year	40	16	56
31 August 2018	**825**	**246**	**1,071**
Charge for the year	39	5	44
31 August 2019	**864**	**251**	**1,115**
Net book value			
31 August 2019	**318**	**6**	**324**
31 August 2018	357	5	362

A bank has a charge over the freehold properties.

13 FIXED ASSET INVESTMENTS - COMPANY

Cost	Shares in subsidiary undertakings £000's	Capital contribution £000's	Total £000's
1 September 2017	3,195	2,290	5,485
Share-based payment	–	61	61
At 31 August 2018	3,195	2,351	5,546
Additions	5	–	5
Share-based payment	–	179	179
At 31 August 2019	**3,200**	**2,530**	**5,730**
Amortisation and provisions			
1 September 2018 and 31 August 2019	1,896	–	1,896
Charge for the year	–	–	–
At 31 August 2019	**1,896**	**–**	**1,896**
Net book value			
31 August 2019	**1,304**	**2,530**	**3,834**
31 August 2018	1,299	2,351	3,650

At 31 August 2019, the Company held more than 10% of the equity of the following principal undertakings:

Subsidiaries	Country of incorporation and operation	Class of share capital held	Proportion held by the parent undertaking	Nature of business
Character Options Limited	United Kingdom	Ordinary	100%	Design and distribution of toys and games
Toy Options (Far East) Limited	Hong Kong	Ordinary	100%	Design and distribution of toys and games
Charter Limited	Hong Kong	Ordinary	100%	Design and distribution of toys and games
Character Games Limited	United Kingdom	Ordinary	100%	Design and distribution of toys and games
Character Gifts Limited	United Kingdom	Ordinary	100%	Gift importer and distributor
Character Poland SP z.o.o.	Poland	Ordinary	100%	Design and distribution of toys and games
Q-Stat Limited	United Kingdom	Ordinary	100%	Property investment
Toy Options Limited	United Kingdom	Ordinary	100%	Intermediate holding company
OVG-Proxy A/S*	Denmark	Ordinary	75%	Distribution of toys
Character Denmark ApS	Denmark	Ordinary	100%	Distribution of toys
Character Nordic Limited	United Kingdom	Ordinary	100%	Intermediate holding company

*25% constitutes a non-controlling interest.

13 FIXED ASSET INVESTMENTS - COMPANY CONTINUED

The following is summarised financial information for Proxy prepared in accordance with IFRS. The information is stated before the elimination of inter-company transactions and balances that arise on consolidation.

	18 October 2018 to 31 August 2019 £000's
Revenue	15,871
Loss after tax	(1,280)
Loss attributable to Non-controlling interest ("NCI")	**(400)**
Other comprehensive loss	(42)
Total comprehensive loss	(1,322)
Total comprehensive loss attributable to NCI	**(410)**
Current assets	5,800
Non-current assets	499
Current liabilities	(6,654)
Non-current liabilities	(1,312)
Net liabilities	**(1,667)**
Net liabilities attributable to NCI	**(416)**
Cash flows from operating activites	3,790
Cash flows from investing activities	(100)
Net decrease in borrowings	**3,690**

14 INVENTORIES - GROUP

	2019 £000's	2018 £000's
Finished goods for resale	**16,405**	10,890

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

15 TRADE AND OTHER RECEIVABLES – GROUP AND COMPANY

	Group		Company	
	2019 £000's	2018 £000's	**2019 £000's**	2018 £000's
Current:				
Trade receivables	**29,635**	22,366	**–**	–
Due from subsidiary undertakings	**–**	–	**28,658**	27,611
Other receivables	**3,402**	991	**46**	18
	33,037	23,357	**28,704**	27,629
Prepayments	**1,936**	2,198	**217**	191
	34,973	25,555	**28,921**	27,820

Finance advances received against gross trade receivables (shown below) under the recourse facility amounting to £21,152,000 (2018: £19,050,000) are shown within current liabilities. All the risks and rewards of the trade receivables lie with the Group.

The adoption of IFRS 9 and the application of the expected credit loss methodology did not have a material impact on the Group's results due to the Group's limited credit exposure.

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

Trade receivables can be analysed as follows:

	2019 £000's	2018 £000's
Fully performing	**29,380**	21,725
Past due	**255**	641
Trade receivables	**29,635**	22,366

Ageing of past due, not impaired, receivables:

	2019 £000's	2018 £000's
1 – 90 days	**255**	641

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:

	2019 £000's	2018 £000's
Pounds Sterling	**17,298**	16,871
US Dollars	**8,363**	5,493
Euros	**238**	2
Danish Kroner	**1,924**	-
Others	**1,812**	-
	29,635	22,366

16 INCOME TAX RECOVERABLE/ (PAYABLE) - GROUP

	2019		2018	
	Assets £000's	**Liabilities £000's**	Assets £000's	Liabilities £000's
UK income tax	**-**	**(408)**	–	(533)
Overseas income tax	**-**	**(675)**	14	(590)
	-	**(1,083)**	14	(1,123)

17 DERIVATIVE FINANCIAL INSTRUMENTS - GROUP

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

	2019		2018	
	Assets £000's	**Liabilities £000's**	Assets £000's	Liabilities £000's
Forward foreign exchange contracts and options	**398**	**(637)**	167	(770)

Fair value hierarchy

The Group uses the following valuation hierarchy for determining and disclosing the fair value of financial instruments:

- Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;
- Level 2: other techniques for which all inputs which have significant effect on the recorded fair value are observable, either directly or indirectly; and
- Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data. Unlisted equity investments are included in level 3. The fair value of the embedded derivative is determined using the present value of the estimated future cash flow based on financial forecasts.

All derivative financial instruments are level 2 in the fair value hierarchy, the fair value of which has been determined using reports from the banks from whom the derivatives have been acquired.

18 CASH & CASH EQUIVALENTS – GROUP AND COMPANY

	Group		Company	
	2019 £000's	2018 £000's	**2019 £000's**	2018 £000's
Cash and cash equivalents	**29,990**	34,630	**1,183**	3,695

Cash and cash equivalents are denominated in the following currencies:

Currency – floating rate financial assets	**2019 £000's**	2018 £000's	**2019 £000's**	2018 £000's
Sterling	**24,166**	27,845	**1,128**	3,608
US$	**4,219**	5,540	**51**	81
Euro	**117**	346	**4**	6
HKS$	**839**	815	–	–
Danish Kroner	**594**	27	–	–
Others	**55**	57	–	–
Total	**29,990**	34,630	**1,183**	3,695

Bank overdrafts and short-term borrowings are aggregated with cash and cash equivalents where there is a right of set-off. At 31 August 2019, the balances attracted interest at rates of between 0.05% and 0.75%.

19 BORROWINGS - GROUP

	31 August 2019			31 August 2018		
	Total £000's	**Current £000's**	**Non-current £000's**	Total £000's	Current £000's	Non-current £000's
Finance Advances	**21,152**	**21,152**	**–**	19,050	19,050	–
Short-term borrowings	**992**	**992**	**–**	–	–	–
Subordinated loan	**1,342**	**30**	**1,312**	–	–	–
Total	**23,486**	**22,174**	**1,312**	19,050	19,050	–

Finance advances are advances against trade receivables.

The subordinated loan is payable by 31 December 2023.

19 BORROWINGS - GROUP CONTINUED

Analysis of borrowings by currency

	2019 £000's	2018 £000's
Sterling	**17,578**	17,476
US$	**2,335**	1,574
Danish Kroner	**3,037**	-
Others	**536**	-
Total	**23,486**	19,050

The Group utilises short-term borrowings to implement its working capital strategy. UK facilities include a bank overdraft of £6 million and a trade finance facility of £15.0 million which expire within one year; these are repayable on demand. A UK subsidiary has an ongoing recourse invoice discounting facility of £20 million.

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

Certain Far East subsidiaries have bank overdraft and trade finance facilities equivalent to approximately £17.6 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 £1.4 (2018: £1.2 million), which has been included in cash and cash equivalents.

A Danish subsidiary has an ongoing recourse factoring facility of up to approximately £6.1 million. The interest charged on this facility is CIBOR 3 month/BOR plus 4.85% per annum. It also has a subordinated loan of £1.342 million where the interest rate is 12.8% per annum. These facilities are secured by various fixed and floating charges over the assets and undertakings of a Danish subsidiary and its subsidiaries.

20 TRADE AND OTHER PAYABLES – GROUP AND COMPANY

	Group		Company	
	2019 £000's	2018 £000's	**2019 £000's**	2018 £000's
Trade creditors	**17,829**	15,551	**–**	–
Due to subsidiary undertakings	–	–	**13**	13
Other taxation and social security	**606**	1,229	**101**	102
Accruals and deferred income	**10,331**	7,886	**719**	849
	28,766	24,666	**833**	964

21 FINANCIAL INSTRUMENTS - GROUP

Financial assets		31 August 2019			31 August 2018		
Current financial assets	**Note**	**Total £000's**	**At fair value to Income Statement £000's**	**At amortised cost £000's**	Total £000's	At fair value to Income Statement £000's	At amortised cost £000's
Trade and other receivables	**15**	**33,037**	**–**	**33,037**	23,357	–	23,357
Derivative financial instruments	**17**	**398**	**398**	**–**	167	167	–
Cash and cash equivalents	**18**	**29,990**	**–**	**29,990**	34,630	–	34,630
		63,425	**398**	**63,027**	58,154	167	57,987

21 FINANCIAL INSTRUMENTS - GROUP CONTINUED

Financial liabilities Current & non-current financial liabilities	Note	31 August 2019 Total £000's	At fair value to Income Statement £000's	At amortised cost £000's	31 August 2018 Total £000's	At fair value to Income Statement £000's	At amortised cost £000's
Trade and other payables	**20**	**17,829**	**–**	**17,829**	15,551	–	15,551
Derivative financial instruments	**17**	**637**	**637**	**–**	770	770	–
Borrowings	**19**	**23,486**	**–**	**23,486**	19,050	–	19,050
		41,952	**637**	**41,315**	35,371	770	34,601

21 FINANCIAL INSTRUMENTS - COMPANY

Financial assets Current financial assets	Note	31 August 2019 Total £000's	At fair value to Income Statement £000's	At amortised cost £000's	31 August 2019 Total £000's	At fair value to Income Statement £000's	At amortised cost £000's
Trade and other receivables	**15**	**28,704**	**–**	**28,704**	27,629	–	27,629
Derivative financial instruments	**17**	**–**	**–**	**–**	–	–	–
Cash and cash equivalents	**18**	**1,183**	**–**	**1,183**	3,695	–	3,695
		29,887	–	**29,887**	31,324	–	31,324

Financial liabilities Current financial liabilities	Note	31 August 2019 Total £000's	At fair value to Income Statement £000's	At amortised cost £000's	31 August 2018 Total £000's	At fair value to Income Statement £000's	At amortised cost £000's
Trade and other payables	**20**	**13**	**–**	**13**	13	–	13
Derivative financial instruments	**17**	**–**	**–**	**–**	–	–	–
Short-term borrowings	**19**	**–**	**–**	**–**	–	–	–
		13	–	**13**	13	–	13

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

22 FINANCIAL RISK MANAGEMENT

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

Foreign exchange risk

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

Foreign currency sensitivity

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

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

	Sterling strengthening		**Sterling weakening**	
2019	**Total Equity £000's**	**Profit or (Loss) £000's**	**Total Equity £000's**	**Profit or (Loss) £000's**
Euro	**7**	**7**	**(7)**	**(7)**
US$	**(3,375)**	**(3,375)**	**821**	**821**
HK$	**587**	**587**	**(587)**	**(587)**
Danish Kroner	**(336)**	**(336)**	**336**	**336**
	(3,117)	**(3,117)**	**563**	**563**

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

Interest rate risk

The Group has seasonal cash flow and uses short-term borrowings, namely bank overdrafts, finance advances and import loans to finance working capital requirements. The Group has a long-term loan at a fixed interest rate.

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

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

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

22 FINANCIAL RISK MANAGEMENT CONTINUED

Credit risk – Group and Company

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

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

	Group		Company	
Class of financial assets	**2019 £000's**	2018 £000's	**2019 £000's**	2018 £000's
Trade receivables	**29,635**	22,366	–	–
Due from subsidiary undertakings	–	–	**28,658**	27,611
Other receivables	**3,402**	991	**46**	18
Current tax assets	–	14	–	–
Cash	**29,990**	34,630	**1,183**	3,695
	63,027	58,001	**29,887**	31,324

The Group manages credit risk of debtors through a credit control process and (where possible) 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 £15,767,000 (2018: £13,871,000). 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:

	2019		2018	
	Current £000's	**Non-current within five years £000's**	Current £000's	Non-current within five years £000's
Finance advances	**21,152**	**–**	19,050	–
Subordinated loan	**30**	**1,312**	–	–
Trade and other payables	**28,766**	**–**	24,666	–
Current tax liabilities	**1,083**	**–**	1,123	–
Derivative financial instruments	**637**	**–**	770	–
Deferred tax liabilities	–	**2**	–	3
	51,668	**1,314**	45,609	3

23 CAPITAL RISK MANAGEMENT

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

24 CALLED UP SHARE CAPITAL (EQUITY)

	2019 £000's	2018 £000's
Authorised		
110,000,000 (2018: 110,000,000) ordinary shares of 5 pence each	**5,550**	5,550
Allotted, called up and fully paid		
23,655,001* (2018: 23,892,808) ordinary shares of 5 pence each	**1,183**	1,195

* Including 2,278,756 Ordinary Shares held in treasury (2018: 2,672,756).

Share capital movements in the year

Nil (2018: 15,700) New Ordinary Shares, total nominal value £nil (2018: £785), were issued during the year to employees exercising their share options.

244,000 (2018: 596,700) Ordinary Shares were transferred from treasury during the year to employees exercising their share options.

Date	Number of Ordinary Shares transferred from treasury at price of 213.00p
4 December 2018	10,000
10 December 2018	650
21 December 2018	68,000
2 January 2019	18,000
22 January 2019	4,000
25 January 2019	9,000
29 January 2019	5,000
4 February 2019	40,000
7 February 2019	7,000
11 February 2019	3,200
13 February 2019	3,500
18 February 2019	400
20 February 2019	12,000
4 March 2019	9,500
5 March 2019	10,000
7 March 2019	6,400
3 April 2019	850
12 April 2019	10,000
29 April 2019	22,000
8 July 2019	4,500

24 CALLED UP SHARE CAPITAL (EQUITY) CONTINUED

Share capital movements in the year continued

During the year, the Company issued out of treasury 150,000 (2018: nil) ordinary shares to the minority shareholders of OVG-Proxy A/S as part satisfaction of the amount due to them as earn-out consideration under the terms of the share purchase agreement dated 17 October 2018.

Date	Number of shares
28 June 2019	32,730
2 July 2019	117,270

During the year, the Company repurchased for cancellation 237,807 (2018: 338,700) Ordinary Shares as follows:

Date	Number of shares	Price	% of the issued share capital immediately prior to cancellation (excluding shares held in Treasury)
13 December 2018	75,000	520.00p	0.35%
13 December 2018	25,000	526.00p	0.12%
14 December 2018	56,993	530.00p	0.27%
4 February 2019	12,017	530.00p	0.06%
28 February 2019	9,000	547.00p	0.04%
4 March 2019	9,000	548.00p	0.04%
5 March 2019	9,000	550.00p	0.04%
22 March 2019	9,000	524.66p	0.04%
5 June 2019	4,800	544.00p	0.02%
7 June 2019	5,747	548.00p	0.03%
11 June 2019	9,000	550.00p	0.04%
17 June 2019	9,000	575.00p	0.04%
8 July 2019	4,250	580.00p	0.02%

At 31 August 2019, a total of 2,278,756 Ordinary Shares were held in treasury. (2018: 2,672,756).

Movement in issued capital is as follows:

Ordinary Shares of 5 pence each	2019	2018
In issue at the beginning of the financial year	**23,892,808**	24,215,808
Issued on exercise of share options	**-**	15,700
Cancellations	**(237,807)**	(338,700)
In issue at the end of the financial year – fully paid	**23,655,001**	23,892,808

Share options

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

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

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

On 24 December 2018, an option over a total of 10,000 Ordinary Shares held by the Company in treasury was granted under the 2017 Plan to a Group employee at an exercise price of 540.00 pence per share.

24 CALLED UP SHARE CAPITAL (EQUITY) CONTINUED

At 31 August 2019, rights to options over 992,650 Ordinary Shares of the Company held in treasury (treated as outstanding) were as follows:

	At 1 September 2018	Granted	Exercised/ lapsed	At 31 August 2019	Exercise Price	Exercise Period
2017 Scheme	395,000	–	(244,000)	151,000	213.00p	25 September 2017 to 24 September 2024
	857,250	–	(25,600)	831,650	520.00p	5 June 2021 to 4 June 2028
	–	10,000	–	10,000	540.00p	24 December 2021 to 23 December 2028
	1,252,250	10,000	(269,600)	992,650		

No options were outstanding in respect of unissued Ordinary Shares of the Company as at 31 August 2019.

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:

	2019 Number	2019 Weighted average exercise price	2018 Number	2018 Weighted average exercise price
Outstanding at 1 September	**1,252,250**	**423.16p**	1,043,300	210.02p
Granted	**10,000**	**540.00p**	861,650	520.00p
Exercised	**(244,000)**	**213.00p**	(612,400)	208.45p
Lapsed	**(25,600)**	**520.00p**	(40,300)	238.59p
Outstanding at 31 August	**992,650**	**473.50p**	1,252,250	423.16p
Weighted average remaining contractual life in years		**8.2**		8.7

Options over 244,000 Ordinary Shares were exercised in the year (2018: 612,400). The weighted average price of an issued Ordinary Share in the Company at the date of exercise of options exercised during the year was 538.80p (2018: 468.58p).

At 31 August 2019, options over 151,000 Ordinary Shares were exercisable (2018: 395,000).

25 SHARE-BASED PAYMENT

	12 months ended 31 August 2019 £000's	12 months ended 31 August 2018 £000's
Charge for share-based payment	**190**	62

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

	2006 Scheme	2017 Scheme	
Grant Date	**25 September 2014**	**5 June 2018**	**24 December 2018**
Options outstanding 1 September 2018	395,000	857,250	–
Granted	–	–	10,000
Exercised	(244,000)	–	–
Lapsed	–	(25,600)	–
Options outstanding 31 August 2019	151,000	831,650	10,000
Contract term year(s)	10	10	10
Expected life of option	8	8	8
Exercise & share price at grant	213.0p	520.0p	540.0p
Expected volatility	25% – 35%	22% – 27%	25%
Annual risk-free rate	2.502%	1.40%	1.278%
Annual expected dividend	3.65% – 4%	4%	4%
Fair value per share under option	46p	72p	72p

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

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

26 COMMITMENTS

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

	2019 £000's	2018 £000's
Not later than one year	**472**	386
Later than one year but not more than five years	**1,358**	165
	1,830	551

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:

	2019 £000's	2018 £000's
Within one year	**490**	1,731
Between one and two years	**192**	368
	682	2,099

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:

	2019 £000's	2018 £000's
Within one year	**173**	221
Between one and two years	**109**	237
	282	458

27 RELATED PARTY TRANSACTIONS

The Group has taken advantage of the exemption available under IAS 24 related party disclosures not to disclose transactions and balances between Group entities that have been eliminated on consolidation. There were no contracts with the Company or any of its subsidiaries existing at the end of the financial year in which a director of the Company was materially interested.

The principal subsidiary undertakings of the Company are shown in note 13.
Transactions between the Company and its subsidiaries are shown below; all such transactions were carried out in the normal course of business and all amounts outstanding are unsecured.

	2019 £000's	2018 £000's
Dividends received	**5,500**	14,436
Management fees received	**1,800**	1,800
Property rental income	**201**	201
Property rentals paid	**(96)**	(96)
Amounts due from subsidiary undertakings	**28,658**	27,611
Amounts owed to subsidiary undertakings	**(13)**	(13)

28 CONTINGENT LIABILITIES

Bills of exchange

The contingent liability for bills of exchange discounted in the normal course of business at 31 August 2019 amounted to £1,302,000 (2018: £1,269,000).

Litigation

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

29 EVENTS OCCURING AFTER THE BALANCE SHEET DATE

Since 1 September 2019, the Company repurchased for cancellation 46,500 Ordinary Shares at an aggregate cost of £162,196.

NOTICE OF ANNUAL GENERAL MEETING

The Character Group plc

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

NOTICE IS HEREBY GIVEN THAT the 2020 Annual General Meeting of The Character Group plc will be held at the offices of Allenby Capital Limited, 5 St. Helen's Place, London, EC3A 6AB on Friday 17 January 2020 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 2019 and the report of the auditors thereon (the "Accounts").

2. Subject to the adoption of the Accounts in accordance with Resolution 1 above, 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 2019 of 13 pence per share.

3. To consider an ordinary resolution of the company that Mr. R. King, who retires in accordance with the terms of his letter of appointment, be and is hereby re-elected as a director of the company.

4. To consider an ordinary resolution of the company that Mr. D. Harris, who retires in accordance with the terms of his letter of appointment, be and is hereby re-elected as a director of the company.

5. To consider an ordinary resolution of the company that Mr. C. Crouch, who retires in accordance with the terms of his letter of appointment, be and is hereby re-elected as a director of the company.

6. To consider an ordinary resolution of the company that MacIntyre Hudson LLP be and are hereby re-appointed as auditors of the company, on terms as to remuneration to be determined by the directors.

SPECIAL BUSINESS

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

Ordinary Resolution

7. That, in accordance with section 551 of the Companies Act (the "Act"), the directors be and are hereby generally and unconditionally authorised to allot shares in the company or grant rights to subscribe for or to convert any security into shares in the company ("Rights") up to an aggregate nominal amount of £356,000, such authority to expire on the earlier of fifteen months following the date upon which this resolution was passed and the conclusion of the Annual General Meeting of the company next following the date upon which this resolution was passed, unless renewed, varied or revoked by the company in general meeting provided that the company may at any time before the expiry, variation or revocation of such authority make offers or agreements which will or might require shares in the company to be allotted or Rights to be granted and the directors may allot shares or grant Rights after the expiry, variation or revocation of such authority as if such authority had not expired or been varied or revoked. This authority shall replace all existing authorities conferred on the directors in respect of the allotment of shares in the company or grant Rights under section 551 of the Act to the extent that the same have not previously been utilised.

Ordinary Resolution

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

   (A) the maximum number of ordinary shares of 5p each in the capital of the company hereby authorised to be acquired is 3,200,000;

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

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

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

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

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

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

Special Resolution

9. That:

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

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

(ii) the allotment (otherwise than pursuant to paragraph (i) above) of equity securities up to an aggregate nominal value of £106,500;

(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 £64,305.30 (equivalent to 1,286,106 ordinary shares of 5p each in the company);

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

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

(D) this power shall replace all existing powers granted to the directors to allot and/or sell equity securities as if the said Section 561(1) of the Act (or Section 89(1) of the Companies Act 1985) did not apply to the extent that the same have not been previously utilised.

By order of the Board,

K.P. Shah Secretary 23 December 2019	Registered Office: Citypoint, 16th Floor, One Ropemaker Street, London, EC2Y 9AW

Notes:

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

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

3. To be valid, forms of proxy must be lodged with Neville Registrars Limited, Neville House, Steelpark Road, Halesowen, West Midlands B62 8HD not less than 48 hours before the time appointed for holding the Annual General Meeting. A form of proxy is enclosed with this notice. If you do not have a proxy form and believe that you should have one, or if you require additional forms, please contact the Company Secretary. In the case of joint holders of shares, the vote of the first named in the register of members who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of other joint holders.

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

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

6. For the purposes of Regulation 41 of the Uncertificated Securities Regulations 2001, the members entitled to attend, speak and/or vote at the Annual General Meeting shall be those entered on the company's register of members at 6:00 p.m. on 15 January 2020 (or if the meeting is adjourned, on the day which is two business days before the time fixed for the adjourned meeting). Changes to entries on the register of members after that time (including as to the number of votes they may cast) will be disregarded in determining the rights of any person to attend and/or vote at the meeting.

7. As at 20 December 2019 (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 21,329,745 ordinary shares, carrying one vote each. Therefore, the total voting rights in the company as at 19 December 2019 was 21,329,745.

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

9. In order for a proxy appointment or instruction made using the CREST service to be valid, the appropriate CREST message (a "CREST Proxy Instruction") must be properly authenticated in accordance with Euroclear UK & Ireland Limited's specifications, and must contain the information required for such instruction, as described in the CREST Manual. The message, regardless of whether it constitutes the appointment of a proxy or is an amendment to the instruction given to a previously appointed proxy must, in order to be valid, be transmitted so as to be received by the issuer's agent (ID 7RA11) by 11:00 a.m. on 15 January 2020. For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp applied to the message by the CREST Application Host) from which the issuer's agent is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. After this time any change of instructions to proxies appointed through CREST should be communicated to the appointee through other means.

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

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

SUMMARY OF THE SPECIAL BUSINESS TO BE CONSIDERED AT THE 2020 ANNUAL GENERAL MEETING

It is proposed that the following resolutions will be proposed as special business at the Company's 2020 Annual General Meeting (the "**AGM**"):

Resolution 7 – Authority to allot unissued shares

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

Resolution 7 is an ordinary resolution that seeks approval from shareholders to renew the Directors' authority to allot unissued ordinary shares of 5 pence each in the capital of the Company ("**Ordinary Shares**") and/or to grant Rights up to an aggregate nominal amount of £356,000, which represents 7,120,000 Ordinary Shares (approximately 33.3 per cent. of the issued share capital of the Company as at 31 August 2019, excluding shares held in treasury). A corresponding authority was given to the Directors at the last annual general meeting and that authority expires at the conclusion of the AGM.

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

There are no present plans to allot unissued Ordinary Shares pursuant to this authority.

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

Resolution 8 – Authority to make market purchases of own shares

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

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

The maximum number of shares that may be acquired through exercise of this proposed authority is 3,200,000 Ordinary Shares, representing approximately 15 per cent. of the issued share capital of the Company as at 31 August 2019 (excluding shares held in treasury). The resolution specifies the minimum and maximum prices which may be paid for any Ordinary Shares purchased under this authority, which reflect current best practice and the applicable requirements of the Market Abuse Regulation.

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

Resolution 9 – Disapplication of pre-emption rights

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

Resolution 9, which will be proposed as a Special Resolution of the Company, seeks approval from shareholders to a renewal of the disapplication of the statutory pre-emption rights to allow the Directors to allot equity securities (which includes Ordinary Shares) or sell Ordinary Shares held in treasury for cash, as if section 561(1) of the Act did not apply to such allotment. The authority will allow the Directors to allot equity securities or sell Ordinary Shares held in treasury for cash other than in accordance with section 570 of the Act in connection with rights issues and other offers of shares pro-rata to existing holdings (but allowing for certain adjustments to shareholder entitlements to be made for practical purposes to deal with fractional entitlements and overseas restrictions on offers of shares in UK companies) and further limited disapplications of those preemption rights in relation to the allotment of Ordinary Shares for cash of up to an aggregate nominal amount of £106,500, representing 2,130,000 Ordinary Shares (equivalent to approximately 10 per cent. of the issued share capital of the Company as at 31 August 2019, excluding shares held in treasury)

Further, it is intended to allow the Directors to sell shares held in treasury for cash, if it is considered by the Board to be in the best interests of the Company and its shareholders as a whole. The statutory pre-emption rights set out in section 570 of the Act also apply to shares held in treasury and, accordingly, it will be necessary to disapply those pre-emption rights specifically in relation to shares held in treasury, if the Directors are to be granted this power. Resolution 9, accordingly, also proposes that the Directors be authorised to sell equity securities held as treasury shares for cash other than in accordance with section 570 of the Act up to the limit of 1,286,106 Ordinary Shares, £64,305.30 in nominal aggregate value (equivalent to approximately 4.8 per cent. of the issued share capital of the Company as at 31 August 2019, excluding shares held in treasury), being the number of shares held in treasury and not subject to the grant of options under the Company's 2017 Share Option Plan at the date of this document.

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

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

The Character Group plc
2nd Floor, 86-88 Coombe Road,
New Malden, Surrey. KT3 4QS

T: +44 (0)20 8329 3377
F: +44 (0)20 8336 2585
E: info@charactergroup.plc.uk