the
CHARACTER
group plc

Interim Report
six months ended
28 February 2007

DIRECTORS AND ADVISORS

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HIGHLIGHTS

Continuing Business

• Sales	up 37.6%
• Operating profit	up 79.7%
• Basic earning per share	up 76.6%
• Interim dividend	up 21.2%

Introduction

As we indicated in our trading updates on 31 January and 23 March 2007, Group sales and profitability have been substantially ahead of last year, exceeding Management's original budgets and expectations for the period.

This very creditable performance has been achieved through increased exposure and brand support by our major trade partners and we believe also reflects our strategic focus in the on-going development of our own range of exciting, innovative products which meet the market's needs and consumer demand.

Product Review

The Group is fortunate to have within its product portfolio its strongest range of toys and games to date, and we are very encouraged by the demand at retail for the Group's products.

We are very pleased to say that the trend of our recent strong trading has continued with encouraging reactions to our new and existing ranges coming from the trade in general and specifically from all our major customers.

Looking at the range, shareholders will be pleased to learn that Character has been very successful in building brands such as Peppa Pig, Disney Princess, Scooby Doo, GR8 Art, and the new launches of Dragonfly and Movin' & Groovin' Flowers as well as the highly successful Dr Who product line which is probably the hottest boys range for 2007.

Looking ahead, new to our offering under our Spiderman 3 licence, we have developed Spidersapien, a fusion of Spiderman 3 and our 2005 award winning Robosapien, which is expected to be our lead line for our range of Spiderman 3 toys.

Also, we believe the biggest Doctor Who toy this Christmas will be the Dalek Sec Hybrid Voice Changer Helmet. Shareholders may have witnessed in last Saturday evening's episode of Doctor Who, the Dalek Sec coming out of his iron shell and the mutant inside taking on a human form, thus becoming a 'hybrid'.

The Dalek Sec Hybrid Voice Changer Helmet developed by Character is yet to be released to retail but we expect it to be one of the most popular products in the range which include the Cyberman Voice Changer which won 2006 Toy of the Year Award and the Best Boys Toy Concept of the year award for Doctor Who. With the Doctor Who Series 3 just released, we expect further growth in the brand and our range in particular.

We are also to be undertaking another project with BBC Worldwide relating to the television programme The Sarah Jane Adventures, which has developed as a spin-off from the Doctor Who series and which we believe will be very successful in its own right.

Taking into account the on-going strong demand for our continuing lines and our new introductions, we are very excited about our prospects and expect to see further exciting growth as we continue to build our existing brands and develop new ones.

Financials

Based on continuing activities, in the six months ended 28 February 2007, turnover increased 37.6% to £56.03 million from £40.72 million, whilst operating profits, on the same basis, were up approximately 80% from £3.67 million to £6.59 million.

The Group's profit before tax increased from £2.96 million to £6.3 million.

Basic earnings per share in the period were 10.05 pence, against 5.04 pence in the comparable six months in 2006.

Cash at bank on 28 February 2007 was £11.86 million (2006: £10.3 million). This is after taking account of share buy-backs undertaken during the period of £3.4 million and £0.95 million proceeds from sale of treasury shares.

Stocks at the six-month period end were £5.4 million compared to £10.7 million at last year-end of 31 August 2006; this clearly reflects the very successful Autumn/Winter trading period for the Group.

Dividend

In light of these strong results and to further underpin the Board's confidence in the Group's portfolio of product and the anticipated outcome for the remainder of the year, the Directors have declared an interim dividend of 2.0 pence per share, an increase of 21.2% over last year (2006 1.65 pence). This dividend is covered approximately 5 times by earnings.

The interim dividend will be paid on 25 May 2007, to Shareholders on the Register as at 4 May 2007. The ex-dividend date is 2 May 2007.

Share Buy-Backs

During the six months under review, the Group purchased 3,470,322 ordinary shares in the Company at an aggregate price of £3.4 million and an average price of 97.2 pence. This represents approximately 7.24% of the issued share capital of the Company as at 1 September 2006 (excluding shares held in treasury). As at 1 September 2006, 1,125,000 ordinary shares in the Company were held in treasury. Of the shares purchased by the Company in the period under review, 754,322 were purchased to be held in treasury and the balance for cancellation. In the period, 775,000 shares were sold by the Company from treasury at a price of 123.5 pence per share.

The Directors continue to focus on ways to enhance shareholder value further through our on-going plans to implement a progressive dividend policy, whilst at the same time monitoring the position in the market with a view to continuing to buy-back shares for treasury and cancellation, when considered appropriate.

As at 20 April 2007, the Group had 45,619,837 ordinary shares in issue excluding 979,322 ordinary shares held in treasury, compared with the position as at 28 February 2006 when there were 52,830,909 shares in issue and no shares held in treasury.

Update relating to the Discontinued Digital Products Division

In our trading update to Shareholders on 23 March 2007, we made reference to two matters that remained unresolved following the sale of the Group's Digital business in February 2006.

With regard to the action against Petters Consumer Electronics LLC ("Petters"), our subsidiary World Wide Licenses Limited ("WWL") issued proceedings in Delaware, USA and served process on Petters in March 2007. Petters has failed to file a defence within the prescribed time and WWL has now filed a motion for default in those proceedings.

In relation to our claim against Flextronics Sales & Marketing (A-P) Limited, we are in discussions which we hope will lead to a satisfactory conclusion.

Although we do not believe that either of these matters will have any material impact on the on-going business of the Group, which continues to go from strength to strength, our intention is vigorously to pursue them through the appropriate channels.

Current Trading and Prospects

The Group expects demand to remain strong for both its continuing ranges and new introductions. Taking this into account, coupled with the strength of our product portfolio, the Board is confident that the business shall continue to achieve further sustainable growth for the foreseeable future.

Richard King
Chairman
23 April 2007

CONSOLIDATED PROFIT AND LOSS ACCOUNT

	Notes	6 months to 28th February 2007 (unaudited) £'000	6 months to 28th February 2006 (unaudited) £'000	12 months to 31st August 2006 (audited) restated (note 1) £'000
Turnover – continuing		56,026	40,718	69,546
– discontinued		—	25,851	25,986
		56,026	66,569	95,532
Cost of sales		(33,692)	(49,735)	(66,543)
Gross profit		22,334	16,834	28,989
Net operating expenses				
Selling and distribution costs		(7,262)	(7,477)	(11,737)
Administration expenses		(8,501)	(8,468)	(13,894)
Other operating income		18	204	261
Operating profit/(loss) – continuing		6,589	3,667	6,912
– discontinued		—	(2,574)	(3,293)
Operating profit		6,589	1,093	3,619
Exceptional item – discontinued activity				
Gain before goodwill write back		—	4,300	4,053
Goodwill charge		—	(1,897)	(1,897)
		—	2,403	2,156
Profit on ordinary activities before interest		6,589	3,496	5,775
Interest		(293)	(538)	(644)
Profit on ordinary activities before taxation		6,296	2,958	5,131
Taxation	2	(1,675)	(308)	(2,139)
Profit on ordinary activities after taxation		4,621	2,650	2,992
Earnings/(loss) per share	5			
Basic – continuing		10.05p	5.69p	8.49p
– discontinued		—	(0.65p)	(2.56p)
		10.05p	5.04p	5.93p
– fully diluted		9.81p	5.02p	5.77p
Dividend per share		2.0p	1.65p	3.3p
EBITDA (earnings before interest, tax, depreciation and amortisation)		6,873	3,888	7,456

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

	6 months to 28th February 2007 (unaudited) £'000	6 months to 28th February 2006 (unaudited) £'000	12 months to 31st August 2006 (audited) restated £'000
Profit for the financial period	4,621	2,650	2,992
Currency translation differences on foreign net investment	8	122	18
Total recognised gains and losses relating to the financial period	4,629	2,772	3,010

CONSOLIDATED BALANCE SHEET

	Note	6 months to 28th February 2007 (unaudited) £'000	6 months to 28th February 2006 (unaudited) £'000	12 months to 31st August 2006 (audited) restated £'000
Fixed assets				
Intangible assets		300	624	400
Tangible assets		1,534	1,553	1,609
Investments		2	2	2
		1,836	2,179	2,011
Current assets				
Stocks		5,404	8,667	10,671
Trade debtors subject to finance arrangements		4,766	5,223	11,813
Factor advances		(4,264)	(3,685)	(6,275)
		502	1,538	5,538
Trade and other debtors		4,852	8,155	9,474
Cash at bank and in hand		11,860	10,298	7,369
		22,618	28,658	33,052
Creditors: amounts falling due within one year		(10,980)	(15,675)	(23,324)
Net current assets		11,638	12,983	9,728
Total assets less current liabilities		13,474	15,162	11,739
Net assets		13,474	15,162	11,739
Capital and reserves				
Called up share capital		2,329	2,642	2,452
Shares held in treasury		(635)	—	(665)
Investment in own shares		(908)	(908)	(908)
Capital redemption reserve		385	40	243
Share premium account		12,517	11,821	11,917
Share based payment reserve		192	—	68
Merger reserve		651	651	651
Profit and loss account	3	(1,057)	916	(2,019)
Equity shareholders' funds		13,474	15,162	11,739

CONSOLIDATED CASH FLOW STATEMENT

	Notes	6 months to 28 February 2007 (unaudited) £'000	6 months to 28 February 2006 (unaudited) £'000	12 months to 31 August 2006 (audited) £'000
Cash flow from operating activities	*6*	8,150	4,101	5,995
Returns on investment and servicing of finance				
Interest paid (net)		(293)	(538)	(644)
Net cash outflow for returns on investments and servicing of finance		(293)	(538)	(644)
Taxation		(240)	(458)	(228)
Capital expenditure and financial investment				
Payments to acquire tangible fixed assets		(132)	(658)	(876)
Sale of tangible fixed assets		19	432	397
Net cash outflow for capital expenditure and financial investment		(113)	(226)	(479)
Acquisitions and disposals				
Sale of business – exceptional item		—	4,143	3,178
Equity dividend paid		(733)	(473)	(1,258)
Cash inflow before use of liquid resources and financing		6,771	6,549	6,564
Shares held in treasury (including expenses)		(472)	—	(672)
Disposal of shares held in treasury (net)		952	—	—
Issue of new shares		169	1	110
Purchase of own shares		(2,929)	—	(2,381)
Net cash (outflow)/inflow from financing		(2,280)	1	(2,943)
Increase in cash in the period	*7*	4,491	6,550	3,621
Decrease in net debt in the period	*8*	4,491	6,550	3,621

1 BASIS OF PREPARATION

The financial information for the six months ended 28 February 2007 has not been audited, nor has the financial information for the six months ended 28 February 2006. However, the interim report includes a review report signed by the auditors. The comparative figures for the year ended 31 August 2006 do not constitute the company's statutory accounts for that year, but have been extracted from the statutory accounts filed with the Registrar of Companies, and which carried an unqualified audit report. The report has been prepared in accordance with applicable accounting standards on a consistent basis using the accounting policies that will be applied in the 2007 Annual Report. This has led to the adoption of FRS 20 Share Based Payment, as described below.

FRS 20: Share Based Payment

During the period the Group adopted FRS 20 'Share Based Payment' which applies to AIM listed companies for accounting periods commencing on or after 1 January 2006.

The fair value of employee share option plans is measured at the date of grant of the option using a binomial valuation model taking into account the terms and conditions under which the option was granted. The fair value determined is expensed on a straight line basis over the vesting period based upon the Group's estimate of the number of shares that will vest. The charge in respect of the share based payments is matched by an equal and opposite adjustment to profit and loss reserves, thereby having no net impact on the Group's closing reserves.

The adoption of FRS 20 has resulted in a change in accounting policy for share based payments. A prior year adjustment has been made to the financial information for the year ended 31 August 2006 as detailed below:

	6 months ended 28 February 2007 (unaudited) £'000	6 months ended 28 February 2006 (unaudited) £'000	12 months ended 31 August 2006 £'000
Charge for share based payment	124	—	68

The Group has taken advantage of the transitional provisions of FRS 20 in respect of the fair value of equity settled awards so as to apply FRS 20 only to those equity settled awards granted after 7 November 2002 that had not vested before 1 September 2006.

2 TAXATION

The tax charge for the half year is estimated on the basis of the anticipated tax rates applying for the full year.

3 PROFIT AND LOSS ACCOUNT

	£'000
At 1 September 2006 as previously reported	(1,951)
Share based payment	(68)
At 1 September 2006 restated	(2,019)
Exchange difference	8
Profit after tax for the period	4,621
Dividends	(733)
Shares cancelled and capitalised	(2,934)
At 28 February 2007	(1,057)

The profit and loss account for prior periods is restated in accordance with FRS 20 as follows:

	6 months ended 28 February 2006 (unaudited) £'000	12 months ended 31 August 2006 £'000
At 31 August 2006 as previously reported	2,650	3,060
Share Based Payment	—	(68)
Profit and loss account restated	2,650	2,992

4 DIVIDENDS

The interim dividend declared for the six months ended 28 February 2007 is 2.0 pence per ordinary share and is expected to be paid on 25 May 2007 to those shareholders on the register at the close of business on 4 May 2007. This dividend was declared after 28 February 2007 and the liability of £906,000 has not been recognised in the interim results in accordance with FRS21.

The interim dividend paid for the six months ended 28 February 2006 was 1.65 pence per ordinary share and the final dividend paid for the year ended 31 August 2006 was 1.65 pence per ordinary share, making a total of 3.3 pence per ordinary share.

5 EARNINGS PER SHARE

Earnings per share have been calculated in accordance with FRS 22 Earnings per share.

The calculations are based on the following:

	6 months to 28 February 2007		
	Profit after taxation £	Weighted average number of ordinary shares	Pence per share
Basic earnings per share	4,620,545	45,980,878	10.05
Impact of share options	—	1,140,385	(0.24)
Diluted earnings per share	4,620,545	47,121,263	9.81

	6 months to 28 February 2006		
Basic earnings per share	2,650,000	52,543,290	5.04
Impact of share options	—	206,512	(0.02)
Diluted earnings per share	2,650,000	52,749,802	5.02

	12 months to 31 August 2006		
Basic earnings per share	2,992,000	51,629,312	5.80
Impact of share options	—	221,975	(0.03)
Diluted earnings per share	2,992,000	51,851,287	5.77

6 RECONCILIATION OF OPERATING PROFIT TO NET CASH INFLOW FROM OPERATING ACTIVITIES

	6 months to 28 February 2007 (unaudited) £'000	6 months to 28 February 2006 (unaudited) £'000	12 months to 31 August 2006 (audited) restated £'000
Operating profit	6,589	1,093	3,619
Depreciation, impairment and amortisation	284	392	774
Share Based Payment	124	—	68
(Profit)/Loss on disposal of tangible fixed assets	(3)	161	168
Decrease/(increase) in stocks	5,267	1,143	(861)
Decrease in debtors	8,137	15,260	8,411
(Decrease) in creditors	(12,256)	(14,070)	(6,225)
Exchange differences	8	122	41
Net cash inflow from operating activities	8,150	4,101	5,995

RECONCILIATION OF EXCEPTIONAL PROFIT TO NET CASH INFLOW FROM EXCEPTIONAL ITEM

	6 months to 28 February 2007 (unaudited) £'000	6 months to 28 February 2006 (unaudited) £'000	12 months to 31 August 2006 (audited) £'000
Exceptional profit	—	2,403	2,156
Write back of goodwill previously written off	—	1,897	1,897
(Increase) in debtor	—	(1,027)	(948)
Increase in creditors	—	870	73
Net cash inflow from exceptional item	—	4,143	3,178

7 RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET DEBT

	6 months to 28 February 2007 (unaudited) £'000	6 months to 28 February 2006 (unaudited) £'000	12 months to 31 August 2006 (audited) £'000
Increase in cash in the period	4,491	6,550	3,621
Net debt at 1 September 2006	7,369	3,748	3,748
Net debt at 28 February 2007	11,860	10,298	7,369

8 ANALYSIS OF NET DEBT

	Cash at bank and in hand £'000
1 September 2005	3,748
Cash flow	6,550
28 February 2006	10,298
Cash flow	(2,929)
31 August 2006	7,369
Cash flow	4,491
28 February 2006	11,860

INDEPENDENT REVIEW REPORT TO THE CHARACTER GROUP PLC

Introduction

We have been instructed by the company to review the financial information for the six months ended 28 February 2007, which comprises the consolidated profit and loss account, the consolidated statement of recognised gains and losses, the consolidated balance sheet, the consolidated cash flow statement and the notes to the financial information. We have read the other information contained in the interim report and considered whether it contains any apparent misstatements or material inconsistencies with the financial information.

This report, including the conclusion, has been prepared for and only for the Company for the purposes of its interim report. We do not, therefore, in producing this report, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Directors' responsibilities

The interim report, including the financial information contained therein, is the responsibility of, and has been approved by, the directors. The AIM Rules require that the accounting policies and presentation applied to the interim figures should be consistent with those that will be adopted in the annual accounts having regard to the accounting standards applicable to such annual accounts, except where any changes, and the reasons for them, are disclosed.

Review work performed

We conducted our review in accordance with guidance contained in Bulletin 1999/4 issued by the Auditing Practices Board for use in the United Kingdom. A review consists principally of making enquiries of management and applying analytical procedures to the financial information and underlying financial data and based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit performed in accordance with International Standards on Auditing (UK and Ireland) and therefore provides a lower level of assurance than an audit. Accordingly, we do not express an audit opinion on the financial information.

Review conclusion

On the basis of our review we are not aware of any material modifications that should be made to the financial information as presented for the six months ended 28 February 2007.

HLB Vantis Audit plc
Chartered Accountants
London
23 April 2007

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