



The information contained within this announcement is deemed by the Company to constitute inside information stipulated under the Market Abuse Regulation (EU) No. 596/2014. Upon the publication of this announcement via the Regulatory Information Service, this inside information is now considered to be in the public domain.

LONDON: Thursday, 10 December 2020

THE CHARACTER GROUP PLC

("Character", "Group" or "Company")

Designers, developers, and international distributor of toys, games, and giftware

PRELIMINARY RESULTS FOR THE YEAR TO 31 AUGUST 2020

KEY PERFORMANCE INDICATORS	12 months to 31 August 2020	12 months to 31 August 2019
Revenue	£105.3m	£120.4m
Operating profit	£5.4m	£11.6m
Pre-tax profit	£5.0m	£11.1m
Underlying basic earnings per share*	18.12p	43.27p
Underlying diluted earnings per share*	18.08p	42.96p
Underlying EBITDA*	£8.2m	£13.7m
Dividends declared per share for the year	5.0p	26.0p
Net assets	£34.0m	£34.1m
Strongly cash-generative - net cash	£19.1m	£6.5m

*Excludes mark to market profit adjustments on FX derivative positions

£(2.0)m

£0.36m

- The demand for Character's diverse and exciting product range has been sustained since the onset of the Covid-19 pandemic with all ranges performing well, including *Peppa Pig*, *Goo Jit Zu*, *Pokémon*, *Little Live Pets*, *Shimmer 'n Sparkle*, *Squeakee the Balloon Dog*, *PenSilly*, *Gotta' Go Flamingo*, *Treasure X*, *My Baby Tumbles*, *Project X*, *Tap It* and *flipside*
- The success of *Peppa Pig* sustainable, environmentally-friendly, wooden toy products has led to winning more licences from well-known brand owners that are keen to increase the "green" credentials of their own brands. These include *Batman*, *Disney Princess*, *Fireman Sam* and *Ben and Holly*
- Agreement subject to contract, with the brand owner, Hasbro, to continue our current European *Peppa Pig* wood products licence through to 31 December 2023 and to significantly extend the product range under that licence.
- Product development, which has been key to success in broadening and strengthening Character's portfolio, has continued apace. The current range and the developments in prospect bode well for an exciting future

"The resilience of Character's performance has arisen from the ability of many of its customers to effectively service demand by migrating sales from bricks and mortar outlets to online shops and marketplaces, when needed. Character's success in preserving profitability in troubled times and positioning itself to take advantage of the current opportunities has been down to the management's ability to read and respond to fast-evolving trends in the Group's markets."

"Trading in the lead up to Christmas 2020, despite the second UK lockdown, has been significantly ahead of the previous year's sales. Sales in Q1 are up by more than 30% over the same period last year and the prospects for the current financial year are looking extremely positive."

"We expect FY 2021 to be the beneficiary of the deferral of the strong trading that we originally anticipated. Whilst we will continue to monitor the position, it is apparent that the Group is ahead of management expectations for the first half to February 2021 and market expectations for the financial year as a whole."

ENQUIRIES

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FTSE sector: leisure

FTSE AIM All-share: symbol: CCT.L

Market capitalisation: £80.60m

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Notes:

1. The Key Performance Indicators (KPI's) table shown at the top of this Report provides the foregoing data on an underlying basis
2. This announcement contains inside information for the purposes of Article 7 of the Regulation (EU) No. 596/2014
3. A copy of this statement can also be found at www.thecharacter.com
4. Product ranges can be viewed at www.character-online.co.uk



THE CHARACTER GROUP PLC

Designers, developers, and international distributor of toys, games, and giftware

PRELIMINARY RESULTS FOR THE YEAR TO 31 AUGUST 2020

INTRODUCTION

The strong performance that we had originally forecast at this time last year for the second half of the year being reported could not be realised due to the lockdowns and restrictions that subsequently impacted the global economy and our markets since March 2020. Overall, despite the challenges we have faced during the Covid-19 pandemic, we are pleased to be able to report that the Group traded satisfactorily, and we have finished the year with revenue of £105.3m and a profit before tax of £5.0m.

The Group has continued to be strongly cash-generative and, in the year to 31 August 2020, delivered £19.6m of cash from operations. Through our ongoing careful management of working capital, we ended the financial year with a strong net cash balance of £19.1m.

It is also encouraging to report that the performance of the Group since the end of the first lockdown in early July 2020 and in the lead up to this Christmas has been very strong. Consequently, the anticipated strengthening and growth of our business has not been lost, but merely been deferred, and is expected to be realised in the current financial year ending August 2021.

COVID-19

The supply side of the Group's operations in the Far East experienced temporary disruption soon after the Chinese New Year in February. However, full capabilities were rapidly restored, and most factories returned to near normal production capacity within a month. The demand side of the business, particularly in the UK, was adversely impacted in the early part of the first lockdown by closures of non-essential stores, shops and warehousing and distribution centres. At the beginning of this lockdown our online retail customers continued to place modest levels of orders but, as the duration of the initial lockdown was extended, these order levels built, benefiting from the migration of consumer purchasing to internet-based suppliers. From mid-June, when the first lockdown restrictions were eased and the non-essential bricks and mortar stores re-opened, our customer order levels strengthened considerably and this has continued into the new financial year, despite the imposition of the UK's second lockdown through November.

The management team and staff continue to safely maintain operations at all of our facilities, initially in order to preserve the business-critical functions and service the lower levels of demand of the Group and subsequently to fulfil the improving demand for our goods. Clear and firmly applied COVID-19 procedures (in line with government guidelines and other good practice) have been in place at all our sites to ensure the safety and wellbeing of our staff and visitors to our premises. Due to the careful stewardship of our management and the sheer grit and determination of our operational, sales, administrative, product development and support teams in successfully safeguarding the essentials of our operations during the pandemic, the Company has emerged strongly from the effects of the global lockdowns.

OPERATIONAL PERFORMANCE

Group revenue in the year to 31 August 2020 was £105.3m, against a turnover of £120.4m in the comparable 2019 period. Of particular note was the substantial growth in sales in the USA, mainly due the successful launch of *Goo Jit Zu*.

The gross profit margin for the Group was 28.6% (FY 2019: 34.5%), reflecting the increased proportion of lower-margin, international FOB sales. On an absolute basis, the gross profit was £30.2m compared to £41.6m for the previous year.

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 a notional loss of £2.0m. This compares to a corresponding notional profit of £0.36m reported in the year to 31 August 2019. These "mark to market" adjustments are non-cash items calculated by reference to unpredictable and sometimes volatile currency spot rates at the relevant balance sheet dates. To present the results on a "normal" basis, these "mark to market" profit adjustments on FX derivative positions are excluded but shown separately as "significant items" to demonstrate the "underlying" profitability highlighted in this Report.

The Group is reporting a profit before tax in the period under review of £5.0m (FY 2019: £11.1m). Underlying earnings before interest, tax, depreciation, and amortisation were £8.2m (FY 2019: £13.7m).

Underlying basic earnings per share before significant items amounted to 18.12p (FY 2019: 43.27p). Underlying diluted earnings per share, on the same basis, were 18.08p (FY 2019: 42.96p).

FINANCIAL POSITION, WORKING CAPITAL & CASH FLOW

We have worked diligently to ensure that we finished the financial year in a position that optimises our potential for future growth.

With the Group's net assets at 31 August 2020 totalling £34.0m (FY 2019: £34.1m), the capital base of the Company has been preserved at last year's level, notwithstanding the payment of dividends totalling £3.2m.

Inventories at the year-end were c.£1.7m lower at £14.7m (FY 2019 £16.4m), reflecting sensitive management of purchases in anticipation of reduced levels of demand in the year as the effects of the pandemic became apparent.

As we highlighted at the start of this Report, the Group generated cash from operations of £19.6m in the period (FY 2019: £10.4m). Interest charges on short-term use of working capital facilities during FY 2020 amounted to £0.34m (FY 2019: £0.47m). Most of this interest charge related to the Group's Danish subsidiary OVG-Proxy A/S ("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 £19.1m, compared to £6.5m at 31 August 2019.

DIVIDEND

The Board remains committed to maintaining the final dividend as we believe this reflects our confidence in the Company's ability to grow profits and generate and develop further sustainable cash flow. The Board will be recommending to shareholders a final dividend of 3.0p (2019 H2: 13.0p per share). This constitutes an increase of 1.0p over the interim dividend declared in May 2020 and evinces the Board's commitment to re-establishing a progressive dividend policy. This, together with the interim dividend of 2.0p per share paid in July 2020, makes a total dividend for the year of 5.0p per share (FY 2019: 26.0p).

The 2020 final dividend is covered approximately 3.6 times by underlying annual earnings (2019: 1.66 times). Subject to approval by shareholders at the Annual General Meeting ("AGM") on Friday, 22 January 2021, the final dividend will be paid on 29 January 2021 to members on the register as at the close of business on 15 January 2021; the shares will be marked ex-dividend on 14 January 2021.

PROXY

The Scandinavian markets served by Proxy have also suffered from the effects of the global pandemic and this impacted its ability to achieve management's forecasts in the year under review. During the period, the operating loss sustained by the Group's Scandinavian operations was approximately £0.49m on turnover of approximately £13.6m (FY 2019: loss of £0.75m on turnover of £13.0m). A loan of approximately £1.42m (including accrued interest), made by Vækstfonden (the Danish Growth Fund) to Proxy prior to it becoming a Character Group subsidiary in 2018, was acquired by a Group subsidiary during the year for approximately £0.52m. The gain of £0.9m on the acquisition of this loan is shown as an exceptional item in the Group's Income Statement.

The reorganisation of the Proxy business has been completed. Its product portfolio has now been fully rationalised so that it is largely aligned with that of the rest of the Group, allowing the Proxy business to be operating effectively as a "clone" of Character Options (the Group's principal UK trading subsidiary) in the Scandinavian territories. This coupled with Proxy's adoption and implementation of the sales reporting, forecasting and purchasing systems and processes of Character Options, has led to increased operational efficiencies. The Board believes that, with the restructuring costs being fully absorbed in the year under review, Proxy's prospects are encouraging and that it is on track for a return to profitability in the current financial year.

BREXIT

The Group assessed the potential impact of Brexit, particularly a "no deal" outcome, on the Group's operations in early 2019 and identified the areas that would need to be addressed to ensure the uninterrupted continuity of the Group's UK operations and its cross-border business with the EU. Proxy serves as the Group's "authorised representative" for the purposes of regulatory compliance with the EU's Toy Safety Directive. Product labelling and packaging changes have been implemented to comply with the requirements in both the UK and the EU.

The mainland UK business will be unaffected by the changes following Brexit, as the imports of its inventories are from the Far East. The FOB business supplying Europe from the Group's Far East operations will similarly not be affected by Brexit.

A small part of the Group's turnover derives from the supply to Irish customers (both sides of the border) from the UK. It is believed that challenges posed by a "hard" Brexit will be overcome and this will not have a material impact on the business.

SHARE BUYBACK PROGRAMME

During FY 2020, the Company acquired for cancellation a total of 46,500 ordinary shares in the Company at an aggregate cost of approximately £162,000 (excluding associated costs), with the average cost being approximately £3.48 per ordinary share (FY 2019: 237,807 ordinary shares were acquired and cancelled at an aggregate cost of approximately £1.27m and an average cost of approximately £5.32 per ordinary share).

The Company currently has an authority to buy-back up to 3,200,000 ordinary shares, which has not been utilised since it was granted at the Annual General Meeting (“AGM”) in January 2020 and which authority will expire at the 2021 AGM.

It remains part of the Group’s overall strategy to continue to repurchase the Company’s own shares, when considered appropriate. However, the restrictions on pricing and on volumes of buybacks imposed by the Market Abuse Regulation have frustrated this objective since January 2020.

The Board believes that it is in the Company’s and all investors’ interests to provide shareholders who wish to realise part or all of their investment in the Company with an opportunity to access liquidity that is not otherwise available in the market and to return excess capital to shareholders. Accordingly, the Board will be seeking to renew its authority to buy back up to 3,200,000 ordinary shares (constituting approximately 15% of the total voting rights in the Company) at the forthcoming 2021 AGM. In addition to enabling buybacks to be implemented by way of an announced buyback programme for the purpose of reducing the Company’s share capital (as in the recent past), this authority will also allow the Company to make or arrange tenders for its issued shares. Whilst there is no current, fixed intention to exercise this share purchase authority, in line with the Board’s buyback strategy, the Company will continue to repurchase the Company’s own shares, as and when considered appropriate. Details of any intention to exercise this authority will be announced and any tender proposal(s) will be fully communicated to shareholders if and when the Board resolves to implement such arrangements.

TOTAL VOTING RIGHTS

As at today’s date, the Company has 23,608,501 ordinary shares in issue, including shares held in treasury. The Company holds 2,228,720 ordinary shares in treasury, representing approximately 10.42 per cent. of the issued share capital (excluding these treasury shares), which do not carry voting or dividend rights. Therefore, the total number of voting rights in the Company is 21,379,781. This figure of 21,379,781 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

Our dedicated teams are our most important asset and remain the beating heart of our operations at locations in the UK, Scandinavia, and Asia. In total we employ 209 people (FY 2019: 212). The Board has highlighted in the past and continues to acknowledge the enormous debt of gratitude that the Company owes to the unstinting dedication, loyalty, and service of its employees at all levels in the business, particularly in managing and overcoming the challenges faced by the Group in recent months.

The imagination, enthusiasm, and commitment of all our staff has been inspiring and has produced: the diverse and exciting portfolio and pipeline of products detailed below; the new and developing markets for our products; the strong and fond relations with our new and existing brand owners, suppliers, and customers; and the operational efficiency to fulfil demand for our products.

ANNUAL GENERAL MEETING (AGM)

The Company’s 2021 AGM will be held on 22 January 2021. Given UK government guidance on social distancing and the restrictions that currently apply, the AGM will be conducted as a closed meeting with the minimum necessary quorum of two shareholders present in person or by proxy. Regrettably, shareholders will not be able to attend or be admitted to the meeting. There will however be an opportunity for shareholders to submit questions to the Board in advance of this meeting and written responses will be published on the Company’s website after the AGM. A separate circular letter will be sent to shareholders to convene the AGM, which will further detail arrangements and provide a summary of the business of that meeting. In accordance with established practice, the Company intends to issue a further trading update on the day of the AGM.

OUR PRODUCT PORTFOLIO

The demand for our toys has been sustained since the onset of the Covid-19 pandemic. Our ranges are performing well, with notable increased sales traction since the end of the UK's first lockdown.

We have a wide, diverse and exciting product range which we believe offers something to all our target consumers. Our top performing brands during the year under review and in the lead up to Christmas 2020 are:

Peppa Pig This brand continues to be our star brand and has performed well, both in the UK and internationally. The hero item in this range, *Peppa Pig's Shopping Centre Playset*, was featured in the Dream Dozen toys and we have sold out of this item for Christmas.

Agreement has been reached, subject to contract, with the brand owner, Hasbro, to continue our current European *Peppa Pig* wood products licence through to 31 December 2023 and to significantly extend the product range under that licence. The new toy product categories to be added to this licence include basic plush, eco plush, feature plush and activity toys, including magnetic scribblers and a nurse product range. A further announcement will be made in relation to this anticipated brand extension following signing of the enabling amendments to this licence.

We, therefore, see the *Peppa Pig* brand continuing to be a central part of our product portfolio for many years to come.

Goo Jit Zu With the first full 12 months' sales of this line of products reported in the year under review, it is apparent that the penetration of this brand has been significantly stronger than expected, both in the UK and overseas, particularly in the USA. Initially developed as a series of generic characters, the success of the range has been expanded, through licencing, to include a series featuring the well-loved *Marvel* characters.

Throughout 2021, this core brand will be rolled out to other major international territories and enlarged from the current *Marvel* and generic range to include figures based on the *DC Comics* cast of characters, *Sonic the Hedgehog* and *Jurassic Park*.

Pokémon We have distribution rights in the UK, The Republic of Ireland, and Scandinavia for this greatly in-demand range of branded products. *Pokémon* sales have grown substantially this calendar year and several new products are being launched next year. Our stocks of the *Pokémon Advent Calendar* and the *Pokémon Carry Case Playset* from this range have fully sold out in the lead up to Christmas.

Little Live Pets *Little Live Pets*, another well established, distributed product range now in its 7th year, has performed increasingly strongly throughout FY 2020 and continues to perform well in the lead up to this Christmas.

New developments in this range have spurred growth. *Gotta' Go Flamingo*, which has been featured in the Top 10 sell-through toys of many retailers and has received good TV coverage, including being listed as one of the top 'must haves' in last month's best festive toys feature on Phillip Schofield's "How to Spend it Well at Christmas" on ITV.

Shimmer 'n Sparkle The enforced periods of social distancing, self-isolation and house-bound parenting have had a beneficial effect on the sale of the creative and engaging products in our Arts and Crafts category. The launch this year *Shimmer 'n Sparkle InstaGlam* children's make-up range in the UK has been successful and we plan to roll this item out to multiple international markets next year.

We were excited to launch a range of wooden figures, vehicles and play buildings under a new *Peppa Pig* brand licence last summer and this was very well received in the market. On the back of this successful move into sustainable, environmentally-friendly, wooden toy products, we have secured and are in negotiations to win further licences from well-known brand owners that are keen to increase the "green" credentials of their own brands. These include *Batman*, *Disney Princess*, *Fireman Sam* and *Ben and Holly*. We aim to develop and bring to market further ranges of wooden toy products over the coming years.

Once again, Character Options featured strongly in the prestigious 12 "Dream Toys" list for Christmas 2020 revealed in October by the Toy Retailers Association (TRA). Three of Character's "hero" toys were selected:

- *Peppa Pig's Shopping Centre Playset* -a multi featured toy for fans of *Peppa*
- *Laser Battle Hunters* -the ultimate in remote control vehicles with a unique side winding action, and
- *Pokémon Carry Case Playset* -the first playset for this popular brand

In addition, five further Character toys were named as the most sought after in their categories:

- *Squeakee the Balloon Dog* and *Gotta' Go Flamingo*
- *Heroes of Goo Jit Zu* -Series 2 figures
- *PenSilly* -the family game, and
- *Stuff-a-loons* - a fun creative line

On top of these prestigious awards, two of the Group's toy products - *Gotta' Go Flamingo* and *PenSilly* were selected as the "hottest toys on sale" in their categories in ITV's "How to Spend it Well at Christmas" series hosted by Phillip Schofield and aired on television last month.

Apart from our successful core brands and welcome industry recognition for individual products from our portfolio range, we have had many other successes during the year with other products, including *Treasure X*, *My Baby Tumbles*, *Project X*, *Tap It* and *flipside*.

The kudos that these products have gained from these honours has been a terrific marketing tool and, as a consequence, demand for them has been further buoyed and we expect many of them to be sold out by Christmas.

Product development, which has been key to our success in broadening and strengthening our portfolio, has continued apace and our continued attention to this important aspect of the business has been instrumental in assuring the Group of a pipeline of additions to and refreshment of our product lines.

The current range and the developments in prospect bode well for an exciting future.

TRADING OUTLOOK

The quality of the Group's current portfolio of products has been endorsed by the strength of customer and consumer demand and further penetration being achieved for our products in the USA and other international markets since the commencement of the current financial year. We believe that the product portfolio is one of the strongest and best performing offerings that the Group has gone to market with in recent years.

The resilience of Character's performance has arisen from the ability of many of its customers to effectively service demand by migrating sales from bricks and mortar outlets to online shops and marketplaces, when needed. Character's success in preserving profitability in troubled times and positioning itself to take advantage of the current opportunities has been down to the management's ability to read and respond to fast evolving trends in the Group's markets.

The first UK lockdown spurred creativity in many aspects of the toy industry. The Group has developed an exciting and innovative line of new products, many of which are already in our current catalogue and others are in the pipeline for launch in the New Year. In recent months, the Group has developed ever closer and productive collaborations with its customers, brand owners and suppliers. As highlighted above, this has led to new and enlarged licencing opportunities with new and existing brand owners as our creative concepts successfully transition to sales of products.

Trading in the lead up to Christmas 2020, despite the second UK lockdown, has been significantly ahead of the previous year's sales. Sales in Q1 are up by more than 30% over the same period last year and the prospects for the current financial year ending August 2021 are looking extremely positive. We expect FY 2021 to be the beneficiary of the deferral of the strong trading that we originally anticipated for the second half of the year just ended. Whilst we will continue to monitor the position, it is apparent that the Group is ahead of management expectations for the first half to February 2021 and market expectations for the financial year as a whole.

The Board looks forward to further updating shareholders on the outcome of the 2020 Christmas trading period and prospects at the forthcoming AGM.

10 December 2020

GROUP INCOME STATEMENT-UNAUDITED*for the year to 31 August 2020*

	Notes	August 2020 £'000's	August 2019 £'000's
Continuing operations			
Revenue		105,315	120,416
Cost of sales		(75,152)	(78,849)
Gross profit		30,163	41,567
Net operating expenses			
Selling and distribution costs		(7,355)	(9,114)
Administration expenses		(17,949)	(21,111)
Other operating income		501	244
Operating profit		5,360	11,586
Discount charge on deferred consideration		-	(49)
Finance income		47	40
Finance costs		(388)	(512)
Profit before income tax		5,019	11,065
Taxation		(1,312)	(2,273)
Profit for the year before significant items and exceptional items		3,707	8,792
Significant items			
Movements in fair value of financial instruments		(1,980)	364
Tax relating to fair value movements of financial instruments		376	(66)
Exceptional items			
Gain on buyback of loan		886	-
Impairment of goodwill		-	(3,132)
Contingent consideration not payable		-	1,547
Profit for the period	2	2,989	7,505
Attributable to:			
Owners of the parent		3,154	7,905
Non-controlling interest		(165)	(400)
Profit for the period		2,989	7,505
Earnings per share before significant items and exceptional items (pence)			
Basic earnings per share	4	18.12p	43.27p
Diluted earnings per share	4	18.08p	42.96p
Earnings per share after significant items and exceptional items (pence)			
Basic earnings per share	4	14.76p	37.21p
Diluted earnings per share	4	14.73p	36.94p
Dividend per share (pence)	5	15.00	25.00p
EBITDA			
(earnings before interest, tax, depreciation, and amortisation)		8,158	13,715

GROUP STATEMENT OF COMPREHENSIVE INCOME - UNAUDITED*for the year to 31 August 2020*

	August 2020 £'000's	August 2019 £'000's
Profit for the year after tax	2,989	7,505
Items that will not be reclassified subsequently to profit and loss		
Current tax credit relating to exercised share options	-	7
Deferred tax relating to share options	(6)	(9)
	(6)	(2)
Items that may be reclassified subsequently to profit and loss		
Exchange differences on translation of foreign operations	(5)	162
Income tax on exchange differences	(93)	29
	(98)	191
Other comprehensive(expense) / income for the year, net of income tax	(104)	189
Total comprehensive income for the year	2,885	7,694
Total comprehensive income for the year attributable to:		
Equity holders of the parent	3,050	8,104
Non-controlling interest	(165)	(410)
	2,885	7,694

GROUP BALANCE SHEET - UNAUDITED*as at 31 August 2020*

	Note	31 August 2020 £,000's	31 August 2019 £,000's
Non – current assets			
Intangible assets – product development		891	903
Investment property		1,584	1,649
Property, plant, and equipment		3,226	3,251
Right of use assets	3	2,069	-
Deferred tax assets		704	542
		8,474	6,345
Current assets			
Inventories		14,736	16,405
Trade and other receivables		23,013	34,973
Current income tax receivable		244	-
Derivative financial instruments		75	398
Cash and cash equivalents		22,292	29,990
		60,360	81,766
Current liabilities			
Short-term borrowings		(3,168)	(22,174)
Trade and other payables		(26,432)	(28,766)
Lease Liabilities	3	(550)	-
Income tax		(777)	(1,083)
Derivative financial instruments		(2,293)	(637)
		(33,220)	(52,660)
		27,140	29,106
Net current assets			
Non-current liabilities			
Deferred tax		(21)	(2)
Lease liabilities	3	(1,547)	-
Long term borrowings		-	(1,312)
		(1,568)	(1,314)
Net assets			
Equity			
Called up share capital		1,181	1,183
Shares held in treasury		(1,870)	(1,912)
Capital redemption reserve		1,776	1,774
Share-based payment reserve		3,369	3,180
Share premium account		17,324	17,161
Merger reserve		651	651
Translation reserve		727	1,223
Profit and loss account		11,231	11,293
Attributable to equity holders of the parent		34,389	34,553
Non-controlling interest		(343)	(416)
Total equity		34,046	34,137

GROUP CASH FLOW STATEMENT - UNAUDITED

for the year to 31 August 2020

	31 August 2020 £'000's	31 August 2019 £'000's
Cash flow from operating activities		
Profit before taxation for the year after significant and exceptional items	3,925	9,844
Adjustments for:		
Depreciation of property, plant, and equipment	544	481
Depreciation of investment property	65	66
Depreciation of right of use assets	412	-
Amortisation of intangible assets	1,783	1,582
Gain on buyback of loan	(886)	
Impairment of goodwill	-	3,132
Contingent consideration not payable	-	(1,547)
(Profit) / Loss on disposal of property, plant, and equipment	(9)	1
Discount on deferred consideration	-	49
Net interest expense	341	472
Financial instruments fair value adjustments	1,980	(364)
Share-based payments	189	190
Decrease / (Increase) in inventories	1,669	(1,831)
Decrease / (Increase) in trade and other receivables	11,960	(1,283)
(Decrease) in trade and other creditors	(2,334)	(438)
Cash generated from operations	19,639	10,354
Finance income	47	40
Finance expense	(388)	(512)
Income tax paid	(1,728)	(1,999)
Net cash inflow from operating activities	17,570	7,883
Cash flows from investing activities		
Purchase of subsidiary company	-	(8,925)
Payments for intangible assets	(1,771)	(1,682)
Payments for property, plant, and equipment	(528)	(449)
Proceeds from disposal of property, plant, and equipment	12	28
Net cash outflow from investing activities	(2,287)	(11,028)
Cash flows from financing activities		
Reduction in borrowings	1,408	-
Buyback of loan	(521)	-
Payment of lease liabilities	(378)	-
Proceeds from issue of share capital	205	519
Purchase of own shares for cancellation	(163)	(1,270)
Dividends paid	(3,207)	(5,316)
Unwinding of discount on deferred consideration	-	(15)
Net cash used in financing activities	(2,656)	(6,082)
Net increase / (decrease) in cash and cash equivalents	12,627	(9,227)
Cash, cash equivalents and borrowings at the beginning of the year	6,504	15,580
Effects of exchange rate movements	(7)	151
Cash, cash equivalents and borrowings at the end of the year	19,124	6,504

Cash, cash equivalents and borrowings consist of:

Cash and cash equivalents	22,292	29,990
Total borrowings	(3,168)	(23,486)
Cash, cash equivalents and borrowings at the end of the year	19,124	6,504

GROUP STATEMENT OF CHANGES IN EQUITY - UNAUDITED

for the year to 31 August 2020

	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 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	-	-	-	-	-	-	-	(9)	-	(9)
Current tax credit relating to exercised share options	-	-	-	-	-	-	-	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	-	-	-	-	-	-	-	-	(155)	(155)
Change in non controlling interest	-	-	-	-	-	-	-	(149)	149	-
Share-based payment	-	-	-	-	-	190	-	-	-	190
Dividends	-	-	-	-	-	-	-	(5,316)	-	(5,316)
Shares issued as consideration for acquisition of subsidiary	-	126	-	588	-	-	-	-	-	714
Shares issued	-	204	-	315	-	-	-	-	-	519
Shares cancelled	(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
Profit/(loss) for the year after tax								3,154	(165)	2,989
Other comprehensive (expense)/income										
Net exchange differences on translation of foreign operations	-	-	-	-	-	-	(496)	398	-	(98)
Deferred tax credit relating to share options								(6)	-	(6)
Current tax credit relating to exercised share options								-	-	-
Total other comprehensive expense							(496)	392	-	(104)
Total comprehensive income for the year							(496)	3,546	(165)	2,885
Transactions with owners, recorded directly in equity										
Change in non controlling interest	-	-	-	-	-	-	-	(238)	238	-
Share-based payment	-	-	-	-	-	189	-	-	-	189
Dividends	-	-	-	-	-	-	-	(3,207)	-	(3,207)
Shares issued		42		163	-	-	-	-	-	205
Shares cancelled	(2)	-	2	-	-	-	-	(163)	-	(163)
At 31 August 2020	1,181	(1,870)	1,776	17,324	651	3,369	727	11,231	(343)	34,046

NOTES TO THE PRELIMINARY STATEMENT

1. GEOGRAPHICAL DESTINATION OF REVENUE

	12 months to 31 August 2020 £'000's	12 months to 31 August 2019 £'000's
United Kingdom	69,078	85,143
Rest of the world	36,237	35,273
Total Group	105,315	120,416

2. EXPENSES BY NATURE - GROUP

	12 months to 31 August 2020 £'000's	12 months to 31 August 2019 £'000's
Operating profit is stated after charging/(crediting):		
Cost of inventories recognised as an expense (included in cost of sales)	67,729	71,477
Product development costs incurred	1,863	1,810
Product development costs capitalised	(1,771)	(1,682)
Amortisation of capitalised product development costs	1,783	1,582
Product development costs expensed to cost of sales	1,875	1,710
Debit/(credit) financial instruments fair value adjustments	1,980	(364)
Inventories (credit)/write down	(97)	(256)
Exchange losses	119	82
Staff costs	10,542	13,827
Depreciation of tangible fixed assets		
- owned assets	544	481
Depreciation of investment property	65	66
(Profit)/loss on disposal of property, plant and equipment	(9)	1
Depreciation – right of use assets	412	-
Operating leases — land and buildings	172	490
Auditor's remuneration	141	137

3. ADOPTION OF IFRS 16 “LEASES”

The Group has adopted IFRS 16 “Leases” as at 1 September 2019 using the modified retrospective approach. Previously the Group leases were classified as operating leases under IAS 17, which were off-balance sheet and charged to the Group income statement on a straight-line basis over the term of the lease. On adoption of IFRS 16 a right of use asset and a lease liability is included on the Group balance sheet and depreciation and interest has been charged to the Group income statement instead of existing rental expenses. The Group has elected on adoption not to recognise right of use assets and lease liabilities for leases with a remaining term of less than one year. The lease payments associated with these agreements is recognised on a straight-line basis over the remaining lease term.

A summary of the impact on the Group income statement and Group balance sheet is as follows:

	12 months to 31 August 2020 £'000's	12 months to 31 August 2019 £'000's
Operating costs:	-	-
Rent	444	-
Depreciation	(412)	-
Net reduction to Operating costs	32	-
Finance costs (interest)	(60)	-
Net decrease to Profit Before Tax	(28)	-

Impact on the Group balance sheet:

	As at 31 August 2020 £'000's	As at 31 August 2019 £'000's
Right of use asset	2,069	-
Lease liability	(2,097)	-
Retained Earnings	(28)	-

4. EARNINGS PER SHARE - GROUP

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

	12 months to 31 August 2020 £	12 months to 31 August 2019 £
Profit attributable to equity shareholders of the parent	3,154,000	7,905,000
Financial instruments fair value adjustments net of tax	1,604,000	(298,000)
Gain on buyback of loan	(886,000)	-
Impairment of goodwill	-	3,132,000
Contingent consideration not payable	-	(1,547,000)
Profit for adjusted earnings per share	3,872,000	9,192,000
Weighted average number of ordinary shares in issue during the year – basic	21,367,710	21,241,756
Weighted average number of dilutive potential ordinary shares	50,590	152,886
Weighted average number of ordinary shares for diluted earnings per share	21,418,300	21,394,642
Earnings per share before significant items and exceptional items		
Basic earnings per share (pence)	18.12p	43.27p
Diluted earnings per share (pence)	18.08p	42.96p
Earnings per share after significant items and exceptional items		
Basic earnings per share (pence)	14.76p	37.21p
Diluted earnings per share (pence)	14.73p	36.94p

5. DIVIDEND - GROUP

	12 months to 31 August 2020 £'000's	12 months to 31 August 2019 £'000's
On equity shares:		
Final dividend paid for the year to 31 August 2019 13.00 pence (2018: 12.00 pence) per share	2,777	2,539
Interim dividend paid for the year to 31 August 2020 2.00 pence (2019: 13.00 pence) per share	430	2,777
15.00 pence (2019: 25.00 pence) per share	3,207	5,316

The Directors recommend a final dividend of 3.0 pence per share (2019: 13.00 pence) amounting to £641,000 (2019: £2,773,000). If approved by shareholders, the final dividend will be paid on 29 January 2021 to shareholders on the register on 15 January 2021.

6. ANNUAL REPORT AND ACCOUNTS

The financial information set out in the announcement does not constitute the Company's statutory accounts for the years ended 31 August 2020 and 2019. The financial information for the year to 31 August 2019 is derived from the statutory accounts for that year which have been delivered to the Registrar of Companies. The auditors reported on those accounts: their report was unqualified, did not draw attention to any matters by way of emphasis and did not contain a statement under s498(2) or (3) of the Companies Act 2006. The audit of the statutory accounts for the year to 31 August 2020 is not yet complete. These accounts will be finalised on the basis of the financial information presented by the Directors in this preliminary announcement and will be delivered to the Registrar of Companies following the Company's Annual General Meeting.

7. ANNUAL GENERAL MEETING

The Annual General Meeting will be held at 2nd Floor, 86-88 Coombe Road, New Malden, Surrey KT3 4QS on Friday, 22 January 2021 at 11.00am.

8. ELECTRONIC COMMUNICATIONS

The full Financial Statements for the year to 31 August 2020, together with the Notice convening the Company's 2021 Annual General Meeting, will be available for viewing and download on the Group's website, www.character.com by 23 December 2020.