

THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION. If you are in any doubt as to what action you should take you are advised to consult with an appropriate independent adviser (for example your stockbroker, bank manager, solicitor, accountant or other professional adviser authorised under the Financial Services and Markets Act 2000) immediately.

If you have sold or otherwise transferred all your ordinary shares of 5 pence each in the capital of the Company ("Ordinary Shares"), please send this document at once to the purchaser or transferee or to the stockbroker, bank or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

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## The Character Group plc

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

### Notice of General Meeting

#### Proposal to grant the Company an authority to buy back shares

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A letter from the Chairman of The Character Group plc, is set out on pages 2 to 4 of this document.

Notice of a General Meeting of the Company convened for 11 a.m. on Thursday, 9 September 2010 to be held at the offices of Duane Morris at 2<sup>nd</sup> Floor, 10 Chiswell Street, London, EC1Y 4UQ is set out on pages 5 and 6 of this document. A form of proxy for use at the meeting is enclosed with this document.

To be valid, forms of proxy should be completed and returned so as to reach the Company's Registrars, Neville Registrars Limited, by hand or by post, at Neville House, 18 Laurel Lane, Halesowen, West Midlands B63 3DA by no later than 11 a.m. on 7 September 2010.

Completion and return of the form of proxy will not preclude Shareholders from attending and voting at the General Meeting should they so wish.

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Letter from the Chairman of The Character Group plc

**The Character Group plc**

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

*Directors:*

Richard King (*Executive Chairman*)  
Kirankumar Premchand Shah (*Group Finance Director and Joint Managing Director*)  
Jonathan James Diver (*Group Marketing Director and Joint Managing Director*)  
Joseph John Patrick Kissane (*Managing Director - Character Options Limited*)  
Lord Birdwood (*Non-Executive Director*)  
David Harris (*Non-Executive Director*)

*Registered Office:*

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

20 August 2010

*To Shareholders, and, for information only, to Option holders*

Notice of General Meeting

Dear Shareholder,

Since June 2006, The Character Group plc (the “Company” or “Group”) has followed a policy of buying back its Ordinary Shares in the market, whenever the Directors felt that the share price undervalued the Group and when they considered it to be the best use of Group funds.

As at 31 August 2005, there were approximately 52.8 million Ordinary Shares in issue and today that number has been reduced to approximately 26.4 million. The Directors believe that the implementation of the buy-back programme has been a great success. Earnings per Ordinary Share are now virtually double that which they would have been had it not been for the buy-back programme. It has also, from time to time, created the opportunity for shareholders to sell Ordinary Shares into the market.

During the current financial year, the buy-back programme has continued and the authority granted at the Company’s Annual General Meeting held in January 2010 (the “2010 AGM”) has now been fully utilised. The Directors believe that, if stock market conditions permit, a further extension of this programme will be in the interests of shareholders generally. Accordingly, the Directors are seeking a new buy-back authority for the Company before the next Annual General Meeting.

For this reason, a General Meeting of the Company (the “Meeting”) is being convened and is to be held at the offices of Duane Morris, 2<sup>nd</sup> Floor, 10 Chiswell Street, London, EC1Y 4UQ on Thursday, 9 September 2010 at 11 a.m. The formal notice convening the Meeting is set out on pages 5 and 6 of this document.

This letter provides you with an explanation of the background to and reasons for the proposal to grant the new buy-back authority to be considered at the Meeting, outlines the terms of the resolution to be proposed at the Meeting (the “Resolution”) and makes recommendations as to the action you should take.

## Background to and reasons for the proposal

At the 2010 AGM, the Company was granted (amongst other things) an authority to make market purchases of issued Ordinary Shares. In line with a similar authority granted at the 2009 Annual General Meeting, the authority limited the number of shares that could be purchased in this fashion to 8,619,000 Ordinary Shares, approximately 25 per cent. of the issued share capital as at the date of the notice of the 2010 AGM.

Shortly following the conclusion of the 2010 AGM, the Company announced a programme under which it stated that it intended to make market purchases of Ordinary Shares up to an aggregate value of £5.0 million, so far as it could source sellers of Ordinary Shares for that programme. On 15 February 2010, the Company announced that it had successfully concluded that programme and had during the course of it purchased a total of 4,820,327 Ordinary Shares for cancellation.

On 4 May 2010, the Company commenced a further buy-back programme, which it subsequently concluded on 11 June 2010, by which time it had exhausted the Company's capacity to buy-back shares under the authority granted at the 2010 AGM.

Since the 2010 AGM, the Company has, in exercise of the authority granted to it, purchased a total of 8,619,000 Ordinary Shares in the market for cancellation at a total cost of approximately £10,486,000 (excluding dealing costs and stamp duty). The board of Directors of the Company (the "Board") believes that this has been a successful strategy for the Company and a considerable benefit for shareholders generally for a number of reasons, namely that the buy-backs have:

- enhanced the earnings per Ordinary Share;
- returned cash to shareholders who wished to take the opportunity to liquidate some or all of their investment in the Company;
- made better use of cash generated by the Company's businesses than would otherwise have been the case;
- been conducted at times when the Board believed that the price of Ordinary Shares in the market undervalued the Company.

The Board believes that the grant of a buy-back authority, in the terms proposed by the Resolution, will enable the Company to continue to develop these benefits for shareholders generally.

As in the previous buy-back programmes, certain of the Directors (and/or their related parties) may consider selling some of their Ordinary Shares to the Company. Any sale by the Directors or their related parties to the Company in this fashion may be deemed to be a related party transaction for the purposes of Rule 13 of the London Stock Exchange's AIM Rules for Companies. In those circumstances, the Directors who are not party to any such transaction are obliged to consult with the Company's nominated adviser, Charles Stanley Securities, to consider whether participation of the relevant Director(s) in any buy-back transaction is fair and reasonable insofar as the Company's shareholders are concerned.

## The Resolution - Authority to make market purchases of own shares

The Resolution to be considered at the Meeting is (in compliance with section 701 of the Companies Act 2006) an ordinary resolution that proposes that the Company be authorised to make market purchases (either for cancellation or into treasury) of up to 6,600,000 Ordinary Shares, representing approximately 25 per cent. of the issued share capital of the Company as at the date of this letter (excluding Ordinary Shares held in treasury). If this authority is granted,

the Company will be in a position to make further purchases of Ordinary Shares in the market, if and when the Directors consider that it would be in the best interests of the Company and shareholders generally to do so.

The Resolution proposes that the price at which Ordinary Shares may be purchased in exercise of this authority will be subject to a maximum of 150 per cent. of the average middle market values of an issued Ordinary Share in the five business days prior to purchase and a minimum of 5p, being the nominal value of an issued Ordinary Share.

If all subsisting options granted by the Company to employees under the Group's share schemes were exercised, a total of 4,352,829 new Ordinary Shares would be allotted, representing approximately 14.16 per cent. of the enlarged issued share capital of the Company following such exercise (excluding Ordinary Shares held in treasury). If the authority proposed for the buy-back of shares by the Company was exercised in full, then the number of Ordinary Shares to be issued on the exercise of the option entitlements would constitute approximately 18.03 per cent. of the issued share capital of the Company, as enlarged by the allotment of such Ordinary Shares (excluding Ordinary Shares held in treasury).

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

#### Voting at the Meeting and action to be taken

The Resolution is to be proposed as an ordinary resolution, requiring approval by more than 50 per cent. of the votes cast at the meeting (whether in person or by proxy).

You will find enclosed with this document a reply-paid form of proxy for use in connection with the Meeting. Whether or not you are able to attend, you are requested to complete the form of proxy and return it in accordance with the instructions set out on the form to Neville Registrars as soon as possible and, in any event, so as to arrive by no later than 11 a.m. on Tuesday 7 September 2010. Proxy voting in respect of uncertificated shares may also be registered through CREST (see note 8 on page 6 of this document). The completion and return of a form of proxy or the giving of an electronic proxy instruction will not preclude you from attending and voting in person at the Meeting if you so wish.

#### Recommendation

The Directors consider that the Resolution and the potential for the continuation of buy-backs by the Company of Ordinary Shares is most likely to promote the success of the Company for the benefit of its shareholders as a whole. Accordingly, the Directors unanimously recommend that you vote in favour of the Resolution as they intend to do (or, as appropriate, intend to procure that the holders of shares in which they are interested do) in relation to holdings amounting in aggregate to 13,818,309 Shares (representing approximately 52.36 per cent. of the voting rights in the Company and of the issued Ordinary Shares at the date of this letter, excluding Ordinary Shares held in treasury).

Yours sincerely

Richard King  
Executive Chairman

## NOTICE OF GENERAL MEETING

The Character Group plc  
(incorporated and registered in England with registered no. 3033333)

NOTICE IS HEREBY GIVEN THAT a General Meeting of The Character Group plc will be held at the offices of Duane Morris, 2<sup>nd</sup> Floor, 10 Chiswell Street, London, EC1Y 4UQ on Thursday, 9 September 2010 at 11 a.m. to consider and, if thought fit, to pass the following resolution of the company:

### Ordinary Resolution

- 1 That the company be and is hereby generally and unconditionally authorised for the purposes of section 701 of the Companies Act 2006 to make market purchases (as defined in section 693(4) of that 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 6,600,000;
  - (B) the minimum price (exclusive of all expenses) which may be paid for such shares is 5p per share;
  - (C) the maximum price which may be paid for such shares is, in respect of a share contracted to be purchased on any day, an amount equal to 150 per cent. of the average of the middle-market prices shown in the quotations for ordinary shares of the company in the Daily Official List of the London Stock Exchange on the five business days immediately preceding the day on which the share is contracted to be purchased;
  - (D) the authority hereby conferred shall expire at the earlier of the conclusion of the next Annual General Meeting following the date upon which this resolution was passed or 15 months following the date upon which this resolution was passed; and
  - (E) the company may contract to purchase its own shares under the authority hereby conferred prior to the expiry of such authority, which will or may be executed wholly or partly after the expiry of such authority, and may make a purchase of its own shares in pursuant of any such contract.

By order of the Board,  
K.P. Shah  
*Secretary*  
20 August 2010

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

### Notes:

1. The register of directors' interests and copies of the directors' service agreements or (as appropriate) their letters of appointment and the Articles of Association of the company will be available for inspection at the registered office during normal business hours from the date of this notice until the date of the 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 General Meeting convened by the Notice above is entitled to appoint a proxy or proxies to attend, speak and vote in his/her place. A member may only appoint more than one proxy if each proxy is appointed to exercise the voting rights attached to different shares. A member may not appoint more than one proxy to exercise rights attached to the same shares.
3. To be valid, forms of proxy must be lodged with Neville Registrars Limited, 18 Laurel Lane, Halesowen, West Midlands B63 3DA not less than 48 hours before the time appointed for holding the General Meeting. A form of proxy is enclosed with this document. If you do not have a proxy form and believe that you should have one, or if you require additional forms, please contact the Company Secretary.
4. Completion of a form of proxy or any CREST Proxy Instruction (as described in paragraph 8 below) will not prevent a member from attending and voting at the General Meeting should he or she so wish.
5. For the purposes of Regulation 41 of the Uncertificated Securities Regulations 2001, the members entitled to attend, speak and/or vote at the General Meeting shall be those entered on the company's register of members at 6:00 p.m. on 7 September 2010. Changes to entries on the register of members after that time will be disregarded in determining the rights of any person to attend and/or vote at the meeting.
6. As at 19 August 2010 (being the last business day prior to the publication of this Notice) the company's issued share capital (excluding Ordinary Shares held in treasury) consists of 26,393,231 Ordinary Shares, carrying one vote each. Therefore, the total voting rights in the company as at 19 August 2010 is 26,393,231.
7. CREST members who wish to appoint a proxy or proxies through the CREST electronic proxy appointment service may do so by using the procedures described in the CREST Manual. CREST Personal Members or other CREST sponsored members, and those CREST members who have appointed a service provider(s), should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf.
8. In order for a proxy appointment or instruction made using the CREST service to be valid, the appropriate CREST message (a "CREST Proxy Instruction") must be properly authenticated in accordance with CRESTCo's specifications, and must contain the information required for such instruction, as described in the CREST Manual. The message, regardless of whether it constitutes the appointment of a proxy or is an amendment to the instruction given to a previously appointed proxy must, in order to be valid, be transmitted so as to be received by the issuer's agent (ID 7RA11) by 11 a.m on 7 September 2010. For this purpose, the time of receipt will be taken to be the time (as determined by the time stamp applied to the message by the CREST Application Host) from which the issuer's agent is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. After this time any change of instructions to proxies appointed through CREST should be communicated to the appointee through other means.
9. CREST members and, where applicable, their CREST sponsors, or voting service providers should note that Euroclear UK & Ireland Limited does not make available special procedures in CREST for any particular message. Normal system timings and limitations will, therefore, apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member, or sponsored member, or has appointed a voting service provider, to procure that his CREST sponsor or voting service provider(s) take(s)) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members and, where applicable, their CREST sponsors or voting system providers are referred, in particular, to those sections of the CREST Manual concerning practical limitations of the CREST system and timings.
10. The company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001.

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](mailto:info@charactergroup.plc.uk)