the CHARACTER group plc

Annual Report and Accounts

For the year ended 31 August 2009

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

DIRECTORS AND ADVISERS

Directors
R King
K P Shah
J J Diver
J J P Kissane
I S Fenn
Lord Birdwood
D Harris
A B MacKay

Secretary
K P Shah FCCA

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London W1U 2SB

Nominated Advisers and Broker
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25 Luke Street
London EC2A 4AR

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CHAIRMAN'S STATEMENT

Introduction

Following the loss of a major customer and despite the unusually difficult trading conditions, a significant turnaround was achieved during the second half of the financial year. I am, therefore, pleased to report that, against this backdrop and the tough environment continuing, we traded profitably during the second half of the year. Whilst we have not been able to totally reverse the reported first half loss, which also took into account the well publicised problems for the Group with the loss of Woolworths, we were able to produce an operating profit of £1.59 million for the second half, thereby reducing the net operating loss for the full year ended 31 August 2009 to £2.15 million.

Financials

Group sales in the year amounted to £68.6 million, down 16.6% compared with turnover in the same period in 2008 of £82.3 million.

The operating loss in the same period was £2.15 million, compared to a profit of £5.3 million in the 2008 financial year. This included an exceptional cost of £1.06 million, relating to the bad debt suffered from the Woolworths Administration. The loss before tax, on the same basis, was £2.17 million, compared to a profit of £5.14 million for the previous year. Gross margin was 29.2%, compared to 35.8% for the year-ended August 2008.

Basic loss per share was 4.09 pence per share, compared to a profit of 12.03 pence per share for the financial year ended August 2008.

Stocks decreased from £9.8 million at the August 2008 year-end to £7.04 million at end of the 2009 financial year.

Cash and cash equivalents at 31 August 2009 amounted to £11.4 million, against £17.8 million in the 2008 comparable period. The Group currently has a net cash position of £3 million and has substantial unused finance facilities available.

Dividend

To further underpin the Board's confidence in the Group's portfolio of products, which has already been reflected through the Group's much improved second half performance, the Directors are recommending a final dividend of 1.00 pence per share (2008: interim 2.2 pence/final: nil).

Subject to approval by Shareholders at the Annual General Meeting to be held on 20 January 2010, the final dividend will be paid on 29 January 2010 to Shareholders on the Register as at 8 January 2010. The shares will go ex-dividend on 6 January 2010.

Share Buy-Backs

Part of the Group's overall strategy has been to seek enhanced shareholder value through the repurchase of its own shares when appropriate.

During the first half the year, the Company undertook share buy-backs in respect of a total of 177,077 ordinary shares of 5p each in the Company ("Ordinary Shares"), amounting to approximately 0.5% of the current issued share capital of the Company.

On 10 July 2009, 3i Group plc sold its entire holding in the Company, amounting to 11,525,898 Ordinary Shares (approximately 27.8% of the Company's then issued share capital) at a price of 30.15 pence per share. Of this amount, 7,000,000 Ordinary Shares (approximately 20.3% of the Company's current issued share capital) were acquired by the Company for cancellation and the remaining 4,525,898 Ordinary Shares (approximately 13.1% of the Company's current issued share capital) were acquired by certain of the Executive Directors or their connected parties.

The Directors believe that this reflects their confidence in the underlying strength in the business and its medium and long term prospects.

As at 31 August 2009, the Company had 34,477,481 Ordinary Shares in issue, excluding 4,019,456 Ordinary Shares held in treasury.

At the time of writing, there has been no alteration to Group strategy, however, no further buy back programmes have been undertaken since July 2009.

Review of the year to August 2009

As indicated to stakeholders at our AGM in January, Character did not escape the tough trading environment at both the consumer and retail level in the all important run up to Christmas 2008. Additionally, we had to face the drastic changes to the marketplace following the closure of Woolworths, which affected not only our Christmas 2008 sales but had an even greater impact on our Spring 2009 business following this closure.

Therefore, it would be fair to report that the financial year being reported upon is one of two halves:

In the first half-year (including the pre-Christmas period 2008) we experienced:

- the failure of Woolworths, one of the Group's key customers and a major toy retailer. This had a significant impact not only on our business but also on the high street. Indeed, it is a credit to our management team that Character was able to reduce its exposure to this retailer from in excess of £5.0 million in September 2008 to around £1.0 million by the time of the store closures at the end of 2008;

- stocks, which had been ordered to satisfy Woolworths Christmas 2008 and Spring 2009 requirements, had to be placed into the market, causing a decline in margins as the need for placement of excess stocks was initiated to ensure that the Group's cash flow remained in good shape;

- lower sales in general, caused by weakening consumer demand in the winter trading period up to and including Christmas 2008, which resulted in our promotional spend increasing as a proportion of our revenue; and

- the impact of adverse currency movements and the higher costs of goods and services out of the Far East.

As a business, we had to consolidate and re-group, whilst our focus was to deliver a portfolio that met both the new market aspirations and consumer demand at the same time as we had to continue to deliver service and support to both our customers and suppliers, who were all being squeezed by the more difficult conditions.

During the second half-year:

- measures that had been put in place to reflect such tough times assisted the business to return to a more normalised position; regretfully this included a reduction in personnel;

- our marketing team also took the opportunity to take a hard look at our product portfolio and decided to focus on developing our own brands, a process which has continued and accelerated to date;

- despite the fall in turnover and tight cost control programme, we managed by the end of the financial year to bring our marketing spend back into line with our projected sales, whilst the primary focus on our own existing brands not only reduced spend but also helped to conserve and, indeed, improve our cash position.

Whist we will continue to monitor costs and focus on efficiencies and productivity, the overall repositioning undertaken to date, which began to deliver benefits in the year under review, will become more evident in the current financial year and we expect to see the Group move forward from here.

The success of our own Brands

It remains difficult to know exactly how the toy market will fare in the sales leading up to Christmas 2009, however, there are some very positive signs that our strategy of focusing on our own brands has been the correct approach for the Group and that there will be a general shortage of stock in the market place by Christmas with many of our products featuring in this shortage.

The Board remains optimistic that, as a business, Character Group is strong and well positioned, both product wise and financially, to further develop its business and improve profitability going forward.

To date, our key successes this year include:

- ***Peppa Pig*** which has continued to move up the rankings and is currently one of, if not, the biggest pre-school product lines;

- ***HM Armed Forces*** collection has continued to grow and the brand is now firmly established, clearly filling the void within the action figure market for authentic, military inspired toys;

- ***Postman Pat*** has found its niche in the marketplace and will shortly be joined by ***Fireman Sam***, a classic pre-school range with a long and successful heritage;

- ***Let's Cook*** is performing well and establishing its position in the marketplace;

- ***Scooby Doo*** sales of our own developed range continue to grow in Europe and this year will see our products being sold in depth by a major North American retailer.

We are all looking forward to the new series of ***Doctor Who***, an iconic brand in its own right, being aired in April 2010. Having rested the toys this year, we have great hopes for the launch of our new range which will coincide with the new BBC series being aired.

We are proud to point out that the product line up for each of the brands above has been designed and developed in house by our own teams and that nearly all our brands figure in the top 50 in the UK. This is a testament to the skills and market intelligence of our people around the Group.

The toy industry is diverse and always open for new ideas and approaches. Whilst we try to develop our own lines, we continue to be open to working with other toy companies and are always ready to distribute their toys into the UK market, especially when they produce something really special.

One such product line this year is *Go Go Pets*, (to be renamed *Zhu Zhu Pets* in Spring 2010 as the product line evolves). This range of interactive hamsters, which respond to noise and touch, was launched in the US in the summer and became an overnight success within the US and the UK, with the demand for product far outstripping our ability to satisfy ahead of Christmas. We believe that this category is set for explosive growth throughout the year ahead.

Whilst we cannot control consumer purchases, it is important to note that we have developed this outstanding product line-up at the same time as having reduced our stock levels, our costs, and both maintained our positive cash flow and completed a major buy back of Group shares.

Our improved positioning within the market can also be witnessed through our growth in market share, which we believe has increased from 3% earlier in the year to over 5% by end October 2009. We expect to see a further improvement in this trend, which will reap further rewards, as we move forward.

People

On behalf of the Board and all stakeholders, I would like to thank all our staff for their hard work and commitment in what has been a very tough year for everyone. Their support, understanding, hard work and dedication has helped us get through one of the most difficult and challenging times of the decade.

Outlook

With just under a month to go before Christmas, it would be brave and possibly even foolhardy to make a forecast at this stage on the final outcome of the current festive trading season; we only have to look at the disruption that the Woolworths failure caused in the market last year, coupled with the general malaise that existed across many industries, to know that such predictions at these times are unreliable and unwise.

This being said, looking ahead, the Board remains optimistic that as a business Character Group is strong and well positioned, both product wise and financially, to further develop its business and improve profitability going forward.

We will update the market and shareholders at our AGM in January of our progress.

Electronic Communications

The Company wrote to shareholders on 7 April 2009 with a view to obtaining authority to deliver documents to shareholders via the Company's website (www.thecharacter.com). Accordingly it is not proposing to bulk print and post full hard copies of the Annual Report, unless specifically requested by individual shareholders.

As well as speeding up the provision of information to shareholders, the Board believes that utilising electronic communications delivers savings to the Company in terms of administration, printing and postage, and also the environment through reduced consumption of paper and inks.

Richard King

Chairman

30 November 2009

DIRECTORS' BIOGRAPHIES

Richard King (aged 64), Executive Chairman, has extensive experience in the toy industry and has been involved in importing consumer products from the Far East since 1969. He established the original business of The Character Group plc jointly with Mr Kissane and Mr Shah in 1991 and works in close association with the management to develop and implement Group strategies.

Kiran Shah (aged 55), Group Finance Director and Joint Managing Director, is a member of the Chartered Association of Certified Accountants. After initially working in private accountancy practice, he moved into industry and since 1978 has been involved extensively in the toy industry, notably in his role in jointly heading up a successful management buyout of Merit Toys Limited in 1981 and its subsequent sale to Bluebird Toys plc in 1988. He jointly established the original business of The Character Group plc with Mr King and Mr Kissane in April 1991.

Jon Diver (aged 45), Group Marketing Director and Joint Managing Director, joined the Group in September 1991 from Rainbow Toys Limited, where he was Senior Marketing Executive. He became Group Marketing Director in August 1994, and has developed close working relationships with the Group's suppliers. He has played a key role in product development and the development and implementation of the Group's marketing strategy.

Joe Kissane (aged 57), Managing Director of Character Options Limited, has considerable sales expertise both at retail and supplier base in and outside the toy industry, gained over a period of 35 years, notably with such companies as Nabisco, Lego and Tonka. He is one of the founders of the Group.

Ian Fenn (aged 66), Senior Independent Non-Executive Director, joined the Board in May 1995. He has extensive experience in corporate finance gained over many years in stockbroking and merchant banking in the City of London. He is a director of Blomfield Corporate Finance Limited, which is authorised and regulated by the Financial Services Authority.

Lord Birdwood (aged 71), Independent Non-Executive Director, was appointed to the Board in September 1995. He has experience as a director of quoted and private companies. He has particular interests in executive placement and recruitment. He is also retained by private equity firms to advise on future technologies.

David Harris (aged 59), Independent Non-Executive Director, was appointed to the Board in May 2004. He has very broad financial experience gained over a 30 year career in both executive and non-executive capacities. He is currently a non-executive director of Small Companies Dividend Trust plc, Manchester and London Investment Trust plc, Aseana Properties Ltd, COBRA Holdings plc and F&C Managed Portfolio Trust plc, all of which are quoted companies on the London Stock Exchange.
He is also a non-executive director of a private company SDF Ltd.

Alan MacKay (aged 47), Independent Non-Executive Director, is a partner at 3i Investments plc, one of the world's leading private equity companies. After founding, then selling, a marketing services business, he joined 3i in 1987 and was appointed to the Board of 3i plc in 1994. He currently leads 3i investment activity in the public equities arena. He is Chairman of 3TS Capital Partners, a member of the Strategic Advisory Board of SVG Investment Advisers, and a non-executive director of AIM listed company Phibro Animal Health Corporation.

DIRECTORS' REPORT AND BUSINESS REVIEW

The directors present their report together with the financial statements for the year ended 31 August 2009.

Directors

The following are the directors that served during the year:

Richard King (Executive Chairman)
Kirankumar Premchand Shah FCCA (Group Finance Director and Joint Managing Director)
Jonathan James Diver (Group Marketing Director and Joint Managing Director)
Joseph John Patrick Kissane (Managing Director, Character Options Limited)
Ian Stanley Fenn (Senior Independent Non-Executive Director)
Lord Birdwood (Independent Non-Executive Director)
David Harris (Independent Non-Executive Director)
Alan Browning MacKay (Independent Non-Executive Director)

Biographies of the directors are set out on page 7.

Principal activity

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

Business review, results and dividend

A review of the business is contained in the Chairman's Statement on pages 2 to 6 and the results are detailed in the consolidated income statement on page 22, the consolidated balance sheet on page 23, the consolidated cash flow statement on page 24 and the consolidated statement of changes in equity on page 25. There was a loss for the year, after taxation, amounting to £1,642,000 (2008: profit £5,147,000).

The directors recommend a final dividend of 1.0 pence per share making a total dividend for the year of 1.0 pence per ordinary share (2008: 2.2 pence). If approved, the final dividend will be paid on 29 January 2010, to shareholders on the register on 8 January 2010.

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 2009 and 30 November 2009 (being the date of this report) were as follows:

Directors	Number of Ordinary Shares	30 November 2009 Ordinary Shares under option	Number of Ordinary Shares	31 August 2009 Ordinary Shares under option	Number of Ordinary Shares	31 August 2008 Ordinary Shares under option
R King	**4,524,459**	**550,000**	4,524,459	550,000	3,845,428	450,000
K P Shah	**7,853,250**	**550,000**	9,245,000	550,000	5,645,000	450,000
J J P Kissane	**1,462,300**	**715,000**	1,462,300	715,000	1,462,300	615,000
J J Diver	**2,092,507**	**715,000**	1,690,640	715,000	1,690,640	615,000
I S Fenn	**9,000**	**–**	9,000	–	9,000	–
Lord Birdwood	**8,750**	**–**	8,750	–	8,750	–
D Harris	**24,097**	**–**	24,097	–	24,097	–
A B MacKay	–	**–**	–	–	–	–
TOPS Pension Scheme*	**1,186,750**	**–**	696,867	–	450,000	–

(*R King is a trustee and a beneficiary under such pension scheme arrangements. Each of K P Shah and J J Diver was a trustee and a beneficiary until 29 September 2009)

Included in the interests of R King are his interests in Ordinary Shares held by Cedarberg Investments Limited, being 1,885,428 ordinary shares at 30 November 2009, 31 August 2009 and at 31 August 2008. There is also included in the interests of R King his interests in Ordinary Shares held by his spouse, Mrs M H King, being 320,000 Ordinary Shares at 30 November 2009, 31 August 2009 and at 31 August 2008.

Included in the interests of K P Shah are his interests in Ordinary Shares held by Sarissa Holdings Limited ("Sarissa"), being 9,220,000 Ordinary Shares at 31 August 2009 and 5,620,000 Ordinary Shares at 31 August 2008. At 30 November 2009, included in the interests of K P Shah are the interests of Sarissa in 7,220,000 Ordinary Shares and 608,250 Ordinary Shares of Mr Shah's personal pension scheme.

At 30 November 2009, included in the interests of J J Diver are 401,867 Ordinary Shares held by Mr Diver's personal pension scheme.

Further, Orbis Pension Trustees Limited, the trustee of the Company's employee share ownership trust ("the Trust"), held 285,000 Ordinary Shares at 30 November 2009, 31 August 2009 and at 31 August 2008. Each of R King, K P Shah, J J P Kissane and J J Diver is deemed to be interested in such holding by virtue of being within the class of beneficiaries defined by the Trust.

Employment policies

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

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

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

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

Research and development

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

Policy and practice on payment of creditors

The Group does not follow any standard code of practice for paying its suppliers but, instead, agrees with each principal supplier the terms of payment for each transaction or series of transactions. The Group's policy is then to abide by those pre-arranged terms for payment. At 31 August 2009, trade creditors of the Group represented an average of 51 (2008:73) days credit in relation to total purchases for the year.

Principal risks and uncertainties

The management of the business and the nature of the Group's strategy are subject to a number of risks and uncertainties. The directors have set out below the principal risks facing the business:

Suppliers

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

Competition

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

Foreign currency exchange

A significant amount of the Group's purchases are made in US dollars. The Group is therefore exposed to foreign currency fluctuations. The Group manages its foreign exchange risk with forward foreign exchange contracts and other derivative financial instruments such as currency options to reduce the exposure.

Environmental

The Group places emphasis upon environmental compliance in its business and not only seeks to ensure ongoing compliance with relevant legislation in the major markets, but also strives to ensure, as far as possible, that the environmental best practice is incorporated into key processes.

During 2009, and in accordance with the Group's environmental objectives to reduce the use of packaging used in the supply of its products, the Group has reduced the packaging content of 27 of its existing products and will follow this protocol in future designs.

Financial risks

The main risks arising from the Group's financial instruments are foreign currency risk, credit risk, concentration risk, interest rate and liquidity risk.

The Board reviews and agrees policies for managing each of these risks. A summary of these risks is disclosed in note 22 to the group financial statements.

Key Performance Indicators (KPIs)

The directors are of the opinion that the relevant KPIs for an assessment and measurement of the Group's performance and financial position are revenues, gross margins, operating profit, earnings per share and cash generation, the information for which is available in the accompanying financial statements. The Group maintains a robust planning system and progress is monitored on a regular basis.

Directors' indemnity insurance

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

Substantial shareholders other than directors

At 30 November 2009 the following, other than the directors and their related interests, had notified the Company of an interest in 3% or more of the Company's issued Ordinary Shares:

Name	Number of Ordinary Shares	Shareholding % (excluding Ordinary Shares held in treasury)
Sweet Briar Investments Limited	1,675,000	4.86%
Polaris Capital Management LLC	1,402,900	4.02%

Changes in share capital

During the year, the Company repurchased for cancellation 7,000,000 Ordinary Shares.

Also, during the year 177,077 Ordinary Shares were repurchased and are held in treasury.
Details are given in note 27 to the Group financial statements.

Share option schemes

Details of the Company's share option schemes are given in note 27 to the Group financial statements.

Charitable and political donations

Payments to health and childrens charities, and community support amounted to £41,626 (2008: £36,918). There were no political contributions in either year.

Annual General Meeting

Notice convening an annual general meeting of the Company is set out on pages 63 to 65 of this document. Full details of the business to be transacted at that meeting are set out in that notice.

The business of the meeting will include special business proposing the consideration of resolutions to:

- renew the directors' general authority to allot unissued shares in the capital of the Company up to an aggregate nominal amount of £574,050 (11,481,000 Ordinary Shares). This authority will expire on whichever is the earlier of the conclusion of the annual general meeting of the Company to be held in 2011 or the date falling 15 months following the passing of this resolution. The directors have no present intention of exercising this authority, which represents approximately 33.3% of the issued share capital of the Company at 31 August 2009, excluding shares held in treasury;
- authorise the directors to offer to allot new shares in the Company to shareholders who elect to accept the same in lieu of any cash dividend entitlement;
- authorise the directors to make purchases of the Company's issued ordinary shares in the market for cancellation, or to be held in treasury, if and when the directors consider that it would be in the best interest of the Company and shareholders generally to do so, up to 8,619,000 shares (representing approximately 25% of the current issued share capital of the Company excluding shares held in treasury). The price at which an Ordinary Share in the Company may be purchased in exercise of this authority is subject to a maximum price of 150% of the average middle market values of an issued Ordinary Share in the Company in the five business days prior to purchase and a minimum of 5 pence, being the nominal value of an issued Ordinary Share in the Company. The directors intend to exercise this authority if and when to do so will, in the opinion of the directors, enhance shareholder value. If all options granted by the Company (pursuant to the Group's share option schemes particularised in note 27 to the Group financial statements) and subsisting as at 31 August 2009 were exercised a total of [4,887,579] of new Ordinary Shares would be allotted, representing approximately 12.42% of the enlarged issue share capital of the Company following such exercise (excluding shares held in treasury). If the authority proposed for the buy-back of shares by the Company was to be exercised in full, then the number of shares to be issued on exercise of the said options would constitute approximately 15.9% of the issued share capital as enlarged by such allotments of shares (excluding shares held in treasury);
- approve a disapplication of shareholder pre-emption rights to enable the issue of equity securities in connection with any rights issue and/or an offer of issued shares held in treasury by way of rights made by the Company, with certain adjustments to shareholder entitlements to be made for practical purposes to deal with fractional entitlements and overseas restrictions on offers of shares in UK companies and further limited disapplications of these pre-emption rights applying in relation to:

(i) the allotment for cash of up to an aggregate nominal amount of £172,385 (3,447,700 Ordinary Shares), representing approximately 10% of the nominal value of the issued ordinary share capital of the Company as at 31 August 2009 (excluding shares held in treasury);

(ii) the sale of all or any of the 4,019,456 Ordinary Shares held in treasury as at 30 November 2009.

Auditors

A resolution to reappoint HLB Vantis Audit plc 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 have confirmed that they have taken all the steps that they ought to have taken as directors in order to make themselves aware of any relevant audit information and to establish that it has been communicated to the auditors.

CORPORATE GOVERNANCE STATEMENT

The directors continue to embrace the principles contained in the combined code of corporate governance issued in July 2003, revised in 2006 and 2008 and, whilst compliance with this code is not a requirement of the AIM rules, apply such principles as far as considered appropriate for a public company of the Company's size.

Directors

The Board of directors comprises four executive directors and four non-executive directors, as detailed on page 7. The independent non-executive directors are Lord Birdwood, Mr Fenn (who is the senior independent non-executive director), Mr Harris and Mr MacKay. Whilst Lord Birdwood and Mr Fenn have served as directors of the Company for more than 9 years, the Board considers that they have demonstrated throughout their tenures that they are independent, both in character and judgment. The Board is structured so that no one individual or group dominates the decision-making process.

Board meetings are held at least four times a year and at other times as required to address requirements arising between these scheduled meetings.

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

	Attendance
R King	5
K P Shah	5
J J P Kissane	5
J J Diver	5
I S Fenn	4
Lord Birdwood	5
D Harris	5
A B MacKay	5

The Board has a formal schedule of matters reserved for its decision. It determines the overall Group strategy; creation, acquisition or disposal of material corporate entities or assets; public announcements (including statutory financial statements); significant changes in accounting policy, capital structure and dividend policy; group remuneration policy and Board structure, composition and succession.

The Board delegates to management, through the executive directors, the overall performance of the Group, which is conducted principally through the setting of clear objectives.

The Board has established an Audit Committee, a Remuneration Committee and a Nominations Committee, with duties and responsibilities formally delegated to them. The terms of reference set out each Committee's responsibilities. The terms of reference for the Audit Committee can be viewed at the Company's Registered Office.

Evaluation of the Board, Board Committees and Directors

The performance evaluation of the Board, its Committees and directors is undertaken by the Chairman and implemented in collaboration with the Committee Chairmen. The 2009 Board evaluation was conducted by way of a discussion between the Chairman and each of the directors. The independent non-executive directors met separately to review the Chairman's performance and provide feedback to him. Following formal performance evaluation, the Chairman confirms that the performance of non-executive directors continues to be effective and demonstrates their commitment to the role.

Audit Committee

I S Fenn (Chairman), Lord Birdwood and D Harris

The Audit Committee is responsible for ensuring that the financial performance of the Group is properly measured and reported and for reviewing reports from the auditors relating to Group financial statements and the Group's internal control systems. The committee is also responsible for the development, implementation and monitoring of the Company's policy on external audit. The committee reserves oversight responsibility for monitoring the auditors' independence, objectivity and compliance with ethical and regulatory requirements. The committee also ensures that key partners within the external auditors are rotated from time to time in accordance with UK rules. During the year, two meetings were held which were attended by all three members.

Remuneration Committee

Lord Birdwood (Chairman), I S Fenn and D Harris

The Remuneration Committee is responsible for setting the remuneration of the executive directors and the senior management and for the operation of the Company's share option schemes. The Directors' Remuneration Report is shown on pages 16 to 18. During the year one meeting was held, which was attended by all three members.

Nominations Committee
R King (Chairman), Lord Birdwood, I S Fenn and D Harris
The Nominations Committee is responsible for considering and recommending to the Board changes in the Board's composition and membership. No meetings were held during the year.

All non-executive directors of the Company who are members of these committees are entitled to seek, at the Company's expense, independent professional advice in connection with their roles on these committees.

Internal Control
The Board is ultimately responsible for the Group's system of internal control and for reviewing its effectiveness. However, such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives and can provide only reasonable, and not absolute, assurance against material misstatement or loss.

Following publication of the guidance for directors on internal control "Internal Control: Guidance for Directors on the Combined Code", the Board confirms that there is an ongoing process for identifying, evaluating and managing the significant risks faced by the Group. This process has been in place throughout the year under review and up to the date of approval of the annual report and financial statements and is regularly reviewed by the Board and accords with the guidance.

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

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

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

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

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

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

Relations with shareholders

The Board supports the principle of clear reporting of financial performance to shareholders. During a financial year, shareholders receive either a letter informing them that the Group's full annual report and an interim report are available to view and download from the investors section of the Company's website or, if they have so elected, hard copy of such reports . Other supplementary trading statements issued via the London Stock Exchange are also placed on the investors section of the Company's website and, where appropriate, may also be sent to shareholders in the post.

As indicated in the Chairman's statement, as well as speeding up the provision of information to shareholders, the Board believes that utilising electronic communications delivers savings to the Company in terms of administration, printing and postage, and also the environment through reduced consumption of paper and inks.

Members of the Board will be available at the forthcoming Annual General Meeting to answer any questions from the shareholders.

Compliance statement

Throughout the year the Group has fully complied with the provisions of the Combined Code with the following exception:

- Code provision A.7.1 states that all directors should be subject to re-election at intervals of no more than three years. The executive directors' service contracts were prepared before the Combined Code was issued and, as such, do not contain such re-election provisions. An amendment cannot be made unilaterally by the Company to an executive director's service contract and any such amendment would, accordingly, have to be negotiated in turn with each executive director. Given the significant shareholdings of the executive directors, and the potential cost to the Company of compensating the executive directors for any such amendment to their contracts, the Board considers that the existing arrangements with the executive directors should, for the time being, remain undisturbed in this respect.

Going Concern

After making enquiries, the Board considers that the Group has adequate resources to continue operating for the foreseeable future and has therefore adopted the going concern basis in preparing the financial statements.

By Order of the Board

K P Shah FCCA
Secretary

Registered Office:
2nd Floor
10 Chiswell Street
London
EC1Y 4UQ

Registered number 3033333
30 November 2009

DIRECTORS' REMUNERATION REPORT

The Board presents the Remuneration Report for the year ended 31 August 2009.

The Remuneration Committee

The Remuneration Committee consists of three independent non-executive directors: Lord Birdwood, Mr Fenn and Mr Harris. The policy of the Remuneration Committee is framed to give consideration to the provisions as to best practice set out in the Combined Code.

Remuneration of Directors

Each executive director is paid a basic salary and is entitled to benefits, namely payments of pension contributions to a suitable scheme of his choice, the option of the use of a company car, fuel and/or mileage allowance and participation in a private health care scheme. Where a director's pension fund exceeds the Lifetime Allowance, an equivalent sum is added to his gross salary.

Each of the executive directors is also entitled under the terms of his service contract to a bonus of an amount up to his basic salary in the event that specified performance targets are met or exceeded. These targets require increases in earnings per share in each financial year of the Group, adjusted to exclude certain exceptional non-trading items. Mr Diver is also entitled to a further bonus of 2% of pre-tax profits in the event that a specified target is met.

The basic salaries referred to above are reviewed every year by the Remuneration Committee. The service contracts of the executive directors incorporate notice periods of 12 months.

These arrangements were originally agreed by the Board of directors in May 1995, just prior to the flotation of the Company on the London Stock Exchange, in consultation with their legal and financial advisers and have recently been reviewed by the Remuneration Committee. In originally establishing these arrangements, and in the recent review, due account was taken of other quoted companies of comparable size and business complexity and, in particular, of the need to put in place incentive arrangements for each executive director which would be challenging and compatible with sustainable growth in shareholder value, whilst not being over-complicated or manipulable. The Board's policy on pension arrangements is to favour money purchase schemes rather than defined benefit ("final salary") schemes.

The Company believes that share ownership by executive directors and senior executives strengthens the links between their personal interests and those of the shareholders. All executive directors are entitled to participate in the Company's 2003 Enterprise Management Incentive Share Option Scheme and its 2006 executive Share Option Plan, details of which may also be found in note 27 to the financial statements.

The non-executive directors are appointed for a fixed term expiring at each Annual General Meeting of the Company, when they may offer themselves for re-election. Each of the non-executive directors is entitled to fees, currently at the rate of £20,000 per annum (2008: £20,000), plus expenses, without any right to compensation on early termination.

Audited Information

The following table shows a breakdown of the remuneration of the directors for the year ended 31 August 2009 and the year ended 31 August 2008.

Year ended 31 August 2009

	Salary/fees £	Performance bonus £	Benefits in kind £	Pension contribution £	Total £
R King	248,924	-	3,825	-	252,749
K P Shah	182,160	-	2,909	54,648	239,717
J J Diver	182,160	-	9,647	36,432	228,239
J J P Kissane	159,698	-	3,103	55,894	218,695
I S Fenn (non-executive)	20,000	-	-	-	20,000
Lord Birdwood (non-executive)	20,000	-	-	-	20,000
D Harris (non-executive)	20,000	-	-	-	20,000
A B MacKay (non-executive)	20,000	-	-	-	20,000
	852,942	-	19,484	146,974	1,019,400

Year ended 31 August 2008

	Salary/fees £	Performance bonus £	Benefits in kind £	Pension contribution £	Total £
R King	248,924	-	2,195	-	251,119
K P Shah	182,160	-	1,824	54,648	238,632
J J Diver	182,160	100,000	7,674	36,432	326,266
J J P Kissane	159,698	-	2,615	47,909	210,222
I S Fenn (non-executive)	20,000	-	-	-	20,000
Lord Birdwood (non-executive)	20,000	-	-	-	20,000
D Harris (non-executive)	20,000	-	-	-	20,000
A B MacKay (non-executive)	20,000	-	-	-	20,000
	852,942	100,000	14,308	138,989	1,106,239

On 5 February 2003, options over 185,000 new Ordinary Shares in the Company were granted to each of J J P Kissane and J J Diver. These options were granted pursuant to the Company's Enterprise Management Incentive Share Option Scheme, which was approved by shareholders on 22 January 2003. The options are exercisable at a price of 54 pence per share normally no earlier than three years and not later than ten years from the date of grant, subject to the achievement of a predetermined profit related performance target, which has been achieved.

On 11 May 2006, options were granted at a price of 63 pence per share over 960,000 new Ordinary Shares in the Company to the four executive directors. R King and K P Shah were each granted options over 250,000 new Ordinary Shares. J J Diver and J J P Kissane were each granted options over 230,000 new Ordinary Shares.

These options were granted pursuant to the 2006 Share Option Plan, which was approved by shareholders on 29 November 2005 and adopted by the Company on 22 February 2006. The options are exercisable at a price of 63 pence per share normally no earlier than three years and not later than ten years from the date of grant, subject to the achievement of a predetermined profit related performance target, which has been achieved, for the options granted on 11 May 2006.

On 6 May 2008, options were granted over 200,000 new Ordinary Shares in the Company to each of the four executive directors (R. King, K P Shah, J J Diver, and J J P Kissane) at an exercise price of 115.25p per share. These options were cancelled on 5 May 2009.

On 6 May 2009, options were granted at a price of 35.5 pence over 300,000 new Ordinary Shares in the Company to each of the four executive directors. These options were granted variously under the Company's 2003 Enterprise Management Incentive Share Option Scheme and its 2006 Share Option Plan and are normally exercisable no earlier than three years and not later than ten years from the date of grant, subject to the achievement of predetermined profit related performance target.

K P Shah, J J P Kissane and J J Diver are the only directors to whom retirement benefits are accruing under a money purchase pension scheme.

At 31 August 2009 the mid-market price of an issued Ordinary Share in The Character Group plc was 52.0 pence. During the year the mid-market price ranged from 23.0 pence to 64.0 pence.

On behalf of the Board

Lord Birdwood
Chairman, Remuneration Committee
30 November 2009

DIRECTORS' STATEMENT OF RESPONSIBILITIES IN RELATION TO THE GROUP FINANCIAL STATEMENTS AND THE ANNUAL REPORT

The directors are responsible for preparing the annual report and the Group financial statements in accordance with applicable United Kingdom law and those applicable International Financial Reporting Standards as adopted by the European Union.

The directors are required to prepare Group financial statements for each financial year which fairly present the financial position of the Group and of the financial performance cashflows of the Group for that period. In preparing those Group financial statements, the directors are required to:

- select suitable accounting policies in accordance with IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors" and then apply them consistently;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements of IFRS is insufficient to enable users to understand the impact of particular transactions, other events and conditions of the Group's financial position and financial performance;
- state that the Group has complied with IFRS, subject to any material departures disclosed and explained in the financial statements; and
- make judgements and accounting estimates that are reasonable and prudent.

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

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

The directors confirm that they have complied with the above requirements in preparing the financial statements.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF THE CHARACTER GROUP plc

We have audited the consolidated financial statements of The Character Group plc for the year ended 31 August 2009 which comprise the Consolidated Income Statement, the Consolidated Balance Sheet, the Consolidated Cash Flow Statement, the Consolidated Statement of Changes in Equity and the related notes 1 to 29. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

This report is made solely to the Company's members, as a body, in accordance with sections 495 and 496 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As explained more fully in the Statement of Directors' responsibilities in respect of the Annual Report and the group financial statements, the directors are responsible for the preparation of the consolidated statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the consolidated financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements.

Opinion on financial statements

In our opinion the consolidated financial statements:

- give a true and fair view of the state of the Group's affairs as at 31 August 2009 and of its loss for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion:

- the information given in the Directors' Report for the financial year for which the consolidated financial statements are prepared is consistent with the consolidated financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following:

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF THE CHARACTER GROUP plc CONTINUED

Other matter

We have reported separately on pages 52 and 53 on the parent company financial statements of The Character Group plc for the year ended 31 August 2009.

Mark Dowding
Senior statutory auditor
For and on behalf of HLB Vantis Audit plc
Statutory Auditor
66 Wigmore Street
London
W1U 2SB
21 December 2009

CONSOLIDATED INCOME STATEMENT

for the year ended 31 August 2009

	Note	**Total 2009 £000's**	Total 2008 £000's
Continuing operations			
Revenue		**68,622**	82,272
Cost of sales		**(48,587)**	(52,800)
Gross profit		**20,035**	29,472
Net operating expenses			
Selling and distribution costs		**(8,999)**	(9,977)
Administration expenses		**(12,265)**	(14,365)
Other operating income		**132**	167
Operating (loss)/profit before exceptional items	3	**(1,097)**	5,297
Exceptional bad debt		**(1,056)**	–
Operating (loss)/profit		**(2,153)**	5,297
Net finance costs	6	**(21)**	(154)
(Loss)/profit before taxation		**(2,174)**	5,143
Taxation	7	**532**	4
(Loss)/profit for the year attributable to equity holders of the parent		**(1,642)**	5,147
(Loss)/earnings per share (pence)	9		
Basic		**(4.09p)**	12.03p
Fully diluted		**(4.09p)**	11.70p
Dividend per share	8	**-**	4.6p
EBITDA (earnings before interest, tax, depreciation and amortisation)		**2,351**	9,529

CONSOLIDATED BALANCE SHEET

as at 31 August 2009

	Note	2009 £000's	2008 £000's
Non – current assets			
Intangible assets – product development	11	**823**	2,415
Property, plant and equipment	12	**1,174**	1,303
		1,997	3,718
Current assets			
Inventories	14	**7,043**	9,802
Trade and other receivables	15	**13,352**	19,142
Derivative financial instruments	16	**464**	1,507
Income tax	17	**–**	1,555
Cash and cash equivalents	18	**11,428**	17,785
		32,287	49,791
Current liabilities			
Short term borrowings	19	**(10,574)**	(17,782)
Trade and other payables	20	**(10,599)**	(17,628)
Income tax	17	**(386)**	(1,534)
Derivative financial instruments	16	**(936)**	–
		(22,495)	(36,944)
Net current assets		**9,792**	12,847
Non-current liabilities			
Deferred tax	7	**–**	(834)
Net assets		**11,789**	15,731
Equity			
Share capital	27	**1,925**	2,275
Shares held in treasury	27	**(3,373)**	(3,277)
Investment in own shares	29	**(908)**	(908)
Capital redemption reserve		**798**	448
Share based payment reserve		**733**	534
Share premium account		**12,587**	12,587
Merger reserve		**651**	651
Translation reserve		**1,866**	501
Profit and loss account		**(2,490)**	2,920
Total equity		**11,789**	15,731

The financial statements on pages 22 to 50 were approved by the Board of Directors on 30 November 2009.

R King	**K P Shah**
Chairman	Group Finance Director and Joint Managing Director

CONSOLIDATED CASH FLOW STATEMENT

for the year ended 31 August 2009

	Note	12 months to 31 August 2009 £000's	12 months to 31 August 2008 £000's
Cash flow from operating activities			
(Loss)/profit before taxation for the year		**(2,174)**	5,143
Adjustments for:			
Depreciation of property, plant and equipment		**306**	378
Amortisation of intangible assets		**4,198**	3,854
(Profit) on disposal of property, plant and equipment		**(8)**	(5)
Interest expense		**21**	154
Financial instruments fair value adjustments		**2,143**	(1,659)
Share based payments		**199**	219
Decrease in inventories		**2,759**	1,029
Decrease in trade and other receivables		**5,790**	2,161
(Decrease) in trade and other creditors		**(7,029)**	(1,167)
Cash generated from operations		**6,205**	10,107
Interest paid		**(21)**	(154)
Income tax refunded/(paid)		**58**	(2,329)
Net cash inflow from operating activities		**6,242**	7,624
Cash flows from investing activities			
Payments for intangible assets		**(2,606)**	(4,860)
Payments for property, plant and equipment		**(182)**	(243)
Proceeds from disposal of property, plant and equipment		**17**	62
Net cash outflow from investing activities		**(2,771)**	(5,041)
Cash flows from financing activities			
Proceeds from issue of share capital		**–**	21
Purchase of own shares for cancellation		**(2,132)**	–
Purchase of treasury shares		**(97)**	(2,627)
Dividends paid		**–**	(1,959)
Net cash used in financing activities		**(2,229)**	(4,565)
Net increase/(decrease) in cash and cash equivalents		**1,242**	(1,982)
Cash, cash equivalents and borrowings at the beginning of the year		**3**	2,146
Effects of exchange rate movements		**(391)**	(161)
Cash, cash equivalents and borrowings at the end of the year		**854**	3

Cash, cash equivalents and borrowings consist of:

Cash and cash equivalents	18	**11,428**	17,785
Short term borrowings	19	**(10,574)**	(17,782)
		854	3

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31 August 2009

	Called up share capital £000's	Investment in own shares £000's	Treasury shares £000's	Capital redemption reserve £000's	Share premium account £000's	Merger reserve £000's	Share based payment £000's	Translation reserve £000's	Profit and loss account £000's	Total £000's
The Group										
1 September 2007	2,273	(908)	(676)	448	12,568	651	315	(725)	524	14,470
Profit after tax	-	-	-	-	-	-	-	-	5,147	5,147
Exchange differences on translating foreign operations	-	-	-	-	-	-	-	1,226	(1,387)	(161)
Tax on items taken directly to equity	-	-	-	-	-	-	-	-	404	404
Total recognised income and expense for the year	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**1,226**	**4,164**	**5,390**
Share based payment	-		-	-	-	-	219	-	-	219
Net gain on cash flow hedged forward contract	-	-	-	-	-	-	-	-	217	217
Dividends	-	-	-	-	-	-	-	-	(1,959)	(1,959)
Shares issued	2	-	-	-	19	-	-	-	-	21
Shares purchased	-	-	(2,601)	-	-	-	-	-	(26)	(2,627)
1 September 2008	**2,275**	**(908)**	**(3,277)**	**448**	**12,587**	**651**	**534**	**501**	**2,920**	**15,731**
Loss after tax	-	-	-	-	-	-	-	-	(1,642)	(1,642)
Exchange differences on translating foreign operations	-	-	-	-	-	-	-	1,365	(1,752)	(387)
Total recognised income and expense for the year	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**1,365**	**(3,394)**	**(2,029)**
Share-based payment	-	-	-	-	-	-	199	-	-	199
Net gain on cash flow hedged forward contract	-	-	-	-	-	-	-	-	117	117
Shares cancelled	(350)	-	-	350	-	-	-	-	(2,132)	(2,132)
Shares purchased	-	-	(96)	-	-	-	-	-	(1)	(97)
31 August 2009	**1,925**	**(908)**	**(3,373)**	**798**	**12,587**	**651**	**733**	**1,866**	**(2,490)**	**11,789**

NOTES TO THE FINANCIAL STATEMENTS

1 PRINCIPAL ACCOUNTING POLICIES

General information

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

The Group's principal places of operations are the United Kingdom and the Far East. The principal activities of the Company and its subsidiaries ('the Group') are detailed in the Director's Report on pages 8 to 12.

Standards, amendments and interpretations effective in the current period but not relevant

The following standards, amendments and interpretations are mandatory in the current period but are not relevant to the Group:

IFRIC 12	Service Concession Arrangements
IFRIC 13	Customer Loyalty Payments
IFRIC 14	IAS 19 The Limit on a Defined Benefit Asset, Minimum funding Requirement & their Interaction

Standards and interpretations in issue not yet adopted

The following new standards 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 2009

		Effective for annual periods beginning on or after:
IFRS 2	(Amendment) Share-based Payment – vesting conditions and cancellations	- 1 January 2009
IFRS 2	(Amendment) Share-based Payment – group cash settled transactions	- 1 January 2010
IFRS 3	(Revised) Business Combinations	- 1 July 2009
IFRS 5	Non-Current Assets Held for Sale & Discontinued Operations – Partial Disposals	- 1 July 2009
IFRS 5	Non-Current Assets Held for Sale & Discontinued Operations – Disclosures	- 1 January 2010
IFRS 7	(Amendment) Financial Instruments – Disclosures	- 1 January 2009
IFRS 8	Operating Segments	- 1 January 2009
IAS 1	(Revised and amended) Presentation of Financial Statements	- 1 January 2009
IAS 23	(Revised) Borrowing Costs	- 1 January 2009
IAS 27	(Revised) Consolidated and Separate Financial Statements	- 1 July 2009
IAS 32	(Revised) Financial Instruments: Disclosure & Presentation	- 1 January 2009
IAS 39	(Amendment) Financial Instruments: Recognition & Measurement – Eligible hedged items	- 1 July 2009
IFRIC 15	Agreements for the Construction of Real Estate	- 1 January 2009
IFRIC 16	Hedges of a Net Investment in a Foreign Operation	- 1 October 2008
IFRIC 17	Distributions of Non-cash Assets to Owners	- 1 July 2009
IFRIC 18	Transfers of Assets from Customers	- 1 July 2009
Improvements to IFRSs (May 2008)		- 1 January 2009
Improvements to IFRSs (April 2009)		- 1 July 2009

Based on the current business model and accounting policies, the Group does not anticipate a material impact on the consolidated financial statements by the adoption of these standards and interpretations in future periods except for additional segment disclosures when IFRS 8 comes into effect at the Group's 2010 year end.

Statement of compliance

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards ('IFRS') as adopted by the European Union and are consistent with IFRS as issued by the International Accounting Standards Board and in accordance with the Companies Act 2006.

Basis of preparation

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

Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company (The Character Group Plc) and subsidiaries controlled by the Company as at the balance sheet date. Subsidiaries are entities over which the Group has the power to control financial and operating policies so as to obtain benefits from their activities and are included in the consolidated financial statements from the date on which control is transferred to the Group and cease to be consolidated from the date on which control is transferred out of the Group. The results of subsidiaries acquired or disposed of during the period are included in the consolidated income statement from the date on which control is transferred to the Group and cease to be consolidated from the date on which control is transferred out of the Group.

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

Significant judgements and estimates

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. Although these estimates are based on historical experience and other associated factors believed to be reasonable under the circumstances, actual results may differ from these estimates. Underlying assumptions are reviewed on an ongoing basis. Areas of significant judgements are provisions for stock obsolescence, customer returns and allowances, product development, deferred tax and share based payments. Revisions to accounting estimates are recognised in the period in which the estimate is revised, or in the period of the revision and future periods if these are affected.

Foreign currency translation

In the Group companies' individual financial statements, transactions in foreign currencies are translated into their functional currency at the rates applicable when they were completed and monetary assets and liabilities at the period end are translated at the rate at that date. Profits and losses on retranslation are dealt with in the income statement. On consolidation, assets and liabilities of overseas subsidiaries are translated into sterling at closing rates of exchange. Income and cash flow statements are translated at average rates of exchange. The exchange differences arising as a result of translating income statements at average rates and restating opening net assets at closing rates are taken to the translation reserve.

Functional and presentation currency

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

INTANGIBLE ASSETS

Goodwill

Goodwill on consolidation represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets, liabilities and contingent liabilities acquired at the date of acquisition. Following the adoption of IFRS goodwill remains written off to reserves and no adjustment would be made on subsequent disposal. For acquisitions completed on or after 1 September 2006, and goodwill carried in the balance sheet from this date, goodwill is tested annually for impairment and carried at cost less accumulated impairment losses.

Product development expenditure

The Group's accounting policy under UK GAAP was to expense all development costs in the year that they were incurred. Under IFRS, development costs are capitalised if specific conditions are fulfilled. Costs incurred on development projects (relating to the design and testing of new products) are recognised as intangible assets when it is probable that the project will be a success, considering its commercial and technical feasibility, and costs can be measured reliably. The Group has capitalised those projects that have met these capitalisation criteria from 1 September 2006. 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%
Shorthold leasehold improvements	over the unexpired term of the lease
Tooling	50-100%
Fixtures, fittings and equipment	20-33%
Motor vehicles	20-25%

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the first in, first out (FIFO) method. Net realisable value is based on estimated selling price less the estimated cost of disposal.

Financial assets

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

Impairment of financial assets

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

Trade receivables

Trade receivables do not carry any interest and are stated at their nominal value as reduced by appropriate allowances for estimated irrecoverable amounts. Certain Group companies have agreements (non-recourse) under which debts approved by the finance company are assigned to the finance company. Advances made by the finance company are non-refundable. The Group has no obligation to, and the directors do not intend that the Group will support any losses from such debts. Cash advanced under this arrangement has been treated as a finance advance under current liabilities.

Cash and cash equivalents

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

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

FINANCIAL LIABILITIES

Finance advances

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

Trade payables

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

Import loans

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

Interest bearing loans and borrowings

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

Derivative financial instruments

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument. The Group designates certain derivatives as hedges of highly probable forecast transactions (cash flow hedge).

The Group documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in cash flows of hedged items.

a) Cash flow hedge

   The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised in equity. The gain or loss relating to the ineffective portion is recognised immediately in the income statement.

   Amounts accumulated in equity are recycled in the income statement in the periods in which the hedged items affect the income statement. However, when the forecast transaction that is hedged results in the recognition of a non-financial asset (for example, inventory) or a liability, the gains and losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the asset or liability.

   When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement.

b) Derivatives that do not qualify for hedge accounting

   Certain derivative instruments may not qualify for hedge accounting. Such derivatives are classified as at fair value through the income statement, and changes in the fair value are recognised immediately in the income statement.

The fair value of forward foreign exchange contracts is determined by using forward exchange market rates at the balance sheet date. Fair value of currency options is determined by market rates.

Derecognition of financial assets and liabilities

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

Provisions

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

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

Share based payment

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

Employee benefits

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

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

Leases

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, or form, or timing of payments. The aggregate benefit of incentive is generally recognised as a reduction of rental expense over the lease term, on a straight-line basis.

Revenue recognition

Revenue is measured at the fair value of consideration received or receivable for goods and services after returns and allowances. Revenue is recognised as follows:

a) Sales of goods

   Revenue from the sale of goods is recognised when the goods are delivered.

b) Sales returns and allowance

   A provision is established at the year end for estimated customer returns, rebates and other allowances that reduce income.

Income taxes

Tax on income or expenses for the year comprise current and deferred tax and is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax

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

Deferred tax

Under UK GAAP, deferred tax was provided in respect of timing differences that had originated but not reversed by the balance sheet date and which could give rise to an obligation to pay more or less tax in the future.

Under International Accounting Standard (IAS) 12 "Income taxes", deferred tax is recognised on the temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method.

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

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

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

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

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited to the income statement, except when it relates to items charged or credited directly to equity.

Own shares

Own shares deducted in arriving at total equity represents the cost of the Company's ordinary shares acquired by the Company's Employee Share Ownership Trust.

Treasury shares

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

2 SEGMENT REPORT

The primary reporting format for segmental purposes is business. The Group operates in one business segment – design, development and international distribution of toys, games and gifts, the disclosures for which have already been provided in these financial statements.

The secondary reporting format for the Group is the geographic segments of its operations. Segment results include items directly attributable and those that can be allocated on a reasonable basis. Unallocated items comprise mainly corporate assets, liabilities and expenses. Assets and liabilities are net of intercompany balances.

Year Ended 31 August 2009	UK £000's	Far East £000's	Total £000's
Revenue – external (by origin)	50,122	18,500	68,622
Segment result	(984)	644	(340)
Unallocated corporate expenses			(757)
Operating loss before exceptional item			(1,097)
Exceptional bad debt			(1,056)
Finance costs			(228)
Finance income			207
Loss before taxation			(2,174)
Taxation			532
Loss for the year			(1,642)
Segment assets	21,551	8,485	30,036
Unallocated assets			4,248
			34,284
Segment liabilities	(14,511)	(7,668)	(22,179)
Unallocated liabilities			(316)
			(22,495)
Consolidated net assets			11,789
Capital additions	170	7	177
Unallocated corporate additions			5
Consolidated capital additions			182
Depreciation	249	15	264
Unallocated depreciated			42
Consolidated depreciation			306
Share based payment	119	–	119
Unallocated share based payment			80
Consolidated share based payment			199

2 SEGMENT REPORT CONTINUED

Year Ended 31 August 2008	UK £000's	Far East £000's	Total £000's
Revenue – external (by origin)	64,559	17,713	82,272
Segment result	2,816	3,573	6,389
Unallocated corporate expenses			(1,092)
Operating profit			5,297
Finance costs			(286)
Finance income			132
Profit before taxation			5,143
Taxation			4
Profit for the year			5,147
Segment assets	39,841	9,660	49,501
Unallocated assets			4,008
			53,509
Segment liabilities	(26,014)	(11,427)	(37,441)
Unallocated liabilities			(337)
			(37,778)
Consolidated net assets			15,731
Capital additions	183	60	243
Unallocated corporate additions			–
Consolidated capital additions			243
Depreciation	286	50	336
Unallocated depreciated			42
Consolidated depreciation			378
Share based payment	153	–	153
Unallocated share based payment			66
Consolidated share based payment			219

GEOGRAPHICAL DESTINATION OF REVENUE

	31 August 2009 £000's	31 August 2008 £000's
United Kingdom	**56,857**	72,028
Rest of the world	**11,765**	10,244
Total Group	**68,622**	82,272

3 OPERATING (LOSS)/PROFIT

	Note	12 months to 31 August 2009 £000's	12 months to 31 August 2008 £000's
Operating (loss)/profit is stated after charging:			
Exchange losses		**96**	69
Staff costs	5	**6,091**	6,952
Depreciation of tangible fixed assets			
— owned assets		**306**	378
Product development amortised		**4,198**	3,854
Operating leases — land and buildings		**760**	517

4 AUDITORS' REMUNERATION

		12 months to 31 August 2009 £000's	12 months to 31 August 2008 £000's
Group Auditors' remuneration			
	— Statutory audit services	**54**	59
	— Financial reporting advisory services	**3**	15
Other Auditors' remuneration			
	— The audit of the Group's subsidiaries pursuant to Legislation	**37**	22
Total fees payable to Auditors		**94**	96

5 STAFF COSTS

	12 months to 31 August 2009 £000's	12 months to 31 August 2008 £000's
Staff costs including directors' emoluments		
Wages and salaries	**5,220**	5,897
Social security costs	**377**	560
Other pension costs	**295**	276
Share based payments	**199**	219
	6,091	6,952
The average number of employees during the year was:	**Number**	Number
Management and administration	**61**	74
Selling and distribution	**100**	104
	161	178

Of the total average number of employees, 100 (2008: 116) were based in the UK and 61 (2008: 62) in Hong Kong and mainland China.

The amount payable to pension schemes as at the balance sheet date was £321,000 (2008: £230,000).

KEY MANAGEMENT PERSONNEL

	12 months to 31 August 2009 £000's	12 months to 31 August 2008 £000's
Salaries and short-term benefits	**792**	887
Share-based payments	**96**	97
Post-employment benefits	**147**	139
	1,035	1,123

Key management comprise the executive directors of The Character Group plc.

A detailed numerical analysis of directors' remuneration and share options showing the highest paid director and number of directors accruing benefit under money purchase pension schemes, is included in the Directors' Remuneration Report on pages 16 to 18 and forms part of these financial statements.

6 NET FINANCE COSTS

	12 months to 31 August 2009 £000's	12 months to 31 August 2008 £000's
Finance costs:		
On bank overdraft and similar charges	**(103)**	(177)
Factor and invoice discounting advances	**(125)**	(109)
	(228)	(286)
Finance income:		
Bank interest	**207**	132
Net finance costs	**(21)**	(154)

7 TAXATION

	12 months to 31 August 2009 £000's	12 months to 31 August 2008 £000's
UK Corporation Tax		
Tax on loss for the period	**-**	(617)
Adjustments to tax charge in respect of previous periods	**3**	(462)
Total UK corporation tax	**3**	(1,079)
Foreign Tax		
Tax on profit for the period	**349**	545
Adjustments to tax charge in respect of previous periods	**(4)**	60
Total foreign tax	**345**	605
Total current tax	**348**	(474)
Deferred Tax		
Origination and reversal of timing differences	**(880)**	470
Total deferred tax	**(880)**	470
Tax on (loss)/profit on ordinary activities	**(532)**	(4)
Factors affecting tax charge for the period		
(Loss)/profit on ordinary activities before taxation	**(2,174)**	5,143
(Loss)/profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 28% (2008: 29.162%)	**(609)**	1,500
Effects of:		
Change in tax rate	**-**	(29)
Income/expenses not chargeable/deductible for tax purposes	**(188)**	(220)
Capital allowances less than depreciation	**72**	13
Deduction for employee share options exercised	**-**	(17)
Lower tax rate on overseas earnings	**(190)**	(373)
Utilisation of tax losses	**(104)**	(529)
Tax losses not utilised	**1**	54
Tax losses not recognised for deferred tax	**487**	-
Adjustments to tax charge in respect of previous periods	**(1)**	(403)
Tax (income) reported in the income statement	**(532)**	(4)

As a result of the change in the corporation tax rate, effective from 1 April 2008, corporation tax for the year ended 31 August 2008 was calculated at an effective rate of 29.162%.

Tax relating to items charged or credited to equity:

Income Tax		
Income tax credit on exchange (losses)/gains on intra group balances	**-**	404
Deferred Tax		
Deferred tax on hedged forward contract gain	**(46)**	(84)
Net Tax (debited)/credited to equity	**(46)**	320

7 TAXATION CONTINUED

Deferred taxation arising from temporary differences and unused tax losses can be summarised as follows.

Deferred tax is calculated using a tax rate of 28% (2008: 28%).

Recognised deferred tax liability:

	Short term temporary differences £000's	(Charge)/credit to income statement £000's	(Charge)/credit to equity £000's
31 August 2007	**(280)**		
Movement in the year	(554)	(470)	(84)
31 August 2008	**(834)**		
Movement in the year	834	880	(46)
31 August 2009	**-**		

Unrecognised deferred tax asset:

	Depreciation in advance of capital allowances £000's	Share based payment £000's	Short term temporary differences £000's	Unused tax losses £000's	Capital losses £000's	Unrelieved double taxation £000's	Total £000's
31 August 2007	**189**	**94**	**342**	**614**	**574**	**152**	**1,965**
Movement in the year	(23)	55	(342)	(509)	(73)	-	(892)
31 August 2008	**166**	**149**	**-**	**105**	**501**	**152**	**1,073**
Movement in the year	(17)	56	152	382	(501)	-	72
31 August 2009	**149**	**205**	**152**	**487**	**-**	**152**	**1,145**

A deferred tax asset has not been recognised in respect of certain trading losses, capital losses, unrelieved double taxation and tax allowable deductions, due to the unpredictability of future taxable profit streams in certain subsidiaries.

8 DIVIDEND

	12 months to 31 August 2009 £000's	12 months to 31 August 2008 £000's
On equity shares:		
Final dividend paid for the year ended 31 August 2008		
— 0.0 pence (2007: 2.4 pence) per share	–	1,039
Interim dividend paid for the year ended 31 August 2009		
— 0.0 pence (2008: 2.2 pence) per share	–	920
	–	1,959

The directors recommend a final dividend of 1.0 pence per share. If approved by shareholders, the final dividend will be paid on 29 January 2010 to shareholders on the register on 8 January 2010.

9 (LOSS)/EARNINGS PER SHARE

	12 months to 31 August 2009			12 months to 31 August 2008		
	(Loss) after taxation	**Weighted average number of ordinary shares**	**Pence per share**	Profit after Taxation	Weighted average number of ordinary shares	Pence per share
Basic (loss)/earnings per share	**(1,642,000)**	**40,204,746**	**(4.09)**	5,147,000	42,777,074	12.03
Impact of share options	–	**9,675**	–	–	1,231,151	(0.33)
Diluted earnings per share*[1]	**(1,642,000)**	**40,214,421**	**(4.09)**	5,147,000	44,008,225	11.70

*[1]The weighted average number of shares used in the calculation of the diluted loss per share for the year ended 31 August 2009 is the same as that in respect of the basic loss per share calculation as the effect of exercising options would be to reduce the loss per share and is therefore not dilutive under the terms of IAS 33.

10 INTANGIBLE ASSETS — GOODWILL

Cost	**£000's**
1 September 2007, 31 August 2008 and 31 August 2009	902
Amortisation	
1 September 2007	902
Charge for the year	–
31 August 2008 and 31 August 2009	**902**
Net book value	
31 August 2009	**–**
31 August 2008	–

11 OTHER INTANGIBLE FIXED ASSETS
PRODUCT DEVELOPMENT

Cost	Total £000's
1 September 2007	2,316
Additions	4,860
31 August 2008	**7,176**
Additions	2,606
31 August 2009	**9,782**
Amortisation	
1 September 2007	907
Charge for the year	3,854
31 August 2008	**4,761**
Charge for the year	4,198
31 August 2009	**8,959**
Net book value	
31 August 2009	**823**
31 August 2008	2,415

12 PROPERTY, PLANT AND EQUIPMENT

Cost	Freehold land and buildings £000's	Short leasehold improvements £000's	Tooling £000's	Fixtures, fittings and equipment £000's	Motor vehicles £000's	Total £000's
1 September 2007	**1,182**	**89**	**26**	**1,882**	**364**	**3,543**
Additions	–	4	–	210	29	243
Disposals	–	(86)	–	(196)	(95)	(377)
Translation differences	–	–	–	2	–	2
1 September 2008	**1,182**	**7**	**26**	**1,898**	**298**	**3,411**
Additions	–	–	–	90	92	182
Disposals	–	–	–	–	(64)	(64)
Translation differences	–	1	–	10	–	11
31 August 2009	**1,182**	**8**	**26**	**1,998**	**326**	**3,540**
Depreciation						
1 September 2007	**392**	**81**	**26**	**1,345**	**205**	**2,049**
Charge for the year	39	3	–	249	87	378
Disposals	–	(79)	–	(150)	(90)	(319)
Translation differences	–	–	–	–	–	–
1 September 2008	**431**	**5**	**26**	**1,444**	**202**	**2,108**
Charge for the year	39	2	–	203	62	306
Disposals	–	–	–	–	(55)	(55)
Translation differences	–	1	–	6	–	7
31 August 2009	**470**	**8**	**26**	**1,653**	**209**	**2,366**
Net book value						
31 August 2009	**712**	**–**	**–**	**345**	**117**	**1,174**
31 August 2008	751	2	–	454	96	1,303

A bank has a charge over a freehold property.

13 PRINCIPAL GROUP SUBSIDIARY UNDERTAKINGS

Details of the principal subsidiary undertakings of the Company, which are included in the consolidated financial statements are set out below:

Subsidiaries	Country of incorporation and operation	Class of share capital held	Proportion held by the parent Undertaking	Nature of business
Character Options Limited	United Kingdom	Ordinary	100%	Design and distribution of toys and games
Toy Options (Far East) Limited	Hong Kong	Ordinary	100%	Design and distribution of toys and games
Charter Limited	Hong Kong	Ordinary	100%	Design and distribution of toys and games
Character Games Limited	United Kingdom	Ordinary	100%	Design and distribution of toys and games
Character Gifts Limited	United Kingdom	Ordinary	100%	Gift importer and distributor

14 INVENTORIES

	2009 £000's	2008 £000's
Finished goods for resale	**7,043**	9,802

15 TRADE AND OTHER RECEIVABLES

	2009 £000's	2008 £000's
Current:		
Trade receivables	**11,589**	16,862
Less: provision for impairment of receivables	**–**	(10)
Trade receivables – net	**11,589**	16,852
Other receivables	**539**	1,214
	12,128	18,066
Prepayments	**1,224**	1,076
	13,352	19,142

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

Gross trade receivables can be analysed as follows:

	2009 £000's	2008 £000's
Fully performing	**11,329**	16,378
Past due	**260**	480
Impaired	**–**	4
Trade receivables	**11,589**	16,862

15 TRADE AND OTHER RECEIVABLES CONTINUED

Ageing of past due, not impaired, receivables:

	2009 £000's	2008 £000's
1 – 90 days	**259**	413
> 90 days	**1**	67
	260	480

Amounts relate to debtors for whom there is no recent history of default and there has been no significant change in credit quality.

Movement on the Group provision for impairment of trade receivables is as follows:

	2009 £000's	2008 £000's
As at 1 September	**10**	10
Release of provision	**(10)**	–
As at 31 August	**–**	10

Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation are considered indications that the trade receivable is impaired.

The carrying amount of the Group's net trade receivables are denominated in the following currencies

	2009 £000's	2008 £000's
Pounds Sterling	**7,462**	12,598
US Dollars	**3,974**	208
Euros	**153**	4,046
	11,589	16,852

16 DERIVATIVE FINANCIAL INSTRUMENTS

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

	2009		2008	
	Assets £000's	Liabilities £000's	Assets £000's	Liabilities £000's
Forward foreign exchange contracts-cash flow hedges	**464**	**–**	301	–
Other forward foreign exchange contracts and options	**–**	**(936)**	1,206	–
	464	**(936)**	1,507	–

The net fair value gain on open forward foreign exchange contracts that hedge foreign currency exchange risk of anticipated future purchases, will be transferred to the income statement when the related purchases are realised as cost of sales.

17 INCOME TAX (PAYABLE)/RECOVERABLE

	2009		2008	
	Assets £000's	**Liabilities £000's**	Assets £000's	Liabilities £000's
UK income tax	**–**	**–**	1,555	–
Overseas income tax	**–**	**(386)**	–	(1,534)
	–	**(386)**	1,555	(1,534)

18 CASH & CASH EQUIVALENTS

	2009 £000's	2008 £000's
Cash and cash equivalents	**11,428**	17,785

Cash and cash equivalents are denominated in the following currencies

Currency	At 31 August 2009 Floating rate financial assets £000's	At 31 August 2008 Floating rate financial assets £000's
Sterling	**6,596**	12,938
US$	**3,658**	3,511
Euro	**2**	433
HKS$	**1,150**	851
Chinese renminbi	**22**	52
Total	**11,428**	17,785

At 31 August 2009, the balances attracted interest at rates of between 0.5% and 2.3 %.

19 SHORT TERM BORROWINGS

	2009 £000's	2008 £000's
Finance Advances	**8,111**	12,462
Import Loans	**2,463**	5,320
Total	**10,574**	17,782

Finance advances are non-refundable advances against approved trade debtors. Import loans are short term trade finance instruments.

The Group has a bank overdraft facility of £1million and a trade finance facility of £9.5million, which expire within one year and is repayable on demand. Certain UK subsidiaries have an ongoing invoice discounting facility totalling £22.5million.
The interest charged on the above facility is 2.5% per annum over 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 £6.2million. The interest charged is between 0.25% per annum and 3.55% per annum over Prime or HIBOR. A subsidiary has a pledged cash deposit with a bank amounting to approximately £0.8million which has been included in cash and cash equivalents.

20 TRADE AND OTHER PAYABLES

	2009 £000's	2008 £000's
Trade creditors	**6,883**	11,555
Other taxation and social security	**1,001**	1,032
Accruals and deferred income	**2,715**	5,041
	10,599	17,628

21 FINANCIAL INSTRUMENTS

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

		31 August 2009			31 August 2008		
Financial Assets Current financial assets	**Note**	**Total £000's**	**Loans and receivables £000's**	**Derivatives used for hedging £000's**	Total £000's	Loans and receivables £000's	Derivatives used for hedging £000's
Trade and other receivables	**15**	**12,128**	**12,128**	**-**	18,066	18,066	-
Derivative financial instruments	**16**	**464**	**-**	**464**	1,507	1,206	301
Cash and cash equivalents	**18**	**11,428**	**11,428**	**-**	17,785	17,785	-
		24,020	**23,556**	**464**	37,358	37,057	301

		31 August 2009			31 August 2008		
Financial liabilities Current financial liabilities	**Note**	**Total £000's**	**Financial Liabilities £000's**	**Derivatives used for hedging £000's**	Total £000's	Financial Liabilities £000's	Derivatives used for hedging £000's
Trade and other payables	**20**	**10,599**	**10,599**	**-**	17,628	17,628	-
Derivative financial instruments	**16**	**936**	**936**	**-**	-	-	-
Short term borrowings	**19**	**10,574**	**10,574**	**-**	17,782	17,782	-
		22,109	**22,109**	**-**	35,410	35,410	-

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, primarily on transactions in US dollars. It enters into forward contracts to hedge the cash flows of its product sourcing operation (i.e. it buys US dollars forward in exchange for Sterling) and usually looks forward 12 months on a rolling basis at forecast purchase volumes. The Group has implemented procedures and documentation to enable certain forward derivative contracts to qualify for hedge accounting. The policy framework requires hedging imported purchases when appropriate.

FOREIGN CURRENCY SENSITIVITY

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

22 FINANCIAL RISK MANAGEMENT CONTINUED

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

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

		2009			2008		
	Note	Total Equity £000's	Profit or (Loss) £000's	Other movements in equity £000's	Total Equity £000's	Profit or (Loss) £000's	Other movements in equity £000's
Euro		**(15)**	**(15)**	**-**	(29)	(29)	-
US$		**(2,362)**	**(2,130)**	**(232)**	(72)	403	(475)
HK$		**902**	**902**	**-**	1,420	1,420	-
		(1,475)	**(1,243)**	**(232)**	1,319	1,794	(475)

INTEREST RATE RISK

The Group has a seasonal cash flow and uses short term borrowings, namely bank overdrafts, finance advances and import loans.

The Group places excess funds on short term bank deposit that attract interest within 0.5% of the ruling market rate.

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

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

CREDIT RISK

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

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

Class of financial assets	2009 £000's	2008 £000's
Trade receivables	**11,589**	16,862
Other receivables	**539**	1,214
Cash	**11,428**	17,785
	23,556	35,861

The Group manages credit risk of debtors through a credit control process and retention of title clauses. Credit limits are agreed and closely monitored. Credit insurance is held on the majority of trade debtors. In addition the Group employs trade finance instruments such as letters of credit and bills of exchange to minimise credit risk further.

The Group places its cash with banks with high quality credit standing.

CONCENTRATION RISK

The Group is subject to significant concentration of credit risk within its business. The table below shows the balance of the five major counterparties within trade receivables as at the balance sheet date:

	2009 £000's	2008 £000's
Counterparty 1	**-**	4,595
Counterparty 2	**2,187**	4,043
Counterparty 3	**1,822**	1,368
Counterparty 4	**1,725**	1,367
Counterparty 5	**1,200**	621
	6,934	11,994

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 positive cash balances and committed debt facilities to cover its liquidity requirements for at least the next 12 months.

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 or issue new shares. The Group holds shares in treasury, which it can release.

24 COMMITMENTS

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

	2009 £000's	2008 £000's
Not later than one year	**521**	213
Later than one year but not more than five years	**29**	968
	550	1,181

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:

	2009 £000's	2008 £000's
Within one year	**1,129**	945
Between one and two years	**1,625**	331
Between two and five years	**40**	-
	2,794	1,276

25 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.

26 CONTINGENT LIABILITIES

The contingent liability for bills of exchange discounted in the normal course of business at 31 August 2009 amounted to £381,000 (2008:£627,000).

27 CALLED UP SHARE CAPITAL (EQUITY)

	2009 £000's	2008 £000's
Authorised		
110,000,000 (2008: 110,000,000) ordinary shares of 5 pence each	**5,500**	**5,500**
Allotted, called up and fully paid		
38,496,937* ordinary shares of 5 pence each (2008: 45,496,937)	**1,925**	**2,273**

* Including 4,019,456 ordinary shares held in treasury (2008: 3,842,379).

Share capital movements in the year

During the year, the Company repurchased for cancellation 7,000,000 ordinary shares of 5 pence each as follows:

Date	Number of shares	Price	% of the issued share capital immediately prior to cancellation (excluding shares held in Treasury)
10 July 2009	7,000,000	30.15 pence	16.88%

During the year, the Company repurchased 177,077 ordinary shares to be held in treasury shares as follows:

Date	Number of shares	Price	% of the issued share capital immediately prior to repurchase (excluding shares held in treasury)
3 September 2008	6,605	60.00p	0.02%
5 September 2008	20,000	60.00p	0.05%
10 September 2008	10,000	60.00p	0.02%
15 September 2008	10,000	60.00p	0.02%
16 September 2008	30,000	60.00p	0.07%
25 September 2008	25,472	50.00p	0.06%
26 September 2008	65,000	50.00p	0.16%
30 September 2008	10,000	50.00p	0.02%

On 31 August 2009, a total of 4,019,456 (2008: 3,842,379) ordinary shares were held in treasury.

27 CALLED UP SHARE CAPITAL (EQUITY) CONTINUED

Share options

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

The Company adopted the rules of its unapproved executive share option scheme (the "1997 Scheme") on 2 June 1997. The directors resolved that no further options would be granted under the 1997 Scheme on or after 22 February 2006 but such resolution has not affected the status of options granted under it prior to that date.

The Company adopted the rules of a qualifying Enterprise Management Incentive share option scheme (the "EMI Scheme") with the sanction of shareholders following an extraordinary general meeting of the Company on 22 January 2003. On 5 February 2003, options over a total of 1,131,250 new ordinary shares were granted to Group employees under the 1995 Scheme at an exercise price of 54 pence per share.

On 6 May 2009, options over a total of 280,002 new ordinary shares of 5 pence each were granted under the EMI Scheme to certain executive directors at an exercise price of 35.5 pence.

The Company adopted the rules of a Share Option Plan (the "2006 Scheme") on 22 February 2006, following approval by H M Revenue and Customs. On 11 May 2006, options over a total of 960,000 new ordinary shares of 5 pence each were granted under the 2006 Scheme to executive directors at an exercise price of 63 pence per share. On 15 May 2006, options over a total of 1,093,250 new ordinary shares of 5 pence each were granted under the 2006 Scheme to Group employees at an exercise price of 63 pence per share. On 18 August 2006, options over a total of 100,000 new ordinary shares of 5 pence each were granted under the 2006 Scheme to a Group employee at an exercise price of 66 pence per share.

On 11 July 2006, unapproved non-scheme options ("Non-Scheme Options") over a total of 165,000 new ordinary shares of 5 pence each were granted to Group employees at an exercise price of 63.25 pence per share.

On 6 May 2008, options over a total of 800,000 new ordinary shares of 5 pence each were granted under the 2006 scheme to executive directors at an exercise price of 115.25 pence per share. Also on 6 May 2008, options over a total of 847,200 new ordinary shares of 5 pence each were granted under the 2006 Scheme to Group employees at an exercise price of 115.25 pence per share.

On 6 May 2009, options over a total of 919,998 new ordinary shares of 5 pence each were granted under the 2006 scheme to executive directors at an exercise price of 35.5 pence per share. Also 6 May 2009, options over a total of 1,069,029 new ordinary shares of 5 pence were granted under the 2006 scheme to group employees at an exercise price of 35.5 pence.

27 CALLED UP SHARE CAPITAL (EQUITY) CONTINUED

At 31 August 2009 rights to options over 4,887,579 ordinary shares of the company were outstanding as follows:

	At 1 September 2008	Granted	Exercised/ lapsed	Cancelled	At 31 August 2009	Exercise Price	Exercise Period
1995 Scheme							
	22,000	–	–	–	22,000	24.25p	15 February 2005 to 14 February 2012
1997 Scheme							
	5,750	–	(5,750)	–	–	24.25p	15 February 2005 to 14 February 2009
	31,750	–	–	–	31,750	54.0p	6 February 2006 to 5 February 2010
EMI Scheme							
	413,500	–	–	–	413,500	54.0p	5 February 2006 to 4 February 2013
	–	93,334	–	–	93,334	35.50p	6 May 2012 to 5 May 2019
	–	93,334	–	–	93,334	35.50p	6 May 2013 to 5 May 2019
	–	93,334	–	–	93,334	35.50p	6 May 2014 to 5 May 2019
2006 Scheme							
	960,000	–	–	–	960,000	63.0p	11 May 2009 to 10 May 2016
	1,033,750	–	(101,000)	–	932,750	63.0p	15 May 2009 to 14 May 2016
	100,000	–	–	–	100,000	66.0p	18 August 2009 to 17 August 2016
	1,639,100	–	(487,100)*[1]	(1,152,000)*[2]	–	115.25p	6 May 2011 to 5 May 2018
	–	663,009	(2,150)	–	660,859	35.50p	6 May 2012 to 5 May 2019
	–	663,009	(2,150)	–	660,859	35.50p	6 May 2013 to 5 May 2019
	–	663,009	(2,150)	–	660,859	35.50p	6 May 2014 to 5 May 2019
Non-Scheme options	165,000	–	–	–	165,000	63.25p	21 December 2007 to 19 December 2014
	4,370,850	2,269,029	(600,300)	(1,152,000)	4,887,579		

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.

*[1]These options were subject to a non-market performance condition which has not been met and consequently have lapsed.
*[2]These options were surrendered on 5 May 2009.

Movements in the weighted average values are as follows:

	2009		2008	
	Number	**Weighted average exercise price**	Number	Weighted average exercise price
Outstanding at 1 September	**4,370,850**	**81.51p**	2,812,500	61.24p
Granted	**2,269,029**	**35.50p**	1,647,200	115.25p
Exercised	**-**	**-**	(44,000)	47.91p
Cancelled	**(1,152,000)**	**115.25p**	-	-
Lapsed	**(600,300)**	**104.73p**	(44,850)	82.27p
Outstanding at 31 August	**4,887,579**	**49.35p**	4,370,850	81.51p

No options were exercised in the year (2008: 44,000). The weighted average share price (at the date of exercise) of options exercised during the year to 31 August 2008 was 177.43p.

28 SHARE-BASED PAYMENT

	12 months ended 31 August 2009 £000's	12 months ended 31 August 2008 £000's
Charge for share based payment	**199**	219

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

Non-Scheme & EMI Scheme Options

Option Scheme Grant Date	Non-Scheme 11 July 2006	EMI Scheme 6 May 2009
Options outstanding 1 September 2008	165,000	–
Granted	–	280,002
Lapsed	–	–
Options outstanding 31 August 2009	165,000	280,002
Contract term year(s)	8.5	10
Expected life of option	6	7
Exercise & share price at grant	63.25p	35.50p
Expected volatility	55% – 65%	65% – 75%
Annual risk free rate	4.69%	3.17%
Annual expected dividend	2% – 3%	0% – 1.60%
Fair value per share under option	32p	25p

2006 Scheme

Grant Date	11 May 2006	15 May 2006	11 July 2006	6 May 2008	6 May 2009
Options outstanding 1 September 2008	960,000	1,033,750	100,000	1,639,100	–
Granted	–	–	–	–	1,989,027
Lapsed/Cancelled	–	(101,000)	–	(1,639,100)	(6,450)
Options outstanding 31 August 2009	960,000	932,750	100,000	–	1,982,577
Contract term year(s)	10	10	10	10	10
Expected life of option	6	6	6	6	7
Exercise & share price at grant	63.0p	63.0p	66.0p	115.25p	35.50p
Expected volatility	55% – 65%	55% – 65%	55% – 65%	55% – 65%	65% – 75%
Annual risk free rate	4.425%	4.425%	4.74%	4.64%	3.17%
Annual expected dividend	2% – 3%	2% – 3%	2% – 3%	2% – 3%	0% – 1.60%
Fair value per share under option	32p	32p	32p	55p	25p

28 SHARE-BASED PAYMENT CONTINUED

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

The share options, when exercised, shall have the same dividend and voting rights as the ordinary issued share capital.

29 THE CHARACTER GROUP plc EMPLOYEE SHARE OWNERSHIP TRUST

The Company's Employee Share Ownership Trust ("the Trust") is governed by a Trust Deed dated 19 June 1998. The Trustees may grant options over such shares in the Company acquired by them or otherwise provide benefits to the beneficiaries, as defined in the Trust Deed. The Trust is required to meet its own costs out of the trust fund but if such fund is insufficient such costs will be borne by the Company. At 31 August 2009, the Trust held 285,000 ordinary shares (2008: 285,000), which had a market value of £148,200 (2008: £178,125), upon which it has waived its right to dividend income thereon. The cost of these shares was £908,000. At 31 August 2009, no options had been granted by the Trust.

DIRECTORS STATEMENT OF RESPONSIBILITES IN RELATION TO THE PARENT COMPANY FINANCIAL STATEMENTS

Statement of directors' responsibilities

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements the directors are required to:

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

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

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

The directors confirm that they have complied with the above requirements in preparing the financial statements.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF THE CHARACTER GROUP plc

We have audited the parent company financial statements of The Character Group plc for the year ended 31 August 2009 which comprise the Company Balance Sheet and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the Company's members, as a body, in accordance with sections 495 to 496 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As explained more fully in the Statement of Directors' responsibilities in respect of the parent company, financial statements set out on page 51, the Directors are responsible for the preparation of the parent company financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the parent company financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the parent company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements.

Opinion of financial statements

In our opinion the parent company financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 August 2009;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

- the information given in the Directors' Report for the financial year for which the parent company financial statements are prepared is consistent with the parent company financial statements.

INDEPENDENT AUDITORS' REPORT
TO THE MEMBERS OF THE CHARACTER GROUP plc CONTINUED

Matters on which we are required to report by exception

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

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

Other matter

We have reported separately on pages 20 and 21 on the consolidated financial statements of The Character Group plc for the year ended 31 August 2009.

Mark Dowding
Senior statutory auditor
For and on behalf of HLB Vantis Audit plc
Statutory Auditor
66 Wigmore Street
London
W1U 2SB
21 December 2009

COMPANY BALANCE SHEET

for the year ended 31 August 2009

	Note	2009 £000's	2008 £000's
Fixed assets			
Tangible assets	2	**714**	752
Investments	3	**1,805**	1,686
		2,519	2,438
Current assets			
Debtors	4	**11,600**	11,300
Cash at bank and in hand		**3,295**	2,895
		14,895	14,195
Creditors: amounts falling due within one year	5	**(349)**	(358)
Net current assets		**14,546**	13,837
Total assets less current liabilities		**17,065**	16,275
Net Assets		**17,065**	16,275
Capital and reserves			
Called up share capital	7,8	**1,925**	2,275
Shares held in treasury	8	**(3,373)**	(3,277)
Investment in own shares	9	**(908)**	(908)
Capital redemption reserve	8	**798**	448
Share premium account	8	**12,587**	12,587
Share based payment reserve	8	**733**	534
Profit and loss account	8	**5,303**	4,616
Shareholders' funds		**17,065**	16,275

The financial statements on pages 54 to 62 were approved by the Board of directors on 30 November 2009.

R King
Director

K P Shah
Director

NOTES TO THE COMPANY FINANCIAL STATEMENTS

1 PRINCIPAL ACCOUNTING POLICIES

Basis of preparation

The separate financial statements of the Company are presented as required by the Company Act 2006. As permitted by that Act, the separate financial statements have been prepared in accordance with UK GAAP.

The financial statements have been prepared under the historical cost convention and in accordance with all applicable United Kingdom accounting standards.

No profit and loss account is presented by the Company as permitted by Section 408 Companies 2006.

As permitted by Financial Reporting Standard (FRS) No.1 (Revised), "Cash flow statement", the Company has not included a Cash flow statement as the Company's results have been included within the Group's consolidated financial statements.

As permitted by FRS8 no related party disclosures for the Company have been included.

The Company has taken advantage of the exemption in FRS 29 Financial Instruments Disclosures and has not disclosed information required by that Standard as the Group's consolidated financial statements provide equivalent disclosures for the Group under IFRS 7.

Investments

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

TANGIBLE FIXED ASSETS

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

Freehold buildings	4%
Fixtures, fittings and equipment	20-33%

FRS 20: Share-based payment

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

The Company adopted UITF 44 in 2008. When the parent entity grants options over equity instruments directly to the employees of a subsidiary undertaking, then in the parent company financial statements the effect of the share based payment, as calculated in accordance with FRS 20, is capitalised as part of the investment in the subsidiary as a capital contribution, with a corresponding increase in equity.

Leases

Rentals paid under operating leases are charged to income as incurred.

Deferred taxation

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. Timing differences are differences between the Company's taxable profits and its results as stated in the financial statements that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the financial statements.

Deferred tax assets in excess of liabilities are recognised to the extent that, in the directors' opinion, it is more likely than not that suitable taxable profits will arise from which the underlying timing differences can be deducted.

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantially enacted by the balance sheet date. Deferred tax is measured on a non-discounted basis.

Taxation

Current tax is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantially enacted at the balance sheet date.

Pension contributions

The company operates defined contribution pension schemes. Contributions are allocated to the profit and loss account when due.

The Company had 6 employees in 2008 and 2009. Details of the remuneration of the directors are included within the directors' remuneration report on pages 16 to 18.

2 TANGIBLE FIXED ASSETS

Cost	Freehold land and buildings £000's	Fixtures, fittings and equipment £000's	Total £000's
1 September 2008	1,182	135	1,317
Additions	–	5	5
31 August 2009	**1,182**	**140**	**1,322**
Depreciation			
1 September 2008	431	134	565
Charge for the year	40	3	43
31 August 2009	**471**	**137**	**608**
Net book value			
31 August 2009	**711**	**3**	**714**
31 August 2008	751	1	752

3 FIXED ASSET INVESTMENTS

The Company

Cost	Shares in subsidiary undertakings £000's	Capital contribution £000's	Total £000's
1 September 2008	3,195	387	3,582
Share based payment	–	119	119
At 31 August 2009	**3,195**	**506**	**3,701**
Amortisation and provisions			
1 September 2008	1,896	–	1,896
Charge for the year	–	–	–
At 31 August 2009	1,896	–	1,896
Net book value			
31 August 2009	**1,299**	**506**	**1,805**
31 August 2008	1,299	387	1,686

At 31 August 2009, 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

4 DEBTORS

	2009 £000's	2008 £000's
Due from subsidiary undertakings	**11,365**	10,940
Other debtors	**24**	139
Prepayments and accrued income	**209**	219
Other taxation and social security	**2**	2
	11,600	11,300

5 CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2009 £000's	2008 £000's
Due to subsidiary undertakings	**35**	24
Other taxation and social security	**68**	103
Accruals and deferred income	**246**	231
	349	358

NOTES TO THE COMPANY FINANCIAL STATEMENTS
CONTINUED

6 CONTINGENT LIABILITIES

The Company has guaranteed the obligations of certain subsidiary companies to their finance companies, certain banks and others in the normal course of business. The finance company has a fixed and floating charge over the assets of the Company and some subsidiaries. The Company is a member of a group registration for Value Added Tax purposes.

7 CALLED UP SHARE CAPITAL (EQUITY)

	2009 £000's	2008 £000's
Authorised		
110,000,000 (2008: 110,000,000) ordinary shares of 5 pence each	**5,500**	5,500
Allotted, called up and fully paid		
38,496,937* (2008: 45,496,937) ordinary shares of 5 pence each	**1,925**	2,275

* Including 4,019,456 ordinary shares held in treasury (2008: 3,842,379).

Share capital movements in the year

During the year, the Company repurchased for cancellation 7,000,000 ordinary shares of 5 pence each as follows:

Date	**Number of shares**	**Price**	**% of the issued share capital immediately prior to cancellation (excluding shares held in Treasury)**
10 July 2009	7,000,000	30.15 pence	16.88%

During the year, the Company repurchased 177,077 ordinary shares to be held as Treasury shares as follows:

Date	**Number of shares**	**Price**	**% of the issued share capital immediately prior to repurchase (excluding shares held in Treasury)**
3 September 2008	6,605	60.00p	0.02%
5 September 2008	20,000	60.00p	0.05%
10 September 2008	10,000	60.00p	0.02%
15 September 2008	10,000	60.00p	0.02%
16 September 2008	30,000	60.00p	0.07%
25 September 2008	25,472	50.00p	0.06%
26 September 2008	65,000	50.00p	0.16%
30 September 2008	10,000	50.00p	0.02%

On 31 August 2009, a total of 4,019,456 (2008: 3,842,379) ordinary shares were held in treasury.

NOTES TO THE COMPANY FINANCIAL STATEMENTS
CONTINUED

Share options

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

The Company adopted the rules of its unapproved executive share option scheme (the "1997 Scheme") on 2 June 1997. The directors resolved that no further options would be granted under the 1997 Scheme on or after 22 February 2006 but such resolution has not affected the status of options granted under it prior to that date.

The Company adopted the rules of a qualifying Enterprise Management Incentive share option scheme (the "EMI Scheme") with the sanction of shareholders following an extraordinary general meeting of the Company on 22 January 2003. On 5 February 2003, options over a total of 1,131,250 new ordinary shares were granted to Group employees under the 1995 Scheme at an exercise price of 54 pence per share.

On 6 May 2009, options over a total of 280,002 new ordinary shares of 5 pence each were granted under the EMI Scheme to certain executive directors at an exercise price of 35.5 pence.

The Company adopted the rules of a Share Option Plan (the "2006 Scheme") on 22 February 2006, following approval by H.M Revenue and Customs. On 11 May 2006, options over a total of 960,000 new ordinary shares of 5 pence each were granted under the 2006 Scheme to executive directors at an exercise price of 63 pence per share. On 15 May 2006, options over a total of 1,093,250 new ordinary shares of 5 pence each were granted under the 2006 Scheme to Group employees at an exercise price of 63 pence per share. On 18 August 2006, options over a total of 100,000 new ordinary shares of 5 pence each were granted under the 2006 Scheme to a Group employee at an exercise price of 66 pence per share.

On 11 July 2006, unapproved non-scheme options ("Non-Scheme Options") over a total of 165,000 new Ordinary Shares of 5 pence each were granted to Group employees at an exercise price of 63.25 pence per share.

On 6 May 2008, options over a total of 800,000 new ordinary shares of 5 pence each were granted under the 2006 scheme to executive directors at an exercise price of 115.25 pence per share. Also on 6 May 2008, options over a total of 847,200 new ordinary shares of 5 pence each were granted under the 2006 Scheme to Group employees at an exercise price of 115.25 pence per share.

On 6 May 2009, options over a total of 919,998 new ordinary shares of 5 pence each were granted under the 2006 scheme to executive directors at an exercise price of 35.5 pence per share. Also 6 May 2009, options over a total of 1,069,029 new ordinary shares of 5 pence were granted under the 2006 scheme to group employees at an exercise price of 35.5 pence.

At 31 August 2009 rights to options over 4,887,579 ordinary shares of the company were outstanding as follows:

	At 1 September 2008	Granted	Exercised/ lapsed	Cancelled	At 31 August 2009	Exercise Price	Exercise Period
1995 Scheme							
	22,000	–	–	–	22,000	24.25p	15 February 2005 to 14 February 2012
1997 Scheme							
	5,750	–	(5,750)	–	–	24.25p	15 February 2005 to 14 February 2009
	31,750	–	–	–	31,750	54.0p	6 February 2006 to 5 February 2010
EMI Scheme							
	413,500	–	–	–	413,500	54.0p	5 February 2006 to 4 February 2013
	–	93,334	–	–	93,334	35.50p	6 May 2012 to 5 May 2019
	–	93,334	–	–	93,334	35.50p	6 May 2013 to 5 May 2019
	–	93,334	–	–	93,334	35.50p	6 May 2014 to 5 May 2019
2006 Scheme							
	960,000	–	–	–	960,000	63.0p	11 May 2009 to 10 May 2016
	1,033,750	–	(101,000)	–	932,750	63.0p	15 May 2009 to 14 May 2016
	100,000	–	–	–	100,000	66.0p	18 August 2009 to 17 August 2016
	1,639,100	–	(487,100)*[1]	(1,152,000)*[2]	–	115.25p	6 May 2011 to 5 May 2018
	–	663,009	(2,150)	–	660,859	35.50p	6 May 2012 to 5 May 2019
	–	663,009	(2,150)	–	660,859	35.50p	6 May 2013 to 5 May 2019
	–	663,009	(2,150)	–	660,859	35.50p	6 May 2014 to 5 May 2019
Non-Scheme options	165,000	–	–	–	165,000	63.25p	21 December 2007 to 19 December 2014
	4,370,850	2,269,029	(600,300)	(1,152,000)	4,887,579		

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.

*[1]These options were subject to a non-market performance condition which has not been met and consequently have lapsed.
*[2]These options were surrendered on 5 May 2009.

Movements in the weighted average values are as follows:

	2009		2008	
	Number	**Weighted average exercise price**	Number	Weighted average exercise price
Outstanding at 1 September	**4,370,850**	**81.51p**	2,812,500	61.24p
Granted	**2,269,029**	**35.50p**	1,647,200	115.25p
Exercised	**-**	**-**	(44,000)	47.91p
Cancelled	**(1,152,000)**	**115.25p**	-	-
Lapsed	**(600,300)**	**104.73p**	(44,850)	82.27p
Outstanding at 31 August	**4,887,579**	**49.35p**	4,370,850	81.51p

No options were exercised in the year (2008: 44,000). The weighted average share price (at the date of exercise) of options exercised during the year to 31 August 2008 was 177.43p.

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

Non-Scheme & EMI Scheme Options

Option Scheme Grant Date	Non-Scheme 11 July 2006	EMI Scheme 6 May 2009
Options outstanding 1 September 2008	165,000	–
Granted	–	280,002
Lapsed	–	–
Options outstanding 31 August 2009	165,000	280,002
Contract term year(s)	8.5	10
Expected life of option	6	7
Exercise & share price at grant	63.25p	35.50p
Expected volatility	55% – 65%	65% – 75%
Annual risk free rate	4.69%	3.17%
Annual expected dividend	2% – 3%	0% – 1.60%
Fair value per share under option	32p	25p

2006 Scheme

Grant Date	11 May 2006	15 May 2006	11 July 2006	6 May 2008	6 May 2009
Options outstanding 1 September 2008	960,000	1,033,750	100,000	1,639,100	–
Granted	–	–	–	–	1,989,027
Lapsed/Cancelled	–	(101,000)	–	(1,639,100)	(6,450)
Options outstanding 31 August 2009	960,000	932,750	100,000	–	1,982,577
Contract term year(s)	10	10	10	10	10
Expected life of option	6	6	6	6	7
Exercise & share price at grant	63.0p	63.0p	66.0p	115.25p	35.50p
Expected volatility	55% – 65%	55% – 65%	55% – 65%	55% – 65%	65% – 75%
Annual risk free rate	4.425%	4.425%	4.74%	4.64%	3.17%
Annual expected dividend	2% – 3%	2% – 3%	2% – 3%	2% – 3%	0% – 1.60%
Fair value per share under option	32p	32p	32p	55p	25p

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

The share options, when exercised, shall have the same dividend and voting rights as the ordinary issued share capital.

8 SHARE CAPITAL AND RESERVES – SHAREHOLDERS' FUNDS

	Called up share capital £000's	Treasury Shares	Capital redemption reserve £000's	Share premium account £000's	Share Based Payment £000's	Profit and loss account £000's
1 September 2008	2,275	(3,277)	448	12,587	534	4,616
Share-based payment - Company	–	–	–	–	80	–
Share-based payment – subsidiary undertaking	–	–	–	–	119	–
Profit after tax	–	–	–	–	–	2,820
Shares cancelled	(350)	–	350	–	–	(2,132)
Shares purchased	–	(96)	–	–	–	(1)
31 August 2009	**1,925**	**(3,373)**	**798**	**12,587**	**733**	**5,303**

9 THE CHARACTER GROUP plc EMPLOYEE SHARE OWNERSHIP TRUST

The Company's Employee Share Ownership Trust ("the Trust") is governed by a Trust Deed dated 19 June 1998. The Trustees may grant options over such shares in the Company acquired by them or otherwise provide benefits to the beneficiaries, as defined in the Trust Deed. The Trust is required to meet its own costs out of the trust fund but if such fund is insufficient such costs will be borne by the Company. At 31 August 2009, the Trust held 285,000 ordinary shares (2008: 285,000), which had a market value of £148,200 (2008: £178,125), upon which it has waived its right to dividend income thereon. The cost of these shares was £908,000. At 31 August 2008, no options had been granted by the Trust.

10 AUDITORS REMUNERATION

	2009 £000's	2008 £000's
Audit of the financial statements	**11**	10

Fees paid to HLB Vantis Audit plc for non-audit services to the Company itself are not disclosed in the individual financial statements of The Character Group plc as group financial statements are prepared which are required to disclose such fees on a consolidated basis.

NOTICE OF ANNUAL GENERAL MEETING

THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION.

If you are in any doubt as to what action you should take, you are recommended to seek your own financial advice from your stockbroker or other independent adviser authorised under the Financial Services and Markets Act 2000. If you have sold or transferred all of your shares in The Character Group plc, please forward this document, together with the accompanying documents, as soon as possible either to the purchaser or transferee or to the person who arranged the sale or transfer so they can pass these documents to the person who now holds the shares.

NOTICE IS HEREBY GIVEN THAT the fifteenth Annual General Meeting of The Character Group plc will be held at the offices of Duane Morris, 2nd Floor, 10 Chiswell Street, London EC1Y 4UQ on Wednesday 20 January 2010 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 2009 and the report of the auditors thereon.
2 To declare a final dividend on the ordinary shares in the capital of the company (other than ordinary shares held by the company in treasury) for the year ended 31 August 2009 of 1pence per share.
3 To consider an ordinary resolution of the company that Lord Birdwood, who retires in accordance with the terms of his letter of appointment, be and is hereby re-elected as a director of the company.
4 To consider an ordinary resolution of the company that Mr. I.S. Fenn, 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. 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.
6 To consider an ordinary resolution of the company that Mr. A.B. MacKay, who retires in accordance with the terms of his letter of appointment, be and is hereby re-elected as a director of the company.
7 To reappoint HLB Vantis Audit plc as auditors of the company and to authorise the directors to fix their remuneration.

SPECIAL BUSINESS

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

Ordinary Resolution

8 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 £574,050, 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 relevant securities (whether under section 80 of the Companies Act 1985 or section 551 of the Act) to the extent that the same have not previously been utilised.

Ordinary Resolution

9 Subject to and conditional upon the passing of resolution 8, that the directors be and are hereby authorised for the purposes of Article 191 of the Articles of Association of the company, to offer to members of the company, in accordance with the provisions of the said Article, the right to elect to receive ordinary shares, credited as fully paid, in whole or in part instead of cash in respect of all or any dividends declared or paid by the company or the directors pursuant to the Articles of Association of the company at any time after the date of the passing of this resolution and the conclusion of the Annual General Meeting of the company next following the date upon which this resolution was passed and that the directors be and are hereby authorised to make any such offer on such terms and conditions to such members of the company, subject always to the provisions of the Articles of Association of the company, as they shall in their absolute discretion determine.

Ordinary Resolution

10 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 5p each in the capital of the company hereby authorised to be acquired is 8,619,000;

(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.

Special Resolution

11 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 to:

(i) 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 £172,385;

(iii) the sale of (otherwise than pursuant to paragraph (i) above) of equity securities held as treasury shares up to an aggregate nominal value of £200,972.80 (equivalent to 4,019,456 ordinary shares of 5p each in the company);

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

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

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

By order of the Board,

K.P. Shah Secretary 22 December 2009	Registered Office: 2nd 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 Annual General Meeting and on that day will be available for inspection at the place of the meeting from 10:30 a.m. until the conclusion of the meeting.
2. A member entitled to attend and vote at the Annual General Meeting convened by the Notice above is entitled to appoint a proxy or proxies to attend, speak and vote in his/her place. A member may only appoint more than one proxy if each proxy is appointed to exercise the voting rights attached to different shares. A member may not appoint more than one proxy to exercise rights attached to the same shares.
3. To be valid, forms of proxy must be lodged with Neville Registrars Limited, 18 Laurel Lane, Halesowen, West Midlands 63 3DA not less than 48 hours before the time appointed for holding the Annual General Meeting. A form of proxy is enclosed. If you do not have a proxy form and believe that you should have one, or if you require additional forms, please contact the Company Secretary.
4. Completion of a form of proxy or any CREST Proxy Instruction (as described in paragraph 8 below) will not prevent a member from attending and voting at the Annual General Meeting should he or she so wish.
5. For the purposes of Regulation 41 of the Uncertificated Securities Regulations 2001, the members entitled to attend, speak and/or vote at the Annual General Meeting shall be those entered on the company's register of members at 11:00 a.m. on 18 January 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 22 December 2009 (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 34,477,481 ordinary shares, carrying one vote each. Therefore, the total voting rights in the Company as at 22 December 2009 was 34,477,481.
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 18 January 2010. For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp applied to the message by the CREST Application Host) from which the issuer's agent is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. After this time any change of instructions to proxies appointed through CREST should be communicated to the appointee through other means.
9. CREST members and, where applicable, their CREST sponsors, or voting service providers should note that Euroclear UK & Ireland Limited does not make available special procedures in CREST for any particular message. Normal system timings and limitations will, therefore, apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member, or sponsored member, or has appointed a voting service provider, to procure that his CREST sponsor or voting service provider(s) take(s)) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members and, where applicable, their CREST sponsors or voting system providers are referred, in particular, to those sections of the CREST Manual concerning practical limitations of the CREST system and timings.
10. The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5) (a) of the Uncertificated Securities Regulations 2001.

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