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DIRECTORS AND ADVISERS

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

Secretary
K P Shah FCCA

Company registration number
3033333

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5th Floor
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London EC1Y 4UP

Solicitors
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4 Chiswell Street
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Auditors
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Registered Auditors & Chartered Accountants
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Chelmsford
Essex CM1 1LN

Stockbrokers
Collins Stewart Limited
9th Floor
88 Wood Street
London EC2V 7QR

Bankers
National Westminster Bank plc
Standard Chartered Bank plc
The Hongkong and Shanghai Banking Corporation Limited
Banca Nazionale del Lavoro S.p.A.

Registrars
Neville Registrars Limited
Neville House
18 Laurel Lane
Halesowen
West Midlands B63 3DA

THE CHARACTER GROUP PLC

TOYS, GAMES & GIFTS DIVISION

Character Options Limited
Toy Options (Far East) Limited
Character Games Limited
Character Games (Far East) Limited
Character Gifts Limited

DIGITAL PRODUCTS DIVISION

World Wide Licenses Limited
WWL (Europe) Limited

www.thecharacter.com

Introduction

It comes as no surprise to any of us that the markets within which the Group is operating have been, and continue to be, very competitive, with retailing in the UK, the main market for our Toys, Games and Gifts products, being hit especially hard.

We started the 2005 financial year faced with this poor trading environment, certain operating problems to be overcome and, with a few exceptions, a lacklustre product range.

I reported in my interim statement a disappointing loss of £1.9 million for the first half but stated that we expected the second half would witness an improvement and that this trend would continue into the new financial year ending 31 August 2006.

I am therefore pleased to report that the second half did indeed show a solid improvement. We managed to more than reverse the first half loss and remain on stream for the trading performance to continue along this trend. Not only did trading significantly improve over the first half but, even more significantly, our second half performance improved substantially against the 2004 comparable period, with pre-exceptional profit in 2005 of £2.7 million and £2.1 million post-exceptional (2004 pre-exceptional profit of £717,000, and £1.2 million post-exceptional).

These financial results clearly demonstrate that, despite difficult market conditions, the Group has produced a positive turnaround.

Financial Results

Sales in the year ended 31 August 2005 were £98.8 million, 29.9% higher than in the previous year (2004: £76.0 million).

First half sales were £43.4 million compared to £40.9 million for the same period in 2004, with second half sales £55.4 million, 57.7% higher than the same period in 2004 (£35.1 million).

In the first half, the Group produced an operating loss of £1.5 million against a £2.2 million operating profit in 2004. Following the strong second half performance, the Group produced a pre-exceptional operating profit of £3.0 million for the second half compared to £994,000 in 2004.

As you will recall, the 2004 results were enhanced by the inclusion of an exceptional item resulting in a credit to the profit and loss account of some £492,000 before tax in respect of the settlement of our dispute with a former distributor. The 2005 results have also been affected by an exceptional item, resulting in a charge to the profit and loss account of some £643,000 before tax, which arises from the costs associated with the integration of our gifts business into the enlarged Toys, Games and Gifts Division.

Profit before tax for the year was £161,000 (2004: £3.2 million).

The first half basic loss per share amounted to 3.8 pence against earnings per share of 4.22 pence for the first half in 2004. The recovery in the second half produced earnings

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per share of 3.41 pence for the second half (2004: 3.26 pence), giving an overall loss per share of 0.39p.

On-going administration expenses were 13% of sales (2004: 14.6%).

Stocks at the end of the first half stood at £8.9 million and by the end of the financial year they totalled £9.8 million (2004: £12.2 million).The increase over the first half reflects the higher stock levels required to service the increased level of sales in the current year. The decrease in stock at the year-end when compared to 2004 was achieved through both higher sales in August as well as improved efficiencies due to the restructuring of the Toys, Games and Gifts Division during the year under review.

Cash at bank, as at 31 August 2005, stood at £3.7 million, compared to £3.9 million at the interim stage and £4.2 million at 31 August 2004.

At 28 February 2005, the Group had unused bank and trade finance facilities totalling £11.0 million. By the year-end, unused bank and trade finance facilities were £4.1 million, again a reflection of the higher level of trading and seasonality.

On our normal business, excluding exceptional items, our gross margin was 24% (2004: 30.8%). This lower gross margin is mainly due to the higher percentage of Group sales of Digital Products, which are at a lower margin than the Toys, Games and Gifts products.

Net assets at the end of the period were £10.5 million against £11.8 million in 2004. The decrease in net assets resulted from an overseas tax charge as well as the payment of the dividends.

Dividend

The Directors are proposing a final dividend of 0.9 pence per share. This, together with the interim dividend of 1.1 pence already paid, makes the total dividend for the year of 2.0 pence, an increase of 11.1% on the previous year.

The final dividend, which is subject to shareholder approval at the EGM on 29 November 2005, will be paid on 27 January 2006 to shareholders on the Register as at 6 January 2006. The shares go ex-dividend on 4 January 2006.

Business Overview

Toys, Games and Gifts

During the financial year, we have accomplished our strategic plans of integrating firstly, Games and then Gifts within this Division, with the former being completed in the first half and the latter in the second half.

Although we have received a limited benefit from these changes in the latter part of the financial year being reported upon, we expect that there will be a more positive impact during the new financial year in terms of both efficiencies and costs.

We stated in our interim report, that the outlook for the remainder of the year and for the new financial year remained encouraging.
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I am pleased to be able to report that during the second half of the financial year, we introduced a number of new products which were very well received by both the trade and the consumer. As these new products did not come on stream until late in the financial year, they have had a limited effect on the results being reported. However, we expect our sales to increase significantly in the period leading up to Christmas and for the current financial year as a whole.

The results for the first two months of this new financial year, together with the management team's expectations for the financial year as a whole, are very encouraging, especially when they are measured against the retail market environment in both the UK and international markets.

We have improved our offering throughout the Division over the past year and, as previously, indicated, the benefits started to come through in the second half of the financial year. We have witnessed a positive sales improvement since the year-end, which is above our internal budgets and leaves us optimistic for the prospects for the current financial year as a whole.

For the first time, we have enclosed with this report a DVD which shows some of the television commercials that we are airing in the run up to Christmas and which the Directors hope shareholders will find informative.

Within this business, we are very fortunate to have a great line up of products which includes:

- our range of ***Robosapien, Roboraptor, Robopet***
- ***Dr Who*** for both the toy and gift markets
- ***Little Britain*** gift line
- ***Scooby Doo*** range
- ***Gr8 Gear*** range for Girls
- ***Cinderella*** range of dolls and accessories
- a new game ***Boney Head*** to add to our already successful line-up of games, which includes our new electronic ***Sudoku*** (endorsed by Carol Vorderman) and ***Peppa Pig***, our successful pre-school range
- ***Witch*** – a new girls range produced under Disney License

We are also pleased to have several new items for launch in 2006 including ***Trolls***, which are destined for the gift trade and which were very successful when last marketed, together with toys from ***Biker Mice from Mars,*** which are to be featured in a new TV series next year, and ***Superman***, which is to be based on a new feature film due for release in 2006.

It is interesting to note that ***Roboraptor*** is the first second generation remote controlled robot from the same family as last year's Toy of the Year, ***Robosapien***, which sold in excess of 1 million units worldwide. Invented by ex-NASA scientist, Dr Mark Tilden, the 32-inch robotic raptor beast has already won Toy of the Year in Australia and Norway and was voted top toy in the 8-10 year-old category by the Duracell European Toy Survey.

At Dream Toy 2005, The Toy Retailers Association ("TRA") included Character's ***Roboraptor*** in its 'Hot Dozen' for Christmas 2005 listing.

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This follows on from Dream Toy 2004 where ***Robosapien*** first came to prominence and went on to become "2004 Toy of the Year". Also within the individual category listings at Dream Toy 2005, Character's ranges tipped for success for Christmas 2005 were:

- Pre-School – **Peppa Pig Playhouse**
- Boys – **Stretch Homer**
- Big Kidz – **Dr Who's Dalek**
- Games – **Electronic Sudoku**

It is also very gratifying to report that approximately 50% of our Toys, Games and Gifts product line up is made up of products that we have designed and developed in-house. This alone has opened up further opportunities for international sales, which have grown by over 250% in the period under review.

Through this stronger and improved product offering, we anticipate that we will incur a lower percentage of credits and marketing spend in the current new financial year, with stock write-downs also expected to remain within the levels budgeted.

The Directors believe that the strategic changes made over the past year and the improved quality of products will greatly benefit the Group's performance in both this and the following financial years.

Digital Division

World Wide Licenses ("WWL")

Despite the fact that this Division faces an extremely competitive environment, with downward pressure on pricing being an every day event and with strong competition from some leading retail brands, I am delighted to report that, following the major problem experienced last year with our previous US distributor, WWL has significantly grown its sales and profits during the year. In August, the last month of the financial year, WWL shipped over US$20 million of cameras, a record level of monthly sales for WWL.

We have continued to increase our capacity to design, develop, manufacture and supply ever increasingly complex products.

At the interim stage of the year, I informed shareholders that the Polaroid® brand had been purchased by the Petters Group and that the Group would be negotiating with Petters on how best to develop the business. Following discussions, we have jointly decided that the original distribution and licence model was not appropriate for the future and, accordingly, the original licensing agreements will not be renewed. In their place, we have entered into a supply arrangement whereby WWL has first rights of supply and, although the basic commercial terms have been agreed and currently form the basis of our dealings with Petters in North America, the final form of the legal agreement is currently in the final stages of negotiation. We will update shareholders on this status in due course.

We are also working very closely with Petters in designing the new Polaroid® product line-up and have no reason to believe that our sales to Petters will not continue to increase. In essence, we see no changes in our prospects other than the fact that we shall not be acting as a distributor of the Polaroid® digital camera products in the UK, which will have limited effect on the Group's overall profitability.

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Sales and orders for WWL for the period to Christmas are above our original internal budgets. The Digital Division has reached critical mass and the Directors will, through exploiting WWL's technical base which has been developed over the past years, now be able to look at further opportunities for growth.

Strategic Review

The Directors are mindful that the Board has a duty to improve shareholder value and to prepare the Group for long term growth. Accordingly, the Board has undertaken a strategic review of the business and has agreed a strategy to accomplish the goals that it has set.

• Transfer to AIM

At the time of the Group's interim results statement issued in April, the Company highlighted its intention to seek a cancellation of its listing and an admission to trading of its shares on AIM as it provides, in the Board's view, a more flexible environment in which to achieve the Group's objectives and to reduce costs and formalities relating to maintaining a market in its shares and undertaking future transactions.

The process of transferring from the Official List to AIM has commenced and details will be included in a Circular to be posted to shareholders together with the Annual Report on 4 November 2005. Subject to shareholder approval at a second Extraordinary General Meeting to be held on 29 November, we expect trading in the Group's shares on AIM to commence on 2 December 2005.

• Possible de-merger of WWL

The Board is, as already announced, considering the possible de-merger of the Digital Division, a distribution of the shares in WWL (or the shares of a company formed for the purpose of the de-merger) to shareholders and simultaneously seeking admission of those shares to trading on AIM in their own right. Whilst there are no immediate plans to make this move, the Board believes that this could better promote shareholder value. Shareholders will be updated with news of any developments in this regard as soon as practicable and appropriate.

• Executive Changes

We also announced in April that we had begun the process of recruiting a new Chief Executive Officer and a Group Finance Director. Having taken into account the progress being made in the trading position of the Group and the need to manage each of the Group's businesses, the Board decided that whilst these proposed changes to the Group structure are being completed, it would be in the interests of both the business and its shareholders that Kiran Shah and I should be appointed interim joint managing directors to oversee the changes.

Mr Enrico Preziosi resigned from the Board and from his Executive position as Managing Director and CEO in September 2005. The Directors would like to put on record their gratitude to him for his service to the Company since assuming his Board position in August 2000 and thank him for his considerable contribution to the Group. Enrico Preziosi played a pivotal role in developing the

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close working relationship between Giochi Preziosi S.p.A. ("Giochi Preziosi") and the Group, which will manifest itself in a substantially increased level of inter-company business in this new financial year.

Giochi Preziosi remains a 22.5% shareholder in the Character Group.

Management, People and Development Training

The year under review has seen many changes within the Group and the Directors would like to acknowledge and thank all the Group's employees for their hard work and determination to return the Group to profitability. At the year-end, the Group employed 231 people.

Looking Forward

I am pleased to report that the new financial year has started with both our Divisions trading above our internal forecasts and with a higher level of sales and orders than at the corresponding point last year.

Our focus continues to be to improve our operational efficiencies and further develop our product portfolio.

Within our **Toys, Games and Gifts Division**, we have achieved a very strong improvement in our ability to develop our own good quality and saleable product lines, both under our own brands as well as under licences.

Our enhanced ability to design and develop a more advanced product base within our **Digital Division** should present opportunities for further expansion in both product and customer base.

By the end of 2005 calendar year, over 50% of our products within the Toys, Games and Gifts Division and over 90% of our digital products will have been developed in-house. This in-house expertise in developing licensed properties and also bringing new products to market quickly is becoming generally recognised in the Group's markets. It is also proving to be a major benefit to the Group in attracting and winning both strong new licences and finished products for distribution.

As a Board, we believe that by refocusing the efforts of the Executive team, the Group can leverage its market position and ultimately this will be reflected in our commercial performance and improved shareholder value.

Richard King
Chairman

DIRECTORS' BIOGRAPHIES

Richard King (aged 60), Executive Chairman and Joint Managing Director, 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 of each division to develop and implement Group strategies.

Kiran Shah (aged 51), 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.

Joe Kissane (aged 53), Managing Director of Character Options Limited, has considerable sales expertise in and outside the toy industry, gained over a period of 30 years, notably with such companies as Nabisco, Lego and Tonka. He is one of the founders of the Group.

Jon Diver (aged 41), Group Marketing 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 the development and implementation of the Group's marketing strategy.

Ian Fenn (aged 62), 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 ARM Corporate Finance Limited which is authorised and regulated by the Financial Services Authority.

Lord Birdwood (aged 67), 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.

Aldo Horvat (aged 63), Non-Executive Director, was appointed to the Board in November 2002. He is a consultant to Giochi Preziosi S.p.A. and has considerable experience in the toy industry gained over more than 30 years.

David Harris (aged 56), Independent Non-Executive Director, was appointed to the board in May 2004. He has considerable 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, Zero Dividend Recovery Fund Limited and Osprey Small Companies Income Fund Limited, all of which are quoted companies.

REPORT OF THE DIRECTORS

The directors present their report together with the accounts for the year ended 31 August 2005.

Directors

The following are the directors that served during the year:

Richard King (Executive Chairman and Joint Managing Director)
Enrico Preziosi (Chief Executive Officer and Managing Director) (resigned 28 September 2005)
Kirankumar Premchand Shah FCCA (Group Finance Director and Joint Managing Director)
Joseph John Patrick Kissane (Managing Director, Character Options Limited)
Jonathan James Diver (Group Marketing Director)
Ian Stanley Fenn (Senior Independent Non-Executive Director)
Lord Birdwood (Independent Non-Executive Director)
Aldo Gianfranco Horvat (Non-Executive Director)
David Harris (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 digital cameras, toys, games and giftware.

Business review, results and dividend

A review of the business is contained in the Chairman's Statement on pages 3 to 8 and the results are detailed in the consolidated profit and loss account on page 21, the consolidated balance sheet on page 22 and the consolidated cash flow statement on page 24. There was a loss for the year, after taxation, amounting to £204,000.

An interim dividend of 1.1 pence per share was paid on 29th July 2005. The directors recommend a final dividend of 0.9 pence per share making a total dividend of 2.0 pence per ordinary share (2004: 1.8 pence). If approved, the final dividend will be payable on 27 January 2006, to shareholders on the register on 6 January 2006.

International Financial Reporting Standards ("IFRS")

The Character Group Plc intends to transfer its listing to the Alternative Investments Market (AIM) in December 2005, and therefore the Group will adopt IFRS from 1 September 2007 which is in line with the timetable set for AIM companies.

Directors and their interests in shares

The directors and their interests (all of which are beneficial) in the shares of The Character Group plc as at 31 August 2005 were as follows:

Directors	Number of Ordinary Shares	31 August 2005 Ordinary Shares under option	Number of ordinary shares	31 August 2004 Ordinary Shares under option
R King	5,345,428	–	5,345,428	–
E Preziosi	11,885,898	–	11,885,898	–
K P Shah	5,645,000	–	5,645,000	–
J J P Kissane	1,462,300	185,000	1,462,300	185,000
J J Diver	1,690,640	185,000	1,690,640	185,000
I S Fenn	9,000	–	9,000	–
Lord Birdwood	8,750	–	8,750	–
A G Horvat	–	–	–	–
D Harris	14,097	–	14,097	–
TOPS Pension Scheme*	1,725,000	–	1,600,000	–

(*each of R King, K P Shah and J J Diver is a trustee and a beneficiary under such pension scheme arrangements.)

Other than the resignation of Enrico Preziosi on 28 September 2005, there were no other changes in the directors' beneficial interests between 31 August 2005 and 31 October 2005.

Included in the interests of R King are his interests in shares held by Cedarberg Investments Limited, being 1,885,428 ordinary shares at 31 August 2005 and at 31 August 2004. There is also included in the interests of R King his interests in shares held by his spouse, Mrs M H King, being 320,000 shares at 31 August 2005 and at 31 August 2004.

Included in the interests of E Preziosi are his interests in shares held by Giochi Preziosi S.p.A., being 11,885,898 ordinary shares at 31 August 2005 and at 31 August 2004.

Included in the interests of K P Shah are his interests in shares held by Sarissa Holdings Limited, being 5,620,000 ordinary shares at 31 August 2005 and at 31 August 2004.

Further, Orbis Pension Trustees Limited, the trustee of the Company's employee share ownership trust ("the Trust"), held 285,000 ordinary shares at 31 August 2005 and at 31 August 2004. 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 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 2005, trade creditors of the Group represented an average of 102 days credit in relation to total purchases for the year.

Statement of directors' responsibilities

We are required under company law to prepare accounts for each financial year which give a true and fair view of the state of affairs of the Group and the Company, and of the Group profit or loss for that year.

In preparing these accounts we are required to:

- select suitable accounting policies and apply them consistently
- make reasonable and prudent judgements and estimates
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the accounts
- prepare the accounts on a going concern basis unless, in our view, the Group and the Company will be unable to continue in business.

We are also responsible for:

- keeping proper accounting records
- safeguarding the Group's and the Company's assets
- taking reasonable steps for the prevention and detection of fraud.

Substantial shareholders other than directors

At 31 October 2005 the following, other than the directors and their family interests, had notified the Company of an interest in 3% or more of the Company's ordinary shares:

Name	Number of ordinary shares	Shareholding %
Giochi Preziosi S.p.A.	11,885,898	22.50%
Mittel Generale Investments S.p.A	5,311,000	10.1%
Sweet Briar Investments Limited	1,675,000	3.17%

Changes in Share Capital

On 16 February 2005 and 3 June 2005 respectively, 130,000 and 10,000 ordinary shares of 5 pence each in the Company were issued at a price of 24.25 pence per ordinary share to various employees on exercise of their share options.

Share option schemes

Details of the share option schemes are given in note 16 to the accounts.

Charitable and political donations

Payments of a charitable nature made during the year amounted to £27,755 (2004: £16,000). There were no political contributions.

Extraordinary General Meeting

Notice convening an extraordinary general meeting of the Company is set out on page 41 of this document. Full details of the business to be transacted at that meeting are set out in that notice.

Auditors

A resolution to re-appoint Baker Tilly as auditors to the Company will be proposed at the extraordinary general meeting, convened by the notice set out on page 41 of this document.

Corporate Governance Statement

The directors have considered the provisions set out in the new combined code of corporate governance issued in July 2003, which is applicable for the first time.

Directors

The Board of directors comprises four executive directors and four non-executive directors, as detailed on page 8. The independent non-executive directors are Lord Birdwood, Mr Fenn (who is the senior independent non-executive director) and Mr Harris. 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	4
K P Shah	5
J J P Kissane	2
J J Diver	2
I S Fenn	5
Lord Birdwood	5
A G Horvat	5
D Harris	5

Mr E. Preziosi, who was a director until 28 September 2005, did not attend Board meetings during the period under review.

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 accounts, 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 2005 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, 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 accounts 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 independence, objectively 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, 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 two meetings were held, which were attended by all three members.

Nominations Committee

R King (Chairman), Lord Birdwood, I S Fenn, D Harris

The Nominations Committee is responsible for considering and recommending to the Board changes in the Board's composition and membership. One meeting was held during the year which was attended by all members.

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 Turnbull Guidance"), 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 accounts 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 ongoing monitoring of actual financial performance against these targets, on a monthly basis, both at operational and Board level and
- a clearly defined and well-established set of accounting policies which ensure that the financial performance is recorded on a consistent and appropriate basis throughout the Group's reporting entities.

Monitoring and corrective action

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

Risk management

Management are responsible for 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 sources, 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.

Liquidity risk

The Group finances itself through a combination of equity and short term debt. The Group satisfied its liquidity requirements during the period under review. The Group's main working capital facility is provided by factoring. There was also continued use of short term bank facilities during the period under review. As at 31 August 2005, the Group had committed bank facilities of £14.3 million, of which £2.67 million was undrawn.

Foreign currency risk

The Group faces foreign currency exposures on translation of the net assets and results of its overseas subsidiaries and on trading transactions undertaken mainly in US dollars. The Group seeks to mitigate the effect of its currency exposures by buying currency forward when appropriate. The Group does not hedge its resulting translation exposures as these are accounting rather than cash exposures.

Relations with shareholders

The Board supports the principle of clear reporting of financial performance to shareholders. Each year shareholders receive a full annual report and an interim report, with supplementary trading statements issued from time to time where appropriate.

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 exceptions:

- 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 accounts.

By Order of the Board

K P Shah FCCA
Secretary

Registered Office:
5th Floor, 4 Chiswell Street
London EC1Y 4UP

3 November 2005

Directors' Remuneration Report

The Board presents the Remuneration Report for the year ended 31 August 2005.

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.

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.

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 listed 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. Executive directors holding less than 10% of the Company's issued share capital are eligible to participate in the Company's Inland Revenue approved executive share option scheme, details of which can be found in note 16 to the accounts. All executive directors are entitled to participate in the Company's unapproved executive share option scheme and in the Company's Enterprise Management Incentive Share Option Scheme, details of which may also be found in note 17 to the accounts.

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. Lord Birdwood, Mr Fenn, Mr Harris and Mr Horvat are each entitled to fees, currently at the rate of £20,000 per annum (2004: £20,000), plus expenses, without any right to compensation on early termination. Mr E Preziosi did not receive any remuneration to the date of his resignation.

The following table shows a breakdown of the remuneration of the directors for the year ended 31 August 2005 and the year ended 31 August 2004. The table has been audited, including the information in respect of the Directors' share options, as referred to in the Independent Auditors' Report.

Year ended 31 August 2005

	Salary/fees £	Performance bonus £	Benefits in kind £	Pension contribution £	Total £
R King	167,625	–	3,824	58,668	230,117
E Preziosi	–	–	–	–	–
K P Shah	165,600	–	1,949	41,400	208,949
J J P Kissane	145,180	–	5,073	43,554	193,807
J J Diver	145,180	–	7,692	29,036	181,908
I S Fenn (non-executive)	20,000	–	–	–	20,000
Lord Birdwood (non-executive)	20,000	–	–	–	20,000
A G Horvat (non-executive)	20,000	–	–	–	20,000
D Harris (non-executive)	20,000	–	–	–	20,000
	703,585	–	18,538	172,658	894,781

Year ended 31 August 2004

	Salary/fees £	Performance bonus £	Benefits in kind £	Pension contribution £	Total £
R King	167,625	–	3,907	58,668	230,200
E Preziosi	–	–	–	–	–
K P Shah	165,600	–	3,306	41,400	210,306
J J P Kissane	145,180	–	2,587	36,600	184,367
J J Diver	145,180	–	4,486	29,036	178,702
I S Fenn (non-executive)	20,000	–	–	–	20,000
Lord Birdwood (non-executive)	20,000	–	–	–	20,000
A G Horvat (non-executive)	20,000	–	–	–	20,000
D Harris (non-executive)	6,667	–	–	–	6,667
	690,252	–	14,286	165,704	870,242

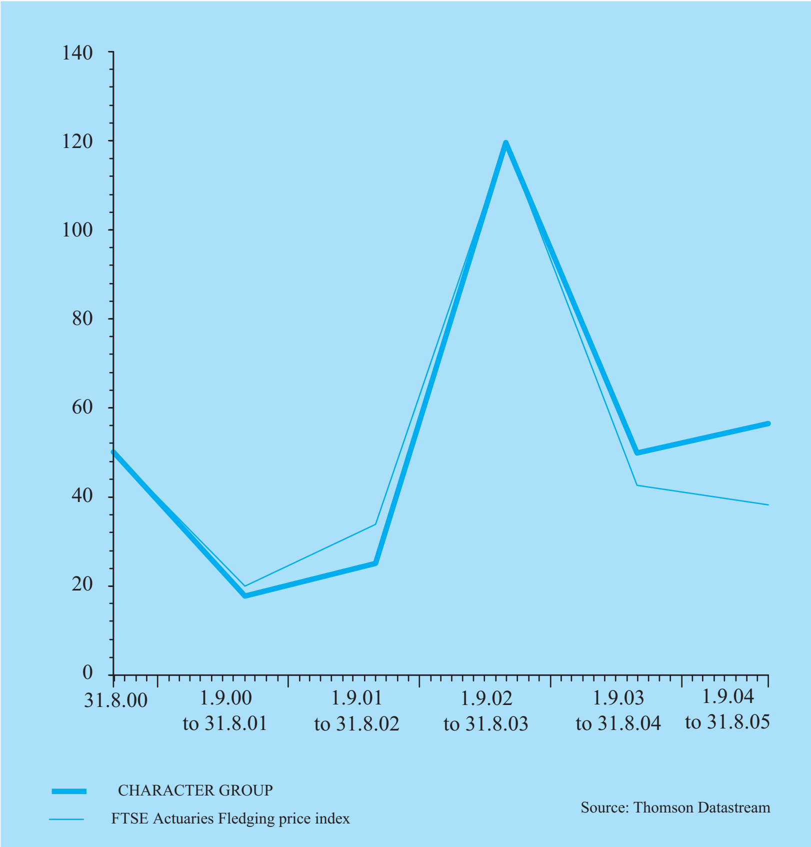
On 5 February 2003, options over 185,000 new ordinary shares in the Company were granted to each of J J P Kissane and J J Diver. These options have been granted pursuant to the Enterprise Management Incentive Share Option Scheme which was approved by shareholders on 22 January 2003. The options are exercisable at a price of 54 pence per share normally no earlier than three 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.

R King, 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 2005 the mid-market price of an issued ordinary share in The Character Group plc was 56.5 pence and during the year the price ranged from 26.5 pence to 92.5 pence.

The Performance Graph below compares the Total Shareholder Return performance of the Company with the FTSE Fledgling Index over the last five years. The FTSE Fledgling Index has been selected as it includes UK quoted companies of similar size to the Company.

Total Shareholder Return 31 August 2000 to 31 August 2005



On behalf of the Board

Lord Birdwood
Chairman, Remuneration Committee
3 November 2005

INDEPENDENT AUDITORS' REPORT

TO THE MEMBERS OF THE CHARACTER GROUP PLC

We have audited the accounts which comprise the Consolidated Profit and Loss Account, the Consolidated Balance Sheet, the Parent Company Balance Sheet, the Consolidated Cash Flow Statement and the related notes. We have also audited the disclosures required by Part 3 of Schedule 7A to the Companies Act 1985 contained in the Directors' Remuneration Report that is described as having been audited.

This report is made solely to the Company's members, as a body, in accordance with section 235 of the Companies Act 1985. 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

The directors' responsibilities for preparing the Annual Report, the Directors' Remuneration disclosure as set out in the Directors' Remuneration Report and the accounts in accordance with applicable law and United Kingdom Accounting Standards are set out in the Statement of directors' responsibilities.

Our responsibility is to audit the accounts and the part of the Directors' Remuneration Report required to be audited in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards.

We report to you our opinion as to whether the accounts give a true and fair view and whether the accounts and the part of the Directors' Remuneration Report that is described as having been audited have been properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' Report is not consistent with the accounts, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the Company and other members of the Group is not disclosed.

We review whether the Corporate Governance Statement reflects the Company's compliance with the nine provisions of the 2003 FRC Code specified for our review by the Listings Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the Board's statements on internal control covers all risks and controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

We read the other information contained in the Annual Report and consider whether it is consistent with the audited accounts. This other information comprises only the Report of the Directors, the unaudited part of the Directors' Remuneration Report, the Chairman's Statement and the Corporate Governance Statement. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the accounts. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts and the part of the Directors' Remuneration Report required to be audited.

It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the accounts, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the accounts and the part of the Directors' Remuneration Report required to be audited are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the accounts and the part of the Directors' Remuneration Report required to be audited.

Opinion

In our opinion:

- the accounts give a true and fair view of the state of affairs of the Company and the Group at 31 August 2005 and of the Group loss for the year then ended; and
- the accounts and part of the Directors' Remuneration Report required to be audited have been properly prepared in accordance with the Companies Act 1985.

Baker Tilly
Registered Auditor
Chartered Accountants
Marlborough House, Victoria Road South,
Chelmsford, Essex CM1 1LN
3 November 2005

CONSOLIDATED PROFIT AND LOSS ACCOUNT

for the year ended 31 August 2005

	note	Total 2005 £000	Total 2004 £000's	Other 2004 £000	Exceptional 2004 (note 3) £000
Turnover	2	98,791	76,046	74,653	1,393
Cost of sales		(75,110)	(54,332)	(51,675)	(2,657)
Gross profit		23,681	21,714	22,978	(1,264)
Net operating expenses					
Selling and distribution costs		(9,750)	(9,409)	(9,131)	(278)
Administration expenses		(12,867)	(11,389)	(10,919)	(470)
Administration expenses – Exceptional	3	(643)	–	–	–
Other operating income		443	2,761	257	2,504
Operating profit	3	864	3,677	3,185	492
Interest	5	(703)	(453)	(453)	–
Profit on ordinary activities before taxation		161	3,224	2,732	492
Taxation	6	(365)	503	589	(86)
(Loss)/profit on ordinary activities after taxation		(204)	3,727	3,321	406
Dividend	7	(1,051)	(1,093)		
Retained (loss)/profit for the year	17	(1,255)	2,634		
(Loss)/Earnings per share	8				
– basic		(0.39)p	7.48p		
– fully diluted		(0.39)p	7.31p		
Dividend per share	7	2.0p	1.80p		
EBITDA (earnings before interest, tax, depreciation and amortisation)		1,492	4,444		

All activity has arisen from continuing operations.

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

	note	12 months to 31 August 2005 £000's	12 months to 31 August 2004 £000's
(Loss)/profit for the financial period		(1,255)	2,634
Foreign exchange differences	17	(64)	(541)
Total recognised gains and losses relating to the financial period		(1,319)	2,093

CONSOLIDATED BALANCE SHEET

as at 31 August 2005

	note	2005 £000's	2004 £000's
Fixed assets			
Intangible assets	9	646	692
Tangible assets	10	1,849	1,599
Investments	11	2	2
		2,497	2,293
Current assets			
Stocks	12	9,810	12,227
Trade debtors subject to finance arrangements		9,053	8,319
Factor advances		(6,937)	(6,785)
		2,116	1,534
Debtors – including non-factored trade debtors	13	21,803	16,024
Cash at bank and in hand		3,748	4,183
		37,477	33,968
Creditors: amounts falling due within one year:	14	(29,482)	(24,484)
Net current assets		7,995	9,484
Total assets less current liabilities		10,492	11,777
Net assets		10,492	11,777
Capital and reserves			
Called up share capital	16	2,641	2,634
Investment in own shares	23	(908)	(908)
Capital redemption reserve	17	40	40
Share premium	17	11,821	11,794
Merger reserve	17	651	651
Profit and loss account	17	(3,753)	(2,434)
Equity shareholders' funds	15	10,492	11,777

The accounts on pages 21 to 40 were approved by the Board of Directors on 3 November 2005.

R King
Director

K P Shah
Director

PARENT COMPANY BALANCE SHEET

as at 31 August 2005

	note	2005 £000's	2004 £000's
Fixed assets			
Tangible assets	10	875	921
Investments	11	3,195	3,195
		4,070	4,116
Current assets			
Debtors	13	9,084	9,656
Cash at bank and in hand		2,527	1,065
		11,611	10,721
Creditors: amounts falling due within one year:	14	(926)	(704)
Net current assets		10,685	10,017
Total assets less current liabilities		14,755	14,133
Capital and reserves			
Called up share capital	16	2,641	2,634
Investment in own shares	23	(908)	(908)
Capital redemption reserve	17	40	40
Share premium	17	11,821	11,794
Profit and loss account	17	1,161	573
Equity shareholders' funds	15	14,755	14,133

The accounts on pages 21 to 40 were approved by the Board of Directors on 3 November 2005.

R King
Director

K P Shah
Director

CONSOLIDATED CASH FLOW STATEMENT

for the year ended 31 August 2005

	note	2005 £000's	2004 £000's
Cash inflow from operating activities	19	2,870	3,326
Returns on investment and servicing of finance			
Interest received		18	7
Interest paid		(721)	(460)
Net cash outflow for returns on investments and servicing of finance		(703)	(453)
Taxation		(844)	(315)
Capital expenditure and financial investment			
Payments to acquire tangible fixed assets		(868)	(510)
Sale of tangible fixed assets		25	9
Net cash outflow for capital expenditure and financial investment		(843)	(501)
Equity dividends paid		(945)	(1,626)
Cash (outflow)/inflow before financing		(465)	431
Issue of new shares		34	6
Purchase of own shares		–	(121)
Capital element of finance lease rentals		(4)	(5)
Expenses in relation to the conversion of loan note		–	(60)
Net cash (outflow)/inflow from financing		30	(180)
(Decrease)/Increase in cash in the year		(435)	251
(Increase)/Decrease in net debt in the year	20	(431)	256

1 PRINCIPAL ACCOUNTING POLICIES

Basis of accounting

The accounts have been prepared in accordance with applicable accounting standards and under the historical cost accounting rules.

The principal accounting policies of the Group are set out below:

Basis of consolidation

The Group accounts for the year ended 31 August 2005 comprise the accounts of the Company and its subsidiaries, all of which are made up to the end of the Company's financial year.

Where part of the purchase consideration for an acquisition is dependent on future profits of the acquired company or business, and can be satisfied, at the Group's option, by the issue of new shares, provision is made for the estimated future consideration and shown in the balance sheet as 'shares to be issued' in accordance with the requirement of FRS 7.

The profit and loss account for the parent Company has not been included, as permitted by Section 230 of the Companies Act 1985. The result of the Company for the financial year dealt with in the consolidated accounts is disclosed in note 17 to the accounts.

Goodwill

Goodwill arising on acquisitions of businesses and subsidiary undertakings is calculated as the excess of the fair value of the consideration given and costs of acquisition over the fair value of the separable net assets acquired. Goodwill arising on acquisitions before 1 September 1998 was written off against reserves immediately on acquisition. In accordance with FRS 10, goodwill arising on acquisitions on or after 1 September 1998 is capitalised as an intangible fixed asset and amortised over its estimated useful economic life. The goodwill carried in the balance sheet is written off over 20 years. Goodwill previously written off directly to reserves has not been reinstated on the balance sheet, but written off against the profit and loss reserve in accordance with the transitional provisions of FRS 10.

On the subsequent disposal or termination of a previously acquired business, the profit or loss on disposal or termination is calculated after charging the amount of any related goodwill taken directly to reserves on acquisition and the net book value of any related goodwill capitalised in the balance sheet.

Investments

Shares in subsidiary undertakings are valued at the lower of cost and recoverable amount, where recoverable amount is the higher of net realisable value and value in use. Provision is made against investments where the diminution in value is considered to be permanent.

Depreciation

Depreciation is provided on all tangible fixed assets, except freehold land, at rates calculated to write off the cost of each asset evenly over its expected useful life. The following principal rates per annum are used:

Freehold buildings	4%
Short leasehold improvements	over the unexpired term of the lease
Tooling	50 – 100%
Fixtures, fittings and equipment	20 – 33%
Motor vehicles	20 – 25%

Stocks

Stocks are stated at the lower of cost and net realisable value. Net realisable value is based on estimated selling price less the estimated cost of disposal.

Factoring arrangements

Certain subsidiaries have factoring agreements under which debts approved by the factor company are assigned to them without recourse. Non-refundable advances are made by the factor company. The Company has no obligation and the directors do not intend that the company will support any losses from factored debts. A linked presentation of the relevant balances is therefore shown on the face of the balance sheet in accordance with the requirements of FRS 5. The factor company has a debenture over the assets of the Company and certain subsidiary companies. The factoring charges are charged to the profit and loss account as they accrue. The amount charged to the profit and loss in the year was £453,000 (2004: £280,000). Of this amount £276,000 (2004: £107,000) has been charged as interest (see note 5), with the remainder being charges made by the factor company which have been included within administration expenses.

1 PRINCIPAL ACCOUNTING POLICIES CONTINUED

Foreign currencies

In the accounts of individual group undertakings, transactions in foreign currencies are recorded in the local currency using the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated using the rate of exchange ruling at the balance sheet date and the gains and losses on translation are included in the profit and loss account. In the consolidated accounts, the results and the balance sheets of overseas subsidiary undertakings are translated at the year end exchange rates. Exchange differences resulting from the re-translation of opening net assets are dealt with in reserves. All other exchange differences are dealt with in the profit and loss account.

Leasing and hire purchase contracts

Assets held under finance leases and hire purchase contracts are capitalised in the balance sheet and are depreciated over their useful lives. The interest element of the rental obligations is charged to the profit and loss account over the period of the lease and represents a constant proportion of the balance of capital repayments outstanding. Rentals paid under operating leases are charged to income as incurred.

Financial instruments

Financial assets are recognised on the balance sheet at the lower of cost and net realisable value. Discounts and premiums are charged or credited to the profit and loss account over the life of the asset or liability to which they relate. The Group has taken advantage of the exemption available for short term debtors and creditors.

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 Group's taxable profits and its results as stated in the accounts that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the accounts.

Deferred tax is recognised in respect of the retained earnings of overseas subsidiaries and associates only to the extent that, at the balance sheet date, dividends have been accrued as receivable or a binding agreement to distribute past earnings in future has been entered into by the subsidiary or associate.

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.

Pension contributions

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

Research and development

Research and development costs represent expenditure that is directly attributable to the development of products, and are written off as an expense in the year incurred.

2 TURNOVER

Turnover represents the amount derived from the provision of goods and services which arise from the Group's ordinary activities, stated net of value added tax.

Analysis of turnover by geographical market by destination	12 months to 31 August 2005 £000's	12 months to 31 August 2004 £000's
United Kingdom	45,893	52,347
Rest of the world	52,898	23,699
Total	98,791	76,046

Analysis of turnover by division	12 months to 31 August 2005 £000's	12 months to 31 August 2004 £000's
Toys, Games and Gifts	48,669	44,989
Digital	50,122	31,057
Total	98,791	76,046

All the Group's activities during the 12 months ended 31 August 2005 are classed as continuing. The directors consider that the disclosure of further disaggregated information would be seriously prejudicial to the commercial interests of the Group.

3 OPERATING PROFIT

	note	12 months to 31 August 2005 £000's	12 months to 31 August 2004 £000's
Operating profit is stated after charging:			
Staff costs	4	6,717	6,185
Principal Auditors' remuneration			
– Statutory audit services		48	69
– Financial reporting advisory services		16	60
– Tax compliance services		20	8
– Tax advisory services		3	8
– Further assurance services		12	9
Other Auditors' remuneration			
– Statutory audit services		32	28
– Total fees payable to auditors		131	182
Operating leases – land and buildings		349	343
Research and development costs		1,143	1,971
Depreciation of tangible fixed assets			
– owned assets		579	718
– assets held under finance leases and HP contracts		3	4
		582	722
Goodwill amortisation		46	45

Exceptional item

The 2005 exceptional item of £643,000 relates to relocation and restructuring costs of Character Gifts Limited which now operates from the Group's central facility at Oldham, Lancashire.

2004 Exceptional Item

In November 2004, World Wide Licenses Limited ("WWL") settled its dispute with Uniden America Corporation ("Uniden") which commenced when Uniden terminated its distribution agreement with WWL. Under the settlement, Uniden paid to WWL the sum of US$4.5million by two equal instalments.

WWL has incurred substantial costs since Uniden terminated its distribution agreement. The settlement as well as the associated costs incurred have been classified as an exceptional item.

The exceptional income and costs, as set out on the face of the consolidated profit and loss account, are explained below.

Turnover is the sale of products which had to be sold elsewhere at lower prices.

Cost of sales are the costs of those products, as well as a write off of royalties paid which are unlikely to be recoverable.

Selling and distribution costs represent an additional amount of commission payable under the terms of WWL's contract with a USA company as a consequence of the settlement.

Administration expenses comprise the legal costs incurred.

Other operating income is the settlement from Uniden.

4 DIRECTORS AND EMPLOYEES

	12 months to 31 August 2005 £000's	12 months to 31 August 2004 £000's
Staff costs including directors' emoluments		
Wages and salaries	5,990	5,377
Social security costs	402	477
Other pension costs	325	331
	6,717	6,185
The average number of employees during the year was:	Number	Number
Management and administration	78	81
Selling and distribution	173	149
	251	230

Of the total average number of employees, 128 were based in the UK and 123 in Hong Kong and mainland China.

The amount payable to pension schemes as at the balance sheet date was £33,356 (2004: £56,000).

Details of directors' remuneration and share options are given in the Directors' Remuneration Report on pages 16 to 18.

5 INTEREST

	12 months to 31 August 2005 £000's	12 months to 31 August 2004 £000's
Total interest receivable	18	7
Total interest payable:		
On bank overdraft and similar charges	(444)	(296)
Convertible loan note interest	–	(56)
Finance leases and hire purchase contracts	(1)	(1)
Factor advances	(276)	(107)
	(703)	(453)

6 TAXATION

	12 months to 31 August 2005 £000's	12 months to 31 August 2004 £000's
UK Corporation Tax		
Tax on profit for the period	–	–
Adjustments to tax charge in respect of previous periods	–	(241)
Total UK corporation tax	–	(241)
Foreign Tax		
Tax on profit for the period	355	444
Adjustments to tax charge in respect of previous periods	24	17
Total foreign tax	379	461
Total current tax	379	220
Deferred Tax		
Tax losses	–	(764)
Origination and reversal of timing differences	(14)	41
Total deferred tax	(14)	(723)
Tax on profit on ordinary activities	365	(503)
Factors affecting tax charge for the period		
Profit on ordinary activities before taxation	161	3,224
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 30% (2004: 30%)	48	967
Effects of:		
Expenses not deductible for tax purposes	182	301
Capital allowances (in excess of)/less than depreciation	(178)	16
Other temporary differences between taxable and accounting profit	93	162
Lower tax rate on overseas earnings	(198)	(252)
Utilisation of tax losses	–	(1,003)
Tax losses not utilised	–	253
Adjustments to tax charge in respect of previous periods	24	(224)
Remitted earnings of overseas subsidiaries	408	–
Current tax charge for the year	379	220

7 DIVIDEND

	12 months to 31 August 2005 £000's	12 months to 31 August 2004 £000's
On equity shares:		
Interim dividend paid – 1.1pence (2004: 1.1 pence) per share	578	726
Final dividend proposed – 0.9 pence (2004: 0.7 pence) per share	473	367
Total – 2.0 pence (2004: 1.8 pence) per share	1,051	1,093

8 (LOSS)/EARNINGS PER SHARE

	12 months to 31 August 2005			12 months to 31 August 2004		
	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 earnings per share	(204,000)	52,475,156	(0.39)	3,727,000	49,811,576	7.48
Impact of share option schemes	–	–	–	–	1,190,106	(0.17)
Diluted earnings per share	(204,000)	52,475,156	(0.39)	3,727,000	51,001,682	7.31

9 INTANGIBLE FIXED ASSETS – GOODWILL

The Group

Cost	£000's
1 September 2004 and 31 August 2005	902
Amortisation	
1 September 2004	210
Charge for the year	46
31 August 2005	**256**
Net book value	
31 August 2005	**646**
31 August 2004	692

10 TANGIBLE FIXED ASSETS

The Group

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 2004	1,182	96	1,203	2,012	427	4,920
Additions	–	29	424	254	161	868
Disposals	–	(12)	(1,052)	(237)	(145)	(1,446)
Differences on exchange	–	–	3	1	–	4
31 August 2004	**1,182**	**113**	**578**	**2,030**	**443**	**4,346**
Depreciation						
1 September 2004	275	79	1,139	1,611	217	3,321
Charge for the year	39	16	236	189	102	582
Disposals	–	(12)	(1,052)	(236)	(110)	(1,410)
Exchange rate movement	–	–	3	1	–	4
31 August 2004	**314**	**83**	**326**	**1,565**	**209**	**2,497**
Net book value						
31 August 2005	**868**	**30**	**252**	**465**	**234**	**1,849**
31 August 2004	**907**	**17**	**64**	**401**	**210**	**1,599**

The net book value of fixed assets includes £nil (2004: £7,000) in respect of assets held under finance leases and hire purchase contracts, the depreciation of which is shown in note 3.

The Company

Cost	Freehold land and buildings £000's	Fixtures fittings and equipment £000's	Motor vehicles £000's	Total £000's
1 September 2004	1,182	123	26	1,331
Additions	–	4	–	4
Disposals	–	–	(26)	(26)
31 August 2005	**1,182**	**127**	**–**	**1,309**
Depreciation				
1 September 2004	275	109	26	410
Charge for the year	39	11	–	50
Disposals	–	–	(26)	(26)
31 August 2005	**314**	**120**	**–**	**434**
Net book value				
31 August 2005	**868**	**7**	**–**	**875**
31 August 2004	907	14	–	921

11 FIXED ASSET INVESTMENTS

The Group

Cost	Shares listed in the UK £000's
1 September 2004 and 31 August 2005	2
Amortisation and Provisions	
1 September 2004	–
1 September 2004 and 31 August 2005	–
Net book value	
31 August 2005	2
31 August 2004	2

The market value of the listed investments is £1,497 (2004: £1,141).

The Company

Cost	Shares in subsidiary undertakings £000's
1 September 2004 and 31 August 2005	3,537
Amortisation and Provisions	
1 September 2004 and 31 August 2005	(342)
Net book value	
31 August 2005	**3,195**
31 August 2004	3,195

12 STOCKS

	The Group 2005 £000's	The Group 2004 £000's
Raw materials	4,175	5,197
Finished goods for resale	5,635	7,030
	9,810	12,227

13 DEBTORS

	The Group 2005 £000's	The Group 2004 £000's	The Company 2005 £000's	The Company 2004 £000's
Due from subsidiary undertakings	–	–	8,326	8,984
Trade debtors (non-factored)	17,098	7,918	–	–
Other debtors	2,430	4,541	419	2
Prepayments and accrued income	789	2,093	205	670
Other taxation and social security	–	–	134	–
Deferred tax	1,486	1,472	–	–
	21,803	16,024	9,084	9,656

Deferred Tax

The elements of deferred tax are as follows:

	2005 £000's	2004 £000's
Difference between accumulated depreciation and tax depreciation	143	143
Other timing differences	(245)	(259)
Tax losses	1,588	1,588
	1,486	1,472

The movements in deferred tax are as follows:

	2005 £000's	2004 £000's
At 1 September 2004	1,472	749
Profit and loss account	14	723
At 31 August 2005	1,486	1,472

The deferred tax asset of £1,486,000 (2004: £1,472,000) is recoverable against future forecast taxable profits within a time horizon that the directors consider more likely than not to occur.

Deferred tax assets have not been recognised in respect of tax losses of £2,578,831 (2004: £2,653,000). At a tax rate of 30%, these losses represent a potential tax asset of £773,650 (2004: £796,000). These losses would be recoverable in the event of taxable profits arising in certain subsidiary companies.

14 CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	The Group 2005 £000's	The Group 2004 £000's	The Company 2005 £000's	The Company 2004 £000's
Trade creditors	17,275	14,795	–	–
Bills of exchange payable	7,802	2,670	–	–
Due to subsidiary undertakings	–	–	261	83
Corporation tax	152	617	–	–
Other taxation and social security	299	559	–	14
Accruals and deferred income	3,954	5,839	665	607
Finance leases and hire purchase contracts	–	4	–	–
	29,482	24,484	926	704

A bank has a debenture over the assets and undertakings of the Company and certain subsidiary companies. Also, some subsidiaries pledge cash deposits with some banks which provide mainly trade finance facilities, and such amounts are included in cash at bank and in hand. At 31 August 2005, the pledged deposits amounted to £798,000 (2004: £722,000). Further, a major trade creditor who offers trade finance is secured by a debenture over the assets and undertakings of a subsidiary company. As at 31 August 2005 the amount outstanding to the secured trade creditor amounted to £921,000 (2004: £1,164,000).

15 RECONCILIATION OF EQUITY SHAREHOLDERS' FUNDS

	The Group 12 months to 31 August 2005 £000's	The Group 12 months to 31 August 2004 £000's	The Company 12 months to 31 August 2005 £000's	The Company 12 months to 31 August 2004 £000's
(Loss)/profit for the financial period	(1,255)	2,634	588	(1,556)
Exchange difference taken to reserves	(64)	(541)	–	–
Shares issued	34	4,546	34	4,546
Shares purchased	–	(121)	–	(121)
Net addition to/(subtraction from) shareholders' funds	(1,285)	6,518	622	2,869
Opening shareholders' funds	11,777	5,259	14,133	11,264
Closing shareholders' funds	10,492	11,777	14,755	14,133

16 CALLED UP SHARE CAPITAL (EQUITY)

	2005 £000's	2004 £000's
Authorised		
110,000,000 (2004: 110,000,000) ordinary shares of 5 pence each	**5,500**	5,500
Allotted called up and fully paid		
52,827,909 (2004: 52,687,909) ordinary shares of 5 pence each	**2,641**	2,634

Share Capital movements in the year

140,000 ordinary shares of 5 pence each ("Ordinary Shares") (total nominal value of £7,000) were issued during the year, at a price of 24.25 pence per share, to employees and an ex-employee on exercise of their share options.

Share options

The Company adopted the rules of an Inland Revenue approved executive share option scheme on 3 May 1995. At 1 September 2004, options to acquire up to a total of 425,000 new Ordinary Shares remained outstanding under this scheme. On 21 December 2004, options over a total of 688,000 new Ordinary Shares were granted to Group employees at an exercise price of 74 pence per share. As at 31 August 2005, options to acquire up to a total of 910,500 new Ordinary Shares remained outstanding under this scheme details of which were as follows:

No. of shares	Date granted	Exercise period	Exercise price
20,000	5 March 1997	5 March 2000 to 4 March 2007	101.0p
13,500	5 December 1997	5 December 2000 to 4 December 2007	136.5p
238,000	15 February 2002	15 February 2005 to 14 February 2012	24.25p
639,000*	21 December 2004	21 December 2007 to 20 December 2014	74.0p

The Company adopted the rules of its unapproved executive share option scheme on 2 June 1997. At 1 September 2004 options to acquire up to a total of 688,000 new Ordinary Shares remained outstanding under this scheme. On 21 December 2004, options over a toal of 214,000 new Ordinary Shares were granted to Group employees at an exercise price of 74 pence per Share. As at 31 August 2005, options to acquire up to a total of 632,700 new Ordinary Shares remained outstanding under this scheme, details of which were as follows:

No. of shares	Date granted	Exercise period	Exercise price
144,700	15 February 2002	15 February 2005 to 14 February 2009	24.25p
274,000	6 February 2003	6 February 2006 to 5 February 2010	54.0p
214,000*	21 December 2004	21 December 2007 to 20 September 2011	74.0p

The Company adopted the rules of an Inland Revenue qualifying Enterprise Management Incentive share option 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 at an exercise price of 54 pence per share. At 1 September 2004, options to acquire up to a total of 1,071,500 new Ordinary Shares remained outstanding under this scheme. As at 31 August 2005, options to acquire a total of 752,000 new Ordinary Shares remained outstanding under this scheme. These options are exerciseable during the period from 5 February 2006 until 4 February 2013.

No amount is payable by any grantee of an option at the time of grant under any of the Company's share option schemes.

(* These options were subject to a performance condition which has not been met and have lapsed.)

17 SHARE CAPITAL AND RESERVES

	Called up share capital £000's	Capital redemption reserve £000's	Share premium account £000's	Merger reserve £000's	Profit and loss account £000's
The Group					
1 September 2004	2,634	40	11,794	651	(2,434)
Exchange Differences	–	–	–	–	(64)
Loss absorbed	–	–	–	–	(1,255)
Shares issued	7	–	27	–	–
31 August 2005	**2,641**	**40**	**11,821**	**651**	**(3,753)**
The Company					
1 September 2004	2,634	40	11,794	–	573
Profit retained	–	–	–	–	588
Shares issued	7	–	27	–	–
31 August 2005	2,641	40	11,821	–	1,161

In accordance with FRS 10, goodwill previously written off against reserves has not been reinstated and the goodwill has been offset against the profit and loss account reserve. The cumulative amount of positive goodwill written off against reserves is £5,645,000 (31 August 2004: £5,645,000). The goodwill has been eliminated as a matter of accounting policy and would be charged to the profit and loss account on the subsequent disposal of the business to which it related.

The Company

At 31 August 2005, 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
Character Games Limited	United Kingdom	Ordinary	100%	Design and distribution of games and puzzles
Character Games (Far East) Limited	Hong Kong	Ordinary	100%	Design and distribution of games and puzzles
Character Gifts Limited (formerly Downpace Limited)	United Kingdom	Ordinary	100%	Gift importer and distributor
World Wide Licenses Limited	Hong Kong	Ordinary	100%	Design and distribution of digital cameras
WWL (Europe) Limited	United Kingdom	Ordinary	100%	Distribution of digital cameras

All of the subsidiary undertakings have been included in these consolidated accounts.

18 GUARANTEES AND OTHER FINANCIAL COMMITMENTS

a. Financial commitments under non-cancellable operating leases will result in the following payments falling due in the year to 31 August 2006

	2005 Land and buildings £000's	2004 Land and buildings £000's
Expiring within one year	156	121
Expiring between one and five years	171	204
Expiring after five years or more	–	–
	327	325

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 and are not provided for in the accounts as the directors believe that the required level of future sales will be achieved:

	2005 £000's	2004 £000's
Within one year	201	1,681
Between one and two years	163	164
Between two and five years	–	–
	364	1,845

c. The future minimum hire purchase and finance lease payments to which the Group was committed at 31 August 2005 are:

	2005 £000's	2004 £000's
Net amounts payable within one year	–	4
Net amount payable between two and five years	–	–
	–	4

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

	12 months to 31 August 2005 £000's	12 months to 31 August 2004 £000's
Operating profit	864	3,677
Depreciation, impairment and amortisation	628	767
Loss/(Profit) on disposal of fixed assets	11	(7)
Decrease/(Increase) in stocks	2,417	(4,084)
(Increase)/Decrease in debtors	(6,347)	1,843
Increase in creditors	5,361	1,671
Exchange movement	(64)	(541)
Net cash inflow from operating activities	2,870	3,326

RECONCILIATION OF EXCEPTIONAL (LOSS)/PROFIT TO NET CASH OUTFLOW FROM EXCEPTIONAL ACTIVITIES

	12 months to 31 August 2005 £000's	12 months to 31 August 2004 £000's
Exceptional (loss)/profit	(643)	492
Decrease/(Increase) in debtor	2,504	(2,504)
(Decrease)/Increase in creditors	(551)	926
Net cash inflow/(outflow) from operating activities	1,310	(1,086)

There was no cash flow relating to taxation in respect of the exceptional items.

20 RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET DEBT

	12 months to 31 August 2005 £000's	12 months to 31 August 2004 £000's
(Decrease)/Increase in cash in the period	(435)	251
Cash inflow from movement in debt and lease financing	4	5
Movement in net debt resulting from cash flows	(431)	256
Net debt at 1 September 2004	4,179	3,923
Net debt at 31 August 2005	3,748	4,179

21 ANALYSIS OF NET DEBT

	Cash at bank and in hand £000's	Lease finance £000's	Total £000's
1 September 2003	3,932	(9)	3,923
Cash flow	251	5	256
31 August 2004	4,183	(4)	4,179
Cash flow	(435)	4	(431)
31 August 2005	3,748	–	3,748

22 FINANCIAL INSTRUMENTS

The Group's use of financial instruments is explained under the heading of 'Risk Management' in The Corporate Governance Statement starting on page 14. As permitted by FRS 13 short term debtors and creditors have been excluded from all financial instrument disclosures.

a. Exchange risk

The tables below show the Group's currency exposures; in other words those transactional exposures that give rise to the net currency gains and losses recognised in the profit and loss account. Such exposures comprise the monetary assets and monetary liabilities of the Group that are not denominated in the operating currency of the operating company involved.

These currency exposures were as follows:

Net foreign currency monetary assets	At 31 August 2005 Functional currency of group operation			At 31 August 2004 Functional currency of group operation		
	Sterling £000's	HK$ £000's	Total £000's	Sterling £000's	HK$ £000's	Total £000's
Sterling	–	6	6	–	5	5
US$	1	1,400	1,401	700	1,280	1,980
Euro	45	0	45	(43)	–	(43)
Chinese RMB	–	12	12	–	–	–
Total	46	1,418	1,464	657	1,285	1,942

b. Fair values

The fair value of all financial instruments at 31 August 2005 and 31 August 2004 was not materially different from their book value

c. Borrowing facilities

The Group has various available borrowing facilities. The undrawn committed facilities available in respect of which all conditions had been met at 31 August 2005, were as follows:

	2005 £000's	2004 £000's
Expiring within one year	2,665	1,523
Expiring between one year, but not more than two years	–	–
Expiring in more than two years	–	–
Total	2,665	1,523

d. Interest rate risk profile of financial assets and financial liabilities

Financial assets

Financial assets comprise cash at bank.

	At 31 August 2005				At 31 August 2004			
Currency	Floating rate financial assets £000's	Fixed rate financial assets £000's	Financial assets on which no interest received £000's	Total £000's	Floating rate financial assets £000's	Fixed rate financial assets £000's	Financial assets on which no interest received £000's	Total £000's
Sterling	2,459	–	–	2,459	2,386	–	–	2,386
US$	1,401	–	–	1,401	1,980	–	–	1,980
Euro	45	–	–	45	–	–	–	–
Chinese RMB	12	–	–	12	–	–	–	–
Total	3,917	–	–	3,917	4,366	–	–	4,366

22 FINANCIAL INSTRUMENTS CONTINUED

Financial liabilities

Currency	At 31 August 2005 Floating rate financial liabilities £000's	Fixed rate financial liabilities £000's	Financial liabilities on which no interest is paid £000's	Total £000'	At 31 August 2004 Floating rate financial liabilities £000's	Fixed rate financial liabilities £000's	Financial liabilities on which no interest is paid £000's	Total £000's
Sterling	–	–	–	–	–	–	–	–
Euro	–	–	–	–	43	–	–	43
HK$	169	–	–	169	140	4	–	144
Total	169	–	–	169	183	4	–	187

The floating rate financial liabilities comprise:

- Sterling denominated bank borrowings and overdrafts that bear interest at rates based on LIBOR or NatWest bank base rates.

23 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 2005 the Trust held 285,000 shares (2004: 285,000) which had a market value of £161,000 (2004: £142,500), and has waived its right to dividend income thereon. The cost of these shares was £908,000. At 31 August 2005, no options had been granted by the Trust.

24 CONTINGENT LIABILITIES

The Company has guaranteed the obligations of certain subsidiary companies to their factor companies, trade finance companies, certain banks and others in the normal course of business. The factor 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.

25 RELATED PARTY TRANSACTIONS

During the year the Company entered into transactions with Giochi Preziosi S.p.A., a company of which E Preziosi (a director of the company until 28 September 2005) is a director. Giochi Preziosi S.p.A. held approximately 22.5% of the issued share capital of The Character Group plc at 31 August 2005.

Trade was carried out on an arms length basis and is summarised below:

	2005 £000's	2004 £000's
Total net sales to Giochi Preziosi S.p.A.	2,770	1,756
Total net purchases from Giochi Preziosi S.p.A.	540	1,103
Balance due from Giochi Preziosi S.p.A.	1,098	928

NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN THAT an Extraordinary General Meeting of The Character Group plc will be held at the offices of Citigate Dewe Rogerson, 26 Finsbury Square, London EC2A 1DS on 29 November 2005 at 11 a.m. to transact the following business which shall be proposed as Ordinary Resolutions of the Company:

Ordinary business

1. To approve the Directors' Remuneration Report for the year ended 31 August 2005.
2. To receive and adopt the Directors' Report and the accounts of the Company for the year ended 31 August 2005 and the report of the auditors thereon.
3. To declare a final dividend on the ordinary shares in the capital of the Company for the year ended 31 August 2005 of 0.9 pence per share.
4. To re-appoint Baker Tilly as auditors of the Company to hold office from the conclusion of this meeting until the conclusion of the next Annual General Meeting at which accounts are laid before the Company and to authorise the directors to fix their remuneration.

By order of the Board

K P Shah FCCA, Secretary
4 November 2005

Registered Office

5th Floor
4 Chiswell Street
London EC1Y 4UP

Notes:

1. The register of directors' interests and copies of the directors' service agreements will be available for inspection at the registered office during normal business hours from the date of this notice until the date of the Extraordinary General Meeting and on that day will be available for inspection at the place of the meeting from 9 a.m. until the conclusion of the meeting.
2. A member entitled to attend and vote at the Extraordinary General Meeting convened by the Notice above is entitled to appoint a proxy to attend and, on a poll, vote in his place. A proxy need not be a member of the Company.
3. To be valid, forms of proxy must be lodged with Neville Registrars Limited, 18 Laurel Lane, Halesowen,West Midlands,B63 3DA not less than 48 hours before the time appointed for holding the Extraordinary General Meeting. A form of proxy is set out on page 43.
4. Completion of a form of proxy does not prevent a member from attending and voting at the Extraordinary General Meeting should he or she so wish.
5. In order to have the right to attend and vote at the Extraordinary General Meeting, a person must be entered on the register of members at 10 a.m. on 28 November 2005 or, in the case of an adjournment of the Extraordinary General Meeting, at the time which is 48 hours before the time appointed for the adjourned meeting.

Millnet Financial (7200-01)

FORM OF PROXY

THE CHARACTER GROUP PLC

For use at the Extraordinary General Meeting of the Company to be held on 29 November 2005 at 11 a.m.

I/We ____
(please use block capitals)

of ____ (being (a) holders(s) of ordinary shares in the above named company) hereby appoint the Chairman of the meeting

____ (note 1)

as my/our proxy to vote on my/our behalf at the Extraordinary General Meeting to be held at the offices of Citigate Dewe Rogerson, 26 Finsbury Square, London EC2A 1DS on 29 November 2005 at 11 a.m. and any adjournment thereof.

Please indicate with a ✓ in the spaces below in either the for or against column how you wish your vote to be cast.

	FOR	AGAINST
1. Ordinary resolution – approval of the Directors' Remuneration Report		
2. Ordinary resolution – adoption of accounts for year ended 31 August 2005		
3. Ordinary resolution – declaration of final dividend of 0.9p per share		
4. Ordinary resolution – re-appointment of Baker Tilly as auditors		

Dated ______________________ Signature ______________________

Notes:

1. You may if you wish delete the words "Chairman of the meeting" and insert the name of the proxy or proxies of your choice in the space provided. Please initial such alteration.
2. If no indication is given as to how you wish your proxy to vote, your proxy will vote or abstain as he/she thinks fit. On any other business arising at the meeting (including any motion to adjourn the meeting) the proxy will act at his/her discretion.
3. In the case of joint holders, the signature of any one of them will be accepted but the signature of the senior of the joint holders shall be accepted to the exclusion of the others, seniority being determined by the order in which the names appear in the register of members of the Company.
4. In the case of a corporation, this Form of Proxy should be executed under its common seal or under the hand of an officer, attorney of other person duly authorised on its behalf.
5. Forms of Proxy signed by other than the registered holder will not be valid unless accompanied by the power of attorney (if any) or other authority under which it is signed or a notarially certified copy thereof.
6. To be effective, Forms of Proxy must be lodged with Neville Registrars Limited, 18 Laurel Lane, Halesowen, West Midlands B63 3BR not less that 48 hours before the time appointed for the meeting. Completion of this form of proxy will not prevent the holder from attending and voting at the meeting in person should he so wish.
7. As permitted by Regulation 41 of the Uncertificated Securities Regulations 2001, members must be entered on the Company's register of members at 10 a.m. on 28 November 2005 in order to be entitled to attend and/or vote at the meeting in respect of the number of shares registered in their name at such time. 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.

SECOND FOLD

BUSINESS REPLY SERVICE
Licence No. 3865

1

Neville Registrars Limited
18 Laurel Lane
Halesowen
West Midlands
B63 3BR

FIRST FOLD

THIRD FOLD, THEN TUCK IN FLAP & TAPE ALONG EDGE