the
CHARACTER
group plc

Interim Report

Six months ended 28 February 2010

DIRECTORS AND ADVISORS

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J J Diver
J J P Kissane
Lord Birdwood
D Harris

Secretary
K P Shah FCCA

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www.thecharacter.com
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Introduction

We are pleased to report that our strategy of developing our own-branded toy ranges and selectively distributing third-party product lines has finally matured to where we have achieved a significant turnaround for the business.

Following several years of a tough retail environment, Character, in line with its peers and most major retailers, took a conservative view on its sales and stock levels for the approach to Christmas 2009. As we indicated in our trading update on 25 March 2010, most of our portfolio performed up to, or exceeded our expectations of consumer demand.

As a result of our focus in developing our brands, we have produced a strong portfolio of branded product which, despite a decline in the overall toy market, has led to strong sales and a lower level of stockholding throughout the first half of the current financial year ending August 2010.

Financials

Group sales amounted to £43.1 million, a 14.1% increase over the comparable period (2009: £37.8 million). Profit before tax improved to £3.73 million against a loss of £3.84 million in the comparable 2009 six-month period.

Stocks decreased to £3.6 million from £5.05 million for the comparative period of the previous year. This stock reduction together with improved trading and tighter controls led to a significant reduction in the level of loss making or reduced margin clearance sales. Consequently, gross margins improved significantly during the period under review.

Basic earnings per share were 10.25 pence compared to a loss of 8.44 pence for the previous period in 2009.

The Group has maintained a strong and healthy balance sheet and remains cash positive with cash generated from operations at £13.95 million compared to £7.89 million at the same point in 2009. During the period the Company undertook a share buy-back programme at a total cost of £5.05 million. Even after this expenditure net cash at the end of February 2010 was £7.10 million against £3.80 million at the same time last year.

We remain optimistic that, with substantial working capital facilities available and by not being financially constrained, we are in a strong position to further increase our UK market share, our international sales and overall earnings, going forward.

Share Buy-Backs

During the first half, the Company acquired 4,820,327 ordinary shares of 5 pence each amounting to 16.2% of the Company's issued share capital (excluding shares held in treasury), and these shares have now been cancelled. As at 1 April 2010, the Company had 29,806,154 ordinary shares in issue (2009: 41,477,481), excluding 4,019,456 ordinary shares held in treasury (April 2009: 4,019,456).

It remains part of the Group's overall strategy to continue to repurchase its shares when appropriate, thereby further enhancing shareholder value.

The Company now has an unutilised capacity to buy-back up to a further 3,798,673 ordinary shares in the Company under the authority granted at the AGM on 20 January 2010. The Company may seek to buy-back shares up to this limit within the current financial period. As was previously the case, individual directors have indicated that they may be prepared to participate in any future share buy-backs should the Company be unable to identify sufficient shares in the marketplace to satisfy its plans for shareholder value enhancement.

Dividend

Given the strong cash position and the legislative tax changes in the UK effective from this month, an interim dividend for the period to 28 February 2010 of 2.0 pence per share (2009: nil) was paid on 26 March 2010 to shareholders on the Register as at 12 March 2010. As already indicated to the market, the Board believes that the Company is now in a position to return to its progressive dividend policy.

People

I would like to personally thank my co-directors, senior management as well as all our loyal and hard working employees in both the UK and Asia for their effort and commitment to the Group over what has been a very challenging period.

Last month, Non-Executive Directors Alan Mackay and Ian Fenn stepped down from the Board. On behalf of investors and staff I would like to thank them for their wise counsel over a number of years and wish them both well in the future. The Board now consists of four Executive and two Non-Executive Directors and this is currently considered by the Board to be an appropriate balance for a Company of Character's size and structure. We will however continue to review this position on a regular basis.

Outlook

Our strategy of developing our own product lines and selectively distributing third party lines has produced a significant turnaround for the business and a very strong half-year performance despite a decline in the overall toy market in 2009 and the general economic climate.

In addition, our strategy has allowed us to finally open up the U.S. market to our own developed products and whilst relatively modest at the outset, we are hopeful of strong growth going forward.

There continues to be exceptional on-going consumer demand for *ZhuZhu Pets (formerly GoGo Pets)*, as well as great interest in the boys' version *Kung Zhu* which is to be released shortly. These, together with *HM Armed Forces*, *Peppa Pig*, *Scooby Doo* and the new *Doctor Who* range just launched with the new TV series, are all expected to realise gross revenues of around £10 million per brand in this 2010 calendar year whilst *Postman Pat*, *Fireman Sam* and *Let's Cook* are also expected to realise around £5 million per brand this year.

The underlying strength of our portfolio and the enthusiasm for our products by our customers has resulted in increased demand. This very positive progress is reflected in our March results which exceeded internal management forecasts in terms of revenue and profitability giving us a good start to the second half of this financial year.

Looking at both the calendar and financial year, we remain very optimistic that the business will achieve a further improvement in sales and profitability during 2010 as we continue to enhance our product portfolio and widen our sales both in the UK and internationally.

Richard King
Chairman

26 April 2010

CONSOLIDATED INCOME STATEMENT

	Notes	6 months to 28 February 2010 (unaudited) £'000	6 months to 28 February 2009 (unaudited) £'000	12 months to 31 August 2009 (audited) £'000
Continuing operations				
Revenue		43,114	37,789	68,622
Cost of sales		(27,734)	(26,828)	(48,587)
Gross profit		15,380	10,961	20,035
Net operating expenses				
Selling and distribution costs		(4,538)	(6,956)	(8,999)
Administration expenses		(7,112)	(6,704)	(12,265)
Other operating income		11	12	132
Operating profit/(loss) before exceptional items		3,741	(2,687)	(1,097)
Exceptional bad debt		–	(1,056)	(1,056)
Operating profit/(loss)		3,741	(3,743)	(2,153)
Net finance costs		(10)	(96)	(21)
Profit/(loss) before taxation		3,731	(3,839)	(2,174)
Taxation		(277)	362	532
Profit/(loss) for the year attributable to equity holders of the parent		3,454	(3,477)	(1,642)
Earnings/(loss) per share (pence)				
Basic	5	10.25p	(8.44p)	(4.09p)
Fully diluted	5	9.98p	(8.44p)	(4.09p)
Dividend per share	4	1.00p	–	–
EBITDA (earnings/(loss) before interest, tax, depreciation and amortisation)		5,131	(1,635)	2,351

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Notes	6 months to 28 February 2010 (unaudited) £'000	6 months to 28 February 2009 (unaudited) £'000	12 months to 31 August 2009 (audited) £'000
Profit/(loss) for the period after tax		3,454	(3,477)	(1,642)
Exchange differences on translation of foreign operations recognised in equity		(452)	(663)	(387)
Net effective change in value of cash flow hedges		(264)	941	117
Total comprehensive income for the period attributable to equity holders of the parent		2,738	(3,199)	(1,912)

CONSOLIDATED BALANCE SHEET

	Note	at 28 February 2010 (unaudited) £'000	at 28 February 2009 (unaudited) £'000	at 31 August 2009 (audited) £'000
Non – current assets				
Intangible assets – product development		720	2,149	823
Property, plant and equipment		1,093	1,249	1,174
		1,813	3,398	1,997
Current assets				
Inventories		3,636	5,051	7,043
Trade and other receivables		9,803	6,897	13,352
Derivative financial instruments		97	1,609	464
Income Tax		168	1,560	–
Cash and cash equivalents		7,730	3,901	11,428
		21,434	19,018	32,287
Current liabilities				
Short term borrowings		(629)	(118)	(10,574)
Trade and other payables		(13,069)	(8,843)	(10,599)
Income tax payable		–	(96)	(386)
Derivative financial instruments		(262)	–	(936)
		(13,960)	(9,057)	(22,495)
Net current assets		7,474	9,961	9,792
Non Current Liabilities				
Deferred tax		–	(817)	–
Net assets		9,287	12,542	11,789
Equity				
Share capital		1,691	2,275	1,925
Shares held in treasury		(3,373)	(3,373)	(3,373)
Investment in own shares		(908)	(908)	(908)
Capital redemption reserve		1,039	448	798
Share based payment reserve		802	641	733
Share premium account		12,663	12,587	12,587
Merger reserve		651	651	651
Translation reserve		2,100	(162)	1,866
Profit and loss account		(5,378)	383	(2,490)
Total equity		9,287	12,542	11,789

CONSOLIDATED CASH FLOW STATEMENT

	Notes	6 months to 28 February 2010 (unaudited) £'000	6 months to 28 February 2009 (unaudited) £'000	12 months to 31 August 2009 (audited) £'000
Cash flow from operating activities				
Profit/(loss) before taxation for the period		3,731	(3,839)	(2,174)
Adjustments for:				
Depreciation of property, plant and equipment		135	164	306
Amortisation of intangible assets		1,255	1,944	4,198
(Profit) on disposal of property, plant and equipment		(3)	–	(8)
Interest expense		10	96	21
Financial instruments fair value adjustments		(674)	1,207	2,143
Share based payments		69	106	199
Decrease in inventories		3,407	4,751	2,759
Decrease in trade and other receivables		3,549	12,244	5,790
Increase/(decrease) in trade and other creditors		2,471	(8,784)	(7,029)
Cash generated from operations		13,950	7,889	6,205
Interest paid		(10)	(96)	(21)
Income tax paid		(728)	(1,465)	58
Net cash inflow from operating activities		13,212	6,328	6,242
Cash flows from investing activities				
Payments for intangible assets		(1,152)	(1,678)	(2,606)
Payments for property, plant and equipment		(55)	(102)	(182)
Proceeds from disposal of property, plant and equipment		5	–	17
Net cash outflow from investing activities		(1,202)	(1,780)	(2,771)
Cash flows from financing activities				
Proceeds from issue of share capital		83	–	–
Purchase of own shares for cancellation		(5,050)	–	(2,132)
Purchase of treasury shares		–	(97)	(97)
Dividends paid		(342)	–	–
Net cash used in financing activities		(5,309)	(97)	(2,229)
Net increase in cash and cash equivalents		6,701	4,451	1,242
Cash, cash equivalents at the beginning of the period		854	3	3
Effects of exchange rate movements		(454)	(671)	(391)
Cash, cash equivalents and borrowing at the end of the period		7,101	3,783	854

Cash, cash equivalents and borrowings consist of:

Cash and cash equivalents	7,730	3,901	11,428
Short term borrowings	(629)	(118)	(10,574)
	7,101	3,783	854

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	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
Balance as at 1 September 2008	**2,275**	**(908)**	**(3,277)**	**448**	**12,587**	**651**	**534**	**501**	**2,920**	**15,731**
Loss for the period	–	–	–	–	–	–	–	–	(3,477)	(3,477)
Translation reserve movement	–	–	–	–	–	–	–	3,310	(3,973)	(663)
Net gain on cash flow hedged forward contract	–	–	–	–	–	–	–	–	941	941
Total comprehensive income/(expense) for the period	–	–	–	–	–	–	–	3,310	(6,509)	(3,199)
Share based payment	–	–	–	–	–	–	107	–	–	107
Shares purchased	–	–	(96)	–	–	–	–	–	(1)	(97)
Six months ended 28 February 2009	**2,275**	**(908)**	**(3,373)**	**448**	**12,587**	**651**	**641**	**3,811**	**(3,590)**	**12,542**
Balance as at 1 September 2008	**2,275**	**(908)**	**(3,277)**	**448**	**12,587**	**651**	**534**	**501**	**2,920**	**15,731**
Loss for the year	–	–	–	–	–	–	–	–	(1,642)	(1,642)
Translation reserve movement	–	–	–	–	–	–	–	1,365	(1,752)	(387)
Net gain on cash flow hedged forward contract	–	–	–	–	–	–	–	–	117	117
Total comprehensive income/(expense) for the year	–	–	–	–	–	–	–	1,365	(3,277)	(1,912)
Share based payment	–	–	–	–	–	–	199	–	–	199
Shares cancelled	(350)	–	–	350	–	–	–	–	(2,132)	(2,132)
Shares purchased	–	–	(96)	–	–	–	–	–	(1)	(97)
Year ended 31 August 2009	**1,925**	**(908)**	**(3,373)**	**798**	**12,587**	**651**	**733**	**1,866**	**(2,490)**	**11,789**
Balance as at 1 September 2009	**1,925**	**(908)**	**(3,373)**	**798**	**12,587**	**651**	**733**	**1,866**	**(2,490)**	**11,789**
Profit for the period	–	–	–	–	–	–	–	–	3,454	3,454
Translation reserve movement	–	–	–	–	–	–	–	234	(686)	(452)
Net loss on cash flow hedged forward contract	–	–	–	–	–	–	–	–	(264)	(264)
Total comprehensive income/(expense) for the period	–	–	–	–	–	–	–	234	2,504	2,738
Dividend paid	–	–	–	–	–	–	–	–	(342)	(342)
Share based payment	–	–	–	–	–	–	69	–	–	69
Shares issued	7	–	–	–	76	–	–	–	–	83
Shares cancelled	(241)	–	–	241	–	–	–	–	(5,050)	(5,050)
Six months ended 28 February 2010	**1,691**	**(908)**	**(3,373)**	**1,039**	**12,663**	**651**	**802**	**2,100**	**(5,378)**	**9,287**

1 BASIS OF PREPARATION

The financial information set out in this interim statement has been prepared under International Financial Reporting Standards (IFRS) as adopted by the European Union and in accordance with the accounting policies which will be adopted in presenting the Group's annual report and financial statements for the year ending 31 August 2010. These are consistent with the accounting policies used in the financial statements for the year ended 31 August 2009 as described in those annual financial statements, except for the changes set out below.

As permitted, this interim report has been prepared in accordance with the AIM rules and not in accordance with IAS 34 'Interim Financial Reporting'.

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

These interim financial statements and the financial information for the six months ended 28 February 2009 do not constitute full statutory accounts within the meaning of section 434 of the Companies Act 2006 and are unaudited. These unaudited interim financial statements were approved by the Board of Directors on 26 April 2010.

The information for the year ended 31 August 2009 is based on the consolidated financial statements for that year on which the Group's auditors' report was unqualified and did not contain a statement under section 498 (2) or (3) of the Companies Act 2006.

2 CHANGES IN ACCOUNTING POLICIES

The following new standards and amendments are mandatory for the first time for the financial period beginning 1 September 2009:

IAS 1 (revised), 'Presentation of financial statements'. The revised standard requires 'non-owner changes in equity' to be presented separately from 'owner changes in equity'. All 'non-owner changes in equity' are required to be shown in a performance statement.

Entities can choose whether to present one performance statement (the statement of total comprehensive income) or two statements (the income statement and the statement of comprehensive income). The Group has elected to present two statements: income and a statement of comprehensive income. The interim financial information has been prepared under the revised presentation requirements.

As this standard affects presentation only, there is no impact on previously reported results.

IFRS 2 (amendment) 'Share-based payment'. This amendment to an existing standard deals with vesting conditions and cancellations. It clarifies that vesting conditions are service conditions and performance conditions only. Other features of a share-based payment are not vesting conditions.

3 GOING CONCERN

The Directors consider that the Group has adequate resources to continue operating for the foreseeable future and therefore continue to adopt the going concern basis in preparing the financial statements.

CONTINUED

4 DIVIDENDS

	For the six months ended 28 February 2010 (unaudited) £000's	For the six months ended 28 February 2009 (unaudited) £000's	For the year ended 31 August 2009 (audited) £000's
Final dividend for year ended 31 August 2009 – 1.0 pence per share	**342**	–	–
Interim	–	–	–
	342	–	–

5 EARNINGS/(LOSS) PER SHARE

Basic earnings per share is calculated by dividing the earnings attributable to ordinary shareholders by the weighted average number of ordinary shares during the period.

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares in issue on the assumption of conversion of all dilutive potential ordinary shares. The Group has only one category of dilutive potential ordinary shares, being share options granted where the exercise price is less than average price of the company's ordinary shares during this period.

The calculations are based on the following:

	For the six months ended 28 February 2010 (unaudited) £000's	For the six months ended 28 February 2009 (unaudited) £000's	For the year ended 31 August 2009 (audited) £000's
Profit/(loss) attributable to equity shareholders of the parent	3,454	(3,477)	(1,642)
Weighted average number of shares			
In issue during the year – basic	33,713,253	41,211,689	40,204,746
Dilutive potential ordinary shares	904,828	11,468	9,675
Weighted average number of ordinary shares for diluted earnings per share*[1]	34,618,081	41,211,689	40,214,421

*[1]The weighted average number of shares used in the calculation of the diluted loss per share for the six months ended 28 February 2009 and 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.

Basic earnings/(loss) per share (pence)	10.25	(8.44)	(4.09)
Diluted earnings/(loss) per share (pence)	9.98	(8.44)	(4.09)

INDEPENDENT REVIEW REPORT TO THE CHARACTER GROUP PLC

Introduction

We have been engaged by the Company to review the financial statements presented in the half-yearly report for the six months ended 28 February 2010, which comprises the consolidated income statement, the consolidated statement of comprehensive income, the consolidated balance sheet, the consolidated cash flow statement, the consolidated statement of changes in equity and related notes 1 to 5. We have read the other information contained in the half-yearly report which comprises only the Chairman's statement and considered whether it contains any apparent misstatements or material inconsistencies with the financial statements.

This report is made solely to the Company in accordance with guidance contained in ISRE 2410 (UK and Ireland) "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Auditing Practices Board. Our review work has been undertaken so that we might state to the company those matters we are required to state to them in a review report and for no other purposes. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company, for our work, for this report, or for the conclusions we have formed.

Directors' responsibilities

The half-yearly financial report is the responsibility of, and has been approved by, the directors. The AIM rules of the London Stock Exchange require that the accounting policies and presentation applied to the financial information in the half-yearly financial report are consistent with those which will be adopted in the annual accounts having regard to the accounting standards applicable for such accounts.

As disclosed in Note 1, the annual financial statements of the group are prepared in accordance with IFRSs as adopted by the European Union. The financial information in the half-yearly financial report has been prepared in accordance with the basis of preparation in Note 1.

Our Responsibility

Our responsibility is to express to the Company a conclusion on the financial statements in the half-yearly financial report based on our review.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Auditing Practices Board for use in the United Kingdom. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Review conclusion

Based on our review, nothing has come to our attention that causes us to believe that the financial statements in the half-yearly report for the six months ended 28 February 2010 are not prepared, in all material respects, in accordance with the AIM Rules of the London Stock Exchange.

HLB Vantis Audit plc
Chartered Accountants
London
26 April 2010

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