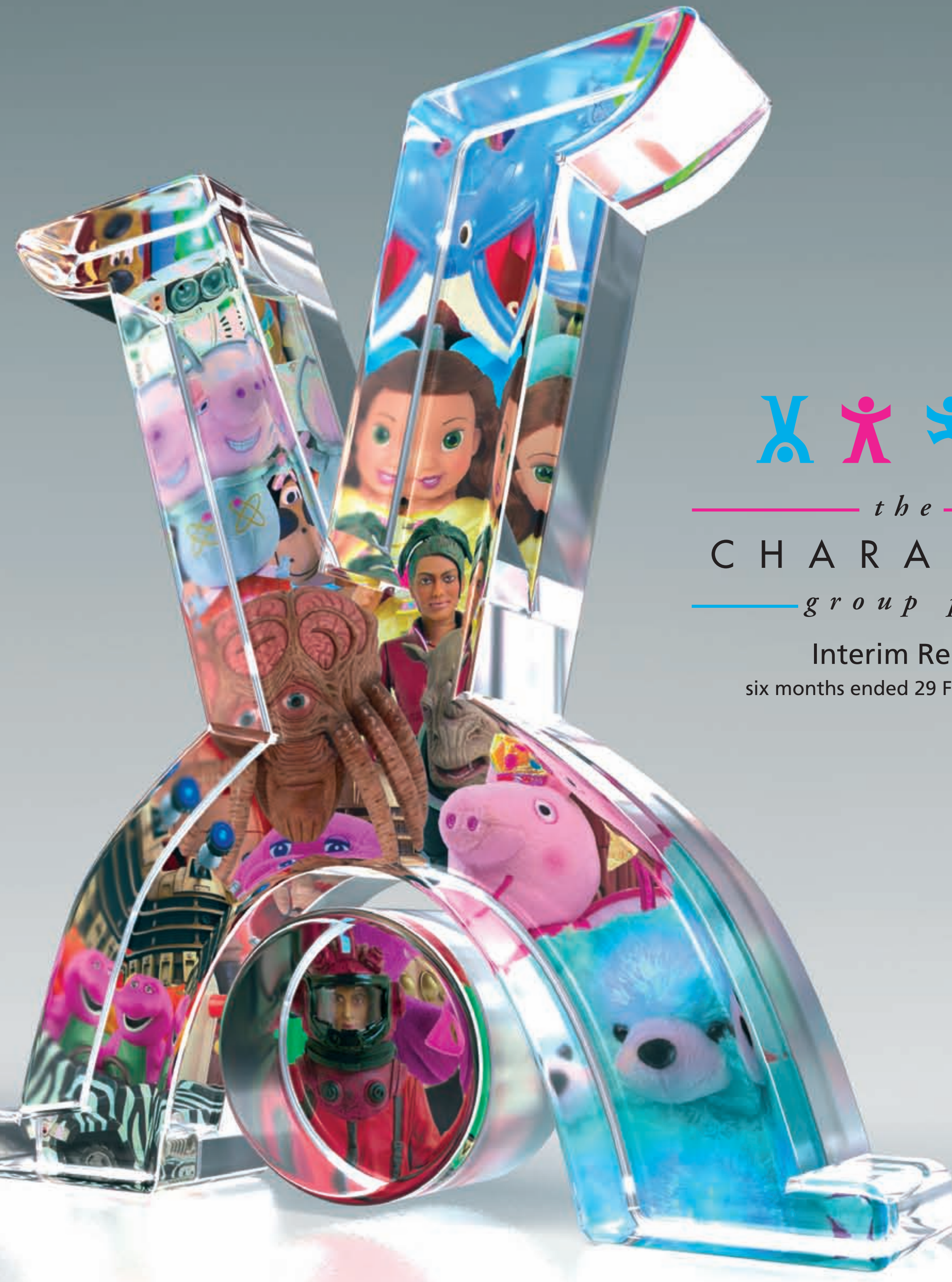

the

CHARACTER

group plc

Interim Report

six months ended 29 February 2008

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CHAIRMAN'S LETTER

Introduction

As previously announced, the period under review was problematical for the Group as a direct result of two main factors. The first being the well publicised general economic conditions, which adversely affected Christmas trading. The second involved the "one-off" costs incurred in the recall of the Bindeez products distributed by the Group in the UK and Eire and the subsequent loss of sales whilst awaiting replacement stocks.

The Group is reporting its unaudited half-year results for the period ended 29 February 2008, expressed for the first time under International Financial Reporting Standards (IFRS) and prepared in accordance with the Group's policies. In the first year of its adoption, the Group's compliance with IFRS has the effect of altering the balance of the Group's profitability between the first and second half of the current financial year. A reconciliation of the profit under UK GAAP to IFRS is set out in Note 5.

Against this background, the Group has produced a creditable performance for the half-year, achieving pre tax profits of £3.25 million against £7.03 million for the same period for the previous year, on turnover of £48.6 million (2007: £56.2 million).

Despite the difficulties outlined above, the Board remains optimistic that the business will be able to meet market expectations for the year as a whole.

Review

Although like many other suppliers to the UK High Street, the Group has suffered from the overall economic weakness, the major contributor to our weaker first half performance was the Bindeez product recall and its associated costs.

The Directors consider the Bindeez product recall to be a "one-off" exceptional event, with a substantial negative effect in terms of revenue and profitability in the period being reported. Whilst the impact of weaker markets has had some effect on sales and profits, Bindeez sales alone were some £4.0 million below the budgeted levels, which when account is taken of the associated costs of £1.9 million reduced profits by around £3.0 million.

It is a tribute to the management teams and their staff that the challenges were handled with skill and care and also reflects how well the Group has developed its portfolio and customer relationships in that no adverse trade or consumer reaction is anticipated going forward.

As a major UK supplier, we continue to capitalise on our market position, whilst at the same time seek to develop further our international markets. We entered the 2008 financial year with confidence that we had developed a strong, innovative and exciting product portfolio, which meets both the demands of the customers and the consumer. We continue to maintain that confidence.

Financials

Group sales in the six month period amounted to £48.6 million, down 13% compared with 2007 (2007: £56.2 million).

EBITDA amounted to £4.53 million (£7.83 million in 2007).

Operating profits for the same period were down 53.6% at £3.4 million (2007: £7.3 million), whilst profit before tax on the same basis was £3.25 million, compared to £7.03 million, a reduction of 53.7%.

Gross margin was 38.8%, compared to 41% for the previous period.

Basic earnings per share were 5.51 pence per share compared to 11.19 pence in 2007.

Costs remain under tight control and the higher level of stocks in the period reported reflect the lower than budgeted sales in the period being reported.

Cash at bank (excluding finance advances) at 29 February 2008 totalled £10.2 million, against £11.9 million in the 2007 comparable period and £15.7 million at the August 2007 year end. This follows the significant share buy back programme, which was fully accounted for in the results for the period under review. The Group currently has no borrowings.

Stocks have increased to £9.1 million from £5.4 million as a result of slower sales over Christmas, however, it is anticipated that no further stock provisions will be required as the stock is generally current and of good quality and has already been written down wherever necessary.

Share Buy-Backs

During the period being reported, the Group purchased 1,938,984 ordinary shares in the Company at an aggregate price of £1.7 million and an average price of 88.3 pence per share. Excluding those ordinary shares held in treasury, this equates to 4.6% of the Group's current issued share capital. As at 1 April 2008, the Company had 42,552,953 ordinary shares in issue, excluding 2,938,984 ordinary shares held in treasury (April 2007: 45,619,837 ordinary shares excluding 979,322 ordinary shares held in treasury).

Dividend

The Board has declared an interim dividend of 2.2 pence per share, an increase of 10% over 2007. The interim dividend will be paid on 25 July 2008 to Shareholders on the Register as at the close of business on 4 July 2008. The ex-dividend date is 2 July 2008.

The Directors will continue to focus on ways to enhance shareholder value through both a continuation of its progressive dividend policy and share buy-back programme.

Outlook

Trading is expected to remain tough and challenging throughout the year but, this being said, the Group has weathered the problems outlined above. We will continue to focus on costs and productivity and the Board remains optimistic at this stage that the business will see substantial revenue growth in the second half, when compared to the same period in 2007.

On a further positive note, the Group has increased its market share during the first three months of the 2008 calendar year, which is indicative of the Group's progress in a difficult trading environment.

The Bindeez range has been re-launched in the UK this month and early indications from retail are very encouraging. In addition, the general reaction to our 2008/9 product portfolio by our customers at the various UK and international trade fairs remains pleasing. The directors believe that the Group's products will achieve a record number of listings at retail for this coming Christmas, which in itself indicates that the Group continues to make progress despite difficult trading conditions.

At the end of January 2008, the Group was awarded a major new licence by Disney for ***Hannah Montana*** which covers the UK and Eire. We are also pleased to announce that this licence has been extended to cover certain ***High School Musical*** products. These exciting licences will be backed by a portfolio of in excess of 25 products, the first of which have just been shipped to retail with more to be delivered over the next month. First reactions by the consumer are very pleasing. We believe that the ***Hannah***

Montana licence will be one of the 'hot properties' for Christmas 2008 and products are likely to be in short-supply throughout the year.

We are also delighted to have been appointed the master toy licensee for the new TV series of ***Postman Pat*** to be broadcast from this coming autumn. We expect to place product into the market from January 2009.

We are continuing to increase and broaden our own-developed product portfolio, as well as negotiating a number of very exciting other licence opportunities, and we look forward to updating shareholders on these in due course.

The Board is confident that, with the Group's strong balance sheet and substantial unutilised bank facilities, the business can continue to build on its solid position, both commercially and in terms of shareholder returns.

Richard King
Chairman

28 April 2008

CONSOLIDATED INCOME STATEMENT

	Notes	6 months to 29 February 2008 (unaudited) £'000	6 months to 28 February 2007 (unaudited) £'000	12 months to 31 August 2007 (unaudited) £'000
Continuing operations				
Revenue		48,594	56,209	95,076
Cost of sales		(29,737)	(33,137)	(56,714)
Gross profit		18,857	23,072	38,362
Net operating expenses				
Selling and distribution costs		(7,335)	(7,264)	(10,143)
Administration expenses		(8,199)	(8,499)	(15,508)
Other operating income		79	18	149
Operating profit		3,402	7,327	12,860
Net finance costs		(147)	(294)	(285)
Profit before taxation		3,255	7,033	12,575
Taxation		(854)	(1,888)	(3,877)
Profit for the period attributable to equity holders of the parent		2,401	5,145	8,698
Earnings per share (pence)	4			
Basic		5.51p	11.19p	19.20p
Fully diluted		5.34p	10.92p	18.62p
Dividend per share	2	2.2p	2.0p	4.4p
EBITDA (earnings before interest, tax, depreciation and amortisation)		4,529	7,835	14,541

CONSOLIDATED STATEMENT OF RECOGNISED INCOME AND EXPENSE

	Notes	6 months to 29 February 2008 (unaudited) £'000	6 months to 28 February 2007 (unaudited) £'000	12 months to 31 August 2007 (unaudited) £'000
Profit for the period after tax		2,401	5,145	8,698
Exchange differences on translation of foreign operations recognised in equity		(5)	(42)	(86)
Total recognised income and expense		2,396	5,103	8,612

CONSOLIDATED BALANCE SHEET

	Note	at 29 February 2008 (unaudited) £'000	at 28 February 2007 (unaudited) £'000	at 31 August 2007 (unaudited) £'000
Non – current assets				
Goodwill		–	300	–
Other intangible assets – product development		2,604	1,141	1,409
Property, plant and equipment		1,362	1,534	1,494
Investments		–	2	–
		3,966	2,977	2,903
Current assets				
Inventories		9,084	5,404	10,831
Trade and other receivables		7,486	9,618	21,303
Derivative financial instruments		299	–	–
Cash and cash equivalents		10,249	11,860	15,658
		27,118	26,882	47,792
Current liabilities				
Loans		–	(1,350)	–
Short term borrowings – finance advances		(3,538)	(4,264)	(8,784)
Trade and other payables		(10,651)	(7,617)	(23,522)
Derivative financial instruments		–	(197)	(452)
Income tax payable		(2,078)	(2,013)	(3,187)
		(16,267)	(15,441)	(35,945)
Net current assets		10,851	11,441	11,847
Non Current Liabilities				
Deferred tax		(585)	(283)	(280)
Net assets		14,232	14,135	14,470
Equity				
Share capital		2,275	2,329	2,273
Shares held in treasury		(2,389)	(635)	(676)
Investment in own shares		(908)	(908)	(908)
Capital redemption reserve		448	385	448
Share based payment reserve		433	192	315
Share premium account		12,584	12,517	12,568
Merger reserve		651	651	651
Translation reserve		(413)	(432)	(725)
Profit and loss account		1,551	36	524
Total equity		14,232	14,135	14,470

CONSOLIDATED CASH FLOW STATEMENT

	Notes	6 months to 29 February 2008 (unaudited) £'000	6 months to 28 February 2007 (unaudited) £'000	12 months to 31 August 2007 (unaudited) £'000
Cash flow from operating activities				
Profit before taxation for the period		3,255	7,033	12,575
Adjustments for:				
Depreciation of property, plant and equipment		193	184	375
Amortisation of intangible assets		934	324	1,306
(Profit) on disposal of investments		–	–	(1)
(Profit)/loss on disposal of property, plant and equipment		–	(3)	–
Interest Expense		147	294	285
Financial instruments fair value adjustments		(751)	39	295
Share based payments		117	124	247
Decrease/(increase) in inventories		1,747	5,267	(160)
Decrease/(increase) in trade and other receivables		13,816	11,669	(512)
(Decrease)/increase in finance advances		(5,246)	(2,011)	2,509
(Decrease)/increase in trade and other creditors		(12,869)	(13,798)	754
Cash generated from operations		1,343	9,122	17,673
Interest paid		(147)	(294)	(285)
Income tax paid		(1,660)	(251)	(1,068)
Net cash (outflow)/inflow from operating activities		(464)	8,577	16,320
Cash flows from investing activities				
Payments for intangible assets		(2,129)	(917)	(1,867)
Payments for property, plant and equipment		(98)	(132)	(288)
Proceeds from disposal of investments		–	–	3
Proceeds from disposal of property, plant and equipment		38	19	19
Proceeds of disposal of discontinued activity		–	–	496
Net cash outflow from investing activities		(2,189)	(1,030)	(1,637)
Cash flows from financing activities				
Proceeds from issue of share capital		18	169	225
Repurchase of own shares		–	(2,929)	(5,352)
Sale of treasury shares		–	952	952
Purchase of treasury shares		(1,730)	(472)	(518)
Dividends paid		(1,039)	(733)	(1,625)
Net cash used in financing activities		(2,751)	(3,013)	(6,318)
Net (decrease)/increase in cash and cash equivalents		(5,404)	4,534	8,365
Cash and cash equivalents at the beginning of the period		15,658	7,369	7,369
Effects of exchange rate movements		(5)	(43)	(76)
Cash and cash equivalents at the end of the period		10,249	11,860	15,658

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital £'000s	Treasury Shares £'000s	Capital redemption reserve £'000s	Share premium account £'000s	Merger reserve £'000s	Share Based Payment £'000s	Translation Reserve £'000s	Profit and loss account £'000s
At 1 September 2006	2,452	(665)	243	11,917	651	68	–	(1,831)
Share based payment	–	–	–	–	–	124	–	–
Profit after tax	–	–	–	–	–	–	–	5,145
Dividends	–	–	–	–	–	–	–	(733)
Shares Issued	19	–	–	150	–	–	–	–
Sale of treasury shares	–	502	–	450	–	–	–	–
Shares purchased	(142)	(472)	142	–	–	–	–	(2,934)
Translation reserve movement	–	–	–	–	–		(432)	389
At 28 February 2007	2,329	(635)	385	12,517	651	192	(432)	36
Share Based Payment	–	–	–	–	–	247	–	–
Profit after tax	–	–	–	–	–	–	–	8,698
Dividends	–	–	–	–	–	–	–	(1,625)
Shares Issued	25	–	–	200	–	–	–	–
Sale of treasury shares	–	502	–	451	–	–	–	–
Shares purchased	(204)	(513)	205	–	–	–	–	(5,357)
Translation reserve movement	–	–	–	–	–	–	(725)	639
At 31 August 2007	2,273	(676)	448	12,568	651	315	(725)	524
Share Based Payment	–	–	–	–	–	118	–	–
Profit after tax	–	–	–	–	–	–	–	2,401
Dividends	–	–	–	–	–	–	–	(1,039)
Shares Issued	2	–	–	16	–	–	–	–
Shares purchased	–	(1,713)	–	–	–	–	–	(17)
Translation reserve movement	–	–	–	–	–	–	312	(318)
At 29 February 2008	2,275	(2,389)	448	12,584	651	433	(413)	1,551

1 BASIS OF PREPARATION

In common with other companies listed on AIM, the Group is required to apply International Financial Reporting Standards (IFRS) as adopted by the European Union (EU), in the preparation of its consolidated financial statements for the accounting period beginning on or after 1 January 2007. The Group will apply IFRS as adopted by the EU in its consolidated financial statements for the first time for the year ending 31 August 2008. Therefore these interim financial statements for the six months ended 29 February 2008 are prepared using accounting policies that will be applied to the consolidated financial statements for the year ending 31 August 2008 and to which IFRS 1 "First-time Adoption of international Financial Reporting Standards" is relevant.

The Group's financial statements were prepared in accordance with United Kingdom Generally Accepted Accounting Practice (UK GAAP) until 31 August 2007. The Group's transition date for the adoption of IFRS is 1 September 2006. The Group is required to establish its IFRS accounting policies for the year ending 31 August 2008 and apply these retrospectively to determine its IFRS balance sheet at the transition date of 1 September 2006 and the comparative information for the year ended 31 August 2007.

In preparing the consolidated financial statements, the Group has elected to take advantage of provisions within IFRS 1, which offer certain exemptions from applying IFRS to the opening IFRS balance sheet at 1 September 2006 as follows:

IFRS 3 Business Combinations

The Group has chosen not to restate business combinations prior to the transition date of 1 September 2006. The carrying amount of goodwill in the opening balance sheet at 1 September 2006 is therefore its carrying amount at that date under UK GAAP.

IAS 21 The Effects of Changes in Foreign Exchange Rates

Under IAS 21 the exchange differences arising on the translation of the results and net assets of overseas operations must be held as a separate component of equity. On a subsequent disposal of an overseas operation, the cumulative amount of exchange differences previously recognised directly in equity for that operation are to be transferred to the income statement as part of the profit or loss on disposal. The Group has made use of the exemption allowing cumulative translation differences to be set to zero as at the transition date of 1 September 2006.

IFRS 2 Share Based Payment

The Group has taken advantage of the transitional provisions of IFRS 2 in respect of equity settled awards and has applied IFRS 2 only to equity settled awards granted after 7 November 2002 and that had not vested before 1 September 2006. This is in line with the treatment adopted with FRS 20 in the 2007 financial statements under UK GAAP.

An explanation of how the transition from UK GAAP to IFRS has affected the Group's financial position and financial performance is set out note 5 ('Explanation of transition to IFRS'). There has been no impact on the Group cash flows.

The financial information contained in this report does not constitute statutory financial statements within the meaning of section 240 of the Companies Act 1985. The Group's statutory financial statements for the year ended 31 August 2007 were prepared under UK GAAP and have been delivered to the Registrar of Companies. The report of the auditors on those financial statements was unqualified and did not contain a statement under either section 237 (2) or (3) of the Companies Act 1985. The comparative figures for the year ended 31 August 2007 presented here have been adjusted to reflect the transition to IFRS and are non statutory and unaudited.

1 BASIS OF PREPARATION CONTINUED

Accounting Policies

The consolidated financial statements have been prepared on a historical cost basis, subject to the items referred to below in relation to financial instruments and share based payments. The consolidated financial statements are presented in sterling and all values are rounded to the nearest thousand (£000) except when otherwise indicated.

Statement of compliance

These consolidated financial statements are prepared in accordance with IFRS as adopted by the EU, with the exception of IAS 34 "Interim Reporting", which is not mandatory for AIM companies.

Basis of Consolidation

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

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

Significant judgements and estimates

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

Foreign currency translation

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

INTANGIBLE ASSETS

Goodwill

Goodwill on consolidation represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets, liabilities and contingent liabilities acquired at the date of acquisition. Under UK GAAP, goodwill was capitalised and amortised over its estimated useful life. Under IFRS 3 goodwill is no longer amortised but is subject to an annual impairment review. The Group has continued to adopt its previous policy under UK GAAP; as the differences arising from retranslation under IFRS are not material.

1 BASIS OF PREPARATION CONTINUED

Product development expenditure

The Group's accounting policy under UK GAAP was to expense all development costs in the year that they were incurred. Under IFRS, development costs should be capitalised if specific conditions are fulfilled. Costs incurred on development projects (relating to the design and testing of new products) are recognised as intangible assets when it is probable that the project will be a success, considering its commercial and technical feasibility, and costs can be measured reliably. The Group has capitalised those projects that have met these capitalisation criteria from 1 September 2006. Amortisation on a straight line basis commences upon completion of the development project, over the estimated product life (which is generally one year). The asset will be reviewed annually for impairment or whenever indicators suggest that the carrying amount may not be recovered. All other development costs are charged directly to expense in the income statement as incurred.

TANGIBLE ASSETS

Property, Plant and Equipment

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

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

Inventories

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

Financial assets

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

Impairment of financial assets

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

Trade receivables

Trade receivables do not carry any interest and are stated at their nominal value as reduced by appropriate allowances for estimated irrecoverable amounts. Certain Group companies have agreements under which debts approved by the finance company are assigned to the finance company without recourse. Non-refundable advances are made by the finance company. The Group has no obligation to, and the directors do not intend that the Group will support any losses from such debts. Under UK GAAP, cash advances were offset in a linked presentation on the face of the balance sheet. Under IFRS there is no equivalent of the linked presentation and therefore cash advanced under this arrangement has been treated as a finance advance under current liabilities. There is no impact on net assets caused by this change in treatment.

1 BASIS OF PREPARATION CONTINUED

Cash and cash equivalents

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

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

FINANCIAL LIABILITIES

Finance advances

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

Trade payables

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

Interest bearing loans and borrowings

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

Derivative financial instruments

The Group uses forward foreign currency contracts and currency option products to reduce or eliminate exposure to foreign exchange risk. The Group does not use derivative financial instruments for speculative purposes. Changes in the fair value of derivative financial instruments are recognised in the income statement under cost of sales as they arise.

Derecognition of financial assets and liabilities

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

Provisions

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

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

Share based payment

The Group issues equity settled awards to certain employees. The fair value of equity settled awards granted after 7 November 2002, and that will vest on or after 1 September 2006, are measured using a binomial valuation model taking into account the terms and conditions under which the option was granted. Options vest subject to the employee remaining in service during the vesting period and the relevant non market related performance condition(s) being met.

1 BASIS OF PREPARATION CONTINUED

Share based payment (continued)

The fair value determined on this basis is expensed on a straight line basis over the vesting period, based upon the Group's estimate of the number of shares that will vest. The charge in respect of share based payments is matched by an equal and opposite adjustment to equity.

Employee Benefits

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

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

Leases

Where the lessor maintains substantially all the risks and rewards of ownership, leases are treated as operating leases. Operating lease payments are recognised as an expense in the income statement on a straight line basis over the lease terms.

Revenue Recognition

Revenue is measured at the fair value of consideration received or receivable for goods and services in the normal course of business, net of value added tax and provisions for returns.

Income Taxes

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

Current tax

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

Deferred tax

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

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

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

– where the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss;

– in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

1 BASIS OF PREPARATION CONTINUED

Deferred tax (continued)

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

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

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

Own Shares

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

Treasury shares

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

Segment Reporting

The intention of the Group is to comply with IAS 14 "Segment Reporting" for the year ending 31 August 2008, and to continue to do so until such time as IFRS 8 "Operating Segments" becomes mandatory.

2 DIVIDENDS DECLARED

	Notes	For the six months ended 29 February 2008 Unaudited £'000	For the six months ended 29 February 2007 Unaudited £'000	For the year ended 31 August 2007 Unaudited £'000
Final		1,039	733	733
Interim		–	–	892
		1,039	733	1,625

The interim dividend declared for the six months ended 29 February 2008 is 2.2 pence per ordinary share and is expected to be paid on 25 July 2008 to those shareholders on the register at the close of business on 4 July 2008.

3 CASH AND CASH EQUIVALENTS

	Notes	For the six months ended 29 February 2008 Unaudited £'000	For the six months ended 29 February 2007 Unaudited £'000	For the year ended 31 August 2007 Unaudited £'000
Cash and cash equivalents are analysed as follows:				
Cash at bank and in hand		10,249	11,860	15,658

4 EARNINGS 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 the average price of the company's ordinary shares during this period.

The calculations are based on the following:

	For the six months ended 29 February 2008 Unaudited £'000	For the six months ended 29 February 2007 Unaudited £'000	For the year ended 31 August 2007 Unaudited £'000
Profit attributable to equity shareholders of the parent	2,401	5,145	8,698
Weighted average number of shares			
In issue during the year – basic	43,598,263	45,980,878	45,298,688
Dilutive potential ordinary shares	1,357,073	1,140,385	1,408,453
Weighted average number of ordinary shares for diluted earnings per share	44,955,336	47,121,263	46,707,141
Basic earnings per share (pence)	5.51	11.19	19.20
Diluted earnings per share (pence)	5.34	10.92	18.62

5 FIRST TIME ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS

EXPLANATION OF TRANSITION TO IFRS

(a) IAS 38 – Product Development

IAS 38 requires the Group to capitalise product development costs when the future technical feasibility and future economic benefit can be demonstrated. As at 1 September 2006 the Group had capitalised product development costs of £448,000.

The corresponding capitalised amount at 28 February 2007 was £1,141,000 and at 31 August 2007 was £1,409,000.

(b) IAS 32 – Financial Instruments – Disclosure and Presentation & IAS 39 Financial Instruments Recognition and Measurement

The adoption of these standards requires the Group to recognise the fair value of its derivative financial instruments, namely, forward foreign currency contracts and call options. The fair value loss recognised at 1 September 2006 was £157,000. The corresponding losses recognised at 28 February 2007 were £197,000 and at 31 August 2007 were £452,000.

Under UK GAAP finance advances were offset against trade debtors in a linked presentation on the face of the balance sheet. Under IFRS there is no equivalent of the linked presentation. Cash advances under this arrangement are now shown as finance advances under current liabilities.

(c) IAS 21 – The effects of changes in foreign exchange rates

IAS 21 requires income and cash flows of foreign subsidiaries to be reported using average rates of exchange that existed during the accounting period rather than the closing rates at the end of the accounting period. Retranslating the income from subsidiaries on this basis has resulted in additional net income recognised at 28 February 2007 of £51,000 and at 31 August 2007 of £109,000.

From 1 September 2006, foreign exchange differences arising from the translation of foreign operations are recorded in a separate reserve. Under the provisions of IFRS 1 the historic translation differences on foreign subsidiaries have been set to zero at 1 September 2006. The loss on translation at 28 February 2007 was £432,000 and at 31 August 2007 was £725,000.

(d) IAS 19 – Employee Benefits

IAS 19 requires the Group to recognise in full liabilities in relation to employee benefits.

As at 1 September 2006, the Group had recognised an additional £22,000 of liabilities for holiday pay.

The corresponding liability was £nil at 28 February 2007 and £24,000 at 31 August 2007.

(e) IAS 12 – Income Taxes

IAS 12 requires deferred tax to be calculated based on temporary differences between the carrying amount of assets and liabilities and their respective tax bases.

The adjustments to assets and liabilities described above also give rise to certain taxable and deductible differences for which an adjustment to deferred assets is required. The net taxable difference resulting from the above was £269,000 at 1 September 2006, £944,000 at 28 February 2007 and £933,000 at 31 August 2007. This has led to the recognition of a deferred tax liability of £81,000 at 1 September 2006, £283,000 at 28 February 2007 and £280,000 at 31 August 2007.

RECONCILIATION OF UK GAAP TO IFRS

RECONCILIATION OF NET INCOME FOR SIX MONTHS ENDED 28 FEBRUARY 2007

	Note	£'000
Profit for the period under UK GAAP		4,621
Capitalisation of product development expenses	5(a)	693
Financial instruments	5(b)	(40)
Translation of foreign subsidiaries	5(c)	51
Holiday Pay accrual	5(d)	22
Deferred taxation	5(e)	(202)
Profit for the period under IFRS		5,145

RECONCILIATION OF NET INCOME FOR YEAR ENDED 31 AUGUST 2007

	Note	£'000
Profit for the period under UK GAAP		8,124
Capitalisation of product development expenses	5(a)	961
Financial instruments	5(b)	(295)
Translation of foreign subsidiaries	5(c)	109
Holiday Pay accrual	5(d)	(2)
Deferred taxation	5(e)	(199)
Profit for the period under IFRS		8,698

RECONCILIATION OF BALANCE SHEET – UK GAAP TO IFRS

		At 1 September 2006		
		UK	Effect of	
		GAAP	IFRS	IFRS
	Note	£'000	£'000	£'000
Assets				
Non current assets				
Goodwill		400	–	400
Other intangible assets – product development		–	448	448
Property, plant and equipment		1,609	–	1,609
Investments		2	–	2
		2,011	448	2,459
Current assets				
Inventories		10,671	–	10,671
Trade and other receivables	5(b)	15,012	6,275	21,287
Derivative financial instruments		–	–	–
Cash and cash equivalents		7,369	–	7,369
		33,052	6,275	39,327
Current liabilities				
Loans		(1,350)	–	(1,350)
Short term borrowings – finance advances	5(b)	–	(6,275)	(6,275)
Trade and other payables		(21,396)	(22)	(21,418)
Derivative financial instruments		–	(157)	(157)
Income tax payable		(578)	–	(578)
		(23,324)	(6,454)	(29,778)
Net current assets		9,728	(179)	9,549
Non-current liabilities				
Deferred tax		–	(81)	(81)
Net assets		11,739	188	11,927
Equity				
Called up share capital		2,452	–	2,452
Shares held in treasury		(665)	–	(665)
Investment in own shares		(908)	–	(908)
Capital redemption reserve		243	–	243
Share based payment reserve		68	–	68
Share premium account		11,917	–	11,917
Merger reserve		651	–	651
Translation reserve		–	–	–
Profit and loss account		(2,019)	188	(1,831)
Total equity		11,739	188	11,927

RECONCILIATION OF BALANCE SHEET – UK GAAP TO IFRS CONTINUED

At 28 February 2007			At 31 August 2007		
UK GAAP £'000	Effect of IFRS £'000	IFRS £'000	UK GAAP £'000	Effect of IFRS £'000	IFRS £'000
300	–	300	–	–	–
–	1,141	1,141	–	1,409	1,409
1,534	–	1,534	1,494	–	1,494
2	–	2	–	–	–
1,836	1,141	2,977	1,494	1,409	2,903
5,404	–	5,404	10,831	–	10,831
5,354	4,264	9,618	12,519	8,784	21,303
–	–	–	–	–	–
11,860	–	11,860	15,658	–	15,658
22,618	4,264	26,882	39,008	8,784	47,792
(1,350)	–	(1,350)	–	–	–
–	(4,264)	(4,264)	–	(8,784)	(8,784)
(7,617)	–	(7,617)	(23,498)	(24)	(23,522)
–	(197)	(197)	–	(452)	(452)
(2,013)	–	(2,013)	(3,187)	–	(3,187)
(10,980)	(4,461)	(15,441)	(26,685)	(9,260)	(35,945)
11,638	(197)	11,441	12,323	(476)	11,847
–	(283)	(283)	–	(280)	(280)
13,474	661	14,135	13,817	653	14,470
2,329	–	2,329	2,273	–	2,273
(635)	–	(635)	(676)	–	(676)
(908)	–	(908)	(908)	–	(908)
385	–	385	448	–	448
192	–	192	315	–	315
12,517	–	12,517	12,568	–	12,568
651	–	651	651	–	651
–	(432)	(432)	–	(725)	(725)
(1,057)	1,093	36	(854)	1,378	524
13,474	661	14,135	13,817	653	14,470

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 29 February 2008, which comprises the consolidated income statement, the consolidated statement of recognised gains and losses, 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 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. 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 directors are responsible for preparing the half-yearly financial report in accordance with the AIM Rules of the London Stock Exchange.

As disclosed in note 1, the next annual financial statements of the Group will be prepared in accordance with those IFRSs adopted for use by the European Union. This interim report has been prepared in accordance with the requirements of IFRS 1, "First Time Adoption of International Financial Reporting Standards" relevant to interim reports.

The accounting policies are consistent with those that the directors intend to use in the next financial statements.

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 29 February 2008 are not prepared, in all material respects, in accordance with the basis of preparation and accounting policies outlined in note 1 and in accordance with the AIM Rules of the London Stock Exchange.

HLB Vantis Audit plc
Chartered Accountants
London
28 April 2008

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