



Thursday, 1 December 2016

The Character Group plc
 ("Character", "Group" or "Company")

Designers, developers and international distributor of toys, games and giftware

Preliminary results for the year ended 31 August 2016

"Strong organic growth underpins Character's continued position as the UK's leading independent toy company. Underlying pre-tax profit for the year is £12.5m up 22.5% on the previous year and current trading is commensurate with the Company achieving the Board's profit expectations for the current financial year."

Key Performance Indicators	%	Full-year ended	Full-year ended
		31 August 2016	31 August 2015
	<i>change</i>		
Revenue	+22.1%	£121.0m	£99.1m
Underlying operating profit*	+22.1%	£12.7m	£10.4m
Operating profit	+6.4%	£13.3m	£12.5m
Underlying pre-tax profit*	+22.5%	£12.5m	£10.2m
Pre-tax profit	+6.5%	£13.1m	£12.3m
Underlying basic earnings per share*	+22.7%	47.63p	38.83p
Underlying diluted earnings per share*	+23.5%	45.16p	36.57p
Basic earnings per share	+3.6%	50.30p	48.56p
Diluted earnings per share	+4.3%	47.70p	45.73p
Dividends per share for the year	+36.4%	15.0p	11.0p
Underlying EBITDA*	+27.0%	£15.1m	£11.9m
EBITDA	+12.9%	£15.7m	£13.9m
Net assets	+50.7%	£22.9m	£15.2m
Net cash	+53.3%	£6.9m	£4.5m

*Excludes mark to market profit adjustments on FX derivative positions	£0.6m	£2.1m
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- Profitable and cash generative business model
- Progressive dividend policy, final dividend up 33%, total for the year 15p, up 36% over 2015
- International sales up 50%
- Top 10 performing brands account for 70% of revenue
- *Peppa Pig* continues to deliver a consistently high level of sales and remains our top selling brand
- *Little Live Pets and Teletubbies* (launched January 2016) complete our Top 3
- *Stretch Armstrong*, has been launched successfully with initial sales exceeding expectation

"Our strategic focus remains: "to seek out and develop exciting products which meet domestic and international market demand". Overall, current trading continues to be in-line with the Board's expectations, with pleasing levels of increasingly predictable contribution being generated from our established cornerstone brands. We are also very satisfied with the inroads that we continue to make in overseas markets as demonstrated by the improved level of international sales; and we fully expect such growth to be a prominent factor in delivering our strategic growth ambitions going forward."

Note: The Key Performance Indicators (KPI's) table shown at the top this Report provides the foregoing data on an underlying basis and, also by reference to Generally Accepted Accounting Practice (GAAP) as adopted and applied consistently by the Group.

Copies of this statement can be viewed at www.thecharacter.com.
Product ranges can also be viewed at www.character-online.co.uk.

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FTSE sector: leisure:

FTSE AIM All-share: symbol: CCT.L

Market cap: £95m

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*The information contained within this announcement
is deemed by the Company to constitute inside information stipulated under the Market Abuse Regulation (EU) No. 596/2014.
Upon the publication of this announcement via the Regulatory Information Service, this inside information is now considered
to be in the public domain.*

The Character Group plc

Designers, developers and international distributor of toys, games and giftware

Preliminary results for the year ended 31 August 2016

INTRODUCTION

The Board is delighted to report another excellent year of trading for the business resulting in the Group achieving an increase in revenue to £121.0m up 22.1% over the comparative 2015 period; underlying profit before tax for FY 2016 was £12.5m, this compares with underlying profit before tax of £10.2m in the same period last year. Our expanding core of product groups, marketed at “value for money” price points contributed positively to our overall performance, in both the UK and International markets. In-line with our growth strategy revenue from International customers, which is generated in US Dollars, grew to £31.7m, an increase of 50.3% when compared to FY 2015 and this will continue to provide a natural currency hedge against a currently weakened Sterling.

OUR BRANDS

Our top performing brands which include *Peppa Pig*, *Little Live Pets*, *Teletubbies*, *Minecraft*, *Scooby Doo*, and *Mashems* continue to show resilience and remain ever popular with the consumer and our customers alike. *Peppa* remains our lead brand; we have also witnessed strong demand across several new categories and ranges including the iconic *Teletubbies*, re-launched at the start of this calendar year. Other notable successes in this reporting period include *Little Live Pets*, and a character based squidgy collectible range called *Mashems*. Recently the *Little Live Pets* range has been widened to include *Snuggles My Dream Puppy*; this product has been named by the Toy Retailer’s Association as one of the Top 12 Dream Toys for 2016; we will also see further additions to this important toy range in 2017.

As we highlighted at the interim stage in April, we added a number of new licenses to our portfolio including the iconic *Stretch Armstrong*; subsequently we launched products on a global basis including in the USA. To date we have been very encouraged by this range’s early performance, and with a planned widening of the Stretch product portfolio for calendar year 2017, we are very excited by the prospect of the brand’s potential to contribute significantly to future profitability.

Our strong product offering, continued demand for our market leading brands combined with the Company’s continually strengthening financial position, underpin our status within the industry as the UK’s leading independent toy company.

OPERATIONAL PERFORMANCE

The Group’s portfolio continues to be derived from, both our own-developed in-house ranges, including those produced ‘under licence’, and others sourced through exclusive distribution agreements. We have worked hard to successfully develop strength and depth across our brands and long term trusted relationships across a wide spectrum of customers and suppliers globally.

Revenue in the year ended 31 August 2016 was up 22.1% to £121.0m, against £99.1m in the comparable 2015 period. Total revenue generated in the UK market was £89.3m (FY 2015 £78.0m); in International markets total revenue was £31.7m (FY 2015 £21.1m).

Underlying gross profit margin in the year being reported amounted to 31.2%, compared to 34.9% for the 2015 financial year. Underlying margins remained consistent overall and reflect the fact that the Group’s growing international sales make up a higher proportion of its total revenue. On an absolute basis, underlying gross profit was £37.7m for the financial year compared to £34.6m for FY 2015.

The Group is reporting an underlying profit before tax in the period under review of £12.5m, up 22.5% (FY2015 £10.2m). Underlying earnings before interest, tax, depreciation and amortisation were £15.1m, up 27% on the comparative period (FY 2015 £11.9m.)

Underlying basic earnings per share amounted to 47.63p, an increase of 22.7% (FY2015 38.83p). Underlying diluted earnings per share, on the same basis, was 45.16p, up 23.5% (FY2015: 36.57p).

A significant proportion of the Group's purchases are made in US dollars; it is therefore exposed to foreign currency fluctuations and manages the associated risk through the purchase of forward exchange contracts and derivative financial instruments. Under International Financial Reporting Standards (IFRS), at the end of each reporting period the Group is required to make an adjustment in its financial statements to incorporate a "mark to market" valuation of such financial instruments. The "mark to market" adjustment for this financial period results in an additional profit of £0.6m being reported. This compares to an additional profit of £2.1m reported in the year to 31 August 2015. These "mark to market" adjustments are non-cash items calculated by reference to unpredictable and sometimes volatile currency spot rates at the various balance sheet dates. In order to highlight profitability on a normal basis these adjustments have been deducted to arrive at the "underlying" profit measures presented in this report.

The Key Performance Indicators (KPI's) table shown at the front of this report provides the foregoing data on an underlying basis and also by reference to Generally Accepted Accounting Practice (GAAP) as adopted and applied consistently by the Group.

DIVIDENDS

The Board is recommending an increased final dividend of 8 pence per share. This reflects our continued confidence in the Company's ability to generate sustainable cash flow and evidences the delivery of the progressive dividend policy.

This, together with the interim dividend of 7 pence per share paid in July 2016 makes a total dividend of 15 pence per share, an increase of 36.4% (FY2015 11p). The 2016 dividend is covered 3.4 times by annual earnings.

Subject to approval by shareholders at the Annual General Meeting ("AGM") on 20 January 2017, the final dividend will be paid on 27 January 2017 to Members on the Register as at the close of business on 6 January 2017; the shares will be marked ex-dividend on 5 January 2017.

FINANCIAL POSITION, WORKING CAPITAL & CASH FLOW

The Group's capital base has been further strengthened in the period, with net assets at 31 August 2016 totalling £22.9m an increase of 50.7% on the position at 31 August 2015.

Inventories at 31 August 2016 were £10.3m (FY2015 £9.0m); this increase reflects the required level of stock to meet the high demand for our products and ensure the on-going efficiency of our UK operation; since year end a significant proportion of this stock has been sold through to customers and our current levels are lean but sufficient to meet current orders and anticipated demand for product early in the New Year.

During the financial year under review the Group generated cash from operations of £10.8m (FY 2015 £18.3m). The decrease is a temporary reflection of the Group's investment in an increased level of trade debt and inventory; since the year end these investments have been realised and converted into cash.

The Group has no long term debt. Interest charges on the use of working capital facilities during the period were £0.2m (FY 2015 £0.2m).

At the end of the financial year, after making payments for dividends and share buy-backs (referenced in this Report), the Group had net cash on the balance sheet of £6.9m a 53.3% improvement on the position at the end of the 2015 comparative period.

SHARE BUY-BACK PROGRAMME

During the 2016 financial year, the Company acquired a total of 258,936 ordinary shares in the Company at an aggregate cost of approximately £1.2m (excluding stamp duty and dealing costs), with the average cost being approximately £4.78 per ordinary share (FY2015: 2,336,330 ordinary shares were acquired and cancelled at an aggregate cost of approximately £6.1m and an average cost of approximately £2.60p per ordinary share).

The Company currently has an unutilised authority to buy-back up to a further 2,791,298 ordinary shares. It remains part of our overall strategy to continue to repurchase the Company's own shares when appropriate under its current share buy-back programme and, as previously indicated, the Directors could also be prepared to participate in any future share buy-back programme the Company proposes.

As at today's date, the Company has 21,139,152 ordinary shares in issue excluding shares held in treasury. The Company holds 3,269,456 ordinary shares in treasury, representing approximately 15.47 percent of the share capital excluding these treasury shares, which do not carry voting or dividend rights. The figure of 21,139,152 may be used by shareholders as the denominator for the calculations by which they will determine if they are required to notify their interest, or change to their notified interest, in the Company under the Disclosure and Transparency Rules.

OUR PEOPLE

As shareholders are aware over the last year we have further strengthened the operational management team and the PLC Board, in order to help deliver the Group's strategic objectives. We are pleased to report that these transformational changes have been successful and our teams are well placed to navigate the Group through the challenges that lie ahead.

In total the business employs 194 people across its locations in the UK and Asia. Once again, the Board would like to take the opportunity, on behalf of all stakeholders, to thank every one of its colleagues around the business for their continuous hard work, dedication and loyalty, which underpins the strength in all of the Group's external relationships and its continued capability to perform overall.

OUTLOOK

As we highlighted in our September 2016 trading update, the increasing strength of the US Dollar against Pound Sterling, our reporting currency, particularly post-Brexit, has the potential to cause an increase in our cost of sales, notably the factory cost of production and freight charges. We are pleased to report that a number of initiatives have been put in place, designed to mitigate the effects of such cost increases. In addition to these cost saving measures the expansion of our international business, which generates revenue and profit in US Dollars is enabling the Group to successfully maintain current gross profit margin levels comparable with those achieved pre-Brexit.

Our strategic focus remains: *"to seek out and develop exciting products which meet domestic and international market demand"*. Overall, current trading continues to be in-line with the Board's expectations, with pleasing levels of increasingly predictable contribution being generated from our established cornerstone brands. We are also very satisfied with the inroads that we continue to make in overseas markets as demonstrated by the improved level of international sales; and we fully expect such growth to be a prominent factor in delivering our growth ambitions going forward.

The Board look forward to further updating shareholders on the 2016 Christmas trading period and future prospects at the time of the forthcoming AGM in January 2017.

CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 31 AUGUST 2016

	<i>Note</i>	Total 2016 £000's	Total 2015 £000's
Continuing operations			
Revenue	1	120,967	99,054
Cost of sales		(82,694)	(62,399)
Gross profit		38,273	36,655
Net operating expenses			
Selling and distribution costs		(7,128)	(7,310)
Administration expenses		(18,447)	(17,753)
Other operating income		602	892
Operating profit	2	13,300	12,484
Finance income		47	14
Finance costs		(215)	(230)
Profit before income tax		13,132	12,268
Taxation		(2,345)	(2,029)
Profit for the year attributable to equity holders of the parent		10,787	10,239
Earnings per share (pence)			
Basic	3	50.30p	48.56p
Fully diluted	3	47.70p	45.73p
Dividend per share (pence)			
	4	13.0p	8.95p
EBITDA (earnings before interest, tax, depreciation and amortisation)		15,689	13,934

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 AUGUST 2016

	Total 2016 £000's	Total 2015 £000's
Profit for the year after tax	10,787	10,239
Items that will not be reclassified subsequently to profit and loss		
Current tax credit relating to exercised share options	421	582
Deferred tax relating to share options	(414)	674
	7	1,256
Items that may be reclassified subsequently to profit and loss		
Exchange differences on translation of foreign operations	(820)	(251)
Income tax on exchange differences	144	24
	(676)	(227)
Total comprehensive income for the year attributable to the equity holders of the parent	10,118	11,268

CONSOLIDATED BALANCE SHEET

AS AT 31 AUGUST 2016

	2016	2015
	£000's	£000's
Non – current assets		
Intangible assets – product development	1,117	837
Investment property	1,845	1,911
Property, plant and equipment	3,357	3,551
Deferred tax assets	474	1,058
	6,793	7,357
Current assets		
Inventories	10,303	8,965
Trade and other receivables	25,082	15,535
Current income tax receivable	-	22
Derivative financial instruments	533	234
Cash and cash equivalents	28,560	25,781
	64,478	50,537
Current liabilities		
Short term borrowings	(21,647)	(21,246)
Trade and other payables	(25,418)	(19,015)
Income tax	(1,099)	(1,862)
Derivative financial instruments	(89)	(363)
	(48,253)	(42,486)
Net current assets	16,225	8,051
Non-current liabilities		
Deferred tax	(99)	(167)
Net assets	22,919	15,241
Equity		
Called up share capital	1,235	1,244
Shares held in treasury	(2,743)	(3,373)
Capital redemption reserve	1,717	1,704
Share based payment reserve	2,778	2,631
Share premium account	15,450	14,642
Merger reserve	651	651
Translation reserve	1,274	1,374
Profit and loss account	2,557	(3,632)
Total equity attributable to equity holders of the parent	22,919	15,241

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 AUGUST 2016

	12 months to 31 August 2016 £000's	12 months to 31 August 2015 £000's
Cash flow from operating activities		
Profit before taxation for the year	13,132	12,268
Adjustments for:		
Depreciation of property, plant and equipment	441	425
Depreciation of investment property	65	65
Amortisation of intangible assets	1,925	960
(Profit) on disposal of property, plant and equipment	(1)	(14)
Interest expense	168	216
Financial instruments fair value adjustments	(573)	(2,051)
Share based payments	147	144
(Increase) in inventories	(1,338)	(111)
(Increase) / Decrease in trade and other receivables	(9,547)	7,882
Increase / (Decrease) in trade and other creditors	6,403	(1,530)
Cash generated from operations	10,822	18,254
Interest paid	(168)	(216)
Income tax paid	(2,419)	(725)
Net cash inflow from operating activities	8,235	17,313
Cash flows from investing activities		
Payments for intangible assets	(2,205)	(1,559)
Payments for property, plant and equipment	(247)	(349)
Proceeds from disposal of property, plant and equipment	14	14
Net cash outflow from investing activities	(2,438)	(1,894)
Cash flows from financing activities		
Proceeds from disposal of investment in own shares	-	908
Proceeds from issue of share capital	1,442	929
Purchase of own shares for cancellation	(1,244)	(6,088)
Dividends paid	(2,785)	(1,864)
Net cash used in financing activities	(2,587)	(6,115)
Net increase in cash and cash equivalents	3,210	9,304
Cash, cash equivalents and borrowings at the beginning of the year	4,535	(4,515)
Effects of exchange rate movements	(832)	(254)
Cash, cash equivalents and borrowings at the end of the year	6,913	4,535

Cash, cash equivalents and borrowings consist of:

Cash and cash equivalents	28,560	25,781
Short term borrowings	(21,647)	(21,246)
Cash, cash equivalents and borrowings at the end of the year	6,913	4,535

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 AUGUST 2016

	Called up share capital £000's	Investment in own shares £000's	Shares held in treasury £000's	Capital redemption reserve £000's	Share premium account £000's	Merger reserve £000's	Share based payment reserve £000's	Translation reserve £000's	Profit and loss account £000's	Total £000's
The Group										
At 1 September 2014	1,266	(908)	(3,373)	1,587	13,808	651	2,487	1,508	(7,082)	9,944
Profit for the year after tax	-	-	-	-	-	-	-	-	10,239	10,239
Net Exchange differences on translation of foreign operations	-	-	-	-	-	-	-	(134)	(93)	(227)
Deferred tax credit relating to share options	-	-	-	-	-	-	-	-	674	674
Current tax credit relating to exercised share options	-	-	-	-	-	-	-	-	582	582
Total comprehensive income for the year	-	-	-	-	-	-	-	(134)	11,402	11,268
Disposal of Investment in own shares	-	908	-	-	-	-	-	-	-	908
Share-based payment	-	-	-	-	-	-	144	-	-	144
Dividends	-	-	-	-	-	-	-	-	(1,864)	(1,864)
Shares issued	95	-	-	-	834	-	-	-	-	929
Shares cancelled	(117)	-	-	117	-	-	-	-	(6,088)	(6,088)
At 31 August 2015	1,244	-	(3,373)	1,704	14,642	651	2,631	1,374	(3,632)	15,241
Profit for the year after tax	-	-	-	-	-	-	-	-	10,787	10,787
Net Exchange differences on translation of foreign operations	-	-	-	-	-	-	-	(100)	(576)	(676)
Deferred tax credit relating to share options	-	-	-	-	-	-	-	-	(414)	(414)
Current tax relating to exercised share options	-	-	-	-	-	-	-	-	421	421
Total comprehensive income for the year	-	-	-	-	-	-	-	(100)	10,218	10,118
Share-based payment	-	-	-	-	-	-	147	-	-	147
Dividends	-	-	-	-	-	-	-	-	(2,785)	(2,785)
Shares issued	4	-	630	-	808	-	-	-	-	1,442
Shares cancelled	(13)	-	-	13	-	-	-	-	(1,244)	(1,244)
At 31 August 2016	1,235	-	(2,743)	1,717	15,450	651	2,778	1,274	2,557	22,919

Capital and Reserves

- Called up share capital represents the nominal value of equity shares allotted, called up and fully paid
- Share premium represents the excess of the fair value of consideration received for the equity shares, net of expenses of the share issue over the nominal value of the equity shares
- Capital redemption reserve represents the buyback and cancellation of shares at nominal value
- Merger reserve represents the premium arising on shares issued as consideration for the acquisition of subsidiaries and which qualified for merger relief
- Share based payment reserve represents the amounts recognised in profit and loss in respect of share based payments
- Translation reserve represents the cumulative foreign exchange differences on the translation of the net assets of the Group's foreign operations to the presentation currency of the parent
- Profit and loss account represents retained profit and losses

THE CHARACTER GROUP PLC
NOTES TO THE PRELIMINARY RESULTS

1. GEOGRAPHICAL DESTINATION OF REVENUE

	12 months ended 31 August 2016 £000's	12 months ended 31 August 2015 £000's
United Kingdom	89,313	77,988
Rest of the world	31,654	21,066
Total Group	120,967	99,054

2. EXPENSES BY NATURE

	12 months to 31 August 2016 £000's	12 months to 31 August 2015 £000's
Operating profit is stated after charging/(crediting):		
Cost of inventories recognised as an expense (included in the cost of sales)	75,790	58,666
Amortisation of capitalised product development costs	1,925	960
(Credit) financial instruments fair value adjustments	(573)	(2,051)
Inventories write down (credit)/charge	(728)	449
Exchange losses	155	77
Staff costs	11,476	11,208
Depreciation of tangible fixed assets		
— owned assets	441	425
Depreciation of investment property	65	65
(Profit) on disposal of property, plant and equipment	(1)	(14)
Operating leases — land and buildings	313	272
Auditor remuneration	75	74

3. EARNINGS PER SHARE

The earnings used in the calculation of basic and diluted earnings per share are as follows:

	12 months to 31 August 2016 Profit after taxation £	12 months to 31 August 2015 Profit after taxation £
Profit for the year used in the calculation of basic and diluted earnings per share	10,787,000	10,239,000

The weighted average number of ordinary shares used for the calculation of basic and diluted earnings per share are as follows:

	12 months to 31 August 2016	12 months 31 August 2015
Weighted average number of ordinary shares used in the calculation of basic earnings per share	21,445,576	21,085,023
Weighted average number of share options	1,170,529	1,305,141
Weighted average number of ordinary shares used in the calculation of diluted earnings per share	22,616,105	22,390,164

4. DIVIDENDS

	12 months ended 31 August 2016 £000's	12 months ended 31 August 2015 £000's
On equity shares:		
Final dividend paid for the year ended 31 August 2015 — 6.00 pence (2014: 3.95 pence) per share	1,285	838
Interim dividend paid for the year ended 31 August 2016 — 7.00 pence (2015: 5.00 pence) per share	1,500	1,026
13.00 pence (2015: 8.95 pence) per share	2,785	1,864

The Directors recommend a final dividend of 8.00 pence per share (2015: 6.00 pence) amounting to £1,691,000 (2015: £1,297,000). If approved by shareholders, the final dividend will be paid on 27 January 2017 to shareholders on the Register on 6 January 2017.

5. ANNUAL GENERAL MEETING

The Annual General Meeting will be held at the offices of Duane Morris LLP, 2nd Floor, 10 Chiswell Street, London EC1Y 4UQ on Friday, 20 January 2017 at 11.00 am.

6. ANNUAL REPORT AND ACCOUNTS

The Preliminary announcement does not constitute statutory accounts within the meaning of Section 435 of the Companies Act 2006. The Annual Report and accounts for the year ended 31 August 2016 and the comparatives under IFRS have yet to be reported on by the auditors and have not yet been filed with the Registrar of Companies.

7. ELECTRONIC COMMUNICATIONS

The full Financial Statements for the year ended 31 August 2016, together with the Notice convening the Company's 2017 Annual General Meeting, will be available for viewing and download on the Group's website, www.character.com by 23 December 2016.