



*the*  
C H A R A C T E R  
*group plc*

**Interim Report**

Six months ended 28 February 2014

## CONTENTS

Directors and Advisors	1
Chairman's Letter	2
Consolidated Income Statement	4
Consolidated Statement of Comprehensive Income	4
Consolidated Balance Sheet	5
Consolidated Statement of Cash Flows	6
Consolidated Statement of Changes in Equity	7
Notes to the Financial Information	8
Independent Review Report	9

[www.thecharacter.com](http://www.thecharacter.com)

[www.character-online.co.uk](http://www.character-online.co.uk)

## DIRECTORS AND ADVISORS

### *Directors*

R King  
K P Shah  
J J Diver  
J J P Kissane  
M S Hyde  
Lord Birdwood  
D Harris

### *Secretary*

M T Dowding

*Company registration number*  
03033333

*Nominated Advisers and Broker*  
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### *Bankers*

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### *Solicitors*

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### *Registrars*

Neville Registrars Limited  
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New Bridge Street House  
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# The Character Group plc

## Half-Yearly Financial Report

### for the six months to 28 February 2014

#### Overview

We are pleased to report that the net profit before tax of the Group for the half year was £3.07 million. This follows the improved trading experienced in the second half of the last financial year. The business is benefitting from not only the general improvement in sentiment and the economic climate but more directly from the Group's stronger product offering, which we are pleased to note is being well received by the trade in both the second half of the current financial year and the calendar year as a whole.

The 2013 Christmas trading period was very encouraging and this trend has continued into the spring season, with consumer purchases of our products matching our expectations. Through the solid level of support from our retail partners, strong sales are coming through from across key ranges such as *Peppa Pig*®, *Teksta*®, *ChillFactor*™, *Minecraft*™, *Doctor Who*®, *Fireman Sam*®, *TheZelfs*™, *Disney Princess Palace Pets*™, and *Shimmer and Sparkle Cra-Z-Loom*™.

We have successfully balanced sales of our UK product portfolio across several brands and, accordingly, no single product category accounts for more than 20% of our UK sales.

Whilst the growth of UK sales across several categories is very satisfying, we have been very pleased with the strong revenue growth coming from international sales. Our leading international products are *Peppa Pig*® in Europe and Australia and *Doctor Who*® in the USA. Their combined sales have driven international growth by more than 50% during the period.

Our strategy "to seek out and develop exciting products which meet domestic and international market demand" remains unchanged. As we have previously said, our products will come from both our own developed in-house portfolio, including those produced 'under licence', and will also be sourced through distribution agreements.

#### Industry Awards

We were delighted that *Teksta*®, the electronic puppy, was named an official 2013 Dream Toy. Distributed exclusively in the UK by Character, it was also voted 'Toy of the Year', at the annual Industry Awards, which celebrate the best of the UK toy industry by both suppliers and retailers. Organised by the British Toy & Hobby Association they were announced in conjunction with this year's International Toy Fair held in London in January 2014.

We were very pleased to also collect the 'Lifestyle Award' for the innovative *ChillFactor*™ Squeeze Cup Slushy Maker, which was one of the most sought after children's products last year and has sold well in excess of half a million units since its launch in May 2013.

#### Financials

Revenue in the period was £46.87 million, against £30.59 million in the comparable 2013 period (year ended 31 August 2013 £67.19m). Gross profit in the period being reported amounted to £14.16 million, compared to £8.24 million in 2013.

The Group is reporting a profit before tax on continuing operations in the period under review of £3.07 million, against a loss before taxation of £1.90 million for the comparable 2013 period (Full year ended 31 August 2013 profit £0.20m).

Basic earnings per share from continuing operations amounted to 11.37 pence, against a loss in 2013 of 6.59 pence. (0.71 pence earnings per share for the year ended 31 August 2013). Diluted earnings per share, on the same basis, were 10.39 pence (HY2013: loss (6.59p) (FY2013: 0.65p).

A significant proportion of the Group's purchases are made in US dollars. The Group 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 recent weakness of the US dollar against sterling has resulted in a related charge to the income statement of £2.93 million (2013: £0.09 million). The profit before tax of £3.07 million is stated after charging £2.93 million in relation to this 'mark to market' valuation. This charge is a non-cash item in these financial statements.

Inventories at 28 February 2014 stood at £5.18 million (2013: £5.83m) and at 31 August 2013 £6.18m.

Working capital continues to be managed effectively, with the cost base and inventory levels operated under tight control. The Company repurchased shares to a value of £3.32 million during the first six months. However net borrowings continued to decline and were £4.64 million at 28 February 2014, a reduction of £1.38 million from 31 August 2013.

### **Dividend**

The Company will pay a maintained interim dividend of 3.30 pence per share (2013: 3.30p). The Board, however, will recommend returning to its progressive dividend policy as soon as is practicable and will consider the matter further at the year end. The interim dividend will be paid on 6 June 2014 to shareholders on the Register as at the close of business on 16 May 2014. The shares will be marked ex-dividend on 14 May 2014.

### **Share buy-backs**

During the first six months, the Company continued its share buy-back programme and re-purchased 1,825,680 ordinary shares of 5 pence each (“Ordinary Shares”) at a cost of approximately £3.32 million (2013: £0.52 million), excluding stamp duty and dealing costs. As at today’s date, the Company’s issued share capital is 21,296,983 Ordinary Shares (excluding 4,019,456 Ordinary Shares held in treasury).

The Company has an unutilised capacity to buy-back up to a further 5,758,000 Ordinary Shares under the authority granted to it at the Annual General Meeting on 17 January 2014. The Board believes that its policy of share buy-backs has been successful for shareholders and will continue to follow that strategy when future opportunities arise. As previously indicated, the Directors could be prepared to participate in any future share buy-back programme the Company proposes.

### **People**

On behalf of the Board and all our stakeholders, I would once again like to take this opportunity to acknowledge and thank all our people both in the Far East and the UK for their continued dedication and hard work. They continue to work together with both our suppliers and our customers to deliver exciting, technical and innovative ranges that meet the on-going demands of the consumer.

### **Outlook**

This year we have unveiled a very strong yet balanced product range which has been well received by our retail partners. Over the next few months we will launch a number of new additions to an already successful portfolio and we believe that this will maintain Character as one of the UK’s leading toy companies.

As we indicated at the start of the year at the AGM, our diverse product portfolio should provide the engine for continued growth. We look forward to updating you with the release of our annual financial results and, in the meantime, investors can view our offering on our website [www.character-online.co.uk](http://www.character-online.co.uk).

Overall, we are witnessing solid trading, both at home and internationally. We therefore remain comfortable, at this stage, that forecasted sales are currently on track for the calendar year as a whole and this is expected to lead us to achieve current market expectation for the financial year ending 31 August 2014.

**Richard King,**  
**Executive Chairman**

**1 May 2014**

**The Character Group plc**  
**Consolidated Income Statement**  
**For the six months to 28 February 2014**

Notes	<b>6 months to 28 February 2014 (unaudited) £'000</b>	6 months to 28 February 2013 (unaudited) £'000	12 months to 31 August 2013 (audited) £'000
<b>Continuing operations</b>			
Revenue	46,875	30,595	67,188
Cost of sales	(32,718)	(22,354)	(49,299)
<b>Gross profit</b>	<b>14,157</b>	<b>8,241</b>	<b>17,889</b>
<b>Net operating expenses</b>			
Selling and distribution costs	(4,005)	(4,063)	(5,812)
Administration expenses	(7,360)	(6,324)	(12,437)
Other operating income	498	514	973
<b>Operating profit/(loss)</b>	<b>3,290</b>	<b>(1,632)</b>	<b>613</b>
Finance income	3	-	6
Finance costs	(222)	(273)	(418)
<b>Profit/(loss) before taxation</b>	<b>3,071</b>	<b>(1,905)</b>	<b>201</b>
Taxation	(570)	435	(42)
<b>Profit/(loss) for the period from continuing operations</b>	<b>2,501</b>	<b>(1,470)</b>	<b>159</b>
<b>Profit on discontinued operation</b>			
Reclassification of net exchange gain on discontinued foreign operation	-	525	524
<b>Profit/(loss) for the period attributable to equity holders of the parent</b>	<b>2,501</b>	<b>(945)</b>	<b>683</b>
<b>Earnings per share from continuing and discontinued operations</b>			
<b>Basic earnings per share (pence)</b>			
From continuing operations	11.37p	(6.59p)	0.71p
From discontinued operations	-	2.35p	2.34p
From profit/(loss) for the period	11.37p	(4.24p)	3.05p
<b>Diluted earnings per share (pence)</b>			
From continuing operations	10.39p	(6.59p)	0.65p
From discontinued operations	-	2.15p	2.15p
From profit/(loss) for the period	10.39p	(4.44p)	2.80p
<b>Dividend per share (pence)</b>			
	3	3.3p	6.6p
<b>EBITDA</b> (earnings before interest, tax, depreciation and amortisation)	<b>4,276</b>	<b>466</b>	<b>3,565</b>

**Consolidated Statement of Comprehensive Income**

	<b>6 months to 28 February 2014 (unaudited) £'000</b>	6 months to 28 February 2013 (unaudited) £'000	12 months to 31 August 2013 (audited) £'000
Profit/(loss) for the period after tax	2,501	(945)	683
Items that may be reclassified subsequently to profit and loss			
Exchange differences on translation of foreign operations	19	(44)	(24)
<b>Total comprehensive income/(loss) for the period attributable to the equity holders of the parent</b>	<b>2,520</b>	<b>(989)</b>	<b>659</b>

**The Character Group plc**  
**Consolidated Balance Sheet**  
**At 28 February 2014**

	At 28 February 2014 (unaudited) £'000	At 28 February 2013 (unaudited) £'000	At 31 August 2013 (audited) £'000
<b>Non – current assets</b>			
Intangible assets – product development	638	705	748
Investment property	1,995	2,074	2,042
Property, plant and equipment	3,642	3,762	3,678
Deferred tax assets	804	484	312
	<b>7,079</b>	<b>7,025</b>	<b>6,780</b>
<b>Current assets</b>			
Inventories	5,182	5,832	6,178
Trade and other receivables	11,566	7,999	18,722
Current income tax receivable	430	639	863
Derivative financial instruments	94	272	360
Cash and cash equivalents	6,842	3,340	9,242
	<b>24,114</b>	<b>18,082</b>	<b>35,365</b>
<b>Current liabilities</b>			
Short term borrowings	(11,483)	(9,619)	(15,260)
Trade and other payables	(7,527)	(7,395)	(16,541)
Income tax payable	(1,147)	(60)	(550)
Derivative financial instruments	(3,274)	(153)	(607)
	<b>(23,431)</b>	<b>(17,227)</b>	<b>(32,958)</b>
<b>Net current assets</b>	<b>683</b>	<b>855</b>	<b>2,407</b>
<b>Non – current liabilities</b>			
Deferred tax	(134)	(189)	(219)
<b>Net assets</b>	<b>7,628</b>	<b>7,691</b>	<b>8,968</b>
<b>Equity</b>			
Share capital	1,266	1,331	1,353
Shares held in treasury	(3,373)	(3,373)	(3,373)
Investment in own shares	(908)	(908)	(908)
Capital redemption reserve	1,571	1,480	1,480
Share based payment reserve	2,472	2,139	2,361
Share premium account	13,714	13,540	13,675
Merger reserve	651	651	651
Translation reserve	1,456	1,335	1,346
Profit and loss account	(9,221)	(8,504)	(7,617)
<b>Total equity</b>	<b>7,628</b>	<b>7,691</b>	<b>8,968</b>

**The Character Group plc**  
**Consolidated Statement of Cash Flows**  
**For the six months to 28 February 2014**

	6 months to 28 February 2014 (unaudited) £'000	6 months to 28 February 2013 (unaudited) £'000	12 months to 31 August 2013 (audited) £'000
<b>Cash flow from operating activities</b>			
Profit/(loss) before taxation for the period	3,071	(1,380)	725
<b>Adjustments for:</b>			
Depreciation of property, plant and equipment	186	207	401
Depreciation of investment property	47	33	65
Amortisation of intangible assets	753	1,858	2,486
(Profit) on disposal of property, plant and equipment	(10)	(6)	(8)
Interest expense	219	273	412
Reclassification of net exchange gain on discontinued foreign operation	-	(525)	(524)
Financial instruments fair value adjustments	2,933	91	457
Share based payments	111	247	469
Decrease in inventories	996	1,524	1,178
Decrease in trade and other receivables	7,156	9,106	(1,617)
Decrease in trade and other creditors	(9,014)	(5,994)	3,152
<b>Cash generated from operations</b>	<b>6,448</b>	<b>5,434</b>	<b>7,196</b>
Interest paid	(219)	(273)	412
Income tax paid	(117)	(1,156)	(1,165)
<b>Net cash inflow from operating activities</b>	<b>6,112</b>	<b>4,005</b>	<b>5,619</b>
<b>Cash flows from investing activities</b>			
Payments for intangible assets	(643)	(1,227)	(1,899)
Payments for property, plant and equipment	(153)	(102)	(219)
Proceeds from disposal of property, plant and equipment	11	-	18
Proceeds from disposal of assets	-	12	-
<b>Net cash outflow from investing activities</b>	<b>(785)</b>	<b>(1,317)</b>	<b>(2,100)</b>
<b>Cash flows from financing activities</b>			
Proceeds from issue of share capital	43	229	386
Purchase of own shares for cancellation	(3,321)	(518)	(518)
Dividends paid	(693)	(734)	(1,485)
<b>Net cash used in financing activities</b>	<b>(3,971)</b>	<b>(1,023)</b>	<b>(1,617)</b>
<b>Net increase in cash and cash equivalents</b>	<b>1,356</b>	<b>1,665</b>	<b>1,902</b>
Cash, cash equivalents and borrowings at the beginning of the period	(6,018)	(7,896)	(7,896)
Effects of exchange rate movements	21	(48)	(24)
<b>Cash, cash equivalents and borrowings at the end of the period</b>	<b>(4,641)</b>	<b>(6,279)</b>	<b>(6,018)</b>
Cash, cash equivalents and borrowings consist of:			
Cash, cash equivalents and borrowings	6,842	3,340	9,242
Short term borrowings	(11,483)	(9,619)	(15,260)
	<b>(4,641)</b>	<b>(6,279)</b>	<b>(6,018)</b>



**The Character Group plc**  
**Consolidated statement of changes in equity**

	Called up share capital £'000	Investment in own shares £'000	Treasury shares £'000	Capital redemption reserve £'000	Share premium account £'000	Merger reserve £'000	Share based payment £'000	Translation reserve £'000	Profit and loss account £'000	Total £'000
<b>Balance as at 1 September 2012 (unaudited)</b>	1,331	(908)	(3,373)	1,459	13,332	651	1,892	1,880	(6,283)	9,981
Loss for the period	-	-	-	-	-	-	-	-	(945)	(945)
Reclassification of net exchange gain on discontinued foreign operation	-	-	-	-	-	-	-	(525)	-	(525)
Exchange differences on translation of foreign operations	-	-	-	-	-	-	-	(20)	(24)	(44)
<b>Total comprehensive expense for the period</b>	-	-	-	-	-	-	-	(545)	(969)	(1,514)
<b>Transactions with owners</b>										
Dividend paid	-	-	-	-	-	-	-	-	(734)	(734)
Share based payment	-	-	-	-	-	-	247	-	-	247
Shares issued	21	-	-	-	208	-	-	-	-	229
Shares cancelled	(21)	-	-	21	-	-	-	-	(518)	(518)
<b>Six months ended 28 February 2013</b>	1,331	(908)	(3,373)	1,480	13,540	651	2,139	1,335	(8,504)	7,691

<b>Balance as at 1 September 2012 (audited)</b>	1,331	(908)	(3,373)	1,459	13,332	651	1,892	1,880	(6,283)	9,981
Profit for the year after tax	-	-	-	-	-	-	-	-	683	683
Reclassification of net exchange gain on discontinued foreign operation	-	-	-	-	-	-	-	(524)	-	(524)
Exchange differences on translation of foreign operations	-	-	-	-	-	-	-	(10)	(14)	(24)
<b>Total comprehensive income /(expense) for the year</b>	-	-	-	-	-	-	-	(534)	669	135
<b>Transactions with owners</b>										
Dividends paid	-	-	-	-	-	-	-	-	(1,485)	(1,485)
Share based payment	-	-	-	-	-	-	469	-	-	469
Shares issued	43	-	-	-	343	-	-	-	-	386
Shares cancelled	(21)	-	-	21	-	-	-	-	(518)	(518)
<b>Year ended 31 August 2013</b>	1,353	(908)	(3,373)	1,480	13,675	651	2,361	1,346	(7,617)	8,968

<b>Balance as at 1 September 2013 (unaudited)</b>	1,353	(908)	(3,373)	1,480	13,675	651	2,361	1,346	(7,617)	8,968
Profit for the period	-	-	-	-	-	-	-	-	2,501	2,501
Exchange differences on translation of foreign operations	-	-	-	-	-	-	-	110	(91)	19
<b>Total comprehensive expense for the period</b>	-	-	-	-	-	-	-	110	2,410	2,520
<b>Transactions with owners</b>										
Dividend paid	-	-	-	-	-	-	-	-	(693)	(693)
Share based payment	-	-	-	-	-	-	111	-	-	111
Shares issued	4	-	-	-	39	-	-	-	-	43
Shares cancelled	(91)	-	-	91	-	-	-	-	(3,321)	(3,321)
<b>Six months ended 28 February 2014</b>	1,266	(908)	(3,373)	1,571	13,714	651	2,472	1,456	(9,221)	7,628

**The Character Group plc**  
**Notes to the Financial Statements**

**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 2014. These are consistent with the accounting policies used in the financial statements for the year ended 31 August 2013 as described in those annual financial statements.

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 2014 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 1 May 2014.

The information for the year ended 31 August 2013 is based on the consolidated financial statements for that year on which the Group's auditor's report was unqualified and did not contain a statement under section 498 (2) or (3) of the Companies Act 2006.

**2. 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.

**3. Dividends**

	6 months to 28 February 2014 (unaudited) £'000	6 months to 28 February 2013 (unaudited) £'000	12 months to 31 August 2013 (audited) £'000
On equity shares:			
Final dividend paid for the year ended 31 August 2013			
- 3.30 pence (2012: 3.3p) per share	693	734	734
- Interim	-	-	751
	693	734	1,485

**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 than average price of the company's ordinary shares during this period.

The calculations are based on the following:

	6 months to 28 February 2014 (unaudited) £	6 months to 28 February 2013 (unaudited) £	12 months to 31 August 2013 (audited) £
Profit/(loss) for the period used in the calculation of basic and diluted earnings per share	2,501,000	(945,000)	683,000
Less: Profit for the period from discontinued operations used in the calculation of basic and diluted earnings per share from discontinued operations	-	(525,000)	(524,000)
Profit/(loss) used in the calculation of basic and diluted earnings per share from continuing operations	2,501,000	(1,470,000)	159,000

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

	6 months to 28 February 2014 (unaudited) £	6 months to 28 February 2013 (unaudited) £	12 months to 31 August 2013 (audited) £
Weighted average number of ordinary shares used in the calculation of basic earnings per share	21,989,089	22,303,695	22,398,806
Share Options	2,089,176	2,064,248	1,974,791
Weighted average number of ordinary shares used in the calculation of diluted earnings per share *1	24,078,265	24,366,943	24,373,597

\*1 The weighted average number of shares used in the calculation of the diluted loss per share from continuing operations for the six months ended 28 February 2013 is the same as that in respect of the basic loss per share from continuing operations 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.

## Independent Review Report to The Character Group plc

### Introduction

We have been engaged by the Company to review the condensed set of financial statements in the half-yearly financial report for the six months ended 28 February 2014, which comprises the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, the Consolidated Balance Sheet, the Consolidated Statement of Cash Flows, the Consolidated Statement of Changes in Equity and related notes 1 to 4. We have read the other information contained in the half-yearly financial report which comprises only the Chairman's letter and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

### Directors' responsibilities

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.

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 which requires 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 condensed set of financial statements included in this half-yearly financial report has been prepared in accordance with the AIM rules of the London Stock Exchange.

### Our Responsibility

Our responsibility is to express to the Company a conclusion on the condensed set of 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 condensed set of financial statements in the half-yearly report for the six months ended 28 February 2014 is not prepared, in all material respects, in accordance with the AIM rules of the London Stock Exchange.

### MHA MacIntyre Hudson

Statutory Auditors and Chartered Accountants  
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1 May 2014

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