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The Company has subscribed to UK Equities Direct, an online internet service made available to shareholders free of charge. Shareholders will be able to access financial information, including the Annual and Interim Reports, public announcements and share price data. The web site address is <http://www.hemscott.com>.

CHAIRMAN'S LETTER

On the 18th of January, I announced that Christmas trading was in general as per our expectations and that we were optimistic that we should show substantial improvements throughout the financial year.

I am therefore very pleased to announce that the Group has returned to profitability and is on track to maintain this positive trend for the year as a whole.

Results

For the six months ended 28 February 2002, the Group made a profit before tax of £121,000 on sales of £29.6 million compared to a loss before tax of £1.94 million on sales of £36.6 million for the corresponding period last year. Earnings per share were 0.29 pence against a loss per share of 9.32 pence at the 2001 interim stage. It is not proposed to pay an interim dividend.

In the 2001 Annual Report, I indicated that the full benefits from the cost savings implemented following last year's substantial re-structuring programme had not yet been received. Therefore, I am pleased to report that in the first six months of this financial year, fixed costs have been cut by 13%, and stocks have been reduced by 34% from £7.1 million to £4.7 million. Interest has also been substantially reduced by 36%, to £364,000 and cash at bank at 28 February 2002 was approximately £2.3 million. In addition, the gross margin has been increased by 4 percentage points.

Each of these factors has contributed to the turnaround in the Group's performance.

Trading

As a result of a substantial improvement in our product offering, our product listings with our major customers in the UK are much stronger this year. We are also making steady progress internationally by increasing both our product portfolio and customer base.

We have a number of products within our portfolio which continue to be successful. These include gifts and games relating to the much-acclaimed Harry Potter and Lord of the Rings licenses and within our toy range, Starcastles, Buzz Lightyear and Stretch Armstrong are worthy of mention, with the latter now entering its 8th year in our range and for which we now have the rights for the first time to distribute this product to both the UK and Europe.

The Group's ranges of toys and games were well received at this year's International Toy & Hobby Fair. Over the next few months we will be bringing to market a range of new and exciting toys which were reviewed at the Fair favourably and include 'Clifford the Big Red Dog' — based on the highly rated animated BBC TV series; a range of children's cookware under BBC's 'Ready Steady Cook' brand which features a popcorn maker, as well as a mini oven, ice cream maker and other kitchen products; a range of pre-school toys based on the 'Wheels on the Bus' licensed animated series which is to be televised later this year; the successful Rumble Robots introduced last year has been developed into three associated ranges (Rumble Wars, Rumble Invasions and Rumble Cars); a range of Disney Pop Dolls, and interactive accessories for the Disney Princess Dolls; Norton the Bear which walks, talks and interacts, and Baby Amore lifelike dolls. In addition, we are shortly introducing a range of boys toys relating to Cubix which is featured in a cartoon series currently being aired on Cartoon Network and scheduled to be introduced by the BBC later in the year. Lastly, Scooby Doo is starring in a Warner Bros feature film to be released this year.

Notable new games for which we have high hopes include Pin the Tail on the Donkey, an electro-mechanical action game, and Harry Potter's Wizard Class, which allows the child to perform amazing wizardry feats.

Cool-iCam, our own-branded and developed digital camera now has 20 models in the range from low-end mass market to megapixel cameras and audio products which include a truly mobile karaoke machine. We believe that further improvement from this business can be achieved as the Cool-iCam brand is further established internationally.

Outlook

We have managed the business through the downsizing process and the Group is now in a much better position than in the corresponding period last year.

We now have the opportunity to concentrate on a more focused range of business activities and to achieve further operational efficiencies from each business unit whilst at the same time looking to return to the historic patterns of sales growth. In order to achieve this, we have concentrated on introducing new ranges that will develop into brands that have longevity and the Directors believe that Clifford the Big Red Dog, Ready Steady Cook, Disney Princesses, Taiyo Radio Control and Scooby Doo are good examples in the Toy area, whilst Pin the Tail on the Donkey should prove to be an enduring Game. Cool-iCam, our own-developed brand for digital imaging is a further example of this strategy.

Given the improvement in the Group's product ranges and strong customer listings combined with the benefit of reduced operational costs and improved margins, the Board remains optimistic that further positive progress will be made in this financial year and the 2002 calendar year as a whole.

Richard King
Chairman

23 April 2002

CONSOLIDATED PROFIT AND LOSS ACCOUNT

	Note	6 months to 28 February 2002 (unaudited) £'000	6 months to 28 February 2001 (unaudited) £'000	12 months to 31 August 2001 (audited) £'000
Turnover		29,632	36,648	58,887
Cost of sales		(19,915)	(26,152)	(42,809)
Gross profit		9,717	10,496	16,078
Net operating expenses				
Selling and distribution costs		(3,773)	(5,597)	(7,356)
Administration expenses		(5,626)	(6,462)	(13,171)
Other operating income		167	200	440
Operating profit/(loss)		485	(1,363)	(4,009)
Interest receivable		13	32	70
Interest payable		(377)	(604)	(936)
Profit/(loss) on ordinary activities before taxation		121	(1,935)	(4,875)
Taxation	2	—	(194)	(878)
Profit/(loss) on ordinary activities after taxation		121	(2,129)	(5,753)
Earnings/(loss) per share – basic	3	0.29p	(9.32p)	(23.89p)
Earnings/(loss) per share – fully diluted	3	0.29p	(9.32p)	(23.89p)

CONSOLIDATED BALANCE SHEET

	Group as at 28 February 2002 (unaudited) £'000	Group as at 29 February 2001 (unaudited) £'000	Group as at 31 August 2001 (audited) £'000
Note			
Fixed assets			
Intangible assets	798	1,703	818
Tangible assets	1,879	2,268	2,012
Investments	53	153	53
	2,730	4,124	2,883
Current assets			
Stocks	4,657	7,052	7,785
Trade debtors subject to finance arrangements	3,703	5,017	5,957
Factor advances	(2,965)	(3,890)	(4,432)
	738	1,127	1,525
Trade and other debtors	5,297	4,959	5,894
Cash at bank and in hand	2,321	475	1,638
	13,013	13,613	16,842
Creditors: amounts falling due within one year	(9,667)	(15,146)	(13,953)
Net current assets/(liabilities)	3,346	(1,533)	2,889
Total assets less current liabilities	6,076	2,591	5,772
Creditors: amounts falling due after more than one year			
Convertible loan note	(4,600)	—	(4,600)
Other creditors	—	(27)	(5)
	(4,600)	(27)	(4,605)
Provision for liabilities and charges			
Investment in Joint Venture:			
Share of gross assets	—	91	—
Share of gross liabilities	(10)	(282)	(13)
Net assets	1,466	2,373	1,154
Capital and reserves			
Called up share capital	2,064	1,156	2,064
Shares to be issued	908	1,808	908
Capital redemption reserve	15	15	15
Share premium	7,843	5,473	7,843
Merger reserve	651	651	651
Profit and loss account	4	(6,730)	(10,327)
Equity shareholders' funds	1,466	2,373	1,154

CONSOLIDATED CASH FLOW STATEMENT

	Note	6 months to 28 February 2002 (unaudited) £'000	6 months to 28 February 2001 (unaudited) £'000	12 months to 31 August 2001 (audited) £'000
Cash flow from operating activities	5	1,806	(1,832)	(6,488)
Returns on investment and servicing of finance				
Interest paid (net)		(363)	(569)	(858)
Interest element of finance lease rental payments		(1)	(3)	(8)
Net cash outflow for returns on investments and servicing of finance		(364)	(572)	(866)
Taxation		(413)	(146)	474
Capital expenditure and financial investment				
Payments to acquire tangible fixed assets		(234)	(147)	(355)
Sale of tangible fixed assets		23	31	45
Net cash outflow for capital expenditure and financial investment		(211)	(116)	(310)
Cash inflow/(outflow) before use of liquid resources and financing		818	(2,666)	(7,190)
Management of liquid resources:				
Financing				
Issue of ordinary share capital		—	—	3,278
Issue of Convertible loan note		—	—	4,600
Capital element of finance lease rentals		(41)	(27)	(49)
Short term bank loan		(94)	(353)	(259)
Net cash (outflow)/inflow from financing		(135)	(380)	7,570
Increase/(decrease) in cash in the period	7	683	(3,046)	380
Decrease/(increase) in net debt in the period	7	818	(2,666)	688

NOTES TO THE ACCOUNTS

1. Basis of Preparation

The financial information for the six months ended 28 February 2002 has not been audited, nor has the financial information for the six months ended 29 February 2001. However, the interim report includes a review report signed by the auditors. The comparative figures for the year ended 31 August 2001 do not constitute the company's statutory accounts for that year, but have been extracted from the statutory accounts filed with the Registrar of Companies, and which carried an unqualified audit report. The report has been prepared in accordance with the applicable accounting standards on a consistent basis using the accounting policies set out in the 2001 annual report.

2. Taxation

The tax charge for the half year is estimated on the basis of the anticipated tax rates applying for the full year.

3. Earnings per Share

Earnings per share have been calculated in accordance with FRS 14 Earnings per share. The calculations are based on the following:

	6 months to 28 February 2002	6 months to 28 February 2001	12 months to 31 August 2001
Profit/(loss) for the period after taxation	£121,000	(£2,129,000)	(£5,753,000)
Basic weighted average share capital (number of shares)	41,287,909	22,834,663	24,079,063
Dilutive Shares – share options	—	—	—
Diluted weighted average share capital	41,287,909	22,834,663	24,079,063

4. Profit and Loss Account

	£'000
At 1 September 2001	(10,327)
Profit retained for the six months	121
Exchange difference	191
At 28 February 2002	(10,015)

5. Reconciliation of operating loss to net cash inflow/(outflow) from operating activities

	6 months to 28 February 2002 (unaudited) £'000	6 months to 28 February 2001 (unaudited) £'000	12 months to 31 August 2001 (audited) £'000
Operating profit/(loss)	485	(1,363)	(4,009)
Depreciation, impairment and amortisation	366	364	766
Provision in respect of own shares	—	—	100
Loss on disposal of tangible fixed assets	2	20	52
Decrease in stocks	3,128	4,478	3,745
Decrease/(increase) in debtors	1,385	3,820	(1,398)
Decrease in creditors	(3,751)	(9,328)	(5,948)
Exchange differences	191	177	204
Net cash inflow/(outflow) from operating activities	1,806	(1,832)	(6,488)

6. Reconciliation of net cash flow to movement in net debt

	6 months to 28 February 2002 (unaudited) £'000	6 months to 28 February 2001 (unaudited) £'000	12 months to 31 August 2001 (audited) £'000
Increase/(decrease) in cash in the period	683	(3,046)	380
Cash inflow from movement in debt and lease financing	135	380	308
Movement in net debt resulting from cash flows	818	(2,666)	688
Net debt at 1 September 2001	1,503	815	815
Net debt at 28 February 2002	2,321	(1,851)	1,503

7. Analysis of net debt

	Cash at bank and in hand £'000	Bank overdraft £'000	Short term bank loan £'000	Lease finance £'000	Total £'000
1 September 2000	1,258	—	(353)	(90)	815
Cash flow	(782)	(2,264)	353	27	(2,666)
28 February 2001	476	(2,264)	—	(63)	(1,851)
Cash flow	1,162	2,264	(94)	22	3,354
31 August 2001	1,638	—	(94)	(41)	1,503
Cash flow	683	—	94	41	818
28 February 2002	2,321	—	—	—	2,321

INDEPENDENT REVIEW REPORT TO THE CHARACTER GROUP PLC

Introduction

We have been instructed by the company to review the financial information for the six months ended 28 February 2002 which comprises the consolidated profit and loss account, the consolidated balance sheet, the consolidated cash flow statement and the notes to the accounts. We have read the other information contained in the Interim Report and considered whether it contains any apparent misstatements or material inconsistencies with the financial information.

Directors' responsibilities

The interim report, including the financial information contained herein, is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the interim report in accordance with the Listing Rules of the Financial Services Authority which require that the accounting policies and presentation applied to the interim figures should be consistent with those applied in preparing the preceding annual accounts except where any changes, and the reasons for them, are disclosed.

Review work performed

We conducted our review in accordance with guidance contained in Bulletin 1999/4 issued by the Auditing Practices Board for use in the United Kingdom. A review consists principally of making enquiries of group management and applying analytical procedures to the financial information and underlying financial data and based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit performed in accordance with United Kingdom Auditing Standards and therefore provides a lower level of assurance than an audit. Accordingly, we do not express an audit opinion on the financial information.

Review conclusion

On the basis of our review we are not aware of any material modifications that should be made to the financial information as presented for the six months ended 28 February 2002.

Baker Tilly
Chartered Accountants
Chelmsford
23 April 2002