



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

Preliminary results for the year ended 31 August 2014

Key highlights:

- Top nine branded product lines account for approximately 75% of turnover
- as these brands continue to mature we expect to see further growth overall as we continue to apply our development and marketing skills to them
- International sales grew by over 40%
- New licences include *The Clangers* and *Teletubbies*
- Character's products strongly featured in the 2014 DreamToys lists
- with **two** products in the TRA's **Top 12** and **seven** other Character products in the full list of 72 toys compiled by the leading UK toy retailers
- Trading in the current 2015 financial year has been ahead of expectations

Key financials:

	Year ended 31 August	
	2014	2013
➤ Group revenue - up 46%	£97.89m	£67.19m
➤ Group operating profit	£7.46m	£0.61m
➤ Group profit before tax – continuing operations	£7.11m	£0.20m
➤ EBITDA	£9.78m	£3.56m
➤ Basic earnings per share –continuing operations	27.66p	0.71p
➤ Proposed dividend		
- final - up 20%	3.95p	3.30p
- total for the year – up 10%	7.25p	6.60p

"Our sales growth in the year under review saw an increase in our market share and reinforced our position as one of the UK's leading toy companies. This new financial year has started off well, with very pleasing sales at the consumer level which in the lead up to the crucial Christmas season is building ahead of our expectations, and we look forward to further growth in the current year."

"The revenue growth has been driven both domestically and internationally and this trend is expected to be further enhanced following the introduction of new products to be officially unveiled at The BTHA Toy Fair in London next month."

Richard King, Executive Chairman

Enquiries:

The Character Group plc

Ticker: AIM: CCT.L

www.thecharacter.com

Office: +44 (0)208 329 3377

email: info@charactergroup.plc.uk

Richard King, Executive Chairman

Mobile: +44 (0)7836 250150

Kiran Shah, Group Finance Director & Joint MD

Mobile: +44 (0)7956 278522

TooleyStreet **Communications**

Investor, corporate & media relations

Fiona Tooley

Mobile: +44 (0)7785 703523

Office: +44 (0)121 309 0099

email: fiona@toolestreet.com

Charles Stanley Securities

Nominated adviser and Broker

Russell Cook

Carl Holmes

Telephone: +44 (0)207 149 6000

Product ranges can be viewed at www.character-online.co.uk : Marketing Services on +44 (0) 161 633 9800

Note: Product names in this report shown in *italics* represent copyright or registered trademarks.

Pdf attached to sample product images

The Character Group plc
(“Company” “Group” or “Character”)
Preliminary Results for the year ended 31 August 2014

STATEMENT BY THE CHAIRMAN, RICHARD KING

INTRODUCTION

We are delighted to report that the sales growth predicted in last year’s Chairman’s statement has been achieved, resulting in Group net profit before tax of £7.11 million. The Group continued to benefit from the quality of the established brands within its product portfolio as well as from the introduction of new product lines throughout the year.

It is especially pleasing to note that our top nine branded product lines account for approximately 75% of our total turnover. As these brands continue to mature we expect to see further growth overall as we continue to apply our development and marketing skills to them. The revenue growth has been driven both domestically and internationally and this trend is expected to be further enhanced following the introduction of new products to be officially unveiled at The BTHA Toy Fair in London next month.

Our sales growth in the year under review saw an increase in our market share and reinforced our position as one of the UK’s leading toy companies. The new financial year has started off well, with very pleasing sales at the consumer level which in the lead up to the crucial Christmas season is building ahead of our expectations, and we look forward to further growth in the current year.

FINANCIALS FOR THE YEAR ENDED 31 AUGUST 2014

As stated above, net profit before tax on continuing operations was £7.11 million (£0.20m 2013). Group revenue in the year was £97.89 million compared to £67.19 million for the last financial year, an uplift of 45.7%. Both domestic and international sales increased by over 40%.

Gross profit increased from £17.89 million in 2013 to £29.14 million in the same period last year with margins increasing year on year to 29.8% (2013: 26.6%), a creditable performance given the ongoing competitive conditions in the UK marketplace and the lower level of margin on international sales. The Group’s total operating profit amounted to £7.46 million (2013: £0.61m), whilst profit before tax on continuing operations was £7.11 million against £0.20 million in 2013.

Inventories increased mirroring the stronger demand for our ranges whereby at 31 August 2014 these stood at £8.85 million compared to £6.18 million at the end of 2013 financial year end. Cash and cash equivalents at 31 August 2014 were £17.70 million (2013: £9.24m). At the same date, short-term borrowings were £22.22 million (2013: £15.26m). Net current assets increased to £3.58 million (2013: £2.41m). The Group continues to have substantial headroom within its working capital facilities.

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 weakness of the US dollar against sterling at the year-end has resulted in a related charge to the income statement of £1.93 million (2013: £0.46 m). The profit before tax of £7.11 million is stated after charging £1.93 million in relation to this ‘mark to market’ valuation. This charge is a non-cash item in these financial statements.

Basic earnings per share from continuing operations for the year under review were 27.66 pence compared to 0.71 pence, in the year ended 31 August 2013.

DIVIDEND

The Directors are proposing a final dividend of 3.95 pence per ordinary share (2013: 3.30p). This, together with the interim dividend paid in May 2014 of 3.30 pence would make a total for the year of 7.25 pence (a 10% increase over 2013). The Group strategy of maintaining a progressive dividend policy is expected to be continued. Subject to approval by shareholders at the Annual General Meeting to be held on Friday, 16 January 2015, the final dividend of 3.95 pence will be paid on Friday, 30 January 2015 to shareholders on the Register as at Friday, 9 January 2015. The shares will be marked ex-dividend on Thursday, 8 January 2015. The dividend is covered 3.8 times by earnings.

SHARE BUY-BACK PROGRAMME

The Company has continued its policy of buying back its own shares in the market. During the financial year ended 31 August 2014, the Company acquired a total of 2,148,002 ordinary shares of 5 pence each in the capital of the Company ("Ordinary Shares") at an aggregate cost of £3,928,336 (excluding stamp duty and dealing costs), with the average cost being £1.83 per Ordinary Share (2013: 411,500 Ordinary Shares at an aggregate cost of £514,000 and an average cost of £1.25 per Ordinary Share).

Since the August 2014 year-end, the Company has purchased for cancellation a further 1,608,239 Ordinary Shares in the market at an aggregate cost of £3,425,549 (excluding stamp duty and dealing costs), with the average cost being £2.13 per Ordinary Share.

The Company has an unutilised authority to buy-back up to a further 3,827,439 Ordinary Shares. As at today's date, the Company has, excluding shares held in treasury, 21,478,084 Ordinary Shares in issue ("Issued Voting Share Capital"). The Company holds 4,019,456 Ordinary Shares in treasury, representing approximately 18.71 per cent of the Issued Voting Share Capital, which do not carry voting or dividend rights.

It will remain part of the Group's overall strategy to continue to repurchase its own shares when appropriate. Accordingly, the Board will once again be seeking a renewal of the authority to buy-back issued Ordinary Shares at its forthcoming Annual General Meeting. As previously indicated, the Directors could also be prepared to participate in any future share buy-back programme the Company proposes.

REVIEW OF THE YEAR

Building on last year's results and the solid H1 performance, we are pleased to report that we continue to benefit from the strength and breadth of our branded product portfolio.

Growth of UK sales across several categories has increased substantially. Through our partnering philosophy and quality portfolio, we have received a very solid level of support from our retail partners, which has translated into strong domestic sales coming from across our key ranges, such as **Peppa Pig**, **Teksta**, **ChillFactor**, **Minecraft**, **Doctor Who**, **Fireman Sam**, **The Zelfs**, and **Disney Princess Palace Pets**. **Peppa Pig** (in Europe and Australia) and **Doctor Who** (in the USA) have been at the forefront of our international sales growth.

NEW LICENSES AND PRODUCTS

We have also successfully secured a number of new and exciting licenses which will see us add further new ranges and complementary products to the Character basket across key categories. These properties will reinforce our position as market leader in the licensed, pre-school category in the UK as well as building on our growth internationally. Examples include:

➤ **The Clangers**

We secured this well-known brand at the start of 2014 and over the last year we have created an exciting range which we look forward to unveiling at the London International Toy Fair. We expect this range to be at retail by June 2015.

➤ **Teletubbies**

Post the August 2014 year-end under review and as announced on 8 September 2014, we are delighted to have been appointed as the global Master Toy Partner for the BBC's iconic brand **Teletubbies** through an agreement between Character Options Limited and DHX Brands, the dedicated brands and consumer products arm of DHX Media Ltd.

This partnership is a good example of how we work to seek out and develop exciting products which meet domestic and international market demand. **Teletubbies** is a worldwide phenomenon originally launched in 1997. It has retained a global iconic profile, is instantly recognised, keenly followed by many, changed the landscape of children's television and still today remains a much-loved pre-school series. Recently, the brand was named at the prestigious Prix Jeunesse International as one of the four category winners for the prize of Best Children's TV Programmes of the last 50 years. A new sixty-episode series of **Teletubbies** is in production and will feature the same well-known characters and bring a refreshed, contemporary look to one of the world's most well-known pre-school properties. Character plans to launch its **Teletubbies** product ranges at retail in the UK in 2016, with other territories to follow.

RECORD NUMBER OF INCLUSIONS IN THE 2014 DREAMTOYS

The official DreamToys listing is independent and widely viewed as the most accurate prediction of the toys that will be in most demand at Christmas. Each year, the Toy Retailers Association (TRA), the UK's toy retail sector's representative body (which includes professionals from the industry and many retailers), creates a list of what it considers to be the year's DreamToys.

In the listing released last month, we were delighted that once again Character's products strongly featured in the 2014 wish lists – with **two** products from our current portfolio in the TRA's **Top 12** and **seven** other Character products in the TRA's full list of 72 toys compiled by the leading UK toy retailers.

This is a fantastic achievement and we believe a clear reflection of the strength of our current ranges which are at "great price points" and "value for money".

Leading the list for Character this year are: the **Little Live Pets Bird Cage** and the **Minecraft** Figures both distributed exclusively in the UK and Eire by Character Options Ltd (the Group's principal UK trading subsidiary). The other toys from Character's portfolio which are featured in the full list are:

- ✓ **Minecraft Animal Mobs**
- ✓ **Peppa Pig Weebles Wind & Wobble Playhouse**
- ✓ **Peppa Pig Muddly Puddle Jumbo Jets**
- ✓ **ChillFactor Ice Cream Maker**
- ✓ **Teksta T-Rex**
- ✓ **Cra-Z-loom Bracelet Maker** (from the Shimmer 'n Sparkle collection)
- ✓ **Cra-Z-Knitz Ultimate Designer Knitting Station** (from the Shimmer 'n Sparkle collection)

STRATEGY FOR GROWTH

We have a quality basket of products across our brands which highlight and underpin the strength and depth of Character's portfolio with no single product or brand accounting for more than 18% of our UK sales. We are confident that our diverse product portfolio should provide the engine for continued growth. Our strategy remains unchanged, i.e. "to seek out and develop exciting products which meet domestic and international market demand". Our portfolio will continue to be derived from, both our own-developed in-house ranges, including those produced 'under licence', and others sourced through exclusive distribution agreements.

OUR PEOPLE

The Company employs a total of 181 members of staff, of which 121 are employed in the UK with the remaining 60 working within our Far East operations in Hong Kong, and Shenzhen.

Implementing the Group's strategy is down to our people and their skills and expertise. Once again, the Board on behalf of all shareholders would like to thank everyone in our teams around the world for their continuous hard work, dedication and loyalty, which has contributed greatly to the Group's overall performance.

AWARDS

Following on from winning the prestigious "Toy of the Year" award for Teksta, the electronic puppy, in the year under review, we continue to place great importance on the working relationships we develop with all our customers, so it has been very gratifying to receive accolades from a number of them during the year as this truly reflects the investment our people make in developing long term partnerships with our customers. Examples of this are "Supplier of the Year" awards from two of UK's major toy retailers - Argos and Tesco. These awards recognise our people who, on a daily basis strive to deliver 'quality product' supported by a 'first class service'. **Teksta T-Rex** also received 'the Creative Play Award' in the electronics and multimedia section for 2014 (www.creativesteps.co.uk). On behalf of all shareholders, once again, we congratulate everyone across our business as the whole of the Character Team has earned this recognition.

CURRENT TRADING & OUTLOOK

The business is benefiting from the Group's stronger and enhanced product offering which has been accepted enthusiastically both in our home market and internationally. The lead up to this festive trading season has been ahead of our expectations and we remain confident that the Company can deliver another year of solid progress resulting in enhanced profitability. We will be in a better position to report on this at the AGM in January and look forward to updating shareholders further at that time.

**CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 31 AUGUST 2014**

	Note	Total 2014 £000's	Total 2013 £000's
Continuing operations			
Revenue		97,889	67,188
Cost of sales		(68,752)	(49,299)
Gross profit		29,137	17,889
Net operating expenses			
Selling and distribution costs		(7,389)	(5,812)
Administration expenses		(15,273)	(12,437)
Other operating income		984	973
Operating profit	1	7,459	613
Finance income		8	6
Finance costs		(360)	(418)
Profit before income tax		7,107	201
Taxation		(1,162)	(42)
Profit for the year from continuing operations		5,945	159
Profit on discontinued operation			
Reclassification of net exchange gain on discontinued foreign operation		-	524
Profit for the year attributable to equity holders of the parent		5,945	683
Earnings per share from continuing and discontinued operations			
Basic earnings per share (pence)			
	3		
From continuing operations		27.66p	0.71p
From discontinued operations		-	2.34p
From profit for the year		27.66p	3.05p
Diluted earnings per share (pence)			
From continuing operations		25.18p	0.65p
From discontinued operations		-	2.15p
From profit for the year		25.18p	2.80p
Dividend per share (pence)	2	6.6p	6.6p
EBITDA (earnings before interest, tax, depreciation and amortisation)		9,784	3,565

CONSOLIDATED BALANCE SHEET
AS AT 31 AUGUST 2014

	2014	2013
	£000's	£000's
Non – current assets		
Intangible assets – product development	238	748
Investment property	1,976	2,042
Property, plant and equipment	3,623	3,678
Deferred tax assets	571	312
	6,408	6,780
Current assets		
Inventories	8,854	6,178
Trade and other receivables	23,417	18,722
Current income tax receivable	16	863
Derivative financial instruments	144	360
Cash and cash equivalents	17,702	9,242
	50,133	35,365
Current liabilities		
Short term borrowings	(22,217)	(15,260)
Trade and other payables	(20,545)	(16,541)
Income tax	(1,463)	(550)
Derivative financial instruments	(2,324)	(607)
	(46,549)	(32,958)
Net current assets	3,584	2,407
Non-current liabilities		
Deferred tax	(48)	(219)
Net assets	9,944	8,968
Equity		
Called up share capital	1,266	1,353
Shares held in treasury	(3,373)	(3,373)
Investment in own shares	(908)	(908)
Capital redemption reserve	1,587	1,480
Share based payment reserve	2,487	2,361
Share premium account	13,808	13,675
Merger reserve	651	651
Translation reserve	1,508	1,346
Profit and loss account	(7,082)	(7,617)
Total equity attributable to equity holders of the parent	9,944	8,968

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 AUGUST 2014

	12 months ended 31 August 2014 £000's	12 months ended 31 August 2013 £000's
Cash flow from operating activities		
Profit before taxation for the year	7,107	725
Adjustments for:		
Depreciation of property, plant and equipment	413	401
Depreciation of investment property	66	65
Amortisation of intangible assets	1,846	2,486
(Profit) on disposal of property, plant and equipment	(16)	(8)
Interest expense	352	412
Reclassification of net exchange gain on discontinued foreign operation	–	(524)
Financial instruments fair value adjustments	1,932	457
Share based payments	126	469
(Increase) / decrease in inventories	(2,676)	1,178
(Increase) in trade and other receivables	(4,695)	(1,617)
Increase in trade and other creditors	4,004	3,152
Cash generated from operations	8,459	7,196
Interest paid	(352)	(412)
Income tax received / (paid)	185	(1,165)
Net cash inflow from operating activities	8,292	5,619
Cash flows from investing activities		
Payments for intangible assets	(1,336)	(1,899)
Payments for property, plant and equipment	(361)	(219)
Proceeds from disposal of property, plant and equipment	17	18
Net cash outflow from investing activities	(1,680)	(2,100)
Cash flows from financing activities		
Proceeds from issue of share capital	153	386
Purchase of own shares for cancellation	(3,955)	(518)
Dividends paid	(1,392)	(1,485)
Net cash used in financing activities	(5,194)	(1,617)
Net increase in cash and cash equivalents	1,418	1,902
Cash, cash equivalents and borrowings at the beginning of the year	(6,018)	(7,896)
Effects of exchange rate movements	85	(24)
Cash, cash equivalents and borrowings at the end of the year	(4,515)	(6,018)

Cash, cash equivalents and borrowings consist of:

Cash and cash equivalents	17,702	9,242
Short term borrowings	(22,217)	(15,260)
Cash, cash equivalents and borrowings at the end of the year	(4,515)	(6,018)

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 AUGUST 2014**

	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 2012	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)
Total comprehensive income and expense for the year	-	-	-	-	-	-	-	(534)	669	135
Share-based payment	-	-	-	-	-	-	469	-	-	469
Dividends	-	-	-	-	-	-	-	-	(1,485)	(1,485)
Shares issued	43	-	-	-	343	-	-	-	-	386
Shares cancelled	(21)	-	-	21	-	-	-	-	(518)	(518)
At 1 September 2013	1,353	(908)	(3,373)	1,480	13,675	651	2,361	1,346	(7,617)	8,968
Profit for the year after tax	-	-	-	-	-	-	-	-	5,945	5,945
Exchange differences on translation of foreign operations	-	-	-	-	-	-	-	162	(63)	99
Total comprehensive income and expense for the year	-	-	-	-	-	-	-	162	5,882	6,044
Share-based payment	-	-	-	-	-	-	126	-	-	126
Dividends	-	-	-	-	-	-	-	-	(1,392)	(1,392)
Shares issued	20	-	-	-	133	-	-	-	-	153
Shares cancelled	(107)	-	-	107	-	-	-	-	(3,955)	(3,955)
At 31 August 2014	1,266	(908)	(3,373)	1,587	13,808	651	2,487	1,508	(7,082)	9,944

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
NOTE TO THE PRELIMINARY RESULTS

1. OPERATING PROFIT

	12 months ended 31 August 2014 £000's	12 months ended 31 August 2013 £000's
Operating profit is stated after charging/(crediting):		
Exchange losses	41	20
Cost of inventories recognised as an expense (included in cost of sales)	62,798	43,194
Inventories write down (credit)/charge	(273)	(753)
Staff costs	8,716	7,037
Depreciation of tangible fixed assets		
— owned assets	413	401
Depreciation of investment property	66	65
(Profit) on disposal of property, plant and equipment	(16)	(8)
Product development amortisation (included in cost of sales)	1,846	2,486
Operating leases — land and buildings	253	246

2. DIVIDEND

	12 months ended 31 August 2014 £000's	12 months ended 31 August 2013 £000's
On equity shares:		
Final dividend paid for the year ended 31 August 2013		
— 3.3 pence (2012: 3.3 pence) per share	693	734
Interim dividend paid for the year ended 31 August 2014		
— 3.3 pence (2013: 3.3 pence) per share	699	751
	1,392	1,485

The Directors recommend a final dividend of 3.95 pence per share (2013: 3.30 pence) amounting to £848,000 (2013: £693,000). If approved by shareholders, the final dividend will be paid on Friday, 30 January 2015 to shareholders on the Register on Friday, 9 January 2015.

3 EARNINGS PER SHARE

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

	Year ended 31 August 2014 Profit after taxation £	Year ended 31 August 2013 Profit after taxation £
Profit for the year used in the calculation of basic and diluted earnings per share	5,945,000	683,000
Profit for the year from discontinued operations used in the calculation of basic and diluted earnings per share from discontinued operations	-	(524,000)
Profit used in the calculation of basic and diluted earnings per share from continuing operations	5,945,000	159,000

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

	Year ended 31 August 2014	Year ended 31 August 2013
Weighted average number of ordinary shares used in the calculation of basic earnings per share	21,492,265	22,398,806
Share Options	2,116,022	1,974,791
Weighted average number of ordinary shares used in the calculation of diluted earnings per share	23,608,287	24,373,597

4. 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 16 January 2015 at 11.00 am.

5. 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 2014 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.

A copy of this announcement can also be viewed on the Company's website, www.character.com.

6. ELECTRONIC COMMUNICATIONS

The full Financial Statements for the year ended 31 August 2014., together with the Notice convening the Company's 2015 Annual General Meeting, will be available for viewing and download on the Group's website, www.character.com by 19 December 2014.