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www.thecharacter.com
www.character-online.co.uk

DIRECTORS AND ADVISERS

Directors
R King
K P Shah
J J Diver
J J P Kissane
I S Fenn
Lord Birdwood
D Harris
A B MacKay

Secretary
K P Shah FCCA

Company registration number
3033333

Registered office
2nd Floor
10 Chiswell Street
London EC1Y 4UQ

Solicitors
Duane Morris
2nd Floor
10 Chiswell Street
London EC1Y 4UQ

Auditors
HLB Vantis Audit plc
66 Wigmore Street
London W1U 2SB

Nominated Advisers and Broker
Charles Stanley Securities
25 Luke Street
London EC2A 4AR

Bankers
National Westminster Bank plc
Standard Chartered Bank

Registrars
Neville Registrars Limited
Neville House
18 Laurel Lane
Halesowen
West Midlands B63 3DA

CHAIRMAN'S STATEMENT

Introduction

We entered the 2008 financial year (ended 31 August) with confidence that we had developed a strong, innovative and exciting product portfolio, which met both the demands of our customers and the consumer.

As we reported at the interim stage, the 2008 financial year began to present challenges outside of our control starting with a difficult trading environment at Christmas 2007 for most retailers and, concurrently, the early signs of a general deterioration of UK and Global economies. Additionally, the Group's progress was adversely affected by the Bindeez range recall, which cost the Group £1.9 million in one-off costs as well as £4.0 million in lost sales. It was very disappointing that, after a promising start to the second half, our sales declined markedly during the last quarter of the financial year as the general economy rapidly declined further.

Financials

The Group is reporting its results for the year ended 31 August 2008, expressed (for the first time) under International Financial Reporting Standards (IFRS) and prepared in accordance with Group policies.

Group sales amounted to £82.3 million, down 13.5% compared with 2007 (2007: £95.1 million), with EBITDA at £9.5 million (£14.54 million in 2007).

Operating profit for the same period was down 59% at £5.30 million (2007: £12.87 million), with profit before tax at £5.14 million, compared to £12.86 million, a reduction of 59%.

Gross margin was 35.8%, compared to 40.3% for the comparative period.
Basic earnings per share were 12.03 pence per share, compared to 19.20 pence in 2007.

Stocks at the year end at £9.8 million were £1 million lower (2007: £10.8 million).

Cash at Bank (excluding finance advances) at the interim stage (29 February 2008) totalled £10.2 million and by the year-end (31 August 2008) this stood at £17.8 million against £15.7 million at the August 2007 year-end.

The Group is currently cash positive, has no bank borrowings and has substantial un-drawn working capital facilities available to it.

Current Trading

We have now entered the all important 2008 Christmas period at a time when consumer confidence is at its lowest level for years and when retailers are having difficulty making projected sales, other than at greatly reduced prices. Suppliers are encountering difficulties in making their sales, whilst enduring the results of severe cost inflation and adverse currency movements. In addition, it is proving more difficult to assess the financial condition of customers, as the events leading to the recent Woolworths plc administration have demonstrated. This is likely to have an impact on the ability for customers to meet the criteria of the trade indemnity insurers to facilitate debt insurance cover for suppliers such as Character Group in the coming year.

Against this backdrop, the Directors would like to highlight some positive aspects about the Group in these difficult times. Character:

- **is likely to either maintain or increase its market share;**
- **has maintained a strong and healthy balance sheet; and**
- **is un-geared and has substantial unused working capital facilities.**

At the current time, just ahead of the close of the 2008 Christmas trading period, and against severe and rapidly changing economic influences, it is too early to make meaningful forecasts for both the financial and calendar years 2009.

However, whilst recognising that 2009 will provide many difficult challenges, the Board strongly believes that the Group has and will continue to:-

- **successfully develop its own product line leaving it well positioned within the market-place to build on its position;**
- **maintain the financial strength and wherewithal to see the business through the current economic difficulties; and**
- **be ready to take advantage of its market position as more normal times return.**

Share Buy-Backs

During the year, the Group purchased 2,842,379 ordinary shares in the Company at an aggregate price of £2.6 million and an average price of 92.4 pence per share.

Excluding those ordinary shares held in Treasury, this equates to 6.8% of the Group's current issued ordinary share capital. As at 1 December 2008, The Character Group had 41,477,481 ordinary shares in issue, excluding 4,019,456 ordinary shares held in Treasury (31 December 2007: 43,544,578 ordinary shares excluding 1,947,359 ordinary shares held in Treasury).

At the forthcoming Annual General Meeting, Shareholders will be asked to approve a resolution to renew the Company's authority to repurchase, up to 35% of its issued ordinary share capital (excluding ordinary shares held in Treasury). If this resolution is approved, the Directors will continue to monitor the market position and will, if considered appropriate, make further purchases of the Group's ordinary shares.

Dividend

An interim dividend of 2.2 pence was paid to all shareholders in July 2008. Whilst Character has a strong balance sheet and cash flow, the Directors believe that in view of the current uncertainties in the market, it would be prudent to preserve the Group's financial strength and therefore, they will not be proposing a final dividend for the year ended 31 August 2008.

Management and People

On behalf of the Board and all stakeholders, I thank the Group's management and employees for their hard work, loyalty and commitment to the Group, especially during these turbulent and unsettled times.

Product Portfolio and Licenses

Although the environment is proving tough, on a positive note, in terms of the development of our product licences and portfolio, the Group has made and continues to make very good progress.

We successfully secured a number of new licences and developed new and exciting additional products into our portfolio. This has included:

- ***Hannah Montana™***
  At the end of January 2008, the Group was awarded a major new licence by Disney and this licence has been extended to cover certain ***High School Musical*** products. The range has been a huge success. The *Secret Diary Pillow* exceeded all expectations and with the introduction of the *audio electronic range* in 2009 and the launch of the *Hannah Montana movie*, further growth is expected.

- ***Peppa Pig™***
  Character has had the master toy licence since 2005 and has developed the range in-house. Peppa has seen massive growth in 2008 due to new products such as *Spaceship* and *Classroom Playset* and is now firmly established in the Top 3 pre-school categories. NPD data shows Peppa Pig as one of the Top 10 brands in the toy industry. 2009 will see the introduction of an exciting new fantasy world of Princess Peppa to bring a new theme to the brand.

- ***Scooby Doo™***
  Character's evergreen brand Scooby Doo continues to be a success. One of the highlights of the current 2008 range is *Hide and Seek Scooby Doo*. The initial sales of our new products recently introduced to the market give us confidence that this license will continue to grow, especially in Europe.

- ***Doctor Who™***
  Character is the master toy licensee for Doctor Who. This range is completely developed in-house and is still one of the major boys' toys concepts for 2008. We shall develop further product for introduction with the new series scheduled for 2010.

New for 2009:

- ***Postman Pat™***
  As master toy licensee and to complement the new BBC show, Character will release a full range of toys in the market from January 2009. Postman Pat is a modern British Classic which has been around for 27 years and, with the brand revamped and 26 new episodes and BBC commitment until 2012, it looks set to build on its heritage.

- ***'Let's Cook range'™***
  Following on the success of the *Cup Cake Maker,* which was selected as one of the Top 12 Dream Toys 2008 and exceeded all expectations, Character will be launching new additions to the '*Let's Cook range'.*

- ***Cars-Piston Cup Race Game™***
  Character has continued to build on its big brand games with the debut of *'Cars- Piston Cup Race Game'.* One of Character's Top 3 licensed games, the range is based on the animated Disney Pixar movie.

- ***HM Armed Forces™***
  HM Armed Forces is Character's biggest launch planned to date in terms of product development, investment and marketing support. Backed by The Ministry of Defence, HM Armed Forces plans to fill a void within the boys' military action figure market. The range will be launched next year on VE day (8 May 2009) and will include figures, vehicles and accessories, together with novelty and role-play items within the three forces: Royal Navy, Royal Air Force and Army.

Prospects

The Directors recognise that the Group's business is dependent upon both internal and external influences and we acknowledge that we can do little to influence the latter but we can influence the former.

In that regard, we are focusing on our:

- product development - to ensure that our products are well received by customers and consumers;
- marketing - to create the demand;
- manufacturing - to ensure that we are producing good quality and, above all, safe products.

Whilst at the same time, ensuring that we do all the above both efficiently and cost-effectively.

We believe as a Group, we have maintained or grown our market share and our intention is to continue to build on this position. We consider that it will be some time before there is a return to a more normal economy and we will ensure that we shall be well positioned to take advantage of further growth when the opportunity arises.

Richard King
Chairman
1 December 2008

DIRECTORS' BIOGRAPHIES

Richard King (aged 63), Executive Chairman, has extensive experience in the toy industry and has been involved in importing consumer products from the Far East since 1969. He established the original business of The Character Group plc jointly with Mr Kissane and Mr Shah in 1991 and works in close association with the management to develop and implement Group strategies.

Kiran Shah (aged 54), Group Finance Director and Joint Managing Director, is a member of the Chartered Association of Certified Accountants. After initially working in private accountancy practice, he moved into industry and since 1978 has been involved extensively in the toy industry, notably in his role in jointly heading up a successful management buyout of Merit Toys Limited in 1981 and its subsequent sale to Bluebird Toys plc in 1988. He jointly established the original business of The Character Group plc with Mr King and Mr Kissane in April 1991.

Jon Diver (aged 44), Group Marketing Director and Joint Managing Director, joined the Group in September 1991 from Rainbow Toys Limited, where he was Senior Marketing Executive. He became Group Marketing Director in August 1994, and has developed close working relationships with the Group's suppliers. He has played a key role in product development and the development and implementation of the Group's marketing strategy.

Joe Kissane (aged 56), Managing Director of Character Options Limited, has considerable sales expertise in and outside the toy industry, gained over a period of 30 years, notably with such companies as Nabisco, Lego and Tonka. He is one of the founders of the Group.

Ian Fenn (aged 65), Senior Independent Non-Executive Director, joined the Board in May 1995. He has extensive experience in corporate finance gained over many years in stockbroking and merchant banking in the City of London. He is a director of Blomfield Corporate Finance Limited, which is authorised and regulated by the Financial Services Authority.

Lord Birdwood (aged 70), Independent Non-Executive Director, was appointed to the Board in September 1995. He has experience as a director of quoted and private companies. He has particular interests in executive placement and recruitment. He is also retained by private equity firms to advise on future technologies.

David Harris (aged 58), Independent Non-Executive Director, was appointed to the board in May 2004. He has considerable financial experience gained over a 30 year career in both executive and non-executive capacities. He is currently a non executive director of Small Companies Dividend Trust plc, Osprey Small companies Income Fund Ltd, Aseana Properties Ltd, COBRA Holdings plc and F&C Managed Portfolio Trust plc, all of which are quoted companies on the London Stock Exchange.

Alan MacKay (aged 46), Non-Executive Director, is a partner at 3i Investments plc, one of the world's leading private equity companies. After founding, then selling, a marketing services business, he joined 3i in 1987 and was appointed to the Board of 3i plc in 1994. He currently leads 3i investment activity in the public equities arena. He is Chairman of 3TS Capital Partners, a member of the Strategic Advisory Board of SVG Investment Advisers, and a non-executive director of AIM listed company Philbro Animal Health Corporation.

DIRECTORS' REPORT AND BUSINESS REVIEW

The directors present their report together with the financial statements for the year ended 31 August 2008.

Directors

The following are the directors that served during the year:

Richard King (Executive Chairman)
Kirankumar Premchand Shah FCCA (Group Finance Director and Joint Managing Director)
Jonathan James Diver (Group Marketing Director and Joint Managing Director)
Joseph John Patrick Kissane (Managing Director, Character Options Limited)
Ian Stanley Fenn (Senior Independent Non-Executive Director)
Lord Birdwood (Independent Non-Executive Director)
David Harris (Independent Non-Executive Director)
Alan Browning MacKay (Non-Executive Director)

Biographies of the directors are set out on page 6.

Principal activity

The Group is engaged in the design, development and international distribution of toys, games and gifts.

Business review, results and dividend

A review of the business is contained in the Chairman's Statement on pages 2 to 5 and the results are detailed in the consolidated income statement on page 19, the consolidated balance sheet on page 20, the consolidated cash flow statement on page 21 and the consolidated statement of changes in equity on page 22. There was a profit for the year, after taxation, amounting to £5,147,000 (2007: profit £8,698,000).

An interim dividend of 2.2 pence per share was paid on 25 July 2008. The directors do not recommend a final dividend.

First time adoption of International Financial Reporting Standards ("IFRS")

This is the first year that the Group has presented its financial statements under International Financial Reporting Standards (IFRS). The last financial statements prepared under United Kingdom Generally Accepted Accounting Principles (UK GAAP) were for the year ended 31 August 2007. The Group's transition date for the adoption of IFRS is 1 September 2006.

Directors and their interests in shares

The directors and their interests (all of which are beneficial) in the shares of The Character Group plc as at 31 August 2008 were as follows:

Directors	**Number of Ordinary Shares**	**31 August 2008 Ordinary Shares under option**	Number of Ordinary Shares	31 August 2007 Ordinary Shares under option
R King	**3,845,428**	**450,000**	3,845,428	250,000
K P Shah	**5,645,000**	**450,000**	5,645,000	250,000
J J P Kissane	**1,462,300**	**615,000**	1,462,300	415,000
J J Diver	**1,690,640**	**615,000**	1,690,640	415,000
I S Fenn	**9,000**	**–**	9,000	–
Lord Birdwood	**8,750**	**–**	8,750	–
D Harris	**24,097**	**–**	14,097	–
A B MacKay	**–**	**–**	–	–
TOPS Pension Scheme*	**450,000**	**–**	450,000	–

(* Each of R King, K P Shah and J J Diver is a trustee and a beneficiary under such pension scheme arrangements.)

Included in the interests of R King are his interests in shares held by Cedarberg Investments Limited, being 1,885,428 ordinary shares at 31 August 2008 and at 31 August 2007. There is also included in the interests of R King his interests in shares held by his spouse, Mrs M H King, being 320,000 shares at 31 August 2008 and at 31 August 2007.

Included in the interests of K P Shah are his interests in shares held by Sarissa Holdings Limited, being 5,620,000 ordinary shares at 31 August 2008 and at 31 August 2007.

Further, Orbis Pension Trustees Limited, the trustee of the Company's employee share ownership trust ("the Trust"), held 285,000 ordinary shares at 31 August 2008 and at 31 August 2007. Each of R King, K P Shah, J J P Kissane and J J Diver is deemed to be interested in such holding by virtue of being within the class of beneficiaries defined by the Trust.

A B MacKay is a partner of 3i Investments plc, adviser to 3i Quoted Private Equity Limited which has a beneficial interest in 11,525,898 ordinary shares at 31 August 2008 and 31 August 2007.

Employment policies

The Group depends on the skills and commitment of its employees in order to achieve its objectives. Group staff at every level are encouraged to make their fullest possible contribution to the Group's success.

The Group's selection, training, development and promotion policies ensure equal opportunities for all employees regardless of gender, marital status, race, age, sexual orientation or disability. All decisions are based on merit.

It is the Group's policy not to discriminate between employees or potential employees on any grounds. Full and fair consideration is given to the recruitment, training and promotion of disabled people and should staff become disabled during the course of their employment, efforts would be made to provide appropriate re-training. The Group places enormous importance on the contributions of its employees and aims to keep them informed of developments in the Group by way of regular meetings, newsletters and publications, together with distribution of the Annual Report.

Employees are encouraged to become involved in the financial performance of the Group through participation in the Group's share option schemes.

Research and development

The Group's research and development activities are concentrated on the development of new products, new processes and improvements to, or developments of, existing products.

Policy and practice on payment of creditors

The Group does not follow any standard code of practice for paying its suppliers but, instead, agrees with each principal supplier the terms of payment for each transaction or series of transactions. The Group's policy is then to abide by those pre-arranged terms for payment. At 31 August 2008, trade creditors of the Group represented an average of 73 (2007:74) days credit in relation to total purchases for the year.

Principal Risks and Uncertainties

The management of the business and the nature of the Group's strategy are subject to a number of risks and uncertainties. The directors have set out below the principal risks facing the business:

Suppliers

In order to achieve competitively priced products the Group has outsourced production, mainly to China. Risks and uncertainties of this strategy include management and quality control issues at the factories. The Group manages this risk by having local offices in Hong Kong and China with teams that work closely with the factories.

Competition

The Group operates in a highly competitive market. As a result there is a constant pressure on margins and the additional risk of being unable to meet customer's expectations. Policies of supply chain management and product development are in place to mitigate such risks.

Foreign currency exchange

A significant amount of the Group's purchases are made in US dollars. The Group is therefore exposed to foreign currency fluctuations. The Group manages its foreign exchange risk with forward foreign exchange contracts and other derivative financial instruments such as currency options to reduce the exposure.

Environmental

The Group places emphasis upon environmental compliance in its business and not only seeks to ensure ongoing compliance with relevant legislation in the major markets, but also strives to ensure that the environmental best practice is incorporated into key processes.

The R.E.A.C.H Directive

R.E.A.C.H, is a new European Union regulation concerning the **R**egulations, **E**valuation, **A**uthorisation and restriction of **CH**emicals. It came into force on 1 June 2007 and replaces a number of European Directives with a single system. The Directive concerns itself on the safety of human health and the environment. The Group undertook to put in place an independent tracking and verification system to ensure that no substances of very high concern are incorporated in products and that all chemicals used in products are pre registered in the EU chemical database within the pre-registration window of 1 June 2008 to 30 November 2008.

Packaging & the environment

The Group engaged an independent organisation to review its packaging and assist in placing an internal program to ensure the Group fully complies with the EU Packaging & Packaging Waste Regulations, to reduce, recycle and recover all packaging where possible. Design checklists will measure this key criteria throughout the business to maximise and encourage eco friendly designs, reduce energy consumption and reduce CO2 emissions in the manufacture of our packaging.

Financial risks

The main risks arising from the Group's financial instruments are foreign currency risk, credit risk, concentration risk, interest rate and liquidity risk.

The Board reviews and agrees policies for managing each of these risks. A summary of these risks disclosed in note 22 to the group financial statements.

Statement of directors' responsibilities

The directors are responsible for preparing the Annual Report and Group financial statements in accordance with applicable law and regulations and International Financial Reporting Standards "IFRS" as adopted by the European Union.

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Group and of the profit or loss of the Group for that period. In preparing those financial statements the directors are required to:

- select suitable accounting policies and apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on a going concern basis unless it is inappropriate to presume that the Group will continue in business.

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Group and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

In so far as the directors are aware:

- there is no relevant audit information of which the Group's auditors are unaware; and
- they have taken all steps they ought to have taken as Directors in order to make themselves aware of any relevant audit information and to establish that the Group's auditors are aware of that information.

Directors' indemnity insurance

The Company has purchased and maintains insurance to cover its directors against liabilities in relation to their duties to the Group.

Substantial shareholders other than directors

At 1 December 2008 the following, other than the directors and their family interests, had notified the Company of an interest in 3% or more of the Company's ordinary shares:

Name	Number of ordinary shares	Shareholding % (excluding shares held in Treasury)
3i Quoted Private Equity Limited	11,525,898	27.67%
Sweet Briar Investments Limited	1,675,000	4.02%

Changes in share capital

During the year, 44,000 ordinary shares of 5 pence each in the Company were issued to various employees on exercise of their share options. Details of such shares issued are given in note 27 to the group financial statements.

Also, during the year 2,842,379 ordinary shares were repurchased and are held as treasury shares. Details are given in note 28 to the group financial statements.

Share option schemes

Details of the Company's share option schemes are given in note 28 to the group financial statements.

Charitable and political donations

Payments of a charitable nature made during the year amounted to £36,918 (2007: £93,726). There were no political contributions in either year.

Auditors

A resolution to reappoint HLB Vantis Audit plc as auditors to the Company will be proposed at the forthcoming Annual General Meeting.

CORPORATE GOVERNANCE STATEMENT

The directors continue to embrace the principles contained in the combined code of corporate governance issued in July 2003 and revised in 2006 as applicable to fully listed companies.

Directors

The Board of directors comprises four executive directors and four non-executive directors, as detailed on page 6. The independent non-executive directors are Lord Birdwood, Mr Fenn (who is the senior independent non-executive director), Mr Harris and Mr MacKay. The Board is structured so that no one individual or group dominates the decision-making process.

Board meetings are held at least four times a year and at other times as required to address requirements arising between these scheduled meetings.

During the year, four Board meetings were held. The directors attended as follows:

	Attendance
R King	4
K P Shah	4
J J P Kissane	3
J J Diver	4
I S Fenn	4
Lord Birdwood	3
D Harris	4
A B MacKay	3

The Board has a formal schedule of matters reserved for its decision. It determines the overall Group strategy; creation, acquisition or disposal of material corporate entities or assets; public announcements (including statutory financial statements); significant changes in accounting policy, capital structure and dividend policy; group remuneration policy and Board structure, composition and succession.

The Board delegates to management, through the executive directors, the overall performance of the Group, which is conducted principally through the setting of clear objectives.

The Board has established an Audit Committee, a Remuneration Committee and a Nominations Committee, with duties and responsibilities formally delegated to them. The terms of reference set out each Committee's responsibilities. The terms of reference for the Audit Committee can be viewed at the Company's Registered Office.

Evaluation of the Board, Board Committees and Directors

The performance evaluation of the Board, its Committees and directors is undertaken by the Chairman and implemented in collaboration with the Committee Chairmen. The 2008 Board evaluation was conducted by way of a discussion between the Chairman and each of the directors. The independent non-executive directors met separately to review the Chairman's performance and provide feedback to him. Following formal performance evaluation, the Chairman confirms that the performance of non-executive directors continues to be effective and demonstrates their commitment to the role.

Audit Committee

I S Fenn (Chairman), Lord Birdwood and D Harris

The Audit Committee is responsible for ensuring that the financial performance of the Group is properly measured and reported and for reviewing reports from the auditors relating to Group financial statements and the Group's internal control systems. The committee is also responsible for the development, implementation and monitoring of the Company's policy on external audit. The committee reserves oversight responsibility for monitoring the auditors' independence, objectivity and compliance with ethical and regulatory requirements. The committee also ensures that key partners within the external auditors are rotated from time to time in accordance with UK rules. During the year, two meetings were held which were attended by all three members.

Remuneration Committee

Lord Birdwood (Chairman), I S Fenn and D Harris

The Remuneration Committee is responsible for setting the remuneration of the executive directors and the senior management and for the operation of the Company's share option schemes. The Directors' Remuneration Report is shown on pages 14 to 16. During the year one meeting was held, which was attended by all three members.

Nominations Committee

R King (Chairman), Lord Birdwood, I S Fenn and D Harris

The Nominations Committee is responsible for considering and recommending to the Board changes in the Board's composition and membership. No meetings were held during the year.

All non-executive directors of the Company who are members of these committees are entitled to seek, at the Company's expense, independent professional advice in connection with their roles on these committees.

Internal Control

The Board is ultimately responsible for the Group's system of internal control and for reviewing its effectiveness. However, such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives and can provide only reasonable, and not absolute, assurance against material misstatement or loss.

Following publication of the guidance for directors on internal control "Internal Control: Guidance for Directors on the Combined Code", the Board confirms that there is an ongoing process for identifying, evaluating and managing the significant risks faced by the Group. This process has been in place throughout the year under review and up to the date of approval of the annual report and financial statements and is regularly reviewed by the Board and accords with the guidance.

The Board has reviewed the effectiveness of the system of internal control. In particular, it has reviewed and updated the process for identifying and evaluating the significant risks affecting the business and the policies and procedures by which these risks are managed.

Key elements of the Group's system of internal control are as follows:

Control environment

- the setting of appropriate levels of authorisation which must be adhered to as the Group conducts its business
- the implementation of a recognised organisational and management reporting structure within which individual executive directors have responsibility for the day-to-day running of the business
- established and detailed procedures for the setting of annual budgets and monthly forecasts and the monitoring of actual financial performance against these targets, on a monthly basis, both at operational and Board level
- a clearly defined and well-established set of accounting policies which ensure that the financial performance is recorded on a consistent and appropriate basis throughout the Group's reporting entities.

Monitoring and corrective action

There are ongoing procedures in place for monitoring the system of internal financial controls. The remit of the Audit Committee includes meeting to review the effectiveness of the Group's system of internal financial controls and considering reports made to it by the Group's auditors. The Group does not have an internal audit function. During the year the Board has reviewed the need for an internal audit function and continues to believe that the current size of the Group does not warrant the establishment of an internal audit function. The need for an internal audit function will continue to be reviewed on an annual basis.

During 2006, the directors undertook to review the internal systems and procedures with the Group's internal and external business partners in order to attain the ISO 9001:2000 Quality Management Systems accreditation. As a result, the Company has appointed The British Standards Institute to act as external quality auditors.

Risk management

Management are responsible for the identification and evaluation of significant risks applicable to their areas of the business together with the design and operation of suitable internal controls. These risks are assessed on a continual basis and may be associated with a variety of internal or external factors, including control breakdowns, disruption in information systems, natural catastrophe and regulatory requirements.

Management report to the Board regularly on their review of risks and how they have managed the risks. The Board reviews the key risks inherent in the business and the system of control necessary to manage such risks.

Relations with shareholders

The Board supports the principle of clear reporting of financial performance to shareholders. Each year, shareholders receive a full annual report and an interim report, with supplementary trading statements issued from time to time where appropriate.

Members of the Board will be available at the forthcoming Annual General Meeting to answer any questions from the shareholders.

Compliance statement

Throughout the year the Group has fully complied with the provisions of the Combined Code with the following exception:

- Code provision A.7.1 states that all directors should be subject to re-election at intervals of no more than three years. The executive directors' service contracts were prepared before the Combined Code was issued and, as such, do not contain such re-election provisions. An amendment cannot be made unilaterally by the Company to an executive director's service contract and any such amendment would, accordingly, have to be negotiated in turn with each executive director. Given the significant shareholdings of the executive directors, and the potential cost to the Company of compensating the executive directors for any such amendment to their contracts, the Board considers that the existing arrangements with the executive directors should, for the time being, remain undisturbed in this respect.

Going Concern

After making enquiries, the Board considers that the Group has adequate resources to continue operating for the foreseeable future and has therefore adopted the going concern basis in preparing the financial statements.

By Order of the Board

K P Shah FCCA
Secretary

Registered Office:
2nd Floor
10 Chiswell Street
London
EC1Y 4UQ

1 December 2008

DIRECTORS' REMUNERATION REPORT

The Board presents the Remuneration Report for the year ended 31 August 2008.

The Remuneration Committee

The Remuneration Committee consists of three independent non-executive directors: Lord Birdwood, Mr Fenn and Mr Harris. The policy of the Remuneration Committee is framed to give consideration to the provisions as to best practice set out in the Combined Code.

Remuneration of Directors

Each executive director is paid a basic salary and is entitled to benefits, namely payments of pension contributions to a suitable scheme of his choice, the option of the use of a company car, fuel and/or mileage allowance and participation in a private health care scheme. Where a director's pension fund exceeds the Lifetime Allowance, an equivalent sum is added to his gross salary.

Each of the executive directors is also entitled under the terms of his service contract to a bonus of an amount up to his basic salary in the event that specified performance targets are met or exceeded. These targets require increases in earnings per share in each financial year of the Group, adjusted to exclude certain exceptional non trading items. Mr Diver is also entitled to a further bonus of 2% of pre-tax profits in the event that a specified target is met.

The basic salaries referred to above are reviewed every year by the Remuneration Committee. The service contracts of the executive directors incorporate notice periods of 12 months.

These arrangements were originally agreed by the Board of directors in May 1995, just prior to the flotation of the Company on the London Stock Exchange, in consultation with their legal and financial advisers and have recently been reviewed by the Remuneration Committee. In originally establishing these arrangements, and in the recent review, due account was taken of other quoted companies of comparable size and business complexity and, in particular, of the need to put in place incentive arrangements for each executive director which would be challenging and compatible with sustainable growth in shareholder value, whilst not being over-complicated or manipulable. The Board's policy on pension arrangements is to favour money purchase schemes rather than defined benefit ("final salary") schemes.

The Company believes that share ownership by executive directors and senior executives strengthens the links between their personal interests and those of the shareholders. All executive directors are entitled to participate in the Company's 2006 executive Share Option Plan, details of which may also be found in note [28] to the financial statements.

The non-executive directors are appointed for a fixed term expiring at each Annual General Meeting of the Company, when they may offer themselves for re-election. Each of the non-executive directors is entitled to fees, currently at the rate of £20,000 per annum (2007: £20,000), plus expenses, without any right to compensation on early termination.

Audited Information

The following table shows a breakdown of the remuneration of the directors for the year ended 31 August 2008 and the year ended 31 August 2007.

Year ended 31 August 2008

	Salary/fees £	Performance bonus £	Benefits in kind £	Pension contribution £	Total £
R King	248,924	-	2,195	-	251,119
K P Shah	182,160	-	1,824	54,648	238,632
J J Diver	182,160	100,000	7,674	36,432	326,266
J J P Kissane	159,698	-	2,615	47,909	210,222
I S Fenn (non-executive)	20,000	-	-	-	20,000
Lord Birdwood (non-executive)	20,000	-	-	-	20,000
D Harris (non-executive)	20,000	-	-	-	20,000
A B MacKay (non-executive)	20,000	-	-	-	20,000
	852,942	100,000	14,308	138,989	1,106,239

R King no longer accrues a pension contribution and is paid additional salary in lieu.

Year ended 31 August 2007

	Salary/fees £	Performance bonus £	Benefits in kind £	Pension contribution £	Total £
R King	184,388	184,388	2,628	64,536	435,940
K P Shah	182,160	182,160	1,787	54,648	420,755
J J Diver	182,160	422,160	9,533	36,432	650,285
J J P Kissane	159,698	159,698	3,320	47,909	370,625
I S Fenn (non-executive)	20,000	–	–	–	20,000
Lord Birdwood (non-executive)	20,000	–	–	–	20,000
D Harris (non-executive)	20,000	–	–	–	20,000
A B MacKay (non-executive)	20,000	–	–	–	20,000
	788,406	948,406	17,268	203,525	1,957,605

On 5 February 2003, options over 185,000 new ordinary shares in the Company were granted to each of J J P Kissane and J J Diver. These options were granted pursuant to the Company's Enterprise Management Incentive Share Option Scheme, which was approved by shareholders on 22 January 2003. The options are exercisable at a price of 54 pence per share normally no earlier than three years and not later than ten years from the date of grant, subject to the achievement of a predetermined profit related performance target, which has been achieved.

On 11 May 2006, options were granted at a price of 63 pence per share over 960,000 new ordinary shares in the Company to the four executive directors as follows:

	Options granted
R King	250,000
K P Shah	250,000
J J Diver	230,000
J J P Kissane	230,000

On 6 May 2008, options were granted over 200,000 new ordinary shares in the Company to each of the four executive directors (R. King, K P Shah, J J Diver, and J J P Kissane) at a price of 115.25p.

These options were granted pursuant to the 2006 Share Option Plan, which was approved by shareholders on 29 November 2005 and adopted by the Company on 22 February 2006. The options are exercisable at a price of 63 pence per share normally no earlier than three years and not later than ten years from the date of grant, subject to the achievement of a predetermined profit related performance target, which has been achieved, for the options granted on 11 May 2006.

K P Shah, J J P Kissane and J J Diver are the only directors to whom retirement benefits are accruing under a money purchase pension scheme.

At 31 August 2008 the mid-market price of an issued ordinary share in The Character Group plc was 62.5 pence, and during the year the price ranged from 60.5 pence to 205 pence.

On behalf of the Board

Lord Birdwood
Chairman, Remuneration Committee
1 December 2008

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF THE CHARACTER GROUP plc

We have audited the Group financial statements for the year ended 31 August 2008 which comprise the Consolidated Income Statement, the Consolidated Balance Sheet, the Consolidated Cash Flow Statement, the Consolidated Statement of Changes in Equity and notes 1 to 30 including the "Audited Information" in the Directors' Remuneration Report that is cross referenced by the notes. These financial statements have been prepared under the historical cost convention and the basis of accounting policies set out therein.

We have reported separately on the parent company financial statement of The Character Group plc for the year ended 31 August 2008.

This report is made solely to the Company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume any responsibility to anyone other than the Company and the Company's members as a body, for our work, for this report or for the opinions we have formed.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the Annual Report and the Group financial statements in accordance with applicable United Kingdom law and International Financial Reporting Standards (IFRS) as adopted by the European Union are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the Group financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the Group financial statements give a true and fair view and whether the Group financial statements are properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements. The information given in the Director's Report includes that specific information presented in the Chairman's Statement that is cross referenced from the Business Review section of the Directors' Report.

In addition we report to you if, in our opinion, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read the other information contained in the Annual Report and consider whether it is consistent with the audited Group financial statements. The other information comprises only the Chairman's Statement, the Directors' Report, the Directors' Biographies, the Corporate Governance Statement and the Directors' Remuneration Report (other than the information described as "Audited Information"). We consider the implications for our audit report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the Group financial statements and of whether the accounting policies are appropriate to the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Group's financial statements and the part of the Directors' Remuneration Report described as "Audited Information" are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the Group financial statements.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF THE CHARACTER GROUP plc CONTINUED

Opinion

In our opinion:

- the Group financial statements give a true and fair view, in accordance with IFRS as adopted by the European Union, of the state of the Group's affairs as at 31 August 2008 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the Group financial statements.

HLB Vantis Audit plc
Registered Auditors
Chartered Accountants
66 Wigmore Street
London
W1U 2SB
19 December 2008

CONSOLIDATED INCOME STATEMENT

for the year ended 31 August 2008

	Note	Total 2008 £000's	Total 2007 £000's
Continuing operations			
Revenue		**82,272**	95,076
Cost of sales		**(52,800)**	(56,714)
Gross profit		**29,472**	38,362
Net operating expenses			
Selling and distribution costs		**(9,977)**	(10,143)
Administration expenses		**(14,365)**	(15,508)
Other operating income		**167**	149
Operating profit	4	**5,297**	12,860
Net finance costs	7	**(154)**	(285)
Profit before taxation		**5,143**	12,575
Taxation	8	**4**	(3,877)
Profit for the year attributable to equity holders of the Parent		**5,147**	8,698
Earnings per share (pence)	10		
Basic		**12.03p**	19.20p
Fully diluted		**11.70p**	18.62p

CONSOLIDATED BALANCE SHEET

as at 31 August 2008

	Note	2008 £000's	2007 £000's
Non – current assets			
Intangible assets – product development	12	**2,415**	1,409
Property, plant and equipment	13	**1,303**	1,494
		3,718	2,903
Current assets			
Inventories	15	**9,802**	10,831
Trade and other receivables	16	**19,142**	21,303
Derivative financial instruments	17	**1,507**	–
Income tax	18	**1,555**	–
Cash and cash equivalents	19	**17,785**	15,658
		49,791	47,792
Current liabilities			
Short term borrowings	20	**(17,782)**	(13,512)
Trade and other payables	21	**(17,628)**	(18,794))
Income tax	18	**(1,534)**	(3,187)
Derivative financial instruments	17	**–**	(452)
		(36,944)	(35,945)
Net current assets		**12,847**	11,847
Non current liabilities			
Deferred tax	8	**(834)**	(280)
Net assets		**15,731**	14,470
Equity			
Share capital	28	**2,275**	2,273
Shares held in treasury	28	**(3,277)**	(676)
Investment in own shares	29	**(908)**	(908)
Capital redemption reserve		**448**	448
Share based payment reserve		**534**	315
Share premium account		**12,587**	12,568
Merger reserve		**651**	651
Translation reserve		**501**	(725)
Profit and loss account		**2,920**	524
Total equity		**15,731**	14,470

The financial statements on pages 19 to 51 were approved by the Board of directors on 1 December 2008.

R King
Director

K P Shah
Director

CONSOLIDATED CASH FLOW STATEMENT

for the year ended 31 August 2008

	Note	12 months to 31 August 2008 £000's	12 months to 31 August 2007 £000's
Cash flow from operating activities			
Profit before taxation for the year		**5,143**	12,575
Adjustments for:			
Depreciation of property, plant and equipment		**378**	375
Amortisation of intangible assets		**3,854**	1,306
(Profit) on disposal of investments		**–**	(1)
(Profit) on disposal of property, plant and equipment		**(5)**	–
Interest expense		**154**	285
Financial instruments fair value adjustments		**(1,659)**	295
Share based payments		**219**	247
Decrease/(increase) in inventories		**1,029**	(160)
Decrease/(increase) in trade and other receivables		**2,161**	(512)
(Decrease)/increase in trade and other creditors		**(1,167)**	1,063
Cash generated from operations		**10,107**	15,473
Interest paid		**(154)**	(285)
Income tax paid		**(2,329)**	(1,068)
Net cash inflow from operating activities		**7,624**	14,120
Cash flows from investing activities			
Payments for intangible assets		**(4,860)**	(1,867)
Payments for property, plant and equipment		**(243)**	(288)
Proceeds from disposal of investments		**–**	3
Proceeds from disposal of property, plant and equipment		**62**	19
Proceeds of disposal of discontinued activity		**–**	496
Net cash outflow from investing activities		**(5,041)**	(1,637)
Cash flows from financing activities			
Proceeds from issue of share capital		**21**	225
Repurchase of own shares		**–**	(5,352)
Sale of treasury shares		**–**	952
Purchase of treasury shares		**(2,627)**	(518)
Dividends paid		**(1,959)**	(1,625)
Net cash used in financing activities		**(4,565)**	(6,318)
Net (decrease)/increase in cash and cash equivalents		**(1,982)**	6,165
Cash, cash equivalents and borrowings at the beginning of the year		**2,146**	(3,943)
Effects of exchange rate movements		**(161)**	(76)
Cash, cash equivalents and borrowings at the end of the year		**3**	2,146

Cash, cash equivalents and borrowings consist of:

	Note	2008	2007
Cash and cash equivalents	18	**17,785**	15,658
Short term borrowings	19	**(17,782)**	(13,512)
		3	2,146

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31 August 2008

	Called up share capital £000's	Investment in own shares £000's	Treasury shares £000's	Capital redemption reserve £000's	Share premium account £000's	Merger reserve £000's	Share based payment £000's	Translation reserve £000's	Profit and loss account £000's	Total £000's
The Group										
1 September 2006	2,452	(908)	(665)	243	11,917	651	68	-	(1,831)	11,927
Profit after tax	-	-	-	-	-	-	-	-	8,698	8,698
Exchange differences on translating foreign operations	-	-	-	-	-	-	-	(725)	639	(86)
Total recognised income and expense for the year	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(725)**	**9,337**	**8,612**
Share based payment	-	-	-	-	-	-	247	-	-	247
Dividends	-	-	-	-	-	-	-	-	(1,625)	(1,625)
Shares issued	25	-	-	-	200	-	-	-	-	225
Sale of treasury shares	-	-	502	-	451	-	-	-	-	953
Shares purchased	(204)	-	(513)	205	-	-	-	-	(5,357)	(5,869)
1 September 2007	**2,273**	**(908)**	**(676)**	**448**	**12,568**	**651**	**315**	**(725)**	**524**	**14,470**
Profit after tax	-	-	-	-	-	-	-	-	5,147	5,147
Exchange differences on translating foreign operations	-	-	-	-	-	-	-	1,226	(1,387)	(161)
Tax on items taken directly to equity	-	-	-	-	-	-	-	-	404	404
Total recognised income and expense for the year	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**4,164**	**5,390**
Share-based payment	-		-	-	-	-	219	-	-	219
Net gain on cash flow hedged forward contract	-	-	-	-	-	-	-	-	217	217
Dividends	-	-	-	-	-	-	-	-	(1,959)	(1,959)
Shares issued	2	-	-	-	19	-	-	-	-	21
Shares purchased	-	-	(2,601)	-	-	-	-	-	(26)	(2,627)
31 August 2008	**2,275**	**(908)**	**(3,277)**	**448**	**12,587**	**651**	**534**	**501**	**2,920**	**15,731**

NOTES TO THE FINANCIAL STATEMENTS

1 PRINCIPAL ACCOUNTING POLICIES

General information

The Character Group plc is a public limited company ('the Company') incorporated and domiciled in the United Kingdom. The Company's shares are quoted on the AIM Market of the London Stock Exchange.

The principal activities of the Company and its subsidiaries ('the Group') are detailed in the Director's Report on pages 7 to 10.

First-time adoption of International Financial Reporting Standards (IFRS)

The Group's financial statements for the year ended 31 August 2008 are the first annual financial statements that comply with International Financial Reporting Standards "IFRS" as adopted by the European Union, and to which IFRS 1 'First-time adoption of International Financial Reporting Standards' has been applied. The Group's date of transition is 1 September 2006. The comparative figures have been prepared on the same basis and are therefore restated for the impact of IFRS from those previously reported under United Kingdom Generally Accepted Accounting Practice (UK GAAP).
The disclosures required by IFRS 1 concerning the transition from UK GAAP to IFRS are given in the reconciliation schedules, presented and explained in note 2.

Relevant standards, amendments and interpretations effective in the current period

The following standards, amendments and interpretations to existing standards were applicable for the period:

IFRS 7, 'Financial instruments: Disclosures' and the consequential amendment to IAS 1, 'Presentation of Financial Instruments'. IFRS 7 expands the disclosures relating the Group's financial instruments and management of capital. This standard does not have any impact on the valuation of the Group's financial instruments.

IFRIC 8, 'Scope of IFRS 2 Share-based Payment' clarifies that IFRS 2 applies to arrangements where an entity makes share-based payments when the identifiable consideration is less than the fair value of the equity instrument issued. This interpretation does not have any impact on the Group's financial statements.

IFRIC 10, 'Interim financial reporting and impairment' prohibits the impairment losses recognised in an interim period on goodwill and investments in equity instruments and in financial assets carried at cost to be reversed at a subsequent balance sheet date.

IFRIC 11, 'IFRS 2 Group and Treasury Share Transactions'. This interpretation provides guidance on whether share-based payment transactions involving treasury shares or involving Group entities should be accounted for as equity-settled or cash-settled share-based payment transactions in the stand alone financial statements of the parent and subsidiary companies. This interpretation does not have any impact on the IFRS 2 charge recognised by the Group.

Standards, amendments and interpretations effective in the current period but not relevant

The following standards, amendments and interpretations are mandatory in the current period but are not relevant to the Group:

IFRIC 6, 'Liabilities arising from participating in a specific market – waste electrical and electronic equipment'. The interpretation gives guidance on the accounting for liabilities for waste management costs.

IFRIC 7, 'Applying the restatement approach under IAS 29' provides guidance on how an entity would restate its financial statements in the first year it identifies existence of hyperinflation in the economy of its functional currency.

IFRIC 9, 'Reassessment of embedded derivatives' clarifies the circumstances in which an entity may reassess an embedded derivative after its initial recognition. The interpretation does not have an impact on the Group's financial statements.

Standards and interpretations in issue not yet adopted

The following new standards and interpretations are yet to become mandatory and have not been applied in the Group's consolidated financial statements for the year ended 31 August 2008

		Effective for annual periods beginning on or after:
IFRS 2	(Amendment) Share-based Payment	- 1 January 2009
IFRS 3	(Revised) Business Combinations	- 1 July 2009
IFRS 8	Operating Segments	- 1 January 2009
IAS 1	(Revised and amended) Presentation of Financial Statements	- 1 January 2009
IAS 23	(Revised) Borrowing Costs	- 1 January 2009
IAS 27	(Revised) Consolidated and Separate Financial Statement	- 1 July 2009
IAS 32	(Revised) Financial Instruments: Disclosure & Presentation	- 1 January 2009
IAS 39	(Amendment) Financial Instruments: Recognition & Measurement - Eligible hedged items	- 1 July 2009
IFRIC 12	Service Concession Arrangements	- 1 January 2008
IFRIC 13	Customer Loyalty Programmes	- 1 July 2008
IFRIC 14	IAS 19 The Limit on a Defined Benefit Asset, Minimum funding Requirements & their Interaction	- 1 January 2008
IFRIC 15	Agreements for the construction of Real Estate	- 1 January 2009
IFRIC 16	Hedges of a Net Investment in a Foreign Operation	- 1 October 2008

Based on the current business model and accounting policies, the Group does not anticipate a material impact on the consolidated financial statements when these standards and interpretations become effective.

Statement of compliance

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards ('IFRS') as adopted by the European Union and the IFRS as issued by the International Accounting Standards Board and in accordance with the Companies Act 1985.

Basis of preparation

The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of certain derivative financial instruments and share based payments at fair value.

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 be 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 provisions for stock obsolescence, customer returns and allowances, 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 financial statements, 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. Exchange differences resulting from the re-translation of opening net assets are dealt with in reserves.

Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates('the functional currency'). The consolidated financial statements are presented in Sterling, which is the Parent Company's functional and presentation currency.

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. Following the adoption of IFRS goodwill remains written off to reserves and no adjustment would be made on subsequent disposal. For acquisitions completed on or after 1 September 2006, and goodwill carried in the balance sheet from this date, goodwill is tested annually for impairment and carried at cost less accumulated impairment losses.

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 are 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 is on a straight line basis over the estimated product life. 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 (non recourse) under which debts approved by the finance company are assigned to the finance company. 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.

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.

Import loans

Import loans are short term interest bearing trade finance instruments. Import loans are initially recorded at fair value and subsequently amortised using the effective interest rate method.

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

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument. The Group designates certain derivatives as hedges of highly probable forecast transactions (cash flow hedge).

The Group documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in cash flows of hedged items.

a) Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised in equity. The gain or loss relating to the ineffective portion is recognised immediately in the income statement.

Amounts accumulated in equity are recycled in the income statement in the periods in which the hedged items affect the income statement. However, when the forecast transaction that is hedged results in the recognition of a non-financial asset (for example, inventory) or a liability, the gains and losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the asset or liability.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement.

b) Derivatives that do not qualify for hedge accounting

Certain derivative instruments may not qualify for hedge accounting. Such derivatives are classified as at fair value through the income statement, and changes in the fair value are recognised immediately in the income statement.

The fair value of forward foreign exchange contracts is determined by using forward exchange market rates at the balance sheet date. Fair value of currency options is determined by market rates.

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. 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 estimate of vesting is reviewed annually with any impact on the cumulative charge being recognised immediately. 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. Their annual rentals are charged to the income statement on a straight-line basis over the term of the lease.

All incentives for the agreement of a new or renewed operating lease are recognised as part of net consideration, irrespective of nature, or form, or timing of payments. The aggregate benefit of incentive is generally recognised as a reduction of rental expense over the lease term, on a straight-line basis.

Revenue recognition

Revenue is measured at the fair value of consideration received or receivable for goods and services after returns and allowances. Revenue is recognised as follows:

a) **Sales of goods**

Revenue from the sale of goods is recognised when the goods are delivered.

b) **Sales returns and allowance**

A provision is established at the year end for estimated customer returns, rebates and other allowances that reduces income.

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.

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.

2 TRANSITION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS

The Group's financial statements were prepared in accordance with UK GAAP until 31 August 2007. The Group's financial statements for the year ended 31 August 2008 are the first annual financial statements that comply with IFRS as adopted by the European Union, and to which IFRS 1 'First-time adoption of International Financial Reporting Standards' has been applied.

The Group is required to establish its IFRS accounting policies for the year ended 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

Following the adoption of IFRS, goodwill remains written off to reserves and no adjustment would be made on subsequent disposal. For acquisitions completed on or after 1 September 2006, and goodwill carried in the balance sheet at that date ,is tested annually for impairment and carried at cost less accumulated impairment losses.

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.

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 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 loss recognised at 31 August 2007 was £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. advances under this arrangement are now shown as finance advances under short term borrowing. Finance advances at 1 September 2006 were £6,275,000 and £8,784,000 at 31 August 2007.

Import loans were previously classified as trade payables. These are short term interest bearing trade finance instruments and have been reclassified as short term borrowings. Amount reclassified at 1 September 2006 is £3,687,000 and £4,728,000 at 31 August 2007.

(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 year rather than the closing rates at the end of the accounting year. Retranslating the income from subsidiaries on this basis has resulted in additional net income recognised 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 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 £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 tax assets is required. The net taxable difference resulting from the above was £269,000 at 1 September 2006 and £933,000 at 31 August 2007. This has led to the recognition of an additional deferred tax liability of £81,000 at 1 September 2006 and £280,000 at 31 August 2007.

2 TRANSITION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS CONTINUED

RECONCILIATION OF CONSOLIDATED BALANCE SHEET AS AT 1 SEPTEMBER 2006

	UK GAAP £000's	Product Development IAS 38 Note (a) £000's	Financial Instruments IAS 21 Note (b) £000's	Foreign Exchange Rates IAS 21 Note (c) £000's	Employee Benefits IAS 19 Note (d) £000's	Deferred Tax IAS 12 Note (e) £000's	Finance Advances and Trade Finance IAS 32 & IAS 39 Note (b) £000's	IFRS £000's
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	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	-						(9,962)	(9,962)
Trade and other payables	(21,396)	-	-	-	(22)	-	3,687	(17,731)
Derivative financial instruments	-	-	(157)	-	-	-	-	(157)
Income tax payable	(407)	-	-	-	-	-	-	(407)
	(23,153)	-	(157)	-	(22)	-	(6,275)	(29,607)
Net current assets	9,899	-	(157)	-	(22)	-	-	9,720
Non-current liabilities								
Deferred tax	(171)	-	-	-	-	(81)	-	(252)
Net assets	11,739	448	(157)	-	(22)	(81)	-	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)	448	(157)	-	(22)	(81)	-	(1,831)
Total equity	11,739	448	(157)	-	(22)	(81)	-	11,927

2 TRANSITION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS CONTINUED

RECONCILIATION OF CONSOLIDATED BALANCE SHEET AS AT 31 AUGUST 2007

	UK GAAP £000's	Product Development IAS 38 Note (a) £000's	Financial Instruments IAS 21 Note (b) £000's	Foreign Exchange Rates IAS 21 Note (c) £000's	Employee Benefits IAS 19 Note (d) £000's	Deferred Tax IAS 12 Note (e) £000's	Finance Advances and Trade Finance IAS 32 & IAS 39 Note (b) £000's	IFRS £000's
Assets								
Non current assets								
Intangible assets – product development	-	1,409	-	-	-	-	-	1,409
Property, plant and equipment	1,494	-	-	-	-	-	-	1,494
Investments	-					-	-	-
	1,494	1,409	-	-	-	-	-	2,903
Current assets								
Inventories	10,831	-	-	-	-	-	-	10,831
Trade and other receivables	12,519	-	-	-	-	-	8,784	21,303
Derivative financial instruments	-	-	-	-	-	-	-	-
Cash and cash equivalents	15,658	-	-	-	-	-	-	15,658
	39,008	-	-	-	-	-	8,784	47,792
Current liabilities								
Loans	-	-	-	-	-	-	-	-
Short term borrowings – finance advances	-						(13,512)	(13,512)
Trade and other payables	(23,498)	-	-	-	(24)	-	4,728	(18,794)
Derivative financial instruments	-	-	(452)	-	-	-	-	(452)
Income tax payable	(3,187)	-	-	-	-	-	-	(3,187)
	(26,685)	-	(452)	-	(24)	-	(8,784)	(35,945)
Net current assets	12,323	-	(452)	-	(24)	-	-	11,847
Non-current liabilities								
Deferred tax	-	-	-	-	-	(280)	-	(280)
Net assets	13,817	1,409	(452)	-	(24)	(280)	-	14,470
Equity								
Called up share capital	2,273							2,273
Shares held in treasury	(676)							(676)
Investment in own shares	(908)							(908)
Capital redemption reserve	448							448
Share based payment reserve	315							315
Share premium account	12,568							12,568
Merger reserve	651							651
Translation reserve	-			(725)				(725)
Profit and loss account	(854)	1,409	(452)	725	(24)	(280)	-	524
Total equity	13,817	1,409	(452)	-	(24)	(280)	-	14,470

2 TRANSITION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS CONTINUED

RECONCILIATION OF INCOME STATEMENT FOR THE FINANCIAL YEAR ENDED 31 AUGUST 2007

	UK GAAP £000's	Product Development IAS 38 Note (a) £000's	Financial Instruments IAS 21 Note (b) £000's	Foreign Exchange Rates IAS 21 Note (c) £000's	Employee Benefits IAS 19 Note (d) £000's	IFRS £000's
Continuing operations						
Revenue	94,523	-	-	553	-	95,076
Cost of sales	(57,051)	961	(295)	(329)	-	(56,714)
Gross profit	37,472	961	(295)	224	-	38,362
Net operating expenses						
Selling and distribution costs	(10,098)	-	-	(45)	-	(10,143)
Administration expenses	(15,466)	-	-	(40)	(2)	(15,508)
Other operating income	151	-	-	(2)	-	149
Operating profit	12,059	961	(295)	137	(2)	12,860
Finance costs	(431)	-	-	(3)	-	(434)
Finance income	149	-	-	-	-	149
Profit before taxation	11,777	961	(295)	134	(2)	12,575
Taxation	(3,653)	-	-	(25)	-	(3,678)
Deferred tax IAS 12 Note (e)	-	(288)	89	-	-	(199)
Profit for the year	8,124	673	(206)	109	(2)	8,698

3 SEGMENT REPORT

The primary reporting format for segmental purposes is business. The Group operates in one business segment – design, development and international distribution of toys, games and gifts, the disclosures for which have already been provided in these financial statements.

The secondary reporting format for the Group is the geographic segments of its operations. Segment results include items directly attributable and those that can be allocated on a reasonable basis. Unallocated items comprise mainly corporate assets, liabilities and expenses. Assets and liabilities are net of intercompany balances.

Year Ended 31 August 2008	UK £000's	Far East £000's	Total £000's
Revenue – external	64,559	17,713	82,272
Segment result	2,816	3,573	6,389
Unallocated corporate expenses			(1,092)
Operating profit			5,297
Finance costs			(286)
Finance income			132
Profit before taxation			5,143
Taxation			4
Profit for the year			5,147
Segment assets	39,841	9,660	49,501
Unallocated assets			4,008
			53,509
Segment liabilities	(26,014)	(11,427)	(37,441)
Unallocated liabilities			(337)
			(37,778)
Consolidated net assets			15,731
Capital additions	183	60	243
Unallocated corporate additions			–
Consolidated capital additions			243
Depreciation	286	50	336
Unallocated depreciated			42
Consolidated depreciation			378
Share based payment	153	–	153
Unallocated share based payment			66
Consolidated share based payment			219

3 SEGMENT REPORT CONTINUED

Year Ended 31 August 2007	UK £000's	Far East £000's	Total £000's
Revenue – external	75,384	19,692	95,076
Segment result	9,016	5,585	14,601
Unallocated corporate expenses			(1,741)
Operating profit			12,860
Finance costs			(434)
Finance income			149
Profit before taxation			12,575
Taxation			(3,877)
Profit for the year			8,698
Segment assets	38,477	8,467	46,944
Unallocated assets			3,751
			50,695
Segment liabilities	(25,413)	(10,242)	(35,655)
Unallocated liabilities			(570)
			(36,225)
Consolidated net assets			14,470
Capital additions	264	21	285
Unallocated corporate additions			3
Consolidated capital additions			288
Depreciation	273	59	332
Unallocated depreciated & goodwill impairment			445
Consolidated depreciation & goodwill impairment			777
Share based payment	182	-	182
Unallocated share based payment			65
Consolidated share based payment			247

GEOGRAPHICAL DESTINATION OF REVENUE

	31 August 2008 £000's	31 August 2007 £000's
United Kingdom	**72,028**	86,176
Rest of the world	**10,244**	8,900
Total Group	**82,272**	95,076

4 OPERATING PROFIT

	Note	12 months to 31 August 2008 £000's	12 months to 31 August 2007 £000's
Operating profit is stated after charging:			
Exchange losses		**69**	32
Staff costs	6	**6,952**	7,632
Depreciation of tangible fixed assets			
— owned assets		**378**	377
Goodwill impairment		**-**	400
Product development amortised		**3,854**	907
Operating leases — land and buildings		**324**	171

5 AUDITORS REMUNERATION

		12 months to 31 August 2008 £000's	12 months to 31 August 2007 £000's
Group Auditors' remuneration			
	— Statutory audit services	**59**	44
	— Financial reporting advisory services	**15**	10
Other Auditors' remuneration			
	— The audit of the Group's subsidiaries pursuant to Legislation	**22**	30
	— Tax compliance services	**–**	6
	— Tax advisory services	**–**	4
Total fees payable to Auditors		**96**	94

6 STAFF COSTS

	12 months to 31 August 2008 £000's	12 months to 31 August 2007 £000's
Staff costs including directors' emoluments		
Wages and salaries	**5,897**	6,593
Social security costs	**560**	460
Other pension costs	**276**	332
Share based payments	**219**	247
	6,952	7,632
The average number of employees during the year was:	**Number**	Number
Management and administration	**74**	63
Selling and distribution	**104**	97
	178	160

Of the total average number of employees, 116 were based in the UK and 62 in Hong Kong and mainland China.

The amount payable to pension schemes as at the balance sheet date was £230,000 (2007: £156,000).

KEY MANAGEMENT PERSONNEL

	2008 £000's	2007 £000's
Salaries and short-term benefits	**887**	1,674
Share-based payments	**97**	97
Post-employment benefits	**139**	204
	1,123	1,975

Key management comprise the executive directors of The Character Group Plc.

A detailed numerical analysis of director's remuneration and share options showing the highest paid director and number of directors accruing benefit under money purchase pension schemes, is included in the Director's Remuneration Report on pages 14 to 16 and forms part of these financial statements.

7 NET FINANCE COSTS

	12 months to 31 August 2008 £000's	12 months to 31 August 2007 £000's
Finance costs:		
On bank overdraft and similar charges	**(177)**	(177)
Factor and invoice discounting advances	**(109)**	(201)
Other	–	(56)
	(286)	(434)
Finance income:		
Bank interest	**132**	149
Net finance costs	**(154)**	(285)

8 TAXATION

	12 months to 31 August 2008 £000's	12 months to 31 August 2007 £000's
UK Corporation Tax		
Tax on profit for the period	**(617)**	2,969
Adjustments to tax charge in respect of previous periods	**(462)**	(19)
Total UK corporation tax	**(1,079)**	2,950
Foreign Tax		
Tax on profit for the period	**545**	895
Adjustments to tax charge in respect of previous periods	**60**	4
Total foreign tax	**605**	899
Total current tax	**(474)**	3,849
Deferred Tax		
Origination and reversal of timing differences	**470**	28
Total deferred tax	**470**	28
Tax on profit on ordinary activities	**(4)**	3,877
Factors affecting tax charge for the period		
Profit on ordinary activities before taxation	**5,143**	12,575
Profit on ordinary activities multiplied by standard rate		
Of corporation tax in the UK of 29.162% (2007: 30%)	**1,500**	3,773
Effects of:		
Change in tax rate	**(29)**	-
Income/Expenses not chargeable/deductible for tax purposes	**(220)**	284
Capital allowances less than depreciation/(in excess of)	**13**	(11)
Deduction for employee share options exercised	**(17)**	(122)
Goodwill charge not deductible	**-**	120
Lower tax rate on overseas earnings	**(373)**	(597)
Utilisation of tax losses	**(529)**	(26)
Tax losses not utilised	**54**	37
Adjustments to tax charge in respect of previous periods	**(403)**	(15)
Remitted earnings of overseas subsidiaries	**-**	434
Tax (income)/expense reported in the income statement	**(4)**	3,877

Tax relating to items charged or credited to equity:

Income Tax		
Income tax credit on exchange (losses)/gains on intra group balances	**404**	-
Deferred Tax		
Deferred tax on hedged forward contract gain	**(84)**	-
Net Tax credited to equity	**320**	-

8 TAXATION CONTINUED

Deferred taxation arising from temporary differences and unused tax losses can be summarised as follows.

Recognised deferred tax liability:

	Short term temporary differences £000's	(Charge)/credit to income statement £000's	(Charge)/credit to equity £000's
31 August 2006	**(252)**		
Movement in the year	(28)	(28)	-
31 August 2007	**(280)**		
Movement in the year	(554)	(470)	(84)
31 August 2008	**(834)**		

The UK corporation tax rate decreased from 30% to 28% from 1st April 2008. The deferred tax liability has been adjusted in the current year to reflect this change.

Unrecognised deferred tax asset:

	Depreciation in advance of capital allowances £000's	Share based payment £000's	Short term temporary differences £000's	Unused tax losses £000's	Capital losses £000's	Unrelieved double taxation £000's	Total £000's
31 August 2006	**206**	**20**	**421**	**1,102**	**5**	**-**	**1,754**
Movement in the year	(17)	74	(79)	(488)	569	152	211
31 August 2007	**189**	**94**	**342**	**614**	**574**	**152**	**1,965**
Movement in the year	(23)	55	(342)	(509)	(73)	-	(892)
31 August 2008	**166**	**149**	**-**	**105**	**501**	**152**	**1,073**

A deferred tax asset has not been recognised in respect of certain trading losses, capital losses, unrelieved double taxation and tax allowable deductions, due to the unpredictability of future taxable profit streams.

9 DIVIDEND

	12 months to 31 August 2008 £000's	12 months to 31 August 2007 £000's
On equity shares:		
Final dividend paid for the year ended 31 August 2007		
— 2.4 pence (2006: 1.65 pence) per share	**1,039**	733
Interim dividend paid for the year ended 31 August 2008		
— 2.2 pence (2007: 2.00 pence) per share	**920**	892
	1,959	1,625

10 EARNINGS PER SHARE

	12 months to 31 August 2008			12 months to 31 August 2007 (Restated)		
	Profit after taxation	**Weighted average number of ordinary shares**	**Pence per share**	Profit after Taxation	Weighted average number of ordinary shares	Pence per share
Basic earnings per share	**5,147,000**	**42,777,074**	**12.03**	8,698,000	45,298,688	19.20
Impact of share options	**–**	**1,231,151**	**(0.33)**	–	1,408,453	(0.58)
Diluted earnings per share	**5,147,000**	**44,008,225**	**11.70**	8,698,000	46,707,141	18.62

Certain share options granted in May 2008 are not dilutive and are therefore excluded from the weighted average number of ordinary shares for the purpose of diluted earnings per share. The weighted average number of potential ordinary shares excluded is 526,844 (2007: nil).

11 INTANGIBLE ASSETS — GOODWILL

Cost	**£000's**
1 September 2006, 31 August 2007 and 31 August 2008	902
Impairment	
1 September 2006	502
Charge for the year	400
31 August 2007 and 31 August 2008	**902**
Net book value	
31 August 2008	**–**
31 August 2007	–

12 OTHER INTANGIBLE FIXED ASSETS
PRODUCT DEVELOPMENT

Cost	Total £000's
1 September 2006	448
Additions	1,868
31 August 2007	**2,316**
Additions	4,860
31 August 2008	**7,176**
Amortisation	
1 September 2006	-
Charge for the year	907
31 August 2007	**907**
Charge for the year	3,854
31 August 2008	**4,761**
Net book value	
31 August 2008	**2,415**
31 August 2007	1,409

13 PROPERTY, PLANT AND EQUIPMENT

Cost	Freehold land and buildings £000's	Short leasehold improvements £000's	Tooling £000's	Fixtures, fittings and equipment £000's	Motor vehicles £000's	Total £000's
1 September 2006	1,182	118	26	1,912	371	3,609
Additions	–	4	–	232	52	288
Disposals	–	(28)	–	(248)	(59)	(335)
Translation differences	–	(5)	–	(14)	–	(19)
1 September 2007	**1,182**	**89**	**26**	**1,882**	**364**	**3,543**
Additions	–	4	–	210	29	243
Disposals	–	(86)	–	(196)	(95)	(377)
Translation differences	–		–	2	–	2
31 August 2008	**1,182**	**7**	**26**	**1,898**	**298**	**3,411**
Depreciation						
1 September 2006	353	85	26	1,379	157	2,000
Charge for the year	39	28	–	222	88	377
Disposals	–	(28)	–	(248)	(40)	(316)
Translation differences	–	(4)	–	(8)	–	(12)
1 September 2007	**392**	**81**	**26**	**1,345**	**205**	**2,049**
Charge for the year	39	3	–	249	87	378
Disposals	–	(79)	–	(150)	(90)	(319)
Translation differences	–	–	–	–	–	
31 August 2008	**431**	**5**	**26**	**1,444**	**202**	**2,108**
Net book value						
31 August 2008	**751**	**2**	**–**	**454**	**96**	**1,303**
31 August 2007	790	8	–	537	159	1,494

A bank has a charge over a freehold property.

14 PRINCIPAL GROUP SUBSIDIARY UNDERTAKINGS

Details of the principal subsidiary undertakings of the Company, which are included in the consolidated financial statements are set out below:

Subsidiaries	Country of incorporation and operation	Class of share capital held	Proportion held by the parent Undertaking	Nature of business
Character Options Limited	United Kingdom	Ordinary	100%	Design and distribution of toys and games
Toy Options (Far East) Limited	Hong Kong	Ordinary	100%	Design and distribution of toys and games
Character Games Limited	United Kingdom	Ordinary	100%	Design and distribution of toys and games
Character Gifts Limited	United Kingdom	Ordinary	100%	Gift importer and distributor

15 INVENTORIES

	2008 £000's	2007 £000's
Finished goods for resale	**9,802**	10,831

16 TRADE AND OTHER RECEIVABLES

	2008 £000's	2007 £000's
Current:		
Trade receivables	**16,862**	19,227
Less: provision for impairment of receivables	**(10)**	(10)
Trade receivables – net	**16,852**	19,217
Other receivables	**1,214**	843
	18,066	20,060
Prepayments	**1,076**	1,243
	19,142	21,303

All amounts are short term. The carrying values are considered to be a reasonable approximation of fair value.

Gross trade receivables can be analysed as follows:

	2008 £000's	2007 £000's
Fully performing	**16,378**	17,764
Past due	**480**	1,452
Impaired	**4**	11
Trade receivables	**16,862**	19,227

16 TRADE AND OTHER RECEIVABLES CONTINUED

Ageing of past due, not impaired, receivables:

	2008 £000's	2007 £000's
1 – 90 days	413	481
> 90 days	67	971
	480	1,452

Amounts relate to debtors for whom there is no recent history of default and there has been no significant change in credit quality.

Movement on the Group provision for impairment of trade receivables is as follows:

	2008 £000's	2007 £000's
As at 1 September	10	6
Impairment loss recognised	-	4
As at 31 August	10	10

Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation are considered indications that the trade receivable is impaired.

The carrying amount of the Group's net trade receivables are denominated in the following currencies

	2008 £000's	2007 £000's
Pounds Sterling	12,598	12,147
US Dollars	208	7,070
Euros	4,046	-
	16,852	19,217

17 DERIVATIVE FINANCIAL INSTRUMENTS

Numerical financial instruments disclosures are set out below. Additional disclosures are set out in the accounting policies in note 1 and note 23 relating to risk management.

	2008		2007	
	Assets £000's	Liabilities £000's	Assets £000's	Liabilities £000's
Forward foreign exchange contracts-cash flow hedges	301	–	–	–
Other forward foreign exchange contracts and options	1,206	–	–	(452)
	1,507	–	–	(452)

The net fair value gain on open forward foreign exchange contracts that hedge foreign currency exchange risk of anticipated future purchases will be transferred to the income statement when the related purchases are realised as cost of sales.

18 INCOME TAX RECOVERABLE/ (PAYABLE)

	2008		2007	
	Assets £000's	**Liabilities £000's**	Assets £000's	Liabilities £000's
UK income tax	**1,555**	–	–	(2,184)
Overseas income tax	–	(1,534)	–	(1,003)
	1,555	(1,534)	–	(3,187)

19 CASH & CASH EQUIVALENTS

	2008 £000's	2007 £000's
Cash and cash equivalents	**17,785**	15,658

Cash and cash equivalents are denominated in the following currencies

Currency	**At 31 August 2008 Floating rate financial assets £000's**	At 31 August 2007 Floating rate financial assets £000's
Sterling	**12,938**	14,171
US$	**3,511**	588
Euro	**433**	21
HKS$	**851**	873
Chinese renminbi	**52**	5
Total	**17,785**	15,658

At August 2008, the balances attracted interested rate of between 1.5% and 4 %.

20 SHORT TERM BORROWINGS

	2008 £000's	2007 £000's
Finance Advances	**12,462**	8,784
Import Loans	**5,320**	4,728
Total	**17,782**	13,512

Finance advances are refundable advances against approved trade debtors. Import Loans are short term trade finance instruments.

The Group has a bank overdraft facility of £1million and a trade finance facility of £11.5million, which expire within one year and are repayable on demand. Certain UK subsidiaries have an ongoing invoice discounting facility totaling £22.5million. The interest charged on the above facility is between 1% per annum to 1.5% per annum over base rate. The facilities are secured by various fixed and floating charges over the assets and undertakings of the Company and certain subsidiaries.

Certain Far East subsidiaries have bank overdraft and trade finance facilities equivalent to approximately £6.5 million. The interest charged is between 0.25% per annum and 3.25% per annum over Prime or HIBOR. A subsidiary has a pledged cash deposit with a bank amounting to approximately £0.7 million which has been included in cash and cash equivalents.

21 TRADE AND OTHER PAYABLES

	2008 £000's	2007 £000's
Trade creditors	**11,555**	10,327
Other taxation and social security	**1,032**	1,052
Accruals and deferred income	**5,041**	7,415
	17,628	18,794

22 FINANCIAL INSTRUMENTS

The accounting policies for financial instruments have been applied to the line items below:

		31 August 2008			31 August 2007		
Financial Assets Current financial assets	**Note**	**Total £000's**	**Loans and receivables £000's**	**Derivatives used for hedging £000's**	Total £000's	Loans and receivables £000's	Derivatives used for hedging £000's
Trade and other receivables	**16**	**18,066**	**18,066**	**-**	20,060	20,060	-
Derivative financial instruments	**17**	**1,507**	**1,206**	**301**	-	-	-
Cash and cash equivalents	**19**	**17,785**	**17,785**	**-**	15,658	15,658	-
		37,358	**37,057**	**301**	35,718	35,718	-

		31 August 2008			31 August 2007		
Financial liabilities Current financial liabilities	**Note**	**Total £000's**	**Financial Liabilities £000's**	**Derivatives used for hedging £000's**	Total £000's	Financial Liabilities £000's	Derivatives used for hedging £000's
Trade and other payables	**21**	**17,628**	**17,628**	**-**	18,794	18,794	-
Derivative financial instruments	**17**	**-**	**-**	**-**	452	452	-
Short term borrowings	**20**	**17,782**	**17,782**	**-**	13,512	13,512	-
		35,410	**35,410**	**-**	32,758	32,758	-

The carrying amounts of financial assets and financial liabilities approximate their fair values.

23 FINANCIAL RISK MANAGEMENT

The Group's operations expose it to a variety of financial risks that include the effects of changes in foreign currency exchange rates, market interest rates, concentration and counter party credit risk and its liquidity position.

The Group has in place a risk management programme that seeks to limit adverse effects on the financial performance of the Group by using foreign currency financial instruments.

The Board of directors reviews and agrees policies for managing each of these risks which are summarised below:

FOREIGN EXCHANGE RISK

The Group is exposed to foreign exchange risks against sterling, primarily on transactions in US dollars. It enters into forward contracts to hedge the cash flows of its product sourcing operation (i.e. it buys US dollars forward in exchange for Sterling) and usually looks forward 12 months on a rolling basis at forecast purchase volumes. During the year the Group implemented procedures and documentation to enable certain forward derivative contracts to qualify for hedge accounting. The policy framework requires hedging imported purchases when appropriate.

FOREIGN CURRENCY SENSITIVITY

The Group is primarily exposed to US Dollars, Hong Kong Dollars and the Euro.

The sensitivity analysis below is based on a change in an assumption while holding all other assumptions constant. In practice this is unlikely to occur and changes in some of the assumptions may be correlated, for example a change in interest rate and a change in foreign currency rates.

23 FINANCIAL RISK MANAGEMENT CONTINUED

The following table details how the Group's income and equity would increase on a before tax basis, given a 10% revaluation in the respective currencies against Sterling and in accordance with IFRS 7 all other variables remaining constant. A 10% devaluation in the value of the respective currencies would have the opposite effect.

The 10% change represents a reasonably possible change in the specified foreign exchange rates in relation to the Group's functional currencies.

		2008			2007		
	Note	Total Equity £000's	Profit or (Loss) £000's	Other movements in equity £000's	Total Equity £000's	Profit or (Loss) £000's	Other movements in equity £000's
Euro		**(29)**	**(29)**	**-**	18	18	-
US$		**(72)**	**403**	**(475)**	(475)	(475)	-
HK$		**1,420**	**1,420**	**-**	1,309	1,309	-
		1,319	**1,794**	**(475)**	852	852	-

INTEREST RATE RISK

The Group has a seasonal cash flow and uses short term borrowings, namely bank overdrafts, finance advances and import loans.

The Group places excess funds on short term bank deposit that attract interest within 0.5% of the ruling market rate.

The Group believes that an interest rate sensitivity analysis is not representative of the underlying risks due the seasonality of cash flows and the short term nature of borrowings and deposits.

Interest rate sensitivities have not been presented here as the amounts would not be material to the consolidated financial statements.

CREDIT RISK

The Group's credit risk is attributable to trade and other receivables, cash and short term bank deposits.

Exposure to credit risk is limited to the carrying amounts recognised at the balance sheet date, summarised as below:

Class of financial assets	2008 £000's	2007 £000's
Trade receivables	**16,862**	19,227
Other receivables	**1,214**	843
Cash	**17,785**	15,658
	35,861	35,728

The Group manages credit risk of debtors through a credit control process and retention of title clauses. Credit limits are agreed and closely monitored. Credit insurance is held on the majority of trade debtors. In addition the Group employs trade finance instruments such as letters of credit and bills of exchange to minimise credit risk further.

The Group places its cash with banks with high quality credit standing.

CONCENTRATION RISK

The Group is subject to significant concentration of credit risk within its business. The table below shows the balance of the five major counterparties within trade receivables as at the balance sheet date:

	2008 £000's	2007 £000's
Counterparty 1	**4,595**	5,440
Counterparty 2	**4,043**	3,866
Counterparty 3	**1,368**	1,995
Counterparty 4	**1,367**	1,985
Counterparty 5	**621**	1,238
	11,994	14,524

Individual balances are closely monitored and managed in accordance with the Group's credit risk policies detailed above.

LIQUIDITY RISK

The Group manages liquidity risk by maintaining adequate reserves, banking and borrowing facilities, and by continuously monitoring forecast and actual cash flows. The Group has positive cash balances and committed debt facilities to cover its liquidity requirements for at least the next 12 months.

24 CAPITAL RISK MANAGEMENT

The Group manages its capital to safeguard the Group's ability to continue as a going concern and to maximise returns for shareholders, reducing the cost of capital by optimising the capital structure.
In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders or issue new shares. The Group holds shares in treasury, which it can release.

25 COMMITMENTS

a. The total of future aggregate minimum payments in respect of non-cancellable operating leases falling due are as follows:

	2008 £000's	2007 £000's
Not later than one year	**213**	57
Later than one year but not more than five years	**208**	216
	421	273

b. The Group has entered into contracts for minimum royalties in the amounts set out below which are contracted to be paid to licensors irrespective of sales and are not provided for in the financial statements as the directors believe that the required level of future sales will be achieved:

	2008 £000's	2007 £000's
Within one year	**945**	109
Between one and two years	**331**	385
Between two and five years	**-**	7
	1,276	501

26 RELATED PARTY TRANSACTIONS

The Group has taken advantage of the exemption available under IAS 24 related party disclosures not to disclose transactions and balances between Group entities that have been eliminated on consolidation. There were no contracts with the Company or any of its subsidiaries existing at the end of the financial year in which a director of the Company was materially interested. During the year, an amount due from R King of £100,000 was repaid.

27 CONTINGENT LIABILITIES

The contingent liability for bills of exchange discounted in the normal course of business at 31 August 2008 amounted to £627,000 (2007:£1,300,000).

28 CALLED UP SHARE CAPITAL (EQUITY)

	2008 £000's	2007 £000's
Authorised		
110,000,000 (2007: 110,000,000) ordinary shares of 5 pence each	**5,500**	5,500
Allotted, called up and fully paid		
45,496,937* (2007: 45,452,937) ordinary shares of 5 pence each	**2,275**	2,273

* Including 3,842,379 ordinary shares held in treasury (2007: 1,000,000).

Share capital movements in the year

44,000 ordinary shares of 5 pence each (total nominal value £2,200) were issued during the year to employees exercising their share options as follows:

	Number of ordinary shares at exercise price	
Date	**24.25p**	**54.00p**
2 November 2007	9,000	15,000
29 November 2007		15,000
14 May 2008		5,000

28 CALLED UP SHARE CAPITAL (EQUITY) CONTINUED

Share Capital movements in the year (continued)

During the year, the Company repurchased 2,842,379 ordinary shares to be held as Treasury shares as follows:

Date	Number of shares	Price	% of the issued share capital immediately prior to repurchase (excluding shares held in Treasury)
19 December 2007	437,565	87.25p	0.98%
19 December 2007	13,049	87.25p	0.03%
20 December 2007	196,155	93.24p	0.44%
21 December 2007	61,713	94.27p	0.14%
24 December 2007	21,045	88.00p	0.04%
27 December 2007	38,500	87.00p	0.09%
31 December 2007	179,332	92.00p	0.41%
3 January 2008	42,142	94.50p	0.10%
7 January 2008	45,754	77.58p	0.11%
8 January 2008	65,037	79.69p	0.15%
9 January 2008	122,565	78.86p	0.28%
11 January 2008	100,000	89.92p	0.22%
11 January 2008	103,092	89.94p	0.23%
24 January 2008	100,000	88.35p	0.23%
25 January 2008	101,264	87.41p	0.24%
28 January 2008	88,400	88.35p	0.21%
30 January 2008	179,603	89.97p	0.42%
8 February 2008	43,768	88.76p	0.10%
29 April 2008	6,235	109.25	0.01%
8 May 2008	51,000	124.00p	0.12%
9 May 2008	15,000	125.00p	0.04%
12 May 2008	30,065	124.52p	0.07%
14 May 2008	11,265	125.00p	0.03%
16 May 2008	42,369	124.79p	0.10%
19 May 2008	14,157	125.00p	0.03%
20 May 2008	5,640	125.00p	0.01%
23 May 2008	10,000	125.00p	0.02%
28 May 2008	4,532	125.00p	0.01%
30 May 2008	17,500	125.00p	0.04%
2 June 2008	3,316	125.00p	0.01%
4 June 2008	4,182	125.00p	0.01%
9 June 2008	46,804	125.00p	0.11%
10 June 2008	77,000	125.00p	0.18%
19 June 2008	15,000	118.00p	0.04%
1 July 2008	78,000	94.70p	0.19%
3 July 2008	100,000	97.37p	0.24%
4 July 2008	41,800	97.47p	0.10%
4 July 2008	20,500	99.64p	0.05%
7 July 2008	13,750	100.00p	0.03%
17 July 2008	6,000	90.00p	0.01%
1 August 2008	134,241	70.00p	0.30%
4 August 2008	23,936	70.00p	0.06%
5 August 2008	12,500	70.00p	0.03%
6 August 2008	12,500	70.00p	0.03%
11 August 2008	45,103	70.00p	0.11%
13 August 2008	46,000	60.50p	0.11%
26 August 2008	15,000	60.00p	0.04%

On 31 August 2008, a total of 3,842,379 (2007: 1,000,000) ordinary shares were held in Treasury.

28 CALLED UP SHARE CAPITAL (EQUITY) CONTINUED

Share options

The Company adopted the rules of an Inland Revenue approved executive share option scheme (the "1995 Scheme") on 3 May 1995. The 1995 Scheme terminated on 3 May 2005 but such termination has not affected the status of options granted under it prior to that date.

The Company adopted the rules of its unapproved executive share option scheme (the "1997 Scheme") on 2 June 1997. The directors resolved that no further options would be granted under the 1997 Scheme on or after 22 February 2006 but such resolution has not affected the status of options granted under it prior to that date.

The Company adopted the rules of an Inland Revenue qualifying Enterprise Management Incentive share option scheme (the "EMI Scheme") with the sanction of shareholders following an extraordinary general meeting of the Company on 22 January 2003. On 5 February 2003, options over a total of 1,131,250 new ordinary shares were granted to Group employees under the 1995 Scheme at an exercise price of 54 pence per share.

The Company adopted the rules of a Share Option Plan (the "2006 Scheme") on 22 February 2006, following approval by H M Revenue and Customs. On 11 May 2006, options over a total of 960,000 new ordinary shares of 5 pence each were granted under the 2006 Scheme to executive directors at an exercise price of 63 pence per share. On 15 May 2006, options over a total of 1,093,250 new ordinary shares of 5 pence each were granted under the 2006 Scheme to Group employees at an exercise price of 63 pence per share. On 18 August 2006, options over a total of 100,000 new ordinary shares of 5 pence each were granted under the 2006 Scheme to a Group employee at an exercise price of 66 pence per share.

On 11 July 2006, unapproved non-scheme options ("Non-Scheme Options") over a total of 165,000 new ordinary shares of 5 pence each were granted to Group employees at an exercise price of 63.25 pence per share. Such options are exercisable from 21 December 2007 until 19 December 2014.

On 6 May 2008, options over a total of 800,000 new ordinary shares of 5 pence each were granted under the 2006 scheme to executive directors at an exercise price of 115.5 pence per share. Also on 6 May 2008, options over a total of 847,200 new ordinary shares of 5 pence each were granted under the 2006 Scheme to Group employees at an exercise price of 115.5 pence per share.

28 CALLED UP SHARE CAPITAL (EQUITY) CONTINUED

At 31 August 2008 rights to options over 4,370,850 ordinary shares of the company were outstanding as follows:

	At 1 September 2007	Granted	Exercised/ lapsed	Cancelled	At 31 August 2008	Exercise Price	Exercise Period
1995 Scheme							
	6,000	–	(6,000)	–	–	136.5p	5 December 2000 to 4 December 2007
	31,000	–	(9,000)	–	22,000	24.25p	15 February 2005 to 14 February 2012
1997 Scheme							
	5,750	–	–	–	5,750	24.25p	15 February 2005 to 14 February 2009
	31,750	–	–	–	31,750	54.0p	6 February 2006 to 5 February 2010
EMI Scheme							
	448,500	–	(35,000)	–	413,500	54.0p	5 February 2006 to 4 February 2013
2006 Scheme							
	960,000	–	–	–	960,000	63.0p	11 May 2009 to 10 May 2016
	1,064,500	–	(30,750)	–	1,033,750	63.0p	15 May 2009 to 14 May 2016
	100,000	–	–	–	100,000	66.0p	18 August 2009 to 17 August 2016
	–	1,647,200	(8,100)	–	1,639,100	115.5p	6 May 2011 to 5 May 2018
Non-Scheme options	165,000	–	–	–	165,000	63.25p	21 December 2007 to 19 December 2014
	2,812,500	1,647,200	(88,850)	–	4,370,850		

No amount is payable by any grantee of an option at the time of grant under any of the Company's share option schemes particularised above.

29 SHARE-BASED PAYMENT

	12 months ended 31 August 2008 £000's	12 months ended 31 August 2007 £000's
Charge for share based payment	**219**	247

The fair value of equity settled awards has been estimated at the date of grant using a binomial valuation model for which the inputs are summarised below:

Grant Date	11 May 2006	15 May 2006	11 July 2006	18 August 2006	6 May 2008
Options outstanding 1 September 2007	960,000	1,064,500	165,000	100,000	–
Granted	–	–	–	–	1,647,200
Lapsed	–	(30,750)	–	–	(8,100)
Options outstanding 31 August 2008	960,000	1,033,750	165,000	100,000	1,639,100
Contract term year(s)	10	10	8.5	10	10
Expected life of option	6	6	6	6	6
Exercise & share price at grant	63.0p	63.0p	63.25p	66.0p	115.25p
Expected volatility	55% – 65%	55% – 65%	55% – 65%	55% – 65%	55% – 65%
Annual risk free rate	4.425%	4.425%	4.690%	4.74%	4.64%
Annual expected dividend	2% – 3%	2% – 3%	2% – 3%	2% – 3%	2% – 3%
Fair value per share under option	32p	32p	32p	33p	55p

29 SHARE-BASED PAYMENT CONTINUED

Expected volatility was determined by calculating the historical volatility of the Group's share price over the previous 3 years. The expected life used in the model has been adjusted, based upon management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations. Option valuations are based upon the assumption that the dividend remains at this level in the future.

The share options, when exercised, shall have the same dividend and voting rights as the ordinary issued share capital.

30 THE CHARACTER GROUP plc EMPLOYEE SHARE OWNERSHIP TRUST

The Company's Employee Share Ownership Trust ("the Trust") is governed by a Trust Deed dated 19 June 1998. The Trustees may grant options over such shares in the Company acquired by them or otherwise provide benefits to the beneficiaries, as defined in the Trust Deed. The Trust is required to meet its own costs out of the trust fund but if such fund is insufficient such costs will be borne by the Company. At 31 August 2008, the Trust held 285,000 ordinary shares (2007: 285,000), which had a market value of £178,125 (2007: £489,000), and has waived its right to dividend income thereon. The cost of these shares was £908,000. At 31 August 2008, no options had been granted by the Trust.

DIRECTORS' STATEMENT OF RESPONSIBILITIES IN RELATION TO THE PARENT COMPANY FINANCIAL STATEMENTS

Statement of directors' responsibilities

The directors are responsible for preparing the annual report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Practice (United Kingdom Standards and applicable law). The financial statements are required by law to give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing those financial statements the directors are required to:

- select suitable accounting policies and apply them consistently;
- make judgements and estimates that are reasonable and prudent; and
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements.

The directors are responsible for keeping accounting records which disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF THE CHARACTER GROUP plc

We have audited the parent company financial statements for the year ended 31 August 2008 which comprise the Company Balance Sheet and the related notes 1 to 10. These parent company financial statements have been prepared in accordance with the accounting policies set out therein.

We have reported separately on the group financial statements of The Character Group plc for the year ended 31 August 2008.

This report is made solely to the Company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume any responsibility to anyone other than the Company and the Company's members as a body, for our work, for this report or for the opinions we have formed.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the parent company financial statements in accordance with applicable United Kingdom law and Accounting Standards (United Kingdom Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the parent company financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the parent company financial statements give a true and fair view and whether the parent company financial statements are properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the parent company financial statements. The information given in the Director's Report includes that specific information presented in the Chairman's Statement that is cross referenced from the Business Review section of the Directors' Report.

In addition we report to you if, in our opinion, the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read other information contained in the Annual Report and consider whether it is consistent with the audited parent company financial statements. This other information comprises only the Directors' Report, the Chairman's Statement, the Directors' Biographies, the Corporate Governance Statement and the Directors' Remuneration Report. We consider the implications for our audit report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the parent company financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the parent company financial statements and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the parent company financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the parent company financial statements and the Directors' Report.

Opinion

In our opinion:

- the parent company financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Company's affairs as at 31 August 2008;
- the parent company financial statements and the Directors' Report have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the parent company financial statements.

HLB Vantis Audit plc
Registered Auditors
Chartered Accountants
66 Wigmore Street
London
W1U 2SB
19 December 2008

COMPANY BALANCE SHEET

for the year ended 31 August 2008

	Note	2008 £000's	2007 (restated) £000's
Fixed assets			
Tangible assets	2	**752**	794
Investments	3	**1,686**	1,532
		2,438	2,326
Current assets			
Debtors	4	**11,300**	11,967
Cash at bank and in hand		**2,895**	2,685
		14,195	14,652
Creditors: amounts falling due within one year	5	**(358)**	(675)
Net current assets		**13,837**	13,977
Total assets less current liabilities		**16,275**	16,303
Net Assets		**16,275**	16,303
Capital and reserves			
Called up share capital	7,8	**2,275**	2,273
Shares held in treasury	8	**(3,277)**	(676)
Investment in own shares	9	**(908)**	(908)
Capital redemption reserve	8	**448**	448
Share premium account	8	**12,587**	12,568
Share based payment reserve	8	**534**	315
Profit and loss account	8	**4,616**	2,283
Shareholders' funds		**16,275**	16,303

The financial statements on pages 55 to 63 were approved by the Board of directors on 1 December 2008.

R King
Director

K P Shah
Director

NOTES TO THE COMPANY FINANCIAL STATEMENTS

1 PRINCIPAL ACCOUNTING POLICIES

Basis of preparation

The separate financial statements of the Company have been prepared under the historical cost convention and in accordance with all applicable United Kingdom accounting standards.

No profit and loss account is presented by the Company as permitted by Section 230 Companies 1985.

As permitted by Financial Reporting Standard (FRS) No.1 (Revised), "Cash flow statement", the Company has not included a Cash flow statement as the Company's results have been included within the Group's consolidated financial statements.

As permitted by FRS8 no related party disclosures for the Company have been included.

In the current year, the Company had adopted FRS29 'Financial Instruments: Disclosures' which is effective for annual reporting periods on or after 1 January 2007. The Company has taken advantage of the exemption in FRS 29 Financial Instruments Disclosures and has not disclosed information required by that Standard as the Group's consolidated financial statements provide equivalent disclosures for the Group under IFRS 7.

Investments

Shares in subsidiary undertakings are stated at cost less provision for impairment. Provision is made against investments where diminution in value is considered to be permanent.

TANGIBLE FIXED ASSETS

Tangible fixed assets are 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%
Fixtures, fittings and equipment	20-33%

FRS 20: Share-based payment

The Company 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. The fair value determined on this basis is expensed on a straight line basis over the vesting period, based upon the Company's estimate of the number of shares that will vest. The estimate of vesting is reviewed annually with any impact on the cumulative charge being recognised immediately. The charge in respect of share based payments is matched by an equal and opposite adjustment to equity.

The Company has adopted UITF 44 in the current year. When the parent entity grants options over equity instruments directly to the employees of a subsidiary undertaking, then in the parent company financial statements the effect of the share based payment, as calculated in accordance with FRS 20, is capitalised as part of the investment in the subsidiary as a capital contribution, with a corresponding increase in equity. A prior year adjustment has been made to the financial information for the year ended 31st August 2007.

Leases

Rentals paid under operating leases are charged to income as incurred.

Deferred taxation

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. Timing differences are differences between the company's taxable profits and its results as stated in the financial statements that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the financial statements.

Deferred tax assets in excess of liabilities are recognised to the extent that, in the directors' opinion, it is more likely than not that suitable taxable profits will arise from which the underlying timing differences can be deducted.

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantially enacted by the balance sheet date. Deferred tax is measured on a non-discounted basis.

Taxation

Current tax is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantially enacted at the balance sheet date.

Pension contributions

The company operates defined contribution pension schemes. Contributions are allocated to the profit and loss account when due.

The Company has 6 employees in 2007 and 2008. Details of the remuneration of the directors are included within the directors' remuneration report on pages 14 to 16.

2 TANGIBLE FIXED ASSETS

Cost	Freehold land and buildings £000's	Fixtures, fittings and equipment £000's	Total £000's
1 September 2007	1,182	135	1,317
Additions	–	–	–
31 August 2008	**1,182**	**135**	**1,317**
Depreciation			
1 September 2007	392	131	523
Charge for the year	39	3	42
31 August 2008	**431**	**134**	**565**
Net book value			
31 August 2008	**751**	**1**	**752**
31 August 2007	790	4	794

NOTES TO THE COMPANY FINANCIAL STATEMENTS CONTINUED

3 FIXED ASSET INVESTMENTS

The Company

Cost	Shares in subsidiary undertakings £000's	Capital contribution £000's	Total £000's
1 September 2007 as originally stated	3,195	–	3,195
Share based payment	–	233	233
At 1 September 2007 restated	**3,195**	**233**	**3,428**
Share based payment	–	154	154
At 31 August 2008	**3,195**	**387**	**3,582**
Amortisation and provisions			
1 September 2007	-	-	-
Charge for the year	1,896	-	1,896
31 August 2007 and 31 August 2008	1,896	-	1,896
Net book value			
31 August 2008	**1,299**	**387**	**1,686**
31 August 2007	1,299	233	1,532

At 31 August 2008, the Company held more than 10% of the equity of the following principal undertakings:

Subsidiaries	Country of incorporation and operation	Class of share capital held	Proportion held by the parent undertaking	Nature of business
Character Options Limited	United Kingdom	Ordinary	100%	Design and distribution of toys and games
Toy Options (Far East) Limited	Hong Kong	Ordinary	100%	Design and distribution of toys and games
Character Games Limited	United Kingdom	Ordinary	100%	Design and distribution of toys and games
Character Gifts Limited	United Kingdom	Ordinary	100%	Gift importer and distributor

4 DEBTORS

	2008 £000's	2007 £000's
Due from subsidiary undertakings	**10,940**	11,694
Other debtors	**139**	62
Prepayments and accrued income	**219**	207
Other taxation and social security	**2**	4
	11,300	11,967

5 CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2008 £000's	2007 £000's
Due to subsidiary undertakings	**24**	15
Other taxation and social security	**103**	–
Accruals and deferred income	**231**	660
	358	675

6 CONTINGENT LIABILITIES

The Company has guaranteed the obligations of certain subsidiary companies to their finance companies, trade finance companies, certain banks and others in the normal course of business. The finance company has a fixed and floating charge over the assets of the Company and some subsidiaries. The Company is a member of a group registration for Value Added Tax purposes.

7 CALLED UP SHARE CAPITAL (EQUITY)

	2008 £000's	2007 £000's
Authorised		
110,000,000 (2007: 110,000,000) ordinary shares of 5 pence each	**5,500**	5,500
Allotted, called up and fully paid		
45,496,937* (2007: 45,452,937) ordinary shares of 5 pence each	**2,275**	2,273

* Including 3,842,379 ordinary shares held in treasury (2007: 1,000,000).

Share capital movements in the year

44,000 ordinary shares of 5 pence each (total nominal value £2,200) were issued during the year to employees exercising their share options as follows:

	Number of ordinary shares at exercise price	
Date	**24.25p**	**54.00p**
2 November 2007	9,000	15,000
29 November 2007		15,000
14 May 2008		5,000

7 CALLED UP SHARE CAPITAL (EQUITY) CONTINUED

Share Capital movements in the year (continued)

During the year, the Company repurchased 2,842,379 ordinary shares to be held as Treasury shares as follows:

Date	Number of shares	Price	% of the issued share capital immediately prior to repurchase (excluding shares held in Treasury)
19 December 2007	437,565	87.25p	0.98%
19 December 2007	13,049	87.25p	0.03%
20 December 2007	196,155	93.24p	0.44%
21 December 2007	61,713	94.27p	0.14%
24 December 2007	21,045	88.00p	0.04%
27 December 2007	38,500	87.00p	0.09%
31 December 2007	179,332	92.00p	0.41%
3 January 2008	42,142	94.50p	0.10%
7 January 2008	45,754	77.58p	0.11%
8 January 2008	65,037	79.69p	0.15%
9 January 2008	122,565	78.86p	0.28%
11 January 2008	100,000	89.92p	0.22%
11 January 2008	103,092	89.94p	0.23%
24 January 2008	100,000	88.35p	0.23%
25 January 2008	101,264	87.41p	0.24%
28 January 2008	88,400	88.35p	0.21%
30 January 2008	179,603	89.97p	0.42%
8 February 2008	43,768	88.76p	0.10%
29 April 2008	6,235	109.25	0.01%
8 May 2008	51,000	124.00p	0.12%
9 May 2008	15,000	125.00p	0.04%
12 May 2008	30,065	124.52p	0.07%
14 May 2008	11,265	125.00p	0.03%
16 May 2008	42,369	124.79p	0.10%
19 May 2008	14,157	125.00p	0.03%
20 May 2008	5,640	125.00p	0.01%
23 May 2008	10,000	125.00p	0.02%
28 May 2008	4,532	125.00p	0.01%
30 May 2008	17,500	125.00p	0.04%
2 June 2008	3,316	125.00p	0.01%
4 June 2008	4,182	125.00p	0.01%
9 June 2008	46,804	125.00p	0.11%
10 June 2008	77,000	125.00p	0.18%
19 June 2008	15,000	118.00p	0.04%
1 July 2008	78,000	94.70p	0.19%
3 July 2008	100,000	97.37p	0.24%
4 July 2008	41,800	97.47p	0.10%
4 July 2008	20,500	99.64p	0.05%
7 July 2008	13,750	100.00p	0.03%
17 July 2008	6,000	90.00p	0.01%
1 August 2008	134,241	70.00p	0.30%
4 August 2008	23,936	70.00p	0.06%
5 August 2008	12,500	70.00p	0.03%
6 August 2008	12,500	70.00p	0.03%
11 August 2008	45,103	70.00p	0.11%
13 August 2008	46,000	60.50p	0.11%
26 August 2008	15,000	60.00p	0.04%

On 31 August 2008, a total of 3,842,379 (2007: 1,000,000) ordinary shares were held in treasury.

NOTES TO THE COMPANY FINANCIAL STATEMENTS CONTINUED

Share options

The Company adopted the rules of an Inland Revenue approved executive share option scheme (the "1995 Scheme") on 3 May 1995. The 1995 Scheme terminated on 3 May 2005 but such termination has not affected the status of options granted under it prior to that date.

The Company adopted the rules of its unapproved executive share option scheme (the "1997 Scheme") on 2 June 1997. The directors resolved that no further options would be granted under the 1997 Scheme on or after 22 February 2006 but such resolution has not affected the status of options granted under it prior to that date.

The Company adopted the rules of an Inland Revenue qualifying Enterprise Management Incentive share option scheme (the "EMI Scheme") with the sanction of shareholders following an extraordinary general meeting of the Company on 22 January 2003. On 5 February 2003, options over a total of 1,131,250 new ordinary shares were granted to Group employees under the 1995 Scheme at an exercise price of 54 pence per share.

The Company adopted the rules of a Share Option Plan (the "2006 Scheme") on 22 February 2006, following approval by H.M Revenue and Customs. On 11 May 2006, options over a total of 960,000 new ordinary shares of 5 pence each were granted under the 2006 Scheme to executive directors at an exercise price of 63 pence per share. On 15 May 2006, options over a total of 1,093,250 new ordinary shares of 5 pence each were granted under the 2006 Scheme to Group employees at an exercise price of 63 pence per share. On 18 August 2006, options over a total of 100,000 new ordinary shares of 5 pence each were granted under the 2006 Scheme to a Group employee at an exercise price of 66 pence per share.

On 11 July 2006, unapproved non-scheme options ("Non-Scheme Options") over a total of 165,000 new Ordinary Shares of 5 pence each were granted to Group employees at an exercise price of 63.25 pence per share. Such options are exercisable from 21 December 2007 until 19 December 2014.

On 6 May 2008, options over a total of 800,000 new ordinary shares of 5 pence each were granted under the 2006 scheme to executive directors at an exercise price of 115.5 pence per share. Also on 6 May 2008, options over a total of 847,200 new ordinary shares of 5 pence each were granted under the 2006 Scheme to Group employees at an exercise price of 115.5 pence per share.

NOTES TO THE COMPANY FINANCIAL STATEMENTS CONTINUED

At 31 August 2008 rights to options over 4,370,850 ordinary shares of the company were outstanding as follows:

	At 1 September 2007	Granted	Exercised/ lapsed	Cancelled	At 31 August 2007	Exercise Price	Exercise Period
1995 Scheme							
	6,000	–	(6,000)	–	–	136.5p	5 December 2000 to 4 December 2007
	31,000	–	(9,000)	–	22,000	24.25p	15 February 2005 to 14 February 2012
1997 Scheme							
	5,750	–	–	–	5,750	24.25p	15 February 2005 to 14 February 2009
	31,750	–	–	–	31,750	54.0p	6 February 2006 to 5 February 2010
EMI Scheme							
	448,500	–	(35,000)	–	413,500	54.0p	5 February 2006 to 4 February 2013
2006 Scheme							
	960,000	–	–	–	960,000	63.0p	11 May 2009 to 10 May 2016
	1064,500	–	(30,750)	–	1,033,750	63.0p	15 May 2009 to 14 May 2016
	100,000	–	–	–	100,000	66.0p	18 August 2009 to 17 August 2016
	–	1,647,200	(8,100)	–	1,639,100	115.5p	6 May 2011 to 5 May 2018
Non-Scheme options	165,000				165,000		21 December 2007 to 19 December 2014
	2,812,500	1,647,200	(88,850)	–	4,370,850		

No amount is payable by any grantee of an option at the time of grant under any of the Company's share option schemes particularised above.

The fair value of equity settled awards has been estimated at the date of grant using a binomial valuation model for which the inputs are summarised below:

Grant Date	11 May 2006	15 May 2006	11 July 2006	18 August 2006	6 May 2008
Options outstanding 1 September 2007	960,000	1,064,500	165,000	100,000	–
Granted	–	–	–	–	1,647,200
Lapsed	–	(30,750)	–	–	(8,100)
Options outstanding 31 August 2008	960,000	1,033,750	165,000	100,000	1,639,100
Contract term year(s)	10	10	8.5	10	10
Expected life of option	6	6	6	6	6
Exercise & share price at grant	63.0p	63.0p	63.25p	66.0p	115.25p
Expected volatility	55% – 65%	55% – 65%	55% – 65%	55% – 65%	55% – 65%
Annual risk free rate	4.425%	4.425%	4.690%	4.74%	4.64%
Annual expected dividend	2% – 3%	2% – 3%	2% – 3%	2% – 3%	2% – 3%
Fair value per share under option	32p	32p	32p	33p	55p

Expected volatility was determined by calculating the historical volatility of the Group's share price over the previous 3 years. The expected life used in the model has been adjusted, based upon management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations. Option valuations are based upon the assumption that the dividend remains at this level in the future.

The share options, when exercised, shall have the same dividend and voting rights as the ordinary issued share capital.

NOTES TO THE COMPANY FINANCIAL STATEMENTS CONTINUED

8 SHARE CAPITAL AND RESERVES – SHAREHOLERS' FUNDS

	Called up share capital £000's	Treasury Shares	Capital redemption reserve £000's	Share premium account £000's	Share Based Payment £000's	Profit and loss account £000's
1 September 2007 as originally reported	2,273	(676)	448	12,568	82	2,283
Share-based payment – subsidiary undertaking	-	-	-	-	233	-
At 1 September 2007 restated	**2,273**	**(676)**	**448**	**12,568**	**315**	**2,283**
Share-based payment - Company	-	-	-	-	65	-
Share-based payment – subsidiary undertaking	-	-	-	-	154	-
Profit after tax	-	-	-	-	-	4,318
Dividends	-	-	-	-	-	(1,959)
Shares issued	2	-	-	19	-	-
Shares purchased	-	(2,601)	-	-	-	(26)
31 August 2008	**2,275**	**(3,277)**	**448**	**12,587**	**534**	**4,616**

Restatement

The Company's balance sheet for the year ended 31 August 2007 has been restated in accordance with UITF Abstract 44 - Group and Treasury Share Transactions. The restatement has increased the investments in subsidiaries by £233,000 and the Share Based Payment Reserve by £233,000.

9 THE CHARACTER GROUP plc EMPLOYEE SHARE OWNERSHIP TRUST

The Company's Employee Share Ownership Trust ("the Trust") is governed by a Trust Deed dated 19 June 1998. The Trustees may grant options over such shares in the Company acquired by them or otherwise provide benefits to the beneficiaries, as defined in the Trust Deed. The Trust is required to meet its own costs out of the trust fund but if such fund is insufficient such costs will be borne by the Company. At 31 August 2008, the Trust held 285,000 ordinary shares (2007: 285,000), which had a market value of £178,125 (2007: £489,000), and has waived its right to dividend income thereon. The cost of these shares was £908,000. At 31 August 2008, no options had been granted by the Trust.

10 AUDITORS REMUNERATION

	2008 £000's	2007 £000's
Audit of the financial statements	**10**	11

Fees paid to HLB Vantis Audit plc for non audit services to the company itself are not disclosed in the individual financial statements of The Character Group plc as group financial statements are prepared which are required to disclose such fees on a consolidated basis.