Interim Report

Six months ended 28 February 2011

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DIRECTORS AND ADVISORS

Directors
R King
K P Shah
J J Diver
J J P Kissane
M S Hyde (appointed as Executive Director on 3 March 2011)
Lord Birdwood
D Harris

Secretary
K P Shah FCCA

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Introduction

I am delighted to report that results for the first six months of the current financial year were both impressive and satisfying, especially when considering the slowdown at retail caused by abnormally inclement weather in the run up to Christmas and the increasingly difficult retail market experienced since the New Year.

Financials

Profit before tax increased to £6.64 million from £3.73 million in the comparable period for 2010, an improvement of 77.8%. Revenue was up 34.8% to £58.1million in the period (2010: £43.1 million).

Basic earnings per share were 20.28 pence, compared to 10.25 pence for the previous half-year period and 20.12 pence for the whole of the last financial year.

The bad weather in the run up to December severely reduced High Street sales and resulted in the take up of our product being slower than would otherwise have been the case. This, together with the build-up of inventory for the launch of new range introductions, led to higher stocks at £8.37 million at the end of the period when compared to last half-year (2010: £3.63 million).

With the vast majority of this stock made up of current ranges, we see no need for any exceptional write-down provisions.

The Group continues to maintain a strong and healthy balance sheet and remains cash positive.

Share buy-backs

During the period, the Company undertook a further share buy-back programme and re-purchased approximately 2.89 million ordinary shares of 5 pence each ("Ordinary Shares") at a cost of £4.95 million. The strategy of repurchasing shares has been very successful, with earnings per share having increased by 7.3% as a direct result of this programme during the period under review.

As at today's date, the Company's issued share capital is 23,866,581 Ordinary Shares (excluding 4,019,456 Ordinary Shares held in treasury).

The Company has an unutilised capacity to buy back up to a further 5,598,000 Ordinary Shares under the authority granted at the Annual General Meeting on 19 January 2011. As previously indicated, the Directors could be prepared to participate in any future share buy-back programmes the Company proposes.

Dividend

Reflecting the exceptionally strong first half-year, an interim dividend of 3.00 pence per share will be paid on 29 July 2011 to shareholders on the Register as at the close of business on 8 July 2011.

People

I, together with the rest of the Board, would like to acknowledge the hard work and commitment of all of our employees throughout the Group, without whom we would not have been able to grow so effectively.

Post half-year events

- *Industry Awards*

We focus on researching and developing a portfolio of high quality product which meets both the standards and demands of our customers and consumers. Last month we were proud to have been the recipient in the USA of the '2010 Vendor of the Year Award' from Toys"R"Us for our preschool range. Additionally, in recognition of our development work on the Scooby-Doo range, our Italian distributor, Giochi Preziosi, received the 'Property of the Year' award from Warner Bros. International awards such as these demonstrate the growing reputation of Character in international markets.

- *Main Board Executive Appointment*

On 3 March, 2011 we announced the appointment of Mike Hyde as an Executive Director of the Company. Mike has been in charge of the Group's Far East operations since joining the Group in 2005. He has rapidly become an integral part of the Character team and will continue to play an important role in the future growth of our business. His appointment also provides a significant step in Group succession planning. His knowledge and experience of the market, combined with his excellent knowledge of Mandarin, ensures that he will strengthen the Main Board and on behalf of the Directors, employees and shareholders, I am delighted to congratulate him on his appointment.

- *Property*

As we indicated in January at the AGM, I am pleased to report that we have now completed the purchase of office space in Teddington, Middlesex for a total cost of approximately £1.0 million. We have also agreed terms, subject to contract, for the purchase of additional operating facilities in both Oldham and New Malden. These purchases will not only be cost effective in their own right, but will enable the Group to undertake longer term planning than previously possible.

Outlook & Current Trading

As a Group, we have been able to plan our operations to deal with the difficult trading conditions experienced over the past few years. Indeed, we had prepared ourselves well; we lowered costs, produced a much stronger portfolio of products and further cemented our relationships with both our major retailers and suppliers.

Despite the delay in retail sales prior to Christmas, due to the bad weather, and the well documented slowdown of sales post Christmas, the strength of the Group's product portfolio coupled with the aggressive pricing policy adopted to help compensate for the VAT increase and the generally difficult retail market, our product sell through to date has been robust when compared to the market as a whole.

We have successfully developed existing brands and new introductions are on-going. Our key brands continue to receive enthusiasm and demand from our customers. ***ZhuZhu Pets®***, ***Peppa Pig®***, ***Doctor Who®***, ***H.M. Armed Forces®***, ***Fireman Sam®, Postman Pat®, Let's Cook® and Scooby-Doo®*** have all performed well and shall remain part of our product offering in 2011. These ranges have been joined recently by ***Bob the Builder*** and ***Squinkies,*** whilst ***Character Building,*** our own developed new construction toy range unveiled at the Toy Fair in January, has just gone on sale at retail and features unique figures and play sets from ***Doctor Who®*** and ***H.M. Armed Forces®***, two of the Group's current leading licences.

Our strategy remains to seek out and develop exciting products which meet domestic and international market demand. These products will come from either our own portfolio which has been developed in-house or those produced in partnership under licence or through distribution agreements.

Even though we have seen such strong growth in the first half of our financial year, we have to be mindful of the current difficulties being experienced at the retail level. Whilst we anticipate a slowdown in sales in the second half, we expect to further increase our market share. Therefore, we remain confident that we shall deliver another solid performance for the financial year as a whole and can see no reason to alter current market expectations.

We will update shareholders as appropriate through the year.

Richard King

Chairman

18 April 2011

CONSOLIDATED INCOME STATEMENT

	Notes	6 months to 28 February 2011 (unaudited) £'000	6 months to 28 February 2010 (unaudited) £'000	12 months to 31 August 2010 (audited) £'000
Continuing operations				
Revenue		58,102	43,114	85,228
Cost of sales		(38,403)	(27,734)	(55,180)
Gross profit		19,699	15,380	30,048
Net operating expenses				
Selling and distribution costs		(4,925)	(4,538)	(7,458)
Administration expenses		(8,040)	(7,112)	(15,034)
Other operating income		56	11	30
Operating profit		6,790	3,741	7,586
Net finance costs		(154)	(10)	(34)
Profit before taxation		6,636	3,731	7,552
Taxation		(1,679)	(277)	(1,365)
Profit for the year attributable to equity holders of the parent		4,957	3,454	6,187
Earnings per share (pence)				
Basic	4	20.28p	10.25p	20.12p
Fully diluted	4	18.16p	9.98p	18.94p
Dividend per share (pence)	3	2.00p	1.00p	3.0p
EBITDA (earnings before interest, tax, depreciation and amortisation)		9,146	5,131	9,797

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Notes	6 months to 28 February 2011 (unaudited) £'000	6 months to 28 February 2010 (unaudited) £'000	12 months to 31 August 2010 (audited) £'000
Profit for the period after tax		4,957	3,454	6,187
Exchange differences on translation of foreign operations recognised in equity		107	(452)	(356)
Net effective change in value of cash flow hedges		(167)	(264)	(167)
Total comprehensive income for the period attributable to equity holders of the parent		4,897	2,738	5,664

CONSOLIDATED BALANCE SHEET

	Note	at 28 February 2011 (unaudited) £'000	at 28 February 2010 (unaudited) £'000	at 31 August 2010 (audited) £'000
Non – current assets				
Intangible assets – product development		561	720	1,123
Property, plant and equipment		1,169	1,093	1,243
Deferred tax assets		68	–	–
		1,798	1,813	2,366
Current assets				
Inventories		8,367	3,636	9,323
Current tax assets		274	–	–
Trade and other receivables		10,006	9,803	15,786
Derivative financial instruments		190	97	232
Income Tax		–	168	–
Cash and cash equivalents		10,330	7,730	16,405
		29,167	21,434	41,746
Current liabilities				
Short term borrowings		(9,673)	(629)	(16,857)
Trade and other payables		(11,335)	(13,069)	(19,903)
Income tax payable		(2,429)	–	(481)
Derivative financial instruments		(1,217)	(262)	(301)
		(24,654)	(13,960)	(37,542)
Net current assets		4,513	7,474	4,204
Non Current Liabilities				
Deferred tax		–	–	(114)
Net assets		6,311	9,287	6,456
Equity				
Share capital		1,395	1,691	1,521
Shares held in treasury		(3,373)	(3,373)	(3,373)
Investment in own shares		(908)	(908)	(908)
Capital redemption reserve		1,373	1,039	1,229
Share based payment reserve		1,055	802	891
Share premium account		13,143	12,663	12,928
Merger reserve		651	651	651
Translation reserve		1,904	2,100	2,075
Profit and loss account		(8,929)	(5,378)	(8,558)
Total equity		6,311	9,287	6,456

CONSOLIDATED STATEMENT OF CASH FLOW

	Notes	6 months to 28 February 2011 (unaudited) £'000	6 months to 28 February 2010 (unaudited) £'000	12 months to 31 August 2010 (audited) £'000
Cash flow from operating activities				
Profit before taxation for the period		6,636	3,731	7,552
Adjustments for:				
Depreciation of property, plant and equipment		154	135	285
Amortisation of intangible assets		2,202	1,255	1,926
(Profit) on disposal of property, plant and equipment		–	(3)	(18)
Interest expense		154	10	34
Financial instruments fair value adjustments		726	(674)	(634)
Share based payments		164	69	158
Decrease/(increase) in inventories		956	3,407	(2,280)
Decrease/(increase) in trade and other receivables		5,780	3,549	(2,435)
(Decrease)/increase in trade and other creditors		(8,569)	2,471	9,304
Cash generated from operations		8,203	13,950	13,892
Interest paid		(154)	(10)	(34)
Income tax paid		(121)	(728)	(1,091)
Net cash inflow from operating activities		7,928	13,212	12,767
Cash flows from investing activities				
Payments for intangible assets		(1,640)	(1,152)	(2,226)
Payments for property, plant and equipment		(90)	(55)	(372)
Proceeds from disposal of property, plant and equipment		–	5	37
Net cash outflow from investing activities		(1,730)	(1,202)	(2,561)
Cash flows from financing activities				
Proceeds from issue of share capital		233	83	326
Purchase of own shares for cancellation		(4,951)	(5,050)	(10,591)
Recovery of listing expenses		–	–	42
Dividends paid		(488)	(342)	(932)
Net cash used in financing activities		(5,206)	(5,309)	(11,155)
Net increase/(decrease) in cash and cash equivalents		992	6,701	(949)
Cash, cash equivalents at the beginning of the period		(452)	854	854
Effects of exchange rate movements		117	(454)	(357)
Cash, cash equivalents and borrowing at the end of the period		657	7,101	(452)

Cash, cash equivalents and borrowings consist of:

Cash and cash equivalents	10,330	7,730	16,405
Short term borrowings	(9,673)	(629)	(16,857)
	657	7,101	(452)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	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
Balance as at 1 September 2009 (unaudited)	**1,925**	**(908)**	**(3,373)**	**798**	**12,587**	**651**	**733**	**1,866**	**(2,490)**	**11,789**
Profit for the period	–	–	–	–	–	–	–	–	3,454	3,454
Translation reserve movement	–	–	–	–	–	–	–	234	(686)	(452)
Net loss on cash flow hedged forward contract	–	–	–	–	–	–	–	–	(264)	(264)
Total comprehensive income/(expense) for the period	–	–	–	–	–	–	–	234	2,504	2,738
Transactions with owners										
Dividend paid	–	–	–	–	–	–	–	–	(342)	(342)
Share based payment	–	–	–	–	–	–	69	–	–	69
Shares issued	7	–	–	–	76	–	–	–	–	83
Shares cancelled	(241)	–	–	241	–	–	–	–	(5,050)	(5,050)
Six months ended 28 February 2010	**1,691**	**(908)**	**(3,373)**	**1,039**	**12,663**	**651**	**802**	**2,100**	**(5,378)**	**9,287**
Balance as at 1 September 2009 (audited)	**1,925**	**(908)**	**(3,373)**	**798**	**12,587**	**651**	**733**	**1,866**	**(2,490)**	**11,789**
Profit for the year after tax	–	–	–	–	–	–	–	–	6,187	6,187
Exchange differences on translating foreign operations	–	–	–	–	–	–	–	209	(565)	(356)
Net loss on cash flow hedged contract	–	–	–	–	–	–	–	–	(167)	(167)
Total comprehensive income/(expense) for the period	–	–	–	–	–	–	–	209	5,455	5,664
Transactions with owners										
Share based payment	–	–	–	–	–	–	158	–	–	158
Dividend paid	–	–	–	–	–	–	–	–	(932)	(932)
Shares issued	27	–	–	–	299	–	–	–	–	326
Shares cancelled	(431)	–	–	431	–	–	–	–	(10,591)	(10,591)
Recovery of listing expenses	–	–	–	–	42	–	–	–	–	42
Year ended 31 August 2010	**1,521**	**(908)**	**(3,373)**	**1,229**	**12,928**	**651**	**891**	**2,075**	**(8,558)**	**6,456**
Balance as at 1 September 2010 (unaudited)	**1,521**	**(908)**	**(3,373)**	**1,229**	**12,928**	**651**	**891**	**2,075**	**(8,558)**	**6,456**
Profit for the period	–	–	–	–	–	–	–	–	4,957	4,957
Translation reserve movement	–	–	–	–	–	–	–	(171)	278	107
Net loss on cash flow hedged forward contract	–	–	–	–	–	–	–	–	(167)	(167)
Total comprehensive income/(expense) for the period	–	–	–	–	–	–	–	(171)	5,068	4,897
Transactions with owners										
Dividend paid	–	–	–	–	–	–	–	–	(488)	(488)
Share based payment	–	–	–	–	–	–	164	–	–	164
Shares issued	18	–	–	–	215	–	–	–	–	233
Shares cancelled	(144)	–	–	144	–	–	–	–	(4,951)	(4,951)
Six months ended 28 February 2011	**1,395**	**(908)**	**(3,373)**	**1,373**	**13,143**	**651**	**1,055**	**1,904**	**(8,929)**	**6,311**

1 BASIS OF PREPARATION

The financial information set out in this interim statement has been prepared under International Financial Reporting Standards (IFRS) as adopted by the European Union and in accordance with the accounting policies which will be adopted in presenting the Group's annual report and financial statements for the year ending 31 August 2011. These are consistent with the accounting policies used in the financial statements for the year ended 31 August 2010 as described in those annual financial statements.

As permitted, this interim report has been prepared in accordance with the AIM rules and not in accordance with IAS 34 'Interim Financial Reporting'.

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

These interim financial statements and the financial information for the six months ended 28 February 2010 do not constitute full statutory accounts within the meaning of section 434 of the Companies Act 2006 and are unaudited. These unaudited interim financial statements were approved by the Board of Directors on 18 April 2011.

The information for the year ended 31 August 2010 is based on the consolidated financial statements for that year on which the Group's auditor's report was unqualified and did not contain a statement under section 498 (2) or (3) of the Companies Act 2006.

2 GOING CONCERN

The Directors consider that the Group has adequate resources to continue operating for the foreseeable future and therefore continue to adopt the going concern basis in preparing the financial statements.

3 DIVIDENDS

	For the six months ended 28 February 2011 (unaudited) £000's	For the six months ended 28 February 2010 (unaudited) £000's	For the year ended 31 August 2010 (audited) £000's
Final dividend for year ended 31 August 2010 – 2.0 pence per share	**488**	342	342
Interim	**–**	–	590
	488	342	932

4 EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the earnings attributable to ordinary shareholders by the weighted average number of ordinary shares during the period.

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares in issue on the assumption of conversion of all dilutive potential ordinary shares. The Group has only one category of dilutive potential ordinary shares, being share options granted where the exercise price is less than average price of the company's ordinary shares during this period.

The calculations are based on the following:

	For the six months ended 28 February 2011 (unaudited) £000's	For the six months ended 28 February 2010 (unaudited) £000's	For the year ended 31 August 2010 (audited) £000's
Profit attributable to equity shareholders of the parent	**4,957**	3,454	6,187
Weighted average number of shares			
In issue during the year – basic	**24,444,388**	33,713,253	30,756,913
Dilutive potential ordinary shares	**2,851,146**	904,828	1,916,574
Weighted average number of ordinary shares for diluted earnings per share	**27,295,534**	34,618,081	32,673,487

Basic earnings per share (pence)	**20.28**	10.25	20.12
Diluted earnings per share (pence)	**18.16**	9.98	18.94

INDEPENDENT REVIEW REPORT TO THE CHARACTER GROUP PLC

Introduction

We have been engaged by the Company to review the condensed set of financial statements in the half-yearly report for the six months ended 28 February 2011, which comprises the consolidated income statement, the consolidated statement of comprehensive income, the consolidated balance sheet, the consolidated statement of cash flow, the consolidated statement of changes in equity and related notes 1 to 4. We have read the other information contained in the half-yearly report which comprises only the Chairman's statement and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

This report is made solely to the Company in accordance with guidance contained in ISRE 2410 (UK and Ireland) "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Auditing Practices Board. Our review work has been undertaken so that we might state to the company those matters we are required to state to them in a review report and for no other purposes. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company, for our work, for this report, or for the conclusions we have formed.

Directors' responsibilities

The half-yearly financial report is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the half-yearly financial report in accordance with the AIM rules of the London Stock Exchange which requires that the accounting policies and presentation applied to the financial information in the half-yearly financial report are consistent with those which will be adopted in the annual accounts having regard to the accounting standards applicable for such accounts.

As disclosed in Note 1, the annual financial statements of the group are prepared in accordance with IFRSs as adopted by the European Union. The financial information in the half-yearly financial report has been prepared in accordance with the AIM rules of the London Stock Exchange.

Our Responsibility

Our responsibility is to express to the Company a conclusion on the financial statements in the half-yearly financial report based on our review.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Auditing Practices Board for use in the United Kingdom. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Review conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly report for the six months ended 28 February 2011 are not prepared, in all material respects, in accordance with the AIM Rules of the London Stock Exchange.

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18 April 2011

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