CONTENTS

HIGHLIGHTS

- 35% increase in sales to £40 million
- Profit before tax up from £121,000 to £4.1 million
- Earnings per share increase from 0.20 pence to 8.95 pence
- Strong performance by the Toys and Games Division representing 63% of Group sales
- Digital products investment starting to achieve significant returns with sales up by 60% and accounting for 25% of Group sales
- Dividend restored – interim 1.0 pence

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

CHAIRMAN'S LETTER

I am very pleased to announce that the Group has performed extremely well in the first six months of the current financial year, both in terms of sales and profitability.

At our AGM in January 2003, we informed shareholders that sales for the four months to December were 28% ahead of the comparable period last year, with Christmas sales being at the higher end of our expectations. This strong performance continued into January and February 2003.

We believe that this substantially improved trading performance reflects the strength and quality of our product portfolio, our continued strong relationships with our major customers at the retail level in the UK and the development of our new and existing relationships internationally.

Our new introductions to the ranges across the businesses have been well received by our customers at the recent trade fairs in the UK, Europe, the Far East and North America, which gives us a sound base to continue our growth.

Results

Sales in the six month period were £40.0 million compared to £29.6 million in 2002. The 35% increase reflects an improved performance by all our businesses and in particular, that of toys and digital products. Profit before tax in the same period was £4.1 million against £121,000 for the comparative period in 2002.

Earnings per share improved significantly from 0.29 pence in 2002 to 8.95 pence.

Stock levels are up on the year-end at £6.2 million (£5.0 million at 31 August 2002). However these levels reflect the increase in sales volumes, the need by the Group to be able to supply its customers on a reduced lead time, reflecting the on-going trend in the retail market for shorter, more efficient stocking and delivery schedule requirement together with the higher level of work-in-progress which relates mainly to the advanced purchase of components required to satisfy the growth in digital camera sales. We believe our stocks are well balanced and we have made adequate stock provisions within this period.

Cash at bank increased by £1.1 million to £4.35 million in the first six months and net interest payable decreased by 30% to £254,000. The Group continues to have unused bank facilities of £3.65 million. The Balance Sheet remains in good shape with shareholders' funds more than doubling from £2.47 million at 31 August 2002, to £5.86 million at 28 February 2003.

Dividend

At the Group's AGM in January, I stated that, subject to the Group continuing to see an improvement in its trading position, we would seek to re-establish dividend payments by recommending a final dividend in respect of the year ending 31 August 2003.

In light of our very satisfactory trading performance in the first six months of the current year and to underline our confidence that this trend will continue, the Board has declared an interim dividend of 1.0 pence per share. This dividend will be paid on 25 July 2003 to shareholders on the Register as at 20 June 2003.

The recommendation of a final dividend will be considered by the Board in light of the financial outcome for the full year.

Review

Toys and Games Division

A strong performance was achieved by our Toys and Games Division with sales accounting for 63% of Group turnover. In particular, our expanded *Ready Steady Cook* range of working kitchen products continues to be popular at retail, which together with several new additions to the product portfolio including *Mighty Beanz*, *Tricky Putty* and the recently launched *Stink Blasters* have underpinned this Division's success. Shareholders should look out for our launch of *Neopets* at Hamleys on 24th May. Based on the highly successful *Neopet* web site, where only Yahoo, MSN and eBay achieve more page views, this range of toys provides the Group with an opportunity for significant sales.

A creditable performance was also achieved within the Games business in the first half, which is traditionally its strongest period, with *Lord of the Rings* licensed products performing well. Whilst the development and sales of our own products continue to progress both in the UK and USA, we are also looking at a number of additional opportunities to extend the sales & marketing of our own developed and branded products to other international territories. This follows the successful UK launch of *Electronic Pin the Tail on the Donkey*, which is to be marketed and distributed by Mattel in the USA. Other own branded products include *Hungry Huey*, *Slapz*, *Quiztec* and a new range of three dimensional licensed chess sets.

Digital Products Division

I am very pleased to report that our investment over the last two years in the development of the Group's digital products through our Hong Kong subsidiary, World Wide Licenses ('WWL'), has started to achieve significant returns. Whilst digital product sales as a percentage of Group sales increased from 21% to 25% over the comparable period last year, in real terms they grew by 60%.

Our own developed and branded *Cool-iCam* digital cameras and OEM brands accounted for 45% of the digital sales. Our exclusive international license agreement with *Polaroid* will see us introduce 20 new products during 2003. Following the successful European launch of the *Polaroid* products in late January 2003, I am pleased to report that sales in February and March have exceeded budget.

The range and quality of the digital products have been accepted well by distributors, retailers and the trade press. We expect to see further improvement in this division's performance during 2003.

Gift Division

Although sales to Christmas were slightly below budget, we achieved a satisfactory result for the six month period. Our new introductions for 2003, which were unveiled at The Spring Fair earlier this year and included licensed products relating to *Newton's Law*, *Snailsbury Tales* and *SpongeBob Squarepants* were well received by the trade.

SARS

As part of the Group's risk management strategy, particular attention is currently being focused on the Hong Kong and China aspects of the Group's business in light of the SARS alert. Contingency plans have been drawn up to cover the possibility of a temporary closure of the Hong Kong Office. The SARS position will be monitored closely on a day to day basis and no UK staff will be going to Hong Kong for the time being.

Whilst it is too early to predict precisely the ramifications that SARS will have on Group trading, the restriction on the travel of key personnel is likely to cause some delay in both our and certain of our suppliers development programmes which could result in slower than anticipated introductions of new product ranges. Consequently, this may result in some slow down in our growth in the second half of this financial year but it is expected to have no more than a negligible effect on the calendar year as a whole.

Higgs Report

The recommendations made in the Report of the Committee chaired by Derek Higgs on "The Role and Effectiveness of Non-Executive Directors" have been considered by the Board. It is the unanimous view of the Directors that many of the recommendations are inappropriate for the Company given the current size of the Group and the considerable costs associated with their full implementation. The full extent and nature of the implementation of their recommendations has still yet to be made known. The Directors will continue to monitor the position and, once the Report's recommendations have been implemented by the UK Listing Authority or by Parliament, an assessment of the extent to which compliance by the Company with those measures is required, or would otherwise be in the best interests of the shareholders as a whole, will be made and appropriate action taken.

Change to Director's Shareholding

I wish to advise shareholders that it is my intention to gift 500,000 shares in the Company to my son, Jordan King. Following this transfer of shares from my personal portfolio, I will continue to retain a beneficial interest in 7,155,428 ordinary shares in the Company, representing approximately 17.3% of the Company's current issued share capital.

Offer talks

Following press speculation, on 11 March 2003, the Company announced, that the Board had received an informal approach from a US Toy Company. As stated at that time, these discussions were at a very early stage and the Directors considered that it was unlikely that a formal offer would be forthcoming. The Board also considered that any offer would have to fully reflect the Group's prospects. I can confirm that no formal offer has been made to the Company or its advisers and the Board has now formally discontinued those discussions.

Prospects

I am pleased to say that the buoyant trading has continued into the second half. Character's portfolio continues to strengthen with a number of new and exciting innovative products being added for the 2003 season which should ensure that the Group has its best ever listings for Christmas and I look forward to updating shareholders at the year-end.

Richard King
Chairman
28 April 2003

CONSOLIDATED PROFIT AND LOSS ACCOUNT

	Note	**6 months to 28 February 2003 (unaudited) £'000**	6 months to 28 February 2002 (unaudited) £'000	12 months to 31 August 2002 (audited) £'000
Turnover		**40,031**	29,632	58,939
Cost of sales		**(24,215)**	(19,915)	(38,933)
Gross profit		**15,816**	9,717	20,006
Net operating expenses				
Selling and distribution costs		**(5,518)**	(3,773)	(7,119)
Administration expenses		**(5,987)**	(5,626)	(11,218)
Other operating income		**51**	167	408
Operating profit		**4,362**	485	2,077
Interest payable (net)		**(254)**	(364)	(562)
Profit on ordinary activities before taxation		**4,108**	121	1,515
Taxation	2	**(437)**	–	(262)
Profit on ordinary activities after taxation		**3,671**	121	1,253
Dividend		**(410)**	–	–
Retained profit		**3,261**	121	1,253
Earnings per share				
– basic	3	**8.95p**	0.29p	3.06p
– fully diluted	3	**6.76p**	0.29p	2.52p
Dividend per share		**1.00p**	–	–
EBITDA (earnings before interest, tax, depreciation and amortisation)		**4,815**	851	2,782

CONSOLIDATED BALANCE SHEET

	Note	Group as at 28 February 2003 (unaudited) £'000	Group as at 28 February 2002 (unaudited) £'000	Group as at 31 August 2002 (audited) £'000
Fixed assets				
Intangible assets		**1,000**	798	773
Tangible assets		**1,949**	1,879	1,844
Investments		**136**	53	74
		3,085	2,730	2,691
Current assets				
Stocks		**6,195**	4,657	4,982
Trade debtors subject to finance arrangements		**8,549**	3,703	7,946
Factor advances		**(3,077)**	(2,965)	(6,580)
		5,472	738	1,366
Trade and other debtors		**4,137**	5,297	10,117
Cash at bank and in hand		**4,347**	2,321	3,284
		20,151	13,013	19,749
Creditors: amounts falling due within one year		**(12,778)**	(9,667)	(15,374)
Net current assets		**7,373**	3,346	4,375
Total assets less current liabilities		**10,458**	6,076	7,066
Creditors: amounts falling due after more than one year				
Convertible loan note		**(4,600)**	(4,600)	(4,600)
Other creditors		**–**	–	(1)
		(4,600)	(4,600)	(4,601)
Provision for liabilities and charges				
Investment in Joint Venture:				
Share of gross assets		**–**	–	–
Share of gross liabilities		**–**	(10)	–
Net assets		**5,858**	1,466	2,465
Capital and reserves				
Called up share capital		**2,064**	2,064	2,064
Shares to be issued	8	**1,190**	908	908
Capital redemption reserve		**15**	15	15
Share premium		**7,843**	7,843	7,843
Merger reserve		**651**	651	651
Profit and loss account	4	**(5,905)**	(10,015)	(9,016)
Equity shareholders' funds		**5,858**	1,466	2,465

CONSOLIDATED CASH FLOW STATEMENT

	Note	**6 months to 28 February 2003 (unaudited) £'000**	6 months to 28 February 2002 (unaudited) £'000	12 months to 31 August 2002 (audited) £'000
Cash flow from operating activities	5	**1,890**	1,806	3,064
Returns on investment and servicing of finance				
Interest paid (net)		**(250)**	(363)	(558)
Interest element of finance lease rental payments		**(4)**	(1)	(4)
Net cash outflow for returns on investments and servicing of finance		**(254)**	(364)	(562)
Taxation		**(59)**	(413)	(155)
Capital expenditure and financial investment				
Payments to acquire tangible fixed assets		**(512)**	(234)	(770)
Sale of tangible fixed assets		**2**	23	200
Net cash outflow for capital expenditure and financial investment		**(510)**	(211)	(570)
Cash inflow before use of liquid resources and financing		**1,067**	818	1,777
Management of liquid resources: Financing				
Capital element of finance lease rentals		**(4)**	(41)	(37)
Short term bank loan		**–**	(94)	(94)
Net cash outflow from financing		**(4)**	(135)	(131)
Increase in cash in the period	7	**1,063**	683	1,646
Decrease in net debt in the period	7	**1,067**	818	1,777

NOTES TO THE ACCOUNTS

1. BASIS OF PREPARATION

The financial information for the six months ended 28 February 2003 has not been audited, nor has the financial information for the six months ended 28 February 2002. However, the interim report includes a review report signed by the auditors. The comparative figures for the year ended 31 August 2002 do not constitute the company's statutory accounts for that year, but have been extracted from the statutory accounts filed with the Registrar of Companies, and which carried an unqualified audit report. The report has been prepared in accordance with the applicable accounting standards on a consistent basis using the accounting policies set out in the 2002 annual report.

2. TAXATION

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

3. EARNINGS PER SHARE

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

	6 months to 28 February 2003		
	Profit after taxation £	Weighted average number of ordinary shares	Pence per share
Basic earnings per share	3,671,000	41,002,909	8.95
Impact of shares to be issued	–	2,505,263	(0.52)
Impact of share options	–	480,158	(0.09)
Impact of convertible loan note	80,500	11,500,000	(1.58)
Diluted earnings per share	3,751,500	55,488,330	6.76
	6 months to 28 February 2002		
Basic earnings per share	121,000	41,287,909	0.29
Diluted earnings per share	121,000	41,287,909	0.29
	12 months to 31 August 2002		
Basic earnings per share	1,253,000	41,002,909	3.06
Impact of shares to be issued	–	3,632,000	(0.25)
Impact of convertible loan note	161,000	11,500,000	(0.29)
Diluted earnings per share	1,414,000	56,134,909	2.52

4. PROFIT AND LOSS ACCOUNT

	£'000
At 1 September 2002	(9,016)
Profit retained for the six months	3,261
Exchange difference	(150)
At 28 February 2003	(5,905)

5. RECONCILIATION OF OPERATING PROFIT TO NET CASH INFLOW FROM OPERATING ACTIVITIES

	6 months to 28 February 2003 (unaudited) £'000	6 months to 28 February 2002 (unaudited) £'000	12 months to 31 August 2002 (audited) £'000
Operating profit	**4,362**	485	2,077
Depreciation, impairment and amortisation	**453**	366	705
Movement in respect of own shares	**(62)**	–	(21)
Loss on disposal of tangible fixed assets	**2**	2	78
(Increase)/decrease in stocks	**(1,212)**	3,128	2,803
Decrease/(increase) in debtors	**1,523**	1,385	(3,632)
(Decrease)/increase in creditors	**(3,026)**	(3,751)	1,518
Exchange differences	**(150)**	191	(464)
Net cash inflow from operating activities	**1,890**	1,806	3,064

6. RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET DEBT

	6 months to 28 February 2003 (unaudited) £'000	6 months to 28 February 2002 (unaudited) £'000	12 months to 31 August 2002 (audited) £'000
Increase in cash in the period	**1,063**	683	1,646
Cash inflow from movement in debt and lease financing	**4**	135	131
Movement in net debt resulting from cash flows	**1,067**	818	1,777
Net debt at 1 September 2002	**3,280**	1,503	1,503
Net debt at 28 February 2003	**4,347**	2,321	3,280

7. ANALYSIS OF NET DEBT

	Cash at bank and in hand £'000	Lease finance £'000	Short term bank loan £'000	Total £'000
1 September 2001	1,638	(41)	(94)	1,503
Cash flow	683	41	94	818
28 February 2002	2,321	–	–	2,321
Cash flow	963	(4)	–	959
31 August 2002	3,284	(4)	–	3,280
Cash flow	1,063	4	–	1,067
28 February 2003	4,347	–	–	4,347

8. SHARES TO BE ISSUED

	£'000
At 28 February 2002 and 31 August 2002	908
Adjustment in relation to an acquisition in 2000	282
At 28 February 2003	1,190

The increase in the shares to be issued relates to the acquisition of the trade of The Really Useful Games Company Limited. The consideration can be satisfied in whole or in part at the Company's option by the issue of new ordinary shares.

INDEPENDENT REVIEW REPORT TO THE CHARACTER GROUP PLC

Introduction

We have been instructed by the company to review the financial information for the six months ended 28 February 2003 which comprises the consolidated profit and loss account, the consolidated balance sheet, the consolidated cash flow statement and the notes to the accounts. We have read the other information contained in the Interim Report and considered whether it contains any apparent misstatements or material inconsistencies with the financial information.

Directors' responsibilities

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

Review work performed

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

Review conclusion

On the basis of our review we are not aware of any material modifications that should be made to the financial information as presented for the six months ended 28 February 2003.

Baker Tilly
Chartered Accountants
Chelmsford
28 April 2003