the CHARACTER group plc

Annual Report and Accounts

For the year ended 31 August 2017

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www.thecharacter.com
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DIRECTORS AND ADVISERS

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K P Shah
J J P Kissane
M S Hyde
J Healy
R King
D Harris
C Crouch

Company Secretary
K P Shah FCCA

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SUMMARY INFORMATION

Overview

The Character Group plc is the largest independent toy company based in the United Kingdom. We design and manufacture toys and games, many produced under licence and based on popular television, film and digital characters and distribute all of these products in the UK and in many territories overseas. We also partner on an exclusive basis with other overseas based toy producers to market and distribute their product in the UK.

Our diverse product ranges focus on a number of key areas within the toy sector; these include Pre-school (where we consider ourselves as market leader), Boys, Activity and Girls.

Our corporate strategy is to continue working with our core brands, where we continually look to add new and relevant products, and to develop innovative products for newly acquired brands; this we believe has enabled, and will continue to enable, the Group to increase market share in the UK and overseas.

We do not own factories, our manufacturing takes place predominantly in China and is carried out on a closely managed and collaborative, sub-contract basis with reputable suppliers. The Group owns and operates from three freehold properties in the UK. Our head office is based in New Malden, Surrey and our two distribution warehouses are located near Oldham, Greater Manchester. Our Far East operations are carried out from leased offices in Hong Kong and Shenzen, China.

Our customer list includes the major UK Toy Retailers, UK Independent toy stores and a wide selection of overseas distributers.

Our top performing brands during the year ended 31 August 2017 included ***Peppa Pig***, ***Little Live Pets***, ***Stretch***, ***Mashems*** and ***Teletubbies***.

CHAIRMAN'S STATEMENT

I am glad to report that the Group achieved underlying profit before tax of £13.4m which was in line with market expectation. This is despite the difficulties that the Group has faced such as the weakness of sterling and the challenging market conditions. It was also pleasing to note that, although the turnover at £115.3m was 4.7% down, the underlying gross profit margin improved by 1.4 points. Thus, the underlying gross profit of £37.5m was similar to the previous year. A reduction in overheads of approximately £1m enabled the increase in underlying profit before tax to £13.4m compared to £12.6m for the previous year.

I consider that the real test of a management team is to read and react to the economic cycle that applies to their business. This requires the team not only to maximise the opportunities in the market when conditions are benign but to stabilise, and even grow the business when the going is tough, to develop and be ready to launch a well-timed strategy to maximise the opportunities that arise when conditions improve. I consider that it is a testament to our loyal and dedicated team at Character, in the UK as well as Hong Kong and China, that the results for the year being reported on in the accompanying statements have been achieved in the challenging conditions that existed in the market during the year. Not only have they delivered a solid performance for the year under review but they have demonstrated great care in their forward planning, creating exciting possibilities for the business for the future. I am very proud of their achievements and wish to thank each and everyone of them for their outstanding efforts and contributions.

Our leading brands continue to perform well and have become evergreens, especially ***Peppa Pig***. We are also pleased that 2 of our products - the iconic ***Stretch Armstrong*** and the phenomenal ***Laser X*** - both featured in this year's "Dream Toys Top 12".

We continue to develop new products and source products which we can distribute exclusively in the UK and Ireland. It is noteworthy that we have been appointed the master toy distributors in UK and Eire for ***Pokémon***. ***Pokémon*** products, in addition to many more exciting new products, will be on display at The London Toy Fair in January 2018, which we plan to deliver to our customers for the 2018 calendar year.

The Group continues to generate strong cash flow, as well as to increase its net assets. Net cash at 31 August 2017 was £11.5m, an increase of 67%. Net assets at £26.8m increased by £3.9m. Both the increases in cash and net assets are after paying dividends of £3.6m and financing share buy-backs of £2.6m.

We continue to have confidence in the Group's ability to generate profits and cash, and are recommending a final dividend of 10p per share, an increase of 25%. The interim dividend paid in July 2017 was 9p per share, which was an increase of 28%. The total dividend for the year is 19p per share, up 26.7%.

We shall hold our Annual General Meeting on 19 January 2018, when we shall further update shareholders.

On behalf of the Board

Richard King

Chairman

EXECUTIVE REVIEW

KEY PERFORMANCE INDICATORS	12 months ended 31 August 2017	12 months ended 31 August 2016	% Change
Revenue	**£115.3m**	£121.0m	–4.7%
Underlying operating profit*	**£13.6m**	£12.7m	+6.6%
Underlying pre-tax profit*	**£13.4m**	£12.6m	+6.9%
Underlying basic earnings per share*	**52.01p**	47.63p	+9.2%
Underlying diluted earnings per share*	**50.54p**	45.16p	+11.9%
Underlying EBITDA*	**£16.0m**	£15.1m	+5.7%
Operating profit	**£12.4m**	£13.3m	–6.9%
Pre-tax profit	**£12.2m**	£13.1m	–6.8%
EBITDA	**£14.8m**	£15.7m	–5.5%
Basic earnings per share	**47.46p**	48.54p	–2.2%
Diluted earnings per share	**46.11p**	47.70p	–3.3%
Dividends per share for the year	**19.0p**	15.0p	+26.7%
Net assets	**£26.8m**	£22.9m	+17.1%
Net cash	**£11.5m**	£6.9m	+66.9%

* Excludes mark to market adjustments on FX derivative positions

INTRODUCTION

As reported in our last trading update in October 2017, the business has had a solid finish to the 2017 financial year. The underlying profit before tax was £13.4m (2016: £12.6m), in line with current market expectations. The cash generative nature of our model has ensured that the Group's balance sheet has strengthened and remains strong.

As we also have recently highlighted, conditions in the wider market generally remain challenging. The turnover for the year decreased by 4.7%, which reduction is wholly attributable to the performance in international sales. The Group's diversified portfolio of market leading brands serviced from our UK base continue to sell well, with domestic sales holding up at levels comparable to the same period last year.

Looking ahead, the single biggest factor underpinning the Directors' optimism for trading from the second half in 2018 and into 2019 is that, during the next calendar year, we shall be introducing exciting new products, many developed in-house, which, together with the current, solid-performing product portfolio, potentially gives the Group its strongest ever product line up. This positioning is a testament to our strong brand relationships, market status and continued delivery against strategy.

Additionally, even in the current tough trading conditions, we expect our cash flow to remain positive, our reserves to grow and our Christmas stocks to remain firmly under control.

OUR BRANDS

Our leading brands – ***Peppa Pig***, ***Little Live Pets***, **Stretch**, ***Mashems***, ***Teletubbies*** – continue to perform well. Within this core group, we have added innovative product extensions, and this has enabled us to build further the brand strength and depth.

In November 2017, we were once again delighted to feature in the prestigious best toys of the year list, 'Dream Toys Top 12'. This list is compiled each year by the Toy Retailer Association (TRA) and is based on the opinions of large chain retailers, small multiples and independent retailers across the UK. Character's successful top rankings were for our ***Stretch Armstrong*** and ***Laser X*** toys. Also included from our product portfolio in the TRA's top category lists for creative toys, pre-school and games were our ***Little Live Pets Ladybug***, ***Little Live Pets My Dream Kitten***, and ***Soundmoovz*** products.

The ***Stretch*** range (which includes the ***Original Stretch Armstrong, Vac Man,*** and ***Fetch***) has performed well and remains one of our top brands in the UK and internationally. During the year under review, both ***Peppa Pig*** and ***Teletubbies*** master toy licences have been renewed for a further three years. We are delighted that in September 2017, we were also appointed as the Master toy distributor in UK and Ireland for the globally popular ***Pokémon*** brand, ahead of a planned Summer 2018 launch.

These exciting lines, together with several other product opportunities being considered for next year, are expected to positively impact the 2018 calendar year.

OPERATIONAL PERFORMANCE

The Group's portfolio continues to be derived from both our own-developed in-house ranges, including those produced 'under licence', and others sourced through exclusive distribution agreements. We place a high degree of importance on new product categories and have successfully developed strength and depth across our brands and a reputation for reliability and integrity in our relationships across a wide spectrum of customers and suppliers globally. These relationships are long term, tested and trusted and leverage our ability to gain successful and well supported access to market for our new ranges and product additions.

Revenue in the year ended 31 August 2017 was £115.3m, against £121.0m in the comparable 2016 period. Total revenue generated in the UK market was the same as last year at £86.7m whilst, in International markets, total revenue was £28.6m (FY 2016: £34.2m).

A significant proportion of the Group's purchases are made in US dollars; it is therefore exposed to foreign currency fluctuations and manages the associated risk through the purchase of forward exchange contracts and derivative financial instruments. Under International Financial Reporting Standards (IFRS), at the end of each reporting period the Group is required to make an adjustment in its financial statements to incorporate a "mark to market" valuation of such financial instruments. The "mark to market" adjustment for this financial period results in an additional charge of £1.2m being reported. This compares to an additional profit of £0.6m reported in the year to 31 August 2016. These "mark to market" adjustments are non-cash items calculated by reference to unpredictable and sometimes volatile currency spot rates at the various balance sheet dates. To highlight profitability on a normal basis, these adjustments have been deducted to arrive at the "underlying" measurements referred to in this Report.

During the year, several initiatives were implemented to reduce product costs and these, together with the sales mix, have enabled the underlying gross profit margin in the year to improve to 32.6%, compared to 31.2% for the 2016 financial year. On an absolute basis, despite the reduction in the turnover, underlying gross profit remained static at £37.5m for the financial year, compared to £37.7m for FY 2016.

The Group is reporting an underlying profit before tax in the period under review of £13.4m (FY 2016: £12.6m). Underlying earnings before interest, tax, depreciation and amortisation were £16.0m (FY 2016: £15.1m).

Underlying basic earnings per share amounted to 52.01p, an increase of 9.2% (FY 2016: 47.63p). Underlying diluted earnings per share, on the same basis, was 50.54p, up 11.9% (FY 2016: 45.16p).

DIVIDENDS

We are committed to maintaining our progressive dividend policy and continuing our share buy-back programme, as and when considered appropriate.

The Board is recommending, an increased final dividend of 10.0p per share. This reflects our continued confidence in the Company's ability to continue to generate and develop further sustainable cash flow.

This, together with the interim dividend of 9.0p per share paid in July 2017, makes a total dividend for the year of 19.0p per share, an increase of 26.7% for the previous year (FY 2016: 15.0p). The 2017 dividend is covered 2.7 times by underlying annual earnings.

Subject to approval by shareholders at the Annual General Meeting ("AGM") on Friday, 19 January 2018, the final dividend will be paid on 29 January 2018 to Members on the Register as at the close of business on 12 January 2018; the shares will be marked ex-dividend on 11 January 2018.

FINANCIAL POSITION, WORKING CAPITAL & CASH FLOW

The Group's capital base has been further strengthened in the period, with net assets at 31 August 2017 totalling £26.8m (FY 2016: £22.9m), up 17.1% on last year.

Inventories at 31 August 2017 were £9.0m (FY 2016 £10.3m); reflecting the prudent view the Directors have taken regarding Christmas 2017 sales.

During the financial year under review, the Group generated cash from operations of £14.0m (FY 2016: £10.8m). The Group has no long-term debt. Interest charges on short-term use of working capital facilities during the period were £0.2m (FY 2016: £0.2m).

At the end of the financial year, after making payments for dividends and share buy-backs (referred to further below), the Group had net cash on the balance sheet of £11.5m, compared to £6.9m at the end of the 2016 comparative period, an increase of 66.9%.

SHARE BUY-BACK PROGRAMME

During the 2017 financial year, the Company acquired a total of 564,402 ordinary shares in the Company at an aggregate cost of approximately £2.6m (excluding associated costs), with the average cost being approximately £4.58 per ordinary share (FY 2016: 258,936 ordinary shares were acquired and cancelled at an aggregate cost of approximately £1.2m and an average cost of approximately £4.78 per ordinary share).

The Company currently has an unutilised authority to buy-back up to a further 2,660,200 ordinary shares. It remains part of our overall strategy to continue to repurchase the Company's own shares when appropriate under its current share buy-back programme and, as previously indicated, the Directors could also be prepared to participate in any future share buy-back programme the Company proposes.

TOTAL VOTING RIGHTS

As at today's date, the Company has 20,907,602 ordinary shares in issue, excluding shares held in treasury. The Company holds 3,027,506 ordinary shares in treasury, representing approximately 14.48 per cent. of the issued share capital (excluding these treasury shares), which do not carry voting or dividend rights. The figure of 20,907,602 may be used by shareholders as the denominator for the calculations by which they may determine if they are required to notify their interest, or change to their notified interest, in the Company under the Disclosure and Transparency Rules.

OUR PEOPLE

The Group employs a total of 193 people across its locations in the UK and Asia. The team is dedicated to and focused on developing, marketing and distributing innovative and exciting toys that meet the high expectations that our customers and the consumer demand, both in terms of quality and value.

Once again, the Board would like to take the opportunity, on behalf of all stakeholders, to thank every one of its colleagues around the business for their continuous hard work, dedication and loyalty. The spirit and tangible expression of collaboration in our business and culture is exhibited from the warehouse floors through to the boardroom and into our relationships with our customers and suppliers. It underpins the strength of the Group's model and provides us with the dynamics that assure us of the continued ability to deliver performance and results.

OUTLOOK

We are currently previewing the Christmas 2018 product range with our major customers and we are delighted that they share our enthusiasm and excitement for our planned launches in the year ahead. Our range of established brands and the introduction of new product lines will, we believe, serve to deliver a very exciting season ahead for the business.

Our international sales have been adversely affected by a combination of several factors; not least of these was that one of the world's largest toy retailers entered into Chapter 11 bankruptcy protection in the US and Canada in September 2017. As widely reported this has had a subsequent knock-on effect in every market where it trades, and has especially affected our International customers who have also taken a more cautious approach and not placed repeat orders. Furthermore, we have recently learned that the UK arm of this major customer is also likely to undergo a restructure.

Whilst overall the Group's performance for the half year ending 28 February 2018 will reflect a temporary 'slowdown' when compared to 2017, the Directors anticipate that the business will return to its previous growth pattern during the second half of the current financial year ending 31 August 2018. In addition, our exciting pipeline of new product releases planned for the 2018 calendar year is predicted to drive a return to a stronger trading performance in the financial year ending 31 August 2019.

In summary, despite the anticipated short-term weakness which will impact the first half of the current year, Character remains focussed on the development of an exciting, strong and diverse portfolio of 'in-demand' products. Our market leading position in the UK ensures that Character remains the 'partner of choice' for many of the leading brand owners and we remain confident in our ability to rebuild and further expand our presence both domestically and internationally going forward. The Board look forward to further updating shareholders on the 2017 Christmas trading period and prospects at the time of the forthcoming AGM in January 2018.

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 using a wide range of suppliers and by operating through 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 customers' expectations. Policies of supply chain management and product development are in place to mitigate such risks.

Foreign currency

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, as far as possible, that environmental best practice is incorporated into key processes. Following the Group's successful efforts to reduce the packaging content of its products, every opportunity is now taken to review all product packaging with a view to reducing the impact on the environment.

Financial risks

The main risks arising from the 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 is disclosed in note 22 to the financial statements.

J J Diver
Joint Managing Director
20 December 2017

DIRECTORS' BIOGRAPHIES

Executive Directors

Jonathan Diver (aged 53), Joint Managing Director

Jon Diver joined the business 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, including Licensors and Manufacturers. He has played a key role in determining and delivering the group's diversified product development strategy. Jon is the current chairman of the British Toy & Hobby Association.

Jon is jointly responsibility with Mr Shah for the setting and implementation of the Group's corporate and competitive strategy and managing its commercial affairs.

Kiran Shah (aged 63), Joint Managing Director, Group Finance Director and Company Secretary

Kiran Shah is a member of the Association of Chartered Certified Accountants. After initially working in a 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.

Kiran is jointly responsible with Mr Diver for the setting and implementation of the group's corporate and competitive strategy and managing its commercial affairs and is responsible for the Group's financial management, accounting, tax and legal affairs.

Joseph Kissane (aged 65), Managing Director of UK Operations

Joe Kissane has considerable sales expertise both at retail and supplier base in and outside the toy industry, gained over a period of over 40 years, notably with such companies as Nabisco, Lego and Tonka. He is one of the founders of the Group and is a senior committee member, charity secretary, trustee and past chairman of the Toy Industry's leading children's charity The Fence Club.

Joe has direct responsibility for the sales and operational management of the Group's principal UK trading subsidiary Character Options Limited, including overseeing relations with customers.

Michael Hyde (aged 43), Managing Director of Far East Operations

Mike Hyde joined the Company in 2005 and was appointed to the Main Board in 2011. Prior to joining Character, Mike spent a number of years working for Mattel Inc., the NASDAQ listed US toy designer and manufacturer, where he held a number of management positions, focusing on brand management, marketing and product development. He holds a Bachelor of Arts (BA) degree in Mandarin Chinese and a Master of Business Administration (MBA) degree.

Mike has direct responsibility for the operational management of the Group's Far East operations including overseeing relations with factory suppliers.

Jeremiah Healy (aged 55), Group Marketing Director

Jerry Healy joined Character Options Limited (the Group's principal trading subsidiary) in 2004 as Head of Marketing; he was promoted to Marketing Director in 2006 and then became Group Marketing Director in February 2016. He has a wealth of marketing experience gained within the toy industry; prior to joining the Group he worked with Hornby Hobbies, Matchbox and Mattel both in the UK and Europe and also at Sony Computer Entertainment Europe. Jerry holds a Bachelor of Arts (BA) degree in Business Studies.

Jerry is responsible for setting and managing the Group's product and customer focused marketing plans.

Non-Executive Directors

Richard King (aged 72), Non-Executive Chairman

Richard King 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 was until recently the Group's Executive Chairman.

Richard is responsible for ensuring the effectiveness of the Board as a working group. He is Chairman of the Nominations Committee and a member of the Audit and Remuneration Committees.

David Harris (aged 67), Senior Independent Non-Executive Director.

David Harris was appointed to the Board in 2004; he has very broad 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, Manchester and London Investment Trust plc, Aseana Properties Ltd and F&C Managed Portfolio Trust plc, all of which are quoted companies on the London Stock Exchange. He is also a non-executive director of SDF Limited, a private film production company.

David is Chairman of the Remuneration Committee and also a member of the Audit and Nominations Committees.

Clive Crouch (aged 64), Non-Executive Director

Clive Crouch was appointed to the Board in February 2016. His 35-year career in media has included senior roles within GMTV, a company he helped launch and position. From 1992 to 2007, he was GMTV's Sales and Marketing Director and then served as its Chief Operating Officer until 2010. Clive now operates his own media consulting business and he remains actively involved in the toy industry, advising on such matters as promotional activity and licensing. He brings a wealth of relevant management and industry experience to the Board.

Clive is Chairman of the Audit Committee and also a member of the Remuneration and Nomination Committees.

DIRECTORS' REPORT

The directors present their report together with the financial statements for the year ended 31 August 2017.

Dividend

The directors recommend a final dividend of 10.00 pence per share (2016: 8.00 pence) making a total dividend for the year of 19.00 pence per ordinary share (2016: 15.00 pence). If approved, the final dividend will be paid on 29 January 2018, to shareholders on the register on 12 January 2018.

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 2017, trade creditors of the Group represented an average of 47 (2016: 48) days credit in relation to total purchases for the year.

Governance

Directors

The following directors served during the year:

Jonathan James Diver (Joint Managing Director)
Kirankumar Premchand Shah (Joint Managing Director and, from 14 September 2017, Group Finance Director)
Joseph John Patrick Kissane (Managing Director, Character Options Limited)
Michael Spencer Hyde (Managing Director, Far East Operations)
Mark Timothy Dowding (Group Finance Director, until the termination of his employment on 14 September 2017)
Jeremiah Healy (Group Marketing Director)
Richard King (Non-Executive Chairman)
David Harris (Senior Independent Non-Executive Director)
Clive William Crouch (Non-Executive Director)

Directors and their interests in shares

The directors and their interests (all of which are beneficial) in ordinary shares of 5p each in the capital of The Character Group plc ("Ordinary Shares") as at 31 August 2017 and 19 December 2017 (being the business day prior to the date of this report) were as follows:

Directors	As at 19 December 2017 Number of Ordinary Shares	As at 19 December 2017 Ordinary Shares Under option	As at 31 August 2017 Number of Ordinary Shares	As at 31 August 2017 Ordinary Shares under option
K P Shah	**2,140,001**	**-**	**2,140,001**	**-**
J J Diver	**1,356,003**	**-**	**1,356,003**	**-**
J J P Kissane	**500,000**	**-**	**500,000**	**-**
M S Hyde	**209,681**	**100,000**	**209,681**	**100,000**
M T Dowding*	**-**	**-**	**108,000**	**36,000**
J Healy	**41,000**	**72,000**	**41,000**	**72,000**
R King	**336,286**	**-**	**336,286**	**-**
D Harris	**60,181**	**-**	**56,000**	**-**
C Crouch	**15,358**	**-**	**15,358**	**-**

Directors	As at 31 August 2016 Number of Ordinary Shares	As at 31 August 2016 Ordinary Shares under option
K P Shah	2,287,001	-
J J Diver	1,356,003	-
J J P Kissane	500,000	-
M S Hyde	209,681	100,000
M T Dowding*	73,841	36,000
J Healy	36,000	144,000
R King	336,286	-
D Harris	51,403	-
C Crouch	5,555	-

Included in the interests of K P Shah are his interests in Ordinary Shares held by Sarissa Holdings Limited, being 2,000,000 Ordinary Shares at 19 December 2017, 31 August 2017 and 31 August 2016.

Included in the interests of J J Diver are his interests in Ordinary Shares held by Mr Diver's personal pension scheme being 551,867 Ordinary Shares at 19 December 2017, 31 August 2017 and 31 August 2016.

Included in the interests of R King are his interests in Ordinary Shares held by TOPS Pension Scheme being 176,120 Ordinary Shares at 19 December 2017, 31 August 2017 and 31 August 2016.

Included in the interests of D Harris are his interests in Ordinary Shares held by Mr Harris's personal pension scheme being 51,403 Ordinary Shares at 19 December 2017, 31 August 2017, and 31 August 2016.

* M T Dowding's employment and office as a director terminated on 14 September 2017.

Details of the directors share options are disclosed in note 4.

Directors' indemnity insurance

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

Matters referred to in the Strategic Report

In accordance with section 414C(11) of the Companies Act 2006 the future developments, principal risks and uncertainties, and share buy-back disclosures required in the Directors Report are referred to in the Strategic Report.

Share option schemes

Details of the Company's share option schemes are given in note 24 to the financial statements.

Auditors

A resolution to reappoint MHA MacIntyre Hudson as auditors to the Company will be proposed at the forthcoming Annual General Meeting.

Statement of disclosure to auditors

The directors who were in office on the date of approval of these financial statements have confirmed that, as far as they are aware, there is no relevant audit information of which the auditors are unaware. Each of the directors has confirmed that he has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that it has been communicated to the auditors.

By Order of the Board

K P Shah
Secretary

Registered Office:
2nd Floor
10 Chiswell Street
London
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Registered number 3033333
20 December 2017

CORPORATE GOVERNANCE STATEMENT

The rules relating to securities traded on the London Stock Exchange's AIM market (AIM) do not require AIM companies to report in accordance with the UK Corporate Governance Code. However, the Board believes in the principles of good corporate governance and is committed to applying the highest principles commensurate with its size.

Directors

The Board of directors comprises five executive directors and three non-executive directors, as detailed on page 9. 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, five Board meetings were held. The directors attended as follows:

J J Diver	5
K P Shah	5
J J P Kissane	4
M S Hyde	5
M T Dowding*	5
J Healy	4
R King	5
D Harris	5
C Crouch	5

* M T Dowding's employment and office as a director terminated on 14 September 2017.

The Board has a formal schedule of matters reserved for its consideration. 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 and monitoring of performance against those 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.

In accordance with the terms of their appointment, each non-executive director of the Company is obliged to retire each year and is eligible for re-election at the Company's annual general meeting. The executive directors are not subject, either contractually or under the Company's Articles of Association, to a requirement to retire by rotation.

Evaluation of the Board, Board Committees and Directors

The performance evaluation of the Board, its Committees and directors is undertaken by the Non-Executive Chairman and implemented in collaboration with the Committee Chairmen. The 2017 Board evaluation was conducted by way of a discussion between the Non-Executive Chairman and each of the directors. The other non-executive directors met separately during the year to review the Non-Executive Chairman's performance and provide feedback to him. Following formal performance evaluations, the Non-Executive Chairman confirms that the performance of the executive and non-executive director continues to be effective and demonstrates commitment to the roles.

Audit Committee

C Crouch (Chairman), D Harris and R King

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 auditor's 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.

Remuneration Committee

D Harris (Chairman), R King and C Crouch

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 page 17. During the year, one meeting was held, which was attended by all members.

Nominations Committee

R King (Chairman), D Harris and C Crouch

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 controls. 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 controls 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; and
- 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.

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 controls necessary to manage such risks.

Relations with shareholders

The Board supports the principle of clear reporting of financial performance to shareholders. During a financial year, shareholders receive either a letter informing them that the Group's full annual report and an interim report are available to view and download from the investors section of the Company's website or, if they have so elected, hard copy of such reports. Other supplementary trading statements issued via the London Stock Exchange are also placed on the investors section of the Company's website and, where appropriate, may also be sent to shareholders in the post.

As well as speeding up the provision of information to shareholders, the Board believes that utilising electronic communications delivers savings to the Company in terms of administration, printing and postage, and also benefits the environment through reduced consumption of paper and inks.

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

DIRECTORS' REMUNERATION REPORT

The Board presents the Remuneration Report for the year ended 31 August 2017.

The Remuneration Committee

The Remuneration Committee consisted of the non-executive directors: D Harris (Chairman), R King and C Crouch.

Remuneration of Directors

Each executive director is paid a basic salary and is entitled to benefits, including payments of pension contributions to a suitable scheme of his choice and participation in a private health care scheme. Where a director chooses not to take a pension 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 in the event that specified performance targets are met or exceeded. These targets are based on certain profit levels being achieved in each financial year of the Group, adjusted to exclude certain exceptional non-trading items. Messrs Diver, Shah and Kissane are also entitled to a further bonus of 4%, 2% and 1% respectively of the consolidated, pre-tax profits of the Group in the event that a specified minimum target is met or exceeded.

The basic salaries referred to above are reviewed every year by the Remuneration Committee. No director has a service contract incorporating a notice period of more than 12 months.

The Company believes that share ownership by executive directors and senior executives strengthens the links between their personal interests and those of the shareholders. Executive directors are entitled to participate in the 2006 Executive Share Option Plan, to the extent that they currently hold subsisting options, or under the Group's 2017 Executive Share Option Plan, details of which may be found in note 24.

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. The Non-Executive Chairman is entitled to fees of £100,000 per annum. The remaining non-executive directors are entitled to fees, currently at the rate of £25,000 per annum (2016: £25,000), plus expenses, without any right to compensation on early termination.

Details of the directors' remuneration are disclosed in note 4.

On behalf of the Board

D Harris
Chairman, Remuneration Committee
20 December 2017

DIRECTORS' RESPONSIBILITY STATEMENT

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 such financial statements for each financial year. Under that law the directors have prepared the Group and Parent Company financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union.

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and the Company and of the profit or loss of the Group for that period. In preparing these financial statements, the directors are required to:

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

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose, with reasonable accuracy at any time, the financial position of the Company and the Group and enable them to ensure that the financial statements comply with the requirements of the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and the Group and 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 Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF THE CHARACTER GROUP plc

Opinion

We have audited the consolidated financial statements of The Character Group Plc.

The financial statements that we have audited comprise:

- Group Income Statement
- Group Statement of Comprehensive Income
- Group Balance Sheet
- Company Balance Sheet
- Group and Company Cash Flow Statement
- Group Statement of Changes In Equity
- Company Statement of Changes In Equity
- Notes 1 to 29 of the financial statements, including the Accounting Policies

The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. 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 responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the parent Company's affairs as at 31 August 2017 and the Group's profit for the year then ended;

- the financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union; and

- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Respective responsibilities of directors and auditor section of our report. We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed entities, and we have fulfilled our ethical responsibilities in accordance with those requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or

- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the group's or the parent company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Our assessment of risks of material misstatement

The assessed risks of material misstatement described below are those that had the greatest effect on our audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team.

Revenue recognition

Risk

As described in the accounting policy note 1 a provision is established at the year end for estimated sales returns and allowances. There are adjustments made to revenue, outside of the group's core transactional processes which represent a key area of focus for the audit due to its material significance.

How the scope of our work responded to the risk

Our procedures included assessing the design and implementation of key controls around the allowances approval process. We have also performed procedures to assess the completeness of these allowances. In addition, we performed substantive analytical procedures on the revenue in the year to understand the revenue profile in the year and the completeness of the allowances provision.

Key observations

Following our audit procedures we found that revenue had been recorded appropriately.

Inventory valuation

Risk

As described in the accounting policy for stock obsolescence the group is required to make judgements as to the future demand of product ranges in determining whether inventory will be expected to be fully realised at an amount in excess of the carrying value of inventory. As this assessment requires judgements it is considered a key area of focus for the audit due to the material amount of the carrying value of inventories.

How the scope of our work responded to the risk

We obtained a detailed understanding and evaluated the design and implementation of controls that that the Group has established in relation to inventory valuation. We have obtained assurance over the appropriateness of management's assumptions applied in calculating the value of inventory provisions by:

- critically evaluating the groups policy of provisioning for slow moving inventory;
- verifying the compliance with that policy through the testing of a sample of inventory items;
- verifying the sample of inventory to confirm whether it is held at the lower of cost and net realisable value, through comparison to vendor invoices and sales prices; and
- considering the historical accuracy of these provisions.

Key observations

We concluded that the total amount of the stock obsolescence provision is within an acceptable range and had been recorded appropriately.

Materiality

Our definition of materiality considers the value of error or omission on the financial statements that would change or influence the economic decisions of a reasonably knowledgeable person. Materiality is used in planning the scope of our audit work, executing that work and evaluating the results.

The materiality that we used in the current year was £1.7m which was determined on the basis of 1.5% of Group revenue.

An overview of the scope of our audit

In scoping our Group audit we first obtained an understanding of the Group and its environment, including its internal control environment. We also assessed the risks of material misstatement at the Group level.

The results of that assessment have meant that our Group audit scope has focussed primarily on the financial results of two components of the group: Character Options Limited and Toy Options (Far East) Limited. These entities trade from the UK and Hong Kong respectively. These entities have been subjected to a full audit with the nature and extent of testing driven by our assessment of the risks of material misstatement and of the materiality determined at the component level. The results of these entities represented 91.8% of total Group revenue and 95.6% of the Group's profit before tax.

As part of our audit work we have also tested the consolidation process. We have also performed those audit procedures of the remaining components necessary for us to reduce the risks of material misstatement to an acceptable level.

The audit of Character Options Limited and the parent company Character Group Plc was performed by us and we have acted as the group engagement team in directing the audit of Toy Options (Far East) Limited. Our work in this respect was performed in accordance with International Standards on Auditing specifically ISA 600.

Other information

The directors are responsible for the other information. The other information comprises the information included in the Annual Report and Accounts, other than the financial statements and our auditor's report thereon. Our opinion of the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In light of the knowledge and understanding of the group and the parent company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report and the directors' report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received by branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Respective responsibilities of directors and auditor

As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the group's and the parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs (UK), we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the groups' internal control.
- Evaluate the appropriateness of accounting policies used and reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the group's or the parent company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the group or the parent company to cease as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

John Coverdale FCA
(Senior Statutory Auditor)
for and on behalf of MHA MacIntyre Hudson
Chartered Accountants and Statutory Auditor
New Bridge Street House
30-34 New Bridge Street
London EC4V 6BJ
21 December 2017

GROUP INCOME STATEMENT

for the year ended 31 August 2017

	Note	Total 2017 £000's	Total 2016 £000's
Continuing operations			
Revenue	2	**115,319**	120,967
Cost of sales		**(78,958)**	(82,694)
Gross profit		**36,361**	38,273
Net operating expenses			
Selling and distribution costs		**(6,947)**	(7,128)
Administration expenses		**(17,657)**	(18,447)
Other operating income		**628**	602
Operating profit	3	**12,385**	13,300
Finance income	5	**57**	47
Finance costs	5	**(204)**	(215)
Profit before income tax		**12,238**	13,132
Taxation	6	**(2,188)**	(2,345)
Profit for the year attributable to equity holders of the parent		**10,050**	10,787
Earnings per share (pence)	8		
Basic		**47.46p**	50.30p
Fully diluted		**46.11p**	48.54p
Dividend per share (pence)	9	**17.00p**	13.00p
EBITDA (earnings before interest, tax, depreciation and amortisation)		**14,820**	15,689

GROUP STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 August 2017

	Note	**Total 2017 £000's**	Total 2016 £000's
Profit for the year after tax		**10,050**	10,787
Items that will not be reclassified subsequently to profit and loss			
Current tax credit relating to exercised share options	6	**70**	421
Deferred tax relating to share options	7	**(6)**	(414)
		64	7
Items that may be reclassified subsequently to profit and loss			
Exchange differences on translation of foreign operations		**(211)**	(820)
Income tax on exchange differences	6	**16**	144
		(195)	(676)
Other comprehensive expense for the year, net of income tax		**(131)**	(669)
Total comprehensive income for the year attributable to the equity holders of the parent		**9,919**	10,118

GROUP BALANCE SHEET

as at 31 August 2017

	Note	2017 £000's	2016 £000's
Non – current assets			
Intangible assets – product development	10	**698**	1,117
Investment property	11	**1,780**	1,845
Property, plant and equipment	12	**3,204**	3,357
Deferred tax assets	7	**607**	474
		6,289	6,793
Current assets			
Inventories	14	**8,994**	10,303
Trade and other receivables	15	**25,817**	25,082
Current income tax receivable	16	**8**	7
Derivative financial instruments	17	**24**	533
Cash and cash equivalents	18	**28,752**	28,560
		63,595	64,485
Current liabilities			
Short term borrowings	19	**(17,216)**	(21,647)
Trade and other payables	20	**(22,700)**	(25,418)
Income tax	16	**(2,369)**	(1,106)
Derivative financial instruments	17	**(768)**	(89)
		(43,053)	(48,260)
Net current assets		**20,542**	16,225
Non-current liabilities			
Deferred tax	7	**(3)**	(99)
Net assets		**26,828**	22,919
Equity			
Called up share capital	24	**1,211**	1,235
Shares held in treasury	24	**(2,743)**	(2,743)
Capital redemption reserve		**1,745**	1,717
Share based payment reserve		**2,928**	2,778
Share premium account		**15,483**	15,450
Merger reserve		**651**	651
Translation reserve		**1,145**	1,274
Profit and loss account		**6,408**	2,557
Total equity attributable to equity holders of the parent		**26,828**	22,919

The financial statements on pages 24 to 59 were approved by the Board of Directors on 20 December 2017.

J J Diver
Joint Managing Director

K P Shah
Joint Managing Director and Group Finance Director

COMPANY BALANCE SHEET

as at 31 August 2017

	Note	2017 £000's	2016 £000's
Non – current assets			
Property, plant and equipment	12	**418**	471
Investments in subsidiaries	13	**3,589**	3,506
Deferred tax assets	7	**309**	299
		4,316	4,276
Current assets			
Trade and other receivables	15	**16,191**	17,559
Cash and cash equivalents	18	**5,571**	4,854
		21,762	22,413
Current liabilities			
Trade and other payables	20	**(1,027)**	(1,343)
Net current assets		**20,735**	21,070
Net assets		**25,051**	25,346
Equity			
Called up share capital	24	**1,211**	1,235
Shares held in treasury	24	**(2,743)**	(2,743)
Capital redemption reserve		**1,745**	1,717
Share based payment reserve		**2,928**	2,778
Share premium account		**15,483**	15,450
Profit and loss account		**6,427**	6,909
Total equity attributable to equity holders of the parent		**25,051**	25,346

The financial statements on pages 24 to 59 were approved by the Board of Directors on 20 December 2017.

J J Diver
Joint Managing Director

K P Shah
Joint Managing Director and Group Finance Director

GROUP AND COMPANY CASH FLOW STATEMENT

for the year ended 31 August 2017

	Note	Group 2017 £000's	Group 2016 £000's	Company 2017 £000's	Company 2016 £000's
Cash flow from operating activities					
Profit before taxation for the year		**12,238**	13,132	**5,705**	6,204
Adjustments for:					
Depreciation of property, plant and equipment	12	**401**	441	**56**	59
Depreciation of investment property	11	**65**	65	**-**	-
Amortisation of intangible assets	10	**1,969**	1,925	**-**	-
(Profit) on disposal of property, plant and equipment		**(6)**	(1)	**-**	-
Interest expense	5	**147**	168	**10**	7
Financial instruments fair value adjustments	17	**1,188**	(573)	**-**	-
Share based payments	25	**150**	147	**67**	65
Decrease / (Increase) in inventories		**1,309**	(1,338)	**-**	-
(Increase) / Decrease in trade and other receivables		**(735)**	(9,547)	**1,368**	(3,309)
(Decrease) / Increase in trade and other creditors		**(2,718)**	6,403	**(316)**	314
Cash generated from operations		**14,008**	10,822	**6,890**	3,340
Interest paid	5	**(147)**	(168)	**(10)**	(7)
Income tax paid	5	**(1,075)**	(2,419)	**-**	-
Net cash inflow from operating activities		**12,786**	8,235	**6,880**	3,333
Cash flows from investing activities					
Payments for intangible assets	10	**(1,550)**	(2,205)	**-**	-
Payments for property, plant and equipment	12	**(249)**	(247)	**(3)**	(4)
Proceeds from disposal of property, plant and equipment		**7**	14	**-**	-
Net cash outflow from investing activities		**(1,792)**	(2,438)	**(3)**	(4)
Cash flows from financing activities					
Proceeds from issue of share capital		**37**	1,442	**37**	1,442
Purchase of own shares for cancellation		**(2,597)**	(1,244)	**(2,597)**	(1,244)
Dividends paid	9	**(3,600)**	(2,785)	**(3,600)**	(2,785)
Net cash used in financing activities		**(6,160)**	(2,587)	**(6,160)**	(2,587)
Net increase in cash and cash equivalents		**4,834**	3,210	**717**	742
Cash, cash equivalents and borrowings at the beginning of the year		**6,913**	4,535	**4,854**	4,112
Effects of exchange rate movements		**(211)**	(832)	**-**	-
Cash, cash equivalents and borrowings at the end of the year		**11,536**	6,913	**5,571**	4,854

Cash, cash equivalents and borrowings consist of:

	Note	Group 2017 £000's	Group 2016 £000's	Company 2017 £000's	Company 2016 £000's
Cash and cash equivalents	18	**28,752**	28,560	**5,571**	4,854
Short term borrowings	19	**(17,216)**	(21,647)	**-**	-
Cash, cash equivalents and borrowings at the end of the year		**11,536**	6,913	**5,571**	4,854

GROUP STATEMENT OF CHANGES IN EQUITY

for the year ended 31 August 2017

	Note	Called up share capital £000's	Shares held in treasury £000's	Capital redemption reserve £000's	Share premium account £000's	Merger reserve £000's	Share based payment reserve £000's	Translation reserve £000's	Profit and loss account £000's	Total £000's
The Group										
At 1 September 2015		**1,244**	**(3,373)**	**1,704**	**14,642**	**651**	**2,631**	**1,374**	**(3,632)**	**15,241**
Profit for the year after tax		-	-	-	-	-	-	-	10,787	10,787
Other comprehensive (expense)/income										
Net Exchange differences on translation of foreign operations		-	-	-	-	-	-	(100)	(576)	(676)
Deferred tax credit relating to share options	7	-	-	-	-	-	-	-	(414)	(414)
Current tax credit relating to exercised share options	6	-	-	-	-	-	-	-	421	421
Total other comprehensive expense								**(100)**	**(569)**	**(669)**
Total comprehensive income for the year								**(100)**	**10,218**	**10,118**
Transactions with owners, recorded directly in equity										
Share-based payment	25	-	-	-	-	-	147	-	-	147
Dividends	9	-	-	-	-	-	-	-	(2,785)	(2,785)
Shares issued	24	4	630	-	808	-	-	-	-	1,442
Shares cancelled	24	(13)	-	13	-	-	-	-	(1,244)	(1,244)
At 31 August 2016		**1,235**	**(2,743)**	**1,717**	**15,450**	**651**	**2,778**	**1,274**	**2,557**	**22,919**
Profit for the year after tax		-	-	-	-	-	-	-	10,050	10,050
Other comprehensive (expense)/income										
Net Exchange differences on translation of foreign operations		-	-	-	-	-	-	(129)	(66)	(195)
Deferred tax credit relating to share options	7	-	-	-	-	-	-	-	(6)	(6)
Current tax relating to exercised share options	6	-	-	-	-	-	-	-	70	70
Total other comprehensive expense								**(129)**	**(2)**	**(131)**
Total comprehensive income for the year								**(129)**	**10,048**	**9,919**
Transactions with owners, recorded directly in equity										
Share-based payment	25	-	-	-	-	-	150	-	-	150
Dividends	9	-	-	-	-	-	-	-	(3,600)	(3,600)
Shares issued	24	4	-	-	33	-	-	-	-	37
Shares cancelled	24	(28)	-	28	-	-	-	-	(2,597)	(2,597)
At 31 August 2017		**1,211**	**(2,743)**	**1,745**	**15,483**	**651**	**2,928**	**1,145**	**6,408**	**26,828**

COMPANY STATEMENT OF CHANGES IN EQUITY

for the year ended 31 August 2017

	Note	Called up share capital £000's	Shares held in treasury £000's	Capital redemption reserve £000's	Share premium account £000's	Share based payment reserve £000's	Profit and loss account £000's	Total £000's
At 1 September 2015		1,244	(3,373)	1,704	14,642	2,631	5,279	22,127
Profit for the year		-	-	-	-	-	6,073	6,073
Total comprehensive income for the year		-	-	-	-	-	6,073	6,073
Transactions with owners, recorded directly in equity								
Shares issued	24	4	630	-	808	-	-	1,442
Shares cancelled	24	(13)	-	13	-	-	(1,244)	(1,244)
Share-based payment – Company	25	-	-	-	-	65	-	65
Share-based payment – Subsidiary undertaking	25	-	-	-	-	82	-	82
Deferred tax on share options	7	-	-	-	-	-	(414)	(414)
Dividend paid	9	-	-	-	-	-	(2,785)	(2,785)
At 31 August 2016		**1,235**	**(2,743)**	**1,717**	**15,450**	**2,778**	**6,909**	**25,346**
At 1 September 2016		1,235	(2,743)	1,717	15,450	2,778	6,909	25,346
Profit for the year		-	-	-	-	-	5,721	5,721
Total comprehensive income for the year		**-**	**-**	**-**	**-**	**-**	**5,721**	**5,721**
Transactions with owners, recorded directly in equity								
Shares issued	24	4	-	-	33	-	-	37
Shares cancelled	24	(28)	-	28	-	-	(2,597)	(2,597)
Share-based payment – Company	25	-	-	-	-	67	-	67
Share-based payment – Subsidiary undertaking	25	-	-	-	-	83	-	83
Deferred tax on share options	7	-	-	-	-	-	(6)	(6)
Dividend paid	9	-	-	-	-	-	(3,600)	(3,600)
At 31 August 2017		**1,211**	**(2,743)**	**1,745**	**15,483**	**2,928**	**6,427**	**25,051**

Capital and Reserves

- Called up share capital represents the nominal value of equity shares allotted, called up and fully paid.
- Share premium represents the excess of the fair value of consideration received for the equity shares, net of expenses of the share issue over the nominal value of the equity shares.
- Capital redemption reserve represents the buyback and cancellation of shares at nominal value.
- Merger reserve represents the premium arising on shares issued as consideration for the acquisition of subsidiaries and which qualified for merger relief.
- Share based payment reserve represents the amounts recognised in profit and loss in respect of share based payments.
- Translation reserve represents the cumulative foreign exchange differences on the translation of the net assets of the Group's foreign operations to the presentation currency of the parent.
- Profit and loss account represents retained profit and losses.
- Details of shares held in treasury can be found in notes 24.

NOTES TO THE FINANCIAL STATEMENTS

1 PRINCIPAL ACCOUNTING POLICIES

General information

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

The principal activities of the Company and its subsidiaries ('the Group') are detailed in the Strategic Report. The Group's principal places of operations are the United Kingdom and the Far East.

Standards, amendments and interpretations effective in the current period

The following new standards, and amendments are mandatory for the first time for the financial period beginning 1 September 2016 but do not have a material impact on the Group.

	Effective for annual periods beginning on or after:
IAS 16 & IAS 38 Clarification of Acceptable Methods of Depreciation and Amortisation	- 1 January 2016
IAS 1 (amendment) Disclosure Initiative	- 1 January 2016
IAS 27 (amendment) Equity Method in Separate Financial Statements	- 1 January 2016
Annual Improvements to IFRS (2012-14)	- 1 January 2016

Standards, amendments and interpretations in issue not yet adopted

The following new standards, amendments 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 2017.

	Effective for annual periods beginning on or after:
IFRS 9 Financial Instruments	- 1 January 2018
IFRS 15 Revenue from Contracts with Customers	- 1 January 2017
IFRS 16 Leases	- 1 January 2019

Work will begin in the new financial year to assess the impact of the new standards and interpretations on the Group's Financial Statements.

SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

The Group and the Company financial statements have been prepared in accordance with applicable International Financial Reporting Standards ('IFRS') including International Accounting Standards (IAS) and IFRS Interpretations Committee (IFRS IC) interpretations as adopted for use in the European Union and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS.

Basis of preparation

The 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 and on a going concern basis.

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 in accordance with the provisions of IFRS 10. Subsidiaries are entities over which the Group has the power over an investee, exposure or rights to variable returns from its involvement with the investee and ability to use its power to affect those returns. The results of such investees 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.

All intra-Group transactions, balances, income and expenses are eliminated on consolidation.

Exemptions

The directors have taken advantage of the exemption available under Section 408 of the Companies Act 2006 and have not presented an income statement or statement of comprehensive income for the Company alone.

FOREIGN CURRENCY TRANSLATION

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 financial statements are presented in Sterling, which is the Company's functional and presentation currency.

Transactions and balances

Foreign currency transactions are translated into the 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. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

Group companies

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.

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 when it can be reliably measured and future economic benefits are likely to arise, as follows:

a) Sale 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 reduce income.

INTANGIBLE ASSETS

Product development expenditure

Development costs are capitalised if specific conditions are fulfilled and there is an intention to develop products for resale. 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 and the intention is to finalise development prior to sales being made. The Group has capitalised those projects that have met these capitalisation criteria. Amortisation is calculated to allocate cost on a product by product basis in line with the related product's forecast sales up to a maximum of two years. 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%
Short leasehold improvements	over the unexpired term of the lease
Fixtures, fittings and equipment	20-33%
Motor vehicles	20-25%

Impairment reviews of fixed assets are undertaken if there are indications that the carrying values may not be recoverable. The recoverable amount is the higher of the asset's fair value or carrying value.

Investment Properties

Investment properties are properties held to earn rental income and/or for capital appreciation. Investment properties are recorded at cost less accumulated depreciation and any recognised impairment loss. Impairment reviews of investment properties are undertaken annually. The recoverable amount is the higher of the asset's fair value or carrying value.

Investment properties are depreciated on a straight line basis at the following rates per annum:

Freehold land	nil
Freehold buildings	4%

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.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average method. Net realisable value is based on estimated selling price less the estimated cost of disposal.

FINANCIAL INSTRUMENTS

Financial assets are recognised on the Group's balance sheet when the Group becomes a party to the contractual provisions of the instrument.

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.

Impairment of financial assets

The Group and the Company assesses at each balance sheet date whether a financial asset or group of assets is impaired.

Derivative Financial Instruments

The Group has derivative financial instruments in respect of forward foreign exchange contracts and options. The Group does not hold derivative financial instruments for trading purposes. The effective portion of changes in fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income. The existing forward foreign exchange contracts and options used by the Group function as hedges, however do not meet the criteria for hedge accounting set out by IAS 39 and consequently are carried at their fair value in the Group balance sheet. Changes in the fair value of forward foreign exchange contracts and options are recognised through the Group income statement within cost of sales. Further details are provided in note 17 on page 50.

Non Derivative Financial Instruments

Non derivative financial instruments comprise trade and other receivables, cash and cash equivalents, loans and borrowings, and trade and other payables.

Unless otherwise indicated, the carrying amounts of the Group's and the Company's financial assets and liabilities are a reasonable approximation of their fair values.

Trade receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. Specific provisions are made against doubtful debts taking the value of trade receivables to an estimated value based on the most likely outcome of future cash flows. A Group company has an agreement (recourse) under which debts of customers approved by the finance company are assigned to the finance company. The Group retains all the risks and rewards of the underlying trade debt, and continues to recognise the gross debtor balance net of specific provisions. Cash advanced under this arrangement has been treated as a finance advance under current liabilities.

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.

Trade payables

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest 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.

Provisions

Provisions are recognised when the Group or the Company has a present obligation as a result of a past event and where it is probable that the Group or the Company 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.

LEASES

The Group as Lessor

Rental income from operating leases is recognised on a straight line basis over the term of the relevant lease.

The Group or the Company as Lessee

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, 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.

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.

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.

Segmental information

Operating segments are reported in a manner consistent with the internal reporting to the chief operating decision maker. The Board of directors of the Company is identified as the chief operating decision maker and is responsible for allocating resources and assessing performance of the operating segments.

The performance of reportable segments is assessed on a measure of operating profit, excluding non-recurring items, such as share based payments charges, amortisation of intangible assets and unrealised gains/(losses) on financial instruments.

Taxation

Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the Group Income Statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current and deferred tax in excess of the amount arising on the share based payment charged to the Group Income Statement, is recognised in equity.

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 substantially by the balance sheet date.

Deferred tax is provided on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

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 is probable that future taxable profit that will allow an unrecognised deferred tax asset to be recovered.

Treasury shares

The Company's shares which have been purchased and not cancelled are held as treasury shares and deducted from equity.

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 on-going basis. Accounting estimates are recognised in the period in which the estimate is revised or in the period of the revision and future periods

Intangible assets

Development costs for products that will be sold and meet criteria for IFRS intangible asset recognition are capitalised. Assumptions are made with regard to the future economic benefits and the economic useful life. The capitalised development costs and useful economic life are assessed for impairment annually.

Investment Property

The Group reviews annually the fair value of the investment property with reference to current prices of properties in similar condition and location.

Stock obsolescence

The Group reviews the net realisable value of and demand for its inventory on an ongoing basis to ensure recorded inventory is stated at the lower of cost or net realisable value. In assessing the ultimate realisation of inventories, the Group is required to make judgements as to future demand requirements and to compare these with committed inventory levels. Assumptions have been made relating to the success of product ranges which would impact estimated demand and selling prices. Details of the charge recognised in the financial statements can be found in note 3.

Customer returns & allowances

The Group operates in a highly competitive environment which is subject to seasonal demand. Timing and success of product ranges are major factors that determine the level of returns and allowances. Reserves for allowances are established on management's best estimate of the amounts necessary to meet claims by the Group's customers.

Fair value of derivatives

The Group uses derivatives to mitigate risks arising from foreign exchange. The calculation of fair value of derivatives is based on prevailing market conditions at the date of valuation and appropriate valuation models. The use of different market assumptions and/or valuation models may have a material effect on the estimated fair value amounts. The Group's derivative financial instruments are disclosed in note 17.

Deferred tax assets

The Group and the Company review the recoverability of deferred tax assets on a prudent basis in determining the recognition of deferred tax assets. Judgement is based on the best available information, historical experience and other assumptions that are consistent with the Group's and the Company's forecasts. The Group's and the Company's deferred income tax assets and liabilities are disclosed in note 7.

Share based payments

The Company has used a binomial valuation model to estimate the fair value of share based payments. The model makes various assumptions on factors outside the Company's control, such as share price volatility and risk free interest rates. Details of the options and assumptions used in deriving the share based payments are disclosed in note 25.

2 SEGMENT REPORT - GROUP

The Group's business in the UK and Far East is the design, development and international distribution of toys, games and gifts.

For management purposes, the chief operating decision maker, the Board of Directors of the Company, considers the business from a geopraphical perspective based on the location of its operations.

Year Ended 31 August 2017	UK £000's	Far East £000's	Unallocated £000's	Total £000's
Revenue - external (by origin)	68,363	46,956	–	115,319
Segment adjusted operating profit	7,591	8,297	(196)	15,692
Amortisation of intangible assets	–	–	–	(1,969)
Financial instruments fair value adjustments	–	–	–	(1,188)
Share based payments	–	–	–	(150)
Operating Profit				12,385
Finance costs				(204)
Finance income				57
Profit before tax				12,238
Taxation				(2,188)
Profit for the year after tax				10,050
Segment assets	46,954	15,498	7,432	69,884
Segment liabilities	(25,054)	(16,220)	(1,782)	(43,056)
Other segment information				
Non-current assets	1,937	2,629	1,116	5,682
Capital additions	197	49	3	249
Capital disposals	(65)	(8)	–	(73)
Depreciation of property, plant and equipment	(275)	(70)	(56)	(401)
Depreciation of investment property	–	(65)	–	(65)

Analysis of unallocated assets and liabilities:

Assets	Total £000's	Liabilities	Total £000's
Corporate assets	418	Corporate creditors & accruals	(1,014)
Derivative financial instruments	24	Derivative financial instruments	(768)
Deferred tax asset	450	Deferred tax balances	-
Corporate cash at bank and in hand	5,571		
Intangible assets – product development	698		
Corporate debtors & prepayments	271		
Unallocated assets	**7,432**	**Unallocated liabilities**	**(1,782)**

Unallocated expenses comprise corporate expenses.

2 SEGMENT REPORT - GROUP

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Year Ended 31 August 2016	Other EU £000's	UK £000's	Far East £000's	Unallocated £000's	Total £000's
Revenue - external (by origin)	–	65,628	55,339	–	120,967
Segment adjusted operating profit	–	5,558	9,673	(432)	14,799
Amortisation of intangible assets	–	–	–	–	(1,925)
Financial instruments fair value adjustments	–	–	–	–	573
Share based payments	–	–	–	–	(147)
Operating Profit					13,300
Finance costs					(215)
Finance income					47
Profit before tax					13,132
Taxation					(2,345)
Profit for the year after tax					10,787
Segment assets	24	43,665	19,924	7,665	71,278
Segment liabilities	(1)	(23,923)	(22,918)	(1,517)	(48,359)
Other segment information					
Non-current assets	–	2,016	2,716	1,587	6,319
Capital additions	–	212	31	4	247
Capital disposals	–	(103)	-	–	(103)
Depreciation of property, plant and equipment	–	(319)	(62)	(60)	(441)
Depreciation of investment property	–	–	(65)	–	(65)

Analysis of unallocated assets and liabilities:

Assets	Total £000's	Liabilities	Total £000's
Corporate assets	471	Corporate creditors & accruals	(1,329)
Derivative financial instruments	533	Derivative financial instruments	(89)
Deferred tax asset	474	Deferred tax balances	(99)
Corporate cash at bank and in hand	4,854		
Intangible assets – product development	1,117		
Corporate debtors & prepayments	216		
Unallocated assets	**7,665**	**Unallocated liabilities**	**(1,517)**

Unallocated expenses comprise corporate expenses.

GEOGRAPHICAL DESTINATION OF REVENUE

	31 August 2017 £000's	31 August 2016 £000's
United Kingdom	**86,750**	86,743
Rest of the world	**28,569**	34,224
Total Group	**115,319**	120,967

Revenues of approximately £40,083,000 (2016: £26,793,000) were derived from three (2016: 2) external customers individually representing 10% or more of revenue. These revenues are attributable to both UK & Far East geographic segments.

3 EXPENSES BY NATURE - GROUP

	Note	**12 months to 31 August 2017 £000's**	12 months to 31 August 2016 £000's
Operating profit is stated after charging/(crediting):			
Cost of inventories recognised as an expense (included in cost of sales)		**70,209**	75,790
Product development costs incurred		**1,594**	2,341
Product development costs capitalised		**(1,550)**	(2,205)
Amortisation of capitalised product development costs		**1,969**	1,925
Product development costs expensed to cost of sales		**2,013**	2,061
Charge/(Credit) financial instruments fair value adjustments		**1,188**	(573)
Inventories write down (credit)		**(437)**	(728)
Exchange losses		**59**	155
Staff costs	4	**11,135**	11,476
Depreciation of tangible fixed assets			
- owned assets	12	**401**	441
Depreciation of investment property	11	**65**	65
(Profit) on disposal of property, plant and equipment		**(6)**	(1)
Operating leases — land and buildings		**371**	313
Auditor remuneration		**91**	88

ANALYSIS OF AUDITOR'S REMUNERATION

		12 months to 31 August 2017 £000's	12 months to 31 August 2016 £000's
Group Auditor's remuneration			
	— Statutory audit services current year	**36**	42
	— Interim review and other assurance services	**8**	9
Other Auditors' remuneration			
	— Statutory audit of the Group's subsidiaries	**42**	33
	— Taxation compliance	**5**	4
Total fees payable to Auditors		**91**	88

4 DIRECTORS AND EMPLOYEES REMUNERATION STAFF COSTS - GROUP

	12 months to 31 August 2017 £000's	12 months to 31 August 2016 £000's
Staff costs including directors' emoluments		
Wages and salaries	**9,751**	9,818
Social security costs	**923**	1,223
Pension costs	**311**	288
Share based payments	**150**	147
	11,135	11,476
The average number of employees during the year was:	**Number**	Number
Management and administration	**76**	73
Selling and distribution	**117**	121
	193	194

Of the total average number of employees, 127 (2016: 130) were based in the UK and 66 (2016: 64) in Hong Kong and mainland China.

The amount payable to pension schemes as at the balance sheet date was £8,000 (2016: £8,000).

4 DIRECTORS AND EMPLOYEES REMUNERATION CONTINUED
KEY MANAGEMENT PERSONNEL

Key management compensation are amounts payable to the directors of The Character Group plc.

	12 months to 31 August 2017 £000's	12 months to 31 August 2016 £000's
Salaries, short-term benefits and pension contribution	**3,906**	4,078
Share-based payments	**30**	24
	3,936	4,102

ANALYSIS OF DIRECTORS' REMUNERATION

The following table shows a breakdown of the remuneration of the directors for the year ended 31 August 2017 and the year ended 31 August 2016.

Year ended 31 August 2017

	Salary/fees £	Performance bonus £	Benefits in kind £	Pension contribution £	Total £
R King	100,000	-	13,507	-	113,507
J J Diver	245,916	1,015,751	9,489	-	1,271,156
K P Shah	245,916	723,052	8,210	-	977,178
J J P Kissane	215,592	523,636	7,118	-	746,346
M S Hyde	264,112	128,094	4,820	12,190	409,216
M T Dowding*	110,000	-	1,338	-	111,338
J Healy	106,340	106,340	4,491	10,232	227,403
D Harris (non-executive)	25,000	-	-	-	25,000
C Crouch (non-executive)	25,000	-	-	-	25,000
	1,337,876	2,496,873	48,973	22,422	3,906,144

Year ended 31 August 2016

	Salary/fees £	Performance bonus £	Benefits in kind £	Pension contribution £	Total £
R King	275,927	-	12,296	-	288,223
J J Diver	245,916	1,030,537	10,752	-	1,287,205
K P Shah	245,916	746,430	6,174	-	998,520
J J P Kissane	215,592	547,367	6,514	-	769,473
M S Hyde	225,369	114,660	1,071	10,294	351,394
M T Dowding*	64,167	110,000	918	-	175,085
J Healy	62,032	94,340	2,332	9,434	168,138
D Harris (non-executive)	25,000	-	-	-	25,000
C Crouch (non-executive)	14,583	-	-	-	14,583
	1,374,502	2,643,334	40,057	19,728	4,077,621

* M T Dowding's employment and office as a director terminated on 14 September 2017.

In the year ended 31 August 2017 certain of the directors received remuneration (which is included in the amounts above) through payments by the Group to third parties as follows: £75,000 was paid to Bali Hai Consultancies for the services of R King (2016 £250,927); £25,000 was paid to Clive Crouch Media Insight Limited for the service of C Crouch; £25,000 was paid to Inva Trust Consultancy Limited for the services of D Harris (2016 £25,000).

4 DIRECTORS AND EMPLOYEES REMUNERATION CONTINUED KEY MANAGEMENT PERSONNEL

Directors interests in long term incentive schemes

On 6 May 2009, options were granted to J Healy at a price of 35.5 pence per share over 72,000 new Ordinary Shares. These options were granted under the Company's 2006 Share Option Plan (the "2006 Plan") and were exercisable no earlier than three years and not later than ten years from the date of grant and vested in three equal tranches, upon the achievement of predetermined profit related performance targets. On 12 December 2016 J Healy exercised this option entitlement in full. The share price on the day of exercise was 525 pence, the net gain amounted to £352,440.

On 25 September 2014 options were granted under the 2006 Plan at a price of 213 pence per share to M S Hyde and J Healy respectively over 100,000 and 72,000 existing Ordinary Shares held by the Company in treasury. Such options were subject to satisfaction of a predetermined, profit related performance target, which has been satisfied, and became exercisable three years following the date of grant and will remain exercisable until the tenth anniversary of the date of grant.

At 31 August 2017, the mid-market price of an issued Ordinary Share in The Character Group plc was 475 pence. During the year the mid-market price ranged from 430 pence to 550 pence.

5 NET FINANCE COSTS – GROUP

	12 months to 31 August 2017 £000's	12 months to 31 August 2016 £000's
Finance costs:		
Interest payable on bank overdraft and similar charges	**(178)**	(188)
Factor and invoice discounting advances	**(26)**	(27)
	(204)	(215)
Finance income:		
Interest earned on cash and cash equivalents	**57**	47
Net finance costs	**(147)**	(168)

6 TAXATION - GROUP

	Note	**12 months to 31 August 2017 £000's**	12 months to 31 August 2016 £000's
UK Corporation Tax			
Tax on profit for the period		**1,339**	914
Adjustments to tax charge in respect of previous periods		**(73)**	(2)
Total UK corporation tax		**1,266**	912
Foreign Tax			
Tax on profit for the period		**1,163**	1,415
Adjustments to tax charge in respect of previous periods		**(6)**	(84)
Total foreign tax		**1,157**	1,331
Total current tax		**2,423**	2,243
Deferred Tax			
Origination and reversal of timing differences	7	**(235)**	102
Total deferred tax		**(235)**	102
Tax on profit on ordinary activities		**2,188**	2,345
Factors affecting tax charge for the period			
Profit on ordinary activities before taxation		**12,238**	13,132
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 19.581% (2016: 20.0%)		**2,396**	2,626
Effects of:			
Unrecognised timing differences		**84**	-
(Income)/expenses (not chargeable)/deductible for tax purposes		**35**	44
Capital allowances less than depreciation		**34**	34
Employee share options		**-**	7
Lower tax rate on overseas earnings		**(287)**	(284)
Tax losses not recognised for deferred tax		**1**	1
Effect of change of tax rate		**4**	3
Adjustments to tax charge in respect of previous periods		**(79)**	(86)
Tax charge reported in the income statement		**2,188**	2,345

Tax relating to items (credited) or charged to equity:

Income tax credit on exercise of employee share options	**(70)**	(421)
Income tax credit on exchange losses on intra Group balances	**(16)**	(144)
Deferred tax on share options	**6**	414
Net tax credit to equity	**(80)**	(151)

The Finance Bill 2015 was substantively enacted on 26 October 2015 and reduced the Corporation Tax rate to 19% with effect from 1 April 2017 and 18% from 1 April 2020. The Finance Bill 2016 was substantively enacted on 6 September 2016 and further reduced the applicable rate from 1 April 2020 to 17%. The deferred tax assets and liabilities at 31 August 2017 have been calculated based on these rates.

7 DEFERRED INCOME TAX – GROUP

Deferred tax is calculated on temporary differences under the liability method using a tax rate of 19% (2016: 19%) for UK differences and local rates for overseas differences.

The net movement on the deferred income tax account is as follows:

	2017 £000's	2016 £000's
As at 1 September	**375**	891
Credit/(Charge) to the income statement	**235**	(102)
Charge to equity	**(6)**	(414)
As at 31 August	**604**	375

Deferred tax assets and liabilities are only offset where there is a legally enforceable right of offset.

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities	
	2017 £000's	2016 £000's	**2017 £000's**	2016 £000's
Product development	**-**	-	**-**	(95)
Property, plant and equipment	**36**	42	**-**	-
Employee share scheme charges	**307**	299	**-**	-
Derivative financial instruments	**141**	-	**-**	-
Inventories	**123**	133	**-**	-
Short term timing differences	**-**	-	**(3)**	(4)
Tax assets/(liabilities)	**607**	474	**(3)**	(99)
Net tax asset/(liability)	**604**	375	**-**	-

Movement in recognised deferred tax during the year:

	1 September 2016 £000's	**Recognised in income £000's**	**Recognised in equity £000's**	**31 August 2017 £000's**
Product development	(95)	95	-	**-**
Property, plant and equipment	42	(6)	-	**36**
Derivative financial instruments	-	141	-	**141**
Inventories	133	(10)	-	**123**
Employee share scheme charges	299	14	(6)	**307**
Short term timing differences	(4)	1	-	**(3)**
	375	**235**	**(6)**	**604**

Movement in recognised deferred tax during the prior year:

	1 September 2015 £000's	Recognised in income £000's	Recognised in equity £000's	31 August 2016 £000's
Product development	(167)	72	-	(95)
Property, plant and equipment	50	(8)	-	42
Derivative financial instruments	26	(26)	-	-
Inventories	135	(2)	-	133
Employee share scheme charges	842	(129)	(414)	299
Short term timing differences	5	(9)	-	(4)
	891	(102)	(414)	375

Deferred tax assets amounting to £17,000 (2016: £18,000) have not been recognised in respect of certain trading losses and tax allowable deductions, due to the unpredictability of future taxable profit streams in certain subsidiaries.

7 DEFERRED INCOME TAX – COMPANY

Recognised deferred tax assets and liabilities:

	Assets		Liabilities	
	2017 £000's	2016 £000's	**2017 £000's**	2016 £000's
Employee share scheme charges	**307**	299	**-**	-
Property, plant and equipment	**2**	-	**-**	-
Tax assets	**309**	299	**-**	-
Net tax asset	**309**	299	**-**	-

Movement in recognised deferred tax during the year:

	1 September 2016 £000's	**Recognised in income £000's**	**Recognised in equity £000's**	**31 August 2017 £000's**
Employee share scheme charges	299	14	(6)	**307**
Property, plant and equipment	-	2	-	**2**
	299	**16**	**(6)**	**309**

Movement in recognised deferred tax during the prior year:

	1 September 2015 £000's	**Recognised in income £000's**	**Recognised in equity £000's**	**31 August 2016 £000's**
Employee share scheme charges	842	(129)	(414)	299
Short term timing differences	2	(2)	-	-
	844	(131)	(414)	299

8 EARNINGS PER SHARE - GROUP

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

	Year Ended 31 August 2017 Profit after taxation £	Year Ended 31 August 2016 Profit after taxation £
Profit for the year used in the calculation of basic and diluted earnings per share	**10,050,000**	10,787,000

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

	Year Ended 31 August 2017	Year Ended 31 August 2016
Weighted average number of ordinary shares used in the calculation of basic earnings per share	**21,175,949**	21,445,576
Weighted average number of share options	**618,399**	775,967
Weighted average number of ordinary shares used in the calculation of diluted earnings per share	**21,794,348**	22,221,543

9 DIVIDEND - GROUP

	12 months to 31 August 2017 £000's	12 months to 31 August 2016 £000's
On equity shares:		
Final dividend paid for the year ended 31 August 2016		
— 8.00 pence (2015: 6.00 pence) per share	**1,697**	1,285
Interim dividend paid for the year ended 31 August 2017		
— 9.00 pence (2016: 7.00 pence) per share	**1,903**	1,500
17.00 pence (2016: 13.00 pence) per share	**3,600**	2,785

The directors recommend a final dividend of 10.00 pence per share (2016: 8.00 pence) amounting to £2,091,000 (2016: £1,691,000). If approved by shareholders, the final dividend will be paid on 29 January 2018 to shareholders on the register on 12 January 2018.

10 INTANGIBLE FIXED ASSETS - GROUP PRODUCT DEVELOPMENT

Cost	Total £000's
1 September 2015	**2,895**
Additions	**2,205**
Write off fully amortised assets	(1,336)
31 August 2016	**3,764**
Additions	**1,550**
Write off fully amortised assets	(1,559)
31 August 2017	**3,755**
Amortisation	
1 September 2015	**2,058**
Charge for the year	1,925
Write off fully amortised assets	(1,336)
31 August 2016	**2,647**
Charge for the year	1,969
Write off fully amortised assets	(1,559)
31 August 2017	**3,057**
Net book value	
31 August 2017	**698**
31 August 2016	1,117

11 INVESTMENT PROPERTY - GROUP

Cost	Total £000's
1 September 2015 and 31 August 2016	**2,194**
Depreciation	
1 September 2015	**283**
Charge for the year	66
1 September 2016	**349**
Charge for the year	65
31 August 2016	**414**
Net book value	
31 August 2017	**1,780**
31 August 2016	1,845

The investment property is held at depreciated historical cost which, in the opinion of the directors, at 31 August 2017 approximates its open market value. During the year the Group received gross rental income of £256,000 (2016: £246,000) and incurred expenses of £13,000 (2016: £28,000). The property was occupied throughout the year. During the prior year un-occupation incurred expenses of £47,000.

12 PROPERTY, PLANT AND EQUIPMENT – GROUP

Cost	Freehold land and buildings £000's	Short leasehold improvements £000's	Fixtures, fittings and equipment £000's	Motor vehicles £000's	Total £000's
1 September 2015	**3,904**	**117**	**2,384**	**426**	**6,831**
Additions	–	9	216	22	247
Write off fully depreciated assets	–	–	(441)	–	(441)
Disposals	–	–	–	(103)	(103)
Translation differences	–	21	41	5	67
31 August 2016	**3,904**	**147**	**2,200**	**350**	**6,601**
Additions	–	38	179	32	249
Disposals	–	–	(20)	(53)	(73)
Translation differences	–	1	2	–	3
31 August 2017	**3,904**	**186**	**2,361**	**329**	**6,780**
Depreciation					
1 September 2015	**982**	**116**	**1,960**	**222**	**3,280**
Charge for the year	105	3	262	71	441
Write off fully depreciated assets	–	–	(441)	–	(441)
Disposals	–	–	-	(90)	(90)
Translation differences	–	20	34	–	54
31 August 2016	**1,087**	**139**	**1,815**	**203**	**3,244**
Charge for the year	105	12	213	71	401
Disposals	–	–	(19)	(53)	(72)
Translation differences	–	1	2	–	3
31 August 2017	**1,192**	**152**	**2,011**	**221**	**3,576**
Net book value					
31 August 2017	**2,712**	**34**	**350**	**108**	**3,204**
31 August 2016	2,817	8	385	147	3,357

TANGIBLE FIXED ASSETS - COMPANY

Cost	Freehold land and buildings £000's	Fixtures, fittings and equipment £000's	Total £000's
1 September 2015	1,182	244	1,426
Additions	–	4	4
31 August 2016	**1,182**	**248**	**1,430**
Additions	–	3	3
31 August 2017	**1,182**	**251**	**1,433**
Depreciation			
1 September 2015	706	194	900
Charge for the year	39	20	59
31 August 2016	**745**	**214**	**959**
Charge for the year	40	16	56
31 August 2017	**785**	**230**	**1,015**
Net book value			
31 August 2017	**397**	**21**	**418**
31 August 2016	437	34	471

A bank has a charge over the freehold properties.

13 FIXED ASSET INVESTMENTS - COMPANY

Cost	Shares in subsidiary undertakings £000's	Capital contribution £000's	Total £000's
1 September 2015	3,195	2,125	5,320
Share based payment	–	82	82
At 31 August 2016	3,195	2,207	5,402
Share based payment	–	83	83
At 31 August 2017	**3,195**	**2,290**	**5,485**
Amortisation and provisions			
1 September 2015 and 31 August 2016	1,896	–	1,896
Charge for the year	–	–	–
At 31 August 2017	**1,896**	–	**1,896**
Net book value			
31 August 2017	**1,299**	**2,290**	**3,589**
31 August 2016	1,299	2,207	3,506

At 31 August 2017, 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
Charter 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
Character Poland SP z.o.o	Poland	Ordinary	100%	Design and distribution of toys and games
Q-Stat Limited	United Kingdom	Ordinary	100%	Property investment
Toy Options Limited	United Kingdom	Ordinary	100%	Intermediate holding company

14 INVENTORIES - GROUP

	2017 £000's	2016 £000's
Finished goods for resale	**8,994**	10,303

A Bank has a floating charge over the inventories to secure bank borrowings by the Group.

15 TRADE AND OTHER RECEIVABLES – GROUP AND COMPANY

	Group		Company	
	2017	2016	**2017**	2016
	£000's	£000's	**£000's**	£000's
Current:				
Trade receivables	**23,287**	21,959	**–**	–
Less provision for impairment	**(150)**	–	**–**	–
Trade receivables - net	**23,137**	21,959	**–**	–
Due from subsidiary undertakings	**–**	–	**15,920**	17,343
Other receivables	**1,033**	1,020	**71**	32
	24,170	22,979	**15,991**	17,375
Prepayments	**1,647**	2,103	**200**	184
	25,817	25,082	**16,191**	17,559

Finance advances received against gross trade receivables (shown below) under the recourse invoice discounting facility amounting to £16,419,000 (2016: £17,180,000) are shown within current liabilities. All the risks and rewards of the trade receivables lie with the Group.

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:

	2017	2016
	£000's	£000's
Fully performing	**22,278**	19,465
Past due	**859**	2,494
Trade receivables	**23,137**	21,959

Ageing of past due, not impaired, receivables:

	2017	2016
	£000's	£000's
1 – 90 days	**859**	2,390
> 90 days	**-**	104
	859	2,494

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

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

	2017	2016
	£000's	£000's
Pounds Sterling	**15,139**	10,314
US Dollars	**7,865**	11,554
Euros	**133**	91
	23,137	21,959

16 INCOME TAX RECOVERABLE/ (PAYABLE) - GROUP

	2017		2016	
	Assets	**Liabilities**	Assets	Liabilities
	£000's	**£000's**	£000's	£000's
UK income tax	**–**	**(775)**	–	(105)
Overseas income tax	**8**	**(1,594)**	7	(1,001)
	8	**(2,369)**	7	(1,106)

17 DERIVATIVE FINANCIAL INSTRUMENTS - GROUP

Numerical financial instruments disclosures are set out below. Additional disclosures are set out in the accounting policies in notes 1 and 21 and note 22 relating to risk management.

	2017		2016	
	Assets £000's	**Liabilities £000's**	Assets £000's	Liabilities £000's
Forward foreign exchange contracts and options	**24**	**(768)**	533	(89)
	24	**(768)**	533	(89)

Fair value hierarchy

The Group uses the following valuation hierarchy for determining and disclosing the fair value of financial instruments:

- Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;
- Level 2: other techniques for which all inputs which have significant effect on the recorded fair value are observable, either directly or indirectly; and
- Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data. Unlisted equity investments are included in level 3. The fair value of the embedded derivative is determined using the present value of the estimated future cash flow based on financial forecasts.

All derivative financial instruments are level 2 in the fair value hierarchy, the fair value of which has been determined using reports from the banks from whom the derivatives have been acquired.

18 CASH & CASH EQUIVALENTS – GROUP AND COMPANY

	Group		Company	
	2017 £000's	2016 £000's	**2017 £000's**	2016 £000's
Cash and cash equivalents	**28,752**	28,560	**5,571**	4,854

Cash and cash equivalents are denominated in the following currencies:

Currency – floating rate financial assets	**2017 £000's**	2016 £000's	**2017 £000's**	2016 £000's
Sterling	**21,904**	24,510	**5,385**	4,639
US$	**5,803**	3,163	**198**	218
Euro	**263**	140	**(12)**	(3)
HKS$	**699**	698	**–**	–
Polish Zloty	**13**	12	**–**	–
Chinese Renminbi	**70**	37	**–**	–
Total	**28,752**	28,560	**5,571**	4,854

Bank overdrafts and short term loans are aggregated with cash and cash equivalents where there is a right of set-off. At 31 August 2017, the balances attracted interest at rates of between 0.05% and 0.6%.

19 SHORT TERM BORROWINGS - GROUP

	2017 £000's	2016 £000's
Finance Advances	**16,419**	17,180
Import Loans	**797**	4,467
Total	**17,216**	21,647

Analysis of short term borrowings by currency

	2017 £000's	2016 £000's
Sterling	**15,393**	14,709
US$	**1,823**	6,901
Euro	**-**	37
Total	**17,216**	21,647

Finance advances are advances against trade receivables. Import loans are short term trade finance instruments.

19 SHORT TERM BORROWINGS CONTINUED

The Group utilises short term borrowings to implement its working capital strategy. UK facilities include a bank overdraft of £6 million and a trade finance facility of £13.5 million which expire within one year; these are repayable on demand. A UK subsidiary has an ongoing recourse invoice discounting facility of £20 million.

The interest charged on these facilities is between 1.65% to 1.70% per annum over LIBOR or bank 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 £12.3 million. The interest charged is between 0.25% per annum and 3.55% per annum over Prime or HIBOR. A subsidiary has a pledged cash deposit with a bank amounting to approximately £1.0 million (2016: £1.05 million), which has been included in cash and cash equivalents.

20 TRADE AND OTHER PAYABLES – GROUP AND COMPANY

			Company	
	2017 £000's	2016 £000's	**2017 £000's**	2016 £000's
Trade creditors	**13,181**	15,094	**–**	–
Due to subsidiary undertakings	**–**	–	**13**	14
Other taxation and social security	**1,161**	886	**130**	136
Accruals and deferred income	**8,358**	9,438	**884**	1,193
	22,700	25,418	**1,027**	1,343

21 FINANCIAL INSTRUMENTS - GROUP

Financial assets		**31 August 2017**			31 August 2016		
Current financial assets	**Note**	**Total £000's**	**Held at fair value through Profit & loss £000's**	**Loans and receivables £000's**	Total £000's	Held at fair value through Profit & loss £000's	Loans and receivables £000's
Trade and other receivables	**15**	**24,163**	**–**	**24,163**	22,979	–	22,979
Derivative financial instruments	**17**	**24**	**24**	**–**	533	533	–
Cash and cash equivalents	**18**	**28,752**	**–**	**28,752**	28,560	–	28,560
		52,939	**24**	**52,915**	52,072	533	51,539

Financial liabilities		**31 August 2017**			31 August 2016		
Current financial liabilities	**Note**	**Total £000's**	**Held at fair value through Profit & loss £000's**	**Financial liabilities at amortised cost £000's**	Total £000's	Held at Fair value through Profit & loss £000's	Financial liabilities at amortised cost £000's
Trade and other payables	**20**	**13,181**	–	**13,181**	15,094	–	15,094
Derivative financial instruments	**17**	**768**	**768**	–	89	89	–
Short term borrowings	**19**	**17,216**	–	**17,216**	21,647	–	21,647
		31,165	**768**	**30,397**	36,830	89	36,741

FINANCIAL INSTRUMENTS - COMPANY

Financial assets Current financial assets	Note	31 August 2017 Total £000's	Held at fair value through Profit & loss £000's	Loans and receivables £000's	31 August 2016 Total £000's	Held at fair value through Profit & loss £000's	Loans and receivables £000's
Trade and other receivables	15	15,991	–	15,991	17,375	–	17,375
Derivative financial instruments	17	-	–	-	–	–	–
Cash and cash equivalents	18	5,571	–	5,571	4,854	–	4,854
		21,562	–	21,562	22,229	–	22,229

Financial liabilities Current financial liabilities	Note	31 August 2017 Total £000's	Held at fair value through Profit & loss £000's	Financial liabilities at amortised cost £000's	31 August 2016 Total £000's	Held at Fair value through Profit & loss £000's	Financial liabilities at amortised cost £000's
Trade and other payables	20	13	–	13	14	–	14
Derivative financial instruments	17	–	–	–	–	–	–
Short term borrowings	19	–	–	–	–	–	–
		13	–	13	14	–	14

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

22 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 and other derivative financial instruments 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.

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 exchange rates.

The following table details how the Group's income and equity would (decrease)/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. The 10% change represents a reasonably possible change in the specified foreign exchange rates in relation to the Group's functional currencies.

	Sterling strengthening		**Sterling weakening**	
2017	**Total Equity £000's**	**Profit or (Loss) £000's**	**Total Equity £000's**	**Profit or (Loss) £000's**
Euro	**(34)**	**(34)**	**34**	**34**
US$	**(6,474)**	**(6,474)**	**346**	**346**
HK$	**596**	**596**	**(596)**	**(596)**
	(5,912)	**(5,912)**	**(216)**	**(216)**

	Sterling strengthening		Sterling weakening	
2016	Total Equity £000's	Profit or (Loss) £000's	Total Equity £000's	Profit or (Loss) £000's
Euro	1	1	(1)	(1)
US$	(2,184)	(2,184)	1,442	1,442
HK$	441	441	(441)	(441)
	(1,742)	(1,742)	1,000	1,000

Interest rate risk

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

The Group places excess funds on short term bank deposit that attracts interest at the ruling market rate.

The Group believes that an interest rate sensitivity analysis is not representative of the underlying risks due to 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.

22 FINANCIAL RISK MANAGEMENT CONTINUED

Credit risk – Group and Company

The Group's and the Company'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:

	Group		Company	
Class of financial assets	**2017 £000's**	2016 £000's	**2017 £000's**	2016 £000's
Trade receivables	**23,137**	21,959	**–**	–
Due from subsidiary undertakings	**–**	–	**15,920**	17,343
Other receivables	**1,033**	1,020	**71**	32
Current tax assets	**8**	7	**–**	–
Cash	**28,752**	28,560	**5,571**	4,854
	52,930	51,546	**21,562**	22,229

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. Five major counterparties within trade receivables amounted to £13,100,000 (2016: £13,346,000). 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 committed debt facilities to cover its liquidity requirements for at least the next 12 months.

The Group's liabilities have the following contractual maturities:

	2017		2016	
	Current £000's	**Non-current within five years £000's**	Current £000's	Non-current within five years £000's
Finance advances	**16,419**	–	17,180	–
Import loans	**797**	–	4,467	–
Trade and other payables	**22,700**	–	25,418	–
Current tax liabilities	**2,369**	–	1,106	–
Derivative financial instruments	**768**	–	89	–
Deferred tax liabilities	**–**	3	–	99
	43,053	**3**	48,260	99

23 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.

The Group considers its capital to comprise the equity attributable to equity holders of the parent.

24 CALLED UP SHARE CAPITAL (EQUITY)

	2017 £000's	2016 £000's
Authorised		
110,000,000 (2016: 110,000,000) ordinary shares of 5 pence each	**5,550**	5,550
Allotted, called up and fully paid		
24,215,808* (2016: 24,701,010) ordinary shares of 5 pence each	**1,211**	1,235

* Including 3,269,456 Ordinary Shares held in treasury (2016: 3,269,456).

Share capital movements in the year

79,200 (2016: 832,000) Ordinary Shares, total nominal value £3,960 (2016: £41,600), were issued during the year to employees exercising their share options as follows:

Date	Number of Ordinary Shares at exercise price 35.5p	213.00p
12 December 2016	72,000	–
15 February 2017	–	5,000
15 February 2017	2,200	–

During the year, the Company repurchased for cancellation 564,402 (2016: 258,936) Ordinary Shares as follows:

Date	Number of shares	Price	% of the issued share capital immediately prior to cancellation (excluding shares held in Treasury)
21 September 2016	292,402	447.487p	1.36%
27 April 2017	75,000	470.00p	0.35%
14 August 2017	197,000	470.00p	0.93%

At 31 August 2017, a total of 3,269,456 Ordinary Shares were held in treasury. (2016: 3,269,456).

Movement in issued capital is as follows:

Ordinary Shares of 5 pence each	2017	2016
In issue at the beginning of the financial year	**24,701,010**	24,877,946
Issued on exercise of share options	**79,200**	82,000
Cancellations	**(564,402)**	(258,936)
In issue at the end of the financial year – fully paid	**24,215,808**	24,701,010

Share options

On 6 May 2009, options over a total of 1,989,027 new Ordinary Shares were granted under the Company's 2006 Share Option Plan (the "2006 Plan") to Group employees, including the executive directors, at an exercise price of 35.5 pence per share.

On 25 September 2014, options over a total of 1,070,800 Ordinary Shares held by the Company in treasury were granted under the 2006 Plan to Group employees, including certain of the executive directors, at an exercise price of 213.00 pence per share.

The 2006 Plan expired on 21 February 2016 (being ten years following its adoption), though such expiry has no effect upon the validity of options granted under the 2006 Plan prior to its expiry. On 24 November 2017, the board adopted the rules of the Company's 2017 Share Option Plan (the "2017 Plan"). The 2017 Plan is substantially similar in structure, operation and administration to the 2006 Plan and will be administered under the direction of the remuneration committee of the Board.

24 CALLED UP SHARE CAPITAL (EQUITY) CONTINUED

At 31 August 2017, rights to options over 1,043,300 Ordinary Shares of the Company (treated as outstanding) were as follows:

	At 1 September 2016	Exercised/ lapsed	At 31 August 2017	Exercise Price	Exercise Period
2006 Scheme					
	28,900	(24,000)	4,900	35.50p	6 May 2012 to 5 May 2019
	28,900	(24,000)	4,900	35.50p	6 May 2013 to 5 May 2019
	33,900	(26,200)	7,700	35.50p	6 May 2014 to 5 May 2019
	1,032,300	(6,500)	1,025,800	213.00p	25 September 2017 to 24 September 2024
	1,124,000	(80,700)	1,043,300		

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.

Movements in the weighted average values are as follows:

	2017		2016	
	Number	**Weighted average exercise price**	Number	Weighted average exercise price
Outstanding at 1 September	**1,124,000**	**198,52p**	2,706,185	184.72p
Exercised	**(79,200)**	**46.71p**	(832,000)	173.36p
Lapsed	**(1,500)**	**213.00p**	(750,185)	176.64p
Outstanding at 31 August	**1,043,300**	**210.02p**	1,124,000	198.52p
Weighted average remaining contractual life in years		**7.0**		8.01

Options over 79,200 Ordinary Shares were exercised in the year (2016: 832,000). The weighted average share price (at the date of exercise) of options exercised during the year was 526.36p (2016: 507.21p).

At 31 August 2017, options over 17,500 Ordinary Shares were exercisable (2016: 91,700).

25 SHARE-BASED PAYMENT

	12 months ended 31 August 2017 £000's	12 months ended 31 August 2016 £000's
Charge for share based payment	**150**	147

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:

2006 Scheme

Grant Date	**6 May 2009**	**25 September 2014**
Options outstanding 1 September 2016	91,700	1,032,300
Exercised	(74,200)	(5,000)
Lapsed	–	(1,500)
Options outstanding 31 August 2017	17,500	1,025,800
Contract term year(s)	10	10
Expected life of option	7	8
Exercise & share price at grant	35.50p	213.0p
Expected volatility	65% – 75%	25% – 35%
Annual risk free rate	3.17%	2.502%
Annual expected dividend	0% – 1.6%	3.65% – 4%
Fair value per share under option	25p	46p

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.

26 COMMITMENTS

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

	2017 £000's	2016 £000's
Not later than one year	**381**	310
Later than one year but not more than five years	**563**	404
	944	714

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. These royalties are not provided for in the financial statements as the directors believe that the required level of future sales will be achieved:

	2017 £000's	2016 £000's
Within one year	**916**	579
Between one and two years	**277**	937
	1,193	1,516

THE GROUP AS LESSOR

The Group has future aggregate minimum lease receipts under non-cancellable operating leases in respect of rented premises which fall due as follows:

	2017 £000's	2016 £000's
Within one year	**235**	225
Between one and two years	**458**	670
Between two and five years	**-**	2
	693	897

27 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.

The principal subsidiary undertakings of the Company are shown in note 13.
Transactions between the Company and its subsidiaries are shown below; all such transactions were carried out in the normal course of business and all amounts outstanding are unsecured.

	2017 £000's	2016 £000's
Dividends received	**5,978**	6,708
Management fees received	**1,800**	1,800
Property rental income	**201**	201
Property rentals paid	**(96)**	(96)
Amounts due from subsidiary undertakings	**15,920**	17,343
Amounts owed to subsidiary undertakings	**(13)**	(14)

28 CONTINGENT LIABILITIES

The contingent liability for bills of exchange discounted in the normal course of business at 31 August 2017 amounted to £1,441,000 (2016: £977,000).

29 EVENTS OCCURING AFTER THE BALANCE SHEET DATE

During October 2017 and December 2017, the Company repurchased for cancellation 307,500 Ordinary Shares at an average cost of £3.97 per Ordinary Share.

During September 2017 and October 2017, employees exercised options over 243,750 Ordinary Shares, of which 241,950 were out of shares held in treasury.

NOTICE OF ANNUAL GENERAL MEETING

The Character Group plc

(*incorporated and registered in England with registered no. 3033333*)

NOTICE IS HEREBY GIVEN THAT the 2018 Annual General Meeting of The Character Group plc will be held at the offices of Duane Morris, 2nd Floor, 10 Chiswell Street, London, EC1Y 4UQ on Friday 19 January 2018 at 11:00 a.m. to transact the following business:

ORDINARY BUSINESS

1. To receive and adopt the directors' report and the accounts of the company for the year ended 31 August 2017 and the report of the auditors thereon.

2. To declare a final dividend on the ordinary shares in the capital of the company (other than ordinary shares held by the company in treasury) for the year ended 31 August 2017 of 10 pence per share.

3. To consider an ordinary resolution of the company that Jeremiah Healy, who retires in accordance with the Articles of Association of the Company, be and is hereby re-appointed as a director of the company.

4. To consider an ordinary resolution of the company that Mr. R. King, who retires in accordance with the terms of his letter of appointment, be and is hereby re-elected as a director of the company.

5. To consider an ordinary resolution of the company that Mr. D. Harris, who retires in accordance with the terms of his letter of appointment, be and is hereby re-elected as a director of the company.

6. To consider an ordinary resolution of the company that Mr. C. Crouch, who retires in accordance with the terms of his letter of appointment, be and is hereby re-elected as a director of the company.

7. To consider an ordinary resolution of the company that MacIntyre Hudson LLP be and are hereby re-appointed as auditors of the company, on terms as to remuneration to be determined by the directors.

SPECIAL BUSINESS

To consider and, if thought fit, to pass the following resolutions of the company:

Ordinary Resolution

8. That, in accordance with section 551 of the Companies Act (the "Act"), the directors be and are hereby generally and unconditionally authorised to allot shares in the company or grant rights to subscribe for or to convert any security into shares in the company ("Rights") up to an aggregate nominal amount of £349,100, such authority to expire on the earlier of fifteen months following the date upon which this resolution was passed and the conclusion of the Annual General Meeting of the company next following the date upon which this resolution was passed, unless renewed, varied or revoked by the company in general meeting provided that the company may at any time before the expiry, variation or revocation of such authority make offers or agreements which will or might require shares in the company to be allotted or Rights to be granted and the directors may allot shares or grant Rights after the expiry, variation or revocation of such authority as if such authority had not expired or been varied or revoked. This authority shall replace all existing authorities conferred on the directors in respect of the allotment of shares in the company or grant Rights under section 551 of the Act to the extent that the same have not previously been utilised.

Ordinary Resolution

9. That the company be and is hereby generally and unconditionally authorised for the purposes of section 701 of the Act to make market purchases (as defined in section 693(4) of the Act) of ordinary shares of 5p each in the capital of the company provided that:

    (A) the maximum number of ordinary shares of 5p each in the capital of the company hereby authorised to be acquired is 3,141,900;

    (B) the minimum price (exclusive of all expenses) which may be paid for such shares is 5p per share;

    (C) the maximum price (exclusive of expenses) which may be paid for such shares is, in respect of a share contracted to be purchased on any day, is an amount equal to the higher of:

(i) 105 per cent of the average closing middle market prices of ordinary shares of 5p in the company as derived from the London Stock Exchange's Daily Official List for the five business days immediately preceding the day on which such share is contracted to be purchased, and

(ii) where the relevant purchase is carried out so as to comply with Article 5(1) of Regulation (EU) No 596/2014, the value of an ordinary share of 5p in the company calculated on the basis of the higher of the price of the last independent trade; and the highest current independent purchase bid on the trading venue where the relevant purchase is contracted.

(D) the authority hereby conferred shall expire at the earlier of the conclusion of the next Annual General Meeting following the date upon which this resolution was passed or 15 months following the date upon which this resolution was passed; and

(E) the company may contract to purchase its own shares under the authority hereby conferred prior to the expiry of such authority, which will or may be executed wholly or partly after the expiry of such authority, and may make a purchase of its own shares in pursuant of any such contract.

Special Resolution

10. That:

(A) in accordance with section 570 of the Companies Act 2006 (the "Act"), the directors be and are hereby given the general power to allot equity securities (as defined in Section 560 of the Act) pursuant to the authority conferred on them for the purposes of Section 551 of the Act by an ordinary resolution of the company of even date herewith and/or to sell equity securities held as treasury shares (within the meaning of section 724 of the Act) for cash in each case as if Section 561(1) of the Act did not apply to any such allotment or sale, provided that this power shall be limited:

(i) to the allotment and/or sale of equity securities in connection with any offer by way of rights to holders of ordinary shares in the capital of the company (other than to the holder(s) of treasury shares) notwithstanding that, by reason of such exclusions or other arrangements as the directors may deem necessary or desirable to deal with legal or other problems arising in any overseas territory, in connection with fractional entitlements, record dates or otherwise howsoever, the equity securities to be allotted are not offered to all such holders in proportion to the respective number of ordinary shares held by them;

(ii) the allotment (otherwise than pursuant to paragraph (i) above) of equity securities up to an aggregate nominal value of £104,700;

(iii) the sale of (otherwise than pursuant to paragraph (i) above) of equity securities held as treasury shares up to an aggregate nominal value of £113,982.80 (equivalent to 2,279,656 ordinary shares of 5p each in the company);

(B) the power hereby conferred shall expire at the earlier of the conclusion of the next Annual General Meeting following the date on which this resolution was passed or fifteen months following the date upon which this resolution was passed;

(C) the power hereby conferred shall enable the company to make an offer or agreement that would or might require equity securities to be allotted and/or sale after such power expires and the directors may allot and/or sell equity securities in pursuance of any such offer or agreement made within the limits prescribed in paragraph (A) above as if the power hereby conferred had not expired; and

(D) this power shall replace all existing powers granted to the directors to allot and/or sell equity securities as if the said Section 561(1) of the Act (or Section 89(1) of the Companies Act 1985) did not apply to the extent that the same have not been previously utilised.

By order of the Board,

K.P. Shah Secretary 21 December 2017	Registered Office: 2nd Floor, 10 Chiswell Street, London EC1Y 4UQ

Notes:

1. The register of directors' interests and copies of the directors' service agreements or (as appropriate) their letters of appointment or memoranda summarising the terms thereof and the Articles of Association of the company will be available for inspection at the registered office during normal business hours from the date of this notice until the date of the Annual General Meeting and on that day will be available for inspection at the place of the meeting from 10:00 a.m. until the conclusion of the meeting.

2. A member entitled to attend and vote at the Annual General Meeting convened by the Notice above is entitled to appoint a proxy or proxies to attend, speak and vote in his/her place. A member may only appoint more than one proxy if each proxy is appointed to exercise the voting rights attached to different shares. A member may not appoint more than one proxy to exercise rights attached to the same shares.

3. To be valid, forms of proxy must be lodged with Neville Registrars Limited, 18 Laurel Lane, Halesowen, West Midlands 63 3DA not less than 48 hours before the time appointed for holding the Annual General Meeting. A form of proxy is enclosed with this notice. If you do not have a proxy form and believe that you should have one, or if you require additional forms, please contact the Company Secretary. In the case of joint holders of shares, the vote of the first named in the register of members who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of other joint holders.

4. A member that is a company or other organisation not having a physical presence cannot attend in person but can appoint someone to represent it. This can be done in one of two ways: either by the appointment of a proxy (described in Notes 2 and 3 above and notes 8 – 11 below) or of a corporate representative. Members considering the appointment of a corporate representative should check their own legal position, the company's articles of association and the relevant provision of the Companies Act 2006.

5. Completion of a form of proxy or any CREST Proxy Instruction (as described in note 9 below) will not prevent a member from attending and voting at the Annual General Meeting should he or she so wish.

6. For the purposes of Regulation 41 of the Uncertificated Securities Regulations 2001, the members entitled to attend, speak and/or vote at the Annual General Meeting shall be those entered on the company's register of members at 6:00 p.m. on 17 January 2018 (or if the meeting is adjourned, on the day which is two business days before the time fixed for the adjourned meeting). Changes to entries on the register of members after that time (including as to the number of votes they may they may cast) will be disregarded in determining the rights of any person to attend and/or vote at the meeting.

7. As at 20 December 2017 (being the last business day prior to the publication of this Notice) the company's issued share capital (excluding shares held in treasury) consisted of 20,882,602 ordinary shares, carrying one vote each. Therefore, the total voting rights in the company as at 20 December 2017 was 20,882,602.

8. CREST members who wish to appoint a proxy or proxies through the CREST electronic proxy appointment service may do so by using the procedures described in the CREST Manual. CREST Personal Members or other CREST sponsored members, and those CREST members who have appointed a voting service provider(s), should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf.

9. In order for a proxy appointment or instruction made using the CREST service to be valid, the appropriate CREST message (a "CREST Proxy Instruction") must be properly authenticated in accordance with Euroclear UK & Ireland Limited's specifications, and must contain the information required for such instruction, as described in the CREST Manual. The message, regardless of whether it constitutes the appointment of a proxy or is an amendment to the instruction given to a previously appointed proxy must, in order to be valid, be transmitted so as to be received by the issuer's agent (ID 7RA11) by 11:00 a.m. on 17 January 2018. For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp applied to the message by the CREST Application Host) from which the issuer's agent is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. After this time any change of instructions to proxies appointed through CREST should be communicated to the appointee through other means.

10. CREST members and, where applicable, their CREST sponsors, or voting service providers should note that Euroclear UK & Ireland Limited does not make available special procedures in CREST for any particular message. Normal system timings and limitations will, therefore, apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member, or sponsored member, or has appointed a voting service provider, to procure that his CREST sponsor or voting service provider(s) take(s)) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members and, where applicable, their CREST sponsors or voting system providers are referred, in particular, to those sections of the CREST Manual concerning practical limitations of the CREST system and timings.

11. The company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001.

SUMMARY OF THE SPECIAL BUSINESS TO BE CONSIDERED AT THE 2018 ANNUAL GENERAL MEETING

It is proposed that the following resolutions will be proposed as special business at the Company's 2018 Annual General Meeting (the "**AGM**"):

Resolution 8 – Authority to allot unissued shares

Pursuant to section 551 of the Companies Act 2006 (the "**Act**"), the directors of a company may be authorised by its shareholders to allot shares in the company or grant rights ("Rights") to subscribe for or to convert any security into shares in the company.

Resolution 8 is an ordinary resolution that seeks approval from shareholders to renew the Directors' authority to allot unissued ordinary shares of 5 pence each in the capital of the Company ("**Ordinary Shares**") and/or to grant Rights up to an aggregate nominal amount of £349,100, which represents 6,982,000 Ordinary Shares (approximately 33.3 per cent. of the issued share capital of the Company as at 31 August 2017, excluding shares held in treasury). A corresponding authority was given to the Directors at the last annual general meeting and that authority expires at the conclusion of the AGM.

The Company will consider the allotment of unissued Ordinary Shares and/or Rights to finance business opportunities, to reduce gearing and/or to raise further working capital for the Group if/as appropriate. The Directors will use their discretion to exercise this authority in a manner calculated to manage the Company's capital base as effectively as possible and generally in a manner most likely to promote the success of the Company for the benefit of shareholders.

There are no present plans to allot unissued Ordinary Shares pursuant to this authority and the only current commitments to allot unissued Ordinary Shares that currently exist are in relation to subsisting options granted to Group personnel under the Company's 2006 Share Option Plan.

The authority proposed by resolution 8 will expire at the conclusion of the next annual general meeting to be held after the passing of this resolution or (if sooner) on the date being 15 months following the passing of the resolution.

Resolution 9 – Authority to make market purchases of own shares

Where it is proposed that a company is to be authorised to make market purchases of its own shares, the exercise of that authority is subject to that authority being granted in accordance with the requirements of section 701 of the Act.

Resolution 9 is an ordinary resolution that seeks approval from shareholders of the grant of an authority for the Company to make market purchases of Ordinary Shares, either for cancellation or into treasury, if and when the Directors consider that it would be in the best interests of the Company and shareholders generally to do so. An authority was given to the Directors in this fashion at the 2017 annual general meeting of the Company and that authority expires at the conclusion of the AGM.

The maximum number of shares that may be acquired through exercise of this proposed authority is 3,141,900 Ordinary Shares, representing approximately 15 per cent. of the issued share capital of the Company as at 31 August 2017 (excluding shares held in treasury). The resolution specifies the minimum and maximum prices which may be paid for any Ordinary Shares purchased under this authority, which reflect current best practice and the applicable requirements of the Market Abuse Regulation.

The authority proposed by resolution 9 will expire at the conclusion of the next annual general meeting to be held after the passing of this resolution or (if sooner) on the date being 15 months following the passing of the resolution.

Resolution 10 – Disapplication of pre-emption rights

Where shares are allotted pursuant to a general authority, as provided in resolution 8, and they are to be subscribed for in cash, that allotment must be made subject to the provisions of section 570 of the Act, where applicable. This section requires that any new shares to be allotted or treasury shares to be sold are offered on a pre-emptive basis to existing shareholders, i.e. in proportion to their existing holdings prior to being allotted or sold in any other fashion. There may, however, be circumstances where the Directors wish to allot or sell shares for cash other than to shareholders strictly pro-rata to their holdings but this may not be done unless shareholders have first waived their pre-emption rights. A disapplication of these provisions was granted at the last annual general meeting and that disapplication expires at the conclusion of the AGM.

Resolution 10, which will be proposed as a Special Resolution of the Company, seeks approval from shareholders to a renewal of the disapplication of the statutory pre-emption rights to allow the Directors to allot equity securities (which includes Ordinary Shares) or sell Ordinary Shares held in treasury for cash, as if section 561(1) of the Act did not apply to such allotment. The authority will allow the Directors to allot equity securities or sell Ordinary Shares held in treasury for cash other than in accordance with section 570 of the Act in connection with rights issues and other offers of shares pro-rata to existing holdings (but allowing for certain adjustments to shareholder entitlements to be made for practical purposes to deal with fractional entitlements and overseas restrictions on offers of shares in UK companies) and further limited disapplications of those pre-emption rights in relation to the allotment of Ordinary Shares for cash of up to an aggregate nominal amount of £104,700, representing 2,094,000 Ordinary Shares (equivalent to approximately 10 per cent. of the issued share capital of the Company as at 31 August 2017, excluding shares held in treasury).

Further, it is intended to allow the Directors to sell shares held in treasury for cash, if it is considered by the Board to be in the best interests of the Company and its shareholders as a whole. The statutory pre-emption rights set out in section 570 of the Act also apply to shares held in treasury and, accordingly, it will be necessary to disapply those pre-emption rights specifically in relation to shares held in treasury, if the Directors are to be granted this power. Resolution 10, accordingly, also proposes that the Directors be authorised to sell equity securities held as treasury shares for cash other than in accordance with section 570 of the Act up to the limit of 2,279,656 Ordinary Shares, £113,982.80 in nominal aggregate value (equivalent to approximately 10.9 per cent. of the issued share capital of the Company as at 31 August 2017, excluding shares held in treasury), being the number of shares held in treasury and not subject to the grant of options under the Company's 2006 Share Option Plan at the date of this document.

The disapplication proposed by resolution 10 will expire at the conclusion of the next annual general meeting to be held after the passing of this resolution or (if sooner) on the date being 15 months following the passing of the resolution.

There is no present intention on the part of the Directors to exercise this authority, either in respect of unissued shares in the Company or shares held in treasury.

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