the CHARACTER group plc

Interim Report

Six months ended 28 February 2013

CONTENTS

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

DIRECTORS AND ADVISORS

Directors
R King
K P Shah
J J Diver
J J P Kissane
M S Hyde
Lord Birdwood
D Harris

Secretary
K P Shah FCCA

Company registration number
03033333

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

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

Auditors
MHA MacIntyre Hudson
New Bridge Street House
30-34 New Bridge Street
London
EC4V 6BJ

Nominated Advisers and Broker
Charles Stanley Securities
131 Finsbury Pavement
London
EC2A 1NT

Bankers
Barclays Bank plc
Standard Chartered Bank plc

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

Overview/Introduction

As predicted at the AGM in January, Group trading results to the end of February are disappointing, albeit marginally ahead of our initial expectations. Whilst UK trading remained difficult, international sales, excluding Eire, grew by 25% during this period.

Overall, it is pleasing to note that our major brands have performed relatively well and that we remain on track to benefit from a major lift in sales, together with a return to profit, in both the second half of this financial year as well as this calendar year as a whole. Trading in both periods should provide a solid base for further growth in the following financial year.

Financials

Revenue in the period was £30.59 million against £44.25 million in the comparable 2012 period (year ended August 2012: £74.9m). Gross profit in the period being reported amounted to £8.24 million compared to £16.49 million in 2012, after having taken into account stock write-downs due to a higher level of clearance sales.

Although sales were reduced, working capital has once again been effectively managed, with the cost base and inventory levels operated under tight control. After taking into account administration and selling costs, the Group is reporting an operating loss for the half-year period of £1.63 million against a profit of £5.80 million in the comparable period in 2012 and £7.46 million at the end of the August 2012. Loss before taxation at the half way stage was £1.91 million (2012: profit £5.57m).

Inventories at 28 February 2013 stood at £5.83 million (2012: HY £6.61m) and at the August 2012 year end £7.36m (2011 year end: £11.56 million). We do not anticipate any further exceptional stock write-down provisions during the second half.

Basic loss per share equated to 6.59 pence, compared to earnings per share of 19.34 pence for the previous half-year period and 25.58 pence for the year ended August 2012.

Share buy-backs

During the first six months, the Company continued its share buy-back programme and re-purchased 411,500 ordinary shares of 5 pence each ("Ordinary Shares") at a cost of approximately £0.51 million (2012: £2.33 million), excluding stamp duty and dealing costs. As at today's date, the Company's issued share capital is 22,599,078 Ordinary Shares (excluding 4,019,456 Ordinary Shares held in treasury).

The Company has an unutilised capacity to buy-back up to a further 5,648,000 Ordinary Shares under the authority granted to it at the Annual General Meeting on 29 January 2013. As previously indicated, the Directors could be prepared to participate in any future share buy-back programme the Company proposes.

Dividend

The Company will pay a maintained interim dividend of 3.30 pence per share (2012: 3.30 pence). This will be paid on 26 July 2013 to shareholders on the Register as at the close of business on 5 July 2013. The shares will be marked ex-dividend on 3 July 2013.

People

On behalf of the Board and stakeholders, once again, I would like to take this opportunity to acknowledge the hard work and commitment of all of our employees, both in the Far East and the UK, who despite the market forces continue to work together to enhance the Group's reputation with both our suppliers and customers.

Product Portfolio and this season's new lines

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

Looking at the key products in Character's portfolio: within the UK, Pre-school ranges remain very popular, with *Peppa Pig*, *Fireman Sam*, *Postman Pat*, *Scooby Doo* and *Doctor Who* continuing to play an important role. We are at last beginning to gain real sales traction in our overseas trading with *Peppa Pig*, *Fireman Sam*, *Doctor Who*, *Character Building*, *Scooby Doo*, *Let's Cook* and *Construct-a Bugz* all contributing.

The unveiling of our new season's product ranges to our UK and international customer base at the 2013 International Toy Fairs in London and the Far East went well and we have been greatly encouraged by the reception and feedback to our total portfolio, across the various categories. We are especially pleased with the level of support for both our existing and new products for the remainder of 2013 which will see the introduction of *Teksta*, *The Zelfs*, *Flying Heroes*, *Chill Factor*, and *Lite-Brix* (an exciting addition to our *Character Building* range).

Outlook and current trading

UK retail trading remains difficult; however, we are encouraged by the acceptance from the trade of our new product introductions coming on stream throughout the remainder of both this financial and calendar year. The release and addition of these new and exciting product lines to our portfolio will also help to maintain Character as one of the UK's leading toy companies.

We remain comfortable that forecasted sales are currently on track for the calendar year as a whole. This should not only re-establish the profit margin but also underpin the overall Group's performance and lead us to achieve current market expectations for the financial year ending 31 August 2013.

Richard King
Chairman
1 May 2013

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

CONSOLIDATED INCOME STATEMENT

	Notes	6 months to 28 February 2013 (unaudited) £'000	6 months to 29 February 2012 (unaudited) £'000	12 months to 31 August 2012 (audited) £'000
Continuing operations				
Revenue		30,595	44,254	74,947
Cost of sales		(22,354)	(27,767)	(50,486)
Gross profit		8,241	16,487	24,461
Net operating expenses				
Selling and distribution costs		(4,063)	(3,444)	(4,820)
Administration expenses		(6,324)	(7,569)	(12,920)
Other operating income		514	322	741
Operating (loss)/profit		(1,632)	5,796	7,462
Finance income		–	1	1
Finance costs		(273)	(228)	(380)
(Loss)/profit before taxation		(1,905)	5,569	7,083
Taxation		435	(1,176)	(1,333)
(Loss)/profit for the period attributable to equity holders of the parent		(1,470)	4,393	5,750
(Loss)/earnings per share (pence)				
Basic	4	(6.59p)	19.34p	25.58p
Fully diluted	4	(6.59p)	17.37p	22.99p
Dividend per share (pence)	3	3.3p	3.0p	6.3p
EBITDA (earnings before interest, tax, depreciation and amortisation)		466	8,032	11,272

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Notes	6 months to 28 February 2013 (unaudited) £'000	6 months to 29 February 2012 (unaudited) £'000	12 months to 31 August 2012 (audited) £'000
(Loss)/profit for the period after tax		(1,470)	4,393	5,750
Net exchange differences on translation of foreign operations recognised in equity		(44)	(74)	(105)
Reclassification of currency translation reserves on discontinued operations		525	–	–
Total comprehensive (loss)/income for the period attributable to equity holders of the parent		(989)	4,319	5,645

CONSOLIDATED BALANCE SHEET

	Note	at 28 February 2013 (unaudited) £'000	at 29 February 2012 (unaudited) £'000	at 31 August 2012 (audited) £'000
Non – current assets				
Intangible assets – product development		705	1,159	1,335
Investment property		2,074	2,139	2,107
Property, plant and equipment		3,762	3,939	3,870
Deferred tax assets		484	29	210
		7,025	7,266	7,522
Current assets				
Inventories		5,832	6,614	7,356
Trade and other receivables		7,999	7,726	17,105
Current income tax receivable		639	–	222
Derivative financial instruments		272	156	445
Cash and cash equivalents		3,340	4,270	5,908
		18,082	18,766	31,036
Current liabilities				
Short term borrowings		(9,619)	(7,272)	(13,804)
Trade and other payables		(7,395)	(8,131)	(13,389)
Income tax payable		(60)	(1,085)	(740)
Derivative financial instruments		(153)	(236)	(235)
		(17,227)	(16,724)	(28,168)
Net current assets		855	2,042	2,868
Non – current liabilities				
Deferred tax		(189)	(114)	(409)
Net assets		7,691	9,194	9,981
Equity				
Share capital		1,331	1,323	1,331
Shares held in treasury		(3,373)	(3,373)	(3,373)
Investment in own shares		(908)	(908)	(908)
Capital redemption reserve		1,480	1,452	1,459
Share based payment reserve		2,139	1,627	1,892
Share premium account		13,540	13,218	13,332
Merger reserve		651	651	651
Translation reserve		1,335	1,901	1,880
Profit and loss account		(8,504)	(6,697)	(6,283)
Total equity		7,691	9,194	9,981

CONSOLIDATED STATEMENT OF CASH FLOWS

	Notes	6 months to 28 February 2013 (unaudited) £'000	6 months to 29 February 2012 (unaudited) £'000	12 months to 31 August 2012 (audited) £'000
Cash flow from operating activities				
(Loss)/profit before taxation for the period		(1,905)	5,569	7,083
Adjustments for:				
Depreciation of property, plant and equipment		207	199	413
Depreciation of investment property		33	33	65
Amortisation of intangible assets		1,858	2,004	3,332
(Profit) on disposal of property, plant and equipment		(6)	–	(4)
Interest expense		273	227	379
Financial instruments fair value adjustments		91	(1,163)	(1,453)
Share based payments		247	277	542
Decrease in inventories		1,524	4,949	4,207
Decrease in trade and other receivables		9,106	9,380	1
Decrease in trade and other creditors		(5,994)	(12,398)	(7,140)
Cash generated from operations		5,434	9,077	7,425
Interest paid		(273)	(227)	(379)
Income tax paid		(1,156)	(2,102)	(2,709)
Net cash inflow from operating activities		4,005	6,748	4,337
Cash flows from investing activities				
Payments for intangible assets		(1,227)	(1,532)	(3,037)
Payments for property, plant and equipment		(102)	(291)	(433)
Proceeds from disposal of property, plant and equipment		–	–	4
Proceeds from disposal of assets		12	–	–
Net cash outflow from investing activities		(1,317)	(1,823)	(3,466)
Cash flows from financing activities				
Proceeds from issue of share capital		229	60	189
Purchase of own shares for cancellation		(518)	(2,349)	(2,542)
Dividends paid		(734)	(679)	(1,419)
Net cash used in financing activities		(1,023)	(2,968)	(3,772)
Net increase/(decrease) in cash and cash equivalents		1,665	1,957	(2,901)
Cash, cash equivalents at the beginning of the period		(7,896)	(4,868)	(4,868)
Effects of exchange rate movements		(48)	(91)	(127)
Cash, cash equivalents and borrowing at the end of the period		(6,279)	(3,002)	(7,896)

Cash, cash equivalents and borrowings consist of:

Cash and cash equivalents	3,340	4,270	5,908
Short term borrowings	(9,619)	(7,272)	(13,804)
	(6,279)	(3,002)	(7,896)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Called up share capital £000	Investment in own shares £000	Treasury Shares £000	Capital redemption reserve £000	Share premium account £000	Merger reserve £000	Share Based Payment £000	Translation reserve £000	Profit and loss account £000	Total £000
Balance as at 1 September 2011 (unaudited)	**1,390**	**(908)**	**(3,373)**	**1,380**	**13,163**	**651**	**1,350**	**1,934**	**(8,021)**	**7,566**
Profit for the period	–	–	–	–	–	–	–	–	4,393	4,393
Translation reserve movement	–	–	–	–	–	–	–	(33)	(41)	(74)
Total comprehensive income/(expense) for the period	–	–	–	–	–	–	–	(33)	4,352	4,319
Transactions with owners										
Dividend paid	–	–	–	–	–	–	–	–	(679)	(679)
Share based payment	–	–	–	–	–	–	277	–	–	277
Shares issued	5	–	–	–	55	–	–	–	–	60
Shares cancelled	(72)	–	–	72	–	–	–	–	(2,349)	(2,349)
Six months ended 29 February 2012	**1,323**	**(908)**	**(3,373)**	**1,452**	**13,218**	**651**	**1,627**	**1,901**	**(6,697)**	**9,194**
Balance as at 1 September 2011 (audited)	**1,390**	**(908)**	**(3,373)**	**1,380**	**13,163**	**651**	**1,350**	**1,934**	**(8,021)**	**7,566**
Profit for the year after tax	–	–	–	–	–	–	–	–	5,750	5,750
Net exchange differences on translating foreign operations	–	–	–	–	–	–	–	(54)	(51)	(105)
Total comprehensive income/(expense) for the year	–	–	–	–	–	–	–	(54)	5,699	5,645
Transactions with owners										
Dividends	–	–	–	–	–	–	–	–	(1,419)	(1,419)
Share based payment	–	–	–	–	–	–	542	–	–	542
Shares issued	20	–	–	–	169	–	–	–	–	189
Shares cancelled	(79)	–	–	79	–	–	–	–	(2,542)	(2,542)
Year ended 31 August 2012	**1,331**	**(908)**	**(3,373)**	**1,459**	**13,332**	**651**	**1,892**	**1,880**	**(6,283)**	**9,981**
Balance as at 1 September 2012 (unaudited)	**1,331**	**(908)**	**(3,373)**	**1,459**	**13,332**	**651**	**1,892**	**1,880**	**(6,283)**	**9,981**
Loss for the period	–	–	–	–	–	–	–	–	(1,470)	(1,470)
Reclassification of translation reserves	–	–	–	–	–	–	–	(525)	525	–
Translation reserve movement	–	–	–	–	–	–	–	(20)	(24)	(44)
Total comprehensive expense for the period	–	–	–	–	–	–	–	(545)	(969)	(1,514)
Transactions with owners										
Dividend paid	–	–	–	–	–	–	–	–	(734)	(734)
Share based payment	–	–	–	–	–	–	247	–	–	247
Shares issued	21	–	–	–	208	–	–	–	–	229
Shares cancelled	(21)	–	–	21	–	–	–	–	(518)	(518)
Six months ended 28 February 2013	**1,331**	**(908)**	**(3,373)**	**1,480**	**13,540**	**651**	**2,139**	**1,335**	**(8,504)**	**7,691**

1 BASIS OF PREPARATION

The financial information set out in this interim statement has been prepared under International Financial Reporting Standards (IFRS) as adopted by the European Union and in accordance with the accounting policies which will be adopted in presenting the Group's annual report and financial statements for the year ending 31 August 2013. These are consistent with the accounting policies used in the financial statements for the year ended 31 August 2012 as described in those annual financial statements.

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

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

These interim financial statements and the financial information for the six months ended 28 February 2013 do not constitute full statutory accounts within the meaning of section 434 of the Companies Act 2006 and are unaudited. These unaudited interim financial statements were approved by the Board of Directors on 1 May 2013.

The information for the year ended 31 August 2012 is based on the consolidated financial statements for that year on which the Group's auditor's report was unqualified and did not contain a statement under section 498 (2) or (3) of the Companies Act 2006.

2 GOING CONCERN

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

3 DIVIDENDS

	For the six months ended 28 February 2013 (unaudited) £000	**For the six months ended 29 February 2012 (unaudited) £000**	**For the year ended 31 August 2012 (audited) £000**
Final dividend for year ended 31 August 2012 – 3.3 pence per share	**734**	679	680
Interim	**–**	–	739
	734	679	1,419

4 EARNINGS PER SHARE

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

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

The calculations are based on the following:

	For the six months ended 28 February 2013 (unaudited) £000	**For the six months ended 29 February 2012 (unaudited) £000**	**For the year ended 31 August 2012 (audited) £000**
(Loss)/profit attributable to equity shareholders of the parent	**(1,470)**	4,393	5,750
Weighted average number of shares			
In issue during the year – basic	**22,302,695**	22,719,993	22,478,751
Dilutive potential ordinary shares	**2,064,248**	2,563,476	2,532,881
Weighted average number of ordinary shares for diluted earnings per share *1	**22,302,695**	25,283,469	25,011,632

Basic (loss)/earnings per share (pence)	**(6.59)**	19.34	25.58
Diluted (loss)/earnings per share (pence)	**(6.59)**	17.37	22.99

*1 The weighted average number of shares used in the calculation of the diluted loss per share for the six months ended 28 February 2013 is the same as that in respect of the basic loss per share calculation as the effect of exercising options would be to reduce the loss per share and is therefore not dilutive under the terms of IAS 33.

INDEPENDENT REVIEW REPORT TO THE CHARACTER GROUP PLC

Introduction

We have been engaged by the Company to review the condensed set of financial statements in the half-yearly financial report for the six months ended 28 February 2013, which comprises the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, the Consolidated Balance Sheet, the Consolidated Statement of Cash Flows, the Consolidated Statement of Changes in Equity and related notes 1 to 4. We have read the other information contained in the half-yearly financial report which comprises only the Chairman's letter and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

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

Directors' responsibilities

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

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

Our Responsibility

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

Scope of Review

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

Review conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly report for the six months ended 28 February 2013 is not prepared, in all material respects, in accordance with the AIM rules of the London Stock Exchange.

MHA MacIntyre Hudson
Statutory Auditors and Chartered Accountants
New Bridge Street House
30-34 New Bridge Street
London
EC4V 6BJ

1 May 2013