the
CHARACTER
group plc

Annual Report and Accounts

For the year ended 31 August 2015

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

DIRECTORS AND ADVISERS

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

Secretary
M T Dowding

Company registration number
3033333

Registered office
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London EC1Y 4UQ

Solicitors
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Auditors
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London EC4M 9AF

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London EC3A 6AB

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Standard Chartered Bank

Registrars
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STRATEGIC REPORT AND CHAIRMAN'S STATEMENT

Strategic Report

A fair review of the Group during the financial year, a description of the principal risks and uncertainties facing the Group, the development and performance of the Group during the financial year, the Group's position at the financial year end and an analysis of the Group's key performance indicators can be found in the Chairman's Statement on pages 2 to 4 and the Director's Report and Business Review on pages 6 and 7.

Chairman's Statement

Introduction

It is exceptionally pleasing to be able to report a record profit before tax of £12.27 million, up 73%, compared to £7.11m for the previous year on revenues of £99.05 million (2014: £97.89m). Our domestic market has traded ahead of expectations whilst international sales were hampered by currency and the generally difficult economic climate. Going forward with a strengthened offering, we expect our international trade to return to its recent pattern of growth. Our strong balance sheet and cash flow help us maintain our ability to continue leveraging our broad and, for the most part, proven product portfolio, which will enable us to remain one of the UK's leading toy companies.

Our Brands and New Additions

Our product line-up includes well established and longstanding ranges which are refreshed each year and enhanced by the introduction of new and innovative products as they become available. Our most important brands during the year included ***Peppa Pig, Minecraft, Fireman Sam, Teksta, Little Live Pets, Scooby Doo, Doctor Who*** and our **Activity ranges.**

As previously stated, Character Options Limited ('Character Options'), our UK trading subsidiary, has been appointed the global master toy partner for ***Teletubbies***, a former firm favourite with children and parents alike. Our new line of toy products featuring these characters will be launched and marketed in early 2016. The launch of the new Teletubbies TV series on CBBC last month has generated great interest to date in the UK which is expected to continue to grow. We are also especially excited by the reaction from overseas customers and the potential growth opportunities that this licence, together with our other evergreen product line-up, affords us.

Key Performance Indicators for The Year Ended 31 August 2015

As stated above, net profit before tax on continuing operations was £12.27 million (2014: £7.11m). Group revenue in the year was £99.05 million compared to £97.89m for the last financial year.

Gross profit increased from £29.14m in 2014 to £36.66 million in the 2015 financial year, with gross profit margins increasing to 37% (2014: 29.8%).

A significant proportion of the Group's purchases are made in US dollars. The Group 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. This has resulted in a related credit to the income statement of £2.05 million (2014: charge of £1.93 m). The profit before tax of £12.27 million is stated after crediting £2.05 million in relation to this 'mark to market' valuation and is a contributory factor behind the increase in gross profit margin in the current financial year. This credit is a non-cash item in these financial statements.

Administration costs increased in the year from £15.27 million to £17.75 million, largely through an uplift in staff costs, including those arising from exercise of share options. Interest charges for the year ended 31 August 2015 were £0.27 million (2014: £0.36m).

The Group tax charge for the year was £2.03 million (2014: £1.16m); further details are provided in notes 6 and 7 on pages 33 and 34.

Net profit after tax for the year ended 31 August 2015 was £10.24 million (2014: £5.95m).

Basing earnings per share were 48.56 pence per share for the year ended 31 August 2015 compared to 27.66p in the year ended 31 August 2014. Diluted earnings per share for the year ended 31 August 2015 were 45.73 pence per share (2014: 25.18 pence per share).

Inventories remained broadly constant at £8.97 million compared to £8.85m at the end of the previous financial year. Cash and cash equivalents at 31 August 2015 were £25.78 million (2014: £17.70m). At the same date, short-term borrowings were reduced to £21.25 million (2014: £22.22m). The Company has no long term borrowings. Net current assets increased to £8.05 million (2014: £3.58m). The Group maintains substantial headroom within its working capital facilities.

STRATEGIC REPORT AND CHAIRMAN'S STATEMENT
CONTINUED

Dividend
Following on from the very good result for the year, the Board is recommending an increased final dividend of 6.00 pence per share. Payment of the final dividend is subject to approval by shareholders at the Annual General Meeting ("AGM") on 22 January 2016.

This, together with the interim dividend of 5.00 pence per share paid on 26 June 2015, would make a total of 11.00 pence per share, an increase of 51.72%. This is covered 4.4 times by annual earnings.

The final dividend will be paid on 29 January 2016 to shareholders on the Register as at the close of business on 8 January 2016; the shares will be marked ex-dividend on 7 January 2016.

Share Buy-Back Programme
It remains part of the Group's overall strategy to continue to repurchase the Company's own shares when appropriate. As previously indicated, the Directors could also be prepared to participate in any future share buy-back programme the Company proposes.

It is recognised however that the conditions of the authority granted at the last AGM do not follow current 'Best Practice'. As a consequence, the Board has decided that the proposal regarding the renewal to be put forward this year will follow best practice for smaller companies in that the total authority will be for a maximum of 15% of the issued capital and the price at which purchases may be made will be limited to a maximum of 10% above market price. The Directors would apply this best practice on pricing should they decide to make any share buy-backs prior to the 2016 AGM.

In the period under review, the Company acquired a total of 2,336,330 ordinary shares in the Company at an aggregate cost of £6.07 million (excluding stamp duty and dealing costs), with the average cost being £2.60 per ordinary share (2014: 2,148,002 ordinary shares at an aggregate cost of £3,928,336 and an average cost of £1.83 per ordinary share).

As at today's date, the Company has 21,608,490 ordinary shares in issue (excluding shares held in treasury). The Company holds 3,269,456 ordinary shares in treasury, representing approximately 15.13% of the issued voting share capital; these treasury shares do not carry voting or dividend rights.

People
The Board takes this opportunity to thank colleagues around the business for their continuous hard work, dedication and loyalty, which underpins both the high level customer relationships and the Group's overall performance.

It was with great sadness that, in July 2015 we announced the untimely passing of our longstanding Non-Executive Director, Lord (Mark) Birdwood. He joined us in 1995 and he was regarded a friend and a respected and valuable member of the Character Board. Over the last 20 years we have been able to access his knowledge and commercial skills which assisted in Character's overall development.

Awards
It is highly gratifying for everyone at Character to once again be recognised by those we respect and also compete within our market sector. We also acknowledge that a considerable part of our success is down to the partnerships which the Character team have forged with our suppliers over many years.

Character Options, was recognised by the industry and its peers, scooping the coveted "*Toy Supplier of the Year*" at the Toy Industry Awards last January. Added to this was a triple celebration as it also received product awards for ranges in three categories: *Gaming Toy* – ***Minecraft*** developed by Jazzwares: *Interactive Toy* – ***Little Live Pets*** developed by Moose Enterprise and a joint winner in the "*Craze of the Year*" category for the ***Cra-Z-loom Bracelet Maker,*** (loom bands) developed by CRA-Z-ART (from the ***Shimmer 'n Sparkle*** collection). Additionally, we received prestigious supplier serviceability awards from both Argos and Tesco – all memorable achievements.

Strategy, Current Trading & Outlook
Our strategic focus remains unchanged, that is "*to seek out and develop exciting products which meet domestic and international market demand*". Our portfolio will continue to be derived from both our own-developed in-house ranges, including those produced 'under licence', and others sourced through exclusive distribution agreements.

STRATEGIC REPORT AND CHAIRMAN'S STATEMENT
CONTINUED

Strategy, Current Trading & Outlook *continued*

The Character Group is very fortunate at this time to have both strength and depth across its brands. Our diverse product portfolio which we market at "*great price points* and "*value for money*" is expected to continue providing a solid platform for ongoing growth. Our management teams remain optimistic about the prospects of the Group as a whole and we are looking forward to unveiling our ranges for the new season at the London Toy Fair at Olympia in January 2016.

The profit before tax in 2015 is ahead of results previously anticipated and we are pleased to report that current trading remains encouraging and in line with management expectations.

Our new ranges coming to market over the next calendar year are very exciting and already receiving great reviews from both our customers and the trade media. On this basis, we are confident that the cornerstone brands and the new season's ranges will deliver in terms of demand and sales at consumer level across both our UK and international markets.

At this stage we believe that our underlying performance should be able to deliver another year of solid progress. We look forward to updating shareholders further on our progress at the time of our AGM in January.

Richard King

Chairman

1 December 2015

DIRECTORS' BIOGRAPHIES

Richard King (aged 70), Executive Chairman, has extensive experience in the toy industry and has been involved in importing consumer products from the Far East since 1969. He established the original business of The Character Group plc jointly with Mr Kissane and Mr Shah in 1991 and works in close association with the management to develop and implement Group strategies.

Kiran Shah (aged 61), Group Finance Director and Joint Managing Director, 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.

Jon Diver (aged 51), Group Marketing Director and Joint Managing Director, joined the Group in September 1991 from Rainbow Toys Limited, where he was Senior Marketing Executive. He became Group Marketing Director in August 1994 and has developed close working relationships with the Group's suppliers. He has played a key role in product development and the development and implementation of the Group's marketing strategy.

Joe Kissane (aged 63), Managing Director of Character Options Limited, has considerable sales expertise both at retail and supplier base in and outside the toy industry, gained over a period of over 35 years, notably with such companies as Nabisco, Lego and Tonka. He is one of the founders of the Group.

Michael Hyde (aged 41), Managing Director of Far East Operations, has been in charge of the Group's Far East operations since joining the Company in 2005. Prior to joining Character, Michael spent six 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 attained a Bachelor of Arts (BA) in Mandarin Chinese from Brigham Young University, Utah and a Master of Business Administration (MBA) from Loyola Marymount University, California.

David Harris (aged 65), Non-Executive Director, was appointed to the Board in May 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.

DIRECTORS' REPORT

The directors present their report together with the financial statements for the year ended 31 August 2015.

Business Review

Principal activity

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

Results

A review of the business is contained in the Chairman's Statement on pages 2 to 4 and the results are detailed in the consolidated income statement on page 17, the consolidated statement of comprehensive income on page 18, the consolidated balance sheet on page 19, the consolidated statement of cash flows on page 20 and the consolidated statement of changes in equity on page 21. There was a profit for the year, after taxation, amounting to £10,239,000 (2014: £5,945,000).

Dividend

The directors recommend a final dividend of 6.00 pence per share (2014: 3.95 pence) making a total dividend for the year of 11.00 pence per ordinary share (2014: 7.25 pence). If approved, the final dividend will be paid on 29 January 2016, to shareholders on the register on 8 January 2016.

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 2015, trade creditors of the Group represented an average of 67 (2014: 85) days credit in relation to total purchases for the year.

Key performance indicators (KPIs)

The directors are of the opinion that the relevant KPIs for an assessment and measurement of the Group's performance and financial position are revenues, gross margins, operating profit, earnings per share and cash generation, the information for which is available in the accompanying financial statements. The Group maintains a robust planning system; actual progress against plans is monitored on a regular basis.

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 Group's financial instruments are foreign currency risk, credit risk, concentration risk, interest rate and liquidity risk.

The Board reviews and agrees policies for managing each of these risks. A summary of these risks is disclosed in note 21 to the Group financial statements.

Governance

Directors

The following directors served during the year:

- Richard King (Executive Chairman)
- Kirankumar Premchand Shah FCCA (Group Finance Director and Joint Managing Director)
- Jonathan James Diver (Group Marketing Director and Joint Managing Director)
- Joseph John Patrick Kissane (Managing Director, Character Options Limited)
- Michael Spencer Hyde (Managing Director, Far East Operations)
- Lord Birdwood (Independent Non-Executive Director, served until his death on 11 July 2015)
- David Harris (Senior Independent Non-Executive Director)

Biographies of the directors are set out on page 5.

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 2015 and 30 November 2015 (being the business day prior to the date of this report) were as follows:

Directors	As at 30 November 2015 Number of Ordinary Shares	As at 30 November 2015 Ordinary Shares Under option	As at 31 August 2015 Number of Ordinary Shares	As at 31 August 2015 Ordinary Shares under option	As at 31 August 2014 Number of Ordinary Shares	As at 31 August 2014 Ordinary Shares under option
R King	**336,286**	**-**	**2,418,210**	**-**	2,418,210	362,999
K P Shah	**2,287,001**	**-**	**4,117,001**	**-**	3,995,001	362,999
J J Diver	**1,356,003**	**47,000**	**1,206,003**	**797,000**	1,026,003	1,280,000
J J P Kissane	**500,000**	**-**	**500,000**	**-**	500,000	530,000
M S Hyde	**209,681**	**100,000**	**209,681**	**100,000**	172,000	-
D Harris	**44,097**	**-**	**44,097**	**-**	44,097	-

Included in the interests of R King are his interests in Ordinary Shares held by TOPS Pension Scheme being 176,120 Ordinary Shares at 30 November 2015 and 31 August 2015 and nil at 31 August 2014. There is also included in the interests of R King his interests in Ordinary Shares held by Cedarberg Investments Limited, being nil at 30 November 2015 and 31 August 2015 and 1,635,428 Ordinary Shares at 31 August 2014.

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 30 November 2015, and 3,830,000 Ordinary Shares at 31 August 2015 and 31 August 2014.

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 30 November 2015, 31 August 2015, and 31 August 2014.

Further, Orbis Pension Trustees Limited, the trustee of the Company's employee share ownership trust ("the Trust"), held nil Ordinary Shares at 30 November 2015 and 31 August 2015 and 285,000 Ordinary Shares at 31 August 2014. Each of R King, K P Shah, J J P Kissane, J J Diver and M S Hyde is deemed to be interested in such holding by virtue of being within the class of beneficiaries defined by the Trust.

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.

Substantial shareholders other than directors

At 1 December 2015, the following, other than the directors and their related interests, had notified the Company of an interest in 3% or more of the Company's issued Ordinary Shares:

Name	Number of Ordinary Shares	Shareholding % (excluding Ordinary Shares held in treasury)
Ruffer LLP	1,420,000	6.57%
GLG Partners LP	1,354,422	6.27%
Sweet Briar Investments Limited	1,275,000	5.94%

Changes in share capital

During the year, the Company repurchased for cancellation 2,336,330 Ordinary Shares, which represents 11.20% of the issued share capital at 31 August 2015, excluding shares held in Treasury. 1,912,130 Ordinary Shares were issued during the year to employees exercising their share options. Details are given in note 24 to the Group financial statements.

Share option schemes

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

Charitable and political donations

Payments to health and children's charities, and community support amounted to £28,524 (2014: £28,640). There were no political contributions in either year.

Annual General Meeting

Notice convening an Annual General Meeting of the Company is set out on pages 60 to 62 of this document. Full details of the business to be transacted at that meeting are set out in that notice.

The business of the meeting will include special business, proposing the consideration of resolutions to:

- renew the directors' general authority to allot unissued shares in the capital of the Company and to grant rights to subscribe for or to convert any security into shares in the Company up to an aggregate nominal amount of £347,600 (6,952,000 Ordinary Shares). This authority, which replaces the existing authority to allot relevant securities granted at the annual general meeting held in January 2015, will expire on whichever is the earlier of the conclusion of the annual general meeting of the Company to be held in 2017 or the date falling 15 months following the passing of this resolution. The directors have no present intention of exercising this authority, which represents approximately 33.3% of the issued share capital of the Company at 31 August 2015, excluding shares held in treasury;
- authorise the Company to make purchases of the Company's issued Ordinary Shares in the market for cancellation, or to be held in treasury up to a maximum of 3,128,700 Ordinary Shares, representing approximately 15% of the issued share capital of the Company at 31 August 2015 (excluding shares held in treasury). The price at which an Ordinary Share in the Company may be purchased in exercise of this authority is subject to a maximum price of 110% of the average middle market values of an issued share in the Company in the five business days prior to purchase and a minimum of 5 pence, being the nominal value of an issued share in the Company. The directors intend to exercise this authority if and when to do so will, in the opinion of the directors, enhance shareholder value. If all options granted by the Company (pursuant to the Group's share option schemes particularised in note 24 to the Group Financial Statements) and subsisting as at 30 November 2015 (being the business day prior to the date of this report) were exercised a total of 885,385 of new Ordinary Shares would be allotted, representing approximately 3.76% of the enlarged issue share capital of the Company following such exercise (excluding shares held in treasury). If the authority proposed for the buy-back of shares by the Company was to be exercised in full, then the number of shares to be issued on exercise of the said options would constitute approximately 4.33% of the issued share capital as enlarged by such allotments and issue of shares (excluding shares held in treasury);
- approve a disapplication of shareholder pre-emption rights to enable the issue of equity securities in connection with any rights issue and/or an offer of issued shares held in treasury by way of rights made by the Company, with 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 these pre-emption rights applying in relation to:
  - (i) the allotment for cash of up to an aggregate nominal amount of £104,290 (2,085,800 Ordinary Shares), representing approximately 10% of the nominal value of the issued ordinary share capital of the Company as at 31 August 2015 (excluding shares held in treasury);
  - (ii) the sale of all or any of the 3,269,456 Ordinary Shares in the capital of the Company held in treasury as at 30 November 2015.

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.

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 currently one non-executive director, as detailed on page 5. Mr Harris is now the sole non-executive director, since the death of Lord Birdwood on 11 July 2015. A search is being conducted for an additional non-executive director. 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:

	Attendance
R King	5
K P Shah	5
J J Diver	5
J J P Kissane	5
M S Hyde	5
Lord Birdwood	4
D Harris	5

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.

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 Chairman and implemented in collaboration with the Committee Chairmen. The 2015 Board evaluation was conducted by way of a discussion between the Chairman and each of the directors. The non-executive directors met separately during the year to review the Chairman's performance and provide feedback to him. Following formal performance evaluation, the Chairman confirms that the performance of the non-executive director continues to be effective and demonstrates commitment to the role.

Audit Committee

D Harris (Chairman) and Lord Birdwood (who served until his death on 11 July 2015)

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) and Lord Birdwood (who served until his death on 11 July 2015)
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 13. During the year, one meeting was held, which was attended by all members.

Nominations Committee

R King (Chairman), D Harris and Lord Birdwood (who served until his death on 11 July 2015)
The Nominations Committee is responsible for considering and recommending to the Board changes in the Board's composition and membership. One meeting was 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.

Going Concern

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

By Order of the Board

M T Dowding
Secretary

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

Registered number 3033333
1 December 2015

DIRECTORS' REMUNERATION REPORT

The Board presents the Remuneration Report for the year ended 31 August 2015.

The Remuneration Committee

The Remuneration Committee consisted of the independent non-executive directors: D Harris (Chairman) and Lord Birdwood (who served until his death on 11 July 2015).

Remuneration of Directors

Each executive director is paid a basic salary and is entitled to benefits, namely payments of pension contributions to a suitable scheme of his choice, the option of the use of a company car, fuel and/or mileage allowance and participation in a private health care scheme. Where a director 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. All executive directors are entitled to participate in the 2006 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. Each non-executive director is entitled to fees, currently at the rate of £25,000 per annum (2014: £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

David Harris
Chairman, Remuneration Committee
1 December 2015

DIRECTORS' STATEMENT OF RESPONSIBILITIES IN RELATION TO THE GROUP FINANCIAL STATEMENTS AND THE ANNUAL REPORT

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors are required to prepare the Group 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 Company and of the Group and the financial performance and cash flows of the Group for that year. In preparing these financial statements, the directors are required to:

- select suitable accounting policies in accordance with IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors" and then apply them consistently;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements of IFRS is insufficient to enable users to understand the impact of particular transactions, or other events and conditions of the Group's financial position and financial performance;
- state that the Group has complied with IFRS, subject to any material departures disclosed and explained in the financial statements; and
- make judgements and accounting estimates that are reasonable and prudent.

The directors are responsible for keeping adequate accounting records which disclose, with reasonable accuracy at any time, the financial position of the Company and to enable them to ensure that the financial statements comply with the requirements of the Companies Act 2006. They are also responsible for safeguarding the assets of 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.

The directors confirm that they have complied with the above requirements in preparing the financial statements.

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

We have audited the consolidated financial statements of The Character Group plc for the year ended 31 August 2015, which comprise 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 the related notes 1 to 30. 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.

Respective responsibilities of directors and auditors

As explained more fully in the Statement of Directors' Responsibilities in relation to the Group Financial Statements and the Annual Report, the directors are responsible for the preparation of the consolidated financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the consolidated financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements. and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the consolidated financial statements:

- give a true and fair view of the state of the Group's affairs as at 31 August 2015 and of its profit for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Strategic Report and the Directors' Report for the financial year for which the consolidated financial statements are prepared is consistent with the consolidated financial statements.

Matters on which we are required to report by exception

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

- 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; or
- adequate accounting records have not been kept by the Group, or returns adequate for our audit have not been received from branches visited by us; or
- the consolidated financial statements are not in agreement with the accounting records and returns.

Other matter

We have reported separately on pages 49 and 50 on the parent company financial statements of The Character Group plc for the year ended 31 August 2015.

John Burwood FCA, (Senior Statutory Auditor)
For and on behalf of MHA MacIntyre Hudson
Statutory Auditors and Chartered Accountants
New Bridge Street House
30-34 New Bridge Street
London
EC4V 6BJ

18 December 2015

CONSOLIDATED INCOME STATEMENT

for the year ended 31 August 2015

	Note	**Total 2015 £000's**	Total 2014 £000's
Continuing operations			
Revenue	2	**99,054**	97,889
Cost of sales		**(62,399)**	(68,752)
Gross profit		**36,655**	29,137
Net operating expenses			
Selling and distribution costs		**(7,310)**	(7,389)
Administration expenses		**(17,753)**	(15,273)
Other operating income		**892**	984
Operating profit	3	**12,484**	7,459
Finance income	5	**14**	8
Finance costs	5	**(230)**	(360)
Profit before income tax		**12,268**	7,107
Taxation	6	**(2,029)**	(1,162)
Profit for the year attributable to equity holders of the parent		**10,239**	5,945
Earnings per share (pence)	8		
Basic		**48.56p**	27.66p
Fully diluted		**45.73p**	25.18p
Dividend per share (pence)	9	**8.95p**	6.6p
EBITDA (earnings before interest, tax, depreciation and amortisation)		**13,934**	9,784

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 August 2015

	Note	**Total 2015 £000's**	Total 2014 £000's
Profit for the year after tax		**10,239**	5,945
Items that will not be reclassified subsequently to profit and loss			
Current tax credit relating to exercised share options	6	**582**	-
Deferred tax credit relating to share options	7	**674**	-
		1,256	-
Items that may be reclassified subsequently to profit and loss			
Exchange differences on translation of foreign operations		**(251)**	(80)
Income tax on exchange differences	6	**24**	17
		(227)	(63)
Total comprehensive income for the year attributable to the equity holders of the parent		**11,268**	5,882

CONSOLIDATED BALANCE SHEET

as at 31 August 2015

	Note	2015 £000's	2014 £000's
Non – current assets			
Intangible assets – product development	10	**837**	238
Investment property	11	**1,911**	1,976
Property, plant and equipment	12	**3,551**	3,623
Deferred tax assets	7	**1,058**	571
		7,357	6,408
Current assets			
Inventories	13	**8,965**	8,854
Trade and other receivables	14	**15,535**	23,417
Current income tax receivable	15	**22**	16
Derivative financial instruments	16	**234**	144
Cash and cash equivalents	17	**25,781**	17,702
		50,537	50,133
Current liabilities			
Short term borrowings	18	**(21,246)**	(22,217)
Trade and other payables	19	**(19,015)**	(20,545)
Income tax	15	**(1,862)**	(1,463)
Derivative financial instruments	16	**(363)**	(2,324)
		(42,486)	(46,549)
Net current assets		**8,051**	3,584
Non-current liabilities			
Deferred tax	7	**(167)**	(48)
Net assets		**15,241**	9,944
Equity			
Called up share capital	24	**1,244**	1,266
Shares held in treasury	24	**(3,373)**	(3,373)
Investment in own shares	26	**-**	(908)
Capital redemption reserve		**1,704**	1,587
Share based payment reserve		**2,631**	2,487
Share premium account		**14,642**	13,808
Merger reserve		**651**	651
Translation reserve		**1,374**	1,508
Profit and loss account		**(3,632)**	(7,082)
Total equity attributable to equity holders of the parent		**15,241**	9,944

The financial statements on pages 17 to 47 were approved by the Board of Directors on 1 December 2015.

R King
Chairman

K P Shah
Group Finance Director and Joint Managing Director

CONSOLIDATED STATEMENT OF CASH FLOWS

for the year ended 31 August 2015

	Note	12 months to 31 August 2015 £000's	12 months to 31 August 2014 £000's
Cash flow from operating activities			
Profit before taxation for the year		**12,268**	7,107
Adjustments for:			
Depreciation of property, plant and equipment		**425**	413
Depreciation of investment property		**65**	66
Amortisation of intangible assets		**960**	1,846
(Profit) on disposal of property, plant and equipment		**(14)**	(16)
Interest expense		**216**	352
Financial instruments fair value adjustments		**(2,051)**	1,932
Share based payments		**144**	126
(Increase) in inventories		**(111)**	(2,676)
Decrease / (Increase) in trade and other receivables		**7,882**	(4,695)
(Decrease) / Increase in trade and other creditors		**(1,530)**	4,004
Cash generated from operations		**18,254**	8,459
Interest paid		**(216)**	(352)
Income tax (paid) / received		**(725)**	185
Net cash inflow from operating activities		**17,313**	8,292
Cash flows from investing activities			
Payments for intangible assets		**(1,559)**	(1,336)
Payments for property, plant and equipment		**(349)**	(361)
Proceeds from disposal of property, plant and equipment		**14**	17
Net cash outflow from investing activities		**(1,894)**	(1,680)
Cash flows from financing activities			
Proceeds from disposal of investment in own shares		**908**	-
Proceeds from issue of share capital		**929**	153
Purchase of own shares for cancellation		**(6,088)**	(3,955)
Dividends paid		**(1,864)**	(1,392)
Net cash used in financing activities		**(6,115)**	(5,194)
Net increase in cash and cash equivalents		**9,304**	1,418
Cash, cash equivalents and borrowings at the beginning of the year		**(4,515)**	(6,018)
Effects of exchange rate movements		**(254)**	85
Cash, cash equivalents and borrowings at the end of the year		**4,535**	(4,515)

Cash, cash equivalents and borrowings consist of:

Cash and cash equivalents	17	**25,781**	17,702
Short term borrowings	18	**(21,246)**	(22,217)
Cash, cash equivalents and borrowings at the end of the year		**4,535**	(4,515)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31 August 2015

	Note	Called up share capital £000's	Investment in own shares £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 2013		**1,353**	**(908)**	**(3,373)**	**1,480**	**13,675**	**651**	**2,361**	**1,346**	**(7,617)**	**8,968**
Profit for the year after tax		-	-	-	-	-	-	-	-	5,945	5,945
Net exchange differences on translation of foreign operations		-	-	-	-	-	-	-	162	(63)	99
Total comprehensive income for the year		**-**	**-**	**-**	**-**	**-**	**-**	**-**	**162**	**5,882**	**6,044**
Share-based payment	25	-	-	-	-	-	-	126	-	-	126
Dividends	9	-	-	-	-	-	-	-	-	(1,392)	(1,392)
Shares issued	24	20	-	-	-	133	-	-	-	-	153
Shares cancelled	24	(107)	-	-	107	-	-	-	-	(3,955)	(3,955)
At 1 September 2014		**1,266**	**(908)**	**(3,373)**	**1,587**	**13,808**	**651**	**2,487**	**1,508**	**(7,082)**	**9,944**
Profit for the year after tax		-	-	-	-	-	-	-	-	10,239	10,239
Net Exchange differences on translation of foreign operations		-	-	-	-	-	-	-	(134)	(93)	(227)
Deferred tax credit relating to share options	7	-	-	-	-	-	-	-	-	674	674
Current tax credit relating to exercised share options	6	-	-	-	-	-	-	-	-	582	582
Total comprehensive income for the year		**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(134)**	**11,402**	**11,268**
Disposal of Investment in own shares	28	-	908	-	-	-	-	-	-	-	908
Share-based payment	25	-	-	-	-	-	-	144	-	-	144
Dividends	9	-	-	-	-	-	-	-	-	(1,864)	(1,864)
Shares issued	24	95	-	-	-	834	-	-	-	-	929
Shares cancelled	24	(117)	-	-	117	-	-	-	-	(6,088)	(6,088)
At 31 August 2015		**1,244**	**-**	**(3,373)**	**1,704**	**14,642**	**651**	**2,631**	**1,374**	**(3,632)**	**15,241**

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 investment in own shares and shares held in treasury can be found in notes 24 and 26.

NOTES TO THE GROUP 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 Quoted on the AIM Market of the London Stock Exchange.

The Group's principal places of operations are the United Kingdom and the Far East. The principal activities of the Company and its subsidiaries ('the Group') are detailed in the Directors' Report on page 6.

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 2014 but do not currently have a material impact on the Group:

	Effective for annual periods beginning on or after:
IAS 19 Defined Benefit Plans (amendment) – Employee contributions	- 1 July 2014
IAS 27 (revised 2011) Separate Financial Statements	- 1 January 2014
IAS 28 (revised 2011) Associates and Joint Ventures	- 1 January 2014
IAS 32 Offsetting Financial Assets and Financial Liabilities (amendment)	- 1 January 2014
IAS 36 (amendment) Recoverable Amount Disclosures for Non-Financial Assets	- 1 January 2014
IAS 39 (amendment) Novation of Derivatives and Continuation of hedge Accounting	- 1 January 2014
IFRS 10 Consolidated Financial Statements	- 1 January 2014
IFRS 10, IFRS 12 & IAS 27 Investments Entities (amendments)	- 1 January 2014
IFRS 11 Joint Arrangements	- 1 January 2014
IFRS 12 Disclosures of Interests in Other Entities	- 1 January 2014
IFRIC 21 Levies	- 1 January 2014
Annual Improvements to IFRS (2010-12)	- 1 July 2014
Annual Improvements to IFRS (2011-13)	- 1 July 2014

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 2015.

	Effective for annual periods beginning on or after:
IAS 1 (amendment) Disclosure Initiative	- 1 January 2016
IAS 16 & IAS 38 Clarification of Acceptable Methods of Depreciation and Amortisation	- 1 January 2016
IAS 16 & IAS 41 Agriculture: Bearer Plants	- 1 January 2016
IAS 27 (amendment) Equity Method in Separate Financial Statements	- 1 January 2016
IFRS 9 Financial Instruments – Classification and Measurement	- 1 January 2018
IFRS 10, IFRS 12 & IAS 28 Investments Entities (amendments) – Consolidation exception	- 1 January 2016
IFRS 10 & IAS 28 (amendments) – Sale or Contribution of Assets between an Investor And its Associate or Joint Venture	- 1 January 2016
IFRS 11 Joint Arrangements – Accounting for Interests in Joint Operations	- 1 January 2016
IFRS 14 Regulatory Deferral Accounts	- 1 January 2016
IFRS 15 Revenue from Contracts with Customers	- 1 January 2018
Annual Improvements to IFRS (2012-14)	- 1 January 2016

Based on the current business model and accounting policies, the Group does not anticipate a material impact on the consolidated financial statements by the adoption of these standards and interpretations in future periods.

SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards ('IFRS') as adopted by the European Union and are consistent with IFRS as issued by the International Accounting Standards Board and in accordance with the Companies Act 2006.

Basis of preparation

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

Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company (The Character Group plc) and subsidiaries controlled by the Company as at the balance sheet date 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.

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 consolidated 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%

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the first in, first out (FIFO) 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 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 Consolidated Balance sheet. Changes in the fair value of forward foreign exchange contracts and options are recognised through the Consolidated Income Statement within cost of sales. Further details are provided in note 16 and page 38.

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 financial assets and liabilities are a reasonable approximation of their fair values.

Trade receivables
Trade receivables are recognised initially at fair value and subsequently measures 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 cashflows. 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 has a present obligation as a result of a past event and where it is probable that the Group will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The amount recognised as a provision is the best estimate of the consideration required to settle the obligation at the balance sheet date, taking into account the risks and uncertainties surrounding the obligation. If the effect of time value of money is material, the carrying value of the provision is the present value of the consideration.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

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 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 Group issues equity settled awards to certain employees. The fair value of equity settled awards granted after 7 November 2002, and that will vest on or after 1 September 2006, are measured using a binomial valuation model, taking into account the terms and conditions under which the option was granted. Options vest subject to the employee remaining in service during the vesting period and the relevant non-market related performance condition(s) being met. The fair value determined on this basis is expensed on a straight line basis over the vesting period, based upon the Group's estimate of the number of shares that will vest. The estimate of vesting is reviewed annually, with any impact on the cumulative charge being recognised immediately. The charge in respect of share based payments is matched by an equal and opposite adjustment to equity.

Employee benefits

The costs of short-term employee benefits are recognised when an employee has rendered service in exchange for those benefits.

Contributions to the occupational defined contribution pension scheme and personal pension schemes are charged to the income statement as services are rendered by the employees.

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 Consolidated 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 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 enacted 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.

Own shares

Own shares deducted in arriving at total equity represents the cost of the Company's Ordinary Shares acquired by the Company's Employee Share Ownership Trust.

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

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. Allowances reserves 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 16.

Deferred tax assets
The Group reviews 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 forecasts. The Group's deferred income tax assets and liabilities are disclosed in note 7.

Share based payments
The Group has used a binomial valuation model to estimate the fair value of share based payments. The model makes various assumptions on factors outside the Group'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

The Group operates in one business segment – 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 geoprahical perspective based on the location of its operations.

Year Ended 31 August 2015	Other EU £000's	UK £000's	Far East £000's	Unallocated £000's	Total £000's
Revenue - external (by origin)	55	62,488	36,511	–	99,054
Segment adjusted operating profit	6	4,499	7,361	(329)	11,537
Amortisation of intangible assets	–	–	–	–	(960)
Financial instruments fair value adjustments	–	–	–	–	2,051
Share based payments	–	–	–	–	(144)
Operating Profit					12,484
Finance costs					(230)
Finance income					14
Profit before tax					12,268
Taxation					(2,029)
Profit for the year after tax					10,239
Segment assets	212	35,840	15,022	6,820	57,894
Segment liabilities	(1)	(24,273)	(16,834)	(1,545)	(42,653)
Other segment information					
Non-current assets	–	2,136	2,800	1,363	6,299
Capital additions	–	289	60	–	349
Capital disposals	–	(55)	(13)	–	(68)
Depreciation of property, plant and equipment	–	(305)	(61)	(59)	(425)
Depreciation of investment property	–	–	(65)	–	(65)

Analysis of unallocated assets and liabilities:

Assets	Total £000's	Liabilities	Total £000's
Corporate assets	526	Corporate creditors & accruals	(1,015)
Derivative financial instruments	234	Derivative financial instruments	(363)
Deferred tax asset	915	Deferred tax balances	(167)
Corporate cash at bank and in hand	4,112		
Intangible assets – product development	837		
Corporate debtors & prepayments	196		
Unallocated assets	**6,820**	**Unallocated liabilities**	**(1,545)**

Assets and liabilities are net of intercompany balances.
Unallocated items relate geographically to corporate activities in the UK.

2 SEGMENT REPORT CONTINUED

Year Ended 31 August 2014	Other EU £000's	UK £000's	Far East £000's	Unallocated £000's	Total £000's
Revenue - external	541	55,825	41,523	-	97,889
- internal	-	-	17	-	17
Revenue total	541	55,825	41,540	–	97,906
Segment adjusted operating profit	103	2,217	8,792	251	11,363
Amortisation of intangible assets	–	–	–	–	(1,846)
Financial instruments fair value adjustments	–	–	–	–	(1,932)
Share based payments	–	–	–	–	(126)
Operating Profit	–	–	–	–	7,459
Finance costs	–	–	–	–	(360)
Finance income	–	–	–	–	8
Profit before tax					7,107
Taxation					(1,162)
Profit for the year after tax					5,945
Segment assets	232	36,750	15,887	3,672	56,541
Segment liabilities	(9)	(28,574)	(14,947)	(3,067)	(46,597)
Other segment information					
Non-current assets	1	2,151	2,862	823	5,837
Capital additions	–	261	18	82	361
Capital disposals	–	(79)	–	–	(79)
Depreciation of property, plant and equipment	(1)	(294)	(57)	(61)	(413)
Depreciation of investment property	–	–	(66)	–	(66)

Analysis of unallocated assets and liabilities:

Assets	Total £000's	Liabilities	Total £000's
Corporate assets	585	Corporate creditors & accruals	(695)
Derivative financial instruments	144	Derivative financial instruments	(2,324)
Deferred tax asset	437	Deferred tax balances	(48)
Corporate cash at bank and in hand	2,050		
Intangible assets – product development	238		
Corporate debtors & prepayments	218		
Unallocated assets	**3,672**	**Unallocated liabilities**	**(3,067)**

Assets and liabilities are net of intercompany balances.
Unallocated items relate geographically to corporate activities in the UK.

GEOGRAPHICAL DESTINATION OF REVENUE

	31 August 2015 £000's	31 August 2014 £000's
United Kingdom	**77,988**	69,324
Rest of the world	**21,066**	28,565
Total Group	**99,054**	97,889

Revenues of approximately £26,309,000 (2014: £15,199,000) were derived from two (2014: 1) external customers individually representing 10% or more of revenue. These revenues are attributable to both UK & Far East geographic segments.

3 EXPENSES BY NATURE

	Note	**12 months to 31 August 2015 £000's**	12 months to 31 August 2014 £000's
Operating profit is stated after charging/(crediting):			
Changes in inventories of finished goods for resale		**58,666**	59,824
Amortisation of capitalised product development costs		**960**	1,846
(Credit)/charge financial instruments fair value adjustments		**(2,051)**	1,932
Inventories write down charge/(credit)		**449**	(273)
Exchange losses		**77**	41
Staff costs	4	**11,208**	8,716
Depreciation of tangible fixed assets			
— owned assets	12	**425**	413
Depreciation of investment property	11	**65**	66
(Profit) on disposal of property, plant and equipment		**(14)**	(16)
Operating leases — land and buildings		**272**	253
Auditor remuneration		**74**	78

ANALYSIS OF AUDITOR'S REMUNERATION

		12 months to 31 August 2015 £000's	12 months to 31 August 2014 £000's
Group Auditor's remuneration			
	— Statutory audit services current year	**41**	38
	— Taxation compliance and advisory services	**-**	4
Other Auditors' remuneration			
	— The audit of the Group's subsidiaries pursuant to Legislation	**29**	26
	— Taxation compliance and advisory services	**4**	10
Total fees payable to Auditors		**74**	78

4 DIRECTORS AND EMPLOYEES REMUNERATION

STAFF COSTS

	12 months to 31 August 2015 £000's	12 months to 31 August 2014 £000's
Staff costs including directors' emoluments		
Wages and salaries	**9,575**	7,682
Social security costs	**1,233**	684
Pension costs	**256**	224
Share based payments	**144**	126
	11,208	8,716
The average number of employees during the year was:	**Number**	Number
Management and administration	**76**	74
Selling and distribution	**113**	107
	189	181

Of the total average number of employees, 129 (2014: 121) were based in the UK and 60 (2014: 60) in Hong Kong and mainland China.

The amount payable to pension schemes as at the balance sheet date was £8,000 (2014: £22,000).

4 DIRECTORS AND EMPLOYEES REMUNERATION CONTINUED

KEY MANAGEMENT PERSONNEL

Key management comprise the directors of The Character Group plc.

	12 months to 31 August 2015 £000's	12 months to 31 August 2014 £000's
Salaries, short-term benefits and pension contribution	**3,876**	2,760
Share-based payments	**14**	113
	3,890	2,873

ANALYSIS OF DIRECTORS' REMUNERATION

The following table shows a breakdown of the remuneration of the directors for the year ended 31 August 2015 and the year ended 31 August 2014.

Year ended 31 August 2015

	Salary/fees £	**Performance bonus £**	**Benefits in kind £**	**Pension contribution £**	**Total £**
R King	258,164	349,745	11,038	-	618,947
K P Shah	245,916	694,159	5,699	-	945,774
J J Diver	245,916	957,965	10,577	-	1,214,458
J J P Kissane	215,592	509,189	6,287	-	731,068
M S Hyde	202,939	101,470	2,054	9,366	315,829
Lord Birdwood (non-executive)	25,000	-	-	-	25,000
D Harris (non-executive)	25,000	-	-	-	25,000
	1,218,527	2,612,528	35,655	9,366	3,876,076

Year ended 31 August 2014

	Salary/fees £	Performance bonus £	Benefits in kind £	Pension contribution £	Total £
R King	239,438	243,400	10,157	-	492,995
K P Shah	245,916	400,416	5,204	-	651,536
J J Diver	245,916	554,916	11,130	-	811,962
J J P Kissane	215,592	292,592	6,502	-	514,686
M S Hyde	184,578	46,145	64	8,519	239,306
Lord Birdwood (non-executive)	25,000	-	-	-	25,000
D Harris (non-executive)	25,000	-	-	-	25,000
	1,181,440	1,537,469	33,057	8,519	2,760,485

In the year ended 31 August 2015 certain of the directors received remuneration (which is included in the amounts above) through payments by the group to third parties as follows: £582,911 was paid to Bali Hai Consultancies for the services of R King (2014 £334,675); £25,000 was paid to Martlett Limited for the services of Lord Birdwood (2014 £25,000); £25,000 was paid to Inva Trust Consultancy Limited for the services of D Harris (2014 £25,000).

4 DIRECTORS AND EMPLOYEES REMUNERATION CONTINUED
KEY MANAGEMENT PERSONNEL

Directors interests in long term incentive schemes

On 11 May 2006, options were granted at a price of 63 pence per share over 960,000 new Ordinary Shares to the four executive directors. R King and K P Shah were each granted options over 250,000 new Ordinary Shares. J J Diver and J J P Kissane were each granted options over 230,000 new Ordinary Shares. These options were granted pursuant to the 2006 Share Option Plan, which was approved by shareholders on 29 November 2005 and adopted by the Company on 22 February 2006. The options are exercisable at a price of 63 pence per share, normally no earlier than three years and not later than ten years from the date of grant, subject to the achievement of a predetermined profit related performance target, which has been achieved. During the year ended 31 August 2015 R King and KP Shah each respectively exercised options in respect of 203,000 Ordinary Shares and JJ Diver and JJP Kissane each respectively exercised options in respect of 183,000 Ordinary Shares. The share price on the day of exercise was 213.0 pence. JJP Kissane also exercised an option in respect of 47,000 Ordinary Shares. The share price on the date of exercise of these options was 519.17 pence.

On 6 May 2009, options were granted at a price of 35.5 pence over 1,272,000 new Ordinary Shares to the five executive directors. R King, K P Shah, J J Diver and J J P Kissane were each granted options over 300,000 new Ordinary Shares. M S Hyde was granted options over 72,000 new Ordinary Shares. These options were granted variously under the Company's 2003 Enterprise Management Incentive Share Option Scheme and its 2006 Share Option Plan and are normally exercisable no earlier than three years and not later than ten years from the date of grant and potentially vest in three equal tranches, subject to the achievement of predetermined profit related performance targets, which have been satisfied. During the year ended 31 August 2015 R King and KP Shah each respectively exercised options in respect of 159,999 Ordinary Shares and JJ Diver and JJP Kissane each respectively exercised options in respect of 300,000 Ordinary Shares. The share price on the day of exercise was 213.0 pence.

On 2 February 2011, an unapproved, option over a total of 750,000 existing Ordinary Shares held by the Company in treasury was granted to J J Diver, a director of the Company, at an exercise price of 187 pence per share. This option was granted in exercise of the power to sell shares held by the Company as treasury shares granted to the directors (in accordance with section 570 of the Companies Act 2006) at the Annual General Meeting of the Company held on 19 January 2011. The options are exercisable at a price of 187 pence per share no earlier than three years and not later than ten years from the date of grant.

On 25 September 2014 an option over 100,000 existing Ordinary Shares of 5 pence held by the Company in treasury were granted under the 2006 scheme to M S Hyde at an exercise price of 213.00 pence per share.

At 31 August 2015, the mid-market price of an issued Ordinary Share in The Character Group plc was 510.00 pence. During the year the mid-market price ranged from 185.00 pence to 532.50 pence.

5 NET FINANCE COSTS

	12 months to 31 August 2015 £000's	12 months to 31 August 2014 £000's
Finance costs:		
Interest payable on bank overdraft and similar charges	**(206)**	(309)
Factor and invoice discounting advances	**(24)**	(51)
	(230)	(360)
Finance income:		
Interest earned on cash and cash equivalents	**14**	8
Net finance costs	**(216)**	(352)

6 TAXATION

	Note	**12 months to 31 August 2015 £000's**	12 months to 31 August 2014 £000's
UK Corporation Tax			
Tax on profit for the period		**716**	190
Adjustments to tax charge in respect of previous periods		**(5)**	16
Total UK corporation tax		**711**	206
Foreign Tax			
Tax on profit for the period		**1,009**	1,387
Adjustments to tax charge in respect of previous periods		**3**	(1)
Total foreign tax		**1,012**	1,386
Total current tax		**1,723**	1,592
Deferred Tax			
Origination and reversal of timing differences	7	**306**	(430)
Total deferred tax		**306**	(430)
Tax on profit on ordinary activities		**2,029**	1,162
Factors affecting tax charge for the period			
Profit on ordinary activities before taxation		**12,268**	7,107
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 20.581% (2014: 22.162%)		**2,525**	1,575
Effects of:			
Unrecognised timing differences		**(200)**	1
(Income)/expenses (not chargeable)/deductible for tax purposes		**48**	62
Capital allowances less than depreciation		**13**	3
Deduction for employee share options exercised		**(111)**	(105)
Lower tax rate on overseas earnings		**(229)**	(454)
Tax losses not recognised for deferred tax		**(1)**	5
Effect of change of tax rate		**(14)**	60
Adjustments to tax charge in respect of previous periods		**(2)**	15
Tax charge reported in the income statement		**2,029**	1,162

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

Income Tax		
Tax credit on exercise of employee share options	**(582)**	-
Income tax credit on exchange losses on intra group balances	**(24)**	(18)
Net tax credit to equity	**(606)**	(18)

The Finance Act 2013 included legislation to reduce the main rate of corporation tax from 23% to 21% from 1 April 2014 and to 20% from 1 April 2015. The proposed reduction from 23% to 20% was substantively enacted on 2 July 2013. Additional reductions have been announced to the main rate of corporation tax to 19% with effect from 1 April 2017 and to 18% from 1 April 2020. This will reduce the Group's future current tax charge accordingly. The deferred tax balances have been calculated based on the rate of 20% substantively enacted at the balance sheet date.

7 DEFERRED INCOME TAX

Deferred tax is calculated on temporary differences under the liability method using a tax rate of 20% (2014: 20%) for UK differences and local rates for overseas differences.

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

	2015 £000's	2014 £000's
As at 1 September	**523**	93
(Charge)/credit to the income statement	**(306)**	430
Credit to equity	**674**	-
As at 31 August	**891**	523

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	
	2015 £000's	2014 £000's	**2015 £000's**	2014 £000's
Product development	**-**	-	**(167)**	(48)
Property, plant and equipment	**50**	-	-	-
Employee share scheme charges	**842**	-	-	-
Derivative financial instruments	**26**	436	-	-
Inventories	**135**	125	-	-
Short term timing differences	**5**	10	-	-
Tax assets/(liabilities)	**1,058**	571	**(167)**	(48)
Net tax asset/(liability)	**891**	523	-	-

Movement in recognised deferred tax during the year:

	1 September 2014 £000's	**Recognised in income £000's**	**Recognised in equity £000's**	**31 August 2015 £000's**
Product development	(48)	(119)	-	**(167)**
Property, plant and equipment	-	50	-	**50**
Derivative financial instruments	436	(410)	-	**26**
Inventories	125	10	-	**135**
Employee share scheme charges	-	168	674	**842**
Short term timing differences	10	(5)	-	**5**
	523	**(306)**	**674**	**891**

Movement in recognised deferred tax during the prior year:

	1 September 2013 £000's	Recognised in income £000's	Recognised in equity £000's	31 August 2014 £000's
Product development	(157)	109	-	(48)
Derivative financial instruments	66	370	-	436
Inventories	103	22	-	125
Carry forward tax losses	82	(82)	-	-
Short term timing differences	(1)	11	-	10
	93	**430**	**-**	**523**

Deferred tax assets amounting to £18,000 (2014: £792,000) 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.

8 EARNINGS PER SHARE

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

	Year Ended 31 August 2015 Profit after taxation £	Year Ended 31 August 2014 Profit after taxation £
Profit for the year used in the calculation of basic and diluted earnings per share	**10,239,000**	5,945,000

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 2015	Year Ended 31 August 2014
Weighted average number of ordinary shares used in the calculation of basic earnings per share	**21,085,023**	21,492,265
Weighted average number of share options	**1,305,141**	2,116,022
Weighted average number of ordinary shares used in the calculation of diluted earnings per share	**22,390,164**	23,608,287

9 DIVIDEND

	12 months to 31 August 2015 £000's	12 months to 31 August 2014 £000's
On equity shares:		
Final dividend paid for the year ended 31 August 2014		
— 3.95 pence (2013: 3.3 pence) per share	**838**	693
Interim dividend paid for the year ended 31 August 2015		
— 5.0 pence (2014: 3.3 pence) per share	**1,026**	699
8.95 pence (2014: 6.6 pence) per share	**1,864**	1,392

The directors recommend a final dividend of 6.00 pence per share (2014: 3.95 pence) amounting to £1,297,000 (2014: £838,000). If approved by shareholders, the final dividend will be paid on 29 January 2016 to shareholders on the register on 8 January 2016.

10 INTANGIBLE FIXED ASSETS – PRODUCT DEVELOPMENT

Cost	Total £000's
1 September 2013	**4,936**
Additions	1,336
Write off fully amortised assets	(3,037)
31 August 2014	**3,235**
Additions	**1,559**
Write off fully amortised assets	(1,899)
31 August 2015	**2,895**
Amortisation	
1 September 2013	**4,188**
Charge for the year	1,846
Write off fully amortised assets	(3,037)
31 August 2014	**2,997**
Charge for the year	960
Write off fully amortised assets	(1,899)
31 August 2015	**2,058**
Net book value	
31 August 2015	**837**
31 August 2014	238

11 INVESTMENT PROPERTY

Cost	Total £000's
1 September 2013 and 31 August 2015	**2,194**
Depreciation	
1 September 2013	152
Charge for the year	66
1 September 2014	**218**
Charge for the year	65
31 August 2015	**283**
Net book value	
31 August 2015	**1,911**
31 August 2014	**1,976**

The investment property is held at depreciated historical cost which, in the opinion of the directors, at 31 August 2015 approximates its open market value. During the year the Group received gross rental income of £147,000 (2014: £179,000) in respect of the investment property.

A bank has a charge over the freehold investment property.

12 PROPERTY, PLANT AND EQUIPMENT

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 2013	**3,904**	**108**	**2,158**	**353**	**6,523**
Additions	–	–	299	62	361
Disposals	–	–	–	(79)	(79)
Translation differences	–	–	(15)	–	(15)
1 September 2014	**3,904**	**108**	**2,442**	**336**	**6,790**
Additions	–	9	187	153	349
Write off fully depreciated assets	–	–	(259)	–	(259)
Disposals	–	–	(5)	(63)	(68)
Translation differences	–	–	19	–	19
31 August 2015	**3,904**	**117**	**2,384**	**426**	**6,831**
Depreciation					
1 September 2013	**772**	**102**	**1,728**	**243**	**2,845**
Charge for the year	105	2	248	58	413
Disposals	–	–	–	(78)	(78)
Translation differences	–	–	(13)	–	(13)
1 September 2014	**877**	**104**	**1,963**	**223**	**3,167**
Charge for the year	105	12	246	62	425
Write off fully depreciated assets	–	–	(259)	–	(259)
Disposals	–	–	(5)	(63)	(68)
Translation differences	–	–	15	–	15
31 August 2015	**982**	**116**	**1,960**	**222**	**3,280**
Net book value					
31 August 2015	**2,922**	**1**	**424**	**204**	**3,551**
31 August 2014	3,027	4	479	113	3,623

A bank has a charge over the freehold properties.

13 INVENTORIES

	2015 £000's	2014 £000's
Finished goods for resale	**8,965**	8,854

14 TRADE AND OTHER RECEIVABLES

	2015 £000's	2014 £000's
Current:		
Trade receivables	**12,091**	20,956
Less: provision for impairment of receivables	**–**	(111)
Trade receivables – net	**12,091**	20,845
Other receivables	**501**	470
	12,592	21,315
Prepayments	**2,943**	2,102
	15,535	23,417

14 TRADE RECEIVABLES CONTINUED

Finance advances received against gross trade receivables (shown below) under the recourse invoice discounting facility amounting to £12,929,000 (2014: £13,315,000) 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:

	2015 £000's	2014 £000's
Fully performing	**11,964**	20,531
Past due	**127**	314
Trade receivables	**12,091**	20,845

Ageing of past due, not impaired, receivables:

	2015 £000's	2014 £000's
1 – 90 days	**80**	292
> 90 days	**47**	22
	127	314

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

	2015 £000's	2014 £000's
Pounds Sterling	**7,084**	12,047
US Dollars	**4,768**	8,564
Euros	**239**	234
	12,091	20,845

15 INCOME TAX RECOVERABLE/ (PAYABLE)

	2015		2014	
	Assets £000's	Liabilities £000's	Assets £000's	Liabilities £000's
UK income tax	**15**	**–**	–	(85)
Overseas income tax	**7**	**(1,862)**	16	(1,378)
	22	**(1,862)**	16	(1,463)

16 DERIVATIVE FINANCIAL INSTRUMENTS

Numerical financial instruments disclosures are set out below. Additional disclosures are set out in the accounting policies in notes 1 and 20 and note 21 relating to risk management.

	2015		2014	
	Assets £000's	Liabilities £000's	Assets £000's	Liabilities £000's
Forward foreign exchange contracts and options	**234**	**(363)**	144	(2,324)
	234	**(363)**	144	(2,324)

16 DERIVATIVE FINANCIAL INSTRUMENTS CONTINUED

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.

17 CASH & CASH EQUIVALENTS

	2015 £000's	2014 £000's
Cash and cash equivalents	**25,781**	17,702

Cash and cash equivalents are denominated in the following currencies

Currency	**At 31 August 2015 Floating rate financial assets £000's**	At 31 August 2014 Floating rate financial assets £000's
Sterling	**16,926**	13,441
US$	**7,692**	3,512
Euro	**380**	331
HK$	**613**	373
Polish Zloty	**38**	40
Chinese Renminbi	**132**	5
Total	**25,781**	17,702

Bank overdrafts and short term loans are aggregated with cash and cash equivalents where there is a right of set-off.

At 31 August 2015, the balances attracted interest at a rate of 0.29%.

18 SHORT TERM BORROWINGS

	2015 £000's	2014 £000's
Finance Advances	**12,929**	13,315
Import Loans	**8,317**	8,902
Total	**21,246**	22,217

Analysis of short term borrowings by currency

	2015 £000's	2014 £000's
Sterling	**11,219**	12,442
US$	**9,819**	9,576
Euro	**208**	199
Total	**21,246**	22,217

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

18 SHORT TERM BORROWINGS CONTINUED

The Group utilises short term borrowings to implement its working capital strategy. UK facilities include a bank overdraft £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 £9.9 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 £0.5 million (2014: £0.9 million), which has been included in cash and cash equivalents.

19 TRADE AND OTHER PAYABLES

	2015 £000's	2014 £000's
Trade creditors	**11,161**	11,681
Other taxation and social security	**997**	1,153
Accruals and deferred income	**6,857**	7,711
	19,015	20,545

20 FINANCIAL INSTRUMENTS

Financial assets Current financial assets	Note	**31 August 2015** **Total £000's**	**Held at fair value through Profit & loss £000's**	**Loans and receivables £000's**	31 August 2014 Total £000's	Held at fair value through Profit & loss £000's	Loans and receivables £000's
Trade and other receivables	**14**	**12,091**	**-**	**12,091**	20,845	-	20,845
Derivative financial instruments	**16**	**234**	**234**	**-**	144	144	-
Cash and cash equivalents	**17**	**25,781**	**-**	**25,781**	17,702	-	17,702
		38,106	**234**	**37,872**	38,691	144	38,547

Financial liabilities Current financial liabilities	Note	**31 August 2015** **Total £000's**	**Held at fair value through Profit & loss £000's**	**Financial liabilities at amortised cost £000's**	31 August 2014 Total £000's	Held at Fair value through Profit & loss £000's	Financial liabilities at amortised cost £000's
Trade and other payables	**19**	**11,161**	**-**	**11,161**	11,681	-	11,681
Derivative financial instruments	**16**	**363**	**363**	**-**	2,324	2,324	-
Short term borrowings	**18**	**21,246**	**-**	**21,246**	22,217	-	22,217
		32,770	**363**	**32,407**	36,222	2,324	33,898

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

21 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. The Group has implemented procedures and documentation to enable certain forward derivative contracts to qualify for hedge accounting.

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.

2015	**Sterling strengthening**		**Sterling weakening**	
	Total Equity £000's	**Profit or (Loss) £000's**	**Total Equity £000's**	**Profit or (Loss) £000's**
Euro	**(26)**	**(26)**	**26**	**26**
US$	**(6,728)**	**(6,728)**	**275**	**275**
HK$	**(50)**	**(50)**	**50**	**50**
	(6,804)	**(6,804)**	**351**	**351**

2014	Sterling strengthening		Sterling weakening	
	Total Equity £000's	Profit or (Loss) £000's	Total Equity £000's	Profit or (Loss) £000's
Euro	18	18	(18)	(18)
US$	(8,289)	(8,289)	481	481
HK$	84	84	(84)	(84)
	(8,187)	(8,187)	379	379

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.

21 FINANCIAL RISK MANAGEMENT CONTINUED

Credit risk

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

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

Class of financial assets	2015 £000's	2014 £000's
Trade receivables	**12,091**	20,845
Other receivables	**501**	470
Current tax assets	**22**	16
Cash	**25,781**	17,702
	38,395	39,033

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 £7,109,000 (2014: £13,096,000). 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:

	2015		2014	
	Current £000's	Non-current within five years £000's	Current £000's	Non-current within five years £000's
Finance advances	**12,929**	**-**	13,315	-
Import loans	**8,317**	**-**	8,902	-
Trade and other payables	**19,015**	**-**	20,545	-
Current tax liabilities	**1,862**	**-**	1,463	-
Derivative financial instruments	**363**	**-**	2,324	-
Deferred tax liabilities	**-**	**167**	-	48
	42,486	**167**	46,549	48

22 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.

23 PRINCIPAL GROUP SUBSIDIARY UNDERTAKINGS

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

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

24 CALLED UP SHARE CAPITAL (EQUITY)

	2015 £000's	2014 £000's
Authorised		
110,000,000 (2014: 110,000,000) ordinary shares of 5 pence each	**5,550**	5,550
Allotted, called up and fully paid		
24,877,946* (2014: 25,302,146) ordinary shares of 5 pence each	**1,244**	1,266

* Including 4,019,456 Ordinary Shares held in treasury (2014: 4,019,456).

Share capital movements in the year

1,912,130 (2014: 394,979) Ordinary Shares, total nominal value £95,607 (2014: £19,749), were issued during the year to employees exercising their share options as follows:

	Number of Ordinary Shares at exercise price		
Date	35.5p	63.00p	63.25p
16 September 2014	800	–	–
23 September 2014	4,668	–	–
24 September 2014	–	7,900	–
25 September 2014	2,000	14,000	–
26 September 2014	919,998	772,000	–
29 September 2014	4,000	–	–
1 October 2014	2,000	–	–
2 October 2014	–	6,000	–
3 October 2014	15,267	–	55,000
21 December 2014	16,750	5,080	–
30 January 2015	4,667	–	–
4 February 2015	25,650	–	–
3 June 2015	5,000	–	–
5 August 2015	–	47,000	–
10 August 2015	2,000	2,350	–

24 CALLED UP SHARE CAPITAL (EQUITY) CONTINUED

During the year, the Company repurchased for cancellation 2,336,330 (2014: 2,148,002) Ordinary Shares as follows:

Date	Number of shares	Price	% of the issued share capital immediately prior to cancellation (excluding shares held in Treasury)
25 September 2014	1,425,972	213.00p	6.18%
29 September 2014	106,000	213.00p	0.49%
1 October 2014	67,600	213.00p	0.31%
2 October 2014	8,667	213.00p	0.04%
23 January 2015	50,000	350.00p	0.23%
28 January 2015	125,000	365.00p	0.58%
4 February 2015	148,391	363.34p	0.69%
6 February 2015	179,700	365.00p	0.85%
11 February 2015	200,000	365.00p	0.95%
19 February 2015	25,000	365.00p	0.12%

At 31 August 2015 and 31 August 2014, a total of 4,019,456 Ordinary Shares were held in treasury.

Share options

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

On 11 July 2006, unapproved non-scheme options over a total of 165,000 new ordinary shares of 5 pence each were granted to Group employees at an exercise price of 63.25 pence per share. As at 31 August 2015, there were no options subsisting (2014: 55,000).

On 6 May 2009, options over a total of 919,998 new ordinary shares of 5 pence each were granted under the 2006 Scheme to executive directors at an exercise price of 35.5 pence per share. Also on 6 May 2009, options over a total of 1,069,029 new ordinary shares of 5 pence each were granted under the 2006 Scheme to Group employees at an exercise price of 35.5 pence per share.

On 23 July 2010, a subsidiary of the Group entered into an exclusive distribution agreement with Cepia LLC, a former major supplier to the Group. In consideration for the exclusive distribution rights of all Cepia LLC's products in the United Kingdom and Ireland, an affiliate of Cepia LLC, Cepia HK Limited, was granted an option to subscribe for 1,000,000 ordinary shares of 5 pence each at an exercise price of 122.50 pence per share, subject (inter alia) to the exclusive distribution agreement having continued in existence throughout the three year vesting period and beyond the date of any exercise. Cepia HK Limited purported to exercise the said option on 22 July 2015 but the directors believe that the conditions for a valid exercise of the option have not been satisfied. Further, Cepia HK Limited has not complied with the requisite formalities for a proper exercise of the option. In the circumstances, it is the Company's position that the said option is not capable of exercise and that it has not been duly exercised. Cepia HK Limited has issued proceedings against the Company seeking to enforce the option and claiming damages for the loss of benefit of exercising the option to date. The Company is vigorously resisting such claim. In the event that Cepia HK Limited is successful in its claim, it is the Company's position that the number of shares subject to the option and the exercise price per share will need to be adjusted in accordance with the terms of the option agreement to take account of share buy-backs undertaken by the Company since the date of grant. In these circumstances the option holder would have the right to subscribe for 639,735 ordinary shares of 5 pence each at an exercise price of 191.50 pence. Pending the outcome of the aforementioned litigation, the calculation of diluted earnings per share as detailed in note 8 on page 35 is based on the assumption that the adjusted number of shares under option (at the adjusted exercise price per share) is treated as outstanding at 31 August 2015.

24 CALLED UP SHARE CAPITAL (EQUITY) CONTINUED

Share options *continued*

On 2 February 2011, an unapproved non-scheme option over a total of 750,000 existing ordinary shares of 5 pence each held by the company in treasury was granted to an executive director at an exercise price of 187 pence per share (together with the options granted on 11 July 2006 and 23 July 2010 referred to as "Non Scheme Options"). This option is exercisable no earlier than three years and not later than ten years from the date of grant. This option was exercised in full on 17 September 2015.

On 25 September 2014, options over a total of 1,070,800 existing ordinary shares of 5 pence each held by the company in treasury were granted under the 2006 Scheme to Group employees at an exercise price of 213.00 pence per share.

At 31 August 2015, rights to options over 2,706,185 Ordinary Shares of the Company (treated as outstanding) were as follows:

	At 1 September 2014	Granted	Variation of capital adjustment	Exercised/ lapsed	At 31 August 2015	Exercise Price	Exercise Period
2006 Scheme							
	866,000	–		(819,000)	47,000	63.0p	11 May 2009 to 10 May 2016
	117,480	–		(35,330)	82,150	63.0p	15 May 2009 to 14 May 2016
	357,066	–		(319,166)	37,900	35.50p	6 May 2012 to 5 May 2019
	367,366	–		(321,466)	45,900	35.50p	6 May 2013 to 5 May 2019
	419,518	–		(368,618)	50,900	35.50p	6 May 2014 to 5 May 2019
	–	1,070,800		(18,200)	1,052,600	213.00p	25 September 2017 to 24 September 2024
Non-Scheme Options	55,000	–		(55,000)	–	63.25p	21 December 2007 to 19 December 2014
	1,000,000	–	(360,265)	–	639,735	191.50p	23 July 2013 to 22 July 2015
	750,000	–		–	750,000	187.0p	02 February 2014 to 01 February 2021
	3,932,430	1,070,800	(360,265)	(1,936,780)	2,706,185		

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:

	2015		2014	
	Number	Weighted average exercise price	Number	Weighted average exercise price
Outstanding at 1 September	**3,932,430**	**93.78p**	4,327,409	88.77p
Granted	**1,070,800**	**213.00p**	-	-
Variation of capital adjustment	**(360,265)**	**191.50p**	-	-
Exercised	**(1,912,130)**	**48.59p**	(394,979)	38.83p
Lapsed	**(24,650)**	**166.65p**	-	-
Outstanding at 31 August	**2,706,185**	**184.72p**	3,932,430	93.78p
Weighted average remaining contractual life in years		**6.10**		3.3

Options over 1,912,130 Ordinary Shares were exercised in the year (2014: 394,979). The weighted average share price (at the date of exercise) of options exercised during the year was 224.95p (2014: 192.20p).

At 31 August 2015, options over 1,013,850 Ordinary Shares were exercisable (2014: 2,932,430).

25 SHARE-BASED PAYMENT

	12 months ended 31 August 2015 £000's	12 months ended 31 August 2014 £000's
Charge for share based payment	**144**	126

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:

Non-Scheme Options

Grant Date	11 July 2006	23 July 2010	2 February 2011
Options outstanding 1 September 2014	55,000	1,000,000	750,000
Variation of capital adjustment	–	(360,265)	–
Exercised	(55,000)	–	–
Options outstanding 31 August 2015	–	639,735	750,000
Contract term year(s)	8.5	5	10
Expected life of option	6	5	5
Exercise & share price at grant	63.25p	191.50p	187.0p
Expected volatility	55% – 65%	60% - 65%	60% – 65%
Annual risk free rate	4.69%	2.33%	2.74%
Annual expected dividend	2% – 3%	3% - 3.7%	3% – 3.7%
Fair value per share under option	32p	58p	90p

2006 Scheme

Grant Date	11 May 2006	15 May 2006	6 May 2009	25 September 2014
Options outstanding 1 September 2014	866,000	117,480	1,143,950	–
Granted	–	–	–	1,070,800
Exercised	(819,000)	(35,330)	(1,002,800)	–
Lapsed	–	–	(6,450)	(18,200)
Options outstanding 31 August 2015	47,000	82,150	134,700	1,052,600
Contract term year(s)	10	10	10	10
Expected life of option	6	6	7	8
Exercise & share price at grant	63.0p	63.0p	35.50p	213.00p
Expected volatility	55% – 65%	55% – 65%	65% – 75%	25% – 35%
Annual risk free rate	4.425%	4.425%	3.17%	2.502%
Annual expected dividend	2% – 3%	2% – 3%	0% – 1.60%	3.65% – 4.0%
Fair value per share under option	32p	32p	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 THE CHARACTER GROUP plc EMPLOYEE SHARE OWNERSHIP TRUST

The Company's Employee Share Ownership Trust ("the Trust") is governed by a Trust Deed dated 19 June 1998. The Trustees may grant options over such shares in the Company acquired by them or otherwise provide benefits to the beneficiaries, as defined in the Trust Deed. The Trust is required to meet its own costs out of the trust fund but if such fund is insufficient such costs will be borne by the Company. At 31 August 2015, the Trust held nil Ordinary Shares (2014: 285,000 with a market value of £584,250). The cost of these shares at £908,000 was financed by a loan from the Company which was repaid on 28 August 2015.

27 COMMITMENTS

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

	2015 £000's	2014 £000's
Not later than one year	**115**	255
Later than one year but not more than five years	**-**	106
	115	421

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:

	2015 £000's	2014 £000's
Within one year	**854**	1,684
Between one and two years	**1,489**	442
Between two and five years	**417**	-
	2,760	2,126

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:

	2015 £000's	2014 £000's
Within one year	**128**	150
Between one and two years	**293**	369
Between two and five years	**-**	14
	421	533

28 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.

29 CONTINGENT LIABILITIES

The contingent liability for bills of exchange discounted in the normal course of business at 31 August 2015 amounted to £995,000 (2014:£ 289,000).

30 EVENTS OCCURING AFTER THE BALANCE SHEET DATE

On 17 September 2015, 750,000 shares in treasury were sold to an employee exercising share options at a price of 187.00 pence per Ordinary Share.

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

The directors are responsible for preparing the annual report and the financial statements in accordance with applicable law and regulations.
Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). 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 Company and of the profit or loss of the Company for that period. In preparing these financial statements the directors are required to:

- select suitable accounting policies and apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- 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 to enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company 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 corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

The directors confirm that they have complied with the above requirements in preparing the financial statements.

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

We have audited the parent company financial statements of The Character Group plc for the year ended 31 August 2015 which comprise the Company Balance Sheet and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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.

Respective responsibilities of directors and auditors

As explained more fully in the Statement of Directors' Responsibilities in relation to the Parent Company Financial Statements set out on page 48, the directors are responsible for the preparation of the parent company financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the parent company financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the parent company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the parent company financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 August 2015;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the parent company financial statements are prepared is consistent with the parent company financial statements.

Matters on which we are required to report by exception

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

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company 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.

Other matter

We have reported separately on pages 15 and 16 on the consolidated financial statements of The Character Group plc for the year ended 31 August 2015.

John Burwood FCA, (Senior Statutory Auditor)
For and on behalf of MHA MacIntyre Hudson
Statutory Auditors and Chartered Accountants
New Bridge Street House
30-34 New Bridge Street
London
EC4V 6BJ

18 December 2015

COMPANY BALANCE SHEET

as at 31 August 2015

	Note	2015 £000's	2014 £000's
Fixed assets			
Tangible assets	2	**526**	585
Investments	3	**3,424**	3,344
		3,950	3,929
Current assets			
Debtors	4	**14,250**	15,453
Cash at bank and in hand		**4,112**	2,050
		18,362	17,503
Current liabilities			
Creditors: amounts falling due within one year	5	**(1,018)**	(695)
Net current assets		**17,344**	16,808
Total assets less current liabilities		**21,294**	20,737
Capital and reserves			
Called up share capital	7,8	**1,244**	1,266
Shares held in treasury	8	**(3,373)**	(3,373)
Investment in own shares	9	**–**	(908)
Capital redemption reserve	8	**1,704**	1,587
Share premium account	8	**14,642**	13,808
Share based payment reserve	8	**2,631**	2,487
Profit and loss account	8	**4,446**	5,870
Equity shareholders' funds		**21,294**	20,737

The financial statements on pages 51 to 59 were approved by the Board of directors on 1 December 2015.

R King
Director

K P Shah
Director

Registered number 3033333

NOTES TO THE COMPANY FINANCIAL STATEMENTS

1 PRINCIPAL ACCOUNTING POLICIES

Basis of preparation

The separate financial statements of the Company are presented as required by the Companies Act 2006. As permitted by that Act, the separate financial statements have been prepared in accordance with UK GAAP.

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

No profit and loss account is presented by the Company, as permitted by Section 408 Companies Act 2006. The profit for the year was £6,528,000 (2014: £5,180,000).

As permitted by Financial Reporting Standard (FRS) 1 (Revised), "Cash flow statement", the Company has not included a Cash flow statement as the Company's results have been included within the Group's consolidated financial statements.

As permitted by FRS 8 Related Party Disclosures, disclosures of related party transactions with other companies controlled by The Character Group plc are not provided and there were no reportable transactions with related parties.

The Company has taken advantage of the exemption in FRS 29 Financial Instruments Disclosures and has not disclosed information required by that Standard as the Group's consolidated financial statements provide equivalent disclosures for the Group under IFRS 7.

Investments

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

Tangible fixed assets

Tangible fixed assets are stated at historical cost net of accumulated depreciation and any impairment in value.
Depreciation is provided on a straight line basis on all such assets, except freehold land, at rates calculated to write off the cost of each asset over its expected useful life. The following principal rates per annum are used:

Freehold buildings	4%
Fixtures, fittings and equipment	20-33%

FRS 20: Share-based payment

The Company issues equity settled awards to certain employees. The fair value of equity settled awards granted after 7 November 2002, and that will vest on or after 1 September 2006, are measured using a binomial valuation model, taking into account the terms and conditions under which the option was granted. Options vest subject to the employee remaining in service during the vesting period and the relevant non-market related performance condition(s) being met. The fair value determined on this basis is expensed on a straight line basis over the vesting period, based upon the Company's estimate of the number of shares that will vest. The estimate of vesting is reviewed annually with any impact on the cumulative charge being recognised immediately. The charge in respect of share based payments is matched by an equal and opposite adjustment to equity.

The Company adopted UITF 44 in 2008. When the parent entity grants options over equity instruments directly to the employees of a subsidiary undertaking, then in the parent company financial statements, the effect of the share based payment, as calculated in accordance with FRS 20, is capitalised as part of the investment in the subsidiary as a capital contribution, with a corresponding increase in equity.

Leases

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

Deferred taxation

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

NOTES TO THE COMPANY FINANCIAL STATEMENTS
CONTINUED

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

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

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

Pension contributions
The Company operates defined contribution pension schemes. Contributions are allocated to the profit and loss account when due.
The Company had 8 employees in 2015 and 2014. Details of the remuneration of the directors are included in note 4 directors and employees remuneration staff costs, on pages 31 to 33.

2 TANGIBLE FIXED ASSETS

Cost	**Freehold land and buildings £000's**	**Fixtures, fittings and equipment £000's**	**Total £000's**
1 September 2014	1,182	244	1,426
31 August 2015	**1,182**	**244**	**1,426**
Depreciation			
31 August 2014	667	174	841
Charge for the year	39	20	59
31 August 2015	**706**	**194**	**900**
Net book value			
31 August 2015	**476**	**50**	**526**
31 August 2014	515	70	585

3 FIXED ASSET INVESTMENTS

The Company

Cost	Shares in subsidiary undertakings £000's	Capital contribution £000's	Total £000's
1 September 2014	3,195	2,045	5,240
Share based payment	–	80	80
At 31 August 2015	**3,195**	**2,125**	**5,320**
Amortisation and provisions			
1 September 2014	1,896	–	1,896
Charge for the year	–	–	–
At 31 August 2015	**1,896**	**–**	**1,896**
Net book value			
31 August 2015	**1,299**	**2,125**	**3,424**
31 August 2014	1,299	2,045	3,344

At 31 August 2015, 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

4 DEBTORS

	2015 £000's	2014 £000's
Due from subsidiary undertakings	**14,055**	15,235
Other debtors	**6**	15
Prepayments and accrued income	**189**	203
	14,250	15,453

5 CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2015 £000's	2014 £000's
Due to subsidiary undertakings	**14**	13
Accruals and deferred income	**881**	583
Other taxation and social security	**123**	99
	1,018	695

NOTES TO THE COMPANY FINANCIAL STATEMENTS
CONTINUED

6 CONTINGENT LIABILITIES

The Company has guaranteed the obligations of certain subsidiary companies to their finance companies, certain banks and others in the normal course of business. A bank has a fixed and floating charge over the assets of the Company and some subsidiaries.
The Company is a member of a Group registration for Value Added Tax purposes.
The amount payable under the Group registration scheme at 31 August 2015 was £758,000 (2014: £775,000).

7 CALLED UP SHARE CAPITAL (EQUITY)

	2015 £000's	2014 £000's
Authorised		
110,000,000 (2014: 110,000,000) ordinary shares of 5 pence each	**5,550**	5,550
Allotted, called up and fully paid		
24,877,946* (2014: 25,302,146) ordinary shares of 5 pence each	**1,244**	1,266

* Including 4,019,456 Ordinary Shares held in treasury (2014: 4,019,456).

Share capital movements in the year

1,912,130 (2014: 394,979) Ordinary Shares, total nominal value £95,607 (2014: £19,749), were issued during the year to employees exercising their share options as follows:

	Number of Ordinary Shares at exercise price		
Date	**35.5p**	**63.00p**	**63.25p**
16 September 2014	800	–	–
23 September 2014	4,668	–	–
24 September 2014	–	7,900	–
25 September 2014	2,000	14,000	–
26 September 2014	919,998	772,000	–
29 September 2014	4,000	–	–
1 October 2014	2,000	–	–
2 October 2014	–	6,000	–
3 October 2014	15,267	–	55,000
21 December 2014	16,750	5,080	–
30 January 2015	4,667	–	–
4 February 2015	25,650	–	–
3 June 2015	5,000	–	–
5 August 2015	–	47,000	–
10 August 2015	2,000	2,350	–

7 CALLED UP SHARE CAPITAL (EQUITY) CONTINUED

During the year, the Company repurchased for cancellation 2,336,330 (2014: 2,148,002) Ordinary Shares as follows:

Date	Number of shares	Price	% of the issued share capital immediately prior to cancellation (excluding shares held in Treasury)
25 September 2014	1,425,972	213.00p	6.18%
29 September 2014	106,000	213.00p	0.49%
1 October 2014	67,600	213.00p	0.31%
2 October 2014	8,667	213.00p	0.04%
23 January 2015	50,000	350.00p	0.23%
28 January 2015	125,000	365.00p	0.58%
4 February 2015	148,391	363.34p	0.69%
6 February 2015	179,700	365.00p	0.85%
11 February 2015	200,000	365.00p	0.95%
19 February 2015	25,000	365.00p	0.12%

At 31 August 2015 and 31 August 2014, a total of 4,019,456 Ordinary Shares were held in treasury.

Share options

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

On 11 July 2006, unapproved non-scheme options over a total of 165,000 new ordinary shares of 5 pence each were granted to Group employees at an exercise price of 63.25 pence per share. As at 31 August 2015, there were no options subsisting (2014: 55,000).

On 6 May 2009, options over a total of 919,998 new ordinary shares of 5 pence each were granted under the 2006 Scheme to executive directors at an exercise price of 35.5 pence per share. Also on 6 May 2009, options over a total of 1,069,029 new ordinary shares of 5 pence each were granted under the 2006 Scheme to Group employees at an exercise price of 35.5 pence per share.

On 23 July 2010, a subsidiary of the Group entered into an exclusive distribution agreement with Cepia LLC, a former major supplier to the Group. In consideration for the exclusive distribution rights of all Cepia LLC's products in the United Kingdom and Ireland, an affiliate of Cepia LLC, Cepia HK Limited, was granted an option to subscribe for 1,000,000 ordinary shares of 5 pence each at an exercise price of 122.50 pence per share, subject (inter alia) to the exclusive distribution agreement having continued in existence throughout the three year vesting period and beyond the date of any exercise. Cepia HK Limited purported to exercise the said option on 22 July 2015 but the directors believe that the conditions for a valid exercise of the option have not been satisfied. Further, Cepia HK Limited has not complied with the requisite formalities for a proper exercise of the option. In the circumstances, it is the Company's position that the said option is not capable of exercise and that it has not been duly exercised. Cepia HK Limited has issued proceedings against the Company seeking to enforce the option and claiming damages for the loss of benefit of exercising the option to date. The Company is vigorously resisting such claim. In the event that Cepia HK Limited is successful in its claim, it is the Company's position that the number of shares subject to the option and the exercise price per share will need to be adjusted in accordance with the terms of the option agreement to take account of share buy-backs undertaken by the Company since the date of grant. In these circumstances the option holder would have the right to subscribe for 639,735 ordinary shares of 5 pence each at an exercise price of 191.50 pence. Pending the outcome of the aforementioned litigation the calculation of diluted earnings per share as detailed in note 8 on page 35 is based on the assumption that the adjusted number of shares under option (at the adjusted exercise price per share) is treated as outstanding at 31 August 2015.

7 CALLED UP SHARE CAPITAL (EQUITY) CONTINUED

Share options *continued*

On 2 February 2011, an unapproved non-scheme option over a total of 750,000 existing ordinary shares of 5 pence each held by the company in treasury was granted to an executive director at an exercise price of 187 pence per share (together with the options granted on 11 July 2006 and 23 July 2010 referred to as "Non Scheme Options"). This option is exercisable no earlier than three years and not later than ten years from the date of grant. This option was exercised in full on 17 September 2015.

On 25 September 2014, options over a total of 1,070,800 existing ordinary shares of 5 pence each held by the company in treasury were granted under the 2006 Scheme to Group employees at an exercise price of 213.00 pence per share.

At 31 August 2015, rights to options over 2,706,185 Ordinary Shares of the Company (treated as outstanding) were as follows:

	At 1 September 2014	Granted	Variation of capital adjustment	Exercised/ lapsed	At 31 August 2015	Exercise Price	Exercise Period
2006 Scheme							
	866,000	–		(819,000)	47,000	63.0p	11 May 2009 to 10 May 2016
	117,480	–		(35,330)	82,150	63.0p	15 May 2009 to 14 May 2016
	357,066	–		(319,166)	37,900	35.50p	6 May 2012 to 5 May 2019
	367,366	–		(321,466)	45,900	35.50p	6 May 2013 to 5 May 2019
	419,518	–		(368,618)	50,900	35.50p	6 May 2014 to 5 May 2019
	–	1,070,800		(18,200)	1,052,600	213.00p	25 September 2017 to 24 September 2024
Non-Scheme Options	55,000	–		(55,000)	–	63.25p	21 December 2007 to 19 December 2014
	1,000,000	–	(360,265)	–	639,735	191.50p	23 July 2013 to 22 July 2015
	750,000	–		–	750,000	187.0p	02 February 2014 to 01 February 2021
	3,932,430	1,070,800	(360,265)	(1,936,780)	2,706,185		

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:

	2015		2014	
	Number	**Weighted average exercise price**	Number	Weighted average exercise price
Outstanding at 1 September	**3,932,430**	**93.78p**	4,327,409	88.77p
Granted	**1,070,800**	**213.00p**	-	-
Variation of capital adjustment	**(360,265)**	**122.50p**	-	-
Exercised	**(1,912,130)**	**48.59p**	(394,979)	38.83p
Lapsed	**(24,650)**	**166.65p**	-	-
Outstanding at 31 August	**2,706,185**	**184.72p**	3,932,430	93.78p
Weighted average remaining contractual life in years		**6.10**		3.3

Options over 1,912,130 Ordinary Shares were exercised in the year (2014: 394,979). The weighted average share price (at the date of exercise) of options exercised during the year was 224.95p (2014: 192.20p).

At 31 August 2015, options over 1,013,850 Ordinary Shares were exercisable, (2014: 2,932,430).

NOTES TO THE COMPANY FINANCIAL STATEMENTS CONTINUED

7 CALLED UP SHARE CAPITAL (EQUITY) CONTINUED

Share options *continued*

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:

Non-Scheme Options

Grant Date	11 July 2006	23 July 2010	2 February 2011
Options outstanding 1 September 2014	55,000	1,000,000	750,000
Variation of capital adjustment	–	(360,265)	–
Exercised	(55,000)	–	–
Options outstanding 31 August 2015	–	639,735	750,000
Contract term year(s)	8.5	5	10
Expected life of option	6	5	5
Exercise & share price at grant	63.25p	191.50p	187.0p
Expected volatility	55% – 65%	60% - 65%	60% – 65%
Annual risk free rate	4.69%	2.33%	2.74%
Annual expected dividend	2% – 3%	3% - 3.7%	3% – 3.7%
Fair value per share under option	32p	58p	90p

2006 Scheme

Grant Date	11 May 2006	15 May 2006	6 May 2009	25 September 2014
Options outstanding 1 September 2014	866,000	117,480	1,143,950	–
Granted	–	–	–	1,070,800
Exercised	(819,000)	(35,330)	(1,002,800)	–
Lapsed	–	–	(6,450)	(18,200)
Options outstanding 31 August 2015	47,000	82,150	134,700	1,052,600
Contract term year(s)	10	10	10	10
Expected life of option	6	6	7	8
Exercise & share price at grant	63.0p	63.0p	35.50p	213.00p
Expected volatility	55% – 65%	55% – 65%	65% – 75%	25% – 35%
Annual risk free rate	4.425%	4.425%	3.17%	2.502%
Annual expected dividend	2% – 3%	2% – 3%	0% – 1.60%	3.65% – 4.0%
Fair value per share under option	32p	32p	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.

NOTES TO THE COMPANY FINANCIAL STATEMENTS
CONTINUED

8 SHARE CAPITAL AND RESERVES - SHAREHOLDERS' FUNDS

	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
1 September 2014	1,266	(3,373)	1,587	13,808	2,487	5,870	21,645
Share-based payment – Company	–	–	–	–	64	–	64
Share-based payment – subsidiary undertaking	–	–	–	–	80	–	80
Profit after tax	–	–	–	–	–	6,528	6,528
Dividend paid	–	–	–	–	–	(1,864)	(1,864)
Shares issued	95	–	–	834	–	–	929
Shares cancelled	(117)	–	117	–	–	(6,088)	(6,088)
31 August 2015	**1,244**	**(3,373)**	**1,704**	**14,642**	**2,631**	**4,446**	**21,294**

9 THE CHARACTER GROUP plc EMPLOYEE SHARE OWNERSHIP TRUST

The Company's Employee Share Ownership Trust ("the Trust") is governed by a Trust Deed dated 19 June 1998. The Trustees may grant options over such shares in the Company acquired by them or otherwise provide benefits to the beneficiaries, as defined in the Trust Deed. The Trust is required to meet its own costs out of the trust fund but if such fund is insufficient such costs will be borne by the Company. At 31 August 2015, the Trust held nil Ordinary Shares (2014: 285,000 with a market value of £584,250). The cost of these shares at £908,000 was financed by a loan from the Company, which was repaid on 28 August 2015.

10 AUDITOR'S REMUNERATION

	2015 £000's	2014 £000's
Audit of the financial statements	**7**	6

Fees paid to MHA MacIntyre Hudson for non-audit services to the Company itself are not disclosed in the individual financial statements of The Character Group plc as group financial statements are prepared which are required to disclose such fees on a consolidated basis.

11 EVENTS OCCURING AFTER THE BALANCE SHEET DATE

On 17 September 2015, 750,000 shares in treasury were sold to an employee exercising share options at a price of 187.00 pence per Ordinary Share.

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN THAT the 2016 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 22 January 2016 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 2015 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 2015 of 6 pence per share.
3. 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.
4. 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

5. 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 £347,600, 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

6. 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 5p each in the capital of the company hereby authorised to be acquired is 3,128,700;

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

   (C) the maximum price which may be paid for such shares is, in respect of a share contracted to be purchased on any day, an amount equal to 110 per cent. of the average of the middle-market prices shown in the quotations for ordinary shares of the company in the Daily Official List of the London Stock Exchange on the five business days immediately preceding the day on which the share is contracted to be purchased;

   (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

7. 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 £104,290;

(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 £163,472.80 (equivalent to 3,269,456 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 did not apply to the extent that the same have not been previously utilised.

By order of the Board,

M.T. Dowding	Registered Office:
Secretary	10 Chiswell Street,
18 December 2015	London EC1Y 4UQ

Notes:

1. The register of directors' interests and copies of the directors' service agreements or (as appropriate) their letters of appointment 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 B33 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 Neville Registrars Limited. 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 20 January 2016 (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 will be disregarded in determining the rights of any person to attend and/or vote at the meeting.

7. As at 17 December 2015 (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 21,608,490 ordinary shares, carrying one vote each. Therefore, the total voting rights in the company as at 17 December 2015 was 21,608,490.

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 company's agent (ID 7RA11) by 11:00 a.m. on 20 January 2016. 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.

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