



Thursday 28 November 2013

Immediate Release

The Character Group plc
 ("Company" "Group" or "Character")
Preliminary Results for the year ended 31 August 2013

"Solid H2 performance sees return to profitability"

Key highlights:

- Group witnessed a much stronger second half performance, fully reversing the loss reported at the interim stage
- Significant growth from international sales, +25%
- Overall, total Group sales for the second half +19% on the comparable period
- 10% of Top 50 'Dream Toys' are Character products, with *Teksta*[®] named by many retailers in their top toys list
- 8 out of the Top 10 of Character's predicted 'best-selling' ranges are already in distribution - with the benefit of the current sales knowledge, Character confident of sales growth in 2014

	Year ended 31 August	
	2013	2012
➤ Group sales	£67.19m	£74.95m
➤ Group operating profit	£0.61m	£7.46m
➤ Group normalised profit before tax	£0.20m	£7.08m
➤ Reclassification of exchange gain on discontinued foreign operation	£0.52m	-
➤ Group profit before tax	£0.72m	£7.08m
➤ Basic earnings per share	3.05p	25.58p
➤ Proposed dividend maintained at		
-final	3.30p	3.30p
-total for the year	6.60p	6.60p

"We are pleased to report a positive result at the year end, having come through such a difficult period. The major turnaround in the second half of last year enabled the Group to make a profit for the year as a whole."

"Character's current product and license portfolio, together with further planned introductions, will provide us with one of the strongest product ranges we have had and should underpin our performance and position as one of the UK's leading toy companies."

"Our ranges this year are now firmly established, in demand and, with some of them already fully sold out for the 2013 Christmas selling season, we look forward to continued growth."

"With trading so far making solid progress both at home and abroad and building on the strong finish of last year, we can report that, at this stage, the Group's forecasted sales remain on track for the 2013 calendar year, which, in turn, should lead to a substantially better result for the 2014 financial/calendar year as a whole."

Richard King, Chairman, The Character Group

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The Character Group plc
(“Company” “Group” or “Character”)
Preliminary Results for the year ended 31 August 2013

STATEMENT BY THE CHAIRMAN, RICHARD KING

INTRODUCTION

The Board is very pleased to report that the Group witnessed a much stronger and profitable second half performance, which fully reversed the loss reported at the interim stage.

It is also particularly pleasing to witness significant growth coming from our international sales, which have grown by over 25%. Total Group sales for the second half were up approximately 19% over the comparable period last year. This major turnaround in the second half of the year enabled the Group to make a profit for the year as a whole.

Although it is too early to anticipate the outcome for the new 2014 financial year, we are comforted by the fact that 8 out of the Top 10 of our predicted ‘best-selling’ ranges are already in distribution and, with the benefit of the current sales information, we are confident that we shall see sales growth continue throughout the year. We are also confident that Character’s current product and license portfolio, together with further planned introductions, will provide us with one of the strongest product ranges we have had and should underpin our performance and position as one of the UK’s leading toy companies.

FINANCIALS FOR THE YEAR ENDED 31 AUGUST 2013

Group sales in the year were £67.19 million, compared to £74.95 million for the previous year; a decrease of 10%; however, the decline of 31% in the first half was reversed to growth of 19% for the second half of the year, when compared to the previous year.

Gross profit for the year was £17.89 million, against £24.46 million in the same period last year. The reduction in margin to 26.6% (2012: 32.6%) reflects not only the competitive marketplace and the higher mark downs on excess stocks but also, the increased level of international sales which are generally executed at a lower margin. The Group’s total operating profit amounted to £0.61 million, against £7.46 million in 2012, and normalised profit before tax was £0.20 million (2012: £7.08m). During the year, a net exchange gain of £0.52 million, relating to the discontinuance of an overseas operation previously included in translation reserve was transferred to profit and loss account. This has resulted in the reported profit before tax being £0.72 million (2012: £7.08m)

Inventories at 31 August 2013 reduced £1.18 million to £6.18 million (2012: £7.36m).

The Group continues to have substantial headroom within its working capital facilities. Cash and cash equivalents at 31 August 2013 were £9.31 million (2012: £5.91m). At the same date, short-term borrowings were £15.26 million (2012: £13.80m).

Basic earnings per share for the year under review were 3.05 pence, compared to 25.58 pence in the year ended 31 August 2012.

DIVIDEND

The Directors are proposing a final dividend of 3.30 pence per ordinary share (2012: 3.30p); this, together with the interim dividend paid in July 2013 of 3.30 pence would make a total for the year of 6.60 pence (unchanged from 2012).

Subject to approval by shareholders at the Annual General Meeting to be held on Friday, 17 January 2014, the final dividend of 3.30 pence will be paid on 31 January 2014 to shareholders on the Register as at 10 January 2014. The shares will be marked ex-dividend on 8 January 2014.

SHARE BUY-BACK PROGRAMME

The Company has continued its policy of buying back its own shares in the market. During the financial year ended 31 August 2013, the Company acquired a total of 411,500 ordinary shares of 5 pence each in the capital of the Company ("Ordinary Shares") at an aggregate cost of approximately £514,000 (excluding stamp duty and dealing costs), with the average cost being £1.25 pence per Ordinary Share. Since the August year-end, the Company has purchased for cancellation a further 60,430 Ordinary Shares in the market at an aggregate cost of approximately £87,600 (excluding stamp duty and dealing costs), with the average cost for these shares being £1.45 per Ordinary Share.

The Company has an unutilised authority to buy-back up to a further 5,587,570 Ordinary Shares. As at today's date, the Company has, excluding shares held in treasury, 22,997,383 Ordinary Shares in issue ("Issued Voting Share Capital"). The Company holds 4,019,456 Ordinary Shares in treasury, representing approximately 17.48 per cent of the Issued Voting Share Capital, which do not carry voting or dividend rights.

It will remain part of the Group's overall strategy to continue to repurchase its shares when appropriate, thereby further enhancing shareholder value. Accordingly, the Board will once again be seeking a renewal of the authority to buy-back issued Ordinary Shares at its forthcoming Annual General Meeting. As previously indicated, the Directors could also be prepared to participate in any future share buy-back programme the Company proposes.

EMPLOYEE ACKNOWLEDGEMENTS

Post the period being reported upon, we were delighted to announce that the Company's Chief Financial Officer, Mark Dowding, has been appointed Company Secretary with effect from November 2013. It is a natural progression for Mark to take on this role and his experience will further strengthen the overall effectiveness of our management team. Consequently, Kiran Shah, who has been responsible for secretariat activities since the Group's incorporation in 1995, relinquished this additional role and continues with his responsibilities as Group Finance Director and Joint Managing Director.

The Company employs 177 members of staff, of which 110 are employed in the UK; with the remaining 67 working within our Far East operations in Hong Kong, and Shenzhen.

Once again, the Board acknowledges the hard work, dedication and loyalty of all employees around the world, as each has contributed to the Group's overall performance. As we build on this solid trading performance, we can look forward to working together and further improving on our overall productivity and earnings.

CURRENT TRADING & OUTLOOK

We are pleased to report a positive result at the year end, having come through such a difficult period, and are fortunate to have a very well balanced portfolio of products and licenses which have enabled the start of the new financial year to continue the growth seen in the second half of 2013.

➤ THE 2013 DREAM TOY LIST:

The Company was delighted to see five of the toys from its current portfolio featured by the UK Toy Retailers Association in its listings at the industry's annual 'Christmas Dream Toys' preview last month. The 'Dream Toys' list is independent and widely viewed as the most accurate prediction of the toys that will be in most demand in the UK this Christmas. 10% of all toys in the 'Dream Toys Top 50' were from Character Options' portfolio, which is a clear indication of the strength of our current ranges. These were:-

Teksta®

**"acknowledged as 'one of the most wished for',
for Christmas"**

This product has already achieved a lot of attention since its launch in August 2013, having also been named by many major retailers in their own personal top toy lists. We expect demand will far outstrip supply in the run up to Christmas.





"helping to drive sales of this very popular range"

Theme Park Balloon Ride



"firmly positioned within the girls aisles"

top girls' collectible range



Remote control Drive and Steer Jupiter Fire Engine

"enhancing an already solid performance from this established brand"



ChillFactor™

"Squeeze Cup Slushy Maker – already a best seller, having sold 500,000+ units in 2013"



Whilst we continue to seek out great product either to develop in-house or to distribute, we gain great satisfaction that so many of our products and ranges are not only already in distribution but with exciting sales in the run up to Christmas.

One such product range is **Minecraft™** where Character is the distributor of action figures, plush and paper craft products. **Minecraft™** is the virtual building game where players create 3D inhabited worlds from textured cubes. The game is topping the charts on all popular gaming systems, with over 22 million copies sold to date, and as a downloadable app for iOS and Android, where over 56 million users are registered. The first shipments have just gone into retail distribution and have performed exceptionally well.



In addition to these items, we consider that our ranges are well balanced with **Peppa Pig®**, **Fireman Sam®**, **Postman Pat®** being joined by **Ben and Holly®** and **Weebles®**.

In our girls offering, **The Zelfs™**, **Disney® Palace Pets™**, **Scooby-Doo®** and **Teksta®** lead the way; whilst the boys offering includes **Doctor Who®** and **Teksta®**.

Other products for all children include the **ChillFactor™** (which for 2014 will include an ice-cream maker) and **LiteBrix™** Superlight Building System.

➤ OUTLOOK

With trading so far in this new financial year (ending 31 August 2014) making solid progress, both at home and abroad, and building on the strong finish of last year, we can report that, at this stage, the Group's forecasted sales remain on track for the 2013 calendar year, which, in turn, should lead to a substantially better result for the 2014 financial/calendar year as a whole.

CONSOLIDATED INCOME STATEMENT

for the year ended 31 August 2013

		Total 2013	Total 2012
	Note	£000's	£000's
Continuing operations			
Revenue		67,188	74,947
Cost of sales		(49,299)	(50,486)
Gross profit		17,889	24,461
Net operating expenses			
Selling and distribution costs		(5,812)	(4,820)
Administration expenses		(12,437)	(12,920)
Other operating income		973	741
Operating profit		613	7,462
Finance income	2	6	1
Finance costs	2	(418)	(380)
Reclassification of net exchange gain on discontinued foreign operation		524	-
Profit before taxation		725	7,083
Taxation		(42)	(1,333)
Profit for the year attributable to equity holders of the parent		683	5,750
Earnings per share (pence)			
Basic	4	3.05p	25.58p
Fully diluted		2.78p	22.99p
Dividend per share (pence)			
	3	6.6p	6.3p
EBITDA (earnings before interest, tax, depreciation and amortisation)			
		3,565	11,272

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 August 2013

	Total 2013	Total 2012
	£000's	£000's
Profit for the year after tax	683	5,750
Items that may be reclassified subsequently to profit and loss		
Exchange differences on translation of foreign operations	(24)	(122)
Income tax on exchange difference	-	17
Total comprehensive income for the year attributable to the equity holders of the parent	659	5,645

CONSOLIDATED BALANCE SHEET

as at 31 August 2013

	2013 £000's	2012 £000's
Non – current assets		
Intangible assets – product development	748	1,335
Investment property	2,042	2,107
Property, plant and equipment	3,678	3,870
Deferred tax assets	251	210
	6,719	7,522
Current assets		
Inventories	6,178	7,356
Trade and other receivables	18,722	17,105
Current income tax receivable	863	222
Derivative financial instruments	360	445
Cash and cash equivalents	9,242	5,908
	35,365	31,036
Current liabilities		
Short term borrowings	(15,260)	(13,804)
Trade and other payables	(16,541)	(13,389)
Income tax	(550)	(740)
Derivative financial instruments	(607)	(235)
	(32,958)	(28,168)
Net current assets	2,407	2,868
Non-current liabilities		
Deferred tax	(158)	(409)
Net assets	8,968	9,981
Equity		
Called up share capital	1,353	1,331
Shares held in treasury	(3,373)	(3,373)
Investment in own shares	(908)	(908)
Capital redemption reserve	1,480	1,459
Share based payment reserve	2,361	1,892
Share premium account	13,675	13,332
Merger reserve	651	651
Translation reserve	1,346	1,880
Profit and loss account	(7,617)	(6,283)
Total equity attributable to equity holders of the parent	8,968	9,981

CONSOLIDATED CASH FLOW STATEMENT

for the year ended 31 August 2013

	12 months to 31 August 2013 £000's	12 months to 31 August 2012 £000's
Cash flow from operating activities		
Profit before taxation for the year	725	7,083
Adjustments for:		
Depreciation of property, plant and equipment	401	413
Depreciation of investment property	65	65
Amortisation of intangible assets	2,486	3,332
(Profit) on disposal of property, plant and equipment	(8)	(4)
Interest expense	412	379
Net exchange gain on discontinuation of foreign operation	(524)	-
Financial instruments fair value adjustments	457	(1,453)
Share based payments	469	542
Decrease in inventories	1,178	4,207
(Increase)/Decrease in trade and other receivables	(1,617)	1
Increase/(Decrease) in trade and other creditors	3,152	(7,140)
Cash generated from operations	7,196	7,425
Interest paid	(412)	(379)
Income tax paid	(1,165)	(2,709)
Net cash inflow from operating activities	5,619	4,337
Cash flows from investing activities		
Payments for intangible assets	(1,898)	(3,037)
Payments for property, plant and equipment	(219)	(433)
Proceeds from disposal of property, plant and equipment	18	4
Net cash outflow from investing activities	(2,099)	(3,466)
Cash flows from financing activities		
Proceeds from issue of share capital	386	189
Purchase of own shares for cancellation	(518)	(2,542)
Dividends paid	(1,485)	(1,419)
Net cash used in financing activities	(1,617)	(3,772)
Net increase/(decrease) in cash and cash equivalents	1,903	(2,901)
Cash, cash equivalents and borrowings at the beginning of the year	(7,896)	(4,868)
Effects of exchange rate movements	(25)	(127)
Cash, cash equivalents and borrowings at the end of the year	(6,018)	(7,896)

Cash, cash equivalents and borrowings consist of:

Cash and cash equivalents	9,242	5,908
Short term borrowings	(15,260)	(13,804)
Cash, cash equivalents and borrowings at the end of the year	(6,018)	(7,896)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31 August 2013

	Called up share capital £000's	Investment in own shares £000's	Treasury shares £000's	Capital redemption reserve £000's	Share premium account £000's	Merger reserve £000's	Share based payment £000's	Translation reserve £000's	Profit and loss account £000's	Total £000's
The Group										
At 1 September 2011	1,390	(908)	(3,373)	1,380	13,163	651	1,350	1,934	(8,021)	7,566
Profit for the year after tax	-	-	-	-	-	-	-	-	5,750	5,750
Net exchange differences on translating foreign operations	-	-	-	-	-	-	-	(54)	(51)	(105)
Total comprehensive income and expense for the year	-	-	-	-	-	-	-	(54)	5,699	5,645
Share-based payment	-	-	-	-	-	-	542	-	-	542
Dividends	-	-	-	-	-	-	-	-	(1,419)	(1,419)
Shares issued	20	-	-	-	169	-	-	-	-	189
Shares cancelled	(79)	-	-	79	-	-	-	-	(2,542)	(2,542)
At 1 September 2012	1,331	(908)	(3,373)	1,459	13,332	651	1,892	1,880	(6,283)	9,981
Profit for the year after tax	-	-	-	-	-	-	-	-	683	683
Reclassification of net exchange gain on discontinued foreign operation	-	-	-	-	-	-	-	(524)	-	(524)
Exchange differences on translation of foreign operations	-	-	-	-	-	-	-	(10)	(14)	(24)
Total comprehensive income and expense for the year	-	-	-	-	-	-	-	(534)	669	135
Share-based payment	-	-	-	-	-	-	469	-	-	469
Dividends	-	-	-	-	-	-	-	-	(1,485)	(1,485)
Shares issued	43	-	-	-	343	-	-	-	-	386
Shares cancelled	(21)	-	-	21	-	-	-	-	(518)	(518)
At 31 August 2013	1,353	(908)	(3,373)	1,480	13,675	651	2,361	1,346	(7,617)	8,968

NOTES TO THE FINANCIAL STATEMENTS

1 OPERATING PROFIT

	12 months to 31 August 2013 £000's	12 months to 31 August 2012 £000's
Operating profit is stated after charging:		
Exchange losses	103	278
Cost of inventories recognised as an expense (included in cost of sales)	47,330	41,861
Staff costs	7,038	6,780
Depreciation of tangible fixed assets — owned assets	401	413
Depreciation of investment property	65	65
Product development amortised	2,486	3,332
Operating leases — land and buildings	246	218

2 NET FINANCE COSTS

	12 months to 31 August 2013 £000's	12 months to 31 August 2012 £000's
Finance costs:		
On bank overdraft and similar charges	(311)	(200)
Factor and invoice discounting advances	(107)	(180)
	(418)	(380)
Finance income:		
Bank interest	6	1
Net finance costs	(412)	(379)

3 DIVIDEND

	12 months to 31 August 2013 £000's	12 months to 31 August 2012 £000's
On equity shares:		
Final dividend paid for the year ended 31 August 2012 — 3.0 pence (2011: 3.0 pence) per share	734	680
Interim dividend paid for the year ended 31 August 2013 — 3.3 pence (2012: 3.3 pence) per share	751	739
	1,485	1,419

The Directors recommend a final dividend of 3.3 pence per share. If approved by shareholders, the final dividend will be paid on 31 January 2014 to shareholders on the Register on 10 January 2014.

4 EARNINGS PER SHARE

	12 months to 31 August 2013			12 months to 31 August 2012		
	Profit after taxation £	Weighted average number of ordinary shares	Pence per share	Profit after taxation £	Weighted average number of ordinary shares	Pence per share
Basic earnings per share	683,000	22,398,806	3.05	5,750,000	22,478,751	25.58
Impact of share options	-	1,974,791	(0.27)	-	2,532,881	(2.59)
Diluted earnings per share	683,000	24,373,597	2.78	5,750,000	25,011,632	22.99

5 ANNUAL GENERAL MEETING

The Annual General Meeting will be held at the offices of Duane Morris, 2nd Floor, 10 Chiswell Street, London EC1Y 4UQ on 17 January 2014 at 11.00 am.

6 ANNUAL REPORT AND ACCOUNTS

The preliminary announcement does not constitute statutory accounts within the meaning of Section 435 of the Companies Act 2006. The annual report and accounts for the year ended 31 August 2013 and the comparatives under IFRS have yet to be reported on by the auditors and have not yet been filed with the Registrar of Companies.

A copy of this announcement can be viewed on the Company's website www.thecharacter.com.

7 ELECTRONIC COMMUNICATIONS

The full Financial Statements, together with the Notice convening the Company's 2014 Annual General Meeting, will be available for viewing and download on the Group's website, www.thecharacter.com by 20 December 2013.