

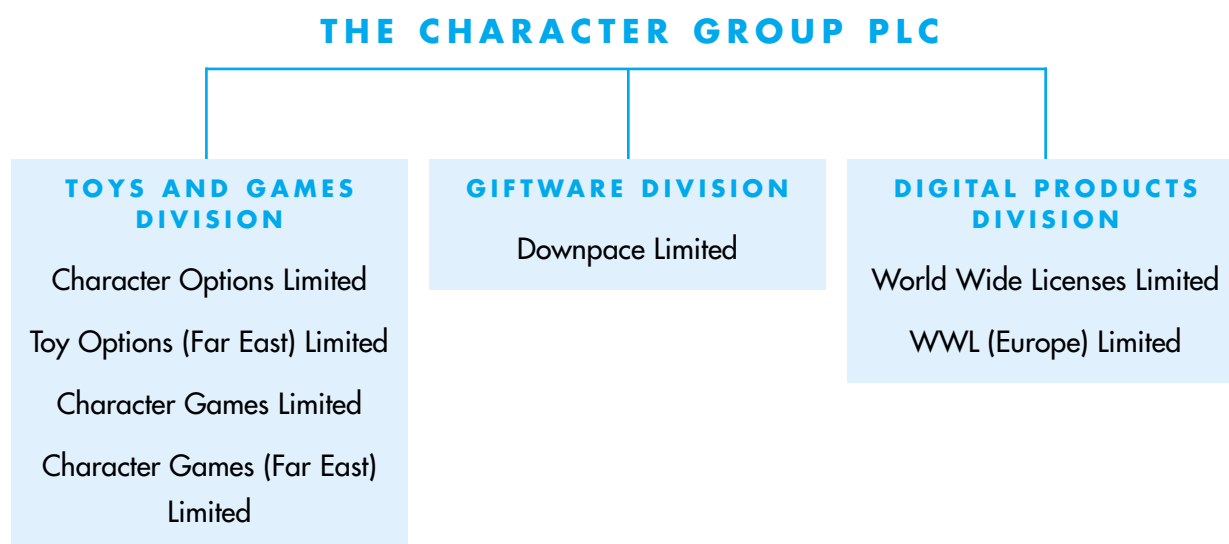
## CONTENTS

Chairman's Statement	2
Report of the Directors	6
Report of the Remuneration Committee	9
Corporate Governance Statement	11
Independent Auditors' Report	14
Consolidated Profit and Loss Account	15
Statement of Total Recognised Gains and Losses	15
Consolidated Balance Sheet	16
Parent Company Balance Sheet	17
Consolidated Cash Flow Statement	18
Notes to the Accounts	19
Notice of Annual General Meeting	33
Form of Proxy	35

## DIRECTORS AND ADVISERS

<i>Directors</i>	<i>Company registration number</i>	<i>Auditors</i>	<i>Bankers</i>
R King	3033333	Baker Tilly Chartered Accountants & Registered Auditors	National Westminster Bank plc Standard Chartered Bank
E Preziosi		Marlborough House Victoria Road South Chelmsford Essex CM1 1LN	The Hongkong and Shanghai Banking Corporation Limited
K P Shah			
J J P Kissane	<i>Registered office</i>	<i>Stockbrokers</i>	<i>Registrars</i>
J J Diver	80 Fleet Street	Collins Stewart Limited	Neville Registrars Limited
I S Fenn	London EC4Y 1NA	9th Floor	Neville House
Lord Birdwood		88 Wood Street	18 Laurel Lane
A G Horvat	<i>Solicitors</i>	London EC2V 7QR	Halesowen West Midlands B63 3DA
	Gold Mann & Co		
<i>Secretary</i>	80 Fleet Street		
K P Shah FCCA	London EC4Y 1NA		

## GROUP STRUCTURE



## CHAIRMAN'S STATEMENT

In my interim report, I stated that the Group had returned to profitability for the half year and was on track to maintain that positive trend for the year as a whole. I am therefore especially pleased to announce that not only has that trend continued for the whole of the financial year, resulting in better than expected profitability, but that initial trading for the current financial year indicates that the improvement will continue strongly throughout the year.

Following the successful completion of the rationalisation programme, the Group now consists of three trading Divisions: Toys and Games, Giftware and Digital Products. (A diagram showing the Group structure can be found on page 1). There are no further costs to be borne which are associated with the reorganisation.

The strategy for the future of the Group is now focussed on the organic growth of these three Divisions and the creation of intellectual property rights in its product line-up.

In particular, the Toy and Games Division will increase the development of its own product, thus enabling the percentage of export sales to be increased significantly, whilst the Digital Division, which develops all its own products, will concentrate on increasing its global market share of both the Cool-iCam and Polaroid brands. The Giftware Division will, under its new management, explore opportunities to develop more products suitable for international sales.

In the year under review, non-UK domestic sales were 39% of the total business, and this is expected to rise to 45% for the current financial year.

### Results

Sales in the year ended 31 August, 2002 were £58.94 million against £58.89 million in 2001. Profits before tax were £1.52 million compared to a loss of £4.88 million in the comparable period.

During the course of the year, stocks were reduced by 36% from £7.8 million to £5.0 million. At the same time, margins have increased by over six percentage points and operating expenses were reduced by over 10%.

Cash at bank increased by £1.7 million to £3.3 million, and net interest reduced by 35% to £0.56 million.

Earnings per share were 3.06 pence against a loss per share of 23.89 pence for the previous year.

At this stage of our recovery, we believe that cash should be retained in the business to fund our future growth plans, therefore it is not proposed to pay a final dividend.

### Review

Throughout the financial year under review, the management has focussed on developing the core businesses of the Group with the objective of both laying the groundwork for further solid and profitable growth in the future, as well as ensuring that the bottom line improvement continues.

I am pleased to report that we have made significant progress with the objectives we set ourselves and this is clearly evident in the much improved performance of the Group.

### The Toy and Games Division

During the year, the Toy Division, (which includes Character Options and Character Games in the UK and Toy Options (Far East) and Character Games (Far East) in Hong Kong), has reduced the percentage of products that it sources from outside suppliers and has concentrated on increasing its own developed products.

This Division has achieved a remarkable turnaround in its trading with both higher margins and lower stocks, in addition to a reduced cost base.

This Division's most notable success in the year has been the development of the *Ready Steady Cook* range of children's practical working cooking products which includes a popcorn maker, oven and ice cream maker. In September, The British Association of Toy Retailers ("BATR") released its prediction for the Top 10 best selling toys for this Christmas sales period and the Group was delighted that the Popcorn Maker within its *Ready Steady Cook* range was listed in BATR's Dream Toys 2002 Top 10. We are pleased that this range has been so successful at the retail level since its launch. We are sold out for the year and are now supplying our customers, on an allocation basis, stock which was originally purchased for sale in 2003. We are also introducing a number of new innovative and exciting additions to the current range starting with a smoothie maker which was launched this month as a late introduction for Christmas. We believe that the *Ready Steady Cook* range is quickly developing into a core brand for the Group.

Character Games continues to increase the number of new products it is developing, the benefits of which should be felt in the current year.

### The Giftware Division

Downpace, which in effect forms the Group's Giftware Division, had another year of solid trading, resulting in higher than expected earnings. The team has focussed on expanding its range of generic (unlicensed) giftware which is ideally suited to the greeting card and multiple retailers. In 2002 we introduced to market the 'Glitter Bear' range and 'Light Up' pen range and, as a result of their success at retail level, we intend stepping up the development and introductions of products within this sector. Other ranges which performed well and continue to offer growth opportunities include, Lord of the Rings, The Simpsons and Bagpuss giftware.

In September, Kishor Shah, one of the founders of Downpace, retired as Managing Director, although he will continue to have a part time involvement with the Group. On behalf of the Board I would like to thank him for his services and commitment to the Group. He has been replaced by Martyn Wiseman who has had many years experience in the giftware sector. Under his stewardship, Downpace will continue to focus on developing its own range of products, ensuring that these meet the criteria of key national retailers, such as margin expectation and critical price points. During the current financial year we will be introducing a number of new and exciting products including 'The Osbournes' – a licensed giftware range being developed relating to Ozzy Osbourne and his family following on the success of the TV screening on Sky and MTV. I am also very proud to note that Downpace has been acknowledged by its peers and has been awarded two separate but equally prestigious awards – the LIMA 2002 International Licensing Award for the Best UK Licensed Giftware Distributor and The Spencer Gifts International Vendor of the Year 2001/2 – congratulations goes to all those involved.

### The Digital Products Division

World Wide Licenses (WWL), which specialises in the design and development of our digital products, as well as handling all Far East logistics for Group companies has seen substantial management and operational changes during the year. These changes, we believe, lay the foundation for further future growth, including the appointment of Giovanni Tomaselli, one of the Company's founders, as Managing Director. In addition, WWL has established an office in China which will be primarily responsible for the research, development and quality control of all group developed products.

### The Digital Business

A key area for growth has been identified within the digital imaging business. WWL entered the digital camera market in 2000 with its own developed and branded Cool-iCam range. Since then, WWL has rapidly become a major international supplier within this sector, shipping over 1.4 million units worldwide and more recently we have also become engaged in developing and supplying OEM digital products to third party distributors.

WWL is working with major international companies to ensure that it not only embraces new technology when it becomes generally available but that, in certain cases, it will lead the field. An example of this will be unveiled later in the year. It is satisfying to note that WWL has become accepted as a serious player in the digital area in such a relatively short period and this bodes well for the future.

In July, the Group took a significant step to enhance its digital imaging business with the signing of an exclusive license agreement with Polaroid Corporation Inc., which was subsequently extended in September. The agreement, which is for an initial period expiring on 31 December 2005, gives the Group exclusive rights to manufacture and sell digital cameras under the Polaroid brand for distribution on a worldwide basis, excluding Africa, the Middle East, China and Central and South America.

Polaroid is one of the most recognised brands in the industry and we believe that the partnership will allow us to exploit their innovative and strong brand and will provide us with a solid platform from which we can successfully grow our digital portfolio. We are pleased to report that our first full line of Polaroid digital cameras was launched at the Photokina International Camera Trade Show, held in Cologne in September, and which has been very well received by the market. We plan to introduce up to 20 new products under the license in 2003, all of which will be available for distribution to all our territories.

Shareholders will soon receive an invitation to join the Directors and the WWL team at the UK launch of its new range of digital cameras under both the Polaroid and Cool-iCam brands. The event, which is by invitation only, will be held following the AGM in January.

Our trading relationship with our principal shareholder, Giochi Preziosi S.p.A. (one of Italy's leading designers, distributors and retailers of toys and related products), has strengthened considerably in our respective countries and it continues to bring opportunities to the Group. Over the last twelve months the relationship has developed significantly and we are confident that this partnership will continue to enhance both businesses in the future.

## CHAIRMAN'S STATEMENT CONTINUED

### People

I would like to welcome Aldo Horvat who has joined the Board as a Non-Executive Director. Mr Horvat brings to the Group a wealth of experience gained over more than thirty years within the toy industry.

Maurizio Cellai has decided to stand down as a Non-Executive Director in order to concentrate on his role as Managing Director of Giochi Preziosi S.p.A. I would like to thank Maurizio for his valuable contribution, particularly through our period of re-financing and we wish him well in the future development of his other roles.

On behalf of the Board, I would formally like to thank all our employees both in the UK and overseas for their unstinting commitment and exceptional effort which has been a major contributory factor in returning the Group to profit.

### Current Trading

Since the year end, we have been very encouraged by the improvement in pre-Christmas trading compared to last year, which is without a doubt mainly due to a better quality line-up of product. This has resulted in a broad range of products selling well at retail, which we believe is likely to continue next year.

In addition, the Board continues to be encouraged by the level of support that is being achieved for the Group's Spring 2003 introductions from its customer base. We have grounds for expecting that during the year we shall see a significant growth in the level of direct exports from our Far East companies.

Overall, we are ahead of our internal budgets and see no reason at this stage why this positive trend should not continue through this financial year.



**Richard King**  
Chairman

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

## REPORT OF THE DIRECTORS

The directors present their report together with the accounts for the year ended 31 August 2002.

### Directors

The following are the directors that served during the year:

Richard King (Executive Chairman)  
Enrico Preziosi (Chief Executive Officer and Managing Director)  
Kirankumar Premchand Shah FCCA (Group Finance Director)  
Joseph John Patrick Kissane (Managing Director, Character Options Limited)  
Jonathan James Diver (Group Marketing Director)  
Ian Stanley Fenn (Senior Independent Non-Executive Director)  
Lord Birdwood (Independent Non-Executive Director)  
Maurizio Ferdinando Vincenzo Cellai (Non-Executive Director – resigned 29 November 2002))

### Principal activity

The Group is engaged in the design, development and international distribution and sale of branded and character-licensed toys and games, watches, clocks, giftware, toiletries, stationery, computer accessories, digital and digital imaging products.

### Business review, results and dividend

A review of the business is contained in the Chairman's Statement on pages 2 to 5 and the results are detailed in the consolidated profit and loss account on page 15 and the consolidated cash flow statement on page 18. There was a profit for the year, after taxation, amounting to £1,253,000. No dividend is proposed.

### Directors and their interests in shares

The directors and their interests (all of which are beneficial) in the shares of The Character Group plc are:

Directors	Number of ordinary shares	31 August 2002 Ordinary shares under option	Number of ordinary shares	31 August 2001 Ordinary shares under option
R King	5,770,428	–	5,345,428	–
E Preziosi	11,885,898	–	11,885,898	–
K P Shah	5,620,000	–	6,620,000	–
J J P Kissane	1,662,300	100,000	1,947,300	100,000
J J Diver	1,690,640	100,000	2,130,640	100,000
I S Fenn	9,000	–	9,000	–
Lord Birdwood	8,750	–	8,750	–
M F V Cellai (resigned 29 November 2002)	–	–	–	–
A G Horvat (appointed 29 November 2002)	–	–	–	–
TOPS Pension Scheme*	1,600,000	–	300,000	–

(\*each of R King, K P Shah and J J Diver is a trustee and a beneficiary under such pension scheme arrangements.)

There were no changes in the directors' beneficial interests between 31 August 2002 and 25 November 2002.

Included in the interests of R King are his interests in shares held by Cedarberg Investments Limited, being 1,885,428 ordinary shares at 31 August 2002 and 885,428 ordinary shares at 31 August 2001. There is also included in the interests of R King his interests in shares held by his spouse, Mrs M H King, being 320,000 shares at 31 August 2002 and at 31 August 2001.

Included in the interests of E Preziosi are his interests in shares held by Giochi Preziosi S.p.A., being 11,885,898 ordinary shares at 31 August 2002 and in Toys Investment S.A., being 11,885,898 ordinary shares at 31 August 2001. The shares held by Giochi Preziosi S.p.A. were acquired on 19 July 2002 from Toys Investment S.A., a private investment vehicle in which E Preziosi is interested. The transfer of share ownership from Toys Investment S.A. to Giochi Preziosi S.p.A. constituted a change in the formal arrangements for the holding of the underlying ownership of these shares without materially affecting E Preziosi's interests in them.

Included in the interests of K P Shah are his interests in shares held by Sarissa Holdings Limited, being 5,620,000 ordinary shares at 31 August 2002 and 6,620,000 ordinary shares at 31 August 2001.

Further, Orbis Pension Trustees Limited, the trustee of the Company's employee share ownership trust ("ESOT"), held 285,000 ordinary shares at 31 August 2002 and at 31 August 2001. Each of R King, K P Shah, J J P Kissane and J J Diver is deemed to be interested in such holding by virtue of being within the class of beneficiaries defined by the ESOT.

Pursuant to the requirements of their appointment letters, Lord Birdwood, Mr Fenn and Mr Horvat retire at the Annual General Meeting and, being eligible, offer themselves for re-election or re-appointment (as appropriate).

Lord Birdwood (aged 64) is a non-executive director and has considerable experience as a director of quoted and private companies. He has a particular interest in executive placement and recruitment.

Mr Fenn (aged 59) is a non-executive director and has had extensive experience in corporate finance, gained in stockbroking and merchant banking in the City of London.

Mr Cellai (aged 43), until his resignation from office on 29 November 2002, was a non-executive director. He is the managing director of Giochi Preziosi S.p.A., one of Italy's leading toy companies, and is responsible for its corporate affairs. He is also a director of Toys Investment S.A. Mr Cellai is not offering himself for re-election at the forthcoming Annual General Meeting.

Mr Horvat (aged 60) was appointed to the board as a non-executive director on 29 November 2002. He is a consultant to Giochi Preziosi S.p.A. and has considerable experience in the toy development and distribution industry gained over more than 30 years.

### 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 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 the share option schemes.

## DIRECTORS' REPORT CONTINUED

### 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 2002, trade creditors of the Group represented an average of 64 days credit in relation to total purchases for the year.

### Statement of directors' responsibilities

We are required under company law to prepare accounts for each financial year which give a true and fair view of the state of affairs of the Group and the Company, and of the Group profit or loss for that year.

In preparing these accounts we are required to:

- select suitable accounting policies and apply them consistently
- make reasonable and prudent judgements and estimates
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the accounts
- prepare the accounts on a going concern basis unless, in our view, the Group and the Company will be unable to continue in business.

We are also responsible for:

- keeping proper accounting records
- safeguarding the Group's and the Company's assets
- taking reasonable steps for the prevention and detection of fraud.

### Substantial shareholders other than directors

At 25 November 2002 the following, other than the directors and their family interests, had notified the Company of a interest in 3% or more of the Company's ordinary shares:

Name	Number of ordinary shares	Shareholding %
Sweet Briar Investments Limited	1,875,000	4.54

### Share option schemes

Details of the share option schemes are given in note 17 to the accounts.

### Charitable and political donations

Payments of a charitable nature made during the year amounted to £2,000 (2001: £5,000). There were no political contributions.

### Auditors

A resolution to re-appoint Baker Tilly (formerly HLB Kidsons) as auditors to the Company will be proposed at the Annual General Meeting.

By Order of the Board

**K P Shah** FCCA  
Secretary

Registered Office:  
80 Fleet Street  
London EC4Y 1NA

2 December 2002



## REPORT OF THE REMUNERATION COMMITTEE

The following is a report from the Remuneration Committee, which has been approved and adopted by the Board for submission to shareholders.

### The Remuneration Committee

The Remuneration Committee consists of two independent non-executive directors, Lord Birdwood and Mr Fenn. The policy of the Remuneration Committee is framed to give consideration to the provisions as to best practice set out in the Combined Code.

### 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 use of a company car, fuel and participation in a private health care scheme.

Each of the executive directors is also entitled under the terms of his service contract to a bonus of an amount up to his basic salary in the event that specified performance targets are met or exceeded. These targets require increases in earnings per share in each financial year of the Group, adjusted to exclude certain exceptional non-trading items.

The basic salaries referred to above are reviewed every year by the Remuneration Committee. The service contracts of the executive directors incorporate notice periods of 12 months.

These arrangements were originally agreed by the Board of Directors in May 1995, just prior to the flotation of the Company on the London Stock Exchange, in consultation with their legal and financial advisers and have recently been reviewed and adjusted by the Remuneration Committee. In originally establishing these arrangements and in the recent review, due account was taken of other listed companies of comparable size and business complexity, and in particular of the need to put in place incentive arrangements for each executive director which would be challenging and compatible with sustainable growth in shareholder value whilst not being over-complicated or manipulable. The Board's policy on pension arrangements is to favour money purchase schemes rather than defined benefit ("final salary") schemes.

The Company believes that share ownership by executive directors and senior executives strengthens the links between their personal interests and those of the shareholders. Executive directors holding less than 10% of the Company's issued share capital are eligible to participate in the Company's Inland Revenue approved executive share option scheme, details of which can be found in note 17 to the accounts. All executive directors are entitled to participate in the Company's unapproved executive share option scheme, details of which may also be found in note 17 to the accounts.

The 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. Lord Birdwood, Mr Fenn and Mr Horvat are each entitled to fees, currently at the rate of £15,000 per annum, plus expenses, without any right to compensation on early termination. Mr E Preziosi does not receive any remuneration, and Mr Cellai did not receive any remuneration to the date of his resignation.

## REPORT OF THE REMUNERATION COMMITTEE CONTINUED

The following table shows a breakdown of the remuneration of the directors for the year ended 31 August 2002 and the year ended 31 August 2001. The table has been audited, as referred to in the Independent Auditors' Report.

Year ended 31 August 2002

	Salary/fees	Performance bonus	Benefit in kind	Pension contribution	Total
R King	140,833	140,833	17,178	47,250	346,094
E Preziosi	–	–	–	–	–
K P Shah	135,833	135,833	9,990	32,500	314,156
J J P Kissane	115,000	115,000	9,209	27,500	266,709
J J Diver	115,000	115,000	9,209	22,000	261,209
I S Fenn (non-executive)	15,000	–	–	–	15,000
Lord Birdwood (non-executive)	15,000	–	–	–	15,000
M F V Cellai (non-executive)	–	–	–	–	–
	£536,666	£506,666	£45,586	£129,250	£1,218,168

Year ended 31 August 2001

	Salary/fees	Performance bonus	Benefit in kind	Pension contribution	Total
R King	135,000	–	24,168	47,250	206,418
E Preziosi	–	–	–	–	–
K P Shah	130,000	–	8,905	32,500	171,405
J J P Kissane	110,000	–	12,761	27,500	150,261
J J Diver	110,000	–	15,912	22,000	147,912
I S Fenn (non-executive)	15,000	–	–	–	15,000
Lord Birdwood (non-executive)	15,000	–	–	–	15,000
M F V Cellai (non-executive)	–	–	–	–	–
	£515,000	–	£61,746	£129,250	£705,996

On 28 March 1996, J J P Kissane and J J Diver were each granted options over 100,000 ordinary shares in the Company at an exercise price of 107p per share, exercisable between 28 March 1999 and 27 March 2006.

At 31 August 2002 the mid-market price of a The Character Group plc ordinary share was 25 pence, and during the year the price ranged from 13 pence to 31 pence.

### Lord Birdwood

Chairman, Remuneration Committee

2 December 2002

## CORPORATE GOVERNANCE STATEMENT

The directors have considered the provisions set out in the Principles of Good Governance and Code of Best Practice (“the Combined Code”) appended to the Listing Rules.

### Directors

The Board of directors comprises five executive directors and three non-executive directors, as detailed on page 6. The independent non-executive directors are Lord Birdwood and Mr Fenn. The Board is structured so that no one individual or group dominates the decision-making process.

Board meetings are held four times a year. A formal schedule of matters specifically reserved to the Board, including (inter alia) overall strategy and monitoring of financial performance, has been adopted.

The Board has established an Audit Committee, a Remuneration Committee and a Nominations Committee with duties and responsibilities formally delegated to them.

### Audit Committee

I S Fenn (Chairman), Lord Birdwood, R King

The Audit Committee is responsible for ensuring that the financial performance of the Group is properly measured and reported and for reviewing reports from auditors relating to Group accounts and the Group’s internal control systems.

### Remuneration Committee

Lord Birdwood (Chairman), I S Fenn

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 report of the Remuneration Committee is shown on pages 9 and 10.

### Nominations Committee

R King (Chairman), Lord Birdwood, I S Fenn.

The Nominations Committee is responsible for considering and recommending to the Board changes in the Board’s composition and membership.

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 assurances 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 Turnbull guidance”), 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 accounts and is regularly reviewed by the Board and accords with the guidance.

The Board has reviewed the effectiveness of the system of internal control. 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.

## CORPORATE GOVERNANCE STATEMENT CONTINUED

Management are responsible for the identification and evaluation of significant risks applicable to their areas of 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 sources, including control breakdowns, disruption in information systems, natural catastrophe and regulatory requirements.

Management report to the Risk Committee regularly on their review of risks and how they have managed the risks. The Risk Committee reviews the key risks inherent in the business and the system of control necessary to manage such risks and presents their findings to the Board.

Key elements of the Group's system of internal control 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 ongoing 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 have 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

Group management is responsible for the identification and evaluation of key risks applicable to their areas of business. These risks are assessed on a continual basis and may be associated with a variety of internal and external sources including control breakdowns, disruption in information systems, competition, natural catastrophe and regulatory requirements.

### Liquidity risk

The Group finances itself through a combination of equity and short term debt. The Group satisfied its liquidity requirements during the period under review. The Group's main working capital facility is provided by factoring. There was also continued use of short term bank facilities during the period under review. As at 31 August 2002, the Group had committed bank facilities of £2.25 million, of which £2.2 million was undrawn.

### Foreign currency risk

The Group faces foreign currency exposures on translation of the net assets and results of its overseas subsidiaries and on trading transactions undertaken mainly in US dollars. The Group seeks to mitigate the effect of its currency exposures by buying currency forward when appropriate. The Group does not hedge its results translation exposures as these are accounting rather than cash exposures.

### Relations with shareholders

The Board supports the principle of clear reporting of financial performance to shareholders. Each year, shareholders receive a full annual report and an interim report, with supplementary trading statements issued from time to time, where appropriate.

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

### Compliance statement

Throughout the year the Group has fully complied with the Combined Code's Code of Best Practice with the following exceptions:

- Code provision D.3.1 states that the Audit Committee should consist of at least three directors, all of which should be non executive. The Board consider that the inclusion of R King on the Audit Committee is appropriate, given the method of operation of the Group.
- Code provision A.6.2 states that all directors should be subject to re-election at intervals of no more than three years. The executive directors service contracts were prepared before the Combined Code was issued, and as such do not contain such re-election provisions. An amendment cannot be made unilaterally by the Company to an executive director's service contract and any such amendment would, accordingly, have to be negotiated in turn with each executive director. Given the significant shareholdings of the executive directors, and the potential cost to the Company of compensating the executive directors for any such amendment to their contracts, the Board considers that the existing arrangements with the executive directors should, for the time being, remain undisturbed in this respect.

### 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 accounts.

**R King**

Chairman

2 December 2002

# INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF THE CHARACTER GROUP PLC

We have audited the financial statements which comprise the Profit and Loss Account, the Balance Sheet, the Cash Flow Statement, the Statement of Total Recognised Gains and Losses and the related notes. We have also audited the information in the Report of the Remuneration Committee that is described as having been audited.

## Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the Annual Report, the Directors' Remuneration disclosure as set out in the Report of the Remuneration Committee and the financial statements in accordance with applicable law and United Kingdom Accounting Standards are set out in the Statement of directors' responsibilities.

Our responsibility is to audit the financial statements and the part of the Report of the Remuneration Committee required to be audited in accordance with relevant legal and regulatory requirements, and United Kingdom Auditing Standards.

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Report of the Remuneration Committee that is described as having been audited have been properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' Report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the company and other members of the Group is not disclosed.

We review whether the Corporate Governance Statement reflects the company's compliance with the seven provisions of the Combined Code specified for our review by the Listings Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the Board's statements on internal control covers all risks and controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

We read the other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. This other information comprises only the Directors' Report, the unaudited part of the Report of the Remuneration Committee, the Chairman's Statement, and the Corporate Governance Statement. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

## Basis of audit opinion

We conducted our audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements and the part of the Report of the Remuneration Committee required to be audited. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements and the part of the Report of the Remuneration Committee required to be audited are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the Report of the Remuneration Committee required to be audited.

## Opinion

In our opinion:

- the financial statements give a true and fair view of the state of affairs of the Company and the Group at 31 August 2002 and of the Group profit for the year then ended; and
- the financial statements and part of the Report of the Remuneration Committee required to be audited have been properly prepared in accordance with the Companies Act 1985

## Baker Tilly

Registered Auditors and Chartered Accountants  
Marlborough House, Victoria Road South, Chelmsford, Essex CM1 1LN  
2 December 2002

## CONSOLIDATED PROFIT AND LOSS ACCOUNT

for the year ended 31 August 2002

	note	2002 £000's	2001 £000's
<b>Turnover</b>	2	58,939	58,887
Cost of sales		(38,933)	(42,809)
<b>Gross profit</b>		20,006	16,078
<b>Net operating expenses</b>			
Selling and distribution costs		(7,119)	(7,356)
Administration expenses		(11,218)	(13,171)
Other operating income		408	440
<b>Operating profit/(loss)</b>		2,077	(4,009)
Interest	5	(562)	(866)
<b>Profit/(loss) on ordinary activities before taxation</b>		1,515	(4,875)
Taxation	6	(262)	(878)
<b>Profit/(loss) on ordinary activities after taxation, transfer to/(from) reserves</b>		1,253	(5,753)
<b>Earnings/(loss) per share</b>	7		
– basic		3.06p	(23.89)p
– fully diluted		2.52p	(23.89)p

All activity has arisen from continuing operations.

## STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

for the year ended 31 August 2002

	2002 £000's	2001 £000's
Profit/(loss) for the financial year	1,253	(5,753)
Foreign exchange differences	(464)	204
Total recognised gains and losses relating to the year	789	(5,549)
Prior period adjustment (see note 1 – Deferred taxation)	522	–
<b>Total gains and losses recognised since the last annual report</b>	1,311	(5,549)

# CONSOLIDATED BALANCE SHEET

at 31 August 2002

	note	2002 £000's	2001 £000's (as restated)
<b>Fixed assets</b>			
Intangible assets	8	773	818
Tangible assets	9	1,844	2,012
Investments	10	74	53
		<b>2,691</b>	<b>2,883</b>
<b>Current assets</b>			
Stocks	11	4,982	7,785
Trade debtors subject to finance arrangements		7,946	5,957
Factor advances		(6,580)	(4,432)
		<b>1,366</b>	<b>1,525</b>
Debtors – including non-factored trade debtors	12	10,117	6,416
Cash at bank and in hand		3,284	1,638
		<b>19,749</b>	<b>17,364</b>
Creditors: amounts falling due within one year	13	(15,374)	(13,953)
<b>Net current assets</b>		<b>4,375</b>	<b>3,411</b>
<b>Total assets less current liabilities</b>		<b>7,066</b>	<b>6,294</b>
Creditors: amounts falling due after more than one year:	14		
Convertible loan note		(4,600)	(4,600)
Other creditors		(1)	(5)
		<b>(4,601)</b>	<b>(4,605)</b>
<b>Provision for liabilities and charges</b>	15		
Investment in joint venture:			
Share of gross assets		–	–
Share of gross liabilities		–	(13)
<b>Net assets</b>		<b>2,465</b>	<b>1,676</b>
<b>Capital and reserves</b>			
Called up share capital	17	2,064	2,064
Shares to be issued	23	908	908
Capital redemption reserve	18	15	15
Share premium	18	7,843	7,843
Merger reserve	18	651	651
Profit and loss account	18	(9,016)	(9,805)
<b>Equity shareholders' funds</b>	16	<b>2,465</b>	<b>1,676</b>

The accounts on pages 15 to 32 were approved by the Board of Directors on 2 December 2002.

R King  
Director

KP Shah  
Director



## PARENT COMPANY BALANCE SHEET

at 31 August 2002

	note	2002 £000's	2001 £000's
<b>Fixed assets</b>			
Intangible assets	8	773	818
Tangible assets	9	1,049	1,182
Investments	10	1,756	1,351
		3,578	3,351
<b>Current assets</b>			
Debtors	12	14,410	11,482
Cash at bank and in hand		14	2,669
		14,424	14,151
Creditors: amounts falling due within one year	13	(773)	(362)
<b>Net current assets</b>		<b>13,651</b>	<b>13,789</b>
<b>Total assets less current liabilities</b>		<b>17,229</b>	<b>17,140</b>
Creditors: amounts falling due after more than one year:	14		
Convertible loan note		(4,600)	(4,600)
<b>Net assets</b>		<b>12,629</b>	<b>12,540</b>
<b>Capital and reserves</b>			
Called up share capital	17	2,064	2,064
Shares to be issued	23	908	908
Capital redemption reserve	18	15	15
Share premium	18	7,843	7,843
Profit and loss account	18	1,799	1,710
<b>Equity shareholders' funds</b>	16	<b>12,629</b>	<b>12,540</b>

The accounts on pages 15 to 32 were approved by the Board of Directors on 2 December 2002.

R King  
Director

KP Shah  
Director

## CONSOLIDATED CASH FLOW STATEMENT

for the year ended 31 August 2002

	note	2002 £000's	2001 £000's
<b>Cash flow from operating activities</b>	20	<b>3,064</b>	<b>(6,488)</b>
<b>Returns on investment and servicing of finance</b>			
Interest received		17	70
Interest paid		(575)	(928)
Interest element of finance lease rental payments		(4)	(8)
<b>Net cash outflow for returns on investments and servicing of finance</b>		<b>(562)</b>	<b>(866)</b>
<b>Taxation</b>		<b>(155)</b>	<b>474</b>
<b>Capital expenditure and financial investment</b>			
Payments to acquire tangible fixed assets		(770)	(355)
Sale of tangible fixed assets		200	45
<b>Net cash outflow for capital expenditure and financial investment</b>		<b>(570)</b>	<b>(310)</b>
Cash inflow/(outflow) before use of liquid resources and financing		1,777	(7,190)
<b>Financing</b>			
Issue of ordinary share capital		–	3,278
Issue of convertible loan note		–	4,600
Capital element of finance lease rentals		(37)	(49)
Short term bank loan		(94)	(259)
<b>Net cash (outflow)/inflow from financing</b>		<b>(131)</b>	<b>7,570</b>
<b>Increase in cash in the year</b>	22	<b>1,646</b>	<b>380</b>
<b>Decrease in net debt in the year</b>	22	<b>1,777</b>	<b>688</b>

# NOTES TO THE ACCOUNTS

## 1 PRINCIPAL ACCOUNTING POLICIES

### Basis of accounting

The accounts have been prepared in accordance with applicable accounting standards and under the historical cost accounting rules.

The principal accounting policies of the Group are set out below:

### Basis of consolidation

The Group accounts for the year ended 31 August 2002 comprise the accounts of the Company and its subsidiaries all of which are made up to the end of the Company's financial year.

Where part of the purchase consideration for an acquisition is dependant on future profits of the acquired company or business, and can be satisfied, at the Group's option, by the issue of new shares, provision is made for the estimated future consideration, and shown in the Balance Sheet as 'shares to be issued' in accordance with the requirement of FRS 7. The profit and loss account for the parent company has not been included, as permitted by Section 230 of the Companies Act 1985.

The profit of the Company for the financial year dealt with in the consolidated financial statements is disclosed in note 18 to the accounts.

### Goodwill

Goodwill arising on acquisitions of businesses and subsidiary undertakings is calculated as the excess of the fair value of the consideration given and costs of acquisition over the fair value of the separable net assets acquired. Goodwill arising on acquisitions before 1 September 1998 was written off against reserves immediately on acquisition. In accordance with FRS 10, goodwill arising on acquisitions on or after 1 September 1998 is capitalised as an intangible fixed asset and amortised over its estimated useful economic life. The goodwill carried in the balance sheet is written off over 20 years. Goodwill previously written off directly to reserves has not been reinstated on the balance sheet, but written off against the profit and loss reserve in accordance with the transitional provisions of FRS 10.

On the subsequent disposal or termination of a previously acquired business, the profit or loss on disposal or termination is calculated after charging the amount of any related goodwill taken directly to reserves on acquisition and the net book value of any related goodwill capitalised in the balance sheet.

### Investments

Shares in subsidiary undertakings are valued at the lower of cost or recoverable amount, where recoverable amount is the higher of net realisable value and value in use. Provision is made against investments where the diminution in value is considered to be permanent.

Own shares are valued at the lower of cost and market value.

### Depreciation

Depreciation is provided on all tangible fixed assets at rates calculated to write off the cost of each asset evenly 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%
Tooling	20 – 50%

### Stocks

Stocks are stated at the lower of cost and net realisable value. Net realisable value is based on estimated selling price less the estimated cost of disposal.

### Factoring arrangements

Certain subsidiaries have factoring agreements under which debts approved by the factor companies are assigned to them without recourse. Non-refundable advances are made by the factor companies. The directors do not intend that the companies will support any losses from factored debts, and the factor companies can only seek recourse of funds from the asset financed and will not seek any other recourse. A linked presentation of the relevant balances is therefore shown on the face of the balance sheet in accordance with the requirements of FRS 5. The factor company has a debenture over the assets of the Company and certain subsidiary companies. The factoring charges are charged to the profit and loss account as they accrue.

# NOTES TO THE ACCOUNTS CONTINUED

## 1 PRINCIPAL ACCOUNTING POLICIES CONTINUED

### Foreign currencies

In the financial statements of individual group undertakings, transactions in foreign currencies are recorded in the local currency using the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated using the rate of exchange ruling at the balance sheet date and the gains and losses on translation are included in the profit and loss account. In the consolidated financial statements, the results and the balance sheets of overseas subsidiary undertakings are translated at the year end exchange rates. Exchange differences resulting from the re-translation of opening net assets are dealt with in reserves. All other exchange differences are dealt with in the profit and loss account.

### Leasing and hire purchase contracts

Assets held under finance leases and hire purchase contracts are capitalised in the balance sheet and are depreciated over their useful lives. The interest element of the rental obligations is charged to the profit and loss account over the period of the lease and represents a constant proportion of the balance of capital repayments outstanding. Rentals paid under operating leases are charged to income as incurred.

### Financial instruments

Financial assets are recognised on the balance sheet at the lower of cost and net realisable value. Discounts and premia are charged or credited to the profit and loss account over the life of the asset or liability to which they relate. The Group has taken advantage of the exemption available for short term debtors and creditors.

### Deferred taxation

From 1 September 2001 the Group has adopted FRS 19 'Deferred tax', which requires full provision to be made for deferred tax arising from timing differences between the recognition of gains and losses in the financial statements and their recognition in tax computations, where future payment is more likely than not to occur. In adopting FRS 19, the Group has chosen not to discount deferred tax assets and liabilities. The comparative figures for all prior periods have been restated to reflect the impact of FRS 19. In accordance with FRS 19, no provision is made for deferred tax on the unremitted earnings of the Group's overseas companies. Previously, deferred taxation was only provided for to the extent that it was probable that a liability would crystallise.

The effect of this change in accounting policy on the profit and loss reserve of the Group is set out below.

Profit and loss reserve as previously reported at 31 August 2001	(10,327)
Prior period adjustment	522
Profit and loss reserve as restated 31 August 2001	(9,805)

The prior period adjustment did not have a material effect on the results of the Group for the year ended 31 August 2001.

### Pension contributions

The Group operates defined contribution pension schemes. Contributions are allocated to the profit and loss account when due.

## 2 TURNOVER

Turnover represents the amount derived from the provision of goods and services which arise from the Group's ordinary activities, stated net of value added tax. An analysis of turnover by geographical market is given below:

	12 months to 31 August 2002 Total £000's	12 months to 31 August 2001 Total £000's
United Kingdom	42,213	41,465
Rest of the world	16,726	17,422
Total	58,939	58,887

All the Group's activities during the 12 months ended 31 August 2002 are classed as continuing. The directors consider that the disclosure of further disaggregated information would be seriously prejudicial to the commercial interests of the Group.

## NOTES TO THE ACCOUNTS CONTINUED

### 3 OPERATING PROFIT

	note	12 months to 31 August 2002 £000's	12 months to 31 August 2001 £000's
Operating profit is stated after charging:			
Staff costs	4	5,846	6,643
Auditors' remuneration – audit services		98	90
– non audit services		35	75
Operating leases – land and buildings		240	369
Depreciation of tangible fixed assets			
– owned assets		658	705
– assets held under finance leases and HP contracts		2	31
		660	736
Goodwill amortisation		45	30

### 4 DIRECTORS AND EMPLOYEES

		12 months to 31 August 2002 £000's	12 months to 31 August 2001 £000's
Staff costs including directors' emoluments			
Wages and salaries		5,196	5,806
Social security costs		402	583
Other pension costs		248	254
		5,846	6,643
The average number of employees during the year was:			
Management and administration	Number	72	101
Selling and distribution	Number	100	126
		172	227

The amount payable to pension schemes as at the balance sheet date was £64,000 (2001: £43,000).

		12 months to 31 August 2002 £000's	12 months to 31 August 2001 £000's
<b>Directors</b>			
Emoluments including pension contributions		1,218	706
Emoluments, excluding pension contributions, of Chairman and highest paid director		299	159

#### Directors' remuneration

Disclosures on directors' remuneration, share options and pension contributions required by the Companies Act 1985 and those specified for audit by the Listing Rules are included in the Report of the Remuneration Committee and form part of these audited accounts.

## NOTES TO THE ACCOUNTS CONTINUED

### 5 INTEREST

	12 months to 31 August 2002 £000's	12 months to 31 August 2001 £000's
Total interest receivable	17	70
Total interest payable:		
On bank overdraft and similar charges	(368)	(333)
Finance leases and hire purchase contracts	(4)	(8)
Factor advances	(207)	(595)
	(562)	(866)

### 6 TAXATION

	12 months to 31 August 2002 £000's	12 months to 31 August 2001 £000's
<b>UK Corporation Tax</b>		
Tax on profits for the period	–	–
Adjustments in respect of previous periods	–	789
	–	789
<b>Foreign Tax</b>		
Tax on profits for the period	224	89
Adjustments in respect of previous periods	–	–
	224	89
Total current tax	224	878
<b>Deferred Tax</b>		
Tax loss carried forward	–	–
Origination and reversal of timing differences	38	–
Total deferred tax	38	–
Tax on profit on ordinary activities	262	878
<b>Factors affecting tax charge for the period</b>		
Profit/(loss) on ordinary activities before taxation	1,515	(4,875)
Profit/(loss) on ordinary activities multiplied by standard rate of corporation tax in the UK of 30% (2001: 30%)	455	(1,463)
Effects of:		
Expenses not deductible for tax purposes	160	(6)
Capital allowances in excess of depreciation	(194)	(123)
Other temporary differences between taxable and accounting profit	38	(233)
Lower tax rate on overseas earnings	(235)	(259)
Tax losses not utilised	–	2,173
Adjustments in respect of prior periods	–	789
Current tax charge for the year	224	878

## NOTES TO THE ACCOUNTS CONTINUED

### 7 EARNINGS/(LOSS) PER SHARE - PENCE

	12 months to 31 August 2002			12 months to 31 August 2001		
	Profit after taxation	Weighted average number of ordinary shares	Pence per share	Loss after taxation	Weighted average number of ordinary shares	Pence per share
Basic earnings/(loss) per share	1,253,000	41,002,909	3.06	(5,753,000)	24,079,063	(23.89)
Impact of shares to be issued	–	3,632,000	(0.25)	–	–	–
Impact of convertible loan note	161,000	11,500,000	(0.29)	–	–	–
Diluted earnings/(loss) per share	1,414,000	56,134,909	2.52	(5,753,000)	24,079,063	(23.89)

### 8 INTANGIBLE ASSETS - GOODWILL

#### The Group and the Company

Cost	£000's
1 September 2001 and 31 August 2002	908
<b>Amortisation</b>	
1 September 2001	90
Charge for the year	45
<b>31 August 2002</b>	<b>135</b>
<b>Net book value</b>	
<b>31 August 2002</b>	<b>773</b>
31 August 2001	818

### 9 TANGIBLE FIXED ASSETS

#### The Group

Cost	Freehold land and buildings £000's	Short leasehold improvement £000's	Tooling £000's	Fixtures fittings and equipment £000's	Motor vehicles £000's	Total £000's
1 September 2001	1,182	23	355	1,618	944	4,122
Additions	–	57	342	188	183	770
Disposals	–	–	(190)	(186)	(621)	(997)
Differences on exchange	–	5	(11)	(8)	–	(14)
<b>31 August 2002</b>	<b>1,182</b>	<b>85</b>	<b>496</b>	<b>1,612</b>	<b>506</b>	<b>3,881</b>
<b>Depreciation</b>						
1 September 2001	161	14	204	1,194	537	2,110
Charge for the year	39	16	201	290	114	660
Disposals	–	–	(178)	(181)	(379)	(738)
Exchange rate movement	–	5	–	–	–	5
<b>31 August 2002</b>	<b>200</b>	<b>35</b>	<b>227</b>	<b>1,303</b>	<b>272</b>	<b>2,037</b>
<b>Net book value</b>						
<b>31 August 2002</b>	<b>982</b>	<b>50</b>	<b>269</b>	<b>309</b>	<b>234</b>	<b>1,844</b>
31 August 2001	1,021	9	151	424	407	2,012

The net book value of motor vehicles includes £6,000 (2001: £19,984) in respect of assets held under finance leases and hire purchase contracts, the depreciation of which is shown in note 3.

## NOTES TO THE ACCOUNTS CONTINUED

### 9 TANGIBLE FIXED ASSETS CONTINUED

#### The Company

Cost	Freehold land and buildings £000's	Fixtures fittings and equipment £000's	Motor vehicles £000's	Total £000's
1 September 2001	1,182	105	207	1,494
Additions	–	–	–	–
Disposals	–	(1)	(153)	(154)
<b>31 August 2002</b>	<b>1,182</b>	<b>104</b>	<b>54</b>	<b>1,340</b>
<b>Depreciation</b>				
1 September 2001	162	31	119	312
Charge for the year	39	21	11	71
Disposals	–	–	(92)	(92)
<b>31 August 2002</b>	<b>201</b>	<b>52</b>	<b>38</b>	<b>291</b>
<b>Net book value</b>				
<b>31 August 2002</b>	<b>981</b>	<b>52</b>	<b>16</b>	<b>1,049</b>
31 August 2001	1,020	74	88	1,182

### 10 FIXED ASSET INVESTMENTS

#### The Group

Cost	Own shares £000's	Shares listed in the UK £000's	Total £000's
At 1 September 2001 and 31 August 2002	908	2	910
<b>Amortisation and provisions</b>			
At 1 September 2001	(857)	–	(857)
Write back of provision	21	–	21
<b>As at 31 August 2002</b>	<b>(836)</b>	<b>–</b>	<b>(836)</b>
<b>Net book value</b>			
<b>As at 31 August 2002</b>	<b>72</b>	<b>2</b>	<b>74</b>
As at 31 August 2001	51	2	53

The market value of the listed investments is £1,897 (2001: £1,717).

#### The Company

Cost	Shares in subsidiary undertakings £000's	Joint venture £000's	Own shares £000's	Total £000's
At 1 September 2001 and 31 August 2002	3,537	1	908	4,446
<b>Amortisation and provisions</b>				
At 1 September 2001	(2,238)	–	(857)	(3,095)
Movement in provision	385	(1)	21	405
<b>As at 31 August 2002</b>	<b>(1,853)</b>	<b>(1)</b>	<b>(836)</b>	<b>(2,690)</b>
<b>Net book value</b>				
<b>As at 31 August 2002</b>	<b>1,684</b>	<b>–</b>	<b>72</b>	<b>1,756</b>
As at 31 August 2001	1,299	1	51	1,351

Issued shares in the Company are held by the trustee of the Company's Employee Share Ownership Trust ("the Trust") for the benefit of the Group's employees, former employees and their respective families. At 31 August 2002 the Trust held 285,000 shares (2001: 285,000) which had a market value of £72,000 (2001: £51,000). In accordance with UITF 13 these shares have been revalued to market value.



## NOTES TO THE ACCOUNTS CONTINUED

### 10 FIXED ASSET INVESTMENTS CONTINUED

#### The Company continued

At 31 August 2002 the Group 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, games and puzzles, watches, clocks, stationery, computer accessories and digital and digital imaging products
Toy Options (Far East) Limited	Hong Kong	Ordinary	100%	Toy exporter
World Wide Licenses Limited	Hong Kong	Ordinary	100%	Design and distribution of watches, clocks, stationery, giftware, computer accessories and digital and digital imaging products
Downpace Limited	United Kingdom	Ordinary	100%	Gift importer and distributor
Character Games Limited	United Kingdom	Ordinary	100%	Design and distribution of games and puzzles
Character Games (Far East) Limited	Hong Kong	Ordinary	100%	Distribution of games and puzzles

All of the subsidiary undertakings have been included in these consolidated accounts.

WWL (Europe) Limited was incorporated in September 2002.

### 11 STOCKS

	The Group 2002 £000's	The Group 2001 £000's
Components	557	1,245
Finished goods for resale	4,425	6,540
	<b>4,982</b>	<b>7,785</b>

### 12 DEBTORS

	The Group 2002 £000's	The Group 2001 £000's (as restated)	The Company 2002 £000's	The Company 2001 £000's
Due from subsidiary undertakings	–	–	13,650	11,027
Trade debtors (non-factored)	6,479	3,891	–	–
Other debtors	1,366	857	154	155
Prepayments and accrued income	1,788	1,146	568	251
Other taxation and social security	–	–	38	49
Deferred tax	484	522	–	–
	<b>10,117</b>	<b>6,416</b>	<b>14,410</b>	<b>11,482</b>

#### Deferred Taxation

The elements of deferred taxation are as follows:

	2002 £000's	2001 £000's
Difference between accumulated depreciation and tax depreciation	104	139
Other timing differences	29	32
Tax losses	351	351
	<b>484</b>	<b>522</b>

## NOTES TO THE ACCOUNTS CONTINUED

### 12 DEBTORS CONTINUED

The movements in deferred tax are as follows:

At 1 September 2001 as previously reported	–
Prior period adjustment – FRS 19	522
At 1 September 2001 as restated	522
Profit and loss account	(38)
<b>At 31 August 2002</b>	<b>484</b>

The deferred tax asset of £484,000 (2001: £522,000) is recoverable against future forecast taxable profits within a time horizon that the directors consider more likely than not to occur.

Deferred tax assets have not been recognised in respect of tax losses of £12,793,000 (2001: 12,793,000). At a tax rate of 30%, these losses represent a potential tax asset of £3,838,000. These losses would be recoverable in the event of taxable profits arising in certain subsidiary companies.

### 13 CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	The Group 2002 £000's	The Group 2001 £000's	The Company 2002 £000's	The Company 2001 £000's
Trade creditors	7,390	9,218	–	–
Short-term bank loan	–	94	–	–
Due to subsidiary undertakings	–	–	75	–
Corporation tax	175	69	–	–
Other taxation and social security	713	366	–	–
Accruals and deferred income	7,093	4,170	698	362
Finance leases and hire purchase contracts	3	36	–	–
	<b>15,374</b>	<b>13,953</b>	<b>773</b>	<b>362</b>

A bank has a debenture over the assets and undertakings of the Company and certain subsidiary companies. Further, a major trade creditor who offers trade finance is secured by a debenture over the assets and undertakings of a subsidiary company.

### 14 CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	The Group 2002 £000's	The Group 2001 £000's	The Company 2002 £000's	The Company 2001 £000's
Convertible loan note	4,600	4,600	4,600	4,600

On 16 July 2001 the Company issued a convertible loan note.

The earliest redemption date is 16 July 2004. The outstanding, unconverted amount of the loan note is repayable at its nominal value at the option of the Company or the noteholder at any time on or after this date, subject to a notice period of 30 days.

The note is convertible in whole or in part into up to 11,500,000 ordinary shares of 5p each at a rate of 40p nominal per share at any time prior to 16 July 2004, at the option of the noteholder.

The note will become repayable forthwith in the event of a default, which means any of the following:

- (i) the Company is 14 days late with any payment
- (ii) the Company fails to comply with any term of the loan note agreement, after 30 days notice thereof is given to the Company
- (iii) the Company is wound up or a receiver or administrator is appointed.

## NOTES TO THE ACCOUNTS CONTINUED

### 14 CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR CONTINUED

	The Group 2002 £000's	The Group 2001 £000's
<b>Other creditors</b>		
Finance leases and hire purchase contracts repayable in less than five years	1	5

### 15 PROVISION FOR LIABILITIES AND CHARGES

#### Investment in joint venture

The movement in the share of gross assets less the share of gross liabilities in the investment in the joint venture was as follows:

	The Group 2002 £000's	The Group 2001 £000's
1 September 2001	13	191
Movement in provision	(13)	(178)
<b>31 August 2002</b>	<b>–</b>	<b>13</b>

### 16 RECONCILIATION OF SHAREHOLDERS' FUNDS

	The Group 12 months to 31 August 2002 £000's	The Group 12 months to 31 August 2001 £000's (as restated)	The Company 12 months to 31 August 2002 £000's	The Company 12 months to 31 August 2001 £000's
Profit/(loss) for the financial period	1,253	(5,753)	89	111
Exchange differences taken to reserves	(464)	204	–	–
Issue of shares	–	3,278	–	3,278
Movement in shares to be issued	–	(900)	–	(900)
Net addition to/(subtraction from) shareholders' funds	789	(3,171)	89	2,489
Opening shareholders' funds (originally £1,154,000 before adding prior year adjustment of £522,000)	1,676	4,847	12,540	10,051
Closing shareholders' funds	2,465	1,676	12,629	12,540

### 17 CALLED UP SHARE CAPITAL

	2002 £000's	2001 £000's
<b>Authorised</b>		
110,000,000 (2001: 110,000,000) ordinary shares of 5 pence each	5,500	5,500
<b>Allotted called up and fully paid</b>		
41,287,909 (2001: 41,287,909) ordinary shares of 5 pence each	2,064	2,064

## NOTES TO THE ACCOUNTS CONTINUED

### 17 CALLED UP SHARE CAPITAL CONTINUED

#### Share options

The Company adopted the rules of an Inland Revenue approved executive scheme on 3 May 1995. At 1 September 2001, options to acquire up to a total of 247,000 new ordinary shares remained outstanding under this scheme. On 15 February 2002 options over a total of 557,000 new ordinary shares in the Company were granted to Group employees at an exercise price of 24.25p per share. As at 31 August 2002, options to acquire up to a total of 798,500 new ordinary shares in the Company remained outstanding under this scheme details of which were as follows:

No. of shares	Date granted	Exercise period	Exercise price
200,000	28 March 1996	28 March 1999 to 27 March 2006	107.0p
24,000	5 March 1997	5 March 2000 to 4 March 2007	101.0p
18,000	5 December 1997	5 December 2000 to 4 December 2007	136.5p
556,500	15 February 2002	15 February 2005 to 14 February 2012	24.25p

The Company adopted the rules of its unapproved executive share option scheme on 2 June 1997. At 1 September 2001 options to acquire up to a total of 175,500 new ordinary shares remained outstanding under this scheme. On 15 February 2002 options over a total of 207,000 new ordinary shares in the Company were granted to Group employees at an exercise price of 24.25p per share. As at 31 August 2002, options to acquire up to a total of 382,500 new ordinary shares in the Company remained outstanding under this scheme, details of which were as follows:

No. of shares	Date granted	Exercise period	Exercise price
175,500	5 December 1997	5 December 2000 to 4 December 2004	136.5p
207,000	15 February 2002	15 February 2005 to 14 February 2009	24.25p

No amount is payable by any grantee of an option at the time of grant under either of the Company's executive share option schemes.

### 18 SHARE CAPITAL AND RESERVES

	note	Called up share capital £000's	Shares to be issued £000's	Capital redemption reserve £000's	Share premium account £000's	Merger reserve £000's	Profit and loss account £000's	Total £000's
<b>The Group</b>								
1 September 2001 (as previously stated)		2,064	908	15	7,843	651	(10,327)	1,154
Prior year adjustment	1	–	–	–	–	–	522	522
1 September 2001 (as restated)		2,064	908	15	7,843	651	(9,805)	1,676
Exchange differences		–	–	–	–	–	(464)	(464)
Profit retained		–	–	–	–	–	1,253	1,253
<b>31 August 2002</b>		<b>2,064</b>	<b>908</b>	<b>15</b>	<b>7,843</b>	<b>651</b>	<b>(9,016)</b>	<b>2,465</b>
<b>The Company</b>								
1 September 2001		2,064	908	15	7,843	–	1,710	12,540
Profit retained		–	–	–	–	–	89	89
<b>31 August 2002</b>		<b>2,064</b>	<b>908</b>	<b>15</b>	<b>7,843</b>	<b>–</b>	<b>1,799</b>	<b>12,629</b>

In accordance with FRS 10, goodwill previously written off against reserves has not been reinstated and the goodwill has been offset against the profit and loss account reserve. The cumulative amount of positive goodwill written off against reserves is £5,645,000 (31 August 2001: £5,645,000).

## NOTES TO THE ACCOUNTS CONTINUED

### 19 GUARANTEES AND OTHER FINANCIAL COMMITMENTS

a. Financial commitments under non-cancellable operating leases will result in the following payments falling due in the year to 31 August 2003

	2002		2001	
	Land and buildings £000's	Plant and equipment £000's	Land and buildings £000's	Plant and equipment £000's
Expiring within one year	217	–	202	–
Expiring between one and five years	271	–	125	–
Expiring after five years or more	245	–	121	–
	733	–	448	–

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

	2002 £000's	2001 £000's
Within one year	928	330
Between one and two years*	1,008	296
Between two and five years*	968	–
	2,904	626

\* A subsidiary has an option to terminate one of these contracts in which event a substantial part of these amounts would not be payable.

c. The future minimum hire purchase and finance lease payments to which the Group was committed at 31 August 2002 are:

	2002 £000's	2001 £000's
Net amounts payable within one year	3	36
Net amount payable between two and five years	1	5
	4	41

### 20 RECONCILIATION OF OPERATING PROFIT/(LOSS) TO NET CASH OUTFLOW FROM OPERATING ACTIVITIES

	12 months to 31 August 2002 £000's	12 months to 31 August 2001 £000's
Operating profit/(loss)	2,077	(4,009)
Depreciation, impairment and amortisation	705	766
Movement in respect of own shares	(21)	100
Loss on disposal of fixed assets and subsidiary	78	52
Decrease in stocks	2,803	3,745
Increase in debtors	(3,632)	(1,398)
Increase/(decrease) in creditors	1,518	(5,948)
Exchange movement	(464)	204
Net cash inflow/(outflow) from operating activities	3,064	(6,488)

### 21 RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET DEBT

	12 months to 31 August 2002 £000's	12 months to 31 August 2001 £000's
Increase in cash in the period	1,646	380
Cash inflow from movement in debt and lease financing	131	308
Movement in net debt resulting from cash flows	1,777	688
Net debt at 1 September 2001	1,503	815
Net debt at 31 August 2002	3,280	1,503

## NOTES TO THE ACCOUNTS CONTINUED

### 22 ANALYSIS OF NET DEBT

	Cash at bank and in hand £000's	Short-term bank loan £000's	Lease finance £000's	Total £000's
<b>1 September 2000</b>	1,258	(353)	(90)	815
Cash flow	380	259	49	688
<b>31 August 2001</b>	1,638	(94)	(41)	1,503
Cash flow	1,646	94	37	1,777
<b>31 August 2002</b>	<b>3,284</b>	<b>–</b>	<b>(4)</b>	<b>3,280</b>

### 23 SHARES TO BE ISSUED

	£000's
<b>1 September 2001 and 31 August 2002</b>	<b>908</b>

The final part of the consideration in respect of the acquisition of the business and assets of The Really Useful Games Company Limited is based on sales and post tax profits of Character Games Limited for the three years ending 31 December 2002. The consideration can be satisfied in whole or in part at the Company's option by the issue of new ordinary shares at market value.

### 24 FINANCIAL INSTRUMENTS

The Group's use of financial instruments is explained under the heading of 'Risk Management' in Corporate Governance on page 12. As permitted by FRS 13 short term debtors and creditors have been excluded from all financial instrument disclosures.

#### a. Exchange risk

The tables below show the Group's currency exposures; in other words those transactional exposures that give rise to the net currency gains and losses recognised in the profit and loss account. Such exposures comprise the monetary assets and monetary liabilities of the Group that are not denominated in the operating currency of the operating company involved.

At 31 August 2002 these currency exposures were as follows:

Net foreign currency monetary assets	Functional currency of group operation		Total £000's
	Sterling £000's	HK\$ £000's	
Sterling	–	1	1
US\$	(76)	877	801
Euro	97	1	98
<b>Total</b>	<b>21</b>	<b>879</b>	<b>900</b>

At 31 August 2001:

Net foreign currency monetary assets	Functional currency of group operation		Total £000's
	Sterling £000's	HK\$ £000's	
Sterling	–	–	–
US\$	395	683	1,078
Euro	–	–	–
<b>Total</b>	<b>395</b>	<b>683</b>	<b>1,078</b>

#### b. Fair values

The fair value of all financial instruments at 31 August 2002 and 31 August 2001 was not materially different from their book value

## NOTES TO THE ACCOUNTS CONTINUED

### 24 FINANCIAL INSTRUMENTS CONTINUED

#### c. Maturity of financial liabilities

The maturity profile of the Group's financial liabilities at 31 August 2002 was as follows:

	2002 £000's	2001 £000's
In one year or less, or on demand	3	130
In more than one year, but not more than two years	1	5
In more than two years, but not more than five years	4,600	4,600
In more than five years	–	–
<b>Total</b>	<b>4,604</b>	<b>4,735</b>

#### d. Borrowing facilities

The Group has various available borrowing facilities. The undrawn committed facilities available in respect of which all conditions precedent had been met at that date, were as follows:

	2002 £000's	2001 £000's
Expiring within one year	2,156	1,406
Expiring between one year, but not more than two years	–	–
Expiring in more than two years	–	–
<b>Total</b>	<b>2,156</b>	<b>1,406</b>

#### e. Interest rate risk profile of financial assets and financial liabilities

##### Financial assets

Financial assets comprise cash at bank.

At 31 August 2002

Currency	Floating rate financial assets £000's	Fixed rate financial assets £000's	Financial assets on which no interest received £000's	Total £000's
Sterling	2,337	–	–	2,337
US\$	801	–	–	801
Euro	98	–	–	98
HK\$	48	–	–	48
<b>Total</b>	<b>3,284</b>	<b>–</b>	<b>–</b>	<b>3,284</b>

At 31 August 2001

Currency	Floating rate financial assets £000's	Fixed rate financial assets £000's	Financial assets on which no interest received £000's	Total £000's
Sterling	554	–	–	554
US\$	1,072	–	–	1,072
HK\$	12	–	–	12
<b>Total</b>	<b>1,638</b>	<b>–</b>	<b>–</b>	<b>1,638</b>

## NOTES TO THE ACCOUNTS CONTINUED

### 24 FINANCIAL INSTRUMENTS CONTINUED

#### Financial liabilities

At 31 August 2002

Currency	Floating rate financial liabilities £000's	Fixed rate financial liabilities £000's	Financial liabilities on which no interest is paid £000's	Total £000's
Sterling	4	4,600	–	4,604
US\$	–	–	–	–
HK\$	–	–	–	–
Total	4	4,600	–	4,604

At 31 August 2001

Currency	Floating rate financial liabilities £000's	Fixed rate financial liabilities £000's	Financial liabilities on which no interest is paid £000's	Total £000's
Sterling	135	4,600	–	4,735
US\$	–	–	–	–
HK\$	–	–	–	–
Total	135	4,600	–	4,735

The floating rate financial liabilities comprise:

- Sterling denominated bank borrowings and overdrafts that bear interest at rates based on LIBOR or NatWest bank base rates.
- Obligations under finance leases and hire purchase contracts.

The fixed rate financial liability comprises the convertible loan note. Interest is payable at the rate of 5% per annum. Further details regarding the convertible loan note are set out in Note 14.

### 25 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, and has waived its right to dividend income. At 31 August 2002, no options had been granted by the Trust. Details of the shares held by the Trust are set out in note 10.

### 26 CONTINGENT LIABILITIES

The Company has guaranteed the obligations of certain subsidiary companies to their factor companies, trade finance companies, certain banks and others in the normal course of business. The factor company 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.

### 27 RELATED PARTY TRANSACTIONS

During the year the Company entered into transactions with Giochi Preziosi S.p.A., a company of which Enrico Preziosi and Maurizio Cellai are directors. Further, Toys Investment S.A., a company in which Enrico Preziosi is interested and of which Maurizio Cellai is a director held approximately 28.8% of the issued share capital of The Character Group plc until such shares were transferred to Giochi Preziosi S.p.A. on 19 July 2002. As at 31 August 2002, Giochi Preziosi S.p.A. continued to hold such shares in the Company.

Trade was carried out on an arms length basis and is summarised below:

	2002 £000's	2001 £000's
Total net sales to Giochi Preziosi S.p.A	479	1,987
Total net purchases from Giochi Preziosi S.p.A	2,148	189
Balance (due to)/due from Giochi Preziosi S.p.A	(90)	338

Further, Lord Birdwood received a fee of £10,000 in relation to the provision of search, selection and related recruitment services in the period under review. Such fee was in addition to his fee as a non-executive director of the Company. There were no other material related party transactions.



## NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN THAT the eighth Annual General Meeting of The Character Group plc will be held at Vinopolis, No.1 Bank End, London SE1 9BU on Wednesday 22 January 2003 at 2.00 pm 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 2002 and the report of the auditors thereon.
- 2 To re-elect Lord Birdwood, who retires in accordance with the terms of his appointment, as a director of the company.
- 3 To re-elect Mr I S Fenn, who retires in accordance with the terms of his appointment, as a director of the company.
- 4 To appoint Mr A G Horvat, who retires in accordance with the terms of his appointment, as a director of the company.
- 5 To re-appoint Baker Tilly (formerly HLB Kidsons) as auditors for the ensuing year and to authorise the directors to fix their remuneration.

### Special business

To consider and, if thought fit, pass the following resolutions which in the case of resolution numbered 6 shall be proposed as an ordinary resolution of the company and in the case of resolution numbered 7 shall be proposed as a special resolution of the company:

- 6 That for the purposes of Section 80 of the Companies Act 1985 the directors be and are hereby generally and unconditionally authorised to exercise all powers of the company to allot relevant securities (as defined in that section) up to an aggregate nominal amount of £688,132 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 relevant securities to be allotted after the expiry, variation or revocation of such authority and the directors may allot relevant securities pursuant to such offer or agreement 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 relevant securities to the extent that the same have not previously been utilised.
- 7 That:
  - (A) the directors be and are hereby empowered pursuant to Section 95 of the Companies Act 1985 ("the Act") to allot equity securities (as defined in Section 94 of the Act) pursuant to the authority conferred on them for the purposes of Section 80 of the Act by an ordinary resolution of the company of even date herewith as if Section 89(1) of the Act did not apply to any such allotment, provided that this power shall be limited:
    - (i) to the allotment of equity securities in connection with any offer by way of rights to holders of ordinary shares in the capital of the company 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 £103,220 (being approximately 5% of the nominal value of the issued ordinary share capital of the company as at 31 August 2002);
  - (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 after such power expires and the directors may allot 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 equity securities as if the said Section 89(1) of the Act did not apply to the extent that the same have not been previously utilised.

## NOTICE OF ANNUAL GENERAL MEETING CONTINUED

### Other business

8 To transact any other business which may lawfully be transacted at the Annual General Meeting.

By order of the board  
**K P Shah** FCCA, Secretary  
3 December 2002

Registered Office  
80 Fleet Street  
London EC4Y 1NA

### Notes:

1. The register of directors' interests and copies of the directors' service agreements 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 1.00 pm 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 to attend and, on a poll, vote in his place. A proxy need not be a member of the company.
3. To be valid, forms of proxy must be lodged with Neville Registrars Limited, 18 Laurel Lane, Halesowen, West Midlands, B63 3DA not less than 48 hours before the time appointed for holding the Annual General Meeting. A form of proxy is set out on page 35.
4. Completion of a form of proxy does not prevent a member from attending and voting at the Annual General Meeting should he or she so wish.
5. In order to have the right to attend and vote at the Annual General Meeting, a person must be entered on the register of members at 2.00 pm on 20 January 2003 or, in the case of an adjournment of the Annual General Meeting, at the time which is 48 hours before the time appointed for the adjourned meeting.

# FORM OF PROXY

## THE CHARACTER GROUP PLC

For use at the Annual General Meeting of the Company on Wednesday 22 January 2003

I/We \_\_\_\_\_  
(please use block capitals)

of \_\_\_\_\_ (being (a)  
holders(s) of ordinary shares in the above named company) hereby appoint the Chairman of the meeting  
\_\_\_\_\_ (note 1)

as my/our proxy to vote on my/our behalf at the Annual General Meeting to be held at Vinopolis, No.1 Bank End, London SE1 9BU on Wednesday 22 January 2003 at 2.00 pm and any adjournment thereof.

Please indicate with a ✓ in the spaces below in either the for or against column how you wish your vote to be cast.

	FOR	AGAINST
1. Ordinary resolution – adoption of accounts for year ended 31 August 2002		
2. Ordinary resolution – re-election of Lord Birdwood as a director		
3. Ordinary resolution – re-election of Mr I S Fenn as a director		
4. Ordinary resolution – re-appointment Mr A G Horvat as a director		
5. Ordinary resolution – re-appointment of Baker Tilly (formerly HLB Kidsons) as auditors		
6. Ordinary resolution – authority to allot shares		
7. Special resolution – disapplication of pre-emption rights		

Dated \_\_\_\_\_ Signature \_\_\_\_\_

### Notes:

- You may if you wish delete the words “Chairman of the meeting” and insert the name of the proxy or proxies of your choice in the space provided. Please initial such alteration.
- If no indication is given as to how you wish your proxy to vote, your proxy will vote or abstain as he/she thinks fit. On any other business arising at the meeting (including any motion to adjourn the meeting) the proxy will act at his/her discretion.
- In the case of joint holders, the signature of any one of them will be accepted but the signature of the senior of the joint holders shall be accepted to the exclusion of the others, seniority being determined by the order in which the names appear in the register of members of the Company.
- In the case of a corporation, this Form of Proxy should be executed under its common seal or under the hand of an officer, attorney of other person duly authorised on its behalf.
- Forms of Proxy signed by other than the registered holder will not be valid unless accompanied by the power of attorney (if any) or other authority under which it is signed or a notarially certified copy thereof.
- To be effective, Forms of Proxy must be lodged with Neville Registrars Limited, 18 Laurel Lane, Halesowen, West Midlands, B63 3BR not less than 48 hours before the time appointed for the meeting. Completion of this form of proxy will not prevent the holder from attending and voting at the meeting in person should he so wish.
- As permitted by Regulation 41 of the Uncertificated Securities Regulations 2001, members must be entered on the Company’s register of members at 2.00 pm on 20 January 2003 in order to be entitled to attend and/or vote at the meeting in respect of the number of shares registered in their name at such time. 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.

SECOND FOLD

BUSINESS REPLY SERVICE  
Licence No: 3865



Neville Registrars Limited  
18 Laurel Lane  
Halesowen  
West Midlands  
B63 3BR

FIRST FOLD

THIRD FOLD, THEN TUCK IN FLAP & TAPE ALONG EDGE

