

Company Registration No. 06542144 (England and Wales)

CHARACTER WORLD HOLDCO LIMITED
GROUP FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2010

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CHARACTER WORLD HOLDCO LIMITED

DIRECTORS AND ADVISERS

Directors	D E Schweiger M Schweiger J E Dillon M Hancox
Secretary	M Schweiger
Company number	06542144
Registered office	c/o UHY Hacker Young St James Building 79 Oxford Street Manchester M1 6HT
Statutory auditor	Ernst & Young LLP 100 Barbirolli Square Manchester M2 3EY
Business address	Character House 1 Oak Green Stanley Green Business Park Cheadle Hulme Cheshire SK8 6QL
Bankers	National Westminster Bank plc 23 Stamford New Road Altrincham Cheshire WA14 1DB

CHARACTER WORLD HOLDCO LIMITED

DIRECTORS' REPORT

FOR THE YEAR ENDED 31 DECEMBER 2010

The directors present their report and financial statements for the year ended 31 December 2010

Principal activities and review of the business

The principal activity of the group is that of the marketing and sales of licensed products and textiles. The principal activity of the company is that of a holding company.

The principal risks and uncertainties facing the group are its exposure to quick changes in trends and fashions, rising material and freight costs, interest rates affecting its bank loans, its exposure to foreign currency markets and credit risks with its trade debtors.

The directors closely monitor the popularity of current stock lines and continue to identify new products and licences which will generate future revenues. During 2010 a number of new licences were signed to ensure continuity of turnover. For further commentary on risk management see note 11 and note 16 to the accounts.

In response to the rising material and freight costs an operations director has been appointed to co-ordinate supply chain process improvements and make cost base improvements. The Group has also sourced a new raw material and geographically relocated a significant amount of production.

Our financial risk management objective is to ensure sufficient working capital for the group. This is achieved by careful management of our cash balances, overdraft facilities and the continuance of strict credit control procedures.

The group's main focus during the year has been to continue growing profitable business through the development of existing and new licenced products.

During the year the group expanded its range of licenced product lines and continued the development of Toddler and single beds which became available in 2010. The group has also developed a bunk bed to add to the range.

The group has continued to distribute to the UK's leading retailers and developed a webstore for sales to the public.

Turnover is a key performance indicator for our business as it measures the total output of the business at the prices we are able to charge our customers. Despite economic uncertainty which affected the total UK market during 2010 the group experienced a 10.3% increase in turnover. However the loss for the year has increased due to compounded loan note interest and the erosion of margins due to the increase in cotton prices.

Financial position at year end

The financial position at year end was considered, by the directors, to be healthy. The cash position stood at £3,234,124.

Future developments

While the economic climate remains difficult the Group has implemented a number of cost improvement programs including capping its freight costs, reducing its warehousing costs and improving its stock control all of which help maintain EBITDA. The group is in the process of implementing the use of a bonded warehouse which will improve working capital and cash flow.

CHARACTER WORLD HOLDCO LIMITED

DIRECTORS' REPORT (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2010

Going concern

The Group's business activities, current financial position, together with the factors likely to affect its future development, performance and position are set out in the Business Review on page 1. In addition, notes 11 and 16 to the financial statements include details of the Group's financial instruments and its exposure to, and management, of credit risk, currency risk and liquidity risk.

The Group has considerable financial resources, a positive cash flow and licence agreements over a number of brands and products. As a consequence, the directors believe that the Group is well placed to manage its business risks successfully despite the current uncertain economic outlook.

The directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

Results and dividends

The consolidated profit and loss account for the year is set out on page 6.

The directors do not propose a dividend for the year.

Directors

The following directors have held office since 1 January 2010.

D E Schweiger
M Schweiger
J E Dillon
M Hancox

Charitable donations

Contributions by the group during the year to United Kingdom charities amounted to £7,346 (2009 - £14,994).

CHARACTER WORLD HOLDCO LIMITED

DIRECTORS' REPORT (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2010

Statement of directors' responsibilities

The directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the group and of the profit or loss of the group for that period. In preparing these financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgements and accounting estimates that are reasonable and prudent,
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements,
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group will continue in business

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and the group and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Statement of disclosure to auditors

So far as the directors are aware, there is no relevant audit information of which the group's auditors are unaware. Additionally, the directors have taken all the necessary steps that they ought to have taken as directors in order to make themselves aware of all relevant audit information and to establish that the group's auditors are aware of that information.

On behalf of the board



D E Schweiger

Director

24 August 2011

CHARACTER WORLD HOLDCO LIMITED

INDEPENDENT AUDITORS' REPORT

TO THE MEMBERS OF CHARACTER WORLD HOLDCO LIMITED

We have audited the directors report and the group financial statements of Character World Holdco Limited for the year ended 31 December 2010 which comprise the Consolidated Profit and Loss Account, the Consolidated and Parent Company Balance Sheets, the Consolidated Cash Flow Statement and the related notes 1 to 27. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As explained more fully in the Directors' Responsibilities Statement set out on page 3, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the group's and parent company's affairs as at 31 December 2010 and of the group's loss for the year then ended,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

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

CHARACTER WORLD HOLDCO LIMITED


INDEPENDENT AUDITORS' REPORT (CONTINUED)

TO THE MEMBERS OF CHARACTER WORLD HOLDCO LIMITED

Matters on which we are required to report by exception

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

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



Alastair Nuttall (Senior Statutory Auditor)
for and on behalf of Ernst & Young LLP

24 August 2011

Statutory Auditor

100 Barbirolli Square
Manchester
M2 3EY

CHARACTER WORLD HOLDCO LIMITED

CONSOLIDATED PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 DECEMBER 2010

	Notes	Year ended 31 December 2010 £	Year ended 31 December 2009 £
Turnover	2	21,568,926	19,543,829
Cost of sales		(14,877,693)	(12,635,995)
Gross profit		6,691,233	6,907,834
Distribution costs		(490,119)	(335,174)
Administrative expenses		(4,358,027)	(4,223,009)
Operating profit	3	1,843,087	2,349,651
Other interest receivable and similar income		1,351	1,285
Interest payable and similar charges	4	(2,054,331)	(2,014,031)
(Loss)/profit on ordinary activities before taxation		(209,893)	336,905
Tax on (loss)/profit on ordinary activities	5	(302,283)	(453,748)
Loss on ordinary activities after taxation	18	(512,176)	(116,843)

The profit and loss account has been prepared on the basis that all operations are continuing operations

There are no recognised gains and losses other than those passing through the profit and loss account

CHARACTER WORLD HOLDCO LIMITED

BALANCE SHEETS

AS AT 31 DECEMBER 2010

	Notes	Group 2010 £	2009 £	Company 2010 £	2009 £
Fixed assets					
Intangible assets	7	14,216,689	15,014,155	-	-
Tangible assets	8	346,077	351,256	-	-
Investments	9	-	-	8,426,339	7,645,460
		<u>14,562,766</u>	<u>15,365,411</u>	<u>8,426,339</u>	<u>7,645,460</u>
Current assets					
Stocks	10	3,857,969	1,470,085	-	-
Debtors	11	4,010,416	4,448,853	8,113,885	7,850,410
Cash at bank and in hand		3,234,124	2,623,688	-	57
		<u>11,102,509</u>	<u>8,542,626</u>	<u>8,113,885</u>	<u>7,850,467</u>
Creditors. amounts falling due within one year	12	<u>(6,498,626)</u>	<u>(4,588,309)</u>	<u>(37,249)</u>	<u>(39,466)</u>
Net current assets		<u>4,603,883</u>	<u>3,954,317</u>	<u>8,076,636</u>	<u>7,811,001</u>
Total assets less current liabilities		<u>19,166,649</u>	<u>19,319,728</u>	<u>16,502,975</u>	<u>15,456,461</u>
Creditors: amounts falling due after more than one year	13	<u>(19,457,262)</u>	<u>(19,098,165)</u>	<u>(17,392,000)</u>	<u>(15,689,146)</u>
		<u>(290,613)</u>	<u>221,563</u>	<u>(889,025)</u>	<u>(232,685)</u>
Capital and reserves					
Called up share capital	17	102,000	102,000	102,000	102,000
Share premium account	18	918,000	918,000	918,000	918,000
Profit and loss account	18	<u>(1,310,613)</u>	<u>(798,437)</u>	<u>(1,909,025)</u>	<u>(1,252,685)</u>
Shareholders' funds	19	<u>(290,613)</u>	<u>221,563</u>	<u>(889,025)</u>	<u>(232,685)</u>

Approved by the Board and authorised for issue on 24 August 2011


D E Schweiger
Director

Company Registration No 06542144

CHARACTER WORLD HOLDCO LIMITED

CONSOLIDATED CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2010

	Year ended 31 December 2010		Year ended 31 December 2009	
	£	£	£	£
Net cash inflow from operating activities		2,474,581		4,203,358
Returns on investments and servicing of finance				
Interest received	1,351		1,285	
Interest paid	(268,767)		(353,678)	
Net cash outflow for returns on investments and servicing of finance		(267,416)		(352,393)
Taxation		(148,496)		(906,906)
Capital expenditure				
Payments to acquire tangible assets	(48,235)		(54,625)	
Net cash outflow for capital expenditure		(48,235)		(54,625)
Net cash inflow before management of liquid resources and financing		2,010,434		2,889,434
Financing				
Issue of ordinary share capital	-		20,000	
Repayment of long term bank loan	(1,400,000)		(1,400,000)	
Capital element of finance lease contracts	-		(1,287)	
Net cash outflow from financing		(1,400,000)		(1,381,287)
Increase in cash in the year		610,434		1,508,147

CHARACTER WORLD HOLDCO LIMITED

NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2010

1	Reconciliation of operating profit to net cash inflow from operating activities	2010	2009
		£	£
	Operating profit	1,843,087	2,349,651
	Depreciation of tangible assets	53,414	76,339
	Amortisation of intangible assets	797,466	839,407
	(Increase)/decrease in stocks	(2,387,884)	987,055
	Decrease in debtors	751,861	628,208
	Increase/(decrease) in creditors	1,416,637	(677,302)
	Net cash inflow from operating activities	<u>2,474,581</u>	<u>4,203,358</u>

2	Analysis of net debt	1 January 2010	Cash flow	Other non-cash changes	31 December 2010
		£	£	£	£
	<i>Net cash</i>				
	Cash at bank and in hand	2,623,688	610,436	-	3,234,124
	Bank overdrafts	-	(2)	-	(2)
		<u>2,623,688</u>	<u>610,434</u>	<u>-</u>	<u>3,234,122</u>
	<i>Debt due within one year</i>				
	Bank loans *	(1,317,290)	1,400,000	(1,426,467)	(1,343,757)
	<i>Debt due after one year</i>				
	Bank loans *	(3,409,019)	-	1,343,757	(2,065,262)
	Other loans *	(15,689,146)	-	(1,702,854)	(17,392,000)
		<u>(20,415,455)</u>	<u>1,400,000</u>	<u>(1,785,564)</u>	<u>(20,801,019)</u>
	Net debt	<u>(17,791,767)</u>	<u>2,010,434</u>	<u>(1,785,564)</u>	<u>(17,566,897)</u>

* Debt is stated net of finance costs

CHARACTER WORLD HOLDCO LIMITED

NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2010

3 Reconciliation of net cash flow to movement in net debt	2010	2009
	£	£
Increase in cash in the year	610,434	1,508,147
Cash outflow from decrease in debt	<u>1,400,000</u>	<u>1,401,287</u>
Change in net debt resulting from cash flows	2,010,434	2,909,434
FRS 4 finance costs released	(154,069)	(180,535)
Accrued interest	<u>(1,631,495)</u>	<u>(1,479,817)</u>
Movement in net debt in the year	224,870	1,249,082
Opening net debt	<u>(17,791,767)</u>	<u>(19,040,849)</u>
Closing net debt	<u>(17,566,897)</u>	<u>(17,791,767)</u>

CHARACTER WORLD HOLDCO LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2010

1 Accounting policies

1.1 Accounting convention

The financial statements are prepared under the historical cost convention

The parent company has taken advantage of the exemption in Financial Reporting Standard No 1 from the requirement to produce a cash flow statement on the grounds that it is included in the consolidated cash flow statement of the group

1.2 Compliance with accounting standards

The financial statements are prepared in accordance with applicable United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), which have been applied consistently

1.3 Basis of consolidation

The consolidated profit and loss account and balance sheet include the financial statements of the holding company and its subsidiary undertakings made up to 31 December 2010. The results of subsidiaries sold or acquired are included in the profit and loss account up to, or from the date control passes. Intra-group sales and profits are eliminated fully on consolidation.

1.4 Revenue recognition

Revenue is recognised to the extent that the group obtains the right to consideration in exchange for its performance. Revenue is measured at the fair value of the consideration received, excluding discounts, rebates, VAT and other sales taxes or duty. The following criteria must also be met before revenue is recognised:

Sale of goods

Revenue from the sale of goods is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer, usually on dispatch of the goods.

1.5 Goodwill

Goodwill arising on the acquisition of subsidiary undertakings and representing the excess of the consideration given over the fair value of the identifiable net assets acquired, has been capitalised in the group balance sheet and is amortised over its estimated economic life, being 20 years.

1.6 Tangible fixed assets and depreciation

Tangible fixed assets are stated at cost less depreciation. Depreciation is provided at rates calculated to write off the cost less estimated residual value of each asset over its expected useful life, as follows:

Alterations to leasehold	5% / 10% straight line
Fixtures, fittings & equipment	33 3% straight line / 10% straight line

1.7 Leasing

Rentals payable under operating leases are charged against income on a straight line basis over the lease term.

1.8 Investments

Fixed asset investments are stated at cost less provision for impairment.

CHARACTER WORLD HOLDCO LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2010

1 Accounting policies

(continued)

1.9 Stock

Stock is valued at the lower of cost and net realisable value. The cost of stock represents the purchase value of the goods and costs to bring it to its current location. Net realisable value is based on estimated selling price, less further costs expected to be incurred to completion and disposal. Provision is made for obsolete, slow moving or defective items where appropriate.

1.10 Deferred taxation

Deferred taxation is provided in full in respect of taxation deferred by timing differences between the treatment of certain items for taxation and accounting purposes. The deferred tax balance has not been discounted.

A net deferred tax asset is regarded as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

1.11 Foreign currency translation

Monetary assets and liabilities denominated in foreign currencies are translated into sterling at the rates of exchange ruling at the balance sheet date. Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. All differences are taken to profit and loss account.

1.12 Interest-bearing loans and borrowings

All interest bearing loans and borrowings are initially recorded at net proceeds. After initial recognition debt is increased by the finance cost in respect of the reporting period and reduced by repayments made in the period.

Finance costs of debt are allocated over the term of the debt at a constant rate on the carrying amount.

1.13 Derivative instruments

The group uses forward foreign currency contracts to reduce exposure to foreign exchange rates.

The group considers its derivative instruments qualify for hedge accounting when certain criteria are met.

Forward foreign currency contracts

The criteria for forward foreign currency contracts are

- the instrument must be related to expected purchases in foreign currency,
- it must involve the same currency as the hedged item, and
- it must reduce the risk of foreign currency exchange movements on the group's operations

Such instruments are used to hedge expected future transactions, and are not recognised until the transaction occurs.

CHARACTER WORLD HOLDCO LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2010

1 Accounting policies (continued)

1.14 Royalties payable

Royalties payable in accordance with licensing agreements are recognised as costs of sale when the associated revenue is recognised

Where a licence requires royalties to be paid in advance, this is initially deferred and allocated to cost of sales as the associated revenue is recognised

Certain licences require a guaranteed level of royalties to be paid. Where the forecast level of sales associated with a licence is anticipated to result in a loss on the licence, provision is made immediately for the anticipated loss.

2 Turnover

The total turnover of the group for the year has been derived from its principal activity wholly undertaken in the United Kingdom

3 Operating profit	2010	2009
	£	£
Operating profit is stated after charging		
Amortisation of intangible assets	797,466	839,407
Depreciation of tangible assets	53,414	76,339
Operating lease rentals - land and buildings	201,361	172,200
Fees payable to the group's auditor-		
-audit of the group's annual accounts (company £nil £4,000)	30,905	40,495
-taxation services	7,500	8,830
and after crediting		
Profit on foreign exchange transactions	(62,500)	(107,491)
	<u> </u>	<u> </u>

4 Interest payable	2010	2009
	£	£
On bank loans and overdrafts	261,186	353,505
FRS 4 finance costs released	154,069	180,536
On overdue tax	2,812	-
Other interest	1,636,264	1,479,990
	<u> </u>	<u> </u>
	<u>2,054,331</u>	<u>2,014,031</u>

CHARACTER WORLD HOLDCO LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2010

5 Taxation	2010 £	2009 £
Domestic current year tax		
U K corporation tax	613,890	740,749
Adjustment for prior years	1,817	(6,056)
Total current tax	<u>615,707</u>	<u>734,693</u>
Deferred tax		
Accelerated capital allowances	7,748	3,526
Other timing differences originating in the period	(185,449)	(284,471)
Change in tax rates	(135,723)	-
	<u>302,283</u>	<u>453,748</u>
Factors affecting the tax charge for the year		
(Loss)/profit on ordinary activities before taxation	<u>(209,893)</u>	<u>336,905</u>
(Loss)/profit on ordinary activities before taxation multiplied by standard rate of UK corporation tax of 28.00% (2009 - 28.00%)	<u>(58,770)</u>	<u>94,333</u>
Effects of		
Non deductible expenses	5,126	7,981
Depreciation add back	14,956	21,375
Capital allowances	(20,531)	(23,105)
Goodwill add back	223,290	235,034
Adjustments to previous periods	1,817	(6,056)
Unpaid loan note interest - temporary timing difference	247,264	224,276
Unpaid loan note interest - permanent timing difference	209,555	190,073
Group companies charged at small company rate (21%)	(7,000)	(7,000)
Other tax adjustments	-	(2,218)
	<u>674,477</u>	<u>640,360</u>
Current tax charge for the period	<u>615,707</u>	<u>734,693</u>

The comparative figures have been re-analysed on a basis consistent with the current year analysis

CHARACTER WORLD HOLDCO LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2010

5 Taxation

(continued)

Factors that may affect future tax charges

A number of changes to the UK Corporation tax system were announced in the June 2010 Budget Statement. The Finance (No 2) Act 2010, which was substantively enacted on 20 July 2010, includes legislation reducing the main rate of corporation tax from 28% to 27% from 1 April 2011. A number of further changes to the UK Corporation tax system were announced in the March 2011 UK Budget Statement. A resolution passed by Parliament on 29 March 2011 has reduced the main rate of corporation tax from 27% to 26% from 1 April 2011. Legislation to reduce the main rate of corporation tax from 26% to 25% from 1 April 2012 is expected to be included in the Finance Act 2011. Further reductions to the main rate are proposed to reduce the rate by 1% per annum to 23% by 1 April 2014. Expected reductions that had not been substantively enacted at the balance sheet date have not been included in these financial statements.

6 Loss for the financial year

As permitted by section 408 Companies Act 2006, the parent company's profit and loss account has not been presented in these financial statements. The loss for the financial year is made up as follows:

	2010 £	2009 £
Parent company's loss for the financial year	(656,340)	(632,910)

7 Intangible fixed assets

Group

	Goodwill £
Cost	
At 1 January 2010 & at 31 December 2010	16,483,117
Amortisation	
At 1 January 2010	1,468,962
Charge for the year	797,466
At 31 December 2010	2,266,428
Net book value	
At 31 December 2010	14,216,689
At 31 December 2009	15,014,155

Goodwill consists of goodwill arising on consolidation which is being amortised evenly over its estimated useful economic life of 20 years commencing 4 April 2008.

CHARACTER WORLD HOLDCO LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2010

8 Tangible fixed assets Group

	Alterations to leasehold	Fixtures, fittings & equipment	Total
	£	£	£
Cost			
At 1 January 2010	351,711	264,584	616,295
Additions	27,754	20,481	48,235
At 31 December 2010	<u>379,465</u>	<u>285,065</u>	<u>664,530</u>
Depreciation			
At 1 January 2010	47,405	217,634	265,039
Charge for the year	23,542	29,872	53,414
At 31 December 2010	<u>70,947</u>	<u>247,506</u>	<u>318,453</u>
Net book value			
At 31 December 2010	<u>308,518</u>	<u>37,559</u>	<u>346,077</u>
At 31 December 2009	<u>304,306</u>	<u>46,950</u>	<u>351,256</u>

CHARACTER WORLD HOLDCO LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2010

9 Fixed asset investments

Company

	Shares in group undertakings £	Loans to group undertakings £	Total £
Cost			
At 1 January 2010	27,130	7,618,330	7,645,460
Additions	-	780,879	780,879
At 31 December 2010	27,130	8,399,209	8,426,339
Net book value			
At 31 December 2010	27,130	8,399,209	8,426,339
At 31 December 2009	27,130	7,618,330	7,645,460

In the opinion of the directors, the aggregate value of the company's investment in subsidiary undertakings is not less than the amount included in the balance sheet

Holdings of more than 20%

The company holds more than 20% of the share capital of the following companies

Company	Country of registration or incorporation	Shares held	
		Class	%
Subsidiary undertakings			
Character World Bidco Limited	England and Wales	Ordinary	100
Character World Limited *	England and Wales	Ordinary	100
T D S Enterprises Limited **	England and Wales	Ordinary	100

The principal activity of these undertakings for the last relevant financial year was as follows

	Principal activity
Character World Bidco Limited	Intermediate holding company
Character World Limited *	Marketing and sales of licensed products and textiles
T D S Enterprises Limited **	Dormant

(*) Subsidiary of Character World Bidco Limited

(**) Subsidiary of Character World Limited

CHARACTER WORLD HOLDCO LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2010

10 Stocks

	Group		Company	
	2010	2009	2010	2009
	£	£	£	£
Finished goods and goods for resale	3,857,969	1,470,085	-	-

11 Debtors

	Group		Company	
	2010	2009	2010	2009
	£	£	£	£
Trade debtors	3,239,302	4,023,973	-	-
Amounts owed by group undertakings	-	-	7,297,466	7,373,593
Other debtors	2,256	3,013	212,236	192,346
Prepayments and accrued income	204,108	170,541	-	-
Deferred tax asset (see note 14)	564,750	251,326	604,183	284,471
	<u>4,010,416</u>	<u>4,448,853</u>	<u>8,113,885</u>	<u>7,850,410</u>

Amounts falling due after more than one year and included in the debtors above are

	2010	2009	2010	2009
	£	£	£	£
Amounts owed by group undertakings	-	-	7,297,466	7,373,593
Deferred tax asset (see note 14)	564,750	251,326	-	-
	<u>564,750</u>	<u>251,326</u>	<u>7,297,466</u>	<u>7,373,593</u>

Despite the group's customers being major retailers, the credit risk to the company is reduced by maintaining a relatively diverse portfolio of customers and taking out credit insurance against all debts. At the year end only one customer accounted for more than 10% of the total trade debts.

CHARACTER WORLD HOLDCO LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2010

12 Creditors amounts falling due within one year

	Group		Company	
	2010	2009	2010	2009
	£	£	£	£
Bank loans and overdrafts	1,400,002	1,400,000	2	-
FRS 4 finance costs	(56,243)	(82,710)	-	-
Trade creditors	3,598,395	2,108,286	15,147	4,826
Corporation tax	613,888	146,677	21,000	30,390
Taxes and social security costs	447,246	393,924	-	-
Other creditors	215,976	409,340	-	-
Accruals and deferred income	279,362	212,792	1,100	4,250
	<u>6,498,626</u>	<u>4,588,309</u>	<u>37,249</u>	<u>39,466</u>

CHARACTER WORLD HOLDCO LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2010

13 Creditors : amounts falling due after more than one year

	Group		Company	
	2010	2009	2010	2009
	£	£	£	£
Accrued loan note interest	428,013	388,221	428,013	388,221
Bank loans	2,100,000	3,500,000	-	-
Other loans	17,120,475	15,528,772	17,120,475	15,528,772
FRS finance 4 costs	(191,226)	(318,828)	(156,488)	(227,847)
	<u>19,457,262</u>	<u>19,098,165</u>	<u>17,392,000</u>	<u>15,689,146</u>

FRS 4 costs on the other loans have been disclosed as due after more the one year so that they are presented alongside the liability to which they relate £71,359 (2009 - £71,359) is due to be released to the profit and loss account within the next 12 months

Analysis of loans *

Not wholly repayable within five years by instalments	11,757,486	15,689,146	11,757,486	15,689,146
Wholly repayable within five years	9,043,533	4,726,309	5,634,514	-
	<u>20,801,019</u>	<u>20,415,455</u>	<u>17,392,000</u>	<u>15,689,146</u>
Included in current liabilities	(1,343,757)	(1,317,290)	-	-
	<u>19,457,262</u>	<u>19,098,165</u>	<u>17,392,000</u>	<u>15,689,146</u>
Instalments not due within five years	<u>11,757,486</u>	<u>15,689,146</u>	<u>11,757,486</u>	<u>15,689,146</u>
Loan maturity analysis *				
Within one year	1,272,398	1,245,931	(71,359)	(71,359)
More than one year, not more than two	1,298,865	1,272,398	(71,359)	(71,359)
More than two years, not more than five	6,472,270	1,980,132	5,777,232	(85,130)
More than five years	11,757,486	15,689,146	11,757,486	15,916,993

* net of finance costs and including loan note interest

The gross amount (before amortisation of finance costs and after accrued interest) of other loans repayable after more than 5 years by way of instalments is £11,757,486 (2009 - £15,689,146)

CHARACTER WORLD HOLDCO LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2010

13 Creditors amounts falling due after more than one year (continued)

Bank loans are subject to interest based on LIBOR and are secured by an unlimited cross guarantee between the company and all other UK subsidiaries in the group, a debenture containing fixed and floating charges over the assets of the group and an assignment over keyman insurance policies of D E Schweiger and M Schweiger

Included in creditors are unamortised finance costs amounting to £247,469 (2009 - £401,538) for the group relating to other loans and £156,488 (2009 - £227,847) for the company relating to bank loans which are being released to the profit and loss account over 5 years using the actuarial method. Total finance costs released to the profit and loss account during the year were £154,069 (2009 - £180,536)

Other loans comprise of loan notes of £17,120,475 (2009 - £15,528,772) that had a principal amount of £13,414,333. The loan notes bear interest of 10% per annum and are secured over the assets of the group.

Interest on the loan notes is compounded and added to the principal at March and September each year. At 31 March 2010 interest of £776,442 (2009 - £704,252) was added to the principal. At 30 September 2010 interest of £815,262 (2009 - £739,465) was added to the principal.

Of the £17,120,475 loan notes £7,853,603 are due to D E Schweiger and M Schweiger, directors of the group, the remaining loan notes of £9,266,874 are due to RJD Partners, the ultimate controlling party, and are listed on the Channel Island Stock Exchange (CISX). The loan notes are repayable in tranches being 33% plus interest in June 2015, 50% plus interest in June 2016 and the balance in June 2017. The nature and purpose of the listed loan notes was to provide finance to the parent company to acquire its trading subsidiaries.

CHARACTER WORLD HOLDCO LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2010

14 Provision for deferred tax

The deferred tax asset (included in debtors, note 11) is made up as follows.

	Group 2010 £		Company 2010 £	
Balance at 1 January 2010	(251,326)		(284,471)	
Profit and loss account	(313,424)		(319,712)	
	<u>(564,750)</u>		<u>(604,183)</u>	
Balance at 31 December 2010	<u>(564,750)</u>		<u>(604,183)</u>	
	Group		Company	
	2010	2009	2010	2009
	£	£	£	£
Accelerated capital allowances	39,433	33,145	-	-
Other timing differences	(604,183)	(284,471)	(604,183)	(284,471)
	<u>(564,750)</u>	<u>(251,326)</u>	<u>(604,183)</u>	<u>(284,471)</u>

The deferred tax asset relates to unpaid loan note interest that will not reverse until the interest is paid, being more than 5 years from the balance sheet date

15 Pension and other post-retirement benefit commitments

Defined contribution

The company operates a defined contribution pension scheme. The assets of the scheme are held separately from those of the company in an independently administered fund. The pension cost charge represents contributions payable by the company to the fund.

	2010 £	2009 £
Contributions payable by the group for the year	<u>3,150</u>	<u>6,900</u>

CHARACTER WORLD HOLDCO LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2010

16 Financial instruments Group

Other than in the currency disclosure, short term debtors and creditors have been excluded from the disclosures below as is permitted under FRS 13

Interest rate risk

The interest rate risk profile of the financial assets and liabilities is as follows

	2010 £	2009 £
Floating rate financial assets - GBP	1,992,609	1,517,910
Floating rate financial assets - USD	1,180,684	962,534
Floating rate financial assets - EUR	60,830	143,244
	<u>3,234,124</u>	<u>2,623,688</u>
Floating rate financial liabilities - GBP	<u>3,409,021</u>	<u>4,726,309</u>
Fixed rate rate financial liabilities - GBP	<u>17,392,000</u>	<u>15,689,146</u>

The weighted average interest rate for the fixed rate financial liabilities is 10% (2009 - 10%) for a period of 7 (2009 - 8) years. The directors consider 10% to be a prevailing market rate for unsecured loan notes, as such the fair value of the loan notes is not materially different from the carrying value.

The floating rate assets and liabilities have interest rates benchmarked against LIBOR. The fair value of the floating rate financial instruments is not materially different from the carrying value.

At the year end the company had an undrawn overdraft facility of £3,000,000 (2009 - £3,000,000) and an undrawn credit card facility of £243,000 (2009 - £243,000). Had the facilities been used they would both have a maturity date of within one year.

Due to the low LIBOR the directors do not consider interest rates to be a significant risk. The directors continue to monitor LIBOR, and will take appropriate action should the risk profile change. Where appropriate the directors place funds in higher interest bank accounts to maximise the return on the financial assets, while still maintaining sufficient liquidity for working capital purposes.

CHARACTER WORLD HOLDCO LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2010

16 Financial instruments (continued) Group

Currency rate risk

The currency rate risk profile of the financial assets and liabilities is as follows

	2010	2009
	£	£
Net monetary assets and liabilities - USD	84,347	(158,467)
Net monetary assets and liabilities - EUR	80,760	175,026
	<u>165,107</u>	<u>16,559</u>

Due to the high level of foreign currency expenditure, the directors consider the company's exposure to foreign currency markets to be a significant risk. As such they continuously monitor the foreign currency markets and where appropriate forward contract foreign currency at a fixed rate. At the year end the Group had forward contracts that had unrecognised gains of £215,126 (2009 - £118,852). The full extent of the gains is expected to be recognised in the next accounting period. The fair value of these contracts is £215,126 (2009 - £118,852).

Liquidity risk

The maturity profile of the carrying amount of the financial liabilities is as follows

	2010	2009
	£	£
In one year or less or on demand	1,400,000	1,400,000
In more than one year but not more than two years	1,400,000	1,400,000
In more than two years but not more than five years	6,491,002	2,100,000
In more than five years	11,329,475	15,528,772
	<u>20,620,475</u>	<u>20,428,772</u>

The directors manage liquidity risk by maintaining adequate cash reserves and by continuously monitoring forecast and actual cash flows.

Further business risks and uncertainties are addressed within the directors review of the business on page 1 of these financial statements.

CHARACTER WORLD HOLDCO LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2010

17 Share capital	2010	2009
	£	£
Allotted, called up and fully paid		
522,500 Ordinary A shares of 10p each	52,250	52,250
477,500 Ordinary B shares of 10p each	47,750	47,750
20,000 Ordinary C shares of 10p each	2,000	2,000
	<u>102,000</u>	<u>102,000</u>

The rights attached to the various classes of shares referred to above are set out in the company's Articles of Association, copies of which can be obtained from Character House, 1 Oak Green, Stanley Green Business Park, Cheadle Hulme, Cheshire, SK8 6QL

18 Statement of movements on reserves Group

	Share premium account £	Profit and loss account £
Balance at 1 January 2010	918,000	(798,437)
Loss for the period	-	(512,176)
Balance at 31 December 2010	<u>918,000</u>	<u>(1,310,613)</u>

Company

	Share premium account £	Profit and loss account £
Balance at 1 January 2010	918,000	(1,252,685)
Loss for the year	-	(656,340)
Balance at 31 December 2010	<u>918,000</u>	<u>(1,909,025)</u>

CHARACTER WORLD HOLDCO LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2010

19 Reconciliation of movements in shareholders' funds	2010	2009
Group	£	£
Loss for the financial year	(512,176)	(116,843)
Proceeds from issue of shares	-	20,000
Net depletion in shareholders' funds	(512,176)	(96,843)
Opening shareholders' funds	221,563	318,406
Closing shareholders' funds	<u>(290,613)</u>	<u>221,563</u>
	2010	2009
Company	£	£
Loss for the financial year	(656,340)	(632,910)
Proceeds from issue of shares	-	20,000
Net depletion in shareholders' funds	(656,340)	(612,910)
Opening shareholders' funds	(232,685)	380,225
Closing shareholders' funds	<u>(889,025)</u>	<u>(232,685)</u>

20 Contingent liabilities

Group

The group has entered into a number of contracts which guarantee minimum levels of future royalty payments. These guarantees apply where minimum levels of sales on which royalties are paid are not reached. In circumstances where the directors consider that payments under the guarantees will be required, full provision for these payments has been made in the financial statements. However, where the directors consider that minimum levels of sales required by contracts will be reached, no provision for payments under the guarantees has been made. Should future levels of sales be less than anticipated by the directors further provisions for liabilities under these contracts may be required.

CHARACTER WORLD HOLDCO LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2010

21 Financial commitments

At 31 December 2010 the group had annual commitments under non-cancellable operating leases as follows

	Land and buildings		Other	
	2010	2009	2010	2009
	£	£	£	£
Expiry date				
Within one year	-	-	3,499	-
Between two and five years	-	-	13,256	11,090
In over five years	201,360	200,425	-	-
	<u>201,360</u>	<u>200,425</u>	<u>16,755</u>	<u>11,090</u>

As at 31 December 2010 Character World Limited had entered into, and was bound by, forward contracts to purchase foreign currency amounting to £9,470,305 (2009 - £5,240,358) The fair value of these contracts was £215,126 (2009 - 118,852) The contracts have a maturity date of less than 12 months, therefore the unrecognised gains of £215,126 (2009 - £118,852) are expected to be recognised in the next accounting period

22 Capital commitments

	Group		Company	
	2010	2009	2010	2009
	£	£	£	£
Authorised but not contracted for	-	15,000	-	-
	<u>-</u>	<u>15,000</u>	<u>-</u>	<u>-</u>

23 Directors' emoluments

	2010	2009
	£	£
Emoluments for qualifying services	<u>388,335</u>	<u>383,797</u>
The highest paid director	<u>174,240</u>	<u>176,900</u>

The number of directors for whom retirement benefits are accruing under money purchase pension schemes amounted to 0 (2009- 0)

Directors' emoluments disclosed in the 2009 statutory accounts included emoluments for directors of subsidiary companies The 2009 comparative above has been adjusted to disclose the emoluments of the group directors only

CHARACTER WORLD HOLDCO LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2010

24 Transactions with directors

D E Schweiger and M Schweiger are interested in TDM Properties Limited as directors and shareholders. During the year Character World Limited paid rent to TDM Properties Limited of £201,360 (2009 - £172,200) and property service charges of £7,057 (2009 - £14,683).

25 Employees

Number of employees

The average monthly number of employees (including directors) during the year was

	2010 Number	2009 Number
Directors	4	4
Administrators and design	51	50
	<u>55</u>	<u>54</u>

Employment costs

	2010 £	2009 £
Wages and salaries	2,086,256	1,877,634
Social security costs	202,463	198,343
Other pension costs	3,150	6,900
	<u>2,291,869</u>	<u>2,082,877</u>

26 Control

RJD Partners are considered to be the ultimate controlling party by virtue of their majority shareholding.

27 Related party transactions

Group and company

During the year RJD Partners charged the group and company £52,355 (2009 - £50,530) in respect of consultancy services.

The company has taken advantage of the exemption available in FRS 8 "Related party disclosures" whereby it has not disclosed transactions with wholly owned subsidiary undertakings.