

Tandem Group plc

Half Yearly Report
for the six months ended

30 June 2016

CHAIRMAN'S STATEMENT

Results

In the six months to 30 June 2016 Group revenue increased by approximately 10% to £17,115,000 compared to £15,585,000 in the six months to 30 June 2015. This incorporated a full period of contribution from the E.S.C (Europe) Ltd acquisition. Gross profit was £5,106,000 compared with £5,052,000 in 2015.

There was an increase in operating expenses from £4,288,000 to £4,812,000 in the six months to 30 June 2016 principally due to the acquisition.

Operating profit was £500,000 compared to £764,000 in the six months to 30 June 2015. There was an exceptional credit of £206,000 during the period (six months to 30 June 2015 - £nil) relating to the release of over-provided deferred consideration from the ESC and Pro Rider acquisitions.

Finance costs were £304,000 in the six months to 30 June 2016. This compared to £420,000 in the prior period. There was a fair value charge for foreign currency derivative contracts of £122,000 compared to a charge of £230,000 in the prior year. This is shown in non-underlying items. Non-underlying items also included finance costs of £70,000 in respect of the pension schemes against £85,000 in the six months to 30 June 2015.

The profit before taxation after non-underlying items for the period was £196,000 compared to £344,000 in the six month period to 30 June 2015.

There was a tax charge of £62,000 during the period compared to a credit of £11,000 in the prior period. The previous period included a tax credit relating to deferred tax on the foreign currency derivative contracts.

Net profit for the period was £134,000 compared to £355,000 in the six months to 30 June 2015.

Basic earnings per share in the six months to 30 June 2016 reduced to 2.82 pence per share compared to 7.60 pence per share in the prior period.

Net assets at 30 June 2016 were £8,048,000 against £6,843,000 at 30 June 2015.

Cash and cash equivalents were £980,000 at 30 June 2016 which compared to an overdraft of £545,000 at 30 June 2015. The timing of creditor payments, improved supplier terms and careful management of inventories helped to improve this position.

Net debt reduced from £6,164,000 at 30 June 2015 to £5,824,000 at 30 June 2016.

Sports, leisure and toys

Revenue from our sports, leisure and toy businesses was £11,037,000 compared to £7,188,000 in the six months to 30 June 2015 which was an increase of 54%. This included the contribution from the ESC business acquired in September 2015.

Operating profit in the sports, leisure and toys businesses for the period to 30 June 2016 was £562,000 compared to £435,000 in the same period last year.

As stated in our announcement of 19 April 2016, we have invested heavily in our direct to consumer business to recruit the appropriate personnel, to improve our order processing and fulfilment systems and to redevelop all websites. Although sales were in line with our expectations this investment has impacted on profitability during the period.

We have been very encouraged by the performance from our toys business which outperformed the overall outdoor toy sector during the period.

In respect of import duty matters previously reported with regards to the ESC business, there were no further developments to report and the position remains under review.

Bicycles, accessories and mobility

Revenue from our bicycles, bicycle accessories and mobility businesses reduced to £6,078,000 compared to £8,397,000 last year.

A significant national retailer bicycle promotion last year was not repeated this year.

Operating profit was £19,000 compared to £597,000 in the period to 30 June 2015.

Mobility sales and profitability were marginally behind and this was adversely impacted by an HMRC demand for retrospective import duty which we previously reported and which has meant retail prices have been increased to compensate.

Despite it being obvious that our mobility scooters are designed solely for the use by disabled persons, it is HMRC and the European Commission's view that because a mobility scooter may be purchased by an able bodied person it is subject to a 10 per cent rate of duty. Whilst we believe that this is fundamentally wrong, after taking legal advice we are of the opinion that there is limited chance of a successful and cost effective appeal against the ruling.

The vendor of the Pro Rider business has settled all liabilities up to the date of inspection in February 2016.

We are aware that HMRC are actively targeting all competitors and we will continue to push to ensure that there is a level playing field in this sector.

Trading update and outlook

Group revenue for the 38 week period to 23 September was approximately £28.8 million compared to £25.1 million in the comparative period last year. In the 12 week period from 30 June to 23 September 2015, Group revenue was approximately 21% ahead of the prior year period.

Sports, leisure and toys

Sports, leisure and toys revenue for the 38 week period to 23 September was approximately £19.8 million compared to £13.3 million last year.

We are encouraged by our prospects for the forthcoming Christmas trading period.

Batman, Paw Patrol, Shopkins and Finding Dory are performing strongly along with, in particular, our own brand Kickmaster.

By Christmas we expect to have relaunched all our direct to consumer websites, re-engineered our order processing and despatch operation and our employee recruitment programme will be complete. We expect to be in a resilient position to take the business forward in 2017.

Bicycles, accessories and mobility

In the bicycles, accessories and mobility businesses revenue for the 38 weeks to 23 September was approximately £9.0 million compared to £11.8 million in the prior year.

As we have previously reported it has been a particularly challenging period for the UK leisure cycling market. This has further been impacted by significant promotional activity by certain large competitors over recent months and an oversupply of product in the market.

US Dollar

The challenging environment has also been exacerbated by the weakness in sterling following the outcome of the EU Referendum vote. Although we hedge a proportion of our future US dollar requirement, we have had no alternative but to increase prices to mitigate this impact.

Dividend

We are declaring an interim dividend of 1.30p per share (2015 – 1.25p per share) payable on or about 14 November 2016 in line with our progressive dividend policy. The ex-dividend date will be 13 October 2016 and the record date 14 October 2016.

MPJ Keene**Chairman****30 September 2016**

CONDENSED CONSOLIDATED INCOME STATEMENT
For the 6 months ended 30 June 2016

	6 months ended 30 June 2016 <i>Unaudited</i>			6 months ended 30 June 2015 <i>Unaudited</i>			Year ended 31 December 2015 <i>Audited</i>			
	Note	Before non- underlying items £'000	Non- underlying items £'000	After non- underlying items £'000	Before non- underlying items £'000	Non- underlying items £'000	After non- underlying items £'000	Before non- underlying items £'000	Non- underlying items £'000	After non- underlying items £'000
Revenue		17,115	—	17,115	15,585	—	15,585	34,385	—	34,385
Cost of sales		(12,009)	—	(12,009)	(10,533)	—	(10,533)	(24,265)	—	(24,265)
Gross profit		5,106	—	5,106	5,052	—	5,052	10,120	—	10,120
Operating expenses		(4,812)	—	(4,812)	(4,288)	—	(4,288)	(8,700)	(140)	(8,840)
Operating profit before exceptional items		294	—	294	764	—	764	1,420	(140)	1,280
Exceptional items		—	206	206	—	—	—	—	7	7
Operating profit after exceptional items		294	206	500	764	—	764	1,420	(133)	1,287
Finance costs		(112)	(192)	(304)	(105)	(315)	(420)	(206)	(36)	(242)
Profit before taxation		182	14	196	659	(315)	344	1,214	(169)	1,045
Tax (expense)/credit		(62)	—	(62)	(35)	46	11	(128)	84	(44)
Net profit for the period		120	14	134	624	(269)	355	1,086	(85)	1,001
				Pence			Pence			Pence
Earnings per share										
Basic	3			2.82			7.60			21.31
Diluted	3			2.71			7.30			20.27

All figures relate to continuing operations.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the 6 months ended 30 June 2016

	6 months ended 30 June 2016 Unaudited £'000	6 months ended 30 June 2015 <i>Unaudited</i> £'000	Year ended 31 December 2015 <i>Audited</i> £'000
Profit for the period	134	355	1,001
Other comprehensive income:			
<i>Items that will be reclassified subsequently to profit and loss:</i>			
Foreign exchange differences on translation of overseas subsidiaries	139	(12)	51
<i>Items that will not be reclassified subsequently to profit or loss:</i>			
Deferred tax credit on share based payments	—	—	75
Actuarial gain on pension schemes	—	—	423
Movement in pension schemes' deferred tax provision	—	—	(223)
Other comprehensive income for the period	139	(12)	326
Total comprehensive income attributable to equity shareholders of Tandem Group plc	273	343	1,327

All figures relate to continuing operations.

CONDENSED CONSOLIDATED BALANCE SHEET
As at 30 June 2016

	At 30 June 2016 Unaudited £'000	At 30 June 2015 <i>Unaudited</i> £'000	At 31 December 2015 <i>Audited</i> £'000
Non current assets			
Intangible fixed assets	5,612	4,107	5,612
Property, plant and equipment	3,206	3,352	3,267
Deferred taxation	1,825	2,036	1,825
	10,643	9,495	10,704
Current assets			
Inventories	8,121	7,983	6,227
Trade and other receivables	7,379	6,306	5,468
Derivative financial asset held at fair value	125	—	246
Cash and cash equivalents	980	—	878
	16,605	14,289	12,819
Total assets	27,248	23,784	23,523
Current liabilities			
Bank overdraft	—	(545)	—
Trade and other payables	(8,434)	(6,325)	(5,001)
Other liabilities	(4,527)	(4,185)	(4,034)
Derivative financial liability held at fair value	—	(88)	—
Current tax liabilities	(477)	(306)	(559)
	(13,438)	(11,449)	(9,594)
Non current liabilities			
Other payables	(6)	(38)	(8)
Other liabilities	(2,277)	(1,434)	(2,494)
Pension schemes' deficits	(3,479)	(4,020)	(3,608)
	(5,762)	(5,492)	(6,110)
Total liabilities	(19,200)	(16,941)	(15,704)
Net assets	8,048	6,843	7,819
Equity			
Share capital	1,503	1,503	1,503
Shares held in treasury	(295)	(328)	(316)
Share premium	175	130	127
Other reserves	3,083	2,881	2,944
Profit and loss account	3,582	2,657	3,561
Total equity	8,048	6,843	7,819

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
As at 30 June 2016

	Share capital £'000	Shares held in treasury £'000	Share premium £'000	Merger reserve £'000	Capital redemption reserve £'000	Translation reserve £'000	Profit and loss account £'000	Total £'000
At 1 January 2015	1,503	(336)	84	1,036	1,427	430	2,442	6,586
Net profit for the period	—	—	—	—	—	—	355	355
Retranslation of overseas subsidiaries	—	—	—	—	—	(12)	—	(12)
<i>Total comprehensive income for period attributable to equity shareholders</i>	—	—	—	—	—	(12)	355	343
Share based payments	—	—	—	—	—	—	2	2
Exercise of share options	—	8	46	—	—	—	(29)	25
Dividends paid	—	—	—	—	—	—	(113)	(113)
<i>Total transactions with owners</i>	—	8	46	—	—	(12)	215	257
At 30 June 2015	1,503	(328)	130	1,036	1,427	418	2,657	6,843
Net profit for the period	—	—	—	—	—	—	646	646
Retranslation of overseas subsidiaries	—	—	—	—	—	63	—	63
Net actuarial gain on pension schemes	—	—	—	—	—	—	200	200
<i>Total comprehensive income for period attributable to equity shareholders</i>	—	—	—	—	—	63	846	909
Share based payments	—	—	—	—	—	—	12	12
Deferral tax on share options	—	—	—	—	—	—	75	75
Exercise of share options	—	12	(3)	—	—	—	29	38
Dividends paid	—	—	—	—	—	—	(58)	(58)
<i>Total transactions with owners</i>	—	12	(3)	—	—	63	904	976
At 1 January 2016	1,503	(316)	127	1,036	1,427	481	3,561	7,819
Net profit for the period	—	—	—	—	—	—	134	134
Retranslation of overseas subsidiaries	—	—	—	—	—	139	—	139
<i>Total comprehensive income for period attributable to equity shareholders</i>	—	—	—	—	—	139	134	273
Share based payments	—	—	—	—	—	—	8	8
Exercise of share options	—	21	48	—	—	—	—	69
Dividends paid	—	—	—	—	—	—	(121)	(121)
<i>Total transactions with owners</i>	—	21	48	—	—	139	21	229
At 30 June 2016	1,503	(295)	175	1,036	1,427	620	3,582	8,048

CONDENSED CONSOLIDATED CASH FLOW STATEMENT
For the 6 months ended 30 June 2016

	At 30 June 2016 Unaudited £'000	At 30 June 2015 <i>Unaudited</i> £'000	At 31 December 2015 <i>Audited</i> £'000
Cash flows from operating activities			
Profit before taxation for the period	196	344	1,045
<i>Adjustments:</i>			
Depreciation of property, plant and equipment	98	97	193
Amortisation of intangible fixed assets	—	5	16
Finance costs	304	420	242
Share based payments	8	2	14
Net cash flow from operating activities before movements in working capital	606	868	1,510
Change in inventories	(1,894)	(2,911)	(137)
Change in trade and other receivables	(1,789)	291	1,814
Change in trade and other payables	2,928	471	(1,476)
Cash flows from operations	(149)	(1,281)	1,711
Interest paid	(54)	(78)	(108)
Tax paid	(22)	(23)	(120)
Net cash flow from operating activities	(225)	(1,382)	1,483
Cash flows from investing activities			
Acquisition of subsidiary net of cash acquired	—	—	(2,057)
Acquisition of subsidiaries deferred consideration paid	—	—	(290)
Purchase of intangible fixed assets	—	—	(39)
Purchase of property, plant and equipment	(42)	(119)	(132)
Sale of property, plant and equipment	—	—	6
Net cash flow from investing activities	(42)	(119)	(2,512)
Cash flows from financing activities			
New loans	—	—	1,500
Loan repayments	(204)	(54)	(182)
Finance lease repayments	(12)	(11)	(23)
Change in invoice financing	493	(684)	(1,136)
Exercise of share options	69	25	63
Dividends paid	(121)	(113)	(171)
Net cash flow from financing activities	225	(837)	51
Net change in cash and cash equivalents	(42)	(2,338)	(978)
Cash and cash equivalents at beginning of period	878	1,805	1,805
Effect of foreign exchange rate changes	144	(12)	51
Cash and cash equivalents/(overdraft) at end of period	980	(545)	878

NOTES TO THE HALF YEARLY REPORT

1 GENERAL INFORMATION

Tandem Group plc is a public limited company incorporated and domiciled in the United Kingdom with its shares listed on AIM, the market of that name operated by the London Stock Exchange.

The principal activity of the Group is the design, development and distribution of sports, leisure and mobility equipment.

The ultimate parent company of the Group is Tandem Group plc whose principal place of business and registered office address is 35 Tameside Drive, Castle Bromwich, Birmingham, B35 7AG.

The interim financial statements for the period ended 30 June 2016 (including the comparatives for the period ended 30 June 2015 and the year ended 31 December 2015) were approved by the Board of Directors on 30 September 2016. Under the Security Regulations Act of the European Union ("EU"), amendments to the financial statements are not permitted after they have been approved.

The financial information set out in this interim report does not constitute statutory accounts as defined in Section 434 of the Companies Act 2006. The Group's statutory financial statements for the year ended 31 December 2015, prepared under International Financial Reporting Standards ("IFRS"), have been filed with the Registrar of Companies. The auditor's report on those financial statements was unqualified and did not contain statements under Sections 498(2) and 498(3) of the Companies Act 2006.

This interim financial information has been prepared using the accounting policies set out in the Group's 2015 statutory accounts. Copies of the annual statutory accounts and the interim report may be obtained by writing to the Company Secretary of Tandem Group plc, 35 Tameside Drive, Castle Bromwich, Birmingham, B35 7AG and can be found on the Company's website at www.tandemgroup.co.uk.

The net retirement benefit obligation recognised at 30 June 2016 is based on the actuarial valuation under IAS19 at 31 December 2015 updated for movements in net defined benefit pension income and contributions paid during the half year period. A full valuation for IAS19 financial reporting purposes will be carried out for incorporation in the audited financial statements for the year ending 31 December 2016.

2 SEGMENTAL REPORTING

For management purposes the Group is organised into two operating segments. The revenues and net results for these segments are shown below:

	Bicycles, accessories and mobility £'000	Sports, leisure and toys £'000	Total £'000
6 months ended 30 June 2016			
Revenue	<u>6,078</u>	<u>11,037</u>	<u>17,115</u>
Segment result	<u>19</u>	<u>562</u>	<u>581</u>
Unallocated corporate charges			<u>(287)</u>
Operating profit before exceptional items			<u>294</u>
Exceptional items			<u>206</u>
Operating profit after exceptional items			<u>500</u>
Finance costs			<u>(304)</u>
Profit for the period before taxation			<u>196</u>
Tax expense			<u>(62)</u>
Net profit for the period			<u><u>134</u></u>
6 months ended 30 June 2015			
Revenue	<u>8,397</u>	<u>7,188</u>	<u>15,585</u>
Segment result	<u>597</u>	<u>435</u>	<u>1,032</u>
Unallocated corporate charges			<u>(268)</u>
Operating profit			<u>764</u>
Finance costs			<u>(420)</u>
Profit for the period before taxation			<u>344</u>
Tax credit			<u>11</u>
Net profit for the period			<u><u>355</u></u>
Year ended 31 December 2015			
Revenue	<u>15,478</u>	<u>18,907</u>	<u>34,385</u>
Segment result before corporate charges	895	1,300	2,195
Corporate charges	<u>(331)</u>	<u>(512)</u>	<u>(843)</u>
Segment result after corporate charges	<u>564</u>	<u>788</u>	<u>1,352</u>
Unallocated corporate charges			<u>(72)</u>
Operating profit before exceptional items			<u>1,280</u>
Exceptional items			<u>7</u>
Operating profit after exceptional items			<u>1,287</u>
Finance costs			<u>(242)</u>
Profit before taxation			<u>1,045</u>
Tax expense			<u>(44)</u>
Net profit for the year			<u><u>1,001</u></u>

3 EARNINGS PER SHARE

The calculation of earnings per share is based on the net result and ordinary shares in issue during the period as follows:

	6 months ended 30 June 2016 £'000	6 months ended 30 June 2015 £'000	Year ended 31 December 2015 £'000
Net profit for the period	<u>134</u>	<u>355</u>	<u>1,001</u>
	Number	Number	Number
Weighted average shares in issue used for basic earnings per share	4,755,880	4,670,908	4,696,752
Weighted average dilutive shares under option	186,527	192,444	241,974
Average number of shares used for diluted earnings per share	<u>4,942,406</u>	<u>4,863,352</u>	<u>4,938,726</u>
	Pence	Pence	Pence
Basic earnings per share	<u>2.82</u>	<u>7.60</u>	<u>21.31</u>
Diluted earnings per share	<u>2.71</u>	<u>7.30</u>	<u>20.27</u>

This announcement contains inside information for the purposes of Article 7 of EU Regulation 596/2014 (MAR).

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30 September 2016