TANDEM GROUP PLC
PRELIMINARY RESULTS FOR THE YEAR ENDED 31 DECEMBER 2017

Chairman's statement

Introduction
I am pleased to present the results for the year ended 31 December 2017.

Results
There was a 4% reduction in revenue which was in line with our expectations following the restructuring of our bicycle operations. Revenue decreased from £38,414,000 for the year ended 31 December 2016 to £36,837,000 in the year ended 31 December 2017.

Operating profit before finance costs and taxation was £2,401,000 for the year ended 31 December 2017 compared to £1,379,000 for the year ended 31 December 2016.

Finance costs increased to £511,000 compared to £465,000 in the previous year although this included a fair value charge in respect of foreign currency derivatives of £172,000 (year ended 31 December 2016 - £129,000).

I am pleased to report that cash and cash equivalents increased from £1,101,000 at 31 December 2016 to £3,856,000 at 31 December 2017. This was due to increased Group profitability and the strong control of working capital, particularly stock, where we entered 2018 with little carry-over stock from the previous season.

Net assets also increased during the year to £11,068,000 at 31 December 2017 compared to £8,214,000 at 31 December 2016, an increase of 35%.

Dividend
We are proposing to pay a final dividend of 2.75 pence per share (year ended 31 December 2016 – 2.60 pence per share) which, when combined with the interim dividend of 1.35 pence per share (year ended 31 December 2016 – 1.30 pence per share), gives a total dividend of 4.10 pence for the year (year ended 31 December 2016 – 3.90 pence per share), an increase of 5%.

Subject to shareholder approval at the Annual General Meeting to be held on 28 June 2018, the final dividend will be paid on or around 4 July 2018 to shareholders on the share register as at 18 May 2018. The ex-dividend date will be 17 May 2018.

Pension schemes
The Group operates two defined benefit pension schemes with both schemes closed to new members. There are no active members in either scheme. There was a net reduction in the deficit of the schemes from £4,215,000 at 31 December 2016 to £2,928,000 at 31 December 2017. Government gilt yields improved which, in turn, increased the discount rate used to calculate scheme liabilities. This was coupled with minor changes to mortality assumptions.

Notwithstanding the above, total payments made by the company into the schemes continue to be significant. During the year to 31 December 2017 total payments in respect of these schemes were £345,000 (year ended 31 December 2016 - £368,000) comprising deficit contributions of £265,000 (year ended 31 December 2016 - £260,000) and government levies and administration costs of £80,000 (year ended 31 December 2016 - £108,000). In line with the previously agreed recovery plans deficit contributions are expected to increase to £423,000 in 2018.

Employees
I would like to thank all employees, on behalf of the Board of Directors, for their continued hard work and support in what continues to be a challenging, yet rewarding, environment.

Outlook
The start of 2018 has been more challenging for the Group. However, we have secured many new licences including Hatchimals, Jo Jo Siwa, Jurassic World, LOL Surprise, Nella the Princess Knight, Rusty Rivets and Super Wings.

We expect a strong year from Kickmaster in light of the forthcoming World Cup in Russia and we anticipate a better performance from Ben Sayers following new developments to the product range for 2018.

Excellent feedback was again received from our recent exhibition at the London Toy Fair and our bicycle 2018 product launch show in January.

Our product ranges for 2018 are extensive and varied whilst maintaining a strong focus on our core values of quality and value.

We are pleased with the progress of our Squish lightweight bicycle brand and have won new business with a significant retail customer for 2018 and entered into an exclusive distribution arrangement with a new partner covering the Republic of Ireland and Northern Ireland.

Our own brand Pro Rider mobility scooter range has been fully redesigned and will be launched at Naidex, Europe's most comprehensive trade, professional and consumer event dedicated to the independent living sector, where we will be exhibiting in April.

During the course of the year we also expect to develop our direct to consumer websites further and recruit in the areas of product development and marketing in order to bring more new and innovative products to market.

Our use of automated technology in our operations, logistics and distribution will continue to be streamlined to enable an ever more efficient process from customer order to despatch and delivery.

We are cautious about the outlook for the year ahead, but we remain confident that we have the resources and personnel to deliver profitability to our shareholders.

M P J Keene
Chairman

11 April 2018

Operating and Financial Review

Revenue
There was a reduction in Group revenue for the year ended 31 December 2017 to £36,837,000 from £38,414,000 in the prior year.

This reduction was mainly as a result of the restructuring undertaken in our bicycles operations which involved a number of measures taken to significantly reduce costs. As a result, and as we anticipated, revenue reduced.

Toy sales were broadly flat compared to the prior year. However, as we reported in our trading statement of 1 March, this was a strong result against a backdrop of a reported decline in revenues in the UK outdoor toy market of 6% in 2017.

Notwithstanding this, there were a number of our licences which performed particularly well during the year. Following the release of the Cars 3 movie, our sales of related wheeled toys were strong. Batman continued to show growth over the previous year. We were also pleased that a new licence, PJ Masks, delivered a strong first year performance.

Our range of own branded Stunted stunt scooters and accessories showed double digit growth in 2017. Our range of Hedstrom outdoor play products also showed double digit growth, with increases across many product lines.

For Dawes and Claud Butler, as part of our overall efforts to further improve working capital, 2017 was a year in which we streamlined stock holdings in anticipation of relaunching the brands in 2018.

We introduced a new range of value for money British Eagle bicycles during the year and have been encouraged by the launch of our Squish lightweight junior range against a difficult backdrop for independent dealer cycle sales in the UK.

It was also a more challenging year for Ben Sayers with revenue behind the prior year.

As we previously reported, our direct to consumer operations continued to show revenue growth.

Revenue from both our Airwave range of gazebos and party tent ranges increased. It was also a strong year for electric golf trolleys, sales of which increased following the launch of a new product range.

A particular success for the year was the introduction of new ranges of heating and cooling products, both of which made a solid contribution to direct to consumer revenue.

We expanded our range of garden furniture, garden storage and outdoor inflatable spas where there was also revenue growth.

Gross profit
Gross profit increased by 9% to £10,887,000 from £9,980,000 in 2016 with the gross profit percentage increasing from 26.0% last year to 29.6% in the year ended 31 December 2017.

As we reported in our recent trading update, there was a strong focus during the year to improve our gross margin. A number of the measures that we began to implement towards the end of 2016 were successfully carried forward into 2017 in the following key areas:

- We were able to achieve better supplier buying prices for a number of products;
- Where this could not be achieved, products were re-sourced or discontinued;
- In accordance with our ongoing product development programmes, a considerable number of new products were introduced across the Group during 2017; and
- There was a greater concentration on more profitable product lines.

These objectives were achieved despite the ongoing adverse impact of the US dollar during 2017 and major customers continuing to exert significant pricing pressure on the Group.

Operating expenses
Operating expenses were £8,486,000 in the year ended 31 December 2017 compared to £8,744,000 for the year ended 31 December 2016. This was a reduction of 3%.

There was additional investment in advertising, promotional and marketing activities in a number of areas of the Group but this was more than offset by the restructuring undertaken in our bicycles operations.

Operating profit
As a result of the positive impact on gross margin and operating expenses, we are pleased to report that operating profit before exceptional items increased to £2,401,000 for the year ended 31 December 2017 compared to £1,236,000 in the prior year.

Non-underlying items
Non-underlying items are material items which have arisen from unusual non-recurring or non-trading events. There were no non-underlying exceptional items for the year ended 31 December 2017. However, in the prior year ended 31 December 2016 there were exceptional restructuring costs of £191,000 incurred and an exceptional release of deferred consideration of £334,000 in respect of the Pro Rider and ESC acquisitions.

Other non-underlying items comprised:

- a fair value charge adjustment for foreign currency derivative contracts under IAS39 of £172,000 (year ended 31 December 2016 – £129,000);
- pension finance costs under IAS19 of £107,000 (year ended 31 December 2016 - £129,000); and
- a deferred tax charge of £114,000 (year ended 31 December 2016 - £9,000 credit) in respect of share option and pension schemes.

Finance costs
Total net finance costs for the year ended 31 December 2017 were £511,000 compared to £465,000 for the year ended 31 December 2016.

Interest payable on bank loans, overdrafts, hire purchase and invoice finance facilities was £232,000 compared to £207,000 in the prior year.

Finance costs of £107,000 in respect of the pension schemes provided in accordance with IAS19 were incurred compared to £129,000 for year ended 31 December 2016.

In accordance with IAS39, there was an increase in the fair value charge of £172,000 in respect of derivative foreign exchange contracts against £129,000 in the prior year.

As in previous years and explained above, the net cost of pension schemes' finance costs and foreign currency derivatives, which totalled £279,000 (year ended 31 December 2016 - £258,000), is included in non-underlying items.

Taxation
The tax expense increased from £137,000 for the year ended 31 December 2016 to £146,000 for the year ended 31 December 2017.

The current tax charge, which comprised corporation tax from the overseas Hong Kong operation, was £219,000 (year ended 31 December 2016 - £173,000).

Deferred tax income of £73,000 comprised tax in respect of movements in trading losses and pension schemes' liabilities and compared to £36,000 in the prior year.

Net profit
Net profit for the year ended 31 December 2017 after non-underlying items, finance costs and taxation more than doubled to £1,744,000 compared to £777,000 for the year ended 31 December 2016.

Capital expenditure
There was minimal capital expenditure incurred during the year. Total expenditure was £27,000 (year ended 31 December 2016 - £59,000).

Property
A valuation of the Castle Bromwich property was carried out by CBRE Ltd in January 2018 in accordance with the RICS Valuation – Professional Standards January 2014, published by The Royal Institution of Chartered Surveyors.

The value placed on the property was £3,150,000 and we consider this to represent the fair value at 31 December 2017. We are pleased to report therefore that the property investment, which is utilised by parts of our Group, has increased in value by over 20% since acquisition.

The property was originally purchased in February 2013 for £2,600,000 satisfied by means of a new 5 year term loan of £1,600,000 million provided by the Company's bankers. The loan was subject to a bullet payment at the end of year 5 which was subsequently renegotiated. The reduced bullet payment now falls due in 2020.

Cash flows, working capital and net debt
Net cash inflow from operating activities before movements in working capital for the year ended 31 December 2017 was £2,330,000 compared to £693,000 in the prior year.

The focus on strong stock control enabled cash generated from operations to increase to £4,061,000 compared to £1,800,000 last year.

Net cash outflows from investing activities were £32,000 in the year ended 31 December 2017 against £130,000 in the previous year.

There was a net cash outflow from financing activities of £543,000 in the year ended 31 December 2017 which compared to £1,275,000 in the year ended 31 December 2016.

As a result of these movements the closing cash position at 31 December 2017 was £3,856,000 compared to £1,101,000 at 31 December 2016.

Net debt, comprising cash and cash equivalents, invoice financing liabilities and borrowings, was significantly reduced to £1,016,000 at 31 December 2017 compared to £4,197,000 at the end of the previous year.

Dividends
We have increased total dividends paid and proposed for the year ended 31 December 2017 by over 5% to 4.1 pence per share compared to 3.9 pence per share for the year ended 31 December 2016.

The dividend cover ratio was 8.5 (year ended 31 December 2016 – 4.1).

As we have previously stated, it continues to be the Group's policy to progressively increase the dividend payment to shareholders where trading performance permits.

Earnings per share
Basic earnings per share was 35.0 pence per share for the year ended 31 December 2017 compared to 16.0 pence per share in the year ended 31 December 2016. Diluted earnings per share was 34.8 pence per share compared to 15.7 pence per share in the prior year.

S J Grant
Chief Executive Officer

J C Shears
Group Finance Director

11 April 2018

Consolidated income statement

	Note	31 December 2017 Before non-underlying items	Non-underlying items	After non-underlying items	31 December 2016 Before non-underlying items	Non-underlying items	After non-underlying items
		£'000	**£'000**	**£'000**	£'000	£'000	£'000
Revenue		**36,837**	—	**36,837**	38,414	—	38,414
Cost of sales		**(25,950)**	—	**(25,950)**	(28,434)	—	(28,434)
Gross profit		**10,887**	—	**10,887**	9,980	—	9,980
Operating expenses		**(8,486)**	—	**(8,486)**	(8,744)	—	(8,744)
Operating profit before exceptional income		**2,401**	—	**2,401**	1,236	—	1,236
Exceptional income		—	—	—	—	143	143
Operating profit after exceptional income		**2,401**	—	**2,401**	1,236	143	1,379
Finance costs		**(232)**	**(279)**	**(511)**	(207)	(258)	(465)
Profit before taxation		**2,169**	**(279)**	**1,890**	1,029	(115)	914
Tax (expense)/credit		**(32)**	**(114)**	**(146)**	(146)	9	(137)
Net profit for the year		**2,137**	**(393)**	**1,744**	883	(106)	777
Earnings per share	3			**Pence**			Pence
Basic				**35.0**			16.0
Diluted				**34.8**			15.7

Consolidated statement of comprehensive income

	31 December 2017	31 December 2016
	£'000	£'000
Net profit for the year	**1,744**	777
Other comprehensive income:		
Items that will be reclassified subsequently to profit and loss:		
Foreign exchange differences on translation of foreign operations	**(254)**	322
Items that will not be reclassified subsequently to profit or loss:		
Revaluation of property, plant and equipment	**530**	—
Actuarial gain/(loss) on pension schemes	**1,129**	(738)
Movement in pension schemes' deferred tax provision	**(191)**	57
Other comprehensive income for the year, net of tax	**1,214**	(359)
Total comprehensive income for the year attributable to equity shareholders	**2,958**	418

All figures relate to continuing operations.

Consolidated balance sheet

	At 31 December 2017 £'000	At 31 December 2016 £'000
Non current assets		
Intangible fixed assets	**5,597**	5,625
Property, plant and equipment	**3,550**	3,141
Deferred taxation	**1,800**	1,918
	10,947	10,684
Current assets		
Inventories	**4,001**	7,624
Trade and other receivables	**4,539**	3,910
Derivative financial asset held at fair value	—	117
Cash and cash equivalents	**3,856**	1,101
	12,396	12,752
Total assets	**23,343**	23,436
Current liabilities		
Trade and other payables	**(4,312)**	(5,571)
Other liabilities	**(3,237)**	(3,226)
Derivative financial liability held at fair value	**(55)**	—
Current tax liabilities	**(107)**	(133)
	(7,711)	(8,930)
Non current liabilities		
Other payables	**(1)**	(5)
Other liabilities	**(1,635)**	(2,072)
Pension schemes' deficits	**(2,928)**	(4,215)
	(4,564)	(6,292)
Total liabilities	**(12,275)**	(15,222)
Net assets	**11,068**	8,214
Equity		
Share capital	**1,503**	1,503
Shares held in treasury	**(247)**	(272)
Share premium	**286**	232
Other reserves	**3,542**	3,266
Profit and loss account	**5,984**	3,485
Total equity	**11,068**	8,214

Consolidated statement of changes in equity

	Share capital	Shares held in treasury	Share premium	Merger reserve	Capital redemption reserve	Revaluation reserve	Translation reserve	Profit and loss account	Total
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
At 1 January 2016	1,503	(316)	127	1,036	1,427	—	481	3,561	**7,819**
Net profit for the year	—	—	—	—	—	—	—	777	**777**
Re-translation of overseas subsidiaries	—	—	—	—	—	—	322	—	**322**
Net actuarial loss on pension schemes	—	—	—	—	—	—	—	(681)	**(681)**
Total comprehensive income for the year attributable to equity shareholders	—	—	—	—	—	—	322	96	**418**
Share based payments	—	—	—	—	—	—	—	13	**13**
Exercise of share options		44	105	—	—	—	—	—	**149**
Dividends paid	—	—	—	—	—	—	—	(185)	**(185)**
Total transactions with owners	—	44	105	—	—	—	—	(172)	**(23)**
At 1 January 2017	1,503	(272)	232	1,036	1,427	—	803	3,485	**8,214**
Net profit for the year	—	—	—	—	—	—	—	1,744	**1,744**
Re-translation of overseas subsidiaries	—	—	—	—	—	—	(254)	—	**(254)**
Revaluation of property, plant and equipment	—	—	—	—	—	530	—	—	**530**
Net actuarial gain on pension schemes	—	—	—	—	—	—	—	938	**938**
Total comprehensive income for the year attributable to equity shareholders	—	—	—	—	—	530	(254)	2,682	**2,958**
Share based payments	—	—	—	—	—	—	—	13	**13**
Exercise of share options	—	25	54	—	—	—	—	—	**79**
Dividends paid	—	—	—	—	—	—	—	(196)	**(196)**
Total transactions with owners	—	25	54	—	—	—	—	(183)	**(104)**
At 31 December 2017	**1,503**	**(247)**	**286**	**1,036**	**1,427**	**530**	**549**	**5,984**	**11,068**

Consolidated cash flow statement

	31 December 2017 £'000	31 December 2016 £'000
Cash flows from operating activities		
Net profit for the year	**1,744**	777
Adjustments:		
Depreciation of property, plant and equipment	**148**	186
Amortisation of intangible fixed assets	**39**	31
Profit on sale of property, plant and equipment	**(6)**	(5)
Waiver of deferred consideration	**—**	(651)
Contribution to defined benefit plans	**(265)**	(260)
Finance costs	**511**	465
Tax expense	**146**	137
Share based payments	**13**	13
Net cash flow from operating activities before movements in working capital	**2,330**	693
Change in inventories	**3,623**	(1,397)
Change in trade and other receivables	**(629)**	1,558
Change in trade and other payables	**(1,263)**	946
Cash generated from operations	**4,061**	1,800
Interest paid	**(232)**	(207)
Tax paid	**(245)**	(287)
Net cash flows from operating activities	**3,584**	1,306
Cash flows from investing activities		
Acquisition of subsidiaries deferred consideration paid	**—**	(32)
Purchases of intangible fixed assets	**(11)**	(44)
Purchases of property, plant and equipment	**(27)**	(59)
Sale of property, plant and equipment	**6**	5
Net cash flows from investing activities	**(32)**	(130)
Cash flows from financing activities		
Loan repayments	**(407)**	(407)
Finance lease repayments	**(27)**	(24)
Movement in invoice financing	**8**	(808)
Exercise of share options	**79**	149
Dividends paid	**(196)**	(185)
Net cash flows from financing activities	**(543)**	(1,275)
Net change in cash and cash equivalents	**3,009**	(99)
Cash and cash equivalents at beginning of year	**1,101**	878
Effect of foreign exchange rate changes	**(254)**	322
Cash and cash equivalents at end of year	**3,856**	1,101

Notes to the preliminary results

1. General information

The financial information set out in this preliminary announcement does not constitute statutory accounts as defined in section 434 of the Companies Act 2006. The Consolidated income statement, the Consolidated statement of comprehensive income, the Consolidated balance sheet at 31 December 2017, the Consolidated statement of changes in equity, the Consolidated cash flow statement and the associated notes for the period then ended have been extracted from the Group's financial statements upon which the auditor's opinion is unqualified and does not include any statement under section 498 of the Companies Act 2006. The statutory accounts for the year ended 31 December 2017 will be delivered to the Registrar of Companies following the Group's Annual General Meeting.

2. Basis of preparation

The consolidated financial statements of the Group have been prepared under the historical cost convention and in accordance with the International Financial Reporting Standards (IFRS) as adopted by the EU. The principal accounting policies adopted by the Group, which remain unchanged, are set out in the statutory financial statements for the year ended 31 December 2017.

Non-underlying items
Non-underlying items are material items which arise from unusual non-recurring or non-trading events. They are disclosed in aggregate on the Consolidated income statement where in the opinion of the Directors such disclosure is necessary in order to fairly present the results for the period. Non-underlying items comprise exceptional costs of Group restructuring, the finance cost related to the Group's pension schemes calculated in accordance with IAS19, the impact of the movement in respect of derivative foreign exchange contracts held at fair value through the profit and loss in accordance with IAS39 and the release of the over provision in respect of contingent consideration.

Key areas of estimation uncertainty
Impairment of goodwill
The annual impairment assessment in respect of goodwill requires estimates of the value in use of cash generating units to which goodwill has been allocated to be calculated. As a result, estimates of future cash flows are required, together with an appropriate discount factor for the purpose of determining the present value of those cash flows.

Financial instruments valuation
Forward contracts and options are used to minimise the impact of foreign exchange fluctuations on the group. An asset or liability is recognised representing the fair value of the instruments in place at the year end. The fair value is calculated using certain estimates and valuation models by reference to significant inputs including; implied volatilities in foreign currency and historical movements in foreign currency exchange rates. Changes in the fair value of the instruments are recognised in profit or loss in the income statement.

Pension scheme valuation
The liabilities in respect of defined benefit pension schemes are calculated by qualified actuaries and reviewed by the Group, but are necessarily based on subjective assumptions. The principal uncertainties relate to the estimation of the discount rate, life expectancies of scheme members, future investment yields and general market conditions for factors such as inflation and interest rates. Profits and losses in relation to changes in actuarial assumptions are taken directly to reserves and therefore do not impact on the profitability of the business, but the changes do impact on net assets.

Inventory provisioning
The Group reviews the net realisable value of and demand for its inventory on an ongoing basis to ensure recorded inventory is stated at the lower of cost or net realisable value. Factors that could impact estimated demand and selling prices are the timing and success of future technological innovations, competitor actions, suppliers' prices and economic trends. If total inventory losses differ, the Group's consolidated net income in the year would have improved or declined, depending upon whether the actual results were better or worse than expected.

Bad debt provision
At each reporting period, the Directors review outstanding debts and determine appropriate provision levels. The recovery of certain debts is dependent on the individual circumstances of customers. At the year end there are a number of debts which remain outstanding past their due date, which the Directors believe to be recoverable.

Intangible asset valuation
In attributing value to intangible assets arising on acquisition, management has made certain assumptions in terms of cash flows attributable to intellectual property and customer relationships. The key assumptions relate to the trading performance of the acquired business, royalty rates applied in the royalty relief calculation and discount rates applied to calculate the present value of future cash flows. The Directors consider the resulting valuation to be a reasonable approximation as to the value of the intangibles acquired.

Key judgements
Deferred tax assets
In determining the deferred tax asset to be recognised the Directors carefully review the recoverability of these assets on a prudent basis and reach a judgement based on the best available information. Estimates and judgements used in the financial statements are based on historical experience and other assumptions that the Directors and management consider reasonable and are consistent with the Group's latest budgeted forecasts where applicable. Judgements are based on the information available at each balance sheet date. Although these estimates are based on the best information available to the Directors, actual results may ultimately differ from those estimates.

Pension deficit
In accordance with the winding up provisions of the Trust deeds the Directors have concluded that the Group has a discretionary right to receive returns of contributions if the schemes were to be in surplus. Accordingly, and where material, any excess funding has not been recognised on the balance sheet.

3. Earnings per share

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

	31 December 2017	31 December 2016
	£'000	£'000
Net profit for the year	**1,744**	777
Weighted average shares in issue (excluding shares held in treasury) used for basic earnings per share	**4,981,003**	4,863,496
Weighted average dilutive shares under option	**24,163**	84,530
Average number of shares used for diluted earnings per share	**5,005,166**	4,948,026
	Pence	Pence
Basic earnings per share	**35.0**	16.0
Diluted earnings per share	**34.8**	15.7

4. Dividend

The Directors are proposing a final dividend of 2.75 pence per ordinary share (year ended 31 December 2016 – 2.60 pence) payable to shareholders on the register on 18 May 2018 and will be paid on or around 4 July 2018.

5. Annual report and accounts

The annual report and accounts will be posted to shareholders shortly and will be available on the Company's website, **www.tandemgroup.co.uk**.

6. Annual General Meeting

The Annual General Meeting will be held at 11:00 a.m. on 28 June 2018 at 35 Tameside Drive, Castle Bromwich, Birmingham, B35 7AG.

For further information contact:

Tandem Group plc
Steve Grant, Chief Executive
Jim Shears, Group Finance Director and Company Secretary
Telephone 0121 748 8075

Nominated Adviser
Cairn Financial Advisers LLP
Tony Rawlinson
James Caithie
Telephone 020 7213 0880

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