

Tandem Group plc

Half Yearly Report
for the six months ended

30 June 2014

CHAIRMAN'S STATEMENT

Results

Group revenue in the six months to 30 June 2014 was £13,735,000 compared to £11,251,000 in the six months to 30 June 2013. Gross profit increased from £3,370,000 in 2013 to £4,051,000 in 2014.

There was an increase in operating expenses to £3,881,000 in the six months to 30 June 2014 against £3,661,000 in the six months to 30 June 2013 to support the increased level of activity. However, we continue to carefully monitor and control overhead expenditure across the businesses.

The operating profit before exceptional costs was £170,000 (six months to 30 June 2013 – loss £291,000). There were exceptional costs incurred during the period of £73,000 (six months to 30 June 2013 - £58,000) in respect of staff changes in the Claud Butler business in Scunthorpe.

Finance costs in the six months to 30 June 2014 were £156,000 compared to £149,000 in 2013. In addition, finance income was £272,000 (six months to 30 June 2013 - £nil). This related to a fair value adjustment for foreign currency derivative contracts, effectively the partial unwinding of the charge incurred during the year ended 31 December 2013.

The profit before taxation for the period was £213,000 which compared to a loss of £498,000 in the six month period to 30 June 2013.

The tax expense for 2014 was £73,000 compared to tax income of £23,000 in 2013. This reflected the related deferred tax charge on the derivative contract adjustment and a tax charge in the Hong Kong business.

Net profit for the period was £140,000 (six months to 30 June 2013 – loss £475,000).

Basic earnings per share in the six months to 30 June 2014 was 3.00p compared to a loss of 10.21p per share in the prior period.

Cash and cash equivalents were £2,124,000 at 30 June 2014 compared to an overdraft of £5,000 at 30 June 2013. Net debt reduced from £5,681,000 at 30 June 2013 to £3,804,000 at 30 June 2014. This was primarily as a result of a reduction in inventories due to the timing of shipments.

Bicycles and accessories

Revenue from our bicycle and accessories businesses increased by 3.8% to £7,463,000 (2013 - £7,187,000).

Operating profit was £159,000 (2013 - £157,000).

Performance in our Dawes bicycles businesses was ahead of the previous period. The introduction of a new lightweight range of 'Academy' junior cycles, which were used for the British Triathlon Trust's summer cycling events programme across the country, has proved very successful.

In the Claud Butler business, a number of independent customers have moved away from the value end of the market choosing instead to replace lower price point product on the shop floor with higher specification bicycles. As a result, some of this business has been taken on by national retailers.

Our national retailer bicycles business, under the Falcon, Townsend, Elswick, Boss, Zombie and British Eagle brands, continued to show significant growth during the period, reinforcing our belief about elements of the independent sector. In addition, as we previously reported, the compelling value proposition coupled with an expanding customer base helped to enhance performance.

Sports, leisure and toys

Revenue from our sports, leisure and toy businesses grew by 54.3% from £4,064,000 in the six months to 30 June 2013 to £6,272,000 in the six months to 30 June 2014.

Operating profit in the sports, leisure and toys businesses for the period to 30 June 2014 was £186,000 compared to an operating loss of £318,000 in the same period last year.

Our own brands Hedstrom and Stunted were significantly ahead of the prior period. Revenue from licensed product ranges including Peppa Pig, One Direction and Thomas the Tank Engine was also greater than the previous period.

Trading update and outlook

Group revenue for the 37 week period to 12 September was approximately £21.0 million compared to £19.6 million in the comparative period last year. However, the 11 week period to 12 September 2014 has been more challenging, despite a period of reasonable weather.

In the bicycles and accessories businesses revenue for the 37 weeks to 12 September was approximately £11.2 million against a similar figure in the prior year.

After a positive start to the year, the leisure bicycle market has been challenging in recent months. Although some areas of the bicycle market continue to perform strongly, in particular higher priced road bikes, our sector of the cycling market remains highly competitive.

We are continuing to grow our corporate bicycle business. During the period we have introduced new product ranges and expanded the number of customer accounts which has increased turnover. We believe there is further scope to offer our national customers a value for money range of products to satisfy both retailer listings and their promotional activities.

Sports, leisure and toys revenue for the 37 week period to 12 September was approximately £9.8 million compared to £8.3 million last year.

In our sports, leisure and toys businesses we reported that at this time last year selections with national retailers had increased for Spring/Summer 2014. We are pleased to report that our selections for 2015 have so far been equally encouraging and we expect to build on the progress that we have made during 2014.

As we expected, the exceptional trading performance in the sports, leisure and toys businesses during this period last year has been difficult to emulate. Notwithstanding this, our order books are in line with the previous year which is encouraging.

The acquisition of Pro Rider was completed in August 2014. Pro Rider is a leading UK online retailer of mobility scooters, associated mobility products, electric bicycles and electric golf trolleys. We have already started to realise synergies between the two businesses with a number of joint projects underway. New websites will be launched shortly which will separate the mobility category from sports and leisure. This will enable greater focus on each area of the business. We believe there is potential for growth in the mobility sector and sports and leisure is a sector already well known to us. We are using our existing sourcing, importing and quality control expertise in both our UK and Hong Kong offices to assist and develop the business. We expect Pro Rider to make a strong contribution to trading performance in the remainder of 2014 and beyond.

Dividend

We are declaring an interim dividend of 1.20p per share (2013 – 1.15p per share) to shareholders payable on or about 31 October 2014. The ex-dividend date will be 1 October 2014 and the record date 3 October 2014.

MPJ Keene
Chairman
19 September 2014

CONDENSED CONSOLIDATED INCOME STATEMENT
For the 6 months ended 30 June 2014

	6 months ended 30 June 2014 <i>Unaudited</i> £'000	6 months ended 30 June 2013 <i>Unaudited</i> £'000	Year ended 31 December 2013 <i>Audited</i> £'000
Revenue	13,735	11,251	28,347
Cost of sales	(9,684)	(7,881)	(20,061)
Gross profit	4,051	3,370	8,286
Operating expenses	(3,881)	(3,661)	(7,314)
Operating profit/(loss) before exceptional costs	170	(291)	972
Exceptional costs	(73)	(58)	(142)
Operating profit/(loss) after exceptional costs	97	(349)	830
Finance income	272	—	—
Finance costs	(156)	(149)	(814)
Profit/(loss) before taxation	213	(498)	16
Tax (expense)/income	(73)	23	338
Net profit/(loss) for the period	140	(475)	354
	Pence	Pence	Pence
Earnings/(loss) per share			
Basic	3 <u>3.00</u>	<u>(10.21)</u>	<u>7.63</u>
Diluted	3 <u>2.95</u>	<u>(10.07)</u>	<u>7.54</u>

All figures relate to continuing operations.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the 6 months ended 30 June 2014

	6 months ended 30 June 2014 Unaudited £'000	6 months ended 30 June 2013 Unaudited £'000	Year ended 31 December 2013 Audited £'000
Profit/(loss) for the period	140	(475)	354
Other comprehensive income:			
<i>Items that will be reclassified subsequently to profit and loss:</i>			
Foreign exchange differences on translation of overseas subsidiaries	(78)	140	(53)
<i>Items that will not be reclassified subsequently to profit or loss:</i>			
Actuarial loss on pension schemes	—	—	(16)
Movement in pension schemes' deferred tax provision	—	—	(128)
Other comprehensive income for the period	(78)	140	(197)
Total comprehensive income attributable to equity shareholders of Tandem Group plc	62	(335)	157

All figures relate to continuing operations.

CONDENSED CONSOLIDATED BALANCE SHEET
As at 30 June 2014

	At 30 June 2014 Unaudited £'000	At 30 June 2013 <i>Unaudited</i> £'000	At 31 December 2013 <i>Audited</i> £'000
Non current assets			
Intangible fixed assets	2,236	2,236	2,236
Property, plant and equipment	3,371	3,151	3,128
Deferred taxation	1,890	1,749	1,947
	<u>7,497</u>	<u>7,136</u>	<u>7,311</u>
Current assets			
Inventories	5,104	7,302	3,827
Trade and other receivables	6,279	6,218	5,374
Cash and cash equivalents	2,124	—	2,925
	<u>13,507</u>	<u>13,520</u>	<u>12,126</u>
Total assets	<u>21,004</u>	<u>20,656</u>	<u>19,437</u>
Current liabilities			
Bank overdraft	—	(5)	—
Trade and other payables	(5,405)	(5,992)	(3,557)
Other liabilities	(4,577)	(4,111)	(4,636)
Derivative financial liability held at fair value	(245)	—	(516)
Current tax liabilities	(489)	(369)	(222)
	<u>(10,716)</u>	<u>(10,477)</u>	<u>(8,931)</u>
Non current liabilities			
Borrowings	(1,351)	(1,565)	(1,405)
Pension schemes' deficits	(3,340)	(3,418)	(3,461)
	<u>(4,691)</u>	<u>(4,983)</u>	<u>(4,866)</u>
Total liabilities	<u>(15,407)</u>	<u>(15,460)</u>	<u>(13,797)</u>
Net assets	<u>5,597</u>	<u>5,196</u>	<u>5,640</u>
Equity			
Share capital	1,503	1,503	1,503
Shares held in treasury	(336)	(336)	(336)
Share premium	84	84	84
Other reserves	2,652	2,923	2,730
Profit and loss account	1,694	1,022	1,659
Total equity	<u>5,597</u>	<u>5,196</u>	<u>5,640</u>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
As at 30 June 2014

	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 2013	1,503	(361)	13	1,036	1,427	320	1,624	5,562
Net loss for the period	—	—	—	—	—	—	(475)	(475)
Retranslation of overseas subsidiaries	—	—	—	—	—	140	—	140
<i>Total comprehensive income for period attributable to equity shareholders</i>	—	—	—	—	—	140	(475)	(335)
Share based payments	—	—	—	—	—	—	3	3
Exercise of share options	—	25	71	—	—	—	(26)	70
Dividends paid	—	—	—	—	—	—	(104)	(104)
<i>Total transactions with owners</i>	—	25	71	—	—	140	(602)	(366)
At 30 June 2013	1,503	(336)	84	1,036	1,427	460	1,022	5,196
Net profit for the period	—	—	—	—	—	—	829	829
Retranslation of overseas subsidiaries	—	—	—	—	—	(193)	—	(193)
Net actuarial loss on pension schemes	—	—	—	—	—	—	(144)	(144)
<i>Total comprehensive income for period attributable to equity shareholders</i>	—	—	—	—	—	(193)	685	492
Share based payments	—	—	—	—	—	—	5	5
Dividends paid	—	—	—	—	—	—	(53)	(53)
<i>Total transactions with owners</i>	—	—	—	—	—	(193)	637	444
At 1 January 2014	1,503	(336)	84	1,036	1,427	267	1,659	5,640
Net profit for the period	—	—	—	—	—	—	140	140
Retranslation of overseas subsidiaries	—	—	—	—	—	(78)	—	(78)
<i>Total comprehensive income for period attributable to equity shareholders</i>	—	—	—	—	—	(78)	140	62
Share based payments	—	—	—	—	—	—	3	3
Dividends paid	—	—	—	—	—	—	(108)	(108)
<i>Total transactions with owners</i>	—	—	—	—	—	(78)	35	(43)
At 30 June 2014	1,503	(336)	84	1,036	1,427	189	1,694	5,597

CONDENSED CONSOLIDATED CASH FLOW STATEMENT
For the 6 months ended 30 June 2014

	6 months ended 30 June 2014 Unaudited £'000	6 months ended 30 June 2013 Unaudited £'000	Year ended 31 December 2013 Audited £'000
Cash flows from operating activities			
Profit/(loss) before taxation for the period	213	(498)	16
<i>Adjustments:</i>			
Depreciation of property, plant and equipment	72	57	116
Finance income	(272)	—	—
Finance costs	156	149	814
Share based payments	3	3	8
Net cash flow from operating activities before movements in working capital	172	(289)	954
Change in inventories	(1,277)	(2,519)	956
Change in trade and other receivables	(1,120)	(1,389)	(870)
Change in trade and other payables	2,094	2,863	589
Cash flows from operations	(131)	(1,334)	1,629
Interest paid	(46)	(66)	(151)
Taxation paid	(10)	(31)	(62)
Net cash flow from operating activities	(187)	(1,431)	1,416
Cash flows from investing activities			
Purchase of property, plant and equipment	(315)	(2,860)	(2,896)
Sale of property, plant and equipment	—	—	4
Net cash flow from investing activities	(315)	(2,860)	(2,892)
Cash flows from financing activities			
New loans	—	1,610	1,610
Loan repayments	(54)	(45)	(98)
Change in invoice financing	(59)	1,117	1,535
Exercise of share options	—	70	70
Dividends paid	(108)	(104)	(157)
Net cash flow from financing activities	(221)	2,648	2,960
Net change in cash and cash equivalents	(723)	(1,643)	1,484
Cash and cash equivalents at beginning of period	2,925	1,498	1,498
Effect of foreign exchange rate changes	(78)	140	(57)
Cash and cash equivalents at end of period	2,124	(5)	2,925

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 and leisure 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 2014 (including the comparatives for the period ended 30 June 2013 and the year ended 31 December 2013) were approved by the Board of Directors on 19 September 2014 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 2013, 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 2013 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 2014 is based on the actuarial valuation under IAS19 at 31 December 2013 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 2014.

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 and accessories £'000	Sports, leisure and toys £'000	Total £'000
6 months to 30 June 2014			
Revenue	<u>7,463</u>	<u>6,272</u>	<u>13,735</u>
Segment result	<u>159</u>	<u>186</u>	<u>345</u>
Unallocated corporate expenses			<u>(175)</u>
Operating profit before exceptional costs			<u>170</u>
Exceptional costs			<u>(73)</u>
Operating profit after exceptional costs			<u>97</u>
Finance income			<u>272</u>
Finance costs			<u>(156)</u>
Profit for the period before taxation			<u>213</u>
Tax expense			<u>(73)</u>
Net profit for the period			<u>140</u>

6 months to 30 June 2013

Revenue	<u>7,187</u>	<u>4,064</u>	<u>11,251</u>
Segment result	<u>157</u>	<u>(318)</u>	<u>(161)</u>
Unallocated corporate expenses			<u>(130)</u>
Operating loss before exceptional costs			<u>(291)</u>
Exceptional costs			<u>(58)</u>
Operating loss after exceptional costs			<u>(349)</u>
Finance costs			<u>(149)</u>
Loss for the period before taxation			<u>(498)</u>
Tax income			<u>23</u>
Net loss for the period			<u>(475)</u>

Year to 31 December 2013

Revenue	<u>15,149</u>	<u>13,198</u>	<u>28,347</u>
Segment result before management charges	476	1,038	1,514
Management charges	<u>(188)</u>	<u>(346)</u>	<u>(534)</u>
Segment result after management charges	<u>288</u>	<u>692</u>	<u>980</u>
Unallocated corporate expenses			<u>(8)</u>
Operating profit before exceptional costs			<u>972</u>
Exceptional costs			<u>(142)</u>
Operating profit after exceptional costs			<u>830</u>
Finance costs			<u>(814)</u>
Profit before taxation			<u>16</u>
Tax income			<u>338</u>
Net profit for the year			<u>354</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 2014 £'000	6 months ended 30 June 2013 £'000	Year ended 31 December 2013 £'000
Net profit/(loss) for the period	<u>140</u>	<u>(475)</u>	<u>354</u>
	Number	Number	Number
Weighted average shares in issue used for basic earnings per share	4,669,754	4,653,156	4,637,337
Weighted average dilutive shares under option	68,140	63,727	60,245
Average number of shares used for diluted earnings per share	<u>4,737,894</u>	<u>4,716,883</u>	<u>4,697,582</u>
	Pence	Pence	Pence
Basic earnings/(loss) per share	<u>3.00</u>	<u>(10.21)</u>	<u>7.63</u>
Diluted earnings/(loss) per share	<u>2.95</u>	<u>(10.07)</u>	<u>7.54</u>

4 POST BALANCE SHEET EVENT

On 1 August 2014 the Company acquired 100% of the share capital of mobility and leisure products business, Pro Rider Limited (formerly Pro Rider Mobility Ltd).

The initial consideration for the acquisition was £2.5 million satisfied in cash with additional consideration also to be paid in cash, subject to Pro Rider fulfilling certain profitability criteria. The acquisition was funded from the Company's existing cash resources.