

Tandem Group plc

Half Yearly Report
for the six months ended

30 June 2017

CHAIRMAN'S STATEMENT

Results

I am pleased to announce the Group's interim results for the six month period ended 30 June 2017. There was an increase in Group revenue in the six months to 30 June 2017 of approximately 3.1% to £17,651,000 which compared to £17,115,000 in the prior year period.

Gross profit slightly reduced from £5,106,000 to £4,938,000 in the period. As we have previously reported, to compensate for the ongoing pressure on margin from the weak GBP to USD exchange rate we had no alternative but to implement a price increase in the latter part of 2016, negotiated better buying prices with suppliers and where this could not be achieved, re-sourced to new factories.

There was a reduction in operating expenses of £630,000 from £4,812,000 to £4,182,000 in the six months to 30 June 2017 compared to the prior year period. This reflected the reorganisation undertaken in our bicycles division in the second half of 2016 and resultant cost savings.

Operating profit before exceptional costs and credits increased to £756,000 compared to £294,000 in the six months to 30 June 2016.

Principally as a result of the fair value revaluation of our derivative currency contracts, finance costs increased from £304,000 to £337,000 in the six months to 30 June 2017. This fair value charge and finance costs in respect of the pension schemes are shown in non-underlying items.

The profit before taxation after non-underlying items for the period increased to £419,000 in the six month period to 30 June 2017 compared to £196,000 in the prior year period.

The tax charge for the period was £46,000 compared to £62,000 in the prior period. This reflected the tax charge in the Hong Kong business.

Net profit for the period increased to £373,000 compared to £134,000 in the six months to 30 June 2016.

Basic earnings per share in the six months to 30 June 2017 was 7.6 pence per share compared to 2.8 pence per share in the same period in 2016.

Cash and cash equivalents increased from £980,000 at 30 June 2016 to £1,506,000 at 30 June 2017. There were cash inflows from operations of £266,000 which contributed to the improvement.

Net debt reduced from £5,824,000 at 30 June 2016 to £4,292,000 at 30 June 2017 with net assets at 30 June 2017 £8,400,000 against £8,048,000 at 30 June 2016.

Sports, leisure and toys

In the six months to 30 June 2017 revenue increased to £12,956,000 compared to £11,037,000 in the prior year period.

There was an increase in operating profit from £562,000 in the period ended 30 June 2016 to £874,000 in the period to 30 June 2017.

The new Cars 3 and Trolls licences performed well during the period and PJ Masks started strongly. Disney Princess, Batman and Paw Patrol also continued to perform ahead of expectation.

In own brands, Stunted and Hedstrom performed particularly well. Revenue from our Airwave gazebo and party tent products exceeded the comparative period last year.

During the period we continued to develop our direct to consumer business with our marketing team focussed on improving brand awareness and the visibility of our products on the various websites from which we sell.

Bicycles and mobility

Revenue in our bicycles, accessories and mobility businesses reduced compared to the previous year period from £6,078,000 to £4,695,000 for the six month period to 30 June 2017. This was anticipated and in line with expectations following the restructuring of the bicycle businesses last year.

Notwithstanding the reduction in revenue, operating profit increased to £125,000 compared to £19,000 in the prior year.

Mobility sales were behind the prior year period, principally due to pricing issues although this has been addressed in the second half of the year.

The new range of Squish lightweight junior bicycles continued to gain momentum and we significantly increased the number of customers stocking the range during the period.

Trading update and outlook

Many retailers have reported that poor weather in July and August has affected sales. We are no exception and this has led to Group revenue for the 38 week period to 22 September being slightly behind the prior year period at approximately £28.2 million compared to £28.8 million in the comparative period last year.

Sports, leisure and toys

Sports, leisure and toys revenue for the 38 week period to 22 September was approximately £21.3 million compared to £19.8 million last year.

A number of national retailer customers are reporting that they are overstocked after the poor summer trading period. It has been reported that the outdoor toy market was 25% behind the prior year in both July and August.

The recent rise in inflation increases our concerns about a general slowing in the economy as we lead up towards the busy Christmas period.

One of our major customers has filed for Chapter 11 bankruptcy protection in the US and Canada but this does not apply to its UK operation which continues to trade normally. We are closely monitoring the position.

We are bringing a number of new products to market including an extended range of gazebos, outdoor light up furniture under our "Party Glow" brand and a range of tepees both for children and adults.

Bicycles and mobility

In the bicycles, accessories and mobility businesses revenue for the 38 weeks to 22 September was approximately £6.9 million compared to £9.0 million in the prior year. However, we remain on target with our turnaround plan and expect to make the anticipated cost savings of £1 million that we reported in our trading update in January.

The market remains unquestionably challenging. Our cost base has been adjusted to reflect this following the restructuring of the business. We remain committed to supporting our loyal network of independent bicycle dealers with our Claud Butler, Dawes, British Eagle and Squish brands despite the number of independent bicycle shops continuing to decrease.

We expect to make continued progress with our lightweight children's Squish range of bicycles and are excited by the opportunity to develop the brand further.

There are ongoing opportunities to increase revenue from our corporate brands including Falcon, Elswick, Townsend, Boss and Zombie.

We have re-sourced a number of our own brand Pro Rider mobility scooters which offer better specification at lower prices. In addition, we have added to our distribution portfolio following an agreement with KYMCO. This compliments well with our existing ranges of Pro Rider, Drive Devilbiss, Freerider, Sunrise Medical and TGA Mobility products. Mobility scooter performance has improved in the second half of the year to date.

Dividend

We are declaring an interim dividend of 1.35p per share (2016 – 1.30p per share) payable on or about 13 November 2017 in line with our progressive dividend policy. The ex-dividend date will be 12 October 2017 and the record date 13 October 2017.

MPJ Keene
Chairman
29 September 2017

CONDENSED CONSOLIDATED INCOME STATEMENT
For the 6 months ended 30 June 2017

		6 months ended 30 June 2017 <i>Unaudited</i>			6 months ended 30 June 2016 <i>Unaudited</i>			Year ended 31 December 2016 <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	2	17,651	—	17,651	17,115	—	17,115	38,414	—	38,414
Cost of sales		<u>(12,713)</u>	—	<u>(12,713)</u>	<u>(12,009)</u>	—	<u>(12,009)</u>	<u>(28,434)</u>	—	<u>(28,434)</u>
Gross profit		4,938	—	4,938	5,106	—	5,106	9,980	—	9,980
Operating expenses		<u>(4,182)</u>	—	<u>(4,182)</u>	<u>(4,812)</u>	—	<u>(4,812)</u>	<u>(8,744)</u>	—	<u>(8,744)</u>
Operating profit before exceptional items		756	—	756	294	—	294	1,236	—	1,236
Exceptional items		—	—	—	—	206	206	—	143	143
Operating profit after exceptional items		756	—	756	294	206	500	1,236	143	1,379
Finance costs		<u>(122)</u>	<u>(215)</u>	<u>(337)</u>	<u>(112)</u>	<u>(192)</u>	<u>(304)</u>	<u>(207)</u>	<u>(258)</u>	<u>(465)</u>
Profit before taxation		634	(215)	419	182	14	196	1,029	(115)	914
Tax (expense)/credit		<u>(46)</u>	—	<u>(46)</u>	<u>(62)</u>	—	<u>(62)</u>	<u>(146)</u>	9	<u>(137)</u>
Net profit for the period	2	<u>588</u>	<u>(215)</u>	<u>373</u>	<u>120</u>	<u>14</u>	<u>134</u>	<u>883</u>	<u>(106)</u>	<u>777</u>
				Pence			Pence			Pence
Earnings per share										
Basic	3			<u>7.6</u>			<u>2.8</u>			<u>16.0</u>
Diluted	3			<u>7.5</u>			<u>2.7</u>			<u>15.7</u>

All figures relate to continuing operations.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the 6 months ended 30 June 2017

	6 months ended 30 June 2017 Unaudited £'000	6 months ended 30 June 2016 Unaudited £'000	Year ended 31 December 2016 Audited £'000
Profit for the period	373	134	777
Other comprehensive income:			
<i>Items that will be reclassified subsequently to profit and loss:</i>			
Foreign exchange differences on translation of overseas subsidiaries	(144)	139	322
<i>Items that will not be reclassified subsequently to profit or loss:</i>			
Actuarial loss on pension schemes	—	—	(738)
Movement in pension schemes' deferred tax provision	—	—	57
Other comprehensive income for the period	(144)	139	(359)
Total comprehensive income attributable to equity shareholders of Tandem Group plc	229	273	418

All figures relate to continuing operations.

CONDENSED CONSOLIDATED BALANCE SHEET
As at 30 June 2017

	At 30 June 2017 Unaudited £'000	At 30 June 2016 <i>Unaudited</i> £'000	At 31 December 2016 <i>Audited</i> £'000
Non current assets			
Intangible fixed assets	5,617	5,612	5,625
Property, plant and equipment	3,071	3,206	3,141
Deferred taxation	1,921	1,825	1,918
	10,609	10,643	10,684
Current assets			
Inventories	7,267	8,121	7,624
Trade and other receivables	6,713	7,379	3,910
Derivative financial asset held at fair value	—	125	117
Cash and cash equivalents	1,506	980	1,101
	15,486	16,605	12,752
Total assets	26,095	27,248	23,436
Current liabilities			
Trade and other payables	(7,073)	(8,434)	(5,571)
Other liabilities	(3,946)	(4,527)	(3,226)
Derivative financial liability held at fair value	(28)	—	—
Current tax liabilities	(640)	(477)	(133)
	(11,687)	(13,438)	(8,930)
Non current liabilities			
Other payables	(2)	(6)	(5)
Other liabilities	(1,852)	(2,277)	(2,072)
Pension schemes' deficits	(4,154)	(3,479)	(4,215)
	(6,008)	(5,762)	(6,292)
Total liabilities	(17,695)	(19,200)	(15,222)
Net assets	8,400	8,048	8,214
Equity			
Share capital	1,503	1,503	1,503
Shares held in treasury	(247)	(295)	(272)
Share premium	286	175	232
Other reserves	3,122	3,083	3,266
Profit and loss account	3,736	3,582	3,485
Total equity	8,400	8,048	8,214

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
As at 30 June 2017

	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 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
Net profit for the period	—	—	—	—	—	—	643	643
Retranslation of overseas subsidiaries	—	—	—	—	—	183	—	183
Net actuarial loss on pension schemes	—	—	—	—	—	—	(681)	(681)
<i>Total comprehensive income for period attributable to equity shareholders</i>	—	—	—	—	—	183	(38)	145
Share based payments	—	—	—	—	—	—	5	5
Deferral tax on share options	—	—	—	—	—	—	—	—
Exercise of share options	—	23	57	—	—	—	—	80
Dividends paid	—	—	—	—	—	—	(64)	(64)
<i>Total transactions with owners</i>	—	23	57	—	—	183	(97)	166
At 1 January 2017	1,503	(272)	232	1,036	1,427	803	3,485	8,214
Net profit for the period	—	—	—	—	—	—	373	373
Retranslation of overseas subsidiaries	—	—	—	—	—	(144)	—	(144)
<i>Total comprehensive income for period attributable to equity shareholders</i>	—	—	—	—	—	(144)	373	229
Share based payments	—	—	—	—	—	—	6	6
Exercise of share options	—	25	54	—	—	—	—	79
Dividends paid	—	—	—	—	—	—	(128)	(128)
<i>Total transactions with owners</i>	—	25	54	—	—	(144)	251	186
At 30 June 2017	1,503	(247)	286	1,036	1,427	659	3,736	8,400

CONDENSED CONSOLIDATED CASH FLOW STATEMENT
For the 6 months ended 30 June 2017

	At 30 June 2017 Unaudited £'000	At 30 June 2016 Unaudited £'000	At 31 December 2016 Audited £'000
Cash flows from operating activities			
Profit for the period	373	134	777
<i>Adjustments:</i>			
Depreciation of property, plant and equipment	78	98	186
Amortisation of intangible fixed assets	8	—	31
Loss/(profit) on sale of property, plant and equipment	1	—	(5)
Waiver of deferred consideration	—	(241)	(651)
Contributions to defined benefit pension schemes	(132)	(130)	(260)
Finance costs	337	304	465
Tax expense	46	62	137
Share based payments	6	8	13
Net cash flow from operating activities before movements in working capital	717	235	693
Change in inventories	356	(1,894)	(1,397)
Change in trade and other receivables	(2,803)	(1,789)	1,558
Change in trade and other payables	1,996	3,299	946
Cash flows from operations	266	(149)	1,800
Interest paid	(122)	(54)	(207)
Tax paid	(40)	(22)	(287)
Net cash flow from operating activities	104	(225)	1,306
Cash flows from investing activities			
Acquisition of subsidiaries deferred consideration paid	—	—	(32)
Purchase of intangible fixed assets	—	—	(44)
Purchase of property, plant and equipment	(8)	(42)	(59)
Sale of property, plant and equipment	—	—	5
Net cash flow from investing activities	(8)	(42)	(130)
Cash flows from financing activities			
Loan repayments	(204)	(204)	(407)
Finance lease repayments	(13)	(12)	(24)
Change in invoice financing	718	493	(808)
Exercise of share options	78	69	149
Dividends paid	(128)	(121)	(185)
Net cash flow from financing activities	451	225	(1,275)
Net change in cash and cash equivalents	547	(42)	(99)
Cash and cash equivalents at beginning of period	1,101	878	878
Effect of foreign exchange rate changes	(142)	144	322
Cash and cash equivalents at end of period	1,506	980	1,101

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 2017 (including the comparatives for the period ended 30 June 2016 and the year ended 31 December 2016) were approved by the Board of Directors on 29 September 2017. 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 2016, 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 2016 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 2017 is based on the actuarial valuation under IAS19 at 31 December 2016 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 2017.

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:

	Sports, leisure and toys £'000	Bicycles and mobility £'000	Total £'000
6 months ended 30 June 2017			
Revenue	<u>12,956</u>	<u>4,695</u>	<u>17,651</u>
Segment result	<u>874</u>	<u>125</u>	<u>999</u>
Unallocated corporate charges			<u>(243)</u>
Operating profit before exceptional items			<u>756</u>
Finance costs			<u>(337)</u>
Profit for the period before taxation			<u>419</u>
Tax expense			<u>(46)</u>
Net profit for the period			<u><u>373</u></u>
6 months ended 30 June 2016			
Revenue	<u>11,037</u>	<u>6,078</u>	<u>17,115</u>
Segment result	<u>562</u>	<u>19</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>
Year ended 31 December 2016			
Revenue	<u>26,975</u>	<u>11,439</u>	<u>38,414</u>
Segment result before corporate charges	<u>2,233</u>	<u>124</u>	<u>2,357</u>
Corporate charges	<u>(695)</u>	<u>(363)</u>	<u>(1,058)</u>
Segment result after corporate charges	<u>1,538</u>	<u>(239)</u>	<u>1,299</u>
Unallocated corporate charges			<u>(63)</u>
Operating profit before exceptional items			<u>1,236</u>
Exceptional items			<u>143</u>
Operating profit after exceptional items			<u>1,379</u>
Finance costs			<u>(465)</u>
Profit before taxation			<u>914</u>
Tax expense			<u>(137)</u>
Net profit for the year			<u><u>777</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 2017 £'000	6 months ended 30 June 2016 £'000	Year ended 31 December 2016 £'000
Net profit for the period	<u>373</u>	<u>134</u>	<u>777</u>
	Number	Number	Number
Weighted average shares in issue used for basic earnings per share	4,930,187	4,755,880	4,863,496
Weighted average dilutive shares under option	72,775	186,527	84,530
Average number of shares used for diluted earnings per share	<u>5,002,962</u>	<u>4,942,407</u>	<u>4,948,026</u>
	Pence	Pence	Pence
Basic earnings per share	<u>7.6</u>	<u>2.8</u>	<u>16.0</u>
Diluted earnings per share	<u>7.5</u>	<u>2.7</u>	<u>15.7</u>

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

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