

TANDEM GROUP PLC

PRELIMINARY RESULTS FOR THE YEAR ENDED 31 JANUARY 2011

Chairman's statement

Introduction

At the beginning of the year we faced very significant cost pressures in respect of US dollar volatility, increases in freight and raw materials prices, shipping line disruptions and Far East labour shortages. Notwithstanding this, turnover and profit before taxation for the half year to 31 July 2010 increased.

The 6 month period to 31 January 2011 was also challenging, particularly the pre-Christmas trading period from October to December 2010. Turnover from a bicycle promotional contract with a national retailer was over £2 million lower than last year. The inclement weather and weak consumer demand also had an adverse effect on trading with many of our customers reporting lower footfall and higher stock holdings than usual. As a result of these factors turnover for the second half of the year reduced. However, with strong management of margin and tight control of overhead your Board were still able to deliver increased profitability in that period.

Results

Revenue for the year ended 31 January 2011 reduced by 3% to £34,610,000 compared to £35,678,000 in the prior year but despite this I am very pleased to report that profit before taxation increased to £1,085,000 compared to £1,023,000 last year.

Basic earnings per share was 19.60p per share compared with 17.67p last year.

Net assets increased by £1,662,000 to £8,665,000. The year end stock position was higher than the prior year due to the early Chinese New Year which necessitated the shipping of the 2011 range ahead of the factory closures in the Far East. The pension schemes' deficits reduced significantly as a result of improvements in asset values at 31 January 2011.

Dividend

We are proposing to pay a final dividend of 2 pence per share (2010 – nil) which when combined with the interim dividend of 1 pence per share (2010 – nil) gives a total dividend of 3 pence for the year (2010 – nil). Subject to shareholder approval at the Annual General Meeting to be held on 27 June 2011, the final dividend will be paid on 1 July 2011 to shareholders on the Register as at 3 June 2011. The ex-dividend date will be 1 June 2011.

Share buyback

We have previously stated that we continue to explore ways in which to enhance shareholder value. On 14 February 2011 the Company purchased 821,500 ordinary shares and transferred them to Treasury. Based on this earnings per share at 31 January 2011 would have increased by 17% to 23.01p per share.

Pensions

The Group operates two pension schemes that have defined benefit liabilities. Both of these schemes have no active members and are closed to new members. Despite this, these schemes continue to utilise cash resources and management time as government legislation and actuarial views change. In the year to 31 January 2011 £192,000 (2010 - £191,000) was paid into the schemes to reduce the deficits in the funding and over £65,000 (2010 - £76,000) was paid out in government levies and administration costs.

Following the actuarial valuation carried out at the end of the year in accordance with International Accounting Standards, the net deficit in the schemes reduced from £1,450,000 as at 31 January 2010 to £479,000 as at 31 January 2011. However, this is significantly different to the preliminary results of the 2010 triennial actuarial valuations for both schemes which, by using the assumptions prescribed by regulatory authorities and due to the timing of the valuations, shows a larger deficit.

Employees

We wish to thank all management and employees for their contribution in increasing the Group's profitability in difficult times. The established team of management and staff have the skills required to take the business forward.

Strategy

We continue to invest in the necessary areas to achieve our stated strategic objectives presented to shareholders in September 2010. The launch of new parts and accessories ranges has progressed as planned. New customer accounts have been opened as a result of successful trade shows. We continue to sign new licences to maintain our position as the market leader in the licensed wheeled toy sector. Export sales opportunities continue to be realised.

Outlook

The impact of the current economic climate is uncertain. After a positive start to the calendar year in January and February 2011, revenue in March and April has fallen behind the previous year. National retailers have delayed and in some cases cancelled orders in an attempt to reduce their stock holdings in line with declining retail footfall and weak consumer demand demonstrating how important new products and brand development is to the business.

Our product development teams continue to design and develop product ranges of both our own brand products and also licensed product. Despite the reduction in revenue, we expect performance in the first quarter to be in line with the previous year.

Our management team is focused on our strategic objectives and we believe we can deliver another profitable year for our shareholders.

M P J Keene
Non-Executive Chairman

3 May 2011

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Business review

Operations

For the 6 months ended 31 January 2011 revenue was £15,548,000 compared to £16,729,000 last year. Gross profit margin improved by 1.2% and overhead savings of £67,000 over the prior year resulted in an increase in profit for the second half of the year.

Revenue for the year ended 31 January 2011 was £34,610,000 compared to £35,678,000 last year despite a reduction in revenue of £2,132,000 from a bicycle promotional contract with a national retailer.

Gross profit percentage increased by 1.3% helped by the weakening US dollar in the second half of the year. Overheads continued to be tightly controlled with less than inflationary increases.

Interest payable was 38% lower at £120,000 (2010 - £194,000).

The tax charge for the year was nil (2010 - £22,000) with overseas taxation offset by movements to the deferred tax account.

The Group made a profit before taxation of £1,085,000 compared to £1,023,000 last year.

Bicycles and accessories

Revenue in our bicycles and accessories businesses of £20,032,000 was 8.7% behind last year (2010 - £21,951,000). The operating profit before management charges was £625,000 (2010 - £689,000).

Turnover, excluding the bicycle promotional contract with a national retailer, showed a small increase for the year. This was a little disappointing after being well ahead until the final quarter of 2010 when consumer demand reduced significantly due to poor weather and the challenging economic environment. Unit sales to independent retailers were marginally ahead.

Our premier brands of Claud Butler and Dawes showed a considerable increase in both units and sales revenue over the previous year. The continued product development and promotion of these brands ensured consumer loyalty.

Unit sales of our lower price point product suffered as a result of heavy competitor price discounting of mass market brands.

As a result of the poor final quarter of 2010 and the early Chinese New Year, where product was required to be shipped before year end, bicycle stocks increased. We expect this position to be corrected before the half year in 2011.

The new Claud Butler branded parts and accessories range was exhibited at the 2011 bicycle road shows. Orders placed at the shows are being delivered to retailers and are ahead of our expectations.

Deliveries to fulfil new listings with a bicycle national retailer have commenced.

Bicycles and accessories revenue for the 13 weeks to 29 April 2011 was 1.7% ahead of the previous year.

Sports, leisure and toys

Revenue from our sports, leisure and toys business of £14,578,000 was 6.2% up on last year (2010 - £13,727,000). Operating profit before management charges increased to £1,279,000 (2010 - £1,201,000).

Strong performance from our new licences Moxie Girlz, Iron Man 2 and Star Wars together with the continued growth of the well established licence for Fireman Sam helped replace the significant decline from In The Night Garden and the deficit created from Thomas & Friends following the license for the battery operated train reverting to a new master toy licensee. Ben 10 remained our number one license but was behind the exceptionally high levels of previous years.

All our own brands including Hedstrom, Kickmaster and Pot Black continued to grow. Ben Sayers had a particularly good year with revenue growth of over 20%.

Our export sales also grew considerably with a particularly strong performance in South America, consistent with our strategic objectives.

As we have previously stated, the success of our sports, leisure and toys business is dependent on securing strong licences and investing in the necessary resources to design, develop and source product at competitive prices. Our continued commitment to invention and innovation is key to sustaining our position as market leader for licensed wheeled toys.

For the current year we anticipate that Ben & Holly's Little Kingdom will perform well with the listings achieved with national retailers. In difficult economic times we expect our classic licences of Thomas & Friends, Bob The Builder and Fireman Sam to do well as consumers return to tried and trusted brands.

New high profile licences including The Avengers, Little Charley Bear, Raa Raa the Noisy Lion, Thundercats, Driver Dan and Mike The Knight have been secured for 2012 and we are optimistic about the contribution that these will make to future revenues.

We are delighted that we have secured the London 2012 Olympic and Paralympic Games licence which allows us to produce official wheeled products including adult and children's bicycles, cycling accessories and wheeled toys. Work has commenced on development and we expect to bring a limited range to market this year followed by the roll out of the full range in the first half of 2012.

Sports, leisure and toys revenue for the 13 weeks to 29 April 2011 was 22.0% down on the extremely high level in the prior year but 9.1% higher than the same period in 2009.

S J Grant
Chief Executive Officer

J C Shears
Group Finance Director

3 May 2011

Consolidated income statement

		2011 £'000	2010 £'000
	Note		
Revenue	3	34,610	35,678
Cost of sales		<u>(24,777)</u>	<u>(25,998)</u>
Gross profit		9,833	9,680
Operating expenses		<u>(8,628)</u>	<u>(8,463)</u>
Operating profit		1,205	1,217
Finance costs		<u>(120)</u>	<u>(194)</u>
Profit before taxation		1,085	1,023
Tax expense		<u>—</u>	<u>(22)</u>
Net profit for the year		<u>1,085</u>	<u>1,001</u>
Earnings per share	4	Pence	Pence
Basic		<u>19.60</u>	<u>17.67</u>
Diluted		<u>18.98</u>	<u>17.67</u>

Consolidated statement of comprehensive income

	2011 £'000	2010 £'000
Net profit for the year	1,085	1,001
Other comprehensive income:		
Foreign exchange differences on translation of overseas assets	26	(250)
Actuarial gain/(loss) on pension schemes	827	(578)
Movement in pension schemes' deferred tax provision	(272)	136
Other comprehensive income for the year	<u>581</u>	<u>(692)</u>
Total comprehensive income for the year attributable to equity shareholders	<u>1,666</u>	<u>309</u>

All figures relate to continuing operations.

Consolidated balance sheet

	2011 £'000	2010 £'000
Non current assets		
Goodwill	2,236	2,236
Property, plant and equipment	336	368
Deferred taxation	1,165	1,365
	<u>3,737</u>	<u>3,969</u>
Current assets		
Inventories	7,636	4,991
Trade and other receivables	4,696	3,956
Cash and cash equivalents	2,721	3,046
	<u>15,053</u>	<u>11,993</u>
Total assets	<u>18,790</u>	<u>15,962</u>
Current liabilities		
Trade and other payables	(6,880)	(5,352)
Financial liabilities	(2,666)	(1,856)
Current tax liabilities	(100)	(301)
	<u>(9,646)</u>	<u>(7,509)</u>
Non current liabilities		
Pension schemes' deficits	(479)	(1,450)
	<u>(10,125)</u>	<u>(8,959)</u>
Net assets	<u>8,665</u>	<u>7,003</u>
Equity		
Share capital	1,503	1,503
Shares held in treasury	(115)	(129)
Other reserves	2,785	2,759
Profit and loss account	4,492	2,870
Total equity	<u>8,665</u>	<u>7,003</u>

Consolidated statement of changes in equity

	Share capital £'000	Shares held in treasury £'000	Merger reserve £'000	Capital redemption reserve £'000	Translation reserve £'000	Profit and loss account £'000	Total £'000
Balance at 1 February 2009	1,503	(64)	1,036	1,427	546	2,410	6,858
Net profit for the year	—	—	—	—	—	1,001	1,001
Re-translation of overseas subsidiaries	—	—	—	—	(250)	—	(250)
Net actuarial loss on pension schemes	—	—	—	—	—	(442)	(442)
Total comprehensive income for the year attributable to equity shareholders	—	—	—	—	(250)	559	309
Share based payments	—	—	—	—	—	15	15
Share buyback	—	(65)	—	—	—	(114)	(179)
Total transactions with owners	—	(65)	—	—	(250)	460	145
Balance at 1 February 2010	1,503	(129)	1,036	1,427	296	2,870	7,003
Net profit for the year	—	—	—	—	—	1,085	1,085
Re-translation of overseas subsidiaries	—	—	—	—	26	—	26
Net actuarial gain on pension schemes	—	—	—	—	—	555	555
Total comprehensive income for the year attributable to equity shareholders	—	—	—	—	26	1,640	1,666
Share based payments	—	—	—	—	—	12	12
Exercise of share options	—	14	—	—	—	26	40
Dividends paid	—	—	—	—	—	(56)	(56)
Total transactions with owners	—	14	—	—	26	1,622	1,662
Balance at 31 January 2011	1,503	(115)	1,036	1,427	322	4,492	8,665

Consolidated cash flow statement

	2011 £'000	2010 £'000
Cash flows from operating activities		
Net profit for the year	1,085	1,001
<i>Adjustments:</i>		
Depreciation of property, plant and equipment	98	132
Finance costs	120	194
Taxation paid	(135)	(282)
Tax expense	—	22
Share based payments	12	15
Fair value adjustments of forward contracts	—	437
Net cash inflow from operating activities before movements in working capital	1,180	1,519
(Increase)/decrease in inventories	(2,645)	2,592
(Increase)/decrease in trade and other receivables	(813)	1,173
Increase/(decrease) in trade and other payables	1,270	(3,095)
Cash (utilised)/generated from operations	(1,008)	2,189
Cash flows from investing activities		
Purchases of property, plant and equipment	(66)	(16)
Net cash used in investing activities	(66)	(16)
Cash flows from financing activities		
Increase/(decrease) in invoice financing	810	(733)
Interest paid	(71)	(89)
Exercise of share options	40	—
Dividends paid	(56)	—
Payment to acquire own shares	—	(179)
Net cash generated/ (used) in financing activities	723	(1,001)
Net (decrease)/increase in cash and cash equivalents	(351)	1,172
Cash and cash equivalents at beginning of year	3,046	2,121
Effect of foreign exchange rate changes	26	(247)
Cash and cash equivalents at end of year	2,721	3,046

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 January 2011, the consolidated statement of changes in equity, the consolidated cash flow statement and the associated notes for the year 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 439 of the Companies Act 2006. The statutory accounts for the year ended 31 January 2011 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 and the IFRS as issued by the International Accounting Standards Board.

The key areas of estimation uncertainty and key judgements in the financial statements are as detailed below:

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.

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 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. There are a number of debts which remain outstanding past their due date, which the Directors believe to be recoverable.

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.

Key judgements

The Directors, do not consider they have had to make any critical judgements in applying the accounting policies.

3. Segmental reporting

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

	Bicycles and accessories £'000	Sports, leisure and toys £'000	Total £'000
2011			
Revenue	<u>20,032</u>	<u>14,578</u>	<u>34,610</u>
Segment result before management charges	625	1,279	1,904
Management charges	<u>(571)</u>	<u>(98)</u>	<u>(669)</u>
Segment result after goodwill impairment and management charges	54	1,181	1,235
Unallocated corporate expenses			<u>(30)</u>
Operating profit			1,205
Finance costs			<u>(120)</u>
Profit before taxation			1,085
Tax expense			<u>—</u>
Net profit for the year			<u>1,085</u>
Segment assets	<u>11,506</u>	<u>2,749</u>	14,255
Unallocated assets			<u>6,496</u>
			20,751
Segment liabilities	<u>(8,065)</u>	<u>(3,088)</u>	(11,153)
Unallocated liabilities			<u>(933)</u>
			(12,086)
Consolidated net assets			<u>8,665</u>
Capital additions	<u>7</u>	<u>59</u>	<u>66</u>
Depreciation and goodwill impairment	<u>52</u>	<u>46</u>	<u>98</u>

	Bicycles and accessories £'000	Sports, leisure and toys £'000	Total £'000
2010			
Revenue	<u>21,951</u>	<u>13,727</u>	<u>35,678</u>
Segment result before management charges	689	1,201	1,890
Management charges	<u>(564)</u>	<u>(104)</u>	<u>(668)</u>
Segment result after management charges	125	1,097	1,222
Unallocated corporate expenses			<u>(5)</u>
Operating profit			1,217
Finance costs			<u>(194)</u>
Profit before taxation			1,023
Tax expense			<u>(22)</u>
Net profit for the year			<u>1,001</u>
Segment assets	<u>9,081</u>	<u>3,847</u>	12,928
Unallocated assets			<u>4,121</u>
			17,049
Segment liabilities	<u>(5,468)</u>	<u>(2,716)</u>	(8,184)
Unallocated liabilities			<u>(1,862)</u>
			<u>(10,046)</u>
Consolidated net assets			<u>7,003</u>
Capital additions	<u>3</u>	<u>13</u>	<u>16</u>
Depreciation and goodwill impairment	<u>55</u>	<u>77</u>	<u>132</u>

The Group's revenues and non current assets are divided into the following geographical areas:

2011	United Kingdom £'000	Europe £'000	Rest of the World £'000	Total £'000
Revenue	<u>32,528</u>	<u>1,390</u>	<u>692</u>	<u>34,610</u>
Non current assets	<u>3,734</u>	<u>—</u>	<u>3</u>	<u>3,737</u>
2010	United Kingdom £'000	Europe £'000	Rest of the World £'000	Total £'000
Revenue	<u>33,939</u>	<u>1,504</u>	<u>235</u>	<u>35,678</u>
Non current assets	<u>3,955</u>	<u>—</u>	<u>14</u>	<u>3,969</u>

There were two customers (2010 – two) whose revenues from transactions amounted to 14.4% and 10.1% (2010 – 11.7% and 9.3%) of the Group's revenue.

4. 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:

	2011	2010
	£'000	£'000
Net profit for the year	<u>1,085</u>	<u>1,001</u>
Weighted average shares in issue (excluding shares held in Treasury) used for basic earnings per share	5,536,482	5,665,222
Weighted average dilutive shares under option	179,533	—
Average number of shares used for diluted earnings per share	<u>5,716,015</u>	<u>5,665,222</u>
	Pence	Pence
Basic earnings per share	<u>19.60</u>	<u>17.67</u>
Diluted earnings per share	<u>18.98</u>	<u>17.67</u>

There was no dilutive effect of shares under option for the year ended 31 January 2010 because the option exercise prices were greater than the average market share price.

5. Dividend

The Directors are proposing a final dividend of 2 pence per ordinary share (2010 - £nil) payable to shareholders on the register on 3 June 2011 to be paid on 1 July 2011.

6. 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.

7. Annual General Meeting

The Annual General Meeting will be held at 11:00 a.m. on 27 June 2011 at 35 Tameside Drive, Castle Bromwich, Birmingham, B35 7AG.