Tandem Group plc

Annual Report and Accounts 2006

Contents

Directors and advisers

Directors

G Waldron Chairman

M P J Keene Finance Director

S J Grant Commercial Director (appointed 9 June 2005)

Company Secretary

M P J Keene

Registered office
9a South Street, Crowland, Peterborough, PE6 0AH

Registration
Registered in England No. 616818

Nominated Adviser and Broker
KBC Peel Hunt Ltd
4th Floor, 111 Old Broad Street, London, EC2N 1PH

Auditors
Deloitte & Touche LLP
1 Woodborough Road, Nottingham, NG1 3FG

Solicitors
Eversheds LLP
1 Royal Standard Place, Nottingham, NG1 6FZ

Registrars
Capita Registrars
Northern House, Woodsome Park, Fenay Bridge,
Huddersfield, HD8 0LA

Financial calendar

Annual General Meeting	27 June 2006
Interim results for 6 months to 31 July 2006	September 2006
Annual results for year ending 31 January 2007	May 2007

Chairman's statement

Turnover was £42,760,000 compared to £52,683,000 last year. The operating profit, after including the trading losses from Pot Black and before exceptional costs of £1,382,000 and goodwill amortisation and impairment of £640,000, was £226,000 compared to £1,725,000 in the prior year. After deducting exceptional costs and goodwill amortisation and impairment the operating loss was £1,796,000. There was a loss before taxation of £2,157,000 compared to a profit last year of £1,179,000.

Falcon and Dawes
Turnover in the bicycle business, with the well-known brands of Falcon, Dawes, Claud Butler, Shogun, British Eagle and Optima, was lower than the previous year as we maintain the policy of withdrawing from low margin business with questionable profitability. Although there are no reliable statistics produced it was generally believed that sales in the UK of lower priced bikes in 2005 were down on the previous year in line with the difficult market conditions. Our continuing policy of reducing costs resulted in an increase in profitability.

With our reputation for product design and service our customer base continues to grow, from which we should benefit as the retail environment improves. Further sales resources have been added. Production at the Group's manufacturing facilities in the UK has been reducing over the last few years and has been concentrating on the higher value bikes. This will cease in the summer of 2006 as production is moved abroad. Overhead savings will be made which, together with a reduction in working capital, should lead to increased profitability.

MV Sports
MV distributes a range of products featuring high profile brand and character licences including Barbie, Groovy Chick, Bang on the Door Baby, Thomas the Tank Engine, Bob the Builder and a range of football training equipment under the Kickmaster brand.

Following a record year to 31 January 2005, turnover for the year to 31 January 2006 was somewhat lower. A significant catalogue shop customer closed. There was increased competition against some of our longer established licences and a challenging retail sector. Sales opportunities with low margins were not pursued. Lower overheads failed to compensate for the reduced turnover.

The success of the MV business is down to having the right brands and licences and product innovation. More resources have been placed in these areas. New ranges including Barbie Fairytopia, Barbie Mermaidia, Barbie 12 Dancing Princesses, Fireman Sam and Winx Club have been developed for 2006.

Pot Black
The management of Pot Black failed to deal with the increased competition from unbranded imports and the changes required following the introduction of new British Standards on outdoor play products' safety regulations. It was decided that, with losses mounting, the Devon operations should be closed. Exceptional costs of £1,382,000 were incurred in closing down the operations of which £410,000 was cash outflow for employee severance payments, lease terminations and removal costs. The balance of £972,000 was in respect of writing down the book value of plant and machinery, stock and debtors to their recoverable amount. In view of the losses, a provision of £434,000 has been made against the goodwill of Pot Black in accordance with Financial Reporting Standard 11.

The profitable products within the Pot Black range are being continued and further developed to meet market requirements to contribute a useful margin within the MV business.

Ben Sayers
Although Ben Sayers is our smallest business, the brand is one of the oldest in golf, having been established in 1876.

We have withdrawn from low margin business and turnover was slightly down on the previous year but with a much improved customer base. The results were better than last year but still not up to the potential.

New systems have been put in place to ensure improved product availability and customer service. The new M Series range for 2006 has received good trade and consumer press coverage and has been enthusiastically received by retailers.

Pensions
As required by Financial Reporting Standard 17 (FRS 17) we have included the actuarial deficits on the Group's pension schemes' defined benefit sections on the balance sheet for the first time. We have restated the previous year's figures accordingly.

The Group operates two pension schemes that have defined benefit liabilities. There is only one active member receiving defined benefit pension accruals and new members of both schemes can join the defined contribution sections, where no deficit can be incurred. In accordance with the advice from the schemes' actuaries, payments totalling £188,000 per annum are currently being made to reduce the deficit of the schemes. The schemes' actuaries calculate the deficit using guidelines that the government and Institute of Actuaries agree could be inappropriate and which consequently are being withdrawn. Nevertheless, we are obliged to make these payments which deplete funds available for investment to grow the business.

The two schemes had funds invested totalling £10.6 million at 31 January 2006 compared with £9.2 million at 31 January 2005. Investment income and growth during the year was £1.8 million. Pensions and transfer payments paid out totalled £443,000, representing 4.2% of the funds invested at 31 January 2006.

Summary
The losses at Pot Black and the cost of stopping them are now behind us. We have reviewed our forecasting procedures to ensure that any loss-making activities are swiftly dealt with so that in the future we do not incur similar problems such as those experienced at Pot Black. Reporting controls, particularly those relating to stock, have been improved. Whilst these events have clearly had an adverse effect on our balance sheet, careful control of working capital has increased net funds.

Current trading
Trading in the first quarter of the current financial year is in line with budget on a reduced turnover following the withdrawal from low margin or unprofitable business. As in previous years our profits will be concentrated in the second half of the financial year.

Your Board and the management in the businesses are fully aware of the need to return to the level of progress that the Group made in previous years.

Graham Waldron
Chairman
16 May 2006

JOB 11640 — PROOF 06 — 18/05/2006

The Directors submit their annual report with the audited financial statements for the year ended 31 January 2006.

Principal activities

The principal activity of the Group is the manufacture and distribution of sports and leisure equipment.

The Chairman's Statement on page 1 should be read in conjunction with this report.

Results and dividend

The results for the year ended 31 January 2006 are set out on page 6. The Directors do not recommend the payment of a dividend (2005 — £nil). Movements on reserves are set out on page 9.

Share Capital

There were no changes in the authorised and issued share capital of the Group during the year.

Significant shareholders

As at 1 May 2006 Directors have been notified of the following interests representing 3% or more of the issued ordinary share capital.

	Ordinary shares of 4p	%
Jupiter Asset Management	3,794,000	10.1
Venaglass Limited	3,170,267	8.4
Förvaltnings AB Bronsstädet	1,369,970	3.7
Credit Agricole Cheuvreux International Limited	1,150,000	3.1

Directors

The present Directors are listed on the inside front cover.

The interests of the Directors who served during the year and their immediate families (as defined by the Companies Act 1985) in the shares of the Company are shown below:

Held beneficially and fully paid

	31 January 2006 4p ordinary shares	1 February 2005 4p ordinary shares
G Waldron	365,270	365,270
M P J Keene	476,511	476,511
S J Grant	66,018	66,018

Share options

	31 January 2006 4p ordinary shares	1 February 2005 4p ordinary shares
G Waldron	—	—
M P J Keene	260,000	260,000
S J Grant	180,000	180,000

A P Vicary, who resigned as a director on 30 June 2005, and his immediate family held 463,816 shares at 1 February 2005 and 232,692 shares at 30 June 2005. He held 260,000 share options on 1 February 2005 and 30 June 2005. These options can be exercised at the option price of 11.5 pence up to 30 June 2006, after which they will lapse.

There were no changes to the Directors' share options during the year.

In accordance with the Articles of Association, M P J Keene retires at the Annual General Meeting and offers himself for re-election. Following his appointment as a Director on 9 June 2005, S J Grant retires at the Annual General Meeting in accordance with the Articles of Association and offers himself for election. The service contracts of both retiring Directors may be terminated by either party giving 12 months' written notice.

Donations

No donations were made during the year or last year.

Environmental policies

The Board welcomes the government's policies towards cycling and increasing the National Cycle Network throughout the country. As a major supplier of bicycles in the UK we believe that we are making a contribution to improving the environment by providing an alternative to using the motor car.

Corporate social responsibility

The Group has a Corporate Social Responsibility Committee (CSRC) which meets regularly, with members from each of the Group's operations including the Hong Kong office.

The CSRC is responsible for ensuring that each business in the Group operates to the same broad guidelines defined in the Group policy statement issued by the CSRC. This statement deals with health and safety, employee well-being, the Group's impact on the environment and its social responsibility.

Every new or prospective supplier must satisfactorily complete an audit before being validated by the Group. Follow-up audits are undertaken on a regular basis once suppliers are accepted. With the benefits of language and location, the Group's Hong Kong office is able to control the audits of the suppliers in Asia. Other supplier audits are controlled from the UK.

Management of the data on consumption of utilities continues to provide a series of excellent indicators to assess the environmental impact of the Group's activities. The data also provides an opportunity for cost savings by benchmarking and utilising Group purchasing arrangements.

JOB 11640 — PROOF 06 — 18/05/2006

Policy on payment of suppliers

Payment terms with suppliers are agreed before contracts are placed. It is the Group's code to abide by agreed payment terms with suppliers. The trade creditors of the Company at 31 January 2006 represent 8 days (2005 — 75 days) as a proportion of the total amount invoiced by suppliers during the year.

Employment policies

It is the policy of the Group that there should be no unfair discrimination in considering applications for employment, including those from disabled persons. All employees are given equal opportunities for career development and promotion. Health and safety committee meetings are held within the operating businesses.

The necessity and importance of good communications and relations with all employees is well recognised and accepted throughout the Group. Employees are kept fully aware of management policies applicable to their respective duties. The Directors are committed to the principle of employee and executive share participation as evidenced by the existence of share option schemes. Options are granted under these schemes in order that employees can participate in the Group's performance.

Interest rate risk

The Group finances its operations by bank borrowings at contracted rates of interest.

Liquidity risk

The Directors consider that the Group's banking facilities are adequate going forward. Short-term flexibility is achieved by overdraft facilities.

Foreign currency risk

The Group hedges a proportion of its transactional exposures by taking out forward exchange contracts against anticipated and known sales and purchases. The decision to hedge is influenced by the size of the exposure, the certainty of it arising and the exchange rate prevailing at the time.

Corporate Governance

As a company listed on AIM, the Company is not required to comply with the July 2003 Financial Reporting Council Combined Code which sets out the principles of good corporate governance. However, your Board is mindful of its recommendations. Whilst we do not comply fully with the code, the principal steps taken by the Group are set out below.

The Company is controlled through the Board of Directors which presently comprises two executive Directors and one independent non-executive Director. The service contracts of the two executive Directors may be terminated by either party giving 12 months' written notice. The remuneration and other emoluments of executive Directors and senior managers are determined by the Remuneration Committee, of which G Waldron is currently the only member. Executive remuneration packages are subject to an annual review and are designed to attract, motivate and retain Directors and senior managers of a high calibre.

The Board has a formal schedule of matters reserved to it and meets monthly. It is responsible for overall Group strategy, acquisition and divestment policy, approval of major capital expenditure projects and consideration of significant financing matters. It monitors the exposure to key business risks and reviews the strategic direction of its trading businesses, their annual budgets, their progress towards achievement of those budgets and their capital expenditure programmes. The Board also considers environmental and employee issues and key appointments. All Directors, in accordance with the Code, will submit themselves for re-election at least once every three years.

The Board has established two committees. The Audit Committee meets as appropriate to review the Group's accounting policies, reporting procedures and financial matters, with the Finance Director and the external auditors in attendance. The Remuneration Committee reviews the terms and conditions of employment of the Directors and senior managers. Following the resignation of previous Directors who were members of both committees, G Waldron is currently the only member and takes external advice when appropriate. Your Board continues to seek an additional non-executive Director with appropriate skills.

The Group encourages two-way communication with both its institutional and private investors and responds quickly to all queries received verbally or in writing. The executive Directors attended regular meetings with institutional shareholders in the year ended 31 January 2006.

The Group has a comprehensive system for reporting financial results to the Board. Each operating unit prepares monthly results with a comparison against budget. Towards the end of each financial year the operating units prepare detailed budgets for the following year. Budgets and plans are reviewed by the Board before being formally adopted.

Quality and integrity of personnel is regarded as vital to the maintenance of the Group's system of internal control. Due to the relatively small number of key employees within the business, the Board has first-hand knowledge of their performance.

The executive management has defined the financial controls and procedures with which each operating unit is required to comply. Key controls over major business risks include reviews against performance indicators and exception reporting. The operating units make regular assessments of the extent of their compliance with these controls and procedures.

Much of the Group's financial and management information is processed by and stored on computer systems. Accordingly, the Group has established controls and procedures over the security of data held on computer systems. Also, the Group has put in place arrangements for computer processing to continue and data to be retained in the event of the complete failure of the Group's own data processing facility.

With a substantial part of purchases in United States dollars, hedging against foreign exchange fluctuations in this currency is recognised by the Directors as a key responsibility. The prudent use of various financial instruments minimises vulnerability to the volatility of the US dollar that may affect this net exposure.

A number of the Group's key functions, including treasury, taxation, and insurance, are dealt with centrally by the Finance Director who reports to the Board on a monthly basis.

The Group meets its day-to-day working capital requirements through certain overdraft facilities. The Group expects to operate within the facilities currently agreed. In these circumstances, based on plans for 2006, and after making enquiries, the Directors have a reasonable expectation that the Group has adequate resources to continue operations for the foreseeable future. For this reason, the Directors continue to adopt the going concern basis in preparing the financial statements.

Statement of Directors' Responsibilities

United Kingdom Company law requires the Directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and the Group and of the profit or loss of the Group for that year. In preparing those financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent; and
- state whether applicable accounting standards have been followed, subject to any material departure disclosed and explained in the financial statements.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Group and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Auditors

A resolution to reappoint Deloitte & Touche LLP as the Company's auditor will be proposed at the forthcoming Annual General Meeting.

Annual General Meeting

The notice of the Annual General Meeting includes Resolution No. 5 proposed as special business. This resolution seeks the authority from shareholders for the Company to purchase its own shares. The Company would only exercise the authority if the effect of doing so would be to increase earnings per share of the remaining shareholders and be in the best interests of shareholders generally. In addition, in exercising such authority, the Company would comply with the current guidelines of the ABI and the UK Listing Authority.

By Order of the Board
M P J Keene
16 May 2006

JOB 11640 — PROOF 06 — 18/05/2006

Independent Auditors' report

to the members of Tandem Group plc

We have audited the Group and individual Company financial statements (the "financial statements") of Tandem Group plc for the year ended 31 January 2006 which comprise the consolidated profit and loss account, the consolidated and Company balance sheets, the consolidated cash flow statement, the statement of movements on reserves, the reconciliation of movements in shareholders' funds, the statement of total recognised gains and losses and the related notes 1 to 23. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the Company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Directors and auditors

The Directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable law and United Kingdom Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the statement of Directors' responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant United Kingdom legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view in accordance with the relevant financial reporting framework and are properly prepared in accordance with the Companies Act 1985. We also report to you if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding Directors' remuneration and other transactions is not disclosed.

We read the Directors' report and other information contained in the annual report for the above year as described in the contents section and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of the Company and the Group, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion, we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Group's and the individual Company's affairs as at 31 January 2006 and of the Group's loss for the year then ended and
- the financial statements have been properly prepared in accordance with the Companies Act 1985.

Deloitte & Touche LLP
Chartered Accountants
Nottingham
16 May 2006

JOB 11640 — PROOF 06 — 18/05/2006

Consolidated profit and loss account

Year ended 31 January 2006

	Notes	Year ended 31 January 2006: Before goodwill amortisation/ impairment and exceptional items £'000	Goodwill amortisation/ impairment and exceptional items £'000	After goodwill amortisation/ impairment and exceptional items £'000	Year ended 31 January 2005 Restated £'000
Turnover	2	**42,760**		**42,760**	52,683
Cost of sales		**(30,819)**		**(30,819)**	(35,794)
Gross profit		**11,941**		**11,941**	16,889
Net operating expenses	3	**(11,715)**	**(1,382)**	**(13,097)**	(15,155)
Goodwill amortisation and impairment	3		**(640)**	**(640)**	(9)
Total operating expenses		**(11,715)**	**(2,022)**	**(13,737)**	(15,164)
Operating profit/(loss)		**226**	**(2,022)**	**(1,796)**	1,725
Finance charges	4			**(361)**	(546)
(Loss)/profit on ordinary activities before taxation				**(2,157)**	1,179
Tax charge on (loss)/profit on ordinary activities	6			**(152)**	(74)
(Loss)/profit on ordinary activities after taxation transferred (from)/to reserves				**(2,309)**	1,105
(Loss)/earnings per share				**Pence**	Pence
Basic	8			**(6.14)**	2.94
Diluted	8			**(6.14)**	2.89

JOB 11640 — PROOF 06 — 18/05/2006

Consolidated balance sheet

At 31 January 2006

	Notes	2006 £'000	2005 Restated £'000
Fixed assets			
Intangible assets	9	**2,677**	3,317
Tangible assets	10	**563**	919
		3,240	4,236
Current assets			
Stocks	11	**5,664**	8,494
Debtors	12	**5,527**	7,731
Cash at bank and in hand	13	**2,426**	2,855
		13,617	19,080
Creditors — amounts falling due within one year	14	**(11,076)**	(15,138)
Net current assets		**2,541**	3,942
Net assets before pension schemes' deficits		**5,781**	8,178
Pension schemes' deficits	22	**(2,839)**	(2,055)
Net assets after pension schemes' deficits		**2,942**	6,123
Capital and reserves			
Called up share capital	17	**1,503**	1,503
Share premium account		**5,258**	5,258
Merger reserve		**1,036**	1,036
Other reserves		**1,426**	1,426
Profit and loss account		**(6,281)**	(3,100)
Equity shareholders' funds		**2,942**	6,123

The Consolidated balance sheet as at 31 January 2005 has been restated for the adoption of FRS 17 (see note 22).

The financial statements were approved by the Board on 16 May 2006 and signed on its behalf by:

G Waldron
Director

M P J Keene
Director

JOB 11640 — PROOF 06 — 18/05/2006

Company balance sheet

At 31 January 2006

	Notes	2006 £'000	2005 Restated £'000
Fixed assets			
Intangible assets	9	**1,565**	2,124
Investments	9	**1,959**	1,959
Tangible assets	10	**2**	342
		3,526	4,425
Current assets			
Stocks	11	—	1,640
Debtors	12	**222**	2,152
Cash at bank and in hand	13	**15,133**	9,156
		15,355	12,948
Creditors — amounts falling due within one year	14	**(5,688)**	(3.399)
Net current assets		**9,667**	9,549
Net assets before pension schemes' deficits		**13,193**	13,974
Pension schemes' deficits	22	**(2,003)**	(1,142)
Net assets after pension schemes' deficits		**11,190**	12,832
Capital and reserves			
Called up share capital	17	**1,503**	1,503
Share premium account		**5,258**	5,258
Merger reserve		**1,036**	1,036
Other reserves		**1,426**	1,426
Profit and loss account		**1,967**	3,609
Equity shareholders' funds		**11,190**	12,832

JOB 11640 — PROOF 06 — 18/05/2006

The Company balance sheet as at 31 January 2005 has been restated for the adoption of FRS 17 (see note 22).

The financial statements were approved by the Board on 16 May 2006 and signed on its behalf by:

G Waldron
Director

M P J Keene
Director

Statement of movements on reserves
Year ended 31 January 2006

	Share premium account £'000	Merger reserve £'000	Other reserves £'000	Profit and loss account £'000	Total £'000
The Group					
Balance at 1 February 2005	5,258	1,036	1,426	(3,100)	4,620
Loss for the year	—	—	—	(2,309)	(2,309)
Retranslation of overseas subsidiaries	—	—	—	38	38
Net actuarial loss on pension schemes	—	—	—	(910)	(910)
Balance at 31 January 2006	**5,258**	**1,036**	**1,426**	**(6,281)**	**1,439**
The Company					
Balance at 1 February 2005	5,258	1,036	1,426	3,609	11,329
Loss for the year	—	—	—	(734)	(734)
Actuarial loss on pension scheme	—	—	—	(908)	(908)
Balance at 31 January 2006	**5,258**	**1,036**	**1,426**	**1,967**	**9,687**

Reconciliation of movements in shareholders' funds
Year ended 31 January 2006

JOB 11640 — PROOF 06 — 18/05/2006

	2006 **£'000**	2005 Restated £'000
The Group		
(Loss)/profit for the year	**(2,309)**	1,105
Retranslation of overseas subsidiaries	**38**	(85)
Profit on redemption of preference shares	—	586
Net actuarial loss on pension schemes including related deferred tax asset	**(910)**	(202)
Net (deduction)/addition to shareholders' funds	**(3,181)**	1,404
Opening shareholders' funds	**6,123**	4,719
Closing shareholders' funds	**2,942**	6,123

Statement of total recognised gains and losses
Year ended 31 January 2006

	2006 **£'000**	2005 Restated £'000
(Loss)/profit for the year	**(2,309)**	1,105
Retranslation of overseas subsidiaries	**38**	(85)
Net actuarial loss on pension schemes	**(994)**	(222)
Deferred tax on pension deficit	**84**	20
Total recognised gains and losses since the last annual report	**(3,181)**	818

Consolidated cash flow statement

Year ended 31 January 2006

	Notes	2006 £'000	2005 Restated £'000
Net cash inflow from operating activities	18	**1,046**	2,566
Returns on investments and servicing of finance			
Interest paid		**(358)**	(532)
Interest element of hire purchase rentals		**(3)**	(14)
Net cash outflow from returns on investments and servicing of finance		**(361)**	(546)
Taxation		**(43)**	(4)
Capital expenditure			
Purchase of tangible fixed assets		**(119)**	(141)
Sale of tangible fixed assets		**49**	77
Net cash outflow from capital expenditure		**(70)**	(64)
Net cash inflow before financing		**572**	1,952
Financing			
Purchase of subsidiary companies' preference shares		—	(163)
Repayments of amounts borrowed		**(980)**	(800)
Capital element of hire purchase rentals		**(21)**	(99)
Net cash outflow from financing		**(1,001)**	(1,062)
(Decrease)/increase in cash	19, 20	**(429)**	890

JOB 11640 — PROOF 06 — 18/05/2006

1. Statement of accounting policies

Accounting convention and basis of preparation of the financial statements

The financial statements have been prepared in accordance with applicable accounting standards and under the historical cost convention.

Turnover

Turnover consists of sales, exclusive of value added tax, invoiced to external customers in the normal course of business.

Consolidation

The consolidated financial statements incorporate the accounts of Tandem Group plc and its subsidiaries for the year ended 31 January 2006. All internal sales and unrealised intra-Group profits have been eliminated on consolidation. The results of subsidiaries acquired or sold are consolidated for the periods from or to the date at which control passed. Acquisitions are accounted for under the acquisition method of accounting.

Goodwill

Prior to 31 January 1998, goodwill arising on consolidation was written off against reserves as a matter of accounting policy and would be charged or credited in the profit and loss account on subsequent disposal of the business to which it related. The amount of goodwill previously written off against reserves is £3,514,000 (2005 — £3,514,000). Since 1 February 1998, goodwill arising on acquisitions, representing the excess of the fair value of the consideration given over the fair value of the identifiable assets acquired, is capitalised within fixed assets and amortised on a straight-line basis over its useful economic life over a period of up to 20 years.

Investments

Shares in Group companies are stated at cost less provisions for impairment.

Tangible fixed assets

Tangible fixed assets are held at cost unless the value is impaired at which point they are carried at the higher of net realisable value or the present value of future cash flows arising from that asset. On all other assets, depreciation is provided on a straight-line basis to write off the assets over their economic lives as follows:

Short leasehold land and buildings	Length of lease
Vehicles	3–4 years
Plant and machinery	3–10 years

Deferred taxation

Deferred tax is provided in full on timing differences which result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date, at rates expected to apply when they crystallise based on current tax rates and law. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in financial statements. Deferred tax is not provided on timing differences arising from the revaluation of fixed assets where there is no commitment to sell an asset, or on unremitted earnings of subsidiaries and associates where there is no commitment to remit these earnings. Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered. Deferred tax assets and liabilities are not discounted.

Leases

Assets held under finance leases and hire purchase contracts and the related lease obligations are recorded in the balance sheet at the fair value of the leased assets at the inception of the leases. The amounts by which the lease payments exceed the recorded lease obligations are treated as finance charges which are amortised over each lease term to give a consistent rate of charge on the remaining balance of the obligation.

Rental costs under operating leases are charged to the profit and loss account in equal annual amounts over the term of the lease.

Stocks and work in progress

All stocks and work in progress are stated at the lower of cost and net realisable value and, where appropriate, include a proportion of related overhead expenditure.

Foreign exchange

Transactions in foreign currencies are translated at the rate ruling on the date of the transaction. Where monetary assets and liabilities exist in foreign currencies, they are translated into sterling at the exchange rates ruling at the balance sheet date. Differences on exchange are taken directly to the profit and loss account.

The results of overseas operations are translated at the average rates of exchange during the period and their balance sheets at the rates ruling at the balance sheet date. Exchange differences arising on translation of opening net assets and results of overseas operations and on foreign currency borrowings, to the extent that they hedge the Group's investments in such operations, are reported in the statement of total recognised gains and losses. All other exchange differences are included in the profit and loss account.

Financial Instruments

The Group's financial instruments comprise bank overdraft facilities, cash, bills of exchange, forward exchange contracts, hire purchase contracts and finance lease agreements. Forward exchange contracts are used to fix the value of the related asset or liability in the contract currency and at the contract rate, and any gains or losses on these instruments are taken to the profit and loss account. The Group does not trade in financial instruments. Short-term debtors and creditors are not treated as financial assets or liabilities for disclosure purposes, other than currency disclosure.

For further information see note 16 on page 19.

Pension costs

Retirement benefits to employees are funded by contributions from the Group and employees. Payments to the Group's pension plans, which are financially separate and independent from the Group, are made in accordance with periodic calculations by independent consulting actuaries. The costs of funding the plans are accounted for over the period covering the employees' service.

The difference between the fair values of the assets held in the Group's defined benefit pension schemes and the scheme's liabilities measured on an actuarial basis using the projected unit method are recognised in the Group's balance sheet as a pension scheme asset or liability as appropriate. The carrying value of any resulting pension scheme asset is restricted to the extent that the Group is able to recover the surplus either through reduced contributions in the future or through refunds from the scheme.

Changes in the defined benefit pension scheme asset or liability arising from factors other than cash contribution by the Group are charged to the profit and loss account or the statement of total recognised gains and losses in accordance with FRS 17 'Retirement benefits'.

For further pension information see note 22 on pages 22 to 25.

JOB 11640 — PROOF 06 — 18/05/2006

2. Turnover analysis

All operations for the current and prior year relate to the manufacture and distribution of sports and leisure equipment. All activities relate to continuing operations.

Geographical analysis of turnover by destination is as follows:

	2006	2005
	£'000	£'000
United Kingdom	**39,082**	49,053
Europe	**1,974**	2,804
Rest of the world	**1,704**	826
	42,760	52,683

Group turnover, (losses)/profits and net assets were attributable to operations in the United Kingdom and Hong Kong. Analysis by geographical origin has not been given as, in the opinion of the Directors, its disclosure would be prejudicial to the interests of the Group.

3. Net operating profit analysis

	2006	**2006**	2005
	£'000	**£'000**	£'000
Net operating profit is after incurring or charging/(crediting):			
Administration expenses before exceptional items and goodwill amortisation and impairment		**5,212**	6,453
Other operating income		**(28)**	(15)
Goodwill			
Goodwill amortisation and impairment		**640**	206
Negative goodwill released		**—**	(197)
Exceptional operating costs resulting from the decision to close the Group's operations at Bideford and relocate the Pot Black business to Castle Bromwich			
Employee severance costs	**191**		
Termination of leases	**111**		
Removal costs	**108**		
Exceptional charges in writing down book values to their recoverable amount			
Plant and machinery	**127**		
Debtors	**200**		
Stock	**645**		
		1,382	—
Total administration expenses		**7,206**	6,447
Distribution costs		**6,531**	8,717
Total net operating expenses		**13,737**	15,164
Total net operating expenses include the following:			
Depreciation and other amounts written off tangible fixed assets			
Owned assets		**281**	502
Leased assets		**26**	68
Loss/(profit) on disposal and write-down of tangible fixed assets		**120**	(29)
Rentals under operating leases			
Hire of plant and machinery		**140**	157
Other operating leases		**1,089**	1,095
Auditors' remuneration			
Audit fees — Group		**77**	82
Other services		**20**	23

JOB 11640 — PROOF 06 — 18/05/2006

4. Finance charges

	2006	2005
	£'000	£'000
Interest payable on loans and overdrafts	**327**	476
Interest payable on hire purchase creditors	**3**	14
Other finance charges	**31**	56
	361	546

5. Information regarding Directors and employees

	2006 £'000	2005 £'000
Staff costs incurred during the year		
Wages and salaries	**4,227**	5,447
Social security	**420**	500
Pensions — defined contributions schemes	**169**	224
Pensions — defined benefit scheme	**16**	20
	4,832	6,191

	Number	Number
The average number of persons employed by the Group in the year		
Production	**60**	99
Sales and distribution	**95**	97
Administration	**56**	60
	211	256

	2006 £'000	2005 £'000
Directors' remuneration		
Salaries and fees	**302**	335
Benefits	**6**	6
Pension scheme contributions	**77**	82
	385	423

During the year the Group contributed to a defined benefits pension scheme for M P J Keene, a defined contributions pension scheme for S J Grant and a former Director and a personal pension plan for G Waldron. Contributions in respect of G Waldron and the former Director ceased in March 2005 and June 2005 respectively. In the previous year the Group contributed to a defined benefits pension scheme for M P J Keene, a personal pension plan for G Waldron and a defined contributions pension scheme for a former Director. The highest paid Director received emoluments of £147,000 (2005 — £149,000) and had an accrued pension entitlement at the end of the year of £28,747 (2005 — £26,066). Compensation for loss of office totalling £45,000 was paid to a former Director during the year.

JOB 11640 — PROOF 06 — 18/05/2006

6. Tax charge on (loss)/profit on ordinary activities

	2006 £'000	2005 £'000
Current taxation	**—**	4
Deferred taxation	**109**	—
Adjustment in respect of prior years	**13**	49
Overseas taxation	**30**	21
Tax on profit on ordinary activities	**152**	74

The tax charge is disproportionate to the losses before tax due to unrelieved losses in the year, overseas tax charges and a reduction in deferred tax assets. The standard rate of tax for the year, based on the UK standard rate of corporation tax, is 30%. The actual tax charge for the current year is higher and the previous year is lower than the standard rate for the reasons set out in the following reconciliation:

	2006 £'000	2005 £'000
(Loss)/profit on ordinary activities before tax	**(2,157)**	1,179
Tax on ordinary activities at the standard rate	**(647)**	354
Factors affecting the charge for the year:		
Expenses not deductible for tax purposes	**94**	62
Movement in general provisions	**(22)**	22
Capital allowances in excess of depreciation	**—**	(18)
Utilisation of losses brought forward	**(80)**	(420)
Carried forward losses	**693**	63
Adjustment in respect of prior years	**13**	49
Other	**(8)**	(38)
Current tax on profit on ordinary activities	**43**	74

At 31 January 2006 there are trading losses and loan relationship deficits of approximately £12,336,000 (2005 — £11,395,000) available for carry forward against future profits.

7. Profit attributable to Tandem Group plc

As permitted by Section 230 of the Companies Act 1985, no statement of profit and loss of the parent company is presented. Of the loss attributable to the Group, a loss of £734,000 (2005 — loss £230,000) is dealt with in the accounts of Tandem Group plc.

8. Earnings per share

	2006 £'000	2005 £'000
(Loss)/profit for the year used for basic and diluted earnings per share calculation	**(2,309)**	1,105
	Number	Number
Weighted average number of ordinary shares in issue during the year used for basic and adjusted earnings per share calculation	**37,584,412**	37,584,412
Weighted average number of shares under option	—	1,635,000
Number of ordinary shares that would have to be issued at fair value	—	(942,926)
Weighted average number of ordinary shares in issue during the year used for diluted earnings per share calculation	**37,584,412**	38,276,486
(Loss)/earnings per share	**Pence**	Pence
Basic	**(6.14)**	2.94
Diluted	**(6.14)**	2.89

FRS 14 requires presentation of diluted earnings per share ("EPS") when a company could be called upon to issue shares that would decrease net profit or increase net loss per share. For a loss-making company with outstanding share options, net loss per share would only be increased by the exercise of out-of-the-money options. Since it seems inappropriate to assume that option holders would act irrationally and there are no other diluting future share issues, diluted EPS equals basic EPS.

9. Intangible fixed assets and investments

	Goodwill £'000	Negative goodwill £'000
The Group		
Cost		
At 1 February 2005	7,193	(640)
At 31 January 2006	**7,193**	**(640)**
Amortisation and impairment provisions		
At 1 February 2005	3,876	(640)
Impairment provided in the year	434	—
Amortisation provided in the year	206	—
At 31 January 2006	**4,516**	**(640)**
Net book value		
At 31 January 2006	**2,677**	—
Net book value		
At 31 January 2005	3,317	—

	Unlisted investments in subsidiary undertakings £'000	Goodwill £'000	Negative goodwill £'000
The Company			
Cost			
At 1 February 2005	5,926	2,664	(197)
At 31 January 2006	**5,926**	**2,664**	**(197)**
Amortisation and impairment provisions			
At 1 February 2005	3,967	540	(197)
Impairment provided in the year	—	434	—
Amortisation provided in the year	—	125	—
At 31 January 2006	**3,967**	**1,099**	**(197)**
Net book value			
At 31 January 2006	**1,959**	**1,565**	—
Net book value			
At 31 January 2005	1,959	2,124	—

An impairment charge of £434,000 has been incurred following a review of the carrying value of goodwill that arose on the acquisition of Pot Black. A discount rate of 14.5% was used in the review, which is the estimated weighted average cost of capital of the Group.

The principal wholly owned subsidiary undertakings of the Group at the year end are listed below. The companies were incorporated in Great Britain and operate within the United Kingdom.

	Manufacturers and distributors of:
Falcon Cycles Limited	Bicycles and bicycle accessories
MV Sports Group Plc	Sports, snooker and pool, outdoor play, toy and leisure products
Dawes Cycles Limited	Bicycles and bicycle accessories
Ben Sayers Limited	Golf equipment

10. Tangible fixed assets

	Short leasehold land and buildings £'000	Vehicles £'000	Plant and machinery £'000	Total £'000
The Group				
Cost				
At 1 February 2005	404	22	6,169	6,595
Additions	2	—	117	119
Disposals	—	—	(702)	(702)
At 31 January 2006	**406**	**22**	**5,584**	**6,012**
Depreciation				
At 1 February 2005	200	22	5,454	5,676
Provided in the year	22	—	285	307
Disposals	—	—	(534)	(534)
At 31 January 2006	**222**	**22**	**5,205**	**5,449**
Written down value				
At 31 January 2006	**184**	**—**	**379**	**563**
At 31 January 2005	204	—	715	919
The Company				
Cost				
At 1 February 2005			1,388	1,388
Additions			29	29
Transfers inter-Group			(1,390)	(1,390)
Disposals			(7)	(7)
At 31 January 2006			**20**	**20**
Depreciation				
At 1 February 2005			1,046	1,046
Provided in the year			38	38
Transfers inter-Group			(1,060)	(1,060)
Disposals			(6)	(6)
At 31 January 2006			**18**	**18**
Written down value				
At 31 January 2006			**2**	**2**
At 31 January 2005			342	342

JOB 11640 — PROOF 06 — 18/05/2006

The net book value of the Group's fixed assets held under hire purchase contracts comprises:

	2006 £'000	2005 £'000
Plant and machinery	—	84

11. Stocks

	Group		Company	
	2006	2005	**2006**	2005
	£'000	£'000	**£'000**	£'000
Raw materials	**540**	1,519	**—**	516
Work in progress	**189**	200	**—**	—
Finished goods for resale	**4,935**	6,775	**—**	1,124
	5,664	8,494	**—**	1,640

In the opinion of the Directors there is no material difference between the historical and replacement cost of stocks.

12. Debtors

	Group		Company	
	2006	2005	**2006**	2005
	£'000	£'000	**£'000**	£'000
Amounts due within one year				
Trade debtors	**4,693**	6,579	**—**	741
Amounts due from subsidiary undertakings	**—**	—	**—**	1,154
Other debtors	**69**	100	**—**	24
Taxation and social security costs	**—**	—	**121**	—
Deferred tax	**354**	463	**49**	62
Prepayments and accrued income	**411**	589	**52**	171
	5,527	7,731	**222**	2,152

13. Bank accounts

Bank overdrafts are secured by a fixed and floating charge over the Group's assets.

JOB 11640 — PROOF 06 — 18/05/2006

14. Creditors

	Group		Company	
	2006	2005	**2006**	2005
	£'000	£'000	**£'000**	£'000
Amounts falling due within one year				
Bank loan	**—**	900	**—**	900
Hire purchase and finance lease obligations	**1**	22	**—**	—
Trade creditors	**5,036**	5,578	**65**	1,348
Amounts due to subsidiary undertakings	**—**	—	**5,301**	—
Bills of exchange payable	**—**	783	**—**	363
Taxation and social security costs	**386**	595	**15**	44
Other creditors	**4,579**	6,314	**139**	450
Accruals	**1,074**	946	**168**	294
	11,076	15,138	**5,688**	3,399

Included in other creditors is an amount of £3,141,000 (2005 — £3,782,000), which is secured by a charge on the trade debtors of subsidiary companies.

The aggregate amount of hire purchase agreements, bank loans and overdrafts was as follows:

Amounts falling due on demand or less than one year

	Group		Company	
	2006	2005	**2006**	2005
	£'000	£'000	**£'000**	£'000
Bank loan	**—**	900	**—**	900
Hire purchase and finance lease obligations	**1**	22	**—**	—
	1	922	**—**	900

JOB 11640 — PROOF 06 — 18/05/2006

15. Provisions for liabilities and charges

The movements in deferred taxation as calculated on the liability method at 30% (2005 — 30%) are set out below:

	Group		Company	
	2006	2005	**2006**	2005
	£'000	£'000	**£'000**	£'000
At 1 February	**(463)**	(463)	**(62)**	(62)
Origination and reversal of timing differences	**109**	—	**13**	—
At 31 January	**(354)**	(463)	**(49)**	(62)

Deferred taxation

	Provided	**Not Provided**	Provided	Not Provided
	2006	**2006**	2005	2005
	£'000	**£'000**	£'000	£'000
The Group				
Accelerated capital allowances	**(236)**	**(242)**	(314)	(153)
Short-term timing differences	**(10)**	**(21)**	(30)	—
Losses	**(108)**	**(3,593)**	(119)	(3,390)
Excess management expenses	—	**(739)**	—	(739)
Capital losses	—	**(2,075)**	—	(2,075)
ACT	—	**(835)**	—	(835)
	(354)	**(7,505)**	(463)	(7,192)

	Provided	**Not Provided**	Provided	Not Provided
	2006	**2006**	2005	2005
	£'000	**£'000**	£'000	£'000
The Company				
Accelerated capital allowances	**(4)**	—	12	—
Short-term timing differences	**(5)**	—	—	—
Losses	**(40)**	—	(74)	(40)
Excess management expenses	—	**(739)**	—	(739)
Capital losses	—	**(883)**	—	(883)
ACT	—	**(51)**	—	(51)
	(49)	**(1,673)**	(62)	(1,713)

A deferred tax asset has not been recognised in respect of the unprovided trading losses, capital losses, excess management expenses and advance corporation tax as the Company does not anticipate sufficient taxable trading profits, capital gains, utilisation of management expenses or recovery of ACT respectively to arise within the foreseeable future.

In time it is anticipated that the losses will be recovered as the Group continues to make profits and ACT will be recoverable when the Group makes sufficient profits in the correct Group companies. However, capital losses and management expenses will only be utilised if a capital gain arises against which the capital losses may be set off or Tandem Group plc reverts to an investment company, and makes a profit against which the excess management expenses can be utilised.

A deferred tax asset has not been recognised in respect of the accelerated capital allowances, as this is not expected to reverse within the foreseeable future. The accelerated capital allowances will be released when the tax written down value of the Group's assets matches the book values.

JOB 11640 — PROOF 06 — 18/05/2006

16. Financial instruments

The Group's policies as regards financial instruments are set out in the Directors' Report on pages 2 to 4 and the accounting policies in note 1 on page 11. Short-term debtors and creditors have been omitted from all disclosures other than those relating to currency exposure.

Interest rate and currency of net funds

The currency exposure of the Group's net funds is shown below:

	2006 £'000	2005 £'000
Sterling	**1,139**	930
US dollars	**1,209**	884
Euro	**81**	50
Others	**(4)**	(11)
Net funds	**2,425**	1,853

Included within borrowings are obligations under hire purchase and finance lease agreements of £1,000 (2005 — £22,000) and bank loans of £nil (2005 — £900,000). The obligations under hire purchase and finance leases carry a weighted average interest rate of 8% (2005 — 8%), which is fixed for a weighted average time of 1 year (2005 — 1 year). Bank overdrafts bear interest at 1.75% or 2% above bank base rate. The Group has a right of set-off for cash balances against borrowings. The functional currency of the Group is sterling.

The remaining floating rate funds/(borrowings) comprise bank deposits/(overdrafts) which bear interest as follows:

- sterling based on UK bank base rates
- US dollar based on US prime rate
- Euro based on euro bank base rates
- others based on bank base rates in the applicable country

Maturity profile

The total undrawn committed bank overdraft facilities at the financial year end amounted to £6,426,000 (2005 — £4,355,000). All borrowings are repayable on demand with the exception of obligations under hire purchase contracts and finance lease agreements, which are analysed in note 14 on page 17. The bank overdraft is due for review in January 2007.

Currency exposure

Foreign currency exposure on borrowings is not hedged.

The Group hedges a proportion of its transactional exposures by taking out forward exchange contracts against anticipated and known sales and purchases, as described in the Directors' Report on pages 2 to 4. The decision to hedge is influenced by the size of the exposure, the certainty of it arising and the exchange rate prevailing at the time.

The Group had short-term foreign currency trade creditors (principally US dollars) totalling £3,501,000 (2005 — £3,716,000). The Group has hedged forward net purchases totalling £4,146,000 (2005 — £4,793,000). There were no material unrealised gains or losses on forward foreign currency contracts covering US dollars and euro. None of these were recognised at the balance sheet date.

Fair values

The fair values of the Group's financial instruments, valued at market value for foreign currency contracts and by discounting expected cash flows at prevailing year end interest rates for other items, are not materially different from their book values.

JOB 11640 — PROOF 06 — 18/05/2006

17. Called up share capital

	Number of shares	£'000
Authorised		
Ordinary shares of 4p each		
At 1 February 2005 and 31 January 2006	51,875,000	2,075
Non-voting "A" ordinary shares of 1p each		
At 1 February 2005 and 31 January 2006	125,000,000	1,250
Total authorised share capital at 31 January 2006	**176,875,000**	**3,325**
Allotted, called up and fully paid		
Ordinary shares of 4p each		
At 1 February 2005 and 31 January 2006	**37,584,412**	**1,503**

Share options

The following options were held at 31 January 2006 under the Company's share option schemes:

	Number of shares					Option price per 4p ordinary share	Exercise period
	1 February 2005	Granted during year	Exercised during year	Lapsed or cancelled during year	31 January 2006		
1996 Approved share option scheme							
Directors							
G Waldron	—	—	—	—	—		
M P J Keene	95,000	—	—	—	95,000	11.50p	01/05/06–01/05/13
S J Grant	130,000	—	—	—	130,000	11.50p	01/05/06–01/05/13
Other employees	780,000	—	—	190,000	590,000	11.50p	01/05/06–01/05/13
1996 Unapproved share option scheme							
Directors							
G Waldron	—	—	—	—	—		
M P J Keene	165,000	—	—	—	165,000	11.50p	01/05/06–01/05/10
S J Grant	50,000	—	—	—	50,000	11.50p	01/05/06–01/05/10
Other employees	415,000	—	—	70,000	345,000	11.50p	01/05/06–01/05/10

The ordinary share mid-market price on 31 January 2006 was 12.25p. During the year, the highest mid-market price was 24.75p and the lowest was 10.75p.

18. Reconciliation of operating (loss)/profit to net cash inflow from operating activities

	2006 **£'000**	2005 Restated £'000
Operating (loss)/profit	**(1,796)**	1,725
Depreciation charges	**307**	570
Provision for impairment/amortisation of goodwill	**640**	206
Negative goodwill released	**—**	(197)
Loss/(profit) on sale of tangible fixed assets	**119**	(29)
Decrease/(increase) in stocks	**2,830**	(203)
Decrease in debtors	**2,095**	1,523
Decrease in creditors	**(3,024)**	(1,008)
Adjustment for pension funding	**(125)**	(21)
Net cash inflow from operating activities	**1,046**	2,566

JOB 11640 — PROOF 06 — 18/05/2006

19. Reconciliation of net cash (outflow)/inflow to movement in net funds

	2006 **£'000**	2005 £'000
(Decrease)/increase in cash	**(429)**	890
Cash to repay finance leases and hire purchase contracts	**21**	99
Bank loan	**900**	800
Other loans	**80**	—
Changes in net funds resulting from cash flows	**572**	1,789
Net funds at 1 February	**1,853**	64
Net funds at 31 January	**2,425**	1,853

20. Analysis of net funds

	At 1 February 2005 £'000	Cash flow £'000	**At 31 January 2006 £'000**
Cash at bank and in hand	2,855	(429)	**2,426**
Bank loan due within 1 year	(900)	900	—
Other loans	(80)	80	—
Hire purchase creditors	(22)	21	**(1)**
	1,853	572	**2,425**

21. Financial commitments

There was no capital expenditure contracted for but not provided for in the financial statements of the Group as at 31 January 2006 or 31 January 2005.

Operating lease commitments

	2006		2005	
	Land and buildings £'000	**Other £'000**	Land and buildings £'000	Other £'000
Annual commitments under operating leases expiring				
Within 1 year	**28**	**45**	224	13
1 to 5 years	**293**	**106**	300	205
More than 5 years	**628**	**—**	630	—
	949	**151**	1,154	218

Lease commitments include £100,000 in respect of premises at Pinchbeck, Spalding, previously occupied by the Company's former Garden Leisure Division, which have been sublet at an equivalent annual rental.

JOB 11640 — PROOF 06 — 18/05/2006

22. Pension arrangements

The Group operates two funded pension plans, The Tandem Group Pension Plan and The Casket Group Retirement and Death Benefit Scheme.

The Tandem Group Pension Plan

A contributory pension scheme, the Tandem Group Pension Plan, has two sections. One provides benefits based on final pensionable salary, the other provides benefits based on defined contributions. The final salary section is closed to new members.

The assets of the Plan are held separately from those of the Group, being invested with managed funds.

Contributions to the final salary section are determined by an independent qualified actuary on the basis of the triennial valuation using the Attained Age Method. A valuation was carried out in October 2001 ("the 2001 valuation"). The assumptions which have the most significant effect on the results of the 2001 valuation are those relating to the rate of return on investments and the rates of increase in salaries and pensions. It was assumed in assessing the pension cost that the return on the Plan's investments would be 7.5% per annum pre-retirement and 5.5% post-retirement and that salaries would increase at the rate of 5% per annum. Future pension increases were assumed to be at the rate guaranteed.

The 2001 valuation of the final salary section showed that the market value of the Plan's assets at that date was £8,061,000 and that the actuarial valuation of those assets based on a Minimum Funding Requirement (MFR) basis represented 95% of the benefits that had accrued to members, after allowing for future increases in earnings and pensions. The Group is currently paying £87,000 per annum in order to meet the defined benefits.

The paragraphs below set out the additional disclosures required by FRS 17:

The valuation used for FRS 17 disclosures has been based on the Projected Unit Method and membership data as provided for the 1 October 2001 valuation, updated to take account of the requirements of FRS 17 in order to assess the liabilities of the scheme at 31 January 2006. Scheme assets are stated at their fair value at 31 January 2006. The financial assumptions used to calculate scheme liabilities under FRS 17 are:

Valuation method		**Projected Unit**	
	2006	2005	2004
Discount rate	**4.90%**	5.25%	5.50%
Increase in pensionable salaries	**2.75%**	3.75%	3.75%
Increase in pensions in payment	**5.00%**	5.00%	5.00%
Increase in deferred pensions	**3.00% to 5.00%**	3.00% to 5.00%	3.00% to 5.00%
Inflation assumption	**2.75%**	2.75%	2.75%

The expected rate of return and value of assets in the scheme were:

		Long-term expected rate of return		**Value at 31 January 2006**	Value at 31 January 2005	Value at 31 January 2004
	2006	2005	2004	**£'000**	£'000	£'000
Equities	**7.5%**	8.0%	8.0%	**3,263**	2,603	2,309
Gilts	**4.5%**	5.0%	5.0%	**5,839**	5,452	5,420
Cash	**4.5%**	4.0%	4.0%	**37**	(14)	11
Total fair value of assets				**9,139**	8,041	7,740
Present value of scheme liabilities				**(11,340)**	(9,296)	(8,777)
Deficit in the scheme				**(2,201)**	(1,255)	(1,037)

JOB 11640 — PROOF 06 — 18/05/2006

22. **Pension arrangements** continued

	2006 **£'000**	2005 £'000
Analysis of the amount that has been charged to operating profit		
Current service cost	**(33)**	(37)
Analysis of the amount that has been charged to other finance income		
Expected return on pension scheme assets	**471**	447
Interest on pension scheme liabilities	**(478)**	(473)
Net charge	**(7)**	(26)
Analysis of amount that has been recognised in the statement of total recognised gains and losses (STRGL)		
Actual return less expected return on pension scheme assets	**953**	166
Experience losses arising on liabilities	**(447)**	(83)
Loss due to changes in assumptions underlying the present value of scheme liabilities	**(1,498)**	(310)
Actuarial loss that has been recognised in the STRGL	**(992)**	(227)
Movement in deficit during the year		
Deficit at the beginning of the year	**(1,255)**	(1,037)
Movement in year:		
Current service cost	**(33)**	(37)
Contributions	**86**	72
Other finance cost	**(7)**	(26)
Actuarial loss	**(992)**	(227)
Deficit at the end of the year	**(2,201)**	(1,255)
Related deferred tax asset	**198**	113
	(2,003)	(1,142)

	2006	2005	2004
History of experience gains and losses			
Difference between the actual and expected return on scheme assets			
Amount (£'000)	**953**	166	132
Percentage of scheme assets	**10.4%**	2.1%	1.7%
Experience losses on scheme liabilities			
Amount (£'000)	**(447)**	(83)	(22)
Percentage of scheme liabilities	**3.9%**	0.9%	0.3%
Total amount recognised in statement of total recognised gains/(losses)			
Amount (£'000)	**(992)**	(227)	267
Percentage of the present value of the scheme liabilities	**8.7%**	2.4%	3.0%

JOB 11640 — PROOF 06 — 18/05/2006

22. Pension arrangements continued

The Casket Group Retirement and Death Benefit Scheme

Prior to 1995, Casket plc operated a defined benefits pension scheme. On 31 May 1995 proceedings commenced to wind up this scheme. On 1 June 1995 a new defined contribution scheme commenced. Current employees at that time had an amount transferred to individual accounts in the new scheme. Former employees had their deferred benefits transferred to be payable out of a contingency fund.

A valuation of the contingency fund at 6 April 2001, using the current unit method, showed that the market value of the fund's assets at that date was £1,065,000 and that the actuarial valuation of those assets based on a MFR basis represented 81% of the benefits that had accrued to members, after allowing for future increases in earnings and pensions. The Group is currently paying £101,000 per annum to eliminate the deficit.

The paragraphs below set out the additional disclosures required by FRS 17:

The valuation used for FRS 17 disclosures has been based on the Projected Unit Method and takes account of the requirements of FRS 17 in order to assess the liabilities of the scheme at 31 January 2006. Scheme assets are stated at their fair value at 31 January 2006. As the Casket Group Retirement and Death Benefit Scheme is a closed scheme, under the projected unit method, the current service cost will increase as the members of the scheme approach retirement. The financial assumptions used to calculate scheme liabilities under FRS 17 are:

Valuation method		**Projected Unit**	
	2006	2005	2004
Discount rate	**4.90%**	5.25%	5.50%
Increase in pensionable salaries	**There are no members whose benefits are linked to salaries**		
Increase in pensions in payment	**2.75%**	2.75%	2.75%
Increase in deferred pensions	**2.75%**	2.75%	2.75%
Inflation assumption	**2.75%**	2.75%	2.75%

The expected rate of return and value of assets in the contingency fund were:

		Long-term expected rate of return		**Value at 31 January 2006**	Value at 31 January 2005	Value at 31 January 2004
	2006	2005	2004	**£'000**	£'000	£'000
Equities	**7.5%**	8.0%	8.0%	**883**	772	824
Bonds/Gilts	**4.5%**	5.0%	5.0%	**356**	297	119
Property	**6.5%**	—	—	**216**	—	—
Cash	**4.5%**	5.0%	5.0%	**13**	95	54
Total fair value of assets				**1,468**	1,164	997
Present value of scheme liabilities				**(2,304)**	(2,077)	(1,885)
Deficit in the scheme				**(836)**	(913)	(888)

	2006	2005
	£'000	£'000
Analysis of the amount that has been charged to operating profit		
Current service cost	**—**	—
Analysis of the amount that has been charged to other finance income		
Expected return on pension scheme assets	**84**	73
Interest on pension scheme liabilities	**(108)**	(103)
Net charge	**(24)**	(30)

	2006	2005
	£'000	£'000
Analysis of amount that has been recognised in the statement of total recognised gains and losses		
Actual return less expected return on pension scheme assets	**153**	128
Experience gains/(losses) arising on liabilities	**175**	(38)
Loss due to changes in assumptions underlying the present value of scheme liabilities	**(330)**	(85)
Actuarial (loss)/gain that has been recognised in the STRGL	**(2)**	5
Movement in deficit during the year		
Deficit at the beginning of the year	**(913)**	(888)
Movement in year:		
Current service cost	**—**	—
Contributions	**103**	—
Other finance cost	**(24)**	(30)
Actuarial (loss)/gain	**(2)**	5
Deficit at the end of the year	**(836)**	(913)

JOB 11640 — PROOF 06 — 18/05/2006

22. **Pension arrangements** continued

	2006	2005	2004
History of experience gains and losses			
Difference between the actual and expected return on scheme assets			
Amount (£'000)	**153**	128	215
Percentage of scheme assets	**10.4%**	11.0%	21.6%
Experience gains and (losses) on scheme liabilities			
Amount (£'000)	**175**	(38)	46
Percentage of scheme liabilities	**7.6%**	1.8%	2.4%
Total amount recognised in statement of total recognised gains and losses			
Amount (£'000)	**(2)**	5	292
Percentage of the present value of the scheme liabilities	**0.1%**	0.2%	15.5%

Group prior period adjustment

The adoption of FRS 17 has required changes in the method of accounting for defined benefit pension schemes. As a result of this change in accounting policy, the comparatives have been restated as follows:

	Pension scheme deficits £'000	P&L Reserve £'000
2005 as previously reported	—	(1,045)
Adoption of FRS 17 at 1 February 2004	(1,832)	(1,832)
During the year ended 31 January 2005	(223)	(223)
Adoption of FRS 17 at 31 January 2005	(2,055)	(2,055)
2005 restated	(2,055)	(3,100)

The effect of the adoption of FRS 17 on the 2005 profit and loss account is to increase the previously reported operating profit by £35,000 to £1,725,000 and increase the previously reported other finance costs from £nil to £56,000.

Group pension scheme deficits

	2006 £'000	2005 £'000
The Tandem Group Pension Plan		
Deficit	**(2,201)**	(1,255)
Related deferred tax asset	**198**	113
	(2,003)	(1,142)
The Casket Group Retirement and Death Benefit Scheme	**(836)**	(913)
	(2,839)	(2,055)

A deferred tax asset has been recognised in respect of the deficits on the Tandem and Casket schemes to the extent that it is believed probable that a benefit will arise. Potential deferred tax assets of £713,000 (2005: £537,000) have not been recognised because of uncertainty over future relief for deductions being usable.

JOB 11640 — PROOF 06 — 18/05/2006

23. **Contingent liabilities**

The Company has guaranteed the bank borrowings of its subsidiary undertakings. At the year end the net liabilities covered by these guarantees totalled £12,707,000 (2005 — £6,301,000).

Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that the ANNUAL GENERAL MEETING of TANDEM GROUP plc will be held at Eversheds LLP, 1 Royal Standard Place, Nottingham, NG1 6FZ on 27 June 2006 at 11:00 a.m. for the following purposes:

Ordinary business

1. To receive, consider and adopt the report of the Directors, the audited financial statements and the Auditors' report for the year ended 31 January 2006.
2. To re-elect as a Director of the Company M P J Keene who retires in accordance with the Articles of Association and is eligible for re-election.
3. To elect as a Director of the Company S J Grant who retires in accordance with the Articles of Association and is eligible for election.
4. To reappoint Deloitte & Touche LLP as auditors of the Company until the conclusion of the next Annual General Meeting of the Company at which the requirement of Section 241(1) of the Companies Act 1985 is complied with and to authorise the Directors to fix their remuneration.

Special business

To consider and, if thought fit, pass the following resolution which will be proposed as special resolutions.

5. That the Company be generally and unconditionally authorised to make market purchases (within the meaning of section 163(3) of the Companies Act 1985) of ordinary shares of 4p each in the capital of the Company ("ordinary shares") provided that:
   (i) the maximum number of ordinary shares hereby authorised to be purchased is 5,637,661 (representing approximately 15 per cent of the Company's issued ordinary share capital)
   (ii) the minimum price, exclusive of any expenses, which may be paid for an ordinary share is 1p;
   (iii) the maximum price, exclusive of any expenses, which may be paid for any such share is an amount equal to 105 per cent of the average of the middle market quotations for an ordinary share taken from the London Stock Exchange Daily Official List for the five business days immediately preceding the date on which such share is contracted to be purchased;
   (iv) the authority hereby conferred shall expire on the close of the next annual general meeting of the Company;
   (v) the Company may make a contract for the purchase of ordinary shares under this authority before the expiry of this authority which would or might be executed wholly or partly after the expiry of such authority, and may make purchases of ordinary shares in pursuance of such a contract as if such authority had not expired.

By Order of the Board
M P J Keene
9a South Street, Crowland, Peterborough, PE6 0AH
16 May 2006

1 Any holder of 4p ordinary shares entitled to attend and vote at the Annual General Meeting may appoint one or more proxies to attend and, on a poll, to vote instead of him. A proxy need not be a member of the Company. Completion of a form of proxy will not preclude a member from attending and voting in person at the meeting should he or she so wish.

2 A form of proxy is enclosed. To be valid, the form of proxy must be lodged with Capita Registrars not later that 48 hours before the time appointed for the Annual General Meeting. Completion and return of a form of proxy will not preclude a member from attending or voting in person at the Annual General Meeting.

3 Any person entered on the register of members of the Company 48 hours before the time appointed for the Annual General Meeting is entitled to attend and vote at the Meeting pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001. Any changes to the register of members after the above time and date shall be disregarded in determining the rights of any person to attend and/or vote at the Meeting.

4 Copies of the Memorandum and Articles of Association of the Company, Directors' contracts of service and the Register of Directors' Interests will be available for inspection during the usual business hours at the Company's registered office until the date of the Annual General Meeting, 15 minutes prior to the meeting and during the meeting itself.

JOB 11640 — PROOF 06 — 18/05/2006

Form of proxy

TANDEM GROUP plc
ANNUAL GENERAL MEETING
to be held at 11:00 a.m. on 27 June 2006
(Name and address to be inserted in BLOCK LETTERS by shareholder.
In the case of joint holdings, names of all joint holders to be stated.)

I/We ....

of ....

being (a) member(s) of Tandem Group plc hereby appoint the Chairman of the meeting or

....

as my/our proxy to attend and, on a poll, vote on my/our behalf at the Annual General Meeting of the Company to be held at Eversheds LLP, 1 Royal Standard Place, Nottingham, NG1 6FZ at 11:00 a.m. on 27 June 2006 or at any adjournment thereof. The proxy is instructed to vote in respect of the resolutions as specified below:

RESOLUTIONS TO BE PROPOSED	For	Against
1. To adopt the report of the Directors and the audited financial statements		
2. To re-elect M P J Keene as a Director		
3. To elect S J Grant as a Director		
4. To reappoint Deloitte & Touche LLP as auditors		
5. To authorise the Company to purchase its own shares		

Signature .... Date ....

JOB 11640 — PROOF 06 — 18/05/2006

Notes :

1. Please indicate how the proxy is to vote by placing an X in the appropriate box opposite the resolution. Where no 'X' is inserted, the proxy may vote or abstain at his/her/its discretion.
2. You may appoint a person other than the Chairman of the meeting by entering the name and address of the person you wish to appoint in the space provided and deleting the words "the Chairman of the meeting or". A proxy need not be a member of the Company. The Chairman of the meeting will act as proxy if no other name is inserted.
3. Any alteration of this form of proxy, including any alteration under Note 2 above, must be initialled.
4. A corporation must execute under its common seal or under the hand of a duly authorised officer.
5. This form of proxy together with any power of attorney or other authority under which it is signed (or a certified or office copy of such power of attorney) should be returned to the Company's registrars not later than 48 hours before the time appointed for the Annual General Meeting. Completion and return of this Form of Proxy will not preclude members of the Company from attending and voting in person (in substitution for your proxy vote) should you wish to do so.
6. In the case of joint holders, any one holder may sign this form. The vote of the senior who tenders a vote whether in person or by proxy will be accepted to the exclusion of the votes of the other joint holders. For this purpose, seniority will be determined by the order in which the names stand in the Register in respect of the joint holding.
7. The Company, pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001, specifies that only those shareholders registered in the register of members of the Company as at the date 48 hours before the time appointed for the Annual General Meeting shall be entitled to attend or vote at the Annual General Meeting in respect of the number of shares registered in their name at that time. Changes to entries on the relevant register of securities after this time shall be disregarded in determining the rights of any person to attend or vote at the Annual General Meeting.

Second fold

BUSINESS REPLY SERVICE
Licence No. MB 122

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Capita Registrars
Proxy Department
PO Box 25
BECKENHAM
Kent
BR3 4BR

First fold

JOB 11640 — PROOF 06 — 18/05/2006

Third fold
and tuck in flap opposite

IMPORTANT INFORMATION FOR SHAREHOLDERS

If you receive duplicate mailings, it may be because we have more than one shareholding in your name. To ensure that your shares are registered correctly and amalgamated into one account, please contact the Company's registrars in writing to Capita Registrars, Northern House, Woodsome Park, Fenay Bridge, Huddersfield, HD8 0LA or by telephone on: **0870 162 3131**