

tangent



Tangent Communications plc
interim report 2005

financial highlights

In the six month period to 31 August 2005:

- ▶ Ongoing turnover up 10%
- ▶ Administrative expenses before amortisation of goodwill and exceptionals down 35%
- ▶ EBITDA before goodwill and exceptionals up 487% to £323,000
- ▶ Operating profit before goodwill and exceptionals up £276,000 to £222,000
- ▶ Earnings per share before goodwill and exceptionals 0.40p (2004: loss 0.21p)
- ▶ Net cash £224,000 (2004: net debt £512,000)
- ▶ New clients won during the period include NCP, Virgin Mobile and Threshers

joint chief executives' statement

Overview

Tangent has made significant progress in the six months to 31 August 2005. Our core businesses have performed well and the integration of the London Digital and Documedia businesses has been completed successfully and ahead of schedule. The new board and senior management have focused on ensuring that during this period of integration, our service levels were maintained and internal targets met. We would like to thank everyone for their dedication and hard work during this period.

Tangent is now well positioned to focus on growth. We are capitalising on our combined group strengths and cross-selling our range of services.

Operations

Tangent's sales are derived from services to the marketing community. We deliver a service for the creation and implementation of online web-based marketing applications for retail, property and direct mail customers.

Tangent continues to invest in our online technology which is currently used by over 1,000 customers throughout the UK to host, personalise and order marketing collateral on a daily basis. Clients include the Greene King Group, Alpha Retail and Lane Fox.

Tangent also provides a real-time communication service which allows clients to make changes to artwork right up until the last minute. This is an area in which digital print is increasing its value proposition and market share. Key clients include KPMG, Monsoon and Omnicom.

Financial performance

Tangent has achieved a solid financial performance in a period of substantial change and development. Administrative expenses are 35% below the same period last year and cash has increased by £326,000 during the period to give net funds of £224,000 (2004: net debt £512,000). Earnings per share excluding goodwill amortisation and exceptionals have improved significantly to 0.40p (2004: loss per share 0.21p).

Outlook

On the foundations of our acquisition in the summer, Tangent is now profitable and generating cash. Our technology is playing a larger role in the way in which we interact with our clients and how they perceive us. We are adding value in demonstrating new ways that clients can communicate with their customers and the demand for our services is increasing.

Our business is growing organically and we continue to look at potential acquisitions which fit within the group's strategy. We look forward to the remainder of the year with confidence.

Nicholas Green and Timothy Green

29 November 2005

group profit and loss account

for the six months ended 31 August 2005

	Notes	Unaudited Six months ended 31 Aug 2005 £000	Unaudited Six months ended 31 Aug 2004 £000	Audited Year ended 28 Feb 2005 £000
Turnover				
Continuing		2,617	2,648	5,317
Acquisitions		302	—	—
Discontinued		—	1,122	1,283
		2,919	3,770	6,600
Cost of sales		(1,613)	(2,159)	(3,978)
Gross profit		1,306	1,611	2,622
Administrative expenses excluding goodwill amortisation and exceptional items		(1,084)	(1,665)	(2,654)
Operating profit/(loss) excluding goodwill amortisation and exceptional items				
Continuing		168	(166)	(83)
Acquisitions		54	—	—
Discontinued		—	112	51
		222	(54)	(32)
Goodwill amortisation		(45)	(8)	(16)
Operating exceptional items		—	(69)	(70)
Operating profit/(loss)				
Continuing		160	(191)	(117)
Acquisitions		17	—	—
Discontinued		—	60	(1)
		177	(131)	(118)
Non-operating exceptional items	2	(160)	—	168
Net interest		(7)	(19)	(29)
Profit/(loss) before tax		10	(150)	21
Taxation	3	(2)	—	—
Profit/(loss) for the period		8	(150)	21
Earnings/(loss) per share				
Basic and fully diluted	4	0.02p	(0.43)p	0.06p
Excluding goodwill amortisation and exceptional items	4	0.40p	(0.21)p	(0.18)p

group balance sheet

at 31 August 2005

	Notes	Unaudited 31 Aug 2005 £000	Unaudited 31 Aug 2004 £000	Audited 28 Feb 2005 £000
Fixed assets				
Intangible assets	5	5,187	56	48
Tangible assets		641	321	277
Investments		—	30	—
		5,828	407	325
Current assets				
Stocks		82	288	82
Debtors		1,943	1,602	1,154
Cash at bank		388	47	62
		2,413	1,937	1,298
Creditors: amounts falling due within one year		(1,799)	(1,808)	(906)
Net current assets		614	129	392
Total assets less current liabilities		6,442	536	717
Creditors: amounts falling due after more than one year		(47)	(32)	(35)
Provisions for liabilities and charges		(60)	(87)	(94)
		6,335	417	588
Capital and reserves				
Share capital	6	951	401	401
Reserves	7	5,384	16	187
Shareholders' funds	8	6,335	417	588

group cash flow statement

for the six months ended 31 August 2005

	Notes	Unaudited Six months ended 31 Aug 2005 £000	Unaudited Six months ended 31 Aug 2004 £000	Audited Year ended 28 Feb 2005 £000
Net cash inflow from operating activities	9	55	39	215
Returns on investments and servicing of finance				
Net interest paid		(7)	(19)	(29)
Capital expenditure				
Purchase of tangible fixed assets		(3)	(78)	(163)
Receipts from sale of fixed assets		—	—	35
Receipts from sale of investments		—	—	37
Net cash outflow from capital expenditure		(3)	(78)	(91)
Acquisitions and disposals				
Cash acquired on acquisition of subsidiary undertaking		542	—	—
Costs of acquisition		(229)	—	—
Proceeds from sale of trading division		—	—	367
Net cash inflow from acquisition and disposals		313	—	367
Net cash inflow/(outflow) before financing		358	(58)	462
Financing				
Finance lease capital repayments		(28)	—	(10)
Bank loan (repaid)		(4)	(4)	(8)
Net advance/(repayment) on invoice discounting facility		—	71	(421)
Net cash (outflow)/inflow from financing		(32)	67	(439)
Increase in cash		326	9	23

notes to the unaudited interim report

1. Commentary on financial information

The results for the six month periods ended 31 August 2005 and 31 August 2004 are unaudited. They have been prepared using accounting bases and policies consistent with those used in the preparation of the financial statements of Tangent Communications plc for the year ended 28 February 2005.

The comparative figures for the year ended 28 February 2005 are extracted from the statutory accounts for that year which have been delivered to the Registrar of Companies. The auditors' report on the financial statements for the year ended 28 February 2005 was qualified in respect of the corresponding amount on administrative expenses for the preceding year ended 29 February 2004. Accordingly, the financial information in respect of the year ended 28 February 2005 which formed an integral part of the financial statements for that year and which included the financial information for the six months ended 31 August 2004 was not qualified.

The financial information contained in the interim report does not constitute statutory accounts of the company within the meaning of Section 240 of the Companies Act 1985.

2. Non-operating exceptional items

Non-operating exceptional items relate to restructuring and integration costs in respect of the six months ended 31 August 2005 and profit on disposal of a trading division in respect of the year ended 28 February 2005.

3. Taxation

The taxation charge has been calculated by applying the estimated effective tax rate for the current financial year ending 28 February 2006.

4. Earnings/(loss) per share

Earnings/(loss) per share have been calculated by dividing the earnings/(loss) available to ordinary shareholders by the weighted average number of shares in issue during the period after excluding the shares owned by the Employee Share Trust. Diluted earnings/(loss) per share are calculated taking into account the potentially dilutive effect of share options.

	Unaudited Six months ended 31 Aug 2005 £000	Unaudited Six months ended 31 Aug 2004 £000	Audited Year ended 28 Feb 2005 £000
Earnings/(loss) excluding amortisation of goodwill and exceptional items	200	(73)	(61)
Exceptional charge net of tax	(147)	(69)	98
Goodwill amortisation	(45)	(8)	(16)
Basic and diluted earnings/(loss)	8	(150)	21

	Number	Number	Number
Weighted average number of ordinary shares in issue	50,484,459	34,660,000	34,660,000
Effect of dilutive options	1,475,635	—	140,758
Diluted weighted average number of shares in issue	51,960,094	34,660,000	34,800,758

notes to the unaudited interim report

5. Intangible fixed assets

	Goodwill £000
Cost	
At 1 March 2005	407
Addition	5,184
At 31 August 2005	5,591
Amortisation	
At 1 March 2005	359
Charge for the period	45
At 31 August 2005	404
Net book values	
At 31 August 2005	5,187
28 February 2005	48
31 August 2004	56

The addition to goodwill during the period arose from the acquisition of Tangent Communications Limited and its subsidiaries as follows:

	£000	£000
Fair value of net assets acquired		784
Cost of acquisition:		
Issue of shares at market value	5,739	
Costs of acquisition	229	
		5,968
Goodwill on acquisition		5,184

Goodwill is amortised over 20 years, being the directors' estimate of its useful economic life.

6. Share capital

	Number of shares	Share capital £'000
At 1 March 2005	40,113,300	401
Shares issued on acquisition	55,000,000	550
At 31 August 2005	95,113,300	951

7. Statement of movements on reserves

	Share premium account £000	Merger reserve £000	Profit and loss account £000	Total £000
At 1 March 2005	7,860	1,162	(8,835)	187
Issue of shares on acquisition	—	5,189	—	5,189
Retained profit	—	—	8	8
At 31 August 2005	7,860	6,351	(8,827)	5,384

8. Reconciliation of movements in shareholders' funds

	Unaudited Six months ended 31 Aug 2005 £000	Unaudited Six months ended 31 Aug 2004 £000	Audited Year ended 28 Feb 2005 £000
Profit/(loss) for the period	8	(150)	21
Shares issued for acquisition	550	—	—
Merger reserve arising from share issue	5,189	—	—
Net increase/(decrease) in shareholders' funds	5,747	(150)	21
Opening shareholders' funds	588	567	567
Closing shareholders' funds	6,335	417	588

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

	Unaudited Six months ended 31 Aug 2005 £000	Unaudited Six months ended 31 Aug 2004 £000	Audited Year ended 28 Feb 2005 £000
Operating profit/(loss)	177	(131)	(118)
Non-operating exceptional items	(160)	—	—
Depreciation charge	101	109	215
Amortisation of goodwill	45	8	16
Profit on disposal of fixed assets	—	—	(5)
Profit on disposal of investments	—	—	(7)
Decrease/(increase) in stocks	23	(11)	20
Decrease in debtors	95	201	669
(Decrease) in creditors and provisions	(226)	(137)	(575)
Net cash inflow from operating activities	55	39	215

notes to the unaudited interim report

10. Reconciliation of net cash flow to movement in net (debt)/funds

	Unaudited Six months ended 31 Aug 2005 £000	Unaudited Six months ended 31 Aug 2004 £000	Audited Year ended 28 Feb 2005 £000
Increase in cash	326	9	23
Cash outflow/(inflow) from decrease/(increase) in debt	32	(67)	439
Movement in net debt resulting from cash flows	358	(58)	462
New finance leases	—	(55)	(87)
Finance leases acquired with subsidiary	(110)	—	—
Movement in net debt in the period	248	(113)	375
Opening net debt	(24)	(399)	(399)
Closing net funds/(debt)	224	(512)	(24)

11. Analysis of changes in net (debt)/funds

	1 March 2005 £000	Cash flows excluding acquisition £000	Net funds acquired with subsidiary £000	31 August 2005 £000
Cash at bank	62	(216)	542	388
Bank loan	(9)	4	—	(5)
Finance leases	(77)	28	(110)	(159)
	(86)	32	(110)	(164)
Net (debt)/funds	(24)	(184)	432	224

12. Further copies

The interim report is being sent to shareholders and further copies are available at the Tangent Communications plc registered office, Truscott House, 32–42 East Road, London N1 6AD.

independent review report by the auditors

to Tangent Communications plc

Introduction

We have been instructed by the company to review the financial information for the six months ended 31 August 2005, which comprises the group profit and loss account, the group balance sheet, the group cash flow statement and the related notes.

We have read the other information contained in the interim report and considered whether it contains any apparent misstatements or material inconsistencies with the financial information.

Directors' responsibilities

The interim report, including the financial information contained therein, is the responsibility of, and has been prepared and approved by, the directors. The interim report should be prepared on the basis that the accounting policies and presentation applied to the interim figures are consistent with those applied in preparing the preceding annual accounts except where there are any changes, and the reasons for them, are disclosed.

Review of work performed

We conducted our review in accordance with guidance contained in Bulletin 1999/4 issued by the Auditing Practices Board for use in the United Kingdom. A review consists principally of making enquiries of group management and applying analytical procedures to the financial information and underlying financial data and based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit performed in accordance with United Kingdom Auditing Standards and therefore provides a lower level of assurance than an audit. Accordingly, we do not express an audit opinion on the financial information.

Review conclusion

On the basis of our review we are not aware of any material modifications that should be made to the financial information as presented for the six months ended 31 August 2005.

UHY Hacker Young

Chartered accountants

Registered auditors

London

29 November 2005

tangent



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