



# highlights

## financial

	Six months ended 31 Aug 2006	Six months ended 31 Aug 2005	Change
Turnover	<b>£3,960,000</b>	£2,919,000	+36%
EBITDA*	<b>£699,000</b>	£323,000	+116%
Operating profit*	<b>£524,000</b>	£222,000	+136%
Operating profit* margin	<b>13%</b>	8%	+5%
Earnings per share*	<b>0.47p</b>	0.40p	+18%
Net profit before tax	<b>£176,000</b>	£10,000	+1,660%
Net cash	<b>£336,000</b>	£224,000	+50%

\* before goodwill and exceptional items

## operating

- ✎ Newly acquired Tangent Labs (formerly C360 UK) now integrated, rebranded and is already making a significant contribution to growing our business
- ✎ New markets entered include data analytics
- ✎ New online Toolkit system built for Wolseley Group plc and rolled out nationwide for its Build Center branches

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## overview

Tangent has continued to make progress in increasing its margin, profit and sales in the six months to 31 August 2006. As the number of clients using Tangent's proprietary technology increases so do our margins which, at an operating level have increased by 5 percentage points year on year to 13% from 8%.

In July 2006 we completed the acquisition of C360 UK and in September we rebranded this business as Tangent Labs. The business is now integrated into the group and has already made a positive contribution. The growing benefits of the acquisition will be seen through the expanded services which Tangent can now offer its client base, which reinforce the position of Tangent as a technology led organisation providing customised services direct to marketing departments and advertising agencies.

## our proprietary technology

The media for distribution of marketing content can be offline (print) or online (web, email and mobile). Tangent's commercial strategy is to drive the convergence of offline and online media. Our proprietary technology acts as a tool to deliver targeted messaging across multiple output channels including web, print, email and mobile. Within Tangent there are two proprietary platforms, Toolkit and TaoBase.

Toolkit is Tangent's technology platform for delivering targeted local point of sale material for the retail community. Multi-location retailers recognise that their outlets have different customer profiles, but also

recognise the importance of maintaining their brand integrity. Tangent's Toolkit system allows local retail managers to select appropriate marketing material from customisable templates which they access via a website. The template allows local flexibility while the pre-determined fields ensure that marketing material complies with centrally determined brand guidelines. On the website, digital files are proofed ordered and sent directly to Tangent where printed material is produced on digital presses and despatched, usually within 24 hours.

TaoBase is a database solution developed specifically for marketeers. With the ability to accept data sent from a variety of sources from web to keyed-in files, TaoBase creates rich content output in any channel, including websites, email, print and mobile, with a single reporting engine covering all applications. TaoBase enables easy re-purposing of assets and content as well as providing accurate return on investment tracking at every level of a campaign.

Within both our technology platforms sits a tracking and reporting tool which allows us to optimise the variable elements of a campaign. Highly customised and relevant marketing messages increase response rates and so increase the return on investment for our clients.

## St Ives

On 17 October 2006 Tangent confirmed that it had approached the board of St Ives with a proposal to make an offer for St Ives. Tangent

released a further announcement today confirming that it has now withdrawn its proposal.

## outlook

Growth in digital marketing continues to outperform traditional media and Tangent remains well placed to capitalise. Increased functionality within our core technology offerings combined with the new services available from the recently acquired Tangent Labs has resulted in great interest from our clients.

Since the half year there have been two significant launches. We launched a new menu building application for Greene King which is now generating revenue from over 900 different outlets. Initial research has shown an increase in revenue of 12% from all branches using the new Menu Builder option. For the Wolsley Group we have launched a new marketing system for the Build Center brand and have already seen usage rates over 75% in the first month across the 215 branches. Shortly this is going to be rolled out across the Plumb Center brand.

We would like to thank the whole Tangent team for their contribution and hard effort and we look forward to the future with confidence.

**Nicholas Green and  
Timothy Green**

3 November 2006

# consolidated profit and loss account for the six months ended 31 August 2006

	Notes	Unaudited Six months ended 31 Aug 2006 £000	Unaudited Six months ended 31 Aug 2005 £000	Audited Year ended 28 Feb 2006 (Restated) £000
<b>Turnover</b>				
Continuing		3,801	2,919	6,608
Acquisitions		159	—	—
		<b>3,960</b>	2,919	6,608
<b>Cost of sales</b>				
		<b>(2,112)</b>	(1,613)	(3,723)
<b>Gross profit</b>				
		<b>1,848</b>	1,306	2,885
Administrative expenses excluding goodwill amortisation and exceptional items		<b>(1,324)</b>	(1,084)	(2,259)
<b>Operating profit excluding goodwill amortisation and exceptional items</b>				
Continuing		478	222	626
Acquisitions		46	—	—
		<b>524</b>	222	626
Goodwill amortisation		<b>(159)</b>	(45)	(181)
Operating exceptional items	2	<b>(196)</b>	—	(161)
<b>Operating profit</b>				
Continuing		144	177	284
Acquisitions		25	—	—
		<b>169</b>	177	284
Non-operating exceptional items		—	(160)	(176)
Net interest		7	(7)	(6)
<b>Profit before tax</b>				
		<b>176</b>	10	102
Taxation	3	<b>(69)</b>	(2)	(16)
Profit for the period		<b>107</b>	8	86
<b>Basic earnings per share</b>				
	4			
Total operations		<b>0.11p</b>	0.02p	0.12p
Excluding goodwill amortisation and exceptional items		<b>0.47p</b>	0.40p	0.82p
<b>Fully diluted earnings per share</b>				
	4			
Total operations		<b>0.10p</b>	0.02p	0.11p
Excluding goodwill amortisation and exceptional items		<b>0.43p</b>	0.38p	0.77p

	Notes	Unaudited 31 Aug 2006 £000	Unaudited 31 Aug 2005 £000	Audited 28 Feb 2006 £000
<b>Fixed assets</b>				
Intangible assets	5	7,827	5,187	5,051
Tangible assets		739	641	516
		<b>8,566</b>	5,828	5,567
<b>Current assets</b>				
Stocks		90	82	98
Debtors		1,948	1,943	1,656
Cash at bank		695	388	922
		<b>2,733</b>	2,413	2,676
<b>Creditors:</b> amounts falling due within one year		<b>(1,497)</b>	(1,799)	(1,472)
<b>Net current assets</b>		<b>1,236</b>	614	1,204
<b>Total assets less current liabilities</b>		<b>9,802</b>	6,442	6,771
<b>Creditors:</b> amounts falling due after more than one year		<b>(249)</b>	(47)	(13)
<b>Provisions for liabilities and charges</b>		<b>(514)</b>	(60)	(32)
		<b>9,039</b>	6,335	6,726
<b>Capital and reserves</b>				
Share capital	6	1,118	951	951
Reserves	7	7,921	5,384	5,775
<b>Shareholders' funds</b>	8	<b>9,039</b>	6,335	6,726

# consolidated cash flow statement for the six months ended 31 August 2006

	Notes	Unaudited Six months ended 31 Aug 2006 £000	Unaudited Six months ended 31 Aug 2005 £000	Audited Year ended 28 Feb 2006 £000
<b>Net cash inflow from operating activities</b>	9	<b>334</b>	55	535
<b>Returns on investments and servicing of finance</b>				
Net interest received/(paid)		7	(7)	(6)
Taxation		—	—	(15)
<b>Capital expenditure</b>				
Purchase of tangible fixed assets		(395)	(3)	(54)
Receipts from sale of fixed assets		61	—	10
<b>Net cash outflow from capital expenditure</b>		<b>(334)</b>	(3)	(44)
<b>Acquisitions and disposals</b>				
Cash acquired with subsidiary		153	542	542
Purchase of subsidiary including costs		(635)	(229)	(229)
<b>Net cash (outflow)/inflow from acquisition and disposals</b>		<b>(482)</b>	313	313
<b>Net cash (outflow)/inflow before financing</b>		<b>(475)</b>	358	783
<b>Financing</b>				
Finance lease drawdown/(repayments)		238	(28)	(66)
Bank loan repaid		—	(4)	(9)
Exercise of share options		10	—	152
<b>Net cash inflow/(outflow) from financing</b>		<b>248</b>	(32)	77
<b>(Decrease)/increase in cash</b>		<b>(227)</b>	326	860

## 1 commentary on financial information

The results for the six month periods ended 31 August 2006 and 31 August 2005 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 2006 except as stated below.

The comparative figures for the year ended 28 February 2006 are, except as stated below, 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 2006 was unqualified.

From 1 March 2006 the group adopted FRS 20 which deals with share-based payments. The fair value of share options granted is spread over the period that the company benefits from that grant. The prior year comparative figures have been restated in accordance with the new standard. The effect of FRS 20 was to increase administrative expenses for the year ended 28 February 2006 by £29,000. The group's net assets and cash flow statement were unaffected.

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 operating exceptional items

The operating exceptional item is the share option charge arising under FRS 20. There is no underlying cash flow or financial liability associated with the charge and it does not reduce shareholders' funds.

## 3 taxation

The taxation charge has been calculated by applying the estimated effective tax rate for the current financial year ending 28 February 2007.

## 4 earnings per share

Earnings per share have been calculated by dividing the earnings 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 per share are calculated taking into account the potentially dilutive effect of share options.

	<b>Unaudited Six months ended 31 Aug 2006 £000</b>	Unaudited Six months ended 31 Aug 2005 £000	Audited Year ended 28 Feb 2006 (Restated) £000
Earnings excluding goodwill amortisation and exceptional items	462	200	590
Exceptional charge net of tax	<b>(196)</b>	(147)	(323)
Goodwill amortisation	<b>(159)</b>	(45)	(181)
Basic and diluted earnings	<b>107</b>	8	86
	<b>Number 000</b>	Number 000	Number 000
Weighted average number of ordinary shares in issue	<b>98,297</b>	50,484	71,561
Effect of dilutive options	<b>9,278</b>	1,476	5,211
Diluted weighted average number of shares in issue	<b>107,575</b>	51,960	76,772

# notes to the unaudited interim report

## 5 intangible fixed assets

	Goodwill £000
<b>Cost</b>	
At 1 March 2006	5,591
Addition	2,935
<b>At 31 August 2006</b>	<b>8,526</b>
<b>Amortisation</b>	
At 1 March 2006	540
Charge for the period	159
<b>At 31 August 2006</b>	<b>699</b>
<b>Net book values</b>	
At 31 August 2006	7,827
<b>28 February 2006</b>	<b>5,051</b>
31 August 2005	5,187

The addition to goodwill during the period arose from the acquisition of C360 UK Limited (subsequently renamed Tangent Labs) as follows:

	£000	£000
Fair value of net assets acquired		200
Cost of acquisition:		
Issue of shares at market value	2,000	
Cash paid	500	
Costs of acquisition	135	
Estimated future cash consideration	500	
		3,135
Goodwill on acquisition		2,935

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

## 6 share capital

	Number of shares 000	Share capital £000
At 1 March 2006	95,113	951
Shares issued on acquisition	16,667	167
<b>At 31 August 2006</b>	<b>111,780</b>	<b>1,118</b>

## 7 statement of movements on reserves

	Share premium account £000	Merger reserve £000	ESOP reserve £000	Other reserve £000	Profit and loss account £000	Total £000
At 1 March 2006 as previously stated	7,860	5,189	(4)	1,294	(8,564)	5,775
Prior year adjustment (FRS 20)	—	—	—	29	(29)	—
At 1 March 2006 as restated	7,860	5,189	(4)	1,323	(8,593)	5,775
Premium on issue of shares	—	1,833	—	—	—	1,833
Release of funds on distribution of shares	—	—	—	—	10	10
Share option charge (FRS 20)	—	—	—	196	—	196
Retained profit	—	—	—	—	107	107
<b>At 31 August 2006</b>	<b>7,860</b>	<b>7,022</b>	<b>(4)</b>	<b>1,519</b>	<b>(8,476)</b>	<b>7,921</b>

The prior year adjustment arises from adoption of FRS 20 as an accounting policy on share-based payments.

## 8 reconciliation of movements in shareholders' funds

	Unaudited Six months ended 31 Aug 2006 £000	Unaudited Six months ended 31 Aug 2005 £000	Audited Year ended 28 Feb 2006 (Restated) £000
Profit for the period	107	8	86
Shares issued for acquisition	167	550	550
Merger reserve arising from share issue	1,833	5,189	5,189
Release of funds on distribution of shares	10	—	152
Share option charge (FRS 20)	196	—	161
Net increase/(decrease) in shareholders' funds	2,313	5,747	6,138
Opening shareholders' funds	6,726	588	588
Closing shareholders' funds	9,039	6,335	6,726

## 9 reconciliation of operating profit to net cash inflow from operating activities

	Unaudited Six months ended 31 Aug 2006 £000	Unaudited Six months ended 31 Aug 2005 £000	Audited Year ended 28 Feb 2006 (Restated) £000
Operating profit	169	177	284
Share option charge	196	—	161
Non-operating exceptional items	—	(160)	(176)
Amortisation of goodwill	159	45	181
Depreciation charge	175	101	270
Profit on disposal of fixed assets	(56)	—	(3)
Decrease in stocks	8	23	7
(Increase)/decrease in debtors	(157)	95	383
Decrease in creditors and provisions	(160)	(226)	(572)
Net cash inflow from operating activities	334	55	535

# notes to the unaudited interim report

## 10 reconciliation of net cash flow to movement in net funds

	Unaudited Six months ended 31 Aug 2006 £000	Unaudited Six months ended 31 Aug 2005 £000	Audited Year ended 28 Feb 2006 £000
(Decrease)/increase in cash	(227)	326	860
Cash (inflow)/outflow from (increase)/decrease in debt	(238)	32	95
Movement in net debt resulting from cash flows	(465)	358	955
Non-cash movements:			
New finance leases	—	—	(20)
Finance leases acquired with subsidiary	—	(110)	(110)
Movement in net debt in the period	(465)	248	825
Opening net funds/(debt)	801	(24)	(24)
Closing net funds	336	224	801

## 11 analysis of changes in net funds

	1 Mar 2006 £000	Cash flows £000	Net funds acquired with subsidiary £000	31 Aug 2006 £000
Cash at bank	922	(380)	153	695
Finance leases	(121)	(238)	—	(359)
Net funds	801	(618)	153	336

## 12 further copies

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

We have been instructed by the company to review the financial information of the company and its subsidiaries ("the group") for the six months ended 31 August 2006, which comprises profit and loss account, balance sheet, cash flow statement, comparative figures and associated 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 approved by the directors. The directors are responsible for preparing the interim report in accordance with the AIM rules which require that the half-yearly report must be presented and prepared in a form consistent with that which will be adopted in the AIM company's annual accounts having regard to the accounting standards applicable to such annual accounts.

## **review work performed**

We conducted our review in accordance with guidance contained in Bulletin 1999/4 issued by the Auditing Practices Board. 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 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 2006.

## **UHY Hacker Young**

Chartered Accountants  
Registered Auditors  
London  
3 November 2006



**tangent communications plc**

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