



10/11





# TANGENT

COMMUNICATIONS PLC

## 2011 Annual Report & Accounts

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# Chairman's statement

## for the year ended 28 February 2011

Tangent's underlying pre-tax profits increased from £0.82m to £1.35m in the year ended 28 February 2011. On the same basis, Earnings per Share increased from 0.38p to 0.55p, an increase of almost fifty per cent. This was a good performance in what are still challenging economic conditions. Tangent's achievement in growing the business organically confirms the strategy of the business to be progressive in this fast moving marketing arena.

Tim's Chief Executive Statement explains in detail our achievements and ambitions. Tangent is in a good position to play an increasingly bigger role in the fast changing marketing business. Why would you want to spend hundreds of thousands of pounds on traditional mass advertising when ingenious technology solutions and ROI-centric campaigns can reach your target audience more efficiently? Although Tangent is relatively small, we have built our credibility by working for big and reputable organisations such as Carlsberg, SAP and Wolseley.

The proposed dividend of 0.2p per share is the same as last year. At the time of writing, the share price is above 5p, up from the low of 2p in March 2009 principally reflecting the improved financial performance. I have set this out so that our shareholders understand that although a Chairman is conventionally not expected to discuss the share price, I consider that there is no better metric for our performance to be judged. In my view, a Chairman has responsibility to help the management to deliver profits in an orderly manner and for the share performance to properly reflect the financial performance.

The Company may seek shareholder approval to grant the Company the ability to buy back its shares if the Board determines that the circumstances are appropriate. Shareholders however, should not assume that any such market purchase of shares will necessarily take place.

Tangent has made a number of organisational changes over the last year and Paul Murray left as a Non-executive Director in December. Tangent was very fortunate to have had such an expert on the Board for so long. However in Alan Smith, we have a hugely experienced businessman to help guide us.

Thank you to all our employees for their hard work in the year, particularly in the bad winter weather when travel to work, especially in 'Ravensworth country', must have been challenging.

I am confident that Tangent will continue to grow in the current year.

**Piers Caldecote**  
Non-executive Chairman  
10<sup>th</sup> June 2011



# 1.35m

Underlying operating profit (£)

# Chief Executive's statement & business review for the year ended 28 February 2011

## Business highlights

- Revenue increased by 23.1% to £22.39m (2009-10: £18.19m)
- Underlying operating profit<sup>1</sup>, increased by 64.6% to £1.35m (2009-10: £0.82m)
- Adjusted Earnings Per Share<sup>2</sup> 0.55p (2009-10: 0.38p)
- Cash generated from operations £1.83m (2009-10: £0.64m)
- Two year contract award with Carlsberg UK (live January 2011) and Carlsberg Group International for the provision of software and communications
- Three year contract award with the Labour Party to provide Membership services (live August 2010)
- Winner of B2B marketing award "Best use of data" – Snowball Insight team for Wolseley Build Center

<sup>1</sup> Underlying operating profit is defined as operating profit after share based payment charges before restructuring costs

<sup>2</sup> Adjusted EPS is calculated after share based payments before restructuring expenses net of tax

"Significant growth in annual profits and revenues has shown 2010-11 to have been an excellent year for Tangent with initial expectations exceeded. This was a year of growth, integration and delivery for us and we look forward to a continued strong performance in 2011-12 which has begun well; updates will be forthcoming through the year".

Tim Green, Chief Executive

We have achieved a strong year of organic growth and development of our core business lines. Sales are up, profits are up, new accounts secured and new product offerings invested in to secure our continued success. 2010-11 saw the first full year of trading since Tangent came to AIM without an acquisition; this has served the company well to ensure a year of organic growth, internal integration and delivery.


### Organic Growth

The focus on organic growth has been the strategic objective of the board throughout 2010-11. Revenues have grown to £22.4m an increase of 23% on the previous year; with significant contributions across the business. Revenues from established accounts continued to trend upwards as our

# 23.1%

Revenue increase



The focus on organic growth has resulted in a 65% increase in underlying operating profits over the previous year. 

engagements broadened across insight, software and communication services. These clients drove more activity than anticipated as market conditions in general improved or budgets increased due to the success of our projects. Fee revenue increased by 35% to £6.5m principally through a rise in e-commerce and behavioural insight engagements. Our estate agency market enjoyed growth of more than 10% as the number of property listings improved against previous year conditions. Focus on new business will accelerate; post this successful prioritisation of increasing contribution from existing accounts.

The focus on organic growth has also resulted in a 65% increase in underlying operating profits over the previous year. Our underlying operating margins have improved from 4.5% to 6.0%; including the bad debt suffered at the end of the year through the administration of Red Group Retail, in Australia, and the postage costs in relation to the General election campaigns. The increase in profits has come from the return we generate from operational gearing in our print facility and the increased proportion of software and insight revenues in the sales mix. We still enjoy sufficient capacity in our print facility for this trend to continue and our new business efforts continue to target a shift to a higher margin sales mix.

The support for higher revenues, broader services and product development increased overheads by 24.3%. 2010-11 has been a period of significant investment in staff, services and equipment. Our investment in equipment will ensure a lower cost of production for future e-print services and provide a basis for

provision of the highest quality, “best in class” product which will deliver competitive advantage in 2011-12 and greatly in 2012-13. Our investment in software from internal resource will ensure the capabilities of our platforms and applications (email, mobile and web, e-commerce) remain competitive. These investments may have impacted current margins, but we would expect to benefit from faster implementations and enhanced services to our future clients.

## Outlook

New business has started the year promisingly with a confirmed appointment with Tata Group to provide e-commerce services to the Indian market and our global roll out for Carlsberg under way. Our print revenues are expected to reduce against the previous year although the margin from revenues is likely to increase as the focus on quality digital print services takes priority over volume production. The seasonally strong first quarter period has started well although the extended Spring break has softened somewhat the daily returns in April.

2010-11 was a year of growth, integration and delivery which has ensured we have moved into the new financial year with a clear and promising future not only in respect of short term prospects but with significant value opportunities forthcoming. We would also expect growth in our key markets of software and e-print to include and embrace a strategy to include acquisition.

# 1.83m

Cash generated from operations (£)



## Business Review

### Integration

The focus has been to present a clear streamlined management structure and operation driven through two tightly defined units.

**1 Software and Communications** – 2010-11 has seen the integration of Tangent’s marketing and software business into the trading unit of Tangent One. The first step to integrate the existing online business was complete at the mid-point of 2010-11; the Board then began a process of integration between the digital and direct marketing arms of Tangent One and Snowball. These units have been operating as one since September 2010, which enables our clients to more easily embrace with the full range of services and software applications Tangent provides. All restructuring costs have been allocated during the financial year and we would not expect to see any further charges in 2011-12. The principal activities of this segment are software through the delivery of bespoke applications and licensing of our platforms and communications through our strategy, planning and services teams.

Tangent monitors customer behaviour through insight, strategy and the application of creative technology. Our Insight team challenges analysis generated through the receipt of behavioural data (voting, purchases and visits) from today’s fragmented media marketplaces. This insight provides the support for our strategic planning team to set out objectives for brand distribution, product development and ultimately the return on investment from activities. The implementation of our strategies relies on

technology to provide an efficient approach and successful delivery of brands to their customers. Through the delivery of Insight and Technology we soon identify and implement speedy and efficient routes to market.


**2 Design and Print** – 2010-11 has seen the integration of Tangent’s print business into the trading unit of Ravensworth. The services of on demand and electronic demand design and print services (e-print) are driven through our market leading digital facility in Newcastle. There remains some restructuring costs to be endured during the coming financial year as this process is completed. Ravensworth has over 20 years of experience in the arena of digital print production. This experience has ensured throughout the period of transition, from on-demand to e-demand, our service and delivery has been maintained at the highest levels. The breadth of technological engagements we now offer for consumer, B2B and corporate engagements ensures we have a mix of cost and dependency models which can respond to the requirements of the growing “print on demand” marketplace both in the UK and abroad.

There still remains some cross-over between the two revenue units whereby our Communications utilise Design and Print services and similarly e-print is dependent on our software provision.

### Delivery

2010-11 has also been a year of substantial delivery for Tangent. The start of the year saw the culmination of a five year



2010-11 saw the growth and establishment of our award winning data insight team... 

engagement with the Labour Party where Tangent provided software and services right across the range of tactics and engagements to run a General election campaign. Whilst not victorious in the final result, the performance exceeded expectations and the campaigning was viewed very much as a success. The hard work of a significant number of our staff was involved and the Board would like to thank all our staff for their endeavours throughout the year.

2010-11 saw the award of the Labour Party Membership contract in a competitive pitch. This service was launched in August 2010 and will run for a minimum three year period. A new team has been set up in our Newcastle facility to run the financial support for the 100,000's of Labour Party members. The bespoke platform built by our web development team, on open source Web 2.0 is state of the art. We can now provide payment processing services which we expect to see as a growth opportunity engagement with mid-market size membership services for unions, clubs and associations.

2010-11 saw the growth and establishment of our award winning data insight team. Led by the Wolseley account team, our insight and campaign services received award winning industry recognition in the B2B marketing arena. The growth of B2B and B2C customer behaviour management since the acquisition and integration of Snowball with Tangent Direct continues at a great pace and our growing reputation can derive great benefit in future periods.

2010-11 saw the appointment of Tangent to provide services to Carlsberg UK. More recently this appointment has been broadened to implement their global marketing software platform initially across four countries with 80+ potential installations. This illustrates how far forward Tangent has moved from what traditionally had been lengthy sales cycles with clients resistant to commit to large programs without significant periods of testing. Now Tangent is credible to deliver immediate systems and services to large corporations. We look forward to a long and successful engagement with Carlsberg UK and Global and will report further on this progress during the year.

2010-11 saw a significant return of activity in the estate agency sector. The number of active branches increased by 10% and daily order values by 16%. Our market position continues to strengthen with a number of new installations and a broader range of services embraced by a range of customers.

## People

2010-11 saw the appointment of Kevin Cameron to the board as Finance Director and Alan Smith as Non-executive Director. Kevin brings his experience of managing one of our operating units, Ravensworth, to the Board and has provided an excellent contribution in his first year. Tangent now employs 234 people across offices in London, Newcastle, Cheltenham and Melbourne all offering great passion and creativity; I would like to thank them all for their dedication in 2010-11.



**Timothy Green**  
Chief Executive  
10<sup>th</sup> June 2011



# Services overview :

## Software & Communications

**01**

*A recognised leader in digital technologies, creative and marketing strategy.*

**02**

*A broad range of clients from different sectors and industries, which we service locally, nationally and globally.*

**03**

*Tangent has over 100 employees in four locations working in digital technologies and marketing.*




## Our Services

*Using digital channels, we help our clients build brands and make money from strategy and insight through to delivery.*

*Some of our services are listed right:*



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or visit  
[www.tangentplc.com](http://www.tangentplc.com)

### Marketing Software

- Advertising* •
- Digital Asset Management* •
- Database Management* •
- Web creation* •
- eShop* •

### E-commerce

- Third Party integrations* •
- Customer Service* •
- ERM* •
- Mobile* •

### Communications

- Strategy & Planning* •
- Insight & Performance* •
- Creative* •

# Services overview :

## Digital Print

### Sales Channels

- Search
- PPC
- Affiliates

### Ordering Platform

#### e-print

*E-commerce retail environment*



5,000+ Individual Customers

27,000+ Existing Users

### Digital Print Facility

6,000,000 A4 pages per month



55,000+ orders per month

- Sales Team
- Reputation
- Marketing / PR

#### B2B

*Branded intranet/extranet ordering sites*



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[www.tangentplc.com](http://www.tangentplc.com)

## Output Type

### Point of Sale

- Posters
- Banners
- Wallpaper

### Stationery

- Business Cards
- Flyers

### Personalised Products

- Cards
- Letters
- Images

*Award winning  
digital print  
facility* 



# Financial review

## for the year ended 28 February 2011

Tangent is pleased to report an increase in both revenues and underlying operating profit for the year to 28 February 2011.

Revenue from our business units continued to grow and sales mix continued to improve with both gross and net operating margin up on the prior year.

For the year ended 28 February 2011 all central costs, with the exception of those relating to the company's stock market listing and Non-executive Directors, have been consolidated into the revenue generating units. This presentation differs from that adopted in the 2010 annual report and therefore the disclosures in respect of that year included herein have been amended to reflect the change in central cost consolidation. The change does not have any impact on previously reported consolidated profits, net assets or earnings per share of the group.

### Key Performance Indicators

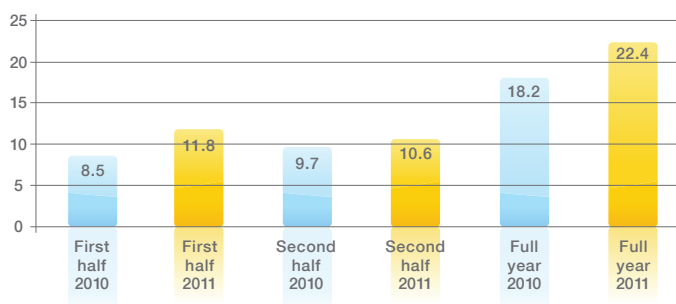
We manage Tangent's business using KPI's which measure underlying performance, excluding restructuring and non-operating expenses. The board monitor these KPI's on a continuing basis to deliver shareholder value.

- Revenue increased by 23.1% to £22.39m (2009-10: £18.19m)
- Underlying operating profit, increased by 64.6% to £1.35m (2009-10: £0.82m)
- Underlying operating margin increased to 6.0% (2009-10: 4.5%)
- Diluted basic earnings per share were 0.43p (2009-10: 0.16p)
- Cash generated from operations £1.83m (2009-10: £0.64m) representing 135% of underlying operating profit (2009-10: 78%)

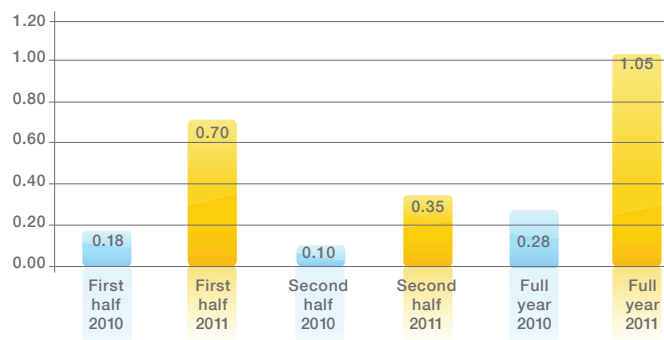
### Trading Performance

Revenues increased by 23.1% to £22.39m, (2009-10: £18.19m) with increased contributions coming from across the business. Tangent's changing sales mix together with operational gearing, following growth across our business units, led to an increase in gross margin of 1.9% to 49.0% (2009-10: 47.1%). Gross profits were 28% higher at £10.97m (2009-10: £8.57m). These more than covered the increase in

Revenue (£m)



Operating Profit (£m)



# Adjusted earnings per share increased by 45% to 0.55p

operating expenses resulting in underlying operating profits rising by 64.6% to £1.35m (2009-10: £0.82m). Adjusted EPS, calculated after share-based payments and before restructuring expenses net of tax, provides a consistent measure of performance that excludes non-operating expenses. Adjusted EPS increased by 45% to 0.55p per share (2009-10: 0.38p, during this year Tangent had no tax charge).

## Direct

During the year revenues from Direct increased by 26.8% to £17.59m (2009-10: £13.87m). The organic growth was driven by an increase in the range of services and projects undertaken. Underlying operating profit increased by 134%, with an underlying operating margin of 8.6%. The increase in margin was a result of an improved sales mix generated on a growth in higher margin consultancy projects together with operational gearing as Tangent revenues continue to grow.

## Online

As Tangent's business develops, client requirements are becoming increasingly reliant on technology. Our business segments are therefore becoming ever more integrated and the overhead in our online division increasingly supports the entire proposition rather than this one business segment. Revenue from Online increased by 11%. However the continued investment in staffing and infrastructure required to continue the development of Tangent's underlying technology led to an increase in operating overheads resulting in operating profits of £0.1m (2009-10: £0.41m).

## Operating Expenses

During the year operating expenses increased by £1.87m from £7.73m in 2010 to £9.60m as Tangent continued to expand its activities and revenues;

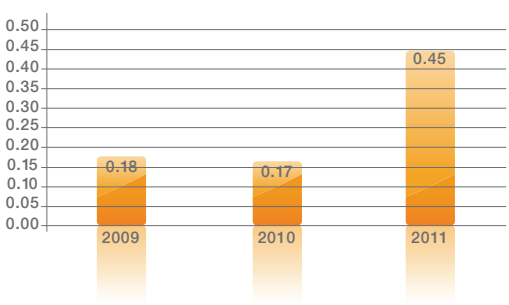
- £1.4m of the increase related to staff costs as average head count increased by 43 over the period, including a full year of the Snowball staff acquired in 2009 and investment in our software development, client and service support teams.
- The charge in respect of bad debts increased by £0.17m, mainly as a result of the administration of Red Group Retail in Australia.
- During the year Tangent increased spend on new business and marketing activities by £0.1m.

## Business Segments

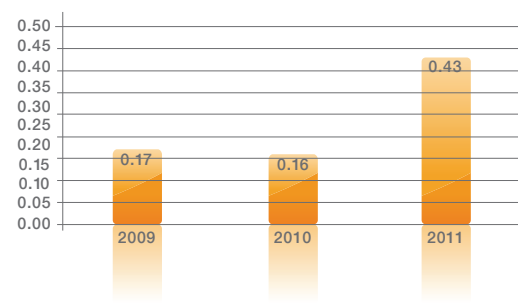
Tangent's business is developing continually. The Board reviews the make-up of the business segments to ensure they accurately reflect the operational reality of the business. During 2010-11 we reported on three segments:

- **Direct:** this segment included the digital printing units and Snowball, our direct marketing business.
- **Online:** this segment included online marketing and software.
- **Central:** this segment included the costs of Non-executive Directors, maintenance of Tangent's stock market listing, general professional advice and share-based payment charges.

Basic EPS (pence)



Diluted EPS (pence)



Over the year the sales mix in direct marketing has continued to develop with an increasing level of higher margin consultancy revenues reliant upon the technology being developed within Tangent. This sales line is increasingly supported by the resources within the Online business segment and, from September 2010, the direct and online marketing arms have been operating as one.

In order to more accurately reflect the operational reality and provide greater clarity, as from 1 March 2011 the reporting segments have been amended as follows:

- Software and Communications combining Tangent One, Tangent Labs and Snowball.
- Design and Print combining the Ravensworth, On demand and e-print businesses.
- PLC, this segment includes the costs of Non-executive Directors, maintenance of Tangent's stock market listing, general professional advice and share-based payment charges.

Presenting the segments as above will ensure that the revenues generated are matched more closely with the resources required for delivery.

### **Group restructuring and non-operating expenses**

During the year Snowball and Tangent One have become increasingly integrated, and as such, the Board instigated the formal integration of the business development and account

management teams within these units. In addition to this, further consolidation of Tangent's print revenues into its Newcastle site was undertaken. Both of these restructuring efforts resulted in redundancy and termination costs. As these costs do not form part of the normal operating expenses of Tangent they have been included within non-operating expenses.

The Board believes that it is in the interest of both shareholders and the Company for Tangent to have the ability to purchase its own equity. To that end professional advisors have been engaged to prepare the necessary documentation that would enable the Board, when it is determined that it is appropriate, to proceed with such transactions. As these costs do not form part of the normal operating expenses of Tangent they have been included within non-operating expenses.

### **Share based payment charges**

Share based payment charges for the year ended 28 February 2011 amounted to £0.02m (2009-10: £0.02m) and represents the fair value of options granted. As in 2010 this charge has been included within underlying operating profit.

### **Taxation**

The charge of £0.28m (2009-10: £nil) equates to 26.5% of profit before tax. The charge differs from the standard corporation tax rate of 28% as the group has expenses that are not deductible for tax purposes and has recognised the value of its deferred tax assets at 28 February 2011 part of which relates to prior years.



Net funds increased by £0.79m



## Earnings

Profit for the year, after tax, was £0.77m (2009-10: £0.28m) equating to basic earnings per share of 0.45p (2009-10: 0.17p) and diluted earnings per share of 0.43p (2009-10: 0.16p).

## Cash Flow

Cash flow from operations was £1.83m (2009-10: £0.64m) and tracked 35% ahead of underlying operating profit and 73% ahead of operating profit. Depreciation and amortisation charges of £0.73m were the main reason for such high cash generation relative to operating profit.

The major items included within the consolidated cash flow statement are as follows:-

- Tax payments were £0.1m (2009-10: £0.19m).
- Capital expenditure of £0.9m was spent substantially on the acquisition of digital printing and finishing equipment and IT infrastructure.
- Dividends of £0.35m were paid, a new finance lease amounting to £0.37m was raised during the year on the acquisition of a digital printing press and £0.06m of finance leases were repaid.
- Over the period net funds increased by £0.79m to £1.93m (2009-10: £1.14m).

## Balance Sheet

Net assets increased by £0.52m to £20.09m (2009-10: £19.57m). The major movements related to the provision of £0.3m in additional consideration for the acquisition of Snowball, completed in 2009, the new finance lease and cash generation as noted above. At 28 February 2011 current assets exceeded current liabilities by £2.2m.

## Dividends

The Board believes that paying a dividend is an important part of providing total shareholder return. To that end we will recommend that the dividend is maintained at 0.2p per share (2009-10: 0.2p) at the Annual General Meeting payable on 21 September 2011 to shareholders registered on 9 September 2011.

## Treasury, Funding and Exchange Risk

Tangent finances its operations through funds raised from shareholders, retained earnings and finance lease borrowings. In addition the group has a variable rate £1m overdraft facility which has rarely been used. Regular reports on cash balances and borrowings are provided to the board.

The majority of Tangent's trade is conducted in Sterling although a material amount is denominated in Euros and Australian Dollars. The directors monitor exposure and where possible match Euro and Australian Dollar denominated revenues and expenditure to mitigate foreign exchange risk.

**Kevin Cameron**  
Finance Director  
10<sup>th</sup> June 2011





# Intelligent Marketing & Technology<sup>SM</sup>

# Governance

## Board of directors and advisors

### Piers Caldecote

Non-executive Chairman (age 64)

Piers was an associate director at Carlton Communications PLC between 1990 and 2004 covering strategy, mergers and acquisitions. Prior to that, he worked in the city as an investment analyst, latterly for Chase Manhattan Securities.

### Timothy Green

Chief Executive Officer (age 35)

Prior to joining Tangent, Timothy was a founding partner at Internet firm Unanimis which was more recently sold to France Telecom. Prior to this Timothy was part of the Ask Jeeves launch team in the UK. Tim is a graduate of Nottingham University.

### Nicholas Green

Executive Director (age 38)

Prior to joining Tangent, Nicholas worked at Advertising.com as European sales and marketing director. The company specialised in performance based marketing and was successfully sold to AOL in 2004 for \$439m. Prior to Advertising.com, Nicholas worked at Teletext for seven years.

### Kevin Cameron

Finance Director (aged 42)

Kevin was formerly the finance director and joint managing director of Ravensworth Digital Services Limited, acquired by Tangent in March 2007. He is an FCCA and qualified with Tait Walker, a large independent North East practice.

### Alan Smith

Non-executive Director (age 70)

Alan has extensive quoted company experience having held a number of senior positions, notably with Kingfisher PLC, Marks and Spencer PLC and Mothercare PLC. He currently acts as a Non-executive Director for a number of companies including Colefax Group PLC, Space NK Limited and Martin McColl Retail Group.

### Secretary

**Kevin Cameron**

### Registered office

84-86 Great Portland Street  
London W1W 7NR

### Company registration number

3967805

### Nominated adviser and broker

**Collins Stewart Limited**

88 Wood Street  
London EC2V 7QR

### Bankers

**HSBC Bank plc**

60 Queen Victoria Street  
London EC4N 4TR

### Auditors

**UHY Hacker Young LLP**

Quadrant House  
4 Thomas More Square  
London E1W 1YW

### Registrar

**Capita Registrars**

The Registry  
34 Beckenham Road  
Beckenham  
Kent BR3 4TU

### Solicitors

**Pinsent Masons LLP**

30 Crown Place  
London EC2A 4ES

# Directors' report

## for the year ended 28 February 2011

The directors present their report and audited financial statements of the group for the year ended 28 February 2011.

### Principal activity and review of the business

The principal activity of the group is the provision of marketing software and services. A review of the business, its future development and its key performance indicators can be found in the chief executive's review and the financial review.

### Results and dividends

The consolidated profit for the year after tax amounted to £773,000. The directors recommend the payment of a dividend of 0.2p per ordinary share to be paid on 21 September 2011 to shareholders on the register at the close of business on 9 September 2011. Further information on the group's results and financial position is included in the financial review.

### Company listing

Tangent is listed on the Alternative Investment Market (AIM) of the London Stock Exchange. The market code for the company is TNG. Information required by AIM Rule 26 is available in the investor relations section of Tangent's website at [www.tangentplc.com](http://www.tangentplc.com).

### Directors' interests

At 28 February 2011 the directors' shareholdings were as follows:

#### Ordinary shares of 1p each

	28 February 2011	28 February 2010
Piers Caldecote	1,500,000	1,500,000
Kevin Cameron	696,250	696,250
Nicholas Green	2,730,770	2,730,770
Timothy Green	2,730,770	2,730,770
Alan Smith	500,000	—

Directors' interests in share options are set out in the remuneration report on pages 25 to 27.

### Capital structure

Details of the authorised and issued share capital of the company, together with details of movements in the company's issued share capital during the year, is shown in note 25.

Details of employee share schemes are set out in note 26. Shares held by the Tangent Communications plc Employee share ownership trust abstain from voting.

### Directors

During the financial year the following directors held office:

Piers Caldecote

Nicholas Green

Timothy Green

Greg Jackson (resigned 28 August 2010)

Paul Murray (resigned 21 December 2010)

Kevin Cameron (appointed 8 June 2010)

Alan Smith (appointed 8 June 2010)

Nicholas Green retires by rotation at the next annual general meeting and, being eligible, offers himself for re-election.

## Substantial shareholdings

The directors are aware of the following shareholdings of 3% or more of the issued share capital of the company at 27 May 2011.

Beneficial holder	Ordinary shares of 1p each	% of issued Ordinary Share Capital
Michael Green	53,076,924	30.4%
ISIS EP LLP	17,923,077	10.3%
Unicorn Asset Management	15,696,354	9.0%
Hargreave Hale	11,323,680	6.5%
Herald Investment Management	5,846,154	3.3%

## Suppliers payment policy

It is the group's policy that payments to suppliers are made in accordance with those terms and conditions agreed between the group and its suppliers, provided that all trading terms and conditions have been complied with. At 28 February 2011, the group had an average of 58 days (2010: 60 days) of purchases outstanding in trade creditors.

## Employees

The group recognises the benefit of keeping its employees informed of all relevant matters on a regular basis. The group is an equal opportunities employer and all applications for employment are considered fully on the basis of suitability for the job.

## Use of financial instruments

Information about the use of financial instruments by the company and its subsidiaries is given in note 24 to the financial statements.

## Key risks and uncertainties

The key risks and uncertainties for the group are identified as exposure to the residential property market, exposure to bad debts and the effects of larger technology companies replicating some of Tangent's innovations.

## Going concern

After making appropriate enquiries and examining those areas which could give rise to financial exposure, the directors are satisfied that no material or significant exposures exist and that

the group has adequate resources to continue its operations for the foreseeable future. For this reason, the directors continue to adopt the going concern basis in preparing the group's financial statements.

## Donations

During the year the group made charitable donations of £1,000 (2009: £6,000), and a political donation to The Labour Party of £10,000 (2010: £8,000).

## Auditors

Each of the persons who is a director at the date of approval of this annual report confirms that:

- so far as the directors are aware, there is no relevant audit information of which the company's auditors are unaware; and
- the directors have taken steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the auditors are aware of that information.

UHY Hacker Young have expressed their willingness to continue in office as auditors and a resolution to reappoint them will be proposed at the forthcoming Annual General Meeting.



**Kevin Cameron**

Finance Director  
10<sup>th</sup> June 2011

# Directors' responsibilities

## for the year ended 28 February 2011

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the group and parent company financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and have also chosen to prepare the parent financial statements under IFRSs as adopted by the European Union. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and the company and of the profit or loss of the group for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable IFRSs as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and the group and enable them to ensure that the financial statements and the

director's remuneration report comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the company's website and legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

### Directors' responsibility statement

Each of the directors, whose names and functions are listed on page 19 confirm that, to the best of each person's knowledge and belief:

- the financial statements, prepared in accordance with IFRSs as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit or loss of the group and company; and
- the directors' report contained in the annual report includes a true and fair review of the development and performance of the business and the position of the company and group, together with a description of the principal risks and uncertainties that they face.

By order of the board



**Timothy Green**  
Chief Executive  
10<sup>th</sup> June 2011



# Corporate governance statement

## for the year ended 28 February 2011

### Statement of compliance

Although AIM listed companies are not required to report on the Combined Code (“the Code”), the directors are committed to proper standards of corporate governance and will continue to keep procedures under review.

### Board and board committees

The constitution of the board of directors during the year is detailed in the directors’ report on page 20 to 21. The full board manages overall control of the group’s affairs by the schedule of matters reserved for its decision. These include the approval of financial statements, acquisitions and disposals, authority levels for expenditure and review of monthly and other management reports. The chairman will continue to review the skills and balance of the board as the group grows.

The directors are able to take independent professional advice in the furtherance of their duties at the company’s expense and all directors have access to the advice and services of the company secretary.

The board considers its Non-executive Directors to be independent. An independent director is one who has no relationship with the company or its management which may undermine independence and who is not dependent on the company or its management for his primary source of income, was not within the last three years a senior manager of the company and does not participate in the company’s incentive bonus scheme or pension schemes.

The board delegates day to day and business management control to the executive directors who are in regular contact with each other. Formal decisions are communicated throughout the group. The executive directors are responsible for implementing group policy, the monitoring and performance of the business and reporting to the full board thereon.

The company has an audit committee, whose terms of reference cover the points recommended by the Code. Its duties include monitoring internal financial control throughout the group, approving the group’s accounting policies and reviewing the half

year and annual financial statements before submission to the board. Piers Caldecote is chairman of the audit committee and Alan Smith is the other member.

The company has a remuneration committee of which Alan Smith is chairman and Piers Caldecote is the other member.

All executive directors have rolling service contracts with the company terminable on twelve months’ notice from the company and by six months’ notice by the director. Non-executive Directors agree a letter of appointment terminable on six months’ notice by each party.

Following their first appointment to the board, the terms of the articles of association require all directors to retire and stand for re election at the earliest opportunity. Under the articles of association all directors are required to retire once every three years.

The nominations committee comprises all directors and is chaired by Piers Caldecote.

### Relationship with shareholders

The directors consider the clear and timely communication of information to shareholders as an important part of their duties. The chief executives’ review and financial review provide a summary of the group’s trading performance and future outlook. The group’s website ([www.tangentplc.com](http://www.tangentplc.com)) also gives shareholders access to additional information. Furthermore, twice a year, the group’s financial results are published, in conjunction with briefings for investment managers and institutional analysts following the company’s interim and preliminary full year announcements, and at other ad hoc times.

The board views the annual general meeting as an opportunity to communicate with both institutional and private investors alike and aims to comply with all the provisions of the Code relating to the constructive uses of annual general meetings. The directors intend to be present and available to answer questions at this year’s annual general meeting.

# Corporate governance statement for the year ended 28 February 2011

## Accountability and financial control

The board has overall responsibility for the systems of financial control. Implementation and maintenance of the financial control systems is the responsibility of executive management. The board, through the audit committee, has reviewed the effectiveness of the systems of internal financial control for the accounting year, and the period to the date of approval of the financial statements. It should be understood, however, that such systems are designed to provide reasonable but not absolute assurance against material misstatement or loss.

The company has an established framework of internal financial controls, the key features of which are as follows:

## Control environment

There are clearly defined organisational responsibilities and the board is committed to employing suitably qualified staff so that the appropriate level of authority can be delegated with regard to accountability and acceptable levels of risk.

## Information systems

The group operates a number of separate systems of financial and operational reporting to the board and senior management, based upon an annual budget and regular forecasts. Monthly, weekly and other periodic reports of actual results (financial and non financial) together with key performance indicators are produced and discussed by the directors.

## Identification and evaluation of business risks and controls

Management control is exercised at all levels of the group and is regulated by appropriate limits of authority. The directors have considered various areas of business risks and have developed appropriate policies to manage and diffuse those risks. These policies are reviewed in the light of known and perceived changes to the risks.

## Quality and integrity of personnel

The group attaches high importance to the values of trust, honesty and integrity of personnel in responsible positions and operates a policy of recruiting and promoting suitably experienced personnel with clearly defined accountabilities.

## Investment appraisal

All major capital expenditure is included in the annual budget and is reported on to the board. In addition, all potential and actual acquisition opportunities are regularly reviewed by the board, both in meetings and by ad hoc reports.

## Monitoring

Given the size of the group and the close day to day involvement of the executive directors in all of the group's locations, no formal internal audit is considered necessary.



**Piers Caldecote**  
Non-executive Chairman  
10<sup>th</sup> June 2011



**Timothy Green**  
Chief Executive  
10<sup>th</sup> June 2011

# Remuneration report

## for the year ended 28 February 2011

### Introduction

The policy of the group is to offer competitive remuneration packages that will attract, retain and motivate experienced and talented individuals who will enhance the value of the group. The remuneration packages of the executive directors are reviewed and approved by the remuneration committee on an annual basis. The remuneration policies aim to incentivise and reward both short term financial performance and also shareholder value creation. The remuneration of other employees is the responsibility of the chief executive.

### Remuneration of the directors

Executive directors are paid a basic salary and receive benefits in kind. The remuneration of non executive directors requires approval by the board. Individual directors are not permitted to participate in decisions concerning their own remuneration.

The structure of executive directors' remuneration was reviewed at the beginning of the year and the remuneration elements are as follows:

- a base salary, pension and benefits in kind are set at a competitive level and reflect the remuneration packages paid by companies of a similar size and in similar sectors;
- an annual cash bonus of up to 50% of basic salary is payable depending upon achievement of challenging financial performance targets set at the beginning of each financial year. The purpose is to incentivise on the short term financial performance of the group; and
- a long term incentive plan (LTIP) under which share options with an intrinsic value up to 50% of basic salary per year are awarded to directors which vest over a three year period depending upon the achievement of challenging goals based on total shareholder return over the period. The purpose is to incentivise delivery of long term value and to align interests with shareholders.

Audited remuneration of directors for the year under review was as follows:

		Salary £000	Bonus £000	2011 Total £000	2010 Total £000
Piers Caldecote		21	—	21	21
Kevin Cameron	(appointed 8 June 2010)	64	26	90	—
Nicholas Green		124	41	165	125
Timothy Green		123	41	164	122
Greg Jackson	(resigned 28 August 2010)	50	—	50	100
Paul Murray	(resigned 21 December 2010)	18	—	18	21
Alan Smith	(appointed 8 June 2010)	22	—	22	—
		<b>422</b>	<b>108</b>	<b>530</b>	<b>389</b>

In addition to the remuneration stated in the table above, pension contributions of £9,000 (2010: £9,000) were made to defined contribution schemes for the benefit of each of the executive directors Nicholas Green and Timothy Green and £1,000 (2010: £nil) for the benefit of Kevin Cameron.

Remuneration is stated for the period during which each director served. The audited directors' remuneration is all classified as short term employment benefits under International Accounting Standard 24.

The share based payment charge in respect of options granted to each of Nicholas and Timothy Green during the year was £2,000 and £1,000 in respect of Kevin Cameron.

# Remuneration report

## for the year ended 28 February 2011

### Share options

The company operates three share option schemes by which employees, including executive directors, are able to acquire shares, comprising an Inland Revenue approved scheme (The Approved Scheme), an unapproved scheme (The Unapproved Scheme), and an Enterprise Management Incentive scheme (The EMI Scheme). At 28 February 2011 5,000 (2010: 5,000) options had been granted to employees under the Approved Scheme, 9,378,966 (2010: 10,502,731) under the Unapproved Scheme and 4,582,934 (2010: 4,582,934) under the EMI Scheme. In total, 13,966,900 options had been granted at 28 February 2011 which represents 8% of the issued number of shares.

The share options held by directors who served during the year were as follows:

	Note	Exercise price	At 1 March 2010	Granted in year	Lapsed In year	At 28 February 2011
Nicholas Green	(a)	1p	2,500,000	—	—	2,500,000
	(b)	5p	2,500,000	—	—	2,500,000
Timothy Green	(a)	1p	2,500,000	—	—	2,500,000
	(b)	5p	2,500,000	—	—	2,500,000
Greg Jackson	(c)	1p	272,975	—	(272,975)	—
	(d)	1p	1,506,024	—	(1,506,024)	—
Kevin Cameron	(e)	1p	—	655,234	—	655,234
			<b>11,778,999</b>	<b>655,234</b>	<b>(1,778,999)</b>	<b>10,655,234</b>

(a) Options granted on 27 September 2005 which have vested in full are exercisable between 27 September 2008 and 26 September 2015.

(b) Options granted on 27 September 2005 which have vested in full are exercisable between 27 September 2008 and 26 September 2015.

(c) Options granted on 6 August 2008 under the 2008 LTIP which vest and become exercisable between 1 March 2011 and 6 August 2013. At 28 February 2011 no options had vested under the 2008 LTIP.

(d) Options granted on 31 March 2009 under the 2009 LTIP which vest and become exercisable between 1 March 2010 and 31 March 2014. At 28 February 2011 no options had vested under the 2009 LTIP.

(e) Options granted on 8 November 2010 under the 2010 LTIP which vest and become exercisable between 1 March 2013 and 8 November 2015 dependent on the achievement of total shareholder return of 10% per annum above the total shareholder return of the AIM Index excluding certain unrelated sectors. At 28 February 2011 no options had vested under the 2010 LTIP.



In addition to the share options above the following phantom options have been issued which will result in a cash bonus being paid, subject to the relevant performance criteria being met. In all cases the board retains the right to satisfy the options in shares rather than through a cash bonus.

	Note	Exercise price	At 1 March 2010	Granted in year	At 28 February 2011
Nicholas Green	(a)	1p	415,279	—	415,279
	(b)	1p	522,066	—	522,066
	(c)	1p	1,728,163	—	1,728,163
	(d)	1p	—	1,018,491	1,018,491
Timothy Green	(a)	1p	415,279	—	415,279
	(b)	1p	522,066	—	522,066
	(c)	1p	1,728,163	—	1,728,163
	(d)	1p	—	1,018,491	1,018,491
			<b>5,331,016</b>	<b>2,036,982</b>	<b>7,367,998</b>

(a) Options granted on 25 June 2007 under the 2007 LTIP which vest and become exercisable between 1 March 2010 and 25 June 2012. At 28 February 2011 no options had vested under the 2007 LTIP.

(b) Options granted on 6 August 2008 under the 2008 LTIP which vest and become exercisable between 1 March 2011 and 6 August 2013. At 28 February 2011 no options had vested under the 2008 LTIP.

(c) Options granted on 31 March 2009 under the 2009 LTIP which vest and become exercisable between 1 March 2010 and 31 March 2014. At 28 February 2011 576,054 options had vested under the 2009 LTIP.

(d) Options granted on 8 November 2010 under the 2010 LTIP which vest and become exercisable between 1 March 2013 and 8 November 2015 dependent on the achievement of total shareholder return of 10% per annum above the total shareholder return of the AIM Index excluding certain unrelated sectors. At 28 February 2011 no options had vested under the 2010 LTIP.

The share based payment charge for options and phantom options granted to directors was £10,000 for the year ended 28 February 2011.

**Alan Smith**

Non-executive Director  
10<sup>th</sup> June 2011

# Independent auditors' report to the shareholders of Tangent Communications plc

We have audited the financial statements of Tangent Communications plc for the year ended 28 February 2011 which comprise the Consolidated statement of comprehensive income, the Consolidated and Parent Company balance sheets, the Consolidated and Parent Company statements of changes in equity, the Consolidated and Parent Company statement of cash flows and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. 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 auditor's 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

As explained more fully in the Directors' responsibilities statement, set out in page 22, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

## Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the APB's website at [www.frc.org.uk/apb/scope/private.cfm](http://www.frc.org.uk/apb/scope/private.cfm)

## Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 28 February 2011 and of the Group's profit for the year then ended;
- the financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

## Opinion on other matters prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

## Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Parent company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.



**Colin Wright (Senior Statutory Auditor)  
For and on behalf of UHY Hacker Young**

Chartered Accountants and Statutory Auditors  
Quadrant House  
4 Thomas More Square  
London E1W 1YW

10<sup>th</sup> June 2011

## Consolidated statement of comprehensive income for the year ended 28 February 2011

	Notes	2011 £000	2010 £000
<b>Revenue</b>		<b>22,394</b>	18,185
Cost of sales		(11,426)	(9,620)
<b>Gross profit</b>		<b>10,968</b>	8,565
Operating expenses	6	(9,600)	(7,726)
Share-based payment charge	26	(17)	(19)
<b>Underlying operating profit</b>		<b>1,351</b>	820
Group restructuring expense	4	(297)	(542)
<b>Operating profit</b>	6	<b>1,054</b>	278
Investment income	9	—	9
Finance costs	10	(2)	(5)
<b>Profit before tax</b>		<b>1,052</b>	282
Tax	11	(279)	—
<b>Profit for the year</b>		<b>773</b>	282
<b>Other comprehensive income</b>			
Exchange differences on translating foreign operations		4	2
<b>Total comprehensive income for the year</b>		<b>777</b>	284
<b>Earnings per share (pence)</b>			
	12		
Basic		<b>0.45</b>	0.17
Diluted		<b>0.43</b>	0.16

The results shown above relate entirely to continuing operations and are attributable to equity shareholders of the company.

## Consolidated statement of changes in equity for the year ended 28 February 2011

	Notes	Share capital £000	Share premium £000	Merger reserve £000	Other reserves £000	Retained earnings £000	Total equity £000
<b>At 28 February 2009</b>		1,702	—	917	2,837	14,132	19,588
<b>Comprehensive income:</b>							
Profit for the year		—	—	—	—	282	282
Other comprehensive income		—	—	—	—	2	2
<b>Total comprehensive income</b>		<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>284</b>	<b>284</b>
<b>Transactions with owners:</b>							
Dividend	13	—	—	—	—	(338)	(338)
Credit to equity for equity-settled share based payments	26	—	—	—	19	—	19
Issue of shares	25	4	12	—	—	—	16
<b>Total transactions with owners</b>		<b>4</b>	<b>12</b>	<b>—</b>	<b>19</b>	<b>(338)</b>	<b>(303)</b>
<b>At 28 February 2010</b>		<b>1,706</b>	<b>12</b>	<b>917</b>	<b>2,856</b>	<b>14,078</b>	<b>19,569</b>
<b>Comprehensive income:</b>							
Profit for the year		—	—	—	—	773	773
Other comprehensive income		—	—	—	—	4	4
<b>Total comprehensive income</b>		<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>777</b>	<b>777</b>
<b>Transactions with owners:</b>							
Equity Dividend	13	—	—	—	—	(347)	(347)
Credit to equity for equity-settled share based payments	26	—	—	—	17	—	17
Share to be issued	27	—	—	—	69	—	69
Issue of shares	25	42	—	457	(499)	—	—
<b>Total transactions with owners</b>		<b>42</b>	<b>—</b>	<b>457</b>	<b>(413)</b>	<b>(347)</b>	<b>(261)</b>
<b>At 28 February 2011</b>		<b>1,748</b>	<b>12</b>	<b>1,374</b>	<b>2,443</b>	<b>14,508</b>	<b>20,085</b>

## Consolidated balance sheet as at 28 February 2011

	Notes	2011 £000	2010 £000
<b>Assets</b>			
<b>Non-current assets</b>			
Intangible assets	15	16,261	16,004
Property, plant and equipment	16	1,796	1,582
Deferred tax asset	17	112	—
		<b>18,169</b>	17,586
<b>Current assets</b>			
Inventories	19	135	106
Trade and other receivables	20	5,358	5,286
Cash and cash equivalents		1,934	1,145
		<b>7,427</b>	6,537
<b>Total assets</b>		<b>25,596</b>	24,123
<b>Liabilities</b>			
<b>Current liabilities</b>			
Borrowings	21	(112)	(62)
Trade and other payables	22	(4,450)	(4,326)
Current tax liabilities		(432)	(141)
Provisions	23	(233)	—
		<b>(5,227)</b>	(4,529)
<b>Non-current liabilities</b>			
Borrowings	21	(284)	(25)
		<b>(284)</b>	(25)
<b>Total liabilities</b>		<b>(5,511)</b>	(4,554)
<b>Net assets</b>		<b>20,085</b>	19,569
<b>Equity</b>			
Share capital	25	1,748	1,706
Share premium		12	12
Merger reserve		1,374	917
Other reserves	27	2,443	2,856
Retained earnings		14,508	14,078
<b>Total equity attributable to equity shareholders of the company</b>		<b>20,085</b>	19,569

These financial statements were approved by the board of directors on 10 June 2011 and were signed on its behalf by:



Kevin Cameron (*Director*)  
Registered number: 3967805



Timothy Green (*Director*)

## Consolidated statement of cash flows for the year ended 28 February 2011

	Notes	2011 £000	2010 £000
<b>Cash from operations</b>			
Cash generated from operations	28	1,827	636
Interest paid		(2)	(5)
Tax paid		(100)	(190)
<b>Net cash inflow from operating activities</b>		<b>1,725</b>	441
<b>Investing activities</b>			
Acquisition of subsidiary, net of cash acquired		—	(990)
Payment of contingent consideration		—	(166)
Purchase of property, plant and equipment	16	(903)	(468)
Purchase of other intangible assets	15	—	(114)
Sale of property, plant and equipment	16	5	17
Interest received		—	9
<b>Net cash used in investing activities</b>		<b>(898)</b>	(1,712)
<b>Financing activities</b>			
Dividends paid	13	(347)	(338)
Repayment of borrowings		(62)	(63)
New finance leases raised		371	—
Proceeds from issue of shares, net of costs		—	16
<b>Net cash outflow from financing activities</b>		<b>(38)</b>	(385)
<b>Increase/(decrease) in cash and cash equivalents</b>		<b>789</b>	(1,656)
Cash and cash equivalents at beginning of year		1,145	2,801
<b>Cash and cash equivalents at end of year</b>	29	<b>1,934</b>	1,145

## Company statement of changes in equity for the year ended 28 February 2011

	Notes	Share capital £000	Share premium £000	Merger reserve £000	Other reserves £000	Retained earnings £000	Total equity £000
<b>At 28 February 2009</b>		1,702	—	917	1,676	9,460	13,755
<b>Comprehensive income:</b>							
Loss for the year		—	—	—	—	(1,207)	(1,207)
<b>Total comprehensive income</b>		—	—	—	—	(1,207)	(1,207)
<b>Transactions with owners:</b>							
Equity dividend	13	—	—	—	—	(338)	(338)
Credit to equity for equity-based share based payments	26	—	—	—	19	—	19
Issue of shares	25	4	12	—	—	—	16
<b>Total transactions with owners</b>		<b>4</b>	<b>12</b>	<b>—</b>	<b>19</b>	<b>(338)</b>	<b>(303)</b>
<b>At 28 February 2010</b>		<b>1,706</b>	<b>12</b>	<b>917</b>	<b>1,695</b>	<b>7,915</b>	<b>12,245</b>
<b>Comprehensive income:</b>							
Profit for the year		—	—	—	—	481	481
<b>Total comprehensive income</b>		—	—	—	—	<b>481</b>	<b>481</b>
<b>Transactions with owners:</b>							
Equity dividend	13	—	—	—	—	(347)	(347)
Credit to equity for equity-based share based payments	26	—	—	—	17	—	17
Shares to be issued	27	—	—	—	69	—	69
Issue of shares	25	42	—	457	(499)	—	—
<b>Total transactions with owners</b>		<b>42</b>	<b>—</b>	<b>457</b>	<b>(413)</b>	<b>(347)</b>	<b>(261)</b>
<b>At 28 February 2011</b>		<b>1,748</b>	<b>12</b>	<b>1,374</b>	<b>1,282</b>	<b>8,049</b>	<b>12,465</b>

## Company balance sheet as at 28 February 2011

	Notes	2011 £000	2010 £000
<b>Assets</b>			
<b>Non-current assets</b>			
Property, plant and equipment	16	—	2
Investment in subsidiaries	18	19,041	18,739
		<b>19,041</b>	18,741
<b>Current assets</b>			
Trade and other receivables	20	69	58
Cash and cash equivalents		—	219
		<b>69</b>	277
<b>Total assets</b>		<b>19,110</b>	19,018
<b>Liabilities</b>			
<b>Current liabilities</b>			
Trade and other payables	22	(6,412)	(6,773)
Provisions	23	(233)	—
<b>Total liabilities</b>		<b>(6,645)</b>	(6,773)
<b>Net assets</b>		<b>12,465</b>	12,245
<b>Equity</b>			
Share capital	25	1,748	1,706
Share premium		12	12
Merger reserve		1,374	917
Other reserves	27	1,282	1,695
Retained earnings		8,049	7,915
<b>Total equity attributable to equity shareholders of the company</b>		<b>12,465</b>	12,245

These financial statements were approved by the board of directors on 10 June 2011 and were signed on its behalf by:



Kevin Cameron (*Director*)



Timothy Green (*Director*)

Registered number: 3967805

## Company statement of cash flows for the year ended 28 February 2011

	Notes	2011 £000	2010 £000
<b>Cash from operations</b>			
Cash generated from operations	28	(669)	2,353
<b>Net cash inflow (used by) / from operating activities</b>		<b>(669)</b>	2,353
<b>Investing activities</b>			
Acquisition of a subsidiary		—	(1,644)
Payment of contingent consideration		—	(166)
Purchase of property, plant and equipment		—	(2)
Dividends received		797	—
<b>Net cash from / (used in) investing activities</b>		<b>797</b>	(1,812)
<b>Financing activities</b>			
Dividends paid		(347)	(338)
Proceeds from issue of shares, net of costs		—	16
<b>Net cash used by financing activities</b>		<b>(347)</b>	(322)
<b>(Decrease)/increase in cash and cash equivalents</b>		<b>(219)</b>	219
Cash and cash equivalents at beginning of year		219	—
<b>Cash and cash equivalents at end of year</b>	29	—	219

# Notes to the financial statements

## for the year ended 28 February 2011

### 1. General information

Tangent Communications PLC (“Tangent”) is a public limited company incorporated and domiciled in the United Kingdom whose shares are traded on the Alternative Investment Market of the London Stock Exchange. The group’s operations and principle activities are set out in the business review on pages 6 to 9.

These financial statements are presented in pounds sterling, rounded to the nearest thousand, because that is the currency of the primary economic environment in which the group operates. Foreign operations are included in accordance with the accounting policies set out in note 3.

### 2. Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”). The Financial Statements have also been prepared in accordance with IFRSs adopted by the European Union.

The financial statements have been prepared on the historical cost basis. The significant accounting policies adopted are set out below.

### 3. Significant accounting policies

#### 3.1 Going concern

The directors have, at the time of approving the financial statements, a reasonable expectation that Tangent has adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the financial statements.

#### 3.2 Basis of consolidation

The consolidated financial statements incorporate the financial statements of Tangent and entities controlled by Tangent made up to 28 February 2011. Control is achieved where Tangent has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities. The results of subsidiaries acquired or disposed of during the

year are included in the consolidated statement of comprehensive income from the effective date of acquisition or up to the effective date of disposal, as appropriate. Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with those used by the group. All intra-group transactions, balances, income and expenses are eliminated on consolidation.

#### 3.3 Business combinations

Acquisitions of subsidiaries and businesses are accounted for using the acquisition method. The consideration for each acquisition is measured at the aggregate fair values (at the date of exchange) of assets given, liabilities incurred or assumed, and equity instruments issued by Tangent in exchange for control of the acquiree. Acquisition related costs are recognised in profit or loss as incurred.

Where applicable, the consideration for the acquisition includes any asset or liability resulting from a contingent consideration arrangement, measured at its acquisition-date fair value. Subsequent changes in such fair values are adjusted against the cost of acquisition where they qualify as measurement period adjustments as detailed below. All other subsequent changes in the fair value of contingent consideration classified as an asset or liability are accounted for in accordance with the relevant IFRSs. Changes in the fair value of contingent consideration classified as equity are not recognised.

The acquiree’s identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS3 are recognised at their fair value at the acquisition date, except that:

- deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognised and measured in accordance with IAS 12 and IAS 19 Employee Benefits accordingly;
- liabilities or equity instruments related to the replacement by the Group of an acquiree’s share-based payment awards are measured in accordance with IFRS2 Share-based Payments;
- assets (or disposal groups) that are classified as held for sale in accordance with IFRS5 Non-current Assets Held for Sale and Discontinued Operations are measured in accordance with that standard.

### 3.4 Intangible assets

#### Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of Tangent's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Goodwill on acquisition of subsidiaries is included in intangible assets. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Any impairment on goodwill is recognised immediately in the statement of comprehensive income and is not subsequently reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose. Tangent currently allocates goodwill to two business segments.

#### Other intangible assets

Other intangible assets include web site and customer list acquisition costs which are stated at cost less subsequent amortisation and impairment. Amortisation is calculated using the straight line method over two or three years.

### 3.5 Foreign currency translation

The individual financial statements of each group company are presented in the currency of the primary economic environment in which it operates (its functional currency). For the purpose of the consolidated financial statements, the results and financial position of each group company are expressed in pound Sterling, which is the functional currency of Tangent, and the presentation currency of the consolidated financial statements.

In preparing the financial statements of the individual companies, transactions in currencies other than the entity's functional currency are recognised at the rates of exchange prevailing on the dates of the transactions. At the balance sheet, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated. Exchange differences are recognised in the consolidated statement of comprehensive income in the period in which they arise.

For the purpose of presenting consolidated financial statements the assets and liabilities of foreign operations are translated at the exchange rate prevailing on the balance sheet date. Income and expense items are translated at the average rates for the period. Exchange differences arising are recognised in other comprehensive income and accumulated equity.

On the disposal of a foreign operation all of the accumulated exchange differences in respect of that operation attributable to Tangent are reclassified to profit or loss.

### 3.6 Investments in subsidiaries

The parent company's investments in subsidiary undertakings are included in the company balance sheet at cost, less provision for any impairment in value.

### 3.7 Property, plant and equipment

Property, plant and equipment is stated at historic cost less subsequent depreciation and impairment. Historic cost includes expenditure that is directly attributable to the acquisition of the items.

Depreciation on assets is calculated using the straight line method to allocate their cost less their residual values over their estimated useful lives, as follows:

- Buildings *over the term of the lease*
- Plant and equipment *two to five years*

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

Subsequent costs are included in an asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to Tangent and the cost of the item can be measured reliably. The carrying amount of a replaced part is derecognised. All other repairs and maintenance costs are charged to the statement of comprehensive income during the financial year in which they are incurred.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised in the statement of comprehensive income.

# Notes to the financial statements continued

## for the year ended 28 February 2011

### 3.8 Impairment on assets

At the balance sheet date Tangent reviews the carrying amounts of its assets to determine whether there is any indication that an asset may be impaired. If such an indication exists, the recoverable amount of the asset is estimated to determine the extent of any impairment.

Recoverable amount is the higher of fair value less costs to sell and its value in use. In assessing value in use the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset being reviewed.

If the recoverable amount of an asset, or cash generating unit, is estimated to be less than its carrying amount the carrying value of the asset is reduced to the recoverable amount. An impairment loss is recognised immediately in the consolidated statement of comprehensive income.

### 3.9 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost comprises direct materials and where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in making the sale.

### 3.10 Trade receivables

Trade receivables are recognised initially at fair value. A provision for impairment of trade receivables is established when there is objective evidence that the group will not be able to collect all amounts due according to the original terms of the receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows. The carrying amount of the asset is reduced through the use of a provision account, and the amount of the loss is recognised in the consolidated statement of comprehensive income within operating expenses. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against operating expenses in the consolidated statement of comprehensive income.

### 3.11 Cash and cash equivalents

Cash and cash equivalents on the balance sheet include cash in hand and short term deposits held with banks. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet. For the purposes of the cash flow statement, cash and cash equivalents also include bank overdrafts.

### 3.12 Provisions

Provisions are recognised when Tangent has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to the passage of time is recognised as interest expense.

### 3.13 Pension obligations

Tangent has defined contribution plans under which Tangent pays fixed contributions into a separate entity. Tangent has no legal or constructive obligations to pay further contributions relating to employee service in the current and prior years. The contributions are recognised as an employee benefit expense when they are due.

### 3.14 Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Assets held under finance leases are recognised as assets of the group at their fair value or, if lower, at the present value of the minimum lease payments, each determined at the inception of the lease. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation.

Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognised immediately in the consolidated statement of comprehensive income.

Rentals payable under operating leases are charged to income on a straight line basis over the term of the relevant lease.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight line basis over the term of the relevant lease.

### 3.15 Deferred tax

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in computation of taxable profits, and is accounted for using the liability method. Deferred tax liabilities are recognised for all temporary timing differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition, other than in a business combination, of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised based on tax laws and rates that have been enacted at the balance sheet date. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited in other comprehensive income, in which case the deferred tax is also dealt with in other comprehensive income.

### 3.16 Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of Tangent's activities. Revenue is shown net of value-added tax, returns, rebates and discounts and after eliminating intergroup sales. Tangent recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to Tangent and specific delivery criteria have been met.

### Sale of goods

Revenue is recognised when the significant risks and rewards of ownership of the goods have been passed to the buyer and the amount of revenue can be measured reliably; this is usually on dispatch of the goods.

### Provision of services

Revenue is recognised when the service has been provided and the amount of revenue can be measured reliably.

### 3.17 Share-based payment transactions

Tangent operates a number of equity-settled, share-based payment schemes.

The cost of equity settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair value excludes the effect of non-market based vesting conditions.

The fair value determined at the grant date of the equity settled share based payments is expensed on a straight line basis over the vesting period, based on Tangent's estimate of equity instruments that will eventually vest. At each balance sheet date Tangent revisits its estimate of the number of equity instruments expected to vest as a result of the effect of non-market based vesting conditions. The impact of the revision of the original estimate, if any, is recognised in the consolidated statement of comprehensive income such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to equity reserves.

For cash settled share-based payments, a liability is recognised for the goods or services acquired, measured initially at the fair value of the liability. At each balance sheet date until the liability is settled, and at the date of settlement, the fair value of the liability is re-measured, with any changes in fair value recognised in the consolidated statement of comprehensive income for the year.

### 3.18 Segmental reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker who is responsible for allocating resources and assessing performance of the operating segments and which has been identified as the board of directors that make strategic decisions.

# Notes to the financial statements continued

## for the year ended 28 February 2011

### 3.19 Equity instruments

Ordinary shares are classified as equity. Costs directly attributable to the issue of new shares are shown in equity as a deduction from the proceeds.

### 3.20 Adoption of new and revised Standards

The following new and revised Standards and Interpretations have been adopted in the current year. Their adoption has not had any significant impact on the amounts reported in these financial statements but may impact the accounting for future transactions and arrangements.

#### IAS27 Consolidated and Separate Financial Statements

This revised standard is applicable to all accounting periods commencing on or after 1 July 2009 and requires the effect of

all transactions with non-controlling interests to be recorded in equity if there is no change in control. In addition the standard amends the treatment when control of a subsidiary is lost.

#### IFRS2 Share-based payments

The amended standard is applicable to all accounting periods commencing on or after 1 January 2010. The amendment clarifies the accounting for share-based payment transactions between group entities.

#### IFRS3 Business Combinations

The revised standard is applicable to all accounting periods commencing on or after 1 July 2009 and amends the acquisition accounting method for business combinations. The revised standard is not retrospective and does not affect the accounting treatment of business combinations prior to the applicable date.

At the date of authorisation of these financial statements, the following Standards and Interpretations which have not yet been applied in these financial statements were in issue but not yet effective:-

		Effective date
IFRS 1	Amendments to IFRS1-Limited Exemptions from Comparative IFRS7 disclosures	1 July 2010
IFRS 9	Financial Instruments: Classification and Measurement	1 January 2013
IAS 24	Related party disclosures (Revised)	1 January 2011
IFRIC 14	Amendment: Prepayments of Minimum Funding Requirement	1 January 2011
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments	1 July 2010

The Group has not early adopted these amended standards and interpretations.

The Directors do not anticipate that the adoption of these standards and interpretations will have a material impact on the Group's Financial Statements in the periods of initial application.

### 3.21 Accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Tangent makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, rarely equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to carrying amounts of assets and liabilities within the next financial year are outlined below:

#### (a) Intangible assets

Tangent tests annually whether goodwill has suffered any impairment in accordance with the accounting policy stated in note 3.4. The recoverable amounts from cash-generating units are determined based on value-in-use calculations. These calculations require the use of estimates. In arriving at the fair value of goodwill, Tangent estimates the future consideration payable for acquisitions where the final consideration is contingent upon future events or performance. Estimated future consideration is reviewed and accrued at each balance sheet date. When recoverable amounts of cash-generating units are below the estimated levels or if the future consideration payable on acquisitions is higher than estimated an impairment loss may be triggered.

#### (b) Deferred tax

Tangent estimates future profitability in arriving at the fair value of the deferred tax assets and liabilities. If the final tax outcome is different to the estimated deferred tax amount the resulting changes will be reflected in the consolidated statement of comprehensive income, unless the tax relates to an item charged

to equity in which case the changes in tax estimates will also be reflected in equity.

#### (c) Business combinations

Upon acquisition of another entity Tangent evaluates whether or not any intangibles have arisen under methodologies prescribed under IFRS 3 Business Combinations. Judgment is required to identify which intangibles meet the recognition criteria of separate or contractual assets, cash flow forecasts are performed to determine the value of any assets arising. Any such assets are tested at least annually for impairment.

## 4. Group restructuring

During the year the board completed the merger of Snowball and Tangent One, thereby producing a unified, efficient and cohesive team. In addition to this further consolidation was undertaken between Tangent's print sites. Both processes resulted in redundancy and termination costs as detailed below. The board also engaged professional advisors to prepare a circular to shareholders requesting permission for Tangent to be empowered to purchase its own shares. As none of these expenses form part of the normal operating expenses of Tangent they have been separately identified in the consolidated statement of comprehensive income and excluded from underlying profit.

	£000
Redundancy and termination costs	239
Circular costs and fees	58
	297

# Notes to the financial statements continued

## for the year ended 28 February 2011

### 5. Segment Information

Management has determined the operating segments based on the reports reviewed by the Board of Directors that are used to make strategic decisions. On this basis the group had three reportable segments, Online, Direct and Central.

**Online** This comprises the Tangent One and Tangent Labs businesses.

**Direct** This comprises Snowball, Ravensworth and Tangent on Demand.

**Central** Central costs relate to the cost of Non-executive Directors, maintenance of Tangent's stock market listing, general professional advice together with the share-based payment charge as set out in note 26. Executive directors' costs are allocated to the Direct and Online business segments.

The segment results for the year ended 28th February 2011 were as follows:

	Online £000	Direct £000	Central £000	Total £000
<b>Revenue</b>	<b>7,452</b>	<b>17,682</b>	<b>—</b>	<b>25,134</b>
Less inter segment sales	(2,650)	(90)	—	(2,740)
Revenues from external customers	4,802	17,592	—	22,394
<b>Results</b>				
Profit from operations before restructuring costs	98	1,511	(258)	1,351
Restructuring costs	(170)	(69)	(58)	(297)
Profit from operations	(72)	1,442	(316)	1,054
Net finance costs				(2)
Profit before tax				1,052
Income tax expense				(279)
Profit for the year				<u>773</u>
<b>Other segment information</b>				
Depreciation	81	605	1	687
Amortisation	20	25	—	45

### Major customers

During the year Tangent had the following customers that represented more than 10% of revenues:-

- One customer represented 12% of total revenues for the year.

Online customers representing more than 10% of that segment's revenues were as follows:

- Customer one 31%
- Customer two 12%

Direct customers representing more than 10% of that segment's revenue were as follows:

- Customer one 13%

The segment results for the year ended 28th February 2010 were as follows:

	Online £000	Direct £000	Central £000	Total £000
<b>Revenue</b>	4,535	13,940	—	18,475
Less inter segment sales	(223)	(67)	—	(290)
Revenues from external customers	4,312	13,873	—	18,185
<b>Results</b>				
Profit from operations before restructuring costs	413	647	(240)	820
Restructuring costs	(170)	(70)	(302)	(542)
Profit from operations	243	577	(542)	278
Net finance costs				4
Profit before tax				282
Income tax expense				—
Profit for the year				<u>282</u>

#### Other segment information

Depreciation	41	538	—	579
Amortisation	19	23	—	42

#### Major customers

No customer represented more than 10% of total group revenues during the year. Direct had no customers representing more than 10% of that segments revenues, Online had one customer that represented 19.3% of that segments total revenues.

#### Geographical information

	2011 £000	2010 £000
<b>Revenues from external customers</b>		
United Kingdom	20,043	16,739
Other countries	2,351	1,446
	<b>22,394</b>	18,185
<b>Non-current assets</b>		
United Kingdom	18,154	17,585
Australia	15	1
	<b>18,169</b>	17,586

Non-current assets for this purpose consist of property, plant and equipment and intangible assets.

# Notes to the financial statements continued

## for the year ended 28 February 2011

### 6. Operating costs

The operating costs, which are deducted from revenue in arriving at operating profit, are analysed as follows:

	Note	2011 £000	2010 £000
Employee benefits	8	8,790	7,238
Direct purchases for goods and services provided		7,805	6,507
Depreciation and amortisation		732	621
Other expenses		4,013	3,541
		<b>21,340</b>	17,907

### 7. Auditors' remuneration

	2011 £000	2010 £000
Fees payable to the Company's auditor for the audit of the Company's annual Financial Statements	60	57
Tax services	12	12
Other services	14	36
	<b>86</b>	105

The other services were £14,000 (2010: £11,000) for reviewing the group half year accounts, other services for 2010 also included £25,000 for due diligence work on the acquisition of subsidiaries.

### 8. Employee information

	Note	2011 £000	2010 £000
Wages and salaries		7,975	6,488
Social security costs		764	669
Pension contributions		34	62
Share-based payment charge	26	17	19
		<b>8,790</b>	7,238

The average number of employees, including directors, by location was:

	2011 Number	2010 Number
London	123	103
Newcastle	82	69
Cheltenham	12	12
Melbourne	10	—
	<b>227</b>	184

Details of directors' emoluments, including details of share option schemes are given in the remuneration report on pages 25 to 27. These disclosures form part of the audited financial statements of the group.

## 9. Investment income

	2011 £000	2010 £000
Interest receivable on deposits	—	6
Other interest receivable	—	3
	—	9

## 10. Finance costs

	2011 £000	2010 £000
Finance leases charges	2	5

## 11. Taxation

	2011 £000	2010 £000
Current income tax		
UK corporation tax	409	76
Adjustment in respect of prior years	(18)	(53)
Total current income tax charge	391	23
Deferred tax		
Origination of temporary differences	(72)	(23)
Adjustment in respect of prior years	(40)	—
Total deferred tax credit	(112)	(23)
Tax charge in the consolidated statement of comprehensive income	279	—

UK corporation tax is calculated at 28% (2010: 28%) of the estimated assessable profit for the period.

### Reconciliation of the tax charge in the consolidated statement of comprehensive income

	2011 £000	2010 £000
Profit before tax	1,052	282
Tax at the weighted average tax rate of 28% (2010: 28%)	294	79
Tax effects of:		
Movement in deferred tax assets not recognised	(42)	(52)
Expenditure not deductible for tax purposes	45	36
Other adjustments	(18)	(63)
Tax charge for the year	279	—

The group has tax losses available to carry forward against future profits amounting to £229,000 (2010: £229,000).

# Notes to the financial statements continued

## for the year ended 28 February 2011

### 12. Earnings per share

The calculation of the basic and diluted earnings per share is based on the following:

	2011 £000	2010 £000
<b>Profit attributable to shareholders</b>	<b>773</b>	282
	<b>Number 000</b>	<b>Number 000</b>
<b>Weighted average number of shares:</b>		
For basic earnings per share	<b>173,264</b>	168,903
Adjustment for options outstanding	<b>3,814</b>	4,083
Adjustment for consideration shares yet to be issued	<b>1,126</b>	4,158
For diluted earnings per share	<b>178,204</b>	177,144
	<b>Pence per Share</b>	<b>Pence per Share</b>
<b>Earnings per share:</b>		
Basic	<b>0.45</b>	0.17
Diluted	<b>0.43</b>	0.16

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. At 28 February 2011 Tangent had two categories of dilutive potential ordinary shares: share options and shares contingently issuable as consideration for an acquisition.

A calculation is performed for the share options to determine the number of shares that could have been acquired at fair value based on the monetary value of the subscription rights attached to the outstanding share options. The number of shares from this calculation is compared with the number of shares that would have been issued assuming the exercise of the options and the difference is deemed to be the number of dilutive shares attributable to share options.

### 13. Dividends

	2011 £000	2010 £000
<b>Recommended final dividend for the year of 0.2p (2010: 0.2p) per share</b>	<b>349</b>	338

The recommended final dividend is subject to approval by shareholders at the 2011 annual general meeting and has not been included as a liability in these financial statements.

The Tangent employee share ownership trust, which holds a total of 1,428,340 ordinary shares, has agreed to waive all dividends so the directors estimate that the dividend will be payable on approximately 174m ordinary shares.

	2011 £000	2010 £000
<b>Final dividend paid for the year of 0.2p (2010: 0.2p) per share</b>	<b>347</b>	338

## 14. Statement of comprehensive income for the parent company

In accordance with section 408 of the Companies Act 2006 the parent company has not published a statement of comprehensive income. The profit dealt with in the financial statements of the parent company of £481,000 (2010: loss of £1,207,000) has been included in the consolidated statement of comprehensive income.

## 15. Intangible assets

	Note	Goodwill	Other Intangible assets	Total
Group		£000	£000	£000
<b>Cost</b>				
At 1 March 2009		14,961	—	14,961
On acquisition of subsidiary	28	971	—	971
Acquired with subsidiary		—	3	3
Additions		—	114	114
At 28 February 2010		15,932	117	16,049
Additions		302	—	302
<b>At 28 February 2011</b>		<b>16,234</b>	<b>117</b>	<b>16,351</b>
<b>Amortisation and impairment</b>				
At 1 March 2009		—	—	—
Acquired with subsidiary		—	3	3
Amortisation during the year		—	42	42
At 28 February 2010		—	45	45
Amortisation during the year		—	45	45
<b>At 28 February 2011</b>		<b>—</b>	<b>90</b>	<b>90</b>
<b>Net book value</b>				
<b>At 28 February 2011</b>		<b>16,234</b>	<b>27</b>	<b>16,261</b>
At 28 February 2010		15,932	72	16,004

On 16 September 2009 Tangent acquired the entire share capital of The DDG Network Limited together with the business and assets of Double D Management LLP, collectively known as “Snowball”. The acquisition agreement contained provision for a maximum additional consideration, of £1.68m payable in cash and £500,000 in shares at a valuation of 6.17p per share to be paid in three equal tranches, subject to earnings before interest and tax rising to a total of £1.5m over a three year period to 31 August 2012. No additional consideration was payable in respect of the first year. Having reviewed the performance of the acquired business the directors are of the opinion that additional consideration will become payable in respect of the year to 31 August 2011 and a provision of £302,000 (£233,000 in cash and £69,000 in shares), has therefore been included in these financial statements.

# Notes to the financial statements continued

## for the year ended 28 February 2011

### 15. Intangible assets (continued)

#### Impairment of goodwill

Goodwill acquired in a business combination is allocated, at acquisition, to the cash generating units (CGUs) that are expected to benefit from that business combination.

From 1 March 2011 Tangent revised the business segments as follows:-

#### Software and Communications

This business segment includes Tangent One, Snowball and Tangent Labs

#### Design and Print

This business segment includes Ravensworth and Tangent on Demand.

As it is the future cash flows from each CGU that needs to be measured against the carrying value of goodwill in each business segment the impairment testing undertaken has been based upon the amended segments from 1 March 2011, this will ensure that future cash flows are measured against the CGU in which the benefit of the business combination is expected.

Following the above changes the carrying value of goodwill relating to the acquisition of Snowball has been reallocated to the Software and Communications segment as follows:

	2011 £000	2010 £000
Direct CGU	11,799	11,497
Snowball acquired goodwill transferred	(1,273)	—
Design and print CGU	10,526	11,497
Online CGU	4,435	4,435
Snowball acquired goodwill transferred	1,273	—
Software and communications CGU	5,708	4,435
Total unimpaired goodwill	16,234	15,932

Tangent tests goodwill annually for impairment, or more frequently if there are indications that goodwill might be impaired.

The recoverable amounts of the CGU's are determined from value in use calculations. The key assumptions for the value in use calculations are those regarding the discount rates, growth rates and expected changes to forecast profitability. These assumptions have been revised in the year to take account of the current economic environment. Management estimates discount rates using pre-tax rates that reflect the current market assessments of the time value of money and the risks specific to each CGU.

Future cash flows are derived from the most recent financial budget approved by management for the next five years, beyond that period cash flows are extrapolated using a growth rate of 3% (2010: 3%).

The rate used to discount forecast future cash flows for both business segments is 13% (2010: 12.5%).

In 2011 no impairment charge has been made against goodwill for either of the amended CGU's (2010: £nil). Headroom in the Design and Print CGU is £2.9million and £4.7million in the Software and Communications CGU.

Tangent has conducted a sensitivity analysis on the impairment test of each CGU's carrying value with the following results:

- The discount rate would need to increase by 2.66% to 15.66% to remove the headroom in the Design and Print impairment test and by 8.34% to 21.34% to remove the headroom in the Software and Communications test.
- Reducing the long term growth rate to 0% does not create an impairment charge in either CGU.

## 16. Property, plant and equipment

Group	Short leasehold land and buildings	Plant and equipment	Total
	£000	£000	£000
<b>Cost</b>			
At 1 March 2009	608	2,490	3,098
Additions	15	453	468
Acquired with subsidiary	—	75	75
Disposals	—	(17)	(17)
At 28 February 2010	623	3,001	3,624
Additions	22	881	903
Disposals	—	(115)	(115)
<b>At 28 February 2011</b>	<b>645</b>	<b>3,767</b>	<b>4,412</b>
<b>Depreciation</b>			
At 1 March 2009	100	1,313	1,413
Charge for the year	82	497	579
Acquired with subsidiary	—	59	59
Disposals	—	(9)	(9)
At 28 February 2010	182	1,860	2,042
Charge for the year	92	595	687
Disposals	—	(113)	(113)
<b>At 28 February 2011</b>	<b>274</b>	<b>2,342</b>	<b>2,616</b>
<b>Net book value</b>			
<b>At 28 February 2011</b>	<b>371</b>	<b>1,425</b>	<b>1,796</b>
At 28 February 2010	441	1,141	1,582

Included within net book value of plant and equipment is £548,000 (2010: £128,000) in respect of assets held under finance leases. Included within the depreciation charge for the year is £52,000 (2010: £33,000) in respect of assets held under finance leases.

# Notes to the financial statements continued

## for the year ended 28 February 2011

### 16. Property, plant and equipment (continued)

Company	Plant and equipment £000	Total £000
<b>Cost</b>		
At 1 March 2009 and 28 February 2010	2	2
<b>At 28 February 2011</b>	<b>2</b>	<b>2</b>
<b>Depreciation</b>		
At 1 March 2009 and 28 February 2010	—	—
Charge for the year	2	2
<b>At 28 February 2011</b>	<b>2</b>	<b>2</b>
<b>Net book value</b>		
<b>At 28 February 2011</b>	—	—
At 28 February 2010	2	2

### 17. Deferred tax

The following are the deferred tax assets recognised by the group and movements thereon during the current and prior period.

	Group		Company	
	2011 £000	2010 £000	2011 £000	2010 £000
At 1 March	—	(28)	—	—
Movement in the year arising from				
Accelerated capital allowances	50	28	—	—
Other short term timing differences	62	—	—	—
<b>At 28 February</b>	<b>112</b>	—	—	—

The realisation of the above deferred tax asset is dependent upon the anticipated continuing profitability of the group. The deferred tax asset is recognised as the directors foresee future profits adequate to assume recovery.

At the balance sheet date, the Group had unused tax losses of £229,000 (2010: £229,000) available for offset against suitable future profits.

## 18. Investments in subsidiaries

Company	2011 £000	2010 £000
<b>Cost</b>		
At 1 March	19,003	17,359
Additions	302	1,644
At 28 February	19,305	19,003
<b>Provision for impairment</b>		
At 1 March and 28 February	(264)	(264)
<b>Net book value at 28 February</b>	<b>19,041</b>	<b>18,739</b>

For impairment testing purposes the recoverable amount of investments is calculated using a value in use calculation of the assets comprising the investment in subsidiaries based on cash flow projections approved by the board of directors.

The pre-tax discount rate applied to the cash flow projections is 13% (2010:12.5%) and represents the weighted average cost of capital for the group.

In the opinion of the directors, the aggregate value of the investment in subsidiary undertakings is not less than the amount at which it is stated in the balance sheet.

### Subsidiary undertakings

The company's significant trading subsidiaries are as follows:

Name	Principal activity	Interest in ordinary share capital
Ravensworth Digital Services Limited	Design, print and support services	100%
Tangent Labs Limited (formerly C360 UK Limited)	Marketing and technology	100%
Tangent Marketing Services Limited	Marketing and technology	100%

The subsidiary companies are all incorporated in England and their results have been consolidated in these financial statements.

### Joint Ventures

In addition to the above subsidiaries the company holds 50% of the issued share capital of Zui Limited, a company registered in England. Zui recorded a loss of £15,000 for the year ended 28 February 2011 and had net liabilities of £121,000 at that date. As the group does not have a controlling interest in Zui these results have not been consolidated in the financial statements. During the year the group recorded sales of £51,000 to Zui and at the balance sheet date the amount due was £168,000.

# Notes to the financial statements continued

## for the year ended 28 February 2011

### 19. Inventories

	Group		Company	
	2011 £000	2010 £000	2011 £000	2010 £000
Consumables	135	106	—	—

### 20. Trade and other receivables

	Group		Company	
	2011 £000	2010 £000	2011 £000	2010 £000
Trade receivables	5,247	4,566	—	—
Allowance for doubtful debts	(383)	(146)	—	—
	4,864	4,420	—	—
Other receivables	54	87	29	39
Prepayments and accrued income	440	779	40	19
	5,358	5,286	69	58

All of the group's trade receivables have been reviewed for indicators of impairment. Certain trade receivables were found to be impaired and a provision of £383,000 has been included at the year end, the movement in that provision is as follows:

	Group		Company	
	2011 £000	2010 £000	2011 £000	2010 £000
Balance at the beginning of the year	146	47	—	—
Impairment losses recognised on receivables	324	125	—	—
Amounts written off during the year as uncollectable	(87)	(26)	—	—
Balance at the end of the year	383	146	—	—

Trade receivables above include amounts that are past due at the year end but against which no allowance for doubtful receivables has been made because there has not been any significant change in the credit quality and the amounts are still considered recoverable. The group does not hold any collateral or other credit enhancements over these balances.

The ageing of trade receivables not impaired is as follows:

	Group		Company	
	2011 £000	2010 £000	2011 £000	2010 £000
Current	3,715	3,657	—	—
Overdue by less than 30 days	477	518	—	—
30-60 days overdue	318	81	—	—
60-90 days overdue	183	67	—	—
more than 90 days overdue	171	97	—	—
Balance at the end of the year	4,864	4,420	—	—

## 21. Borrowings

Group borrowings comprise finance leases with repayments due as follows:

	Minimum lease payments		Present value of minimum lease payments	
	2011 £000	2010 £000	2011 £000	2010 £000
Within one year	127	63	112	62
After one but not more than five years	304	26	284	25
Less finance charges allocated to future years	431 (35)	89 (2)	396 —	87 —
Present value of finance lease borrowings	396	87	396	87

Tangent has leased certain items of plant and equipment under finance leases. The average lease term is four years, for the year ended 28 February 2011 the effective borrowing rate was 4% (2010: 4%). Interest rates are fixed at the contract date, all leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments.

All lease obligations are denominated in Sterling.

The fair value of Tangent's lease obligations is approximately equal to their carrying value.

Tangent's obligations under finance leases are secured by the lessors rights over the leased assets as disclosed in note 16.

## 22. Trade and other payables

	Group		Company	
	2011 £000	2010 £000	2011 £000	2010 £000
Trade payables	1,833	1,991	96	34
Other taxes and social security	656	729	27	44
Other creditors	229	42	—	2
Accruals	1,732	1,564	110	202
Owed to group companies	—	—	6,179	6,491
	4,450	4,326	6,412	6,773

Trade payables and accruals principally comprise amounts outstanding for trade purchase and ongoing costs. The average credit period taken to pay trade purchases is 58 days. No suppliers charge interest on trade payables and therefore Tangent does not have any interest rate risk.

The directors consider that the carrying amount of trade and other payables approximates to their fair value.

# Notes to the financial statements continued

## for the year ended 28 February 2011

### 23. Provisions

	Group		Company	
	2011 £000	2010 £000	2011 £000	2010 £000
At 1 March	—	166	—	166
Contingent acquisition consideration Settled in the year	233	—	233	—
	—	(166)	—	(166)
<b>At 28 February</b>	<b>233</b>	<b>—</b>	<b>233</b>	<b>—</b>

Provisions are for the estimated cash consideration that the directors expect to be paid for the acquisition of the entire share capital of The DDG Network Limited together with the business and assets of Double D Management LLP.

### 24. Financial risk management objectives and policies

The group's principal financial instruments comprise cash and bank overdraft facility together with various other financial assets and liabilities, such as trade receivables and trade payables, which arise directly from operations.

The main risk arising from the group's financial instruments are cash flow interest rate risk, foreign currency risk and credit risk.

#### Cash flow interest rate risk

The group is exposed to interest rate risk because entities within the group borrow funds at both fixed and floating interest rates. This risk is managed by maintaining an appropriate mix between fixed and floating rate borrowings.

#### Foreign currency risk

Group policy is to match foreign currency payments and receipts where possible and to use hedging if necessary to avoid a material foreign currency risk.

The carrying amounts of the group's foreign currency denominated monetary assets and monetary liabilities at the reporting date are as follows:

	Group		Company	
	2011 £000	2010 £000	2011 £000	2010 £000
Australian dollars	12	72	—	—
Euros	36	147	—	—
	<b>48</b>	<b>219</b>	<b>—</b>	<b>—</b>

#### Credit risk

The group's policy is that significant customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis. Credit risk arising from other financial assets, which comprise only cash deposits, have been minimised by only placing deposits with banks with high credit ratings.

#### Liquidity risk

The group operates a cash-generative business, holds net funds, and has an overdraft facility of £1m. The directors consider the funding structure to be adequate for the Group's current funding requirements.

## Capital management

Tangent manages its capital to ensure that entities within the group will be able to continue as going concerns while maximising the return to stakeholders through the optimisation of debt and equity balance.

The capital structure of the group consists of debt, which includes borrowing disclosed in note 21, cash and cash equivalents and equity, comprising issued capital, reserves and retained earnings.

Tangent is not subject to any externally imposed capital requirements.

The board reviews the capital structure on an ongoing basis and considers the risks associated with each class of capital.

## Interest rate risk profile of financial assets and liabilities

The interest rate profile of the group's financial assets and liabilities was:

	<b>Fixed rate financial liabilities 2011 £000</b>	<b>Floating rate financial assets/ (liabilities) 2011 £000</b>	<b>Fixed rate financial liabilities 2010 £000</b>	<b>Floating rate financial assets/ (liabilities) 2010 £000</b>
Cash balances	—	<b>1,934</b>	—	1,145
Finance leases	<b>(371)</b>	<b>(25)</b>	—	(87)
	<b>(371)</b>	<b>1,909</b>	—	1,058

Interest on cash is based on short term floating rates linked to money market rates. The average rate of interest on floating rate liabilities is 1.75% above bank base rate and 4% on fixed rate liabilities.

## Fair value of financial instruments

The group's financial instruments, which comprise cash and short term deposits, finance leases, receivables and payables are carried at amortised cost, which is also considered to be equivalent to their fair value.

## Borrowing facilities

Tangent has agreed a £1m overdraft facility at a rate of 1.75% over base rate secured by cross guarantees and debentures. The overdraft facility has rarely been drawn but improves the financial flexibility of the group. The finance lease liabilities as set out in note 21 are all secured on the assets against which the borrowings were provided.

# Notes to the financial statements continued

## for the year ended 28 February 2011

### 25. Share capital

	Number of ordinary 1p shares		Nominal value	
	2011 000	2010 000	2011 £000	2010 £000
<b>Authorised</b>				
<b>At 1 March and 28 February</b>	<b>225,000</b>	225,000	<b>2,250</b>	2,250
<b>Allotted and fully paid</b>				
At 1 March	170,534	170,134	1,706	1,702
Issued in the year	4,158	400	42	4
<b>At 28 February</b>	<b>174,692</b>	170,534	<b>1,748</b>	1,706

On 16 August 2010 Tangent issued 4,158,333 ordinary shares as part of the final payment of deferred consideration in respect of the acquisition of C360 UK Limited.

The company has one class of ordinary share which carries no right to fixed income, each share carries the right to one vote at general meetings of the company.

At 28 February 2011 and at the date of this report the number of issued ordinary shares is 174,691,835.

### 26. Share-based payments

The movements in share options and corresponding weighted average exercise prices (WAEP) are summarised below:

	2011		2010	
	Number 000	WAEP Pence	Number 000	WAEP Pence
At 1 March	15,091	4.24	15,310	4.58
Granted	655	1.00	3,155	1.00
Exercised	—	—	(400)	(4.00)
Lapsed	(1,779)	(1.00)	(2,974)	(2.57)
<b>At 28 February</b>	<b>13,967</b>	<b>4.50</b>	15,091	4.24

For the share options outstanding at 28 February 2011 exercise prices ranged between 1p and 13.25p per share and the weighted average remaining contractual life was 4.7 years.

## Fair values

The fair value of share options granted in the year was calculated using the Black Scholes pricing model. The volatility, measured as the standard deviation of expected share price return, is based on statistical analysis of the Tangent share price from July 2005 to the date of grant, which resulted in an assumed volatility of 50%.

The other key inputs were a risk free rate of return of 2%, a dividend yield 6% and an expected life of 5 years.

The total share-based payment charge for the year, calculated in accordance with IFRS 2 on share based payments, was £17,000 (2010: £19,000).

## 27. Other reserves

	Group		Company	
	2011 £000	2010 £000	2011 £000	2010 £000
ESOP reserve	(3)	(3)	(3)	(3)
Share-based payments reserve	1,216	1,199	1,216	1,199
Shares to be issued	69	—	69	—
Capital reserve	—	499	—	499
Restructure reserve	1,161	1,161	—	—
	<b>2,443</b>	2,856	<b>1,282</b>	1,695

The ESOP reserve represents the cost of Tangent shares held by the employee share ownership trust. At 28 February 2011 the employee share ownership trust held a total of 1,428,340 (2010: 1,428,340) ordinary shares, with a market value of £86,000 (2010: £62,000).

The share-based payment reserve represents the value of share-based payments recognised in the consolidated statement of comprehensive income to date less any transfers to retained earnings that arise from the shares issue on the exercise of options.

The shares to be issued represent the future share capital expected to be issued as contingent share consideration for the acquisition of The DDG Network Limited and the business and assets of Double D Management LLP.

The capital reserve at 28 February 2010 represented the future share capital and the associated merger reserve that was expected to result from the proposed issue of 4,158,333 ordinary shares at 12p each as contingent share consideration for the acquisition of C360 UK Limited. These shares were issued in the year.

The restructure reserve represents the consolidated capital reserve which arose when the group restructured and floated on AIM in May 2000.

# Notes to the financial statements continued

## for the year ended 28 February 2011

### 28. Cash generated from operations

Group	2011 £000	2010 £000
Profit before tax for the year	1,052	282
Depreciation and amortisation of non-current assets	732	621
Profit on sale of plant and equipment	(3)	(9)
Net interest charge/(income)	2	(4)
Net foreign exchange gain	4	2
Share-based payment charge	17	19
	<b>1,804</b>	911
<b>Movements in working capital</b>		
Increase in inventories	(29)	—
Increase in trade and other receivables	(72)	(1,675)
Increase in trade and other payables	124	1,400
Cash generated from operations	<b>1,827</b>	636

Company	2011 £000	2010 £000
Operating loss for the year	(316)	(1,207)
Depreciation and amortisation of non-current assets	2	—
Share-based payment charge	17	19
(Increase) in trade and other receivables	(11)	(40)
(Increase)/decrease in trade and other payables	(361)	3,581
Cash (used by)/generated from operations	<b>(669)</b>	2,353

### 29. Cash and cash equivalents

For the purpose of the consolidated and company cash flow statement cash and cash equivalents comprise the following at 28 February 2011.

	Group		Company	
	2011 £000	2010 £000	2011 £000	2010 £000
Cash at bank and in hand	1,934	1,145	—	219

### 30. Operating lease commitments

	2011 £000	2010 £000
Minimum lease payments under operating leases recognised as an expense in the year	2,427	1,822

At the balance sheet date Tangent had the following outstanding commitments for future minimum lease payments under non-cancellable operating leases which are as follows:

#### Motor vehicle and machinery lease

	2011 £000	2010 £000
Within one year	207	996
After one but not more than five years	43	798
After five years	—	—
	250	1,794

#### Land and building leases

	2011 £000	2010 £000
Within one year	370	484
After one but not more than five years	552	758
After five years	1,242	1,392
	2,164	2,634

### 31. Related party transactions

#### Compensation of key management personnel

Key management personnel of the group are defined as those persons having authority and responsibility for the planning, directing and controlling the activities of the group, directly or indirectly. Key management of the group are therefore considered to be the directors of Tangent Communications plc. There were no transactions with the key management, other than their emoluments, which are set out in the remuneration report on pages 25 to 27.

# Notes to the financial statements continued

## for the year ended 28 February 2011

### 32. Post balance sheet events

On 1 March 2011 Tangent amended its reporting segments as follows:

#### Software and communications

This division includes the Tangent One, Snowball and Tangent Labs businesses.

#### Design and print

This division includes the Ravensworth and Tangent on Demand businesses.

On 17 May 2011 the directors recommended payment of a dividend which is subject to approval at the 2011 annual general meeting. Details are set out in note 13.

# Company information

## Directors

Timothy Green	Chief Executive
Nicholas Green	Executive Director
Kevin Cameron	Finance Director
Piers Caldecote	Non-executive Chairman
Alan Smith	Non-executive Director

## Company secretary

Kevin Cameron

## Registered office

84-86 Great Portland Street  
London W1W 7NR

## Company registration number

3967805

## Nominated adviser and broker

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88 Wood Street  
London EC2V 7QR

## Bankers

HSBC Bank plc  
60 Queen Victoria Street  
London EC4N 4TR

## Auditors

UHY Hacker Young LLP  
Quadrant House  
4 Thomas More Square  
London E1W 1YW

## Registrar

Capita Registrars  
The Registry  
34 Beckenham Road  
Beckenham  
Kent BR3 4TU

## Solicitors

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30 Crown Place  
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