

CONEXION MEDIA GROUP PLC (CXM)

Chairman's Statement

Highlights

Gross Profit increased by 42% compared to first half 2008 from £617k to £875k, on reduced turnover due to the mix of income from higher margin clients.

EBITDA Loss reduced from £432k to £359k.

New deals encompassing music publishing and ancillary rights signed with companies including Cinevolve, Village Productions, GRB, Hearst, and Times Group of India.

CXM has performed well in extraordinarily difficult market conditions and I believe it is in better shape now than it was 12 months ago when Justin Sherry assumed the position of CEO. Justin's team have embarked on a solid and concise expansion plan focused on film & television, an area in which CXM excels. We have greatly reduced our exposure to the risks associated with the traditional song based music publishing business.

Turnover fell by £689k (29%) due to certain client contracts having expired. However the new deals we have signed will start to deliver income in the second half of 2009 and 2010. The Gross Profit increased by £258k (42%) due to the mix of higher margin business. The Gross Profit percentage varies over different periods depending on the make up of the income.

Operating costs have risen by £185k from £1,049k to £1,234k, compared with the same period last year. This was as a result of sterling weakening against the U.S. dollar. There is a non-cash charge of £208k (2008: £5k profit) resulting from the loss on translation of inter-company balances with our U.S. subsidiaries. In addition, due to the negative effects of exchange rates our overseas costs increased in the period by £89k. For comparison purposes, if we eliminate exchange rate movements, operating costs have fallen by £117k (11%) on a like for like basis. Operating costs also include a non-cash charge of £120k for share options

Internationally CXM, whilst investing in those areas where we see significant expansion opportunities, has concentrated on reducing the costs and consolidating the back office functions. We have commenced the process of opening an operating centre in Los Angeles which will serve as an important base for the sourcing of new deals for the Company. The new operation will largely be funded from savings made in our U.K. and other international operations.

The sector is showing positive signs as a number of private equity players choose to exit the arena due to unrelated business issues. With the realignment of music asset valuations many of these rights owners are looking to warehouse their music assets via an outsourced administration arrangement. We are in discussion with several of these companies and the future looks promising.

Brian Scholfield
25th September 2009

CONEXION MEDIA GROUP PLC

Consolidated Income Statement

For the six months ended 30th June 2009

	Jan-June 2009	Jan-June 2008	Year to December 2008
	unaudited £	unaudited £	audited £
Turnover (Billings)	1,684,181	2,372,900	4,011,427
Direct costs	(809,102)	(1,755,747)	(2,799,844)
Gross Profit	875,079	617,153	1,211,583
Operating costs	(1,234,321)	(1,049,162)	(1,862,704)
Operating loss before amortisation and depreciation	(359,242)	(432,009)	(652,121)
Amortisation and depreciation	(234,521)	(232,517)	(470,003)
Exceptional amortisation	-	-	(424,375)
Operating loss	(593,763)	(664,526)	(1,545,499)
Finance income	966	2,090	3,220
Finance costs	(38,294)	(19,650)	(51,751)
Loss before taxation	(631,091)	(682,086)	(1,594,030)
Taxation	-	-	-
Loss for the period	(631,091)	(682,086)	(1,594,030)
Minority interests	1,008	32,054	82,468
Loss for the period	(630,083)	(650,032)	(1,511,562)
Earnings/(loss) per share – continuing operations			
Basic earnings per share (pence)	(1.05)	(1.07)	(2.52)
Diluted earnings per share (pence)	(1.05)	(1.07)	(2.52)

CONEXION MEDIA GROUP PLC

Consolidated Statement of Recognised Income and Expense

For the six months ended 30th June 2009

	Jan-June 2009	Jan-June 2008	Year to December 2008
	unaudited	unaudited	audited
	£	£	£
(Loss) for financial year	(630,083)	(650,032)	(1,511,562)
Currency translation differences	335,336	(291)	(700,707)
Transfer from reserves	-	-	5,091
Prior year adjustment	-	-	(119)
Total recognised income and expense relating to the period	(294,747)	(650,323)	(2,207,297)

CONEXION MEDIA GROUP PLC

Consolidated Balance Sheet

As at 30th June 2009

	As at 30 th June 2009 unaudited £	As at 30 th June 2008 unaudited £	As at 31 st December 2008 audited £
Non-current assets			
Intangible assets			
Goodwill	1,370,520	1,518,753	1,370,520
Other	3,433,812	4,035,375	3,636,885
Investments	-	76,142	-
Property, plant and equipment	123,107	143,523	143,508
Trade and other receivables	28,857	48,963	29,966
	4,956,296	5,822,756	5,180,879
Current assets			
Trade and other receivables	1,460,409	3,233,030	2,019,287
Director's Loan	-	-	1,355
Cash and short term deposits	465,043	38,766	590,717
	1,925,452	3,271,796	2,611,359
Current liabilities			
Trade and other payables	(5,222,193)	(7,328,895)	(6,289,994)
Bank loans and overdraft	-	(62,241)	(5,465)
Amounts due to related parties	(1,394,000)	-	(928,000)
Current tax liabilities	(98,742)	(92,253)	(164,264)
	(6,714,935)	(7,483,389)	(7,387,673)
Net current liabilities	(4,789,483)	(4,211,593)	(4,776,314)
Total assets less current liabilities	166,813	1,611,163	404,565
Non-current liabilities			
Amounts due to related parties	(165,000)	-	(227,000)
Net assets	1,813	1,611,163	177,565
Equity			
Called up share capital	600,593	600,593	600,593
Share premium account	8,264,587	8,264,587	8,264,587
Other reserves	2,654	2,654	2,654
Shares to be issued	672,899	379,109	552,899
Retained earnings	(9,403,880)	(7,552,159)	(9,109,133)
Equity share owners' funds	136,853	1,694,784	311,600
Minority interests	(135,040)	(83,621)	(134,035)
Total equity	1,813	1,611,163	177,565

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Consolidated Cash Flow Statement

For the six months ended 30th June 2009

		Jan-June 2009	Jan-June 2008	Year to December 2008
		unaudited	unaudited	audited
	Note	£	£	£
Operating cash flow	1	(471,313)	(552,047)	(735,646)
Net finance costs		(37,328)	(17,560)	(48,531)
Net cash inflow from operating activities		(508,641)	(569,607)	(784,177)
Investing activities				
Purchase of property, plant and equipment		(15,568)	(84,954)	(116,658)
Purchase of intangible assets		-	(3,702)	(3,702)
Net cash flow from investing activities		(15,568)	(88,656)	(120,360)
Financing activities				
Increase in borrowings		398,535	176,443	974,668
Net cash (outflow)/inflow from financing		398,535	176,443	974,668
(Decrease)/Increase in cash and cash equivalents		(125,674)	(481,820)	70,131
Cash and cash equivalents at start of period		590,717	520,586	520,586
Cash and cash equivalents at end of period		465,043	38,766	590,717

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Notes to the Consolidated Cash Flow Statement

For the six months ended 30th June 2009

1. Reconciliation of profit before finance costs income and taxation to operating cash flow	Jan-June 2009	Jan-June 2008	Year to December 2008
	£	£	£
Loss before finance costs and taxation	(593,763)	(664,526)	(1,545,499)
Prior year adjustment	-	-	(119)
Depreciation	33,119	30,235	65,336
Impairment charge	-	-	424,375
Amortisation of intangible assets	201,402	202,282	404,667
(Increase)/decrease in trade and other receivables – non-current	1,109	(7)	18,990
(Increase)/decrease in trade and other receivables – current	560,233	(451,066)	761,322
Increase/(decrease) in trade and other payables	(1,133,273)	239,297	(427,643)
Share options	120,000	92,029	270,910
Exchange difference on translation of foreign subsidiaries	335,336	(291)	(707,707)
Exchange difference on translation of foreign non-current assets	4,524	-	(278)
Operating cash flow	(471,313)	(552,047)	735,646

2. Reconciliation of net cash flow to movement in net debt	Jan-June 2009	Jan-June 2008	Year to December 2008
	£	£	£
Increase/(decrease) in cash in the period	(125,674)	(481,820)	70,131
Cash inflow from increase in debt	(398,535)	(176,443)	(974,668)
Movement in net debt in the period	(524,209)	(658,263)	(904,537)
Net debt at 1 st January 2008	(569,748)	334,788	334,7879
Net debt at 30th June 2009	(1,093,957)	(323,475)	(569,748)

3. Analysis of changes in net debt	At 1 st January 2009	Cash flow	At 30 th June 2009
	£	£	£
Cash at bank and in hand	590,717	(125,674)	465,043
Bank overdrafts	(5,465)	5,465	-
Loans	(1,155,000)	(404,000)	(1,559,000)
Total	(569,748)	(524,209)	(1,093,957)

	At 1 st January 2008	Cash flow	At 30 th June 2008
	£	£	£
Cash at bank and in hand	520,586	(481,820)	38,766
Loans and overdrafts	(185,798)	(176,443)	(362,241)
Total	334,788	(658,263)	(323,475)

CONEXION MEDIA GROUP PLC

Accounting Policies

(a) Accounting basis and standards

The consolidated financial statements of Conexion Media Group Plc (the Group) have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union as they apply to the financial statements of the Group for the period ended 30th June 2009. The Group's financial statements are also consistent with IFRS as issued by the International Accounting Standards Board. The financial statements have been prepared under the historical cost convention and in accordance with applicable accounting standards. The accounting policies are unchanged from the previous year.

(b) Basis of consolidation

The group profit and loss account and balance sheet consist of the financial statements of the parent company and its subsidiary undertakings. The results of subsidiaries sold or acquired are included in the profit and loss account up to or from the date control passes. Intra-group sales and profits are eliminated fully on consolidation.

(c) Going concern

The Directors have prepared cash flow forecasts to 30th September 2010 and believe that the group will be able to meet its working capital requirements. The forecasts do not include any repayment of the loan of £1,250,000 from Polymer Holdings Ltd (PHL), which is included in amounts due to related parties. The loan is convertible into shares, under warrants granted to PHL. The shareholders gave the Board authority to issue these shares at the EGM held on 10th February 2009. The Board understands that PHL will not seek repayment of the loan, but will convert the loan into shares under the terms of the agreement. On this basis, the directors consider that it is appropriate to prepare the financial statements on a going concern basis. The financial statements do not include any adjustments that would result if the loan from PHL was required to be repaid.

(d) Intangible fixed assets

Purchased music catalogues are capitalised at cost as intangible fixed assets. Music catalogues are amortised by equal annual amounts over their expected useful life as follows:

Owned catalogues 70 years

Administered catalogues 10 years

Goodwill arising on acquisitions is capitalised in accordance with the requirements of IFRS 3. Goodwill impairment is assessed by comparing the carrying value of goodwill to the net present value of future cash flows derived from the operating performance underpinned by each cash generating units' three-year forecast. After this period, growth rates equivalent to nominal GDP are generally assumed. In accordance with IFRS 3 the carrying value of goodwill will continue to be reviewed for impairment on the basis stipulated and adjusted should this be required. Impairment is recognised in the income statement and is not subsequently reversed. The individual circumstances of each future acquisition will be assessed to determine the appropriate treatment of any related goodwill.

Goodwill arising on acquisitions before the date of transition to IFRS has been retained at the previous UK GAAP amounts at the date of transition subject to being tested for impairment at that date.

Intangible fixed assets are reviewed for impairment at the end of the first full financial year following the acquisition and in other periods if events or changes in circumstances indicate that the carrying value may not be recoverable. The intangible assets have a useful life of 70 years and are reviewed for impairment on an annual basis.

In standard music publishing administration agreements, the administrator of the music copyrights is granted a specific term during which it can administer and collect royalty payments. This can vary from one year to "life of copyright" agreements. The terms of copyright ownership for original literary and music works under UK legislation is 70 years after the death of the creator, or in the case of joint authorship, 70 years after the death of the surviving joint author. Despite this variation in terms, it is normal practice for administration periods to be set at one to five year periods, the intention being that the agreement is renewed under similar terms unless there is a major dispute between the parties. In many cases, the agreements themselves are not renewed but the administration of the royalties continues in the same manner. This is very often the case in the independent sector.

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Accounting Policies (continued)

(e) Depreciation of fixed assets

Fixed assets are stated at historical cost.

Depreciation on fixed assets is provided at rates estimated to write off the cost, less estimated residual value, of each asset evenly over its expected useful life as follows:

Office equipment 33.33% per annum

(f) Investments

Fixed asset investments are stated at historical cost less any provision for diminution in value.

(g) Turnover

Turnover represents the invoiced value of goods sold and services provided net of value added tax.

(h) Deferred taxation

In accordance with FRS 19, deferred tax is recognised as a liability or asset if transactions or events that give the company the obligation to pay more tax in future or a right to pay less tax in future have occurred by the balance sheet date.

(i) Foreign currencies

Transactions denominated in foreign currencies are translated into sterling at the rate of exchange ruling at the date of the transaction. Assets and liabilities in foreign currencies are translated into sterling at rates of exchange ruling at the end of the financial year. Exchange differences arising from the translation of foreign investments, subsidiaries or associates are taken directly to reserves. All other exchange differences are dealt with in the profit and loss account.

(j) Royalties and advances

Royalty income is accounted for on an accruals basis. Royalties payable are then matched to royalties receivable.

Advances received and receivable are recognised as turnover in the period to which the royalty income relates. Provision is therefore made for royalties payable on advances received only to the extent that the advances have been recouped.

Advances paid are provided for unless it is considered that they will be recouped from future earnings.

Royalties receivable in respect of administered catalogues are, like those from owned catalogues, shown within turnover and those payable are shown within cost of sales.

(k) Leasing and hire purchase commitments

Assets held under finance leases and hire purchase contracts are capitalised as tangible fixed assets in the balance sheet and are depreciated over the shorter of the lease term and their useful lives.

Obligations under such arrangements are included in creditors net of finance lease charges allocated to future periods. The finance element of the rental payment is charged to the profit and loss account so as to produce a constant periodic rate of charge on the net obligations outstanding.

Rentals paid under operating leases are charged to income on a straight-line basis over the lease term.

(l) Share based payments

Certain employees and Directors of the Group receive equity settled remuneration in the form of Company share options. The cost is charged to the profit and loss account on a straight line basis over the vesting period and a corresponding amount is reflected in the profit and loss reserves in shareholders' equity adjusted at each balance sheet date to take into account actual and expected level of vesting. The charge is calculated as being the fair value of the shares or the right to the shares at the date of grant, reduced by any consideration payable by the employee. Fair value is measured using a modified Black-Scholes option pricing model and is based on a reasonable expectation of the extent to which performance criteria will be met.