CONEXION MEDIA GROUP PLC (CXM)

Chairman's Statement

Highlights

Operating costs reduced

Loss for the period reduced

Successful integration of Los Angeles based acquisition.

Chairman's Statement

During the period Conexion Media Group Plc integrated Los Angeles based Kid Gloves Music, now Conexion Entertainment Group USA, acquired in February 2010, with its existing business, thereby increasing its platform for exploiting copyrights and services to the Hollywood based film and television studios.

Revenue was £1.4m compared with £1.7m in the first half of 2009 and Gross Profit was £636k (first half 2009 £875k.) Deals concluded during the period with U.S. based clients such as Comcast International, Telenext, Multivisionnaire and Broadway Classics as well as a TV production deal with Harper Collins will begin to reverse this downward trend, as Conexion continues its move into collecting ancillary film and television rights in addition to its traditional music publishing base.

EBITDA loss was down to £125k due to reduced Operating Costs and the Loss for the Period after Amortisation, Depreciation, and Finance Costs showed a reduction of £229k to £402k, compared with the same period last year.

During the period, considerable effort has been focused to broaden the intellectual property rights that the Company currently administrates. This is a specialist area and our CEO Justin Sherry is one of the few who are conversant with all these rights. International territorial sub-publishing relationships with third parties are gradually being replaced by direct memberships with collection societies which will give Conexion increased margins and benefit cash-flow

Justin and his team have spent considerable time building Conexion's presence in the US with our Nashville office taking over all the administrative back office functions of Conexion Entertainment Group USA. This has reduced the head count in Los Angeles with no increase in Nashville. From our new base in Los Angeles we launched a drive to increase our business presence which resulted in the signing of prestigious 'preferred vendor' deals with many of the major film studios for the supply of music and services. I am confident Justin's approach is working, building a platform to deliver long-term shareholder value.

Brian Scholfield
27th September 2010

CONEXION MEDIA GROUP PLC

Consolidated Income Statement
For the six months ended 30th June 2010

	Jan-June 2010 unaudited £	Jan-June 2009 unaudited £	Year to December 2009 audited £
Revenue	1,437,598	1,684,181	3,351,731
Direct costs	(801,614)	(809,102)	(1,560,763)
Gross Profit	635,984	875,079	1,790,968
Operating costs	(761,259)	(1,234,321)	(1,879,536)
Operating loss before amortisation and depreciation	(125,275)	(359,242)	(88,568)
Amortisation and depreciation	(240,955)	(234,521)	(475,241)
Operating loss	(366,230)	(593,763)	(563,809)
Finance income	118	966	7,785
Finance costs	(35,691)	(38,294)	(73,978)
Loss before taxation	(401,803)	(631,091)	(630,002)
Taxation	-	-	-
Loss for the period	(401,803)	(631,091)	(630,002)
Attributable to:			
Non-controlling interests	4,102	(1,008)	30,220
Owners of the parent company	(405,905)	(630,083)	(660,222)
Earnings/(loss) per share – continuing operations			
Basic earnings per share (pence)	(0.55)	(1.05)	(1.09)
Diluted earnings per share (pence)	(0.55)	(1.05)	(1.09)

Consolidated Statement of Comprehensive Income
For the six months ended 30th June 2010

	Jan-June 2010 unaudited £	Jan-June 2009 unaudited (restated) £	Year to December 2009 audited (restated) £
(Loss) for financial year	(401,803)	(631,091)	(630,002)
Currency translation differences	(128,806)	335,336	236,377
Total Comprehensive Income	(530,609)	(295,755)	(393,625)
Attributable to:			
Non-controlling interests	4,102	(1,008)	30,220
Owners of the parent company	(534,711)	(294,747)	(423,845)
Total Comprehensive Income	(530,609)	(295,755)	(393,625)

CONEXION MEDIA GROUP PLC

Consolidated Statement of Financial Position
As at 30th June 2010

	As at 30th June 2010 unaudited £	As at 30th June 2009 unaudited (restated) £	As at 31st December 2009 audited £
Non-current assets			
Intangible assets			
Goodwill	1,370,520	1,370,520	1,370,520
Other	4,134,617	3,433,812	3,231,306
Investments	-	-	-
Property, plant and equipment	47,295	123,107	75,616
Trade and other receivables	23,983	28,857	29,150
	5,576,415	4,956,296	4,706,592
Current assets			
Trade and other receivables	1,569,086	1,460,409	1,458,732
Cash and short term deposits	205,357	465,043	551,196
	1,774,443	1,925,452	2,009,928
Current liabilities			
Trade and other payables	(6,021,766)	(5,320,935)	(5,366,595)
Amounts due to related parties	(1,034,421)	(1,273,910)	(1,052,546)
Bank overdraft and loans	(180,200)	-	-
Current tax liabilities	-	-	-
	(7,236,387)	(6,594,845)	(6,419,141)
Net current liabilities	(5,461,944)	(4,669,393)	(4,409,213)
Total assets less current liabilities	114,471	286,903	297,379
Non-current liabilities			
Amounts due to related parties	-	(165,000)	(53,875)
Net assets	114,471	121,903	243,504
Equity			
Called up share capital	783,926	600,593	783,926
Share premium account	8,356,254	8,264,587	8,356,254
Other reserves	69,108	122,744	69,108
Shares to be issued	681,609	672,899	611,609
Retained earnings	(10,112,083)	(9,403,880)	(9,577,372)
Equity share owners' funds	(221,186)	256,943	243,525
Non-controlling interest	335,657	(135,040)	(21)
Total equity	114,471	121,903	243,504

Consolidated Statement of Cash Flows
For the six months ended 30th June 2010

	Note	Jan-June 2010 unaudited	Jan-June 2009 unaudited (restated)	Year to December 2009 audited
		£	£	£
Operating cash flow	1	256,936	(602,749)	(306,626)
Net finance costs		(35,573)	(37,328)	(66,193)
Net cash inflow from operating activities		221,363	(640,077)	(372,819)
Investing activities				
Purchase of subsidiary undertakings		(614,525)	-	(21,406)
Purchase of property, plant and equipment		(6,630)	(15,568)	(14,618)
Purchase of intangible assets		(12,839)	-	-
Net cash flow from investing activities		(633,994)	(15,568)	(36,024)
Financing activities				
Issue of shares from loan conversion		-	-	221,364
Convertible loan equity		-	34,079	34,079
Increase in borrowings		108,200	364,456	31,967
Net cash (outflow)/inflow from financing		108,200	398,535	287,410
Foreign exchange differences		(41,408)	131,436	81,912
(Decrease)/Increase in cash and cash equivalents		(345,839)	(125,674)	(39,521)
Cash and cash equivalents at start of period		551,196	590,717	590,717
Cash and cash equivalents at end of period		205,357	465,043	551,196

Notes to the Consolidated Cash Flow Statement
For the six months ended 30th June 2010

1. Reconciliation of profit before finance costs income and taxation to operating cash flow	Jan-June 2010	Jan-June 2009	Year to December 2009
	£	£	£
Loss before finance costs and taxation	(366,230)	(593,763)	(563,809)
Goodwill write back	(159,152)	-	-
Depreciation	34,952	33,119	70,871
Loss on disposal of fixed assets	-	-	8,516
Amortisation of intangible assets	206,003	201,402	404,370
(Increase)/decrease in trade and other receivables – non-current	5,167	1,109	816
(Increase)/decrease in trade and other receivables – current	(110,354)	560,233	561,910
Increase/(decrease) in trade and other payables	655,171	(1,133,273)	(1,087,613)
Share options	70,000	120,000	139,516
Exchange difference	(78,621)	208,424	158,797
Operating cash flow	256,936	(602,749)	(306,626)

2. Reconciliation of net cash flow to movement in net debt	Jan-June 2010	Jan-June 2009 (restated)	Year to December 2009
	£	£	£
Increase/(decrease) in cash in the period	(345,839)	(125,674)	(39,521)
Cash inflow from increase in debt	(108,200)	(364,456)	(31,967)
Movement in net debt in the period	(454,039)	(490,130)	(71,488)
Net debt at 1st January 2010	(555,225)	(483,737)	(438,737)
Net debt at 30th June 2010	(1,009,264)	(973,867)	(555,225)

3. Analysis of changes in net debt

	At 1st January 2010	Cash flow	At 30th June 2010
	£	£	£
Cash at bank and in hand	551,196	(345,839)	205,357
Bank loan and overdrafts	-	(180,200)	(180,200)
Loans	(1,106,421)	72,000	(1,034,421)
Total	(555,225)	(454,039)	(1,009,264)

	At 1st January 2009	Cash flow	At 30th June 2009
	£	£	£
Cash at bank and in hand	590,717	(125,674)	465,043
Bank overdrafts	(5,465)	5,465	-
Loans	(1,068,989)	(369,921)	(1,483,910)
Total	(483,737)	(490,130)	(973,867)

1. Accounting Policies

Basis of preparation

The Financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) adopted by the European Union. These statements do not constitute a set of statutory financial statements within the meaning of the Companies Act 2006.
The financial statements have been prepared on the historical cost basis and in accordance with the accounting policies adopted in the last audited statutory financial statements for the year ended 31 December 2009.

Going concern

The Directors have prepared cash flow forecasts to 30th September 2011 and believe that the Group will be able to meet its working capital requirements. Music Publishing companies have regular sources of income, as collection societies distribute revenues on the same dates each year. There are monthly and quarterly distributions. In addition, the Group has overseas partners known as sub-publishers, from whom the Group receives royalties quarterly and semi-annually depending on the contract. Music publishing companies only incur a cost of sales after the royalties have been received. The Group accounts for royalty income on an accruals basis, and therefore provides for the related royalty payable. The total royalties payable includes a significant amount relating to the royalty payable on the royalty income which has not been received at the balance sheet date, and the royalty due will therefore not be payable until some time after the balance sheet date.

Income has been forecast on the basis of prior year income adjusted for trading developments. This includes new income generated as a result of the acquisition of 70% of the assets of the Kid Gloves Music Group. Costs have been forecast on the basis of the current operating costs, including those costs relating to the Kid Gloves transaction.

The cash flow forecasts do not include any repayment of the loan from Polymer Holdings Limited (PHL). 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 the 17th December 2009, PHL converted the first loan facility of £275,000 into 18,333,333 fully paid ordinary shares of £0.01 at the subscription price of £0.015 per share. 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.

Accounting Estimates and Judgements

The Group makes estimates and judgements concerning the future and the resulting estimates may, by definition, vary from the actual results. The Directors considered the critical accounting estimates and judgements used in the financial statements and concluded that the main areas of judgement are:

- Revenue recognition policies in respect of contracts which straddle the period end;
- Contingent deferred payments in respect of acquisitions;
- Recognition and quantification of share based payments; and
- Valuation of intangible assets.

These estimates are based on historical experience and various other assumptions that management and the Board of Directors believe are reasonable under the circumstance.

2. Acquisition of Subsidiary

On the 3rd March 2010, Conexion Media Group acquired 70% of the assets in Kid Gloves Music Group ("KGM") from Kid Gloves Productions Inc., Kid Gloves Inc., and Crossroads Music LLC. The assets comprise music publishing rights, master recording rights and third party contracts. Based in Los Angeles, all assets of KGM have been assigned into a new entity, Conexion Entertainment USA LLC. The new entity is located in Los Angeles and is marketing Conexion Media Group's copyrights and services to the film and television studios.

The total consideration payable was £614,525 and the fair value of the assets acquired was £773,677, therefore negative goodwill arising was £159,152.