

# **CONEXION MEDIA GROUP PLC**

**Company No: 4125263**

**CONSOLIDATED  
FINANCIAL STATEMENTS  
FOR THE YEAR ENDED  
31 DECEMBER 2008**

# CONEXION MEDIA GROUP PLC

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# CONEXION MEDIA GROUP PLC

## **Directors**

Brian Scholfield  
Guy Fletcher OBE  
Justin Sherry  
Tom Bradley

## **Secretary**

Frank McAweaney

## **Registered Office**

10 Heathfield Terrace  
London  
W4 4JE

## **Auditors**

Kingston Smith LLP  
141 Wardour Street  
London  
W1F 0UT

## **Stockbrokers and Nominated Advisor**

finnCap  
4 Coleman Street  
London  
EC2R 5TA

## **Bankers**

Bank of Scotland  
St James's Gate  
14-16 Cockspur Street  
London  
SW1Y 5BL

## **Registrars and Transfers Office**

Capita Registrars  
Northern House  
Woodsome Park  
Fenay Bridge  
Huddersfield  
West Yorkshire  
HD8 0GA

# CONEXION MEDIA GROUP PLC

## Chairman's Statement

### Highlights for 2008

- Operating costs reduced from £2.44m to £1.86m.
- EBITDA loss reduced from £1.0m to £651k.
- Bank loans and overdraft eliminated.

A full breakdown of the twelve months is shown in the financial statements, notes and narratives which follow.

### Chairman's Statement

Since the last Chairman's statement in September 2008 we have witnessed the onset of a transformation of your company. In June 2008 Justin Sherry was promoted to CEO and in March 2009 the company changed its name to Conexion Media Group Plc ("CXM"). This transformation commenced against a backdrop of turmoil in the financial markets and few have been immune to its effects. CXM is indeed fortunate that it eliminated its exposure to the banks in September 2008 by paying off all outstanding bank loans and overdraft facilities on a group-wide basis. Towards the end of 2008 CXM announced that convertible loans of £1.25m were received from an existing shareholder. Naturally this provided investment capital which enabled CXM to announce a string of new deals in 2009. This process is very much a work in progress and we hope to be in the position to announce further deals in the coming months.

By rebranding CXM the Group aims to broaden the rights it has traditionally administered whilst fully utilising the current royalty and administration platform to provide television and film content owners a 'one stop shop' for maximising financial return from their retained rights.

Turnover fell by £635k (14%) to £4.0m and gross profit fell by £230k (16%) as certain client contracts expired in the year. However the new deals we have signed will start to deliver income in 2009. The good news was that the new management has taken a hard line on overheads and a reduction of £582k (24%) produced an EBITDA loss reduced from £1m to £651k. This included a non cash charge of £271k for share options. In 2009 almost all of the costs of the Hong Kong offices disappear from our P&L plus there will be further cost savings in the UK and USA. On this basis the Group is much closer to breakeven than it appears, the Group having expensed £353k in the P&L for HK in 2008.

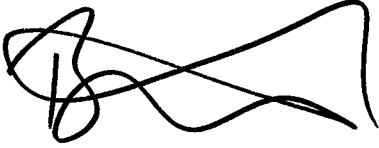
Despite the current recession and economic climate, we are optimistic for the forthcoming year. Justin Sherry has undertaken a comprehensive review of CXM's operations which has culminated in substantial cost reduction and a leaner and more efficient business. Justin has materially changed the direction of the Group and we are ahead of the game in multiple rights collection. Many of our competitors are struggling. This has generated an opportunistic market for growth with the added benefit that fewer parties are proactive in this arena.

The UK Performing Right Society (PRS) announced a 12.6% increase in revenues for 2008 which underwrites that the music publishing sector (particularly Film and TV) is expanding ahead of predictions. All the major media companies have difficulties with the plummeting returns from their record divisions, an area to which CXM is not exposed. CXM being a publicly traded vehicle with a global reach is a naturally compelling choice for large corporate rights owners that now wish as a cost cutting exercise to outsource their rights administration. This is evident in the signing earlier this year of media giant Hearst, who chose CXM over the plethora of private companies offering similar services.

# CONEXION MEDIA GROUP PLC

## Chairman's Statement (continued)

Your board continues to work hard to grow the business in the broader arena of media rights collection, and we look forward with confidence to the coming year.

A handwritten signature in black ink, appearing to be 'B. Scholfield', written in a cursive style.

**Brian Scholfield**  
Chairman

17th June 2009

# CONEXION MEDIA GROUP PLC

## Report of the Directors For the year ended 31st December 2008

The Directors have the pleasure in presenting their report and consolidated financial statements of the group for the year ended 31<sup>st</sup> December 2008.

### Principal Activities and Business Review

On the 9<sup>th</sup> March 2009, the company changed its name from Music Copyright Solutions Plc to Conexion Media Group Plc. The principal activity of the group throughout the year continued to be music copyright administration and the exploitation of musical compositions.

### Review of the Business and Future Developments

This has been covered by the Chairman's Statement on pages 3-4.

### Results and Dividends

The Group loss for the year after taxation was £1,511,562 (2007: £1,424,983).

The Board of Directors are unable to recommend a dividend in respect of this year.

### Policy on payments to Creditors

The Group does not have a standard code for dealing specifically with payment of creditors. The Group negotiates payment terms with its suppliers on an individual basis and settles its accounts in accordance with those terms. On average, trade creditors at the year end represented 118 days purchases (2007: 97 days)

### Risk Management

The main risk to the company is the decline in the sales of recorded music. However, music publishers are shielded from this, more than record companies, as the majority of their income is derived from performance royalties. In addition, Conexion Media specialises in the administration of film and TV related music rights. This is a sector which is increasing in value with the proliferation of satellite TV channels and digital outlets. Furthermore, Conexion Media is moving into the growing market of collecting income streams from additional broadcast rights and non-music related sources, such as cable re-transmission and private copying levies, alongside its continued music publishing business.

### Directors

The following Directors have held office since 1 January 2008:

Brian Scholfield

Justin Sherry

Guy Fletcher OBE

Tom Bradley

Peter Koenig (resigned 8th August 2008)

### Directors and their interests

The Directors who served the company during the year together with their interests in the shares and debentures of the company and other group undertakings, at the beginning and end of the year, were as follows:

### Director shareholdings

	Ordinary shares of 1p each in Conexion Media Group plc	
	31 <sup>st</sup> December 2008	1 <sup>st</sup> January 2008
Brian Scholfield	5,166,333	5,166,333
Guy Fletcher	1,104,500	1,104,500

# CONEXION MEDIA GROUP PLC

## Report of the Directors (continued)

The following table shows details of the options for ordinary shares of 1p each in Conexion Media Group Plc:

Director	At 31 <sup>st</sup> December 2008	Lapsed during the year	At 1 <sup>st</sup> January 2008	Exercise Price	Date of grant	Date from which exercisable	Expiry date
Brian Scholfield	60,000	-	60,000	£0.44	18/02/2002	18/02/2005	17/02/2012
	250,000	-	250,000	£0.12	06/12/2005	06/12/2008	05/12/2015
	800,000	-	800,000	£0.18	14/12/2006	14/12/2009	13/12/2016
	<b>1,110,000</b>		<b>1,110,000</b>				
Justin Sherry	150,000	-	150,000	£0.18	14/12/2006	14/12/2009	13/12/2016
	350,000	-	350,000	£0.31	06/12/2007	06/12/2010	05/12/2017
	<b>500,000</b>		<b>500,000</b>				
Guy Fletcher	40,000	-	40,000	£0.44	18/02/2002	18/02/2005	17/02/2012
	800,000	-	800,000	£0.18	14/12/2006	14/12/2009	13/12/2016
	<b>840,000</b>		<b>840,000</b>				
Tom Bradley	100,000	-	100,000	£0.35	26/02/07	26/02/2010	25/02/2017
	<b>100,000</b>		<b>100,000</b>				
Peter Koenig (resigned)	-	(100,000)	100,000	£0.18	14/12/2006	14/12/2009	13/12/2016
	-	<b>(100,000)</b>	<b>100,000</b>				

On 8<sup>th</sup> January 2009, the company granted 2,000,000 options to Justin Sherry at an exercise price of 3p per share and an exercise period of 8<sup>th</sup> January 2012 to 7<sup>th</sup> January 2019. The Company also cancelled 350,000 options issued to him in December 2007.

### Substantial Shareholdings

As at 16<sup>th</sup> June 2009, there are 60,059,218 ordinary 1 penny shares in issue. The company has been advised of the following substantial share interests exceeding 3% in the issued ordinary share capital:

TW Indus Ltd	9,315,802	15.51%
Brian Scholfield	5,166,333	8.60%
Artemis Investment Management	4,330,000	7.21%
Polymer Holdings Ltd	4,232,745	7.05%
Acuity Capital Management	2,841,200	4.73%
Galloway Ltd	2,242,971	3.73%
Way Back When Ltd	1,805,882	3.01%

### Share Issues

There were no issues of shares in the year.

# CONEXION MEDIA GROUP PLC

## Report of the Directors (continued)

### Disclosure of Information to Auditors

So far as the Directors are aware, there is no relevant audit information of which the Group's auditors are unaware. The Directors have taken all the steps that they ought to have taken as Directors in order to make themselves aware of any relevant audit information and to establish that the Group's auditors are aware of that information.

### Auditors

Kingston Smith LLP have indicated their willingness to continue in office and in accordance with the provisions of the Companies Act it is proposed that they be re-appointed auditors for the ensuing year.

### Corporate Governance

The Company has developed appropriate measures to ensure that it complies, as far as practicable, with the Combined Code on Corporate Governance having regard to the size of the Company.

The Group has adopted and operates a share dealing code for Directors on the same terms as the Model Code for companies whose share have been admitted to the Alternative Investment Market (AIM) of the London Stock Exchange.

### Going Concern

The Directors have considered and confirm that it is appropriate to adopt the financial statements on the basis that the Group and Company have adequate resources to continue in operational existence for the foreseeable future. Therefore the Group and Company continue to adopt the going concern basis in preparing the financial statements.

### Employees

Applicants for employment by disabled persons are always fully considered, bearing in mind the aptitudes and abilities of the applicant concerned.

The Company places considerable value on the involvement of its employees and has continued its previous practice of keeping them informed on matters affecting them as employees and on various factors affecting the performance of the company. Employees are consulted regularly on a wide range of matters affecting their current and future interests.

### Statement of Directors Responsibilities

Company law requires the Directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Group and the Company and of the profit or loss for that period.

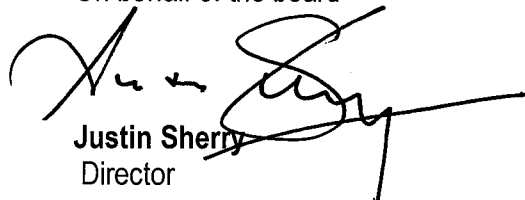
In preparing those financial statements, the Directors are required to select suitable accounting policies and then apply them consistently; make judgements and estimates that are reasonable and prudent; and prepare the financial statements on a going concern basis unless it is inappropriate to assume that the Group and the Company will continue in business.

The Directors are responsible for keeping proper accounting records which 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 comply with the Companies Act 1985 as amended. They are also responsible for safeguarding the assets of the company 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 corporate and financial information included on the company's website.

CONEXION MEDIA GROUP PLC  
10 Heathfield Terrace  
London  
W4 4JE

17<sup>th</sup> June 2009

On behalf of the board

  
Justin Sherry  
Director

# CONEXION MEDIA GROUP PLC

## Report of the Auditors

### **Independent Auditors' Report to the Shareholders of Conexion Media Group Plc**

We have audited the financial statements of Conexion Media Group plc and its subsidiaries for the year ended 31<sup>st</sup> December 2008 which comprise the Consolidated Income Statement, the Consolidated Statement of Recognised Income and Expenses, the Consolidated Statement of Changes in Equity, the Consolidated Balance Sheet, the Parent Company Balance Sheet, the Consolidated Cash Flow Statement, and the related notes. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken for no purpose other than to draw to the attention of the company's members those matters, which we are required to include in an auditor's report addressed to them. To the fullest extent permitted by law, we do not accept or assume responsibility to any party other than the company and 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 described in the Statement of Directors' Responsibilities, the Company's Directors are responsible for the preparation of the financial statements in accordance with applicable law and International Financial Reporting Standards ("IFRS" s) as adopted by the European Union.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion, the information given in the Directors' Report is consistent with the financial statements.

In addition we report to you if, in our opinion, we have not received all the information and explanations we require for our audit, or if information specified by law regarding the Directors' remuneration and transactions with the company or the group is not disclosed.

We read other information contained within the Directors' Report and consider whether it is consistent with the audited consolidated financial statements. The other information comprises of the Chairman's Statement and the Directors' Report. We consider the implications for our report if we become aware of any apparent misstatement or material inconsistencies with the consolidated financial statements. Our responsibilities do not extend to any other information.

### **Basis of Audit Opinion**

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's and group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

The Directors are responsible for ensuring that the Directors' Report and other information included in the Annual Report is prepared in accordance with Company Law in the United Kingdom. They are also responsible for ensuring that the Annual Report includes information required by the AIM rules.

# CONEXION MEDIA GROUP PLC

## Report of the Auditors (continued)

### Opinion

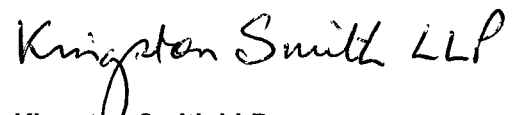
In our opinion:

- the financial statements give a true and fair view, in accordance with IFRS as adopted by the European Union, of the state of affairs of the Group at 31<sup>st</sup> December 2008 and of the loss of the Group for the year;
- the parent company financial statements give a true and fair view, in accordance with IFRS as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 1985 of the state of the parent company's affairs at 31<sup>st</sup> December 2008;
- the financial statements have been properly prepared in accordance with the Companies Act 1985 and, as regards the Group financial statements; and
- the information given in the Directors' Report is consistent with the financial statements.

### Emphasis of Matter - Going Concern

In forming our opinion, we have considered the adequacy of the disclosure made in note 1(c) of the financial statements concerning the ability of the group to meet its working capital requirements. We have reviewed the cash flow forecasts prepared by the directors, which show the group to be a going concern for at least the next twelve months, based on the loan from Polymer Holdings not being repaid and instead it being converted into equity. Although we have no reason to suspect the loan will be required to be repaid and not be converted to equity, in view of the significance of this uncertainty we consider that it should be drawn to your attention but our opinion is not qualified in this respect.

141 Wardour Street  
London  
W1F 0UT



**Kingston Smith LLP**  
Chartered Accountants  
and Registered Auditors

17<sup>th</sup> June 2009

# CONEXION MEDIA GROUP PLC

## Consolidated Income Statement

For the year ended 31<sup>st</sup> December 2008

	Note	2008 £	2007 £
Turnover (Billings)	2	4,011,427	4,646,485
Direct costs		<u>(2,799,844)</u>	<u>(3,205,053)</u>
<b>Gross Profit</b>		<b>1,211,583</b>	<b>1,441,432</b>
Operating costs		<u>(1,862,704)</u>	<u>(2,444,055)</u>
<b>Operating loss before amortisation and depreciation</b>		<b>(651,121)</b>	<b>(1,002,623)</b>
Amortisation and depreciation		(470,003)	(442,926)
Exceptional amortisation	3	<u>(424,375)</u>	-
<b>Operating loss</b>	4	<b>(1,545,499)</b>	<b>(1,445,549)</b>
Finance income		3,220	16,521
Finance costs	7	<u>(51,751)</u>	<u>(47,502)</u>
<b>Loss before taxation</b>	2	<b>(1,594,030)</b>	<b>(1,476,530)</b>
Taxation	8	<u>-</u>	<u>-</u>
<b>Loss for the year</b>		<b>(1,594,030)</b>	<b>(1,476,530)</b>
Minority interests		<u>82,468</u>	<u>51,547</u>
<b>Loss for the year</b>	10	<b><u>(1,511,562)</u></b>	<b><u>(1,424,983)</u></b>
<b>Earnings/(loss) per share – continuing operations</b>	9		
Basic earnings per share (pence)		(2.52)	(2.60)
Diluted earnings per share (pence)		(2.52)	(2.60)

# CONEXION MEDIA GROUP PLC

## Consolidated Statement of Recognised Income and Expense

For the year ended 31<sup>st</sup> December 2008

	2008	2007
	£	£
(Loss) for financial year	(1,511,562)	(1,424,983)
Currency translation differences	(700,707)	23,691
Transfer from reserves	5,091	-
Prior year adjustment	(119)	(4,326)
<b>Total Recognised Income and Expense relating to the year</b>	<b>(2,207,297)</b>	<b>(1,405,618)</b>

## Consolidated Statement of Changes in Equity

For the year ended 31<sup>st</sup> December 2008

	Called up Share Capital £	Share Premium Account £	Shares to be Issued £	Other Reserve £	Retained Earnings £	Total £
Balance at 1 <sup>st</sup> January 2008	600,593	8,264,587	287,080	2,654	(6,901,836)	2,253,078
Prior year adjustment	-	-	-	-	(119)	(119)
<b>Revised balance at 1<sup>st</sup> Jan 2008</b>	<b>600,593</b>	<b>8,264,587</b>	<b>287,080</b>	<b>2,654</b>	<b>(6,901,955)</b>	<b>2,253,959</b>
Share Options granted	-	-	270,910	-	-	270,910
Transfer from reserves	-	-	(5,091)	-	5,091	-
Loss for the year	-	-	-	-	(1,511,562)	(1,511,562)
Foreign exchange difference taken to retained earnings	-	-	-	-	(700,707)	(700,707)
<b>Balance at 31<sup>st</sup> December 2008</b>	<b>600,593</b>	<b>8,264,587</b>	<b>552,899</b>	<b>2,654</b>	<b>(9,109,133)</b>	<b>311,600</b>

# CONEXION MEDIA GROUP PLC

## Consolidated Balance Sheet

As at 31<sup>st</sup> December 2008

	Note	2008 £	2007 £
<b>Non-current assets</b>			
Intangible assets			
Goodwill	12	1,370,520	1,518,753
Other	12	3,636,885	4,233,955
Investments	14	-	76,142
Property, plant and equipment	13	143,508	88,804
Trade and other receivables		29,966	48,956
		<b>5,180,879</b>	<b>5,966,610</b>
<b>Current assets</b>			
Trade and other receivables	15	2,019,287	2,781,964
Director's Loan		1,355	-
Cash and short term deposits		590,717	520,586
		<b>2,611,359</b>	<b>3,302,550</b>
<b>Current liabilities</b>			
Trade and other payables	16	(6,289,944)	(6,726,995)
Current tax liabilities	16	(164,264)	(154,856)
Bank overdraft and loans	16	(5,465)	(185,798)
Amounts due to related parties	18	(928,000)	-
		<b>(7,387,673)</b>	<b>(7,067,649)</b>
<b>Net current liabilities</b>		<b>(4,776,314)</b>	<b>(3,765,099)</b>
<b>Total assets less current liabilities</b>		<b>404,565</b>	<b>2,201,511</b>
<b>Non-current liabilities</b>			
Amounts due to related parties	18	(227,000)	-
<b>Net assets</b>		<b>177,565</b>	<b>2,201,511</b>
<b>Equity</b>			
Called up share capital	11	600,593	600,593
Share premium account	11	8,264,587	8,264,587
Other reserves	11	2,654	2,654
Shares to be issued	11	552,899	287,080
Retained earnings	11	(9,109,133)	(6,901,836)
<b>Equity share owners' funds</b>		<b>311,600</b>	<b>2,253,078</b>
Minority interests		(134,035)	(51,567)
<b>Total equity</b>		<b>177,565</b>	<b>2,201,511</b>

Approved by the board for issue on 17<sup>th</sup> June 2009

Justin Sherry  
Director

# CONEXION MEDIA GROUP PLC

## Company Balance Sheet

As at 31<sup>st</sup> December 2008

	Note	2008 £	2007 £
<b>Non-current assets</b>			
Intangible assets			
Goodwill	12	170,622	170,622
Other	12	1,843,627	2,214,133
Investments	14	25,504	249,879
Property, plant and equipment	13	118,011	73,881
Trade and other receivables		21,000	42,000
		<b>2,178,764</b>	<b>2,750,515</b>
<b>Current assets</b>			
Trade and other receivables	15	3,737,988	2,325,307
Director's Loan		1,355	-
Cash and short term deposits		15,378	219,854
		<b>3,754,721</b>	<b>2,545,161</b>
<b>Current liabilities</b>			
Trade and other payables	16	(755,325)	(657,415)
Current tax liabilities	16	(45,621)	(53,817)
Bank overdraft and loans	16	(5,465)	(185,798)
Amounts due to related parties	18	(928,000)	-
		<b>(1,734,411)</b>	<b>(897,030)</b>
<b>Net current liabilities</b>		<b>2,020,310</b>	<b>1,648,131</b>
<b>Total assets less current liabilities</b>		<b>4,199,074</b>	<b>4,398,646</b>
<b>Non-current liabilities</b>			
Amounts due to related parties	18	(227,000)	-
<b>Net assets</b>		<b>3,972,074</b>	<b>4,398,646</b>
<b>Equity</b>			
Called up share capital	11	600,593	600,593
Share premium account	11	8,264,587	8,264,587
Shares to be issued	11	552,899	287,080
Retained earnings	11	(5,446,005)	(4,753,614)
<b>Equity share owners' funds</b>		<b>3,972,074</b>	<b>4,398,646</b>

Approved by the board for issue on 17<sup>th</sup> June 2009

Justin Sherry  
Director

# CONEXION MEDIA GROUP PLC

## Consolidated Cash Flow Statement

For the year ended 31<sup>st</sup> December 2008

	Note	2008 £	2007 £
<b>Operating cash flow</b>	1	(735,646)	67,576
Net finance costs		(48,531)	(30,981)
<b>Net cash inflow from operating activities</b>		<b>(784,177)</b>	<b>36,595</b>
<b>Investing activities</b>			
Purchase of investments		-	(76,142)
Purchase of property, plant and equipment		(116,658)	(91,847)
Purchase of intangible assets		(3,702)	(1,267,996)
<b>Net cash flow from investing activities</b>		<b>(120,360)</b>	<b>(1,435,985)</b>
<b>Financing activities</b>			
Issue of shares for cash		-	1,891,037
Increase/(Decrease) in borrowings		974,668	(336,492)
Financing and share issue costs		-	(43,921)
<b>Net cash inflow from financing</b>		<b>974,668</b>	<b>1,510,624</b>
<b>Increase in cash and cash equivalents</b>		<b>70,131</b>	<b>111,234</b>
Cash and cash equivalents at start of period		520,586	409,352
Cash and cash equivalents at end of period		590,717	520,586

