Qonnectis plc

Preliminary Results for the year to 30 June 2008

Qonnectis plc ('Qonnectis' or 'the Company'; stock code: QTI), the energy and water conservation IT services provider, announces its audited results for the year to 30 June 2008.

Highlights:

- Turnover up by 50% in comparison to 2007
- Gross profit margins at 51.8%
- The loss, before non cash impairment of goodwill and exceptionals, of £579,219 was an improvement of £72,053 compared with the previous year
- £1,250,000 of funds were raised through new brokers, FinnCap
- The new leakage detector and calculator, Leakfrog, successfully moved from development to volume production and sales
- An additional sales channel was added with Leakfrog available through Halma Water Management
- New customers were added and repeat business was secured from existing customers

Commenting on the results, Chairman, Richard M. Taylor, said:

"Qonnectis continued to make good progress during the year in an increasingly difficult market. New customer wins, repeat business and the roll out of Leakfrog all contributed to strong sales growth.

The fundraising completed by FinnCap in April gave the Company a firm financial foundation on which to develop and execute its sales and product evolution plans.

The economic climate is extremely uncertain but the Board remains confident in the benefits that Qonnectis technology and products can bring to its customers."

Notes to Editors

Editors' notes - About Qonnectis

Qonnectis' patented technologies enable the analysis of remote meter data to facilitate water leakage control, customer profiling, and energy and water management efficiency. Its products are already being used by a wide range of UK and overseas utilities as well as large commercial and domestic users of energy or water.

The iStaq family of products work by sending meter readings to Qonnectis' secure data centre via SMS text messaging over the GSM network. The data is then aggregated and published online via utility-branded "myMeter" websites operated by Qonnectis. The data can also be sent directly to utilities' billings systems. Customers can access real-time information via a web browser using the "myMeter" service.

For further information, please visit www.qonnectis.com.

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Chairman's Statement

Results
I am pleased to report that Qonnectis has grown revenues significantly for the fourth year in succession. Turnover for the period was £456,678, an increase of 50% over the previous year. Gross profit margins at 52% have held up well on this increased turnover despite initial set up costs for Leakfrog production. The reported loss, before impairment of goodwill and exceptionals, of £579,219 is an improvement of £72,053 from the previous year.

The main contributor to revenue in the period was the £200,000 order from Thames Water for the company's innovative Leakfrog product. This was followed by further volume sales of this product to South West Water and trial quantities to other water companies and customers in the UK and elsewhere.

During the year the company concluded a Memorandum of Understanding with Halma to distribute this product and a Distribution Agreement has been negotiated.

Sales of Qonnectis loggers and associated services have continued to Scottish Water and their customers and we now have a significant installed base in the country.

Product renewal is vital to the future of any business. Although delivery of a fully productionised Leakfrog absorbed considerable technical and operational effort during the year work also progressed on a new generation of loggers for the "Qonnectis Network" range. Development also started on products that will extend and evolve the Leakfrog concept.

One Off Charges
Following a detailed review by the Board and adoption of IFRS the carrying value of goodwill has been impaired by £2,920,379. The other one off charge of £250,000 arises from the convertible loan taken out in 2007.

Fund Raising
In April the company raised £1,250,000 through its new brokers FinnCap for expansion and working capital.

Board Changes
As the company has grown and received further funding it was felt appropriate to formally appoint a Finance Director. We are pleased that in October Barbara Spurrier joined the Board. She is a qualified certified accountant with over 25 years experience in financial and accountancy roles. At the same time Guy Chant, a Non Executive Director, became interim Chief Executive to fill the position resulting from the current ill health of Chief Executive, Michael Tapia.

Outlook
We are encouraged by the customers who have bought and continue to buy Qonnectis' products and services. The key challenge the company faces is to make the sales effort for each of these lines cost effective. This is most likely to be achieved through a combination of direct sales to a limited number of volume customers together with sales through a key number of distributors who are already selling complementary products to our customer base.

Qonnectis is not immune from current economic conditions and this has manifested itself in longer customer decision making cycles and the consequent impact in order intake. However, we have established products and repeat customers and are reasonably well funded.

Richard M Taylor
Chairman

Chief Executive's Review

It is a pleasure to be able to report that the company again made significant progress during the year through the development of business with existing and new customers and the volume roll out of Leakfrog®, a device that allows the accurate measurement of leakage and wastage on the customer's side of a meter, following its development in a partnership project with Thames Water.

Customers and the market

Although we continued to see regular repeat business from our existing customers, for example Scottish Water, NHS Trusts and "Blue Light" locations, the most significant new customer advance came with the deployment by Thames Water of Leakfrog® on the vital Victorian Mains Replacement programme in London.

Customers for the "Qonnectis Network" system, consisting of iStaq loggers and myMeter web services, continue to secure financial, energy and operational efficiencies from the information that the service provides in an increasing span of applications. The rising cost of energy over the year brought into sharp focus the financial costs of not pursuing energy efficiency opportunities.

Although progress was made in securing additional customers for our range of products, the Thames Water adoption of Leakfrog® was the most significant element in our development. Many thousands of units were put into use across the Thames Water mains replacement programme. The product fully met the customer's expectations and its reliability has been outstanding. Leakfrog® has also been bought by other water companies, and although they are not yet at an equivalent scale the product's benefits are being more widely understood. Sales also started to be made to other parts of the world.

New Products

While we concentrated much of our technical focus on bringing Leakfrog® to volume production we have also committed effort to developing the next generation of iStaq's to support the continued improvement of the "Qonnectis Network". Work also commenced on further variants of the Leakfrog® and this work should come to fruition during 2008/2009.

New sales channels

During the year a Memorandum of Understanding was entered into with Halma Water Management for the sale of Leakfrog® to most UK water companies and the potential to sell the product through their international distributors. During the year Halma started to achieve sales, initially in the form of trial quantities which is normal when introducing a new product to large and sophisticated customers and the relationship developed through its early stages.

We now have a mix of sales channels which we consider to be appropriate for the different sectors we operate in and the nature of our product and service range.

The Qonnectis range of products has shown itself to be of real value to a diverse customer base; our challenge, in addition to supporting our existing business, is to exploit new opportunities in a timely manner within the resources that we have.

Outlook

The exceptional uncertainty that has characterised the UK and world markets for some months makes the outlook extremely difficult to ascertain with any confidence. While all businesses are keen to reduce costs, and the information we provide enables cost saving, management are naturally focussed more on immediate pressures at difficult times and the sales cycle is becoming more extended.

Government remains enthusiastic about smart metering and water companies are keen to move to different forms of automatic meter reading. As is often seen, these new technologies take longer than anticipated to make an impact but conversely that impact may be greater once established.

It is clear that domestic water metering will become more widespread over the next 5 year investment cycle (known as AMP5) starting in 2010 and as more premises are metered the potential market for Leakfrog increases.

The challenge Qonnectis faces is to attain sufficient traction to trade itself into a self sustaining financial position and realise the potential that its products and technologies hold. Within the current adverse business climate, all aspects of the business will remain under constant review.

Guy Chant
Interim Chief Executive Officer

Consolidated income statement for the year to 30 June 2008

	Year to 30 June 2008 £	Restated Year to 30 June 2007 £
Turnover	**456,678**	**304,776**
Cost of sales	(220,071)	(110,985)
Gross profit	**236,607**	**193,791**
Operating expenses	(845,383)	(896,730)
Other operating income	49,514	49,313
Exceptional item - convertible loan funding costs	(250,000)	-
Impairment of goodwill	(2,920,379)	-
Operating loss	**(3,729,641)**	**(653,626)**
Interest receivable and similar income	6,241	7,354
Interest payable and similar charges	(26,198)	(5,000)
Loss on ordinary activities before taxation	**(3,749,598)**	**(651,272)**
Tax on loss on ordinary activities	-	-
Loss on ordinary activities after taxation	**(3,749,598)**	**(651,272)**
Loss per share (basic)	(1.49 pence)	(0.31 pence)

All of the activities of the company are classed as continuing.

The company has no recognised gains or losses other than the results for the year as set out above.

Consolidated balance sheet as at 30 June 2008

	30 June 2008 £	Restated 30 June 2007 £
Assets		
Non-current assets		
Intangibles	603,473	3,523,852
Property plant & equipment	4,495	8,683
	607,968	**3,532,535**
Current assets		
Inventories	30,137	11,906
Debtors	93,327	94,785
Cash at bank and in hand	697,341	44,046
	820,805	**150,737**
TOTAL ASSETS	**1,428,773**	**3,683,272**
EQUITY		
Capital and Reserves		
Share Capital	12,020,588	10,270,588
Share Premium	1,600,717	1,675,050
Retained earnings	(12,368,251)	(8,618,653)
TOTAL EQUITY	**1,253,054**	**3,326,985**
LIABLILITES		
Non-current liabilities		
Borrowings	-	6,000
	-	6,000
Current liabilities		
Trade and other payables	169,719	314,287
Borrowings	6,000	36,000
	175,719	**350,287**
TOTAL LIABILITIES	**175,719**	**356,287**
Attributable to equity holders of the company	**1,428,773**	**3,683,272**

Consolidated cash flow statement for the year to 30 June 2008

	30 June 2008 £	**30 June 2007 £**
Cash flows from operating activities		
Cash utilised by operations	(716,250)	(538,386)
Interest paid	(26,198)	(5,000)
Taxation paid	-	-
Net cash utilised by operating activities	**(742,448)**	**(543,386)**
Capital expenditure		
Purchase of property plant and equipment	(165)	(6,332)
Interest received	6,241	7,354
Net cash from investing activities	**6,076**	**1,022**
Cash flows from financing activities		
Issue of share capital	1,675,667	612,000
Exceptional item – convertible loan funding costs	(250,000)	-
Repayment of borrowings	(36,000)	(36,000)
Net cash from financing activities	**1,389,667**	**576,000**
Net Increase in cash and cash equivalents	**653,295**	**33,636**
Cash and bank overdrafts at start of period	**44,046**	10,410
Cash and bank overdrafts at end of period	**697,341**	**44,046**

1. General information

Qonnectis PLC (the “company”) and its subsidiaries (together, the “Group”) are engaged in the research, development and supply of an integrated solution for remote data communications to established businesses, such as energy and water utilities, primarily in the United Kingdom and Western Europe.

The company is a public limited company domiciled in England, registered number 03923150, and is listed on the Alternative Investment Market (“AIM”) of the London Stock Exchange.

2. Adoption of new and revised standards

In the current year, the Group has prepared for the first time these financial statements in accordance with International Financial Reporting Standards and IFRIC interpretations as adopted by the European Union (IFRS’s as adopted by the EU) and the Companies Act 1085 applicable to companies reporting under IFRS. The disclosures required by IFRS 1 concerning the transition from UK GAAP to IFRS are given in note 3.

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

IFRS 8 *Operating segments*
IFRIC 12 *Service Concession Arrangements*
IFRIC 14 *IAS 19-The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*
IAS 23 (Revised) Borrowing Costs
IFRIC II IFRS2 Group and treasury share transactions
IFRIC 13 Customer loyalty programmes

The directors anticipate that the adoption of these Standards and Interpretations in future periods will have no material impact on the financial statements of the Group when the relevant Standards and Interpretations come into effect.

This is the Group’s first set of Financial Statements presented under IFRS, having previously prepared its Financial Statements in accordance with UK accounting standards.

3. Reporting under International Financial Reporting Standards (IFRS)

The commentary below highlights the key changes that have arisen due to the transition from reporting under UK GAAP to reporting under IFRS. The Group’s date of transition is 1st July 2006 which is the beginning of the comparative period for the 2008 financial year. Therefore the opening balance sheet for IFRS purposes is that reported at 1 July 2006 as amended for changes due to IFRS.

This annual report is the first to be prepared under IFRS. The comparative figures have been prepared on the same basis and are therefore restated from those previously reported under UK GAAP. To help understand the impact of the transition, reconciliations have been produced to show the changes made to statements previously reported under UK GAAP in arriving at the equivalent statements under IFRS. The following are the three reconciliations which are included in this appendix.

I. Consolidated income statement for the year ended 30th June 2007
II. Consolidated balance sheet at 30th June 2007
III. Consolidated balance sheet at 1 July 2007

The income statement for the year to 30 June 2008 and the balance sheet at that date are reported under IFRS. As they have not previously been reported under UK GAAP no reconciliation to IFRS is required.

The net effect on the reported results of presenting the 2007 full year financial statements under IFRS rather than UK GAAP is £ 209,857. The changes have no impact on cash flows previously reported. The key areas of change are outlined below.

First time adoption
IFRS 1 “First Time Adoption of International Reporting Standards” sets out the approach to be followed when IFRS is applied for the first time. As a general principle, IFRS 1 requires that accounting policies are to be applied retrospectively although IFRS1 provides a number of optional exceptions where the cost of compliance is deemed to exceed the benefits to users of the financial statements. Where applicable, the options selected by management under IFRS1 are set out in the explanatory notes below.

There has been no reclassification between property, plant and equipment and intangible assets.

Research and development
No adjustment is required in respect of research and development expense.

Goodwill
Financial assets are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted.

Reconciliation of the consolidated balance sheet as at 30th June 2007

	As reported under UK GAAP	Reclassification	As restated under IFRS
	£	£	£
ASSETS			
Non current assets			
Intangible assets	3,313,995	209,857	3,523,852
Property, plant and equipment	8,683	-	8,683
Investments	-	-	-
	3,322,678	**209,857**	**3,532,535**
Current assets			
Inventories	11,906	-	11,906
Trade and other receivables	94,785	-	94,785
Cash at bank and in hand	44,046	-	44,046
	150,737	**-**	**150,737**
TOTAL ASSETS	**3,473,415**	**209,857**	**3,683,272**
EQUITY			
Capital and reserves			
Share capital	10,270,588	-	10,270,588
Share premium	1,675,050	-	1,675,050
Retained earnings	(8,828,510)	209,857	(8,618,653)
Total Equity	**3,117,128**	**209,857**	**3,326,985**
LIABILITIES			
Non-current liabilities			
Borrowings	6,000	-	6,000
	6,000	**-**	**6,000**
Current liabilities			
Trade and other payables	314,287	-	314,287
Borrowings	36,000	-	36,000
	350,287	**-,**	**350,287**
TOTAL LIABILITIES	**356,287**	**-**	**356,287**
TOTAL EQUITY AND LIABILITIES	**3,473,415**	**209,857**	**3,683,272**

Reconciliation of net loss for the year ended 30 June 2007

	As reported under UK GAAP £	Derecognition of goodwill amortisation £	As restated under IFRS £
Revenue	**304,776**	**-**	**304,776**
Cost of sales	(110,985)	-	(110,985)
Gross profit	**193,791**	**-**	**193,791**
Operating expenses	(1,106,587)	209,857	(896,730)
Other operating income	49,313	-	49,313
Operating loss	**(863,483)**	**209,857**	**(653,626)**
Finance income	7,354	-	7,354
Finance costs	(5,000)	-	(5,000)
Loss before taxation	**(861,129)**	**209,857**	**(651,272)**
Taxation	-	-	-
Loss for the period	**(861,129)**	**209,857**	**(651,272)**
Loss per share - basic	(0.40 pence)	0.09 pence	(0.31 pence)

Basis of accounting and going concern
The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs.) The financial statements have also been prepared in accordance with IFRSs adopted by the European Union and therefore the group financial statements comply with Article 4 of the EU IAS Regulation.

The financial statements have been prepared of the historical cost basis, except for the revaluation of certain properties and the financial instruments.

The Directors have prepared a business plan which has formed the basis on which they are satisfied that the Group has adequate financial resources to continue to operate for the next twelve months. This business plan assumes a certain level of sales, which the Directors believe to be both achievable and the best estimate of the Group's future activities. However there is a risk that the actual level of sales achieved may be significantly lower than is assumed in that business plan. As noted in the Enhanced Business Review, there is a risk that new and existing partnerships may not lead to significant sales and that new iterations of the product range may not be received well by the market.

Having taken into account the above material uncertainties, the Directors consider it is appropriate that the financial statements should be prepared on a going concern basis. The conditions facing the Group nevertheless give rise to material uncertainties related to events or conditions which may cast significant doubt on the Group's ability to continue as a going concern and therefore it may be unable to realise its assets and discharge its liabilities in the normal course of business. The financial statements do not include the adjustments that would result if the Group was unable to continue as a going concern. In the event the Group ceased to be a going concern, the adjustments would include writing down the carrying value of assets to their recoverable amount and providing for any further liabilities that might arise.

4. Revenue

The revenue of the group is attributable to continuing activity for a single inter-related class of business for the provision of products and associated services.

Analysis by geographic market:

	Year to 30 June 2008 £	**Year to 30 June 2007 £**
United Kingdom	449,628	299,875
Rest of world	7,050	4,901
	456,678	304,776

5. Loss per share

	Year to 30 June 2008 £	**Year to 30 June 2007 £**
Basic		
Net loss for the year	(3,749,598)	(651,272)
Weighted average number of ordinary shares outstanding	251,073,776	213,508,023
Loss per share	**(1.49 pence)**	**(0.31 pence)**

IAS 33 requires presentation of diluted loss per share when a company could be called upon to issue shares that would decrease net profit or increase net loss per share. For this company the issue of shares would decrease the net loss per share and, therefore, it does not meet the requirements of IAS 33. Accordingly no diluted EPS has been presented.

6. Reconciliation of operating loss to net cash outflow

	As at 30 June 2008 £	**As at 30 June 2007 £**
Operating loss	**(3,729,641)**	**(653,626)**
Adjusted for:		
• Depreciation of fixed assets	4,352	3,565
• Amortisation of intangible assets	2,920,379	-
• Funding costs relating to convertible loan	250,000	-
• Decrease/(Increase) in stock	(18,230)	7,303
• Decrease/(Increase) in debtors	1,458	4,546
• Increase/(Decrease) in creditors	(144,568)	99,826
Net cash outflow from operating activities	**(716,250)**	**(538,386)**

7. Reconciliation of net cash flow to movement in net funds/(debt)

	As at 30 June 2008 £	As at 30 June 2007 £
Increase/(Decrease) in cash in the period	653,295	33,636
Cash outflow from decrease in debt	36,000	36,000
Movement in net debt in the period	**689,295**	**69,636**
Net (debt)/funds at beginning of year	2,046	(67,590)
Net funds/(debt) at end of year	**691,341**	**2,046**

8. Analysis of net funds/(debt)

	As at 1 July 2007 £	Cashflow £	As at 30 June 2008 £
Cash	44,046	653,295	697,341
Bank overdraft	-	-	-
Cash and cash equivalents	**44,046**	**653,295**	**697,341**
Loan falling due within one year	(36,000)	30,000	(6,000)
Loan falling after one year	(6,000)	6,000	-
Net (debt)/funds	**2,046**	**689,295**	**691,341**

9. Auditors report and publication of report and accounts

The consolidated balance sheet at 30 June 2008 and the consolidated income statement, consolidated cash flow statement and associated notes for the year then ended have been extracted from the Group's 2008 statutory financial statements upon which the auditors opinion is unqualified but which does draw attention to the uncertainty as to the realisation of the forecasts.

The report and accounts for the year ended 30 June 2008 will be posted to shareholders tomorrow. The Annual General Meeting will be held at 12pm on 19th December 2008 at 170 Windmill Road West, Sunbury-on-Thames, Middlesex, TW16 7HB. Copies of the report and accounts are available from www.qonnectis.com and will also be available from Qonnectis plc's registered office: 170 Windmill Road West, Sunbury-on-Thames, Middlesex, TW16 7HB.