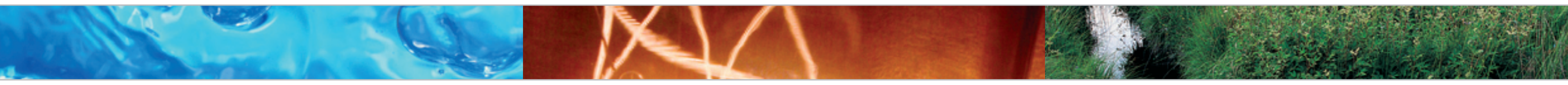
Qonnectis

UTILITY INTELLIGENCE



ANNUAL REPORT 2005

WATER ENERGY ENVIRONMENT

Company Registration No.

3923150 (England and Wales)

Qonnectis Plc and Subsidiary Undertakings

Annual Report and Accounts

30 June 2005

Qonnectis Plc

ANNUAL REPORT AND ACCOUNTS 2005

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OFFICERS AND PROFESSIONAL ADVISERS

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Robert Macdonald Watson

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Michael Anthony Tapia, Chief Executive Officer
Percival Charles Antony William Albuquerque, Non-executive Director

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CHAIRMAN'S STATEMENT

Results

I am very pleased to report that the Company has recorded its first gross profit in its five-year history of £27,497 (a gross margin of 45%) on turnover of £60,007, which has more than doubled in comparison to last year.

The most significant event during the financial year was the company's successful graduation from Ofex to AIM on 26th February 2005 and the associated fund raising of £1.2 million, net of expenses. This represented the latest stage in Qonnectis' development from a management and business angel funded start-up five years ago to a rapidly-growing commercial organisation with an expanding international customer base, traded within the technology sector of AIM.

The reported loss for the financial year was £1,048,503 and includes flotation costs of £300,000. Nevertheless this represents an improvement versus market expectations at the time of the graduation to AIM. As at 30th June 2005, the Company had cash balances of £710,336.

Operations

We are committed to growing revenues by fostering our existing relationships with major customers and large UK and international water/energy users, as well as building on our distribution partnerships.

Amongst the Company's many achievements over the past year, I would highlight:

- The winning of repeat business from Scottish Water, Cambridge Water and a number of National Health Service Trusts
- A patent award covering Qonnectis' Internet-based data communication system
- The launch of a range of environmental products and services
- The approval by The Carbon Trust of the use of Qonnectis' advanced metering products in energy applications which qualify for 100% capital allowances
- Facilitating £180,000 of cost savings for an NHS hospital by identifying a massive water leak

Additionally we have secured a number of important contracts since the financial year end, namely:

- Our first OEM agreement with Compteurs Farnier, a major French manufacturer of water meters
- The installation of the myMeter system at the World Trade Square commercial complex in Hong Kong
- The selection by Aquavitae, on behalf of its customer, of Qonnectis' technology to monitor Associated British Ports' sites
- The award of a contract for an initial 12 sites by Water Utilities Corporation of Botswana

Also, we recently appointed Fee Ching Rees as Financial Controller; previously Qonnectis outsourced its accountancy functions.

Strategy and Outlook

Our strategic focus remains on expanding our client base by delivering customer-focused utility management solutions, whilst relentlessly driving down production costs to enable Qonnectis to achieve breakeven as soon as possible. We particularly are looking to increase the number of resellers that we work with to enable any business consuming more than £10,000 of utility services a year to benefit from the cost and efficiency savings that Qonnectis provides.

We are confident about the future and what we can achieve with our range of innovative products, loyal customers and distribution partners, and our dedicated staff. I should like to thank them all.

RM Taylor

20th December 2005

Richard M Taylor
Chairman
Qonnectis plc

CHIEF EXECUTIVE'S REVIEW

The year to June 2005 was very much one of transition for Qonnectis, symbolised by the move to AIM in February. Over that twelve-month period, the Company has matured from an innovative market entrant with leading technology in the water and energy sector, to a fast-growing commercial organisation with an expanding customer base of international blue chip clients.

We have made significant progress in converting initial customer trials into firm orders. Additionally, the proceeds of the placing are being directed towards sales and marketing initiatives to increase market penetration and revenues rapidly. Our focus now is on improving profitability, providing our customers with tailored solutions to their water and energy management problems, and attracting and retaining the quality of commercial and technical staff required to achieve our growth targets.

Qonnectis' main objective is to save customers money and improve their operating efficiency. To do this, we provide our customers with "utility intelligence" – the data needed to make resource management decisions, be it a utility company looking to more closely monitor its network or a business energy user looking to reduce their utility bills or carbon emissions.

The first step is to analyse consumption patterns and this is one of Qonnectis' principal strengths. We provide very high resolution measurements (our installed base of devices varies from meters being read once a month to once every fifteen minutes). The automated charting and analysis of this high quality data allows our customers to identify problems or areas of improvement. Our automated alerts service means that our customers receive emails or text messages as soon as problems occur – such as water leaks or over-consumption of energy. For example, the NHS this year saved approximately £180,000 at one hospital alone due to our water leakage monitoring solution.

Our systems are extremely easy to use – we manage the product installations and the remote data collection service – customers simply log on to their Qonnectis myMeter.info web site and access their data, charts and alarms. Of our iStaq remote meter reading devices, 95% of shipments are now using SMS text messaging to send their data to our data centre once a day, extremely cost-effectively.

Customers and Marketplace

Qonnectis' technology has a wide range of applications. For example, we are monitoring water consumption at bus garages and railway stations in Scotland, energy and water consumption in hospitals in Wales, generator performance and energy consumption for a multiple retailer in the UK, small businesses in Ireland, facilities management companies in France, air conditioning systems in Hong Kong and water networks in Southern Africa. In the year, Qonnectis collected 3.2 million remote meter readings from our iStaq devices throughout the UK and overseas, compared to 621,000 in the previous year. We expect shortly to reach 1 million meter readings per month.

With our emphasis on customers' cost-savings, it is clear that recent hikes in energy and water prices, coupled with other uncertainties in the utilities sector, such as the security of gas supply and climate change regulations, are very favourable for the business. Industrial gas costs in the UK have risen on average by 47% and electricity costs by 34% in 2005 whilst water bills are rising by an average of 18% from April 2005. In addition, for larger businesses, carbon emissions control requirements provide a further incentive to properly measure and manage their energy and water consumption. Businesses are having to react to these pressures as a financial imperative. The Government is providing capital grants such that businesses effectively can obtain discounts on Qonnectis' advanced metering products through 100% capital allowances, as the Company is a Carbon Trust-approved supplier on the Energy Technology and Water Technology Lists.

Increasing energy and utility costs are becoming global issues and the initial priority for business and governments alike should be the conservation of finite resources via demand side management, a precursor of which is accurate measurement of consumption. Alternative energies and renewables will play their part, and have a high profile, but your Board feels that the only way to achieve rapid, demonstrable results is in improved and accessible energy and water monitoring and management. Our new environmental monitoring solutions similarly will benefit from increased business requirements, increased regulation and reporting, and the general uncertainty concerning environmental and climate change.

New products

Qonnectis' iStaq-LG advanced meter reading communications devices for water and energy are now in established manufacture with our sub-contractors. In November 2005 we began shipping the next, updated version of our software in these devices (the iStaq-LG Q330 Series), providing improved intelligence on-site and with the ability to remotely configure the devices so that they can be adapted, for example, to changes in customer energy consumption. Earlier in the year, we announced the launch of the new iStaq-AL for environmental monitoring which can record changes in pressure in water and gas pipes, assess water quality and measure water levels and rainfall for flood alerts. Recently we have upgraded our data collection server software solution to incorporate all the additional functionality and facilities introduced with these products.

Marketing Strategy

Going forward, we have clear objectives for the business, with sustained profitability being the primary driver:

- **Repeat business from satisfied customers**: Recent months have seen a significant increase in repeat orders from our existing customer base, such as Scottish Water and the NHS. Providing consistently high service quality and support is essential for us to continue gaining repeat orders from these customers as they roll out our technology.
- **New customers**: Over recent months we have announced significant new customer wins, such as Aquavitae, Harrimans, Botswana Water Corporation, and Compteurs Farnier. More recently, we have gained new business from a variety of companies, including Enersol Corporation, a provider of energy-saving devices to industry. We are adding additional sales resource to allow us to capitalise on the significant new prospects and customer enquiries generated by our marketing and trade press campaigns.
- **New channels and partners**: We recently announced an agreement with Compteurs Farnier, a significant meter manufacturer, for the sale of Qonnectis products and services in France, Canada and the USA under the Farnier brand. We are actively progressing similar agreements with manufacturers, consultants, utilities, national installation companies, international distributors, and other operators in the energy and water sectors. Increasing our channels to market and to sales is a core tenet of our sales strategy.
- **Sales generation**: The proceeds of the AIM flotation have enabled us to expand our marketing activity, including trade exhibitions and the media, as well as upgrading our corporate communications and trade web site. This is bringing in a very high level of customer enquiries which we are progressing. Within our sector, the sales cycle can be between 3 months to 2 years, so managing this process is key to achieving volume growth.
- **Margins**: Our successful move to a new, established outsourced contract manufacturer, which took place earlier in the year, has improved margins, and we expect significant further margin improvements going forward.

Delivery is primarily about the quality of the people involved. I am pleased to say we have a very strong and dedicated team and I would like to thank them for their great efforts and support in our year of transition. We recently made some positive changes within our team, including our financial resource, and are expanding our sales team with expert and driven people.

Looking forward, we can see great opportunities for Qonnectis, coupled with the challenges of managing our cost base effectively whilst we seek to achieve significant revenue growth and shareholder value. We remain highly optimistic regarding the future prospects for the business.

Michael Tapia
Chief Executive
Qonnectis plc

20th December 2005

DIRECTORS' REPORT

The directors present their annual report and the audited financial statements for the year ended 30 June 2005.

Principal activities

The principal activities of the company and its subsidiaries were those of the research, development and supply of an integrated solution for remote data communications to established businesses, such as energy and water utilities.

Business review

A review of the business and future prospects is covered in the Chairman's statement on page 2 and the Chief Executive's review on pages 3 and 4.

Results and dividends

The loss for the year after taxation is £1,048,503 (2004 £596,203). The directors do not recommend payment of a dividend (2004 £nil).

Annual General Meeting

Notice of an Annual General Meeting of Shareholders is set out on page 32 of this report.

Directors and directors' interests

The directors, all of whom either held office during the year or had been appointed as at the date of this report, were as follows:

Name	Position	Date of appointment
Richard Mann Taylor	Non-executive Chairman	19 August 2003
Michael Anthony Tapia	Chief Executive Officer	17 April 2003
Percival Charles Antony William Albuquerque	Non-executive Director	7 August 2004

The directors who held office at the end of the financial year had the following interests in the Ordinary shares of the Company, including shareholdings held by connected persons and options held over the Ordinary shares of the Company at 30 June 2005:

	At 30 June 2005		At 30 June 2004	
	Beneficial interest	Share options	Beneficial Interest	Share Options
Richard Mann Taylor	1,450,403	3,333,333	1,450,403	-
Michael Anthony Tapia	20,528,776	4,444,444	20,528,776	-
Percival Charles Antony William Albuquerque	-	222,222	-	-

Significant shareholdings

On 20th December 2005, the Company had been notified, in accordance with section 198 to 208 of the Companies Act 1985, of the following interests in the ordinary share capital of the Company:

	Ordinary Shares	%
ALASIA TRADING INC	7,147,138	4.54%
GILTSPUR NOMINEES LIMITED	8,740,390	5.55%
PERSHING KEEN NOMINEES LIMITED	25,639,856	16.29%
ROY NOMINEES LIMITED	5,555,556	3.53%
SPECTRA AS	4,902,361	3.11%
MICHAEL ANTHONY TAPIA	20,528,776	13.04%
W B NOMINEES LIMITED	9,453,214	6.01%

Directors' and officers' liability

Directors' and officers' liability insurance is currently being purchased.

Political and charitable contributions

The company made no such contributions in the year (2004 £Nil).

Policy on payment of suppliers

The Group's current policy concerning the payment of trade creditors is to:

- settle the terms of payment with suppliers when agreeing the terms of each transaction
- ensure that suppliers are made aware of the terms of payment by inclusion of the relevant terms in contracts
- pay in accordance with the Group's contractual and other legal obligations

The number of days trade creditors of the Company at the balance sheet date was 70 (2004: 302 days). This is based on trade creditors at the year end divided by total purchases in the year.

Auditors

Mazars LLP succeeded to Mazars as the independent auditor to the Company during the year. A resolution to reappoint Mazars LLP as auditors to the Company and to authorise the Directors to fix their remuneration will be proposed at the Annual General Meeting.

Approved by the Board of Directors
and signed on behalf of the Board

Director
20th December 2005

CORPORATE GOVERNANCE

The Board supports the principles of good governance set out in the Combined Code. Companies which have securities traded on AIM are not required to comply with the New Combined Code. However, Qonnectis plc is committed to high standards of corporate governance and has adopted procedures to institute good governance insofar as it is practical and appropriate for a company of its size.

Board

The Company is run by the Board of Directors, which comprises one executive and two non-executive directors. As the business grows and becomes more complex it is anticipated that the Board will be added to.

The Board meets regularly and is responsible for the Group's corporate strategy, monitoring financial performance, approval of capital expenditure, treasury and risk management policies. Board papers are sent out to all directors in advance of each Board meeting including management accounts and accompanying reports from those responsible. Non-executive directors are able to contact the executive director at any time for further information.

Board Committees

The Board has established an Audit Committee and a Remuneration Committee with delegated duties and responsibilities.

(a) Audit Committee

R M Taylor, non –executive Chairman, is Chairman of the Audit Committee, which also comprises Fee Ching Rees as Group Financial Controller. The Audit Committee is responsible for ensuring that the financial performance, position and prospects for the Company are properly monitored, controlled and reported on and for meeting the auditors and reviewing their reports relating to accounts and internal controls.

(b) Remuneration Committee

The Remuneration Committee comprises R M Taylor, non-executive Chairman and P Albuquerque, non-executive Director. It is responsible for reviewing performance of the executive Directors and determining the remuneration and basis of service agreements with due regard for the Combined Code. The Remuneration Committee also determines the payment of any bonuses to executive Directors and the grant of options.

The Company has adopted and operates a share dealing code for directors and senior employees on the same terms as the Model Code appended to the Listing Rules of the UKLA.

Internal Control

The Board is responsible for the Group's system of internal control and for reviewing its effectiveness. Such a system is designed to manage rather than eliminate risk of failure to achieve the business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

The system of internal financial control comprises those controls established to provide reasonable assurance of:
- The safeguarding of assets against unauthorised use or disposal and
- The maintenance of proper accounting records and the reliability of financial information used within the business and for publication

The key procedures of internal financial control of the Group are as follows:
- The Board reviews and approves budgets and monitors performance against those budgets on a monthly basis. Variances are fully investigated
- The Group has clearly defined reporting and authorisation procedures relating to the key financial areas

Relations with shareholders

The Company holds regular meetings with its institutional shareholders to discuss objectives and to keep them updated on the Company’s strategy, Board membership and management.

Going Concern

The directors, having made appropriate enquiries, as described in note 1 to the accounts, have reasonable expectations that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

United Kingdom 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 Company and the Group as at the end of the financial year and of the profit or loss of the Group 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
- state whether applicable accounting standards have been followed

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 to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for the system of internal control, for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are also responsible for ensuring that the annual report includes information required by the AIM Rules.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF QONNECTIS PLC

We have audited the financial statements for the year ended 30 June 2005 which comprise the Consolidated Profit and Loss Account, the Consolidated Balance Sheet, the Company's Balance Sheet, the Consolidated Cash Flow Statement and related notes. These financial statements have been prepared under the historical cost convention and 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 so that we might state to the company's members those matters we are required to state to them in an auditors' 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 described in the Statement of Directors' Responsibilities the company's directors are responsible for the preparation of financial statements in accordance with applicable law and United Kingdom Accounting Standards. Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards.

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 if, in our opinion, the Directors' Report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the company and other members of the group is not disclosed.

We read other information contained in the Annual Report, and consider whether it is consistent with the audited financial statements. This other information comprises only the Directors' Report, the Chairman's Statement and the Chief Executive's Review. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with United Kingdom Auditing Standards 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 circumstances of the company and the group, 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.

Fundamental uncertainty

In forming our opinion, we have considered the disclosures in note 1 of the financial statements concerning the basis of preparation. Note 1 sets out the relevant matters that the directors have considered, and the assumptions they have made, in forming their view that it is appropriate for them to prepare the financial statements on the going concern basis. In particular, that the directors are working towards bringing the Group to a level of profitable trading and, in doing so, are assessing, on a regular basis, cost levels, sales activities and research and development expenditure. Should these assumptions not prove to be correct, or the objectives not met, adjustments would have to be made to reduce the value of the assets to the recoverable amounts and to provide for any further liabilities that may arise. Our report is not qualified in this respect.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF QONNECTIS PLC

Opinion

In our opinion the financial statements give a true and fair view of the state of the company's and the group's affairs as at 30 June 2005 and of the group's loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Mazars LLP
Chartered Accountants and Registered Auditors
Clifton Down House
Clifton
Bristol, BS8 4AN

20th December 2005

Qonnectis Plc

CONSOLIDATED PROFIT AND LOSS ACCOUNT

Year ended 30 June 2005

	Note	2005 (£)	2004 (£)
TURNOVER	3	60,007	25,128
Cost of sales		(32,510)	(34,590)
Gross profit		27,497	(9,462)
Administrative expenses		(1,097,720)	(580,894)
Other operating income - R&D tax credit		24,815	-
- Other		-	79
OPERATING LOSS	7	(1,045,408)	(590,277)
Net finance costs	6	(3,095)	(5,926)
LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION		(1,048,503)	(596,203)
Tax credit on loss on ordinary activities	8	-	-
LOSS ON ORDINARY ACTIVITIES AFTER TAXATION		(1,048,503)	(596,203)
LOSS FOR THE FINANCIAL YEAR		(1,048,503)	(596,203)
Loss per share - basic	9	(0.93p)	(0.69p)

There are no recognised gains or losses in either financial year other than the loss for each year, and therefore, no statement of total recognised gains and losses has been prepared.

All transactions are derived from continuing operations.

Qonnectis Plc

CONSOLIDATED BALANCE SHEET

Year ended 30 June 2005

	Note	2005 (£)	2004 (£)
FIXED ASSETS			
Goodwill	10	3,733,709	3,943,566
Tangible assets	11	3,514	2,656
		3,737,223	3,946,222
CURRENT ASSETS			
Stock	2	9,601	-
Debtors	13	58,855	42,181
Cash at bank and in hand		710,336	15,370
		778,792	57,551
CREDITORS: amounts falling due within one year	14	(270,819)	(274,074)
NET CURRENT ASSETS/(LIABILITIES)		507,973	(216,523)
TOTAL ASSETS LESS CURRENT LIABILITIES		4,245,196	3,729,699
CREDITORS: amounts falling due after more than one year	15	(78,000)	(114,000)
		4,167,196	3,615,699
CAPITAL AND RESERVES			
Called up share capital	17	9,658,588	8,977,636
Share premium account	18	1,675,050	756,002
Profit and loss account	18	(7,166,442)	(6,117,939)
EQUITY SHAREHOLDERS' FUNDS	19	4,167,196	3,615,699

These financial statements were approved by the Board of Directors on 20th December 2005.
Signed on behalf of the Board of Directors

Director

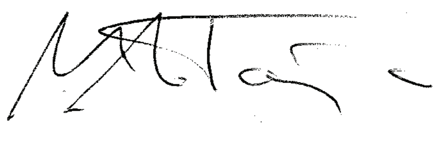
Qonnectis Plc

COMPANY BALANCE SHEET

Year ended 30 June 2005

	Note	2005 (£)	2004 (£)
FIXED ASSETS			
Investments	12	3,962,500	3,962,500
CURRENT ASSETS			
Debtors	13	2,903,328	2,350,471
Cash at bank and in hand		705,155	11,330
		3,608,483	2,361,801
CREDITORS: amounts falling due within one year	14	(124,447)	(104,780)
NET CURRENT ASSETS		3,484,036	2,257,021
TOTAL ASSETS LESS CURRENT LIABILITIES		7,446,536	6,219,521
CAPITAL AND RESERVES			
Called up share capital	17	9,658,591	8,977,636
Share premium account	18	1,675,050	756,002
Profit and loss account	18	(3,887,105)	(3,514,117)
EQUITY SHAREHOLDERS' FUNDS	19	7,446,536	6,219,521

These financial statements were approved by the Board of Directors on 20th December 2005.
Signed on behalf of the Board of Directors



Director

Qonnectis Plc

CONSOLIDATED CASH FLOW STATEMENT

Year ended 30 June 2005

	Note	2005 (£)	2004 (£)
Net cash outflow from operating activities	20	(854,739)	(556,978)
Returns on investments and servicing of finance			
Interest received		10,687	862
Interest paid		(13,782)	(6,788)
Net cash outflow from returns on investments and servicing of finance		(3,095)	(5,926)
Capital expenditure			
Payments to acquire tangible assets		(2,693)	(2,615)
Net cash outflow from capital expenditure		(2,693)	(2,615)
Net cash outflow before management of liquid resources and financing		(860,527)	(565,519)
Financing			
Issue of ordinary share capital		1,600,003	217,683
Issue of ordinary B share capital		-	303,500
Repayment of long-term bank loan		(36,000)	(27,000)
Net cash inflow from financing		1,564,003	494,183
Increase/(decrease) in cash in the year		703,476	(71,336)

1. BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

The early stage of development of the Group's business is such that there can be considerable unpredictable variation in the amount of revenue and timing and amounts of cash flows. The directors have projected cash flow information for the period to 31 December 2006. The directors are working towards bringing the Group to a level of profitable trading. In doing so, they are assessing, on a regular basis, cost levels, sales activities and research and development expenditure.

There is inherent uncertainty as to the realisation of the forecasts. The directors consider that in preparing the financial statements they have taken into account the uncertainty and all information that could reasonably be expected to be available. On this basis, the directors have formed a judgement at the time of approving the financial statements that they consider it appropriate to prepare these financial statements on the going concern basis. The financial statements do not include any adjustments that would result should the going concern basis of accounting no longer be appropriate.

2. ACCOUNTING POLICIES

The principal accounting policies are summarised below. They have all been applied consistently throughout the year and the preceding year.

Accounting convention
The financial statements are prepared under the historical cost convention in accordance with applicable United Kingdom accounting standards.

Basis of consolidation
The consolidated profit and loss account and balance sheet include the financial statements of the company and its subsidiary undertakings made up to 30 June 2005. 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.

Revenue recognition

The company recognises revenue at the date that the customer's order is shipped.

Deferred taxation
Deferred taxation is provided on the liability method to take account of timing differences between the treatment of certain items for accounts purposes and their treatment for tax purposes. The company does not discount deferred tax assets and liabilities.

Research and development
Research expenditure is written off to the profit and loss account in the year in which it is incurred. Development expenditure is written off in the same way unless the directors are satisfied as to the technical, commercial and financial viability of individual projects. In this situation, the expenditure is deferred and amortised over the period during which the company is expected to benefit.

Foreign exchange
Monetary assets and liabilities denominated in foreign currencies are translated into sterling at the rates of exchange ruling at the balance sheet date. Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. All differences are taken to profit and loss account.

2. ACCOUNTING POLICIES (CONTINUED)

Goodwill
Goodwill may arise on acquisition of subsidiary undertakings. Goodwill represents the excess of costs over fair value of group assets acquired. In accordance with Financial Reporting Standard 10 such goodwill is capitalised as an intangible asset and amortised by equal installments against profits over expected life. The expected life normally is 20 years. Where the directors consider an impairment in goodwill is appropriate provision will be made for such an impairment.

Operating leases
Rentals payable under operating leases are charged against income on a straight line basis over the lease term.

Tangible fixed assets
Tangible fixed assets other than freehold land are stated at cost less depreciation. Depreciation is provided at rates calculated to write off the cost less estimated residual value of each asset over its expected useful life, as follows:

Plant and machinery	33% straight line
Fixtures, fittings & equipment	33% Straight line
Development tools & equipment	25% straight line

Turnover
Turnover represents amounts receivable for goods and services net of VAT and trade discounts.

Stock
Stock of manufactured units and components are stated at the lower of cost or net realisable value.

3. TURNOVER

The turnover of the Group by source and destination relates to both the United Kingdom and overseas, and the directors consider that the Group's continuing activities consist of one inter-related class of business for the provision of products and associated services

	2005 (£)	2004 (£)
UK	42,865	9,230
Overseas	17,142	15,898
	60,007	25,128

4. STAFF COSTS

	2005 (£)	2004 (£)
Staff costs during the year (including directors)		
Wages and salaries	177,556	118,917
Social security costs	24,027	16,620
	201,583	135,537

	No.	No.
Average number of persons employed:		
Management	3	3
Staff	3	3
	6	6

5. DIRECTORS' EMOLUMENTS

	2005 (£)	2004 (£)
Directors' emoluments		
Salary payments (including benefits in kind)	83,529	48,750

No payments were made in respect of directors' personal pension schemes (2004 - Nil). There are no directors (2004 - None) to whom retirement benefits are accruing in respect of qualifying services in respect of money purchase schemes.

	Salary	Benefits	Total emoluments 2005	Total emoluments 2004
Remuneration by director was:	£	£	£	£
Executive directors				
M. Tapia	50,000	11,029	61,029	37,500
Non-Executive directors				
R.M. Taylor	15,000	-	15,000	11,250
P. Albuquerque	7,500	-	7,500	-
Total emoluments	72,500	11,029	83,529	48,750

DIRECTORS' SHARE OPTIONS

Share options held by directors were as follows:

	Granted	30 June 2005	Exercise Price	Earliest Exercise Date	Expiry date
Ordinary					
R.M. Taylor	18 Feb 2005	3,333,333	2.25p	24 Feb 2006	24 Feb 2015
M. Tapia	18 Feb 2005	4,444,444	2.25p	24 Feb 2006	24 Feb 2015
P. Albuquerque	18 Feb 2005	222,222	2.25p	24 Feb 2006	24 Feb 2015

The market price of the ordinary shares at 30 June 2005 was 1.88p and the range during the period was 1.75p to 3.75p. No options were exercised by directors during the year.

6. NET FINANCE COSTS

	2005 (£)	2004 (£)
Interest receivable	10,687	862
Interest payable to bank	(13,782)	(8,285)
Interest payable to other	-	1,497
	(3,095)	(5,926)

7. LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION

	2005 (£)	2004 (£)
Loss on ordinary activities is stated after charging:		
Corporate audit	13,000	14,050
Non-audit services provided by auditors:		
Taxation compliance	4,100	3,000
Acting as Reporting Accountants	41,125	-
Depreciation of tangible assets	1,835	7,257
Amortisation of goodwill	209,857	157,393
Operating lease rentals - premises	19,800	14,850
-other assets	19,096	-

The audit fee for the Company was £4,000 (2004-£5,000)

8. TAX CREDIT ON LOSS ON ORDINARY ACTIVITIES

	2005 (£)	2004 (£)
United Kingdom corporation tax at nil% (2004 – nil %) based on the loss for the year	-	-
The differences are explained below:		
Loss on ordinary activities before tax	(1,048,503)	(596,203)
Tax at 10% (2004 10%) thereon:	(104,850)	(59,620)
Expenses not deductible for tax purposes	1,069	968
Write of goodwill on acquisition of shares in subsidiary	20,985	16,465
Depreciation in excess of capital allowances	111	(333)
Creation of tax losses	57,735	42,520
Other timing differences	24,950	-
Current tax credit for year	-	-

A deferred tax asset has not been recognised in respect of timing differences relating to carried forward tax losses as there is insufficient evidence that the asset will be recovered. The Group could have tax losses available for carry forward of up to £1.9m (2004 £1.5m)

9. LOSS PER SHARE

	2005 (£)	2004 (£)
Basic		
Net loss for the year:	(1,048,503)	(596,203)
Weighted average number of ordinary shares outstanding	112,946,184	87,028,089
Loss per share:	(0.93p)	(0.69p)

FRS 14 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 FRS 14. Accordingly no diluted EPS has been presented.

10. GOODWILL

	2005 (£)	2004 (£)
Cost		
Brought forward	7,487,001	7,487,001
Carried forward	7,487,001	7,487,001
Amortisation		
Brought forward	3,543,435	3,386,042
Charge for the year	209,857	157,393
Carried forward	3,753,292	3,543,435
Net book value		
At beginning of the year	3,943,566	4,100,959
At end of the year	3,733,709	3,943,566

11. TANGIBLE FIXED ASSETS

	Plant and machinery (£)	Fixture, fittings and equipment (£)	Development tools and equipment (£)	Total (£)
Group				
Cost				
At 1 July 2004	12,901	58,081	2,150	73,132
Additions	1,505	344	844	2,693
At 30 June 2005	14,406	58,425	2,994	75,825
Accumulated depreciation				
At 1 July 2004	10,664	58,023	1,789	70,476
Charge for the year	1,372	94	369	1,835
At 30 June 2005	12,036	58,117	2,158	72,311
Net book value				
At 30 June 2005	2,370	308	836	3,514
At 30 June 2004	2,237	58	361	2,656

12. INVESTMENTS IN SUBSIDIARY UNDERTAKINGS

Cost

	2005 (£)
At 1 July 2004 and 30 June 2005	3,962,500

The principal subsidiary undertakings of the Company during the year were:

Subsidiaries owned throughout the year	**Principal activities**
Qonnectis Networks Ltd (formerly Now! Networks Limited)	The development and marketing of electronic and information technology
Qonnectis Technologies Limited	Dormant
Qonnectis Group Limited	Business to business internet service
MyUtility Ltd (formerly WebOrator.Com Limited)	Business to business internet service

All companies are incorporated in Great Britain, and the Company owns 100% of the issued share capital of its subsidiaries.

The investment in shares in subsidiary undertakings is stated at cost less provision for any impairment in value.

13. DEBTORS

	Group 2005 (£)	Group 2004 (£)	Company 2005 (£)	Company 2004 (£)
Amounts falling due within one year:				
Trade debtors	26,592	-	-	-
Amounts owed by groups undertakings	-	-	2,895,193	2,346,525
Other debtors	-	3,368	-	3,946
VAT recoverable	16,196	15,733	-	-
Corporation Tax	-	20,000	-	-
Called up share capital not paid	110	110	-	-
Prepayments and accrued income	15,957	2,970	8,135	-
	58,855	42,181	2,903,328	2,350,471

14. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	Group 2005 (£)	Group 2004 (£)	Company 2005 (£)	Company 2004 (£)
Bank loan and overdraft	36,000	44,510	-	-
Fees in advance	-	-	-	-
Trade creditors	128,282	129,996	75,374	61,997
Other creditors	6,803	2,704	-	-
Social security and other taxes	6,521	6,109	-	-
Directors current accounts	9,112	15,912	-	-
VAT payable	-	-	-	-
Accruals and deferred income	84,101	74,843	49,073	42,783
	270,819	274,074	124,447	104,780

Directors current accounts comprise R Taylor £7,280 (2004: £7,280) and M Tapia £1,832 (2004: £1,832).

Security

A debenture was registered on 16 December 2004 by HSBC Bank plc, over all the money and liabilities whatever, whenever and howsoever incurred by the company, whether now or in the future.

15. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	Group		Company	
	2005	2004	2005	2004
	£	£	£	£
Other loans - due between one & two years	36,000	36,000	-	-
- due between two & five years	42,000	78,000	-	-
	78,000	114,000		

The loans are at variable rates of interest.

16. FINANCIAL INSTRUMENTS

The Group's financial instruments comprise shares in the company's subsidiaries, cash balances, bank loans, leasing commitments and various short-term debtors and creditors arising from the normal course of business.

The main purpose of these financial instruments is to raise finance for the Group's operations.

The main risks arising from the Group's financial instruments are interest rate risk and liquidity risk.

Interest rate risk
The Group finances its operation through the proceeds of share issues and bank borrowings. The borrowings are at variable rates of interest. The Group considers that the current low level of interest rates will be maintained over the period of the borrowings and therefore does not consider that any action to reduce interest rate risk is necessary.

The interest rate profile of the Group's financial liabilities is shown in note 15.

Liquidity risk
The Group policy is to borrow for terms consistent with repaying borrowings from its forecast cash inflows, including the proceeds of share issues.

The Group has taken advantage of the exemptions contained in FRS 13 from disclosing information about its short term debtors and creditors.

Financial assets

The Group's financial assets comprise cash balances placed on the money market on call.

17. CALLED UP SHARE CAPITAL

	2005 (£)	2004 (£)
Ordinary Share of 1p each		
Authorised		
221,899,200 Ordinary Shares of 1p each	2,218,992	2,218,992
Allotted, issued and fully paid		
89,312,800 Ordinary shares of 1p each	893,128	893,128
68,095,240 Ordinary shares of 1p each issued in year	680,952	-
Ordinary shares of 1p each at 30 June 2005	1,574,080	893,128
Deferred Shares of 1p each		
Authorised		
778,100,800 Deferred Shares of 1p each	7,781,008	7,781,008
Increase in deferred shares during the year on conversion and subdivision of 303,500 issued £1 B shares into 30,350,000 Deferred shares of 1p each	303,500	-
	8,084,508	7,781,008
Allotted, issued and fully paid		
778,100,800 Deferred Shares of 1p each	7,781,008	7,781,008
30,350,000 Deferred Shares of 1p each issued in year in exchange for B shares converted	303,500	-
Deferred shares of 1p each at 30 June 2005	8,084,508	7,781,008

	2005 (£)	2004 (£)
Ordinary B Shares at £1 each		
Authorised		
1,000,000 Ordinary B shares of £1 each	1,000,000	1,000,000
Conversion and subdivision of 303,500 B Shares into 100 deferred shares of 1p each	(303,500)	-
	696,500	1,000,000
Allotted, issued and fully paid		
303,500 Ordinary B shares of £1 each	303,500	303,500
B Ordinary shares of £1 each converted and subdivided into 1p deferred shares	(303,500)	-
At 30 June 2005	-	-

	2005 (£)	2004 (£)
Total Shares		
Ordinary shares of 1p each	1,574,080	893,128
Deferred shares of 1p each	8,084,508	7,781,008
B Ordinary shares of £1 each	-	303,500
	9,658,588	8,977,636

On 23 November 2004 a special resolution was passed so that each of the 303,500 Ordinary B shares of £1 each be converted and subdivided into one hundred deferred shares of 1p each.

All shares issued in the year were fully paid for cash consideration.

18. RESERVES

	Share premium account (£)	Profit and loss account (£)
Group		
At 1 July 2004	756,002	(6,117,939)
Issue of new share capital	919,048	-
Loss for the year	-	(1,048,503)
At 30 June 2005	1,675,050	(7,166,442)
Company		
At 1 July 2004	756,002	(3,514,117)
Issue of new share capital	919,048	-
Loss for the year	-	(372,988)
At 30 June 2005	1,675,050	(3,887,105)

As permitted by Section 230 of the Companies Act 1985 a separate profit and loss account is not presented for Qonnectis Plc. The loss for the year of the parent undertaking was £372,988 (2004: £51,192).

19. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	2005 £	2004 £
Loss for the year	(1,048,503)	(596,203)
Issue of new share capital	1,600,000	521,183
Net addition to / (reduction in) equity shareholders' funds	551,497	(75,020)
Opening shareholders' funds	3,615,699	3,690,719
Closing shareholders' funds	4,167,196	3,615,699

20. RECONCILIATION OF OPERATING LOSS TO NET CASH OUTFLOW

	2005 £	2004 £
Operating loss	(1,045,408)	(590,277)
Depreciation and amortisation of tangible assets	1,835	7,257
Amortisation of goodwill	209,857	157,393
(Increase) / decrease in stock	(9,601)	-
(Increase) / decrease in debtors	(16,674)	(1,344)
Increase / (decrease) in creditors	5,252	(130,007)
Net cash flow from operating activities	(854,739)	(556,978)

21. RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET FUNDS / (DEBT)

	2005 £	2004 £
Increase/(decrease) in cash in the year	703,476	(71,336)
Cash outflow from decrease in debt	36,000	27,000
Movement in net debt in the year	739,476	(44,336)
Net debt at 1 July 2004	(143,140)	(98,804)
Net funds/(debt) at 30 June 2005	596,336	(143,140)

22. ANALYSIS OF NET FUNDS / (DEBT)

	At 1 July 2004 (£)	Cash flows (£)	At 30 June 2005 (£)
Cash	15,370	694,966	710,336
Overdraft	(8,510)	8,510	-
	6,860	703,476	710,336
Loan falling due within one year	(36,000)	-	(36,000)
Loan falling due after one year	(114,000)	36,000	(78,000)
	(143,140)	739,476	596,336

23. OBLIGATIONS UNDER OPERATING LEASES & COMMITTED EXPENDITURE

	Group 2005 (£)	Group 2004 (£)
The following amounts are payable within the next year on operating leases & committed expenditure expiring:		
Within 1 year-premises	1,650	19,800
-other assets	19,584	19,584
	21,234	39,384
The above lease obligations are analysed between Group companies as follows:		
Subsidiary	21,234	39,384
	21,234	39,384

24. RELATED PARTY TRANSACTIONS

During the year the Group bought services from PA Associates (UK) Limited, a company in which Mr P. Albuquerque (a non-executive director of Qonnectis plc) is a director. The amount involved was £71,120 (2004-£39,784). At the balance sheet date the amount due to PA Associates (UK) Limited was £5,314 (2004: £7,395).

QONNECTIS PLC
ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the Annual General Meeting of the above named company will be held at Ash House, 8 Second Cross Road, Twickenham, Middlesex TW2 5RF on 22nd February 2006 at 2pm for the following purposes, namely:

Ordinary Business

1. To receive and adopt the report and accounts for the period ended 30 June 2005.

2. To re-elect as a director Richard Mann Taylor, being a director retiring in accordance with the Articles of Association.

3. To re-appoint Mazars as auditors to the Company to hold office from the conclusion of this meeting until the conclusion of the next general meeting at which accounts are laid before the company.

4. To authorise the Directors to determine the auditors' remuneration.

Special Business

5. To consider and if thought fit to pass the following resolution as an ordinary resolution:
"THAT for the purposes of Section 80 of the Companies Act 1985 ("the Act") (and so that expressions used in this resolution shall bear the same meaning as in the said section) the Directors be and they are hereby generally and unconditionally authorised to exercise all or any of the powers of the Company to allot relevant securities of the Company up to an aggregate nominal value of £644,912 in respect of ordinary shares of 1p to such persons at such times and on such terms as they think proper, such authority to expire (unless previously renewed, varied or revoked by the Company in General Meeting) at the conclusion of the next Annual General Meeting of the Company following the passing of this resolution or if sooner 15 months after the date of this resolution, save that the Company may prior to such expiry make any offer or agreement which would or might require relevant securities to be allotted after such expiry and the Directors may allot relevant securities pursuant to any such offer or agreement notwithstanding the expiry of the authority given by this resolution and so that all previous authorities of the Directors pursuant to Section 80 of the Act be and they are hereby revoked"

6. To consider and if thought fit to pass the following resolution as a Special Resolution:
"THAT the Directors be and they are hereby empowered pursuant to Section 95 of the Companies Act 1985 ("the Act") to allot equity securities (within the meaning of Section 94(2) of the Act) in the capital of the Company for cash pursuant to the authority conferred on them in accordance with Section 80 of the Act by resolution 5 as if Section 89(1) of the Act did not apply to such allotment provided that this power shall expire at the conclusion of the next Annual General Meeting of the Company following the passing of this resolution (or if sooner 15 months after the date of this resolution), save that the Company may prior to such expiry make an offer or agreement which would or might require equity securities to be allotted after such expiry and the Directors may allot equity securities pursuant to any such offer or agreement notwithstanding the expiry of the authority given by this resolution and so that all previous authorities of the Directors pursuant to Section 95 of the Act be and they are hereby revoked"

BY ORDER OF THE BOARD
R A MacDonald Watson (Company Secretary)
85 Elsenham Street, London SW18 5NX (Registered Office)
20^{th} December 2005

Notes:

1. A member who is entitled to attend the meeting and vote is entitled to appoint a proxy or proxies to do so instead of him or on his behalf. A proxy need not be a member of the company. A form of proxy must be received by the Company not less than 48 hours before the meeting. A proxy is only able to vote if a poll is taken on any question and may join in any demand for a poll; but he is not able to speak at the meeting. A form of proxy is attached.

2. The Form of Proxy and power of attorney or other authority (if any) under which it is signed, or a notarially certified copy of such authority, must be deposited at 85 Elsenham Street, London SW18 5NX by 2pm on 20th February 2006.

3. In the case of joint holders, the signature of only one of the joint holders is required on the form of proxy but the vote of the first named on the register of members will be accepted to the exclusion of other joint holders.

QONNECTIS PLC

FORM OF PROXY FOR THE ANNUAL GENERAL MEETING TO BE HELD AT ASH HOUSE, 8 SECOND CROSS ROAD, TWICKENHAM TW2 5RF AT 2PM ON 22nd FEBRUARY 2006

I/We
of

being members of Qonnectis **plc**

HEREBY APPOINT

either 1. The Chairman of the meeting

or failing him 2.
of

as my/our proxy to vote in my/our name(s) and on my/our behalf at the Annual General Meeting of the Company to be held on 22nd February 2006 and at any adjournment of the same.

I DIRECT AND REQUIRE that my proxy votes as follows in relation to the resolutions set out in the notice of the meeting.

RESOLUTIONS	**FOR**	**AGAINST**	**ABSTAIN**
1 To receive and adopt the accounts			
2 To re-elect R M Taylor as director			
3 To re-appoint the auditors			
4 To authorise the auditors remuneration			
5 To authorise the directors to allot certain unissued shares			
6 To authorise the directors to make non pre-emptive share allotments			

NOTE: Unless otherwise instructed a proxy may use his own discretion whether to vote or to abstain from voting. Also, unless otherwise instructed, a proxy who does vote may do so as he thinks fit.

DATED 200

SIGNED:

Print name:

NOTES:

1. To be valid this form of proxy must be completed and lodged with the Company at its registered office not less than 48 hours prior to the time fixed for the meeting or adjourned meeting.

2. If not signed personally by the member the authority under which the proxy is executed by a person on behalf of the member (or a copy of such authority which is certified notarially or in some other way approved by the directors of the Company) must also be lodged with the Company not less than 48 hours prior to the meeting or adjourned meeting.

3. A member which is a corporation must either execute this form under seal or under hand of an officer or other person authorised in writing in that behalf.

4. In the case of joint holders the signature of any one holder will be sufficient but the names of all joint holders should be stated.

Qonnectis plc

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