Qonnectis PLC

Annual report and financial statements for the year to 30 June 2008

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Qonnectis PLC

Officers and professional advisers

Directors
Richard Mann Taylor, Non-executive Chairman
Michael Anthony Tapia, Chief Executive Officer
Guy Arthur Chant, Non-executive Director (Interim Chief Executive Officer)
Barbara Joyce Spurrier Finance Director

Secretary
Barbara Joyce Spurrier

Registered office
Europe House, 170 Windmill Road West, Sunbury on Thames, TW16 7HB

Nominated adviser
FinnCap, 4 Coleman Street, London, EC2R 5TA

Brokers
FinnCap, 4 Coleman Street, London, EC2R 5TA

Registrar
Capita Registrars, Northern House, Woodsome Park, Fenay Bridge, Huddersfield, HD8 0LA

Bankers
HSBC Bank PLC, 2 London Road, Twickenham, Middlesex, TW1 3RY

Auditors
Mazars LLP, Clifton Down House, Beaufort Buildings, Clifton, Bristol, BS8 4AN

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

Date: 20 November 2008

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.

Qonnectis PLC

Chief Executive's review

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

Date: 20 November 2008

Directors' report

The directors present their report and the audited financial statements of Qonnectis PLC, "the Company", and its subsidiaries, together referred to as "the Group", for the year ended 30 June 2008.

Statement of directors' responsibilities
The directors are responsible for preparing the financial statements and the annual report in accordance with applicable law and regulations.

Company law requires the directors to prepare the financial statements for each financial year. Under that law, the directors have elected to prepare the Group and parent Company financial statements in accordance with International Financial Reporting Standards ('IFRSs') as adopted by the European Union. In preparing the financial statements the directors may also elect to comply with IFRSs, issued by the International Accounting Standards Board (IASB). The financial statements are required by law to give a true and fair view of the state of affairs of the Company and 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 that the financial statements comply with IFRSs as adopted by the European Union; and
- prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the Group and Company will continue in business, in which case there should be supporting assumptions or qualifications as necessary.

The directors confirm that they have complied with the above requirements in preparing the financial statements.

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 safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Principal activity
The principal activity of the Company and the group is that of the research, development and supply of an integrated solution for remote data communications to established businesses, such as energy and water utilities.

Enhanced Business review

The group's loss for the year after taxation was (£3,749,598) (2007 – £651,272).

Revenues increased by 50% during the year to £456,678 (2007 £304,776) following the launch of Leakfrog in December. However, margins have declined to 51.8% (2007 – 63.6%) mainly due to the one off costs relating to set up of Leakfrog production.

Operating expenses from continuing operations were reduced to £845,383 (2007 £896,730). In addition, an exceptional non-cash charge has been incurred in the year totalling £250,000 arising from funding costs, in connection with a convertible loan taken out in 2007.

Following a detailed review by the Board, the carrying value of goodwill has been impaired by £2,920,379, leaving the remaining goodwill carried in the balance sheet at £603,473. Although the write down is material, the Board, after careful consideration and appropriate professional advice, believes that the carrying value previously recorded in the Group balance sheet can no longer be justified given the current economic climate and the trading conditions of the group. The treatment has no cash impact.

Directors' report

As a result of both the exceptional item and the impairment of goodwill, the operating loss after exceptional items was increased to £3,749,598 and was 1.49p per share (2007 – 0.31p per share)

This is the first year the Group's results have been prepared under International Financial Reporting Standards (IFRS), and this gives rise to a considerable amount of analysis and additional information.

Whilst the management team has addressed a number of issues, our assessment of risk the Group is exposed to must take account of the transitional state of the business as we start 2009. There is a risk that the new iterations of our product range which we expect to bring on stream in the second half of 2009, will be delayed or that the market will not receive them well. There is a risk that no new partnerships will come on stream. Finally as with any technology company we are dependent for our success on retaining a relatively small number of highly skilled staff.

Going concern

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 channel partnerships will not be established and the associated revenues will not materialise.

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.

Dividends

The directors are unable to recommend the payment of a dividend for the year (2007: £nil). The Group has no plans to adopt a dividend policy in the immediate future and all funds generated by the Group will be invested in the further development of the business, as is normal for a Company operating in this industry sector and at this stage of its development.

Capital Structure

Details of the authorised and issued share capital, together with details of the movements in the Company's issued share capital during the year are shown in note 23. The Company has three classes of shares, ordinary A shares of 0.01 pence each, ordinary B shares of £1.00 each, and deferred shares of 0.01pence each. The ordinary A shares carry no right to fixed income and represent 33% of the issued share capital of the Company. There are no ordinary B shares issued as at the balance sheet date. The deferred shares carry no right to participate in the income or capital of the Company. Each ordinary A share carries the right to one vote at general meetings of the Company. The Group's capital structure consists of authorised and issued share capital, which it manages to maximise the return to shareholders.

There are no specific restrictions on the size of holding nor on the transfer of shares, which are both governed by the general provisions of the Articles of Association and prevailing legislation. The directors are not aware of any agreements between holders of the Company's shares that may result in restrictions on the transfer or securities or on voting rights.

Details of the employee share scheme are set out in note 7.

No person has any special rights of control over the Company's share capital and all issued shares are fully paid.

With regard to the appointment and replacement of directors, the Company is governed by its Articles of Association, the Companies Acts and related legislation. The Articles themselves may be amended by special resolution of the shareholders. The powers of directors are described in the Corporate Governance Statement on page 9.

Under the company's Articles of Association and pursuant to authorities granted under the Companies Acts, the company has authority to issue ordinary shares of 0.01pence each.

Corporate governance
The directors' report on corporate governance is set out on pages 9 to 10 of this report.

Annual general meeting
Notice of an Annual General Meeting of Shareholders is set out on pages 36 to 38 of this report.

The directors and their interests
The directors who served during the year and the changes since then are as follows:

Name	Position
R M Taylor	Non-executive Chairman
M Tapia	Chief Executive Officer
G A Chant	Non-executive Director – (appointed interim Chief Executive Officer)
B J Spurrier	Finance Director (appointed 7 October 2008)

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 2008:

	As at 30 June 2008		As at 30 June 2007	
	Beneficial interest	Share options	Beneficial interest	Share options
R M Taylor	1,450,403	3,667,333	1,450,403	3,667,333
M A Tapia	22,144,470,	8,944,444	22,144,470	8,944,444
G A Chant	1,115,694	-	1,115,694	-
B J Spurrier	-	-	-	-

Significant shareholdings
On 30th June 2008, 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:

	Number of ordinary shares	Percentage holding
JM Finn Nominees	50,000,000	12.70%
Pershing Keen Nominees Limited	31,615,000	8.03%
Pershing Nominees GWCLT	22,414,256	5.69%
M A Tapia	19,913,082	5.06%
JIM Nominees Ltd	17,351,938	4.41%
Giltspur Nominees	15,807,500	4.01%
TD Waterhouse Nominees (Europe)	14,951,145	3.80%
Barclayshare Nominees Limited	13,338,354	3.39%
L R Nominees Limited	13,184,161	3.35%

Research Design & Development
The Group is committed to the research, design and development of product enhancements and additional features as required by the market. The costs relating to this which have been written off in the year amounted to £244,988 (2007: £49,060)

Fixed Assets
In the opinion of the directors there is no material difference between the market value of fixed assets and the amounts at which they are stated in note 13 to the accounts

Directors' and officers' liability
Directors' and officers' liability insurance is in place.

Political and charitable contributions
The Company made no such contributions in the year.

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; and
- 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 26 days (2007 - 91 days). This is based on trade creditors at the year end and total purchases for the year.

Disclosure of information to auditors
In the case of each of the persons who are directors of the Company at the date when this report was approved:

- so far as the director is aware, there is no relevant audit information of which the company's auditors are unaware; and
- the director has taken all steps that he ought to have taken as a director to make himself aware of any relevant audit information and to establish that the company's auditors are aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of section 234ZA of the Companies Act 1985.

Auditors
A resolution to reappoint Mazars LLP as auditors, and to authorise the directors to determine their remuneration, will be proposed at the Annual General Meeting.

On behalf of the board,

....
Barbara Spurrier
Finance Director

Date: 20 November 2008

Statement on corporate governance compliance
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 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.

Directors and board
The Group is controlled on behalf of its shareholders by the Board of Directors. The Board is made up of two non- executive directors including the Chairman and two executive directors.

The roles of Chief Executive Officer and Chairman are separate and there is a clear division of their responsibilities.

The Non-executive Directors bring their independent judgement to all issues related to strategy, performance, key appointments and resources.

The Company Secretary is responsible for ensuring that board procedures are followed and that applicable rules and regulations are complied with. The Directors have access to the Company Secretary for advice on board procedures.

All directors have the ability to take independent advice at the Group's expense should they consider it necessary.

The Board meets regularly with formal board meetings occurring usually once a month.. In the year ended 30th June 2008 the board met 8 times.

Board papers including management accounts and matters for approval are produced and circulated to the Board in advance of the meeting by the Chief Executive Officer and Company Secretary. Formal minutes are produced and circulated for comment and formally approved. In the event that a director has concerns that cannot be resolved about the running of the Group or a proposed action, they have the right to have their concerns minuted. In the event of a director's resignation, they are encouraged to write to the Board confirming whether they have any concerns.

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

(a) Audit committee
The audit committee comprises of R M Taylor, non-executive Chairman, who is Chairman of the Audit Committee and G A Chant. Following Barbara Spurrier's appointment the new Finance Director is undertaking a thorough review of internal controls. It is planned that following that review the Audit Committee will re-evaluate the effectiveness of the control environment and the recommendations made. 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 G A Chant, non-executive Director (Interim Chief Executive Officer). It is responsible for reviewing performance of the executive directors and determining the remuneration and basis of service agreement 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.

Implementation of IFRS
All AIM quoted companies are required to report results under International Financial Reporting Standards (IFRS) for accounting periods commencing on or after 1 January 2007. Management has considered the impact of IFRS on the Group's results and do believe that they will lead to materially different results, the main potential difference being the impairment of goodwill.

Risk Management
The entire Board is responsible for managing the risks of the Group and employs senior employees with appropriate knowledge and skills to effectively manage the operational and financial risks of the business.

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.
- 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 is available to hold meetings with its 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.

Report of the independent auditors to the members for the year to 30 June 2008

We have audited the financial statements of Qonnectis PLC and subsidiary undertakings for the year ended 30 June 2008 which comprise the group consolidated income statement, the group consolidated balance sheet, the parent company balance sheet, the group consolidated cash flow statement and 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 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

The directors' responsibilities for preparing the financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union are set out in the Statement of Directors' Responsibilities.

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, whether the financial statements are properly prepared in accordance with the Companies Act 1985 and whether the information given in the Directors' Report is consistent with the financial statements. We also report to you if, in our opinion, 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 is not disclosed.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatement within it.

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 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 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 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.

Qonnectis PLC

Report of the independent auditors to the members for the year to 30 June 2008

Opinion
In our opinion:

- the financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the company's and group's affairs as at 30 June 2008 and of the group's for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the financial statements.

Going concern
Without qualifying our opinion, we draw attention to Note 4 in the financial statements concerning the uncertainty as to the realisation of the forecasts. In view of this uncertainty we consider that it should be drawn to your attention but our opinion is not qualified in this respect as last year.

Mazars LLP

……………………...............

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

Date: 20 November 2008

Qonnectis PLC

Consolidated income statement for the year to 30 June 2008

	Notes	Year to 30 June 2008 £	Restated Year to 30 June 2007 £
Turnover	**5**	**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	**8**	**(3,729,641)**	**(653,626)**
Interest receivable and similar income		6,241	7,354
Interest payable and similar charges	9	(26,198)	(5,000)
Loss on ordinary activities before taxation		**(3,749,598)**	**(651,272)**
Tax on loss on ordinary activities	10	-	-
Loss on ordinary activities after taxation	**22**	**(3,749,598)**	**(651,272)**
Loss per share (basic)	11	(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.

The accompanying notes on pages 17 to 35 are an integral part of these financial statements.

Qonnectis PLC

Consolidated balance sheet as at 30 June 2008

	Notes	30 June 2008 £	Restated 30 June 2007 £
Assets			
Non-current assets			
Intangibles	12	603,473	3,523,852
Property plant & equipment	13	4,495	8,683
		607,968	**3,532,535**
Current assets			
Inventories	15	30,137	11,906
Debtors	16	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	21	12,020,588	10,270,588
Share Premium	22	1,600,717	1,675,050
Retained earnings	22	(12,368,251)	(8,618,653)
TOTAL EQUITY	**23**	**1,253,054**	**3,326,985**
LIABLILITES			
Non-current liabilities			
Borrowings	18	-	6,000
		-	6,000
Current liabilities			
Trade and other payables		169,719	314,287
Borrowings		6,000	36,000
	17	**175,719**	**350,287**
TOTAL LIABILITIES		**175,719**	**356,287**
Attributable to equity holders of the company	**20**	**1,428,773**	**3,683,272**

These financial statements were approved and authorised for issue by the board of directors on

20 November 2008 .... and were signed on its behalf by:

....
G Chant
Director

The accompanying notes on pages 17 to 35 are an integral part of these financial statements.

Qonnectis PLC

Company balance sheet as at 30 June 2008

	Notes	30 June 2008 £	30 June 2007 £
Fixed assets			
Investments	14	-	3,962,500
		-	**3,962,500**
Current assets			
Debtors	16	15,056	3,965,174
Cash at bank and in hand		642,300	19,819
		657,356	**3,984,993**
Creditors: amounts falling due within one year	17	(51,560)	(98,674)
Net current assets		**605,796**	**3,886,319**
Total assets less current liabilities		**605,796**	**7,848,819**
Creditors: amounts falling due after more than one year	18	-	-
Net assets		**605,796**	**7,848,819**
Capital and reserves			
Share capital	21	12,020,588	10,270,588
Share premium	22	1,600,717	1,675,050
Profit and loss account	22	(13,015,509)	(4,096,819)
Equity shareholders' funds	**23**	**605,796**	**7,848,819**

These financial statements were approved and authorised for issue by the board of directors on

20 November 2008 .... and were signed on its behalf by:

....
G Chant
Director

The accompanying notes on pages 17 to 35 are an integral part of these financial statements.

Qonnectis PLC

Consolidated cash flow statement for the year to 30 June 2008

	Notes	30 June 2008 £	30 June 2007 £
Cash flows from operating activities			
Cash utilised by operations	24	(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	**25**	**653,295**	**33,636**
Cash and bank overdrafts at start of period	**26**	**44,046**	10,410
Cash and bank overdrafts at end of period	**26**	**697,341**	**44,046**

The accompanying notes on pages 17 to 35 are an integral part of these financial statements.

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)

4. Significant accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the periods presented unless otherwise stated.

a) 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 principal accounting policies adopted are set out below.

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.

b) 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 2008. 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 transactions, balances, income and expenses are eliminated fully on consolidation.

c) Goodwill
Purchased goodwill represents the difference between the cost of an acquired entity and the fair values off that entity's identifiable assets and liabilities. Goodwill on acquisition of subsidiary undertakings is included in intangible assets. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses.

There is no re-instatement of goodwill that was amortised prior to transition to IFRS.

d) Property, plant and equipment
Property, plant and equipment are shown at cost less subsequent depreciation and impairment. The cost of tangible fixed assets is their purchase cost together with any incidental costs of acquisition. Depreciation is provided so as to recognise the cost of the asset, less any residual value, on a straight line basis over the expected useful economic life of that asset as follows:

- Development tools and equipment 4 years
- Computer equipment 4 years
- Fixtures, fittings and equipment 5 years

e) Inventories
Inventories are stated at the lower of cost or net realisable value.

f) Revenue recognition
Revenue comprises the fair value of the sale of goods and services, net of value-added tax, rebates and discounts and after eliminating sales within the group. Revenue is recognised as follows:

a. Sales of goods:
The company recognises revenue at the date that the customer's order is shipped.
b. Sales of services:
Sales of services are recognised in the accounting period in which the services are rendered.
c. Interest income:
Interest income is recognised on a time-proportion basis.
d. Dividend income:
Dividend income is recognised when the right to receive payment is established.

g) Research and development

Research expenditure is recognised as an expense as incurred. Costs incurred on development projects (relating to the design and testing of new or improved products) are recognised as intangible assets when it is probable that the project will be a success, considering its commercial and technological feasibility, and costs can be measured reliably. Other development expenditures are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period. Development costs that have a finite useful life and that have been capitalised are amortised from the

4. Significant accounting policies cont'd

commencement of the commercial production of the product on a straight line basis over the period of its expected benefit, not exceeding five years.

h) Leased assets
Payments made under operating lease agreements (net of any incentives received from the lessor) are charged to the income statement on a straight line basis over the period of the lease.

i) Foreign currency translation
Transactions denominated in foreign currencies are translated at the exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the rates of exchange ruling at the balance sheet date or at contracted rates. Exchange differences arising on foreign currency transactions are recognised in the income statement.

j) Taxation
Taxation is provided at amounts expected to be paid using rates that have been enacted or substantively enacted. Deferred taxation is provided in full, using the liability method, on temporary differences between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which the assets can be utilised. Deferred tax assets and liabilities are not discounted.

k) Pensions
Contributions to individuals' defined contribution pension schemes are charged to the profit and loss account in the period in which they become payable.

5. 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

6. Employees

	Year to 30 June 2008 £	Year to 30 June 2007 £
Staff costs comprise:		
Wages and salaries	242,375	261,884
Social security costs	34,957	25,291
Other pension costs	4,172	4,110
	281,504	291,285

The average number of persons including executive directors, employed by the group during the year was:

	Year to 30 June 2008	Year to 30 June 2007
Management	3.0	3.6
Staff	4.5	5.3
	7.5	8.9

7. Directors

	Year to 30 June 2008 £	Year to 30 June 2007 £
Aggregate emoluments	140,934	135,003

A provision of £4,172 (2007 - £4,110) has been made in respect of directors' personal pension schemes. There are no directors (2007 - none) to whom retirement benefits are accruing in respect of qualifying services in respect of money purchase schemes of the company.

Directors' share options
Share options held by directors were as follows:

	As at 30 June 2008	Exercise price	Granted	Earliest exercise date	Expiry date
Ordinary					
R M Taylor	3,333,333	2.25 pence	18 Feb 2005	24 Feb 2006	24 Feb 2015
	74,000	1.5 pence	20 Jul 2006	25 Jul 2007	31 Jul 2009
	110,000	2.5 pence	20 Jul 2006	25 Jul 2007	31 Jul 2009
	150,000	4 pence	20 Jul 2006	25 Jul 2007	31 Jul 2009
M A Tapia	4,444,444	2.25 pence	18 Feb 2005	24 Feb 2006	24 Feb 2015
	1,000,000	1.5 pence	20 Jul 2006	25 Jul 2007	31 Jul 2009
	1,500,000	2.5 pence	20 Jul 2006	25 Jul 2007	31 Jul 2009
	2,000,000	4 pence	20 Jul 2006	25 Jul 2007	31 Jul 2009

The market price of the ordinary shares at 30 June 2008 was 1.225 pence and the range during the year was 0.475 pence to 2.875 pence. No options were exercised by the directors during the year.

8. Operating loss

Operating loss is stated after charging/(crediting):

	Year to 30 June 2008 £	Year to 30 June 2007 £
Auditors remuneration:		
• Audit services	14,000	13,000
• Non-audit services	9,481	6,000
Research and development – current year	244,988	49,060
Depreciation of tangible fixed assets – owned	4,352	3,565
Funding costs relating to convertible loan	250,000	-
Impairment of goodwill	2,920,379	-
Operating lease rentals:		
• Premises	23,086	22,891
• Other assets	5,784	7,965
Staff costs	281,504	291,285

The audit fee for the company was £4,000 (2007 - £4,000).

9. Interest payable and similar charges

	Year to 30 June 2008 £	Year to 30 June 2007 £
Interest payable on bank loans and overdrafts	3,698	5,000
Other interest payable	22,500	-
	26,198	**5,000**

10. Tax on loss on ordinary activities

a) Analysis of charge in the year

	Year to 30 June 2008 £	Year to 30 June 2007 £
Current tax		
United Kingdom corporation tax		
• on the loss for the year	-	-
Total current tax	-	-

b) Factors affecting current tax charge

The tax assessed on the loss on ordinary activities for the year is lower than the applicable rate of corporation taxation in the United Kingdom of 21%. The differences are reconciled below.

	Year to 30 June 2008 £	Year to 30 June 2007 £
Loss on ordinary activities before taxation	(3,749,598)	(651,272)
Loss on ordinary activities before taxation by rate of taxation of 21% (2007 - 20%)	(787,416)	(130,255)
Effects of:		
• Expenses not deductible for tax purposes	46,446	(3,164)
• Amortisation of goodwill	613,280	-
• Decelerated/(Accelerated) capital allowances	140	(198)
• Tax losses created / (utilised)	126,759	141,333
• Other timing differences	791	(7,716)
Total current tax (note 10 a)	-	-

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.

11. 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.

12. Intangible Assets

	As at 30 June 2008 £	As at 30 June 2007 £
Cost		
Brought forward	7,487,001	7,487,001
Carried forward	7,487,001	7,487,001
Accumulated amortisation		
Brought forward	(3,963,149)	(3,963,149)
Charge for the year	(2,920,379)	-
Carried forward	(6,883,528)	(3,963,149)
Net book amount		
At beginning of year	3,523,852	3,523,852
At end of year	603,473	3,523,852

Goodwill acquired in a business combination is allocated at acquisition to the cash generating units that are expected to benefit from that business combination. The goodwill on consolidation is related to the acquisition of Qonnectis Networks Limited.

Goodwill is not amortised but is reviewed for impairment on an annual basis or more frequently if there are any indications that goodwill should be improved.

Recoverable amounts of the cash generating units are based on the value in use. The key assumption for the value in use calculations are those regarding discount rates, growth rates and expected changes in margins.

13. Tangible fixed assets

Group

	Computer equipment	Fixtures, fittings and equipment	Development tools and equipment	Total
	£	£	£	£
Cost				
At 1 July 2007	103,133	4,841	15,693	123,667
Additions	-	164	-	164
At 30 June 2008	103,133	5,005	15,693	123,831
Accumulated depreciation				
At 1 July 2007	(98,860)	(1,941)	(14,183)	(114,984)
Charge for the year	(2,447)	(1,227)	(678)	(4,352)
At 30 June 2008	(101,307)	(3,168)	(14,861)	(119,336)
Net book amount				
At 30 June 2007	4,273	2,900	1,510	8,683
At 30 June 2008	1,826	1,837	832	4,495

14. Fixed asset investments

Company

	Subsidiary undertakings £
Unlisted	
Cost	
At 1 July 2007	3,962,500
Impairment	(3,962,500)
At 30 June 2008	nil

At the year end directors considered the need to impair fixed asset investments and an impairment has been reflected within these financial statements.

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

Name	Nature of business	Proportion of voting rights and ordinary share capital held	Aggregate capital and reserves £	Profit/(Loss) for the year before taxation £
MyUtility Limited	Business to business internet services	100%	(1,675,249)	(64)
Qonnectis Group Limited	Intermediate holding company	100%	-	-
Qonnectis Networks Limited	Remote data communica-tions	100%	(3,284,056)	(389,078)
Qonnectis Technologies Limited	Dormant	100%	100	-

All subsidiary companies are incorporated in England and Wales.

15. Inventories

	Group		Company	
	As at 30 June 2008 £	As at 30 June 2007 £	As at 30 June 2008 £	As at 30 June 2007 £
Components	30,137	11,906	-	-

16. Debtors

	Group		Company	
	As at 30 June 2008 £	As at 30 June 2007 £	As at 30 June 2008 £	As at 30 June 2007 £
Called-up share capital not paid	-	-	-	-
Trade debtors	42,503	52,385	-	-
VAT recoverable	20,935	7,191	7,430	-
R&D Tax credit recoverable	-	-	-	-
Prepayments and accrued income	29,889	35,209	7,626	14,152
Amounts due from group undertakings	-	-	-	3,951,022
	93,327	**94,785**	**15,056**	**3,965,174**

17. Creditors: amounts falling due within one year

	Group		Company	
	As at 30 June 2008 £	As at 30 June 2007 £	As at 30 June 2008 £	As at 30 June 2007 £
Bank loans and overdrafts (see note 19)	6,000	36,000	-	-
Trade creditors	101,977	196,126	31,594	80,657
Accruals and deferred income	48,052	100,210	17,566	18,017
Other creditors	3,060	554	2,400	-
Other taxation and social security	3,030	3,284	-	-
Directors' current accounts	13,600	14,113	-	-
Amounts due to group undertakings	-	-	-	-
	175,719	**350,287**	**51,560**	**98,674**

Directors current accounts comprise R M Taylor £6,800 (2007 - £7,280), G A Chant £6,800 (2007 – £6,800) and M A Tapia nil (2007 - £33)

18. Creditors: amounts falling due after one year

	Group		Company	
	As at 30 June 2008 £	As at 30 June 2007 £	As at 30 June 2008 £	As at 30 June 2007 £
Bank loans (see note 19)	-	6,000	-	-

19. Loans and other borrowings

	Group		Company	
	As at 30 June 2008 £	As at 30 June 2007 £	As at 30 June 2008 £	As at 30 June 2007 £
Bank loans (secured)	6,000	42,000	-	-
Maturity of debt, amounts falling due:				
in one year or less, or on demand	6,000	36,000	-	-
in more than one year but not more than two years	-	6,000	-	-
in more than two years but not more than five years	-	-	-	-
in more than five years	-	-	-	-
	6,000	42,000	-	-

The bank loan is secured by fixed and floating charges over assets of the company (see note 26) and is guaranteed under the Small Firms Loan Guarantee Scheme. The balance is repayable in 2 monthly instalments of £3,000 together with interest charged at a variable rate of 2.5% above the bank's base rate.

20. 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.

Credit risk
Credit risk is managed on a group basis. Credit risk arises from cash and cash equivalents and deposits with banks and financial institutions, as well as committed transactions, management assesses the other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the Board. The utilisation of credit limits is regularly monitored.

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 16.

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 IFRS 7 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.

21. Share capital

Equity

	As at 30 June 2008 £	As at 30 June 2007 £
Authorised		
421,899,200 (2007 - 421,899,200) ordinary shares of £0.01 each	4,218,992	4,218,992
696,500 ordinary 'B' shares of £1.00 each	696,500	696,500
808,450,800 deferred shares of £0.01 each	8,084,508	8,084,508
	13,000,000	**13,000,000**
Allotted and called up and fully paid		
393,608,023 (2007 – 218,608,023) ordinary shares of £0.01 each	3,936,080	2,186,080
808,450,800 deferred shares of £0.01 each	8,084,508	8,084,508
Total shares	**12,020,588**	**10,270,588**

During the year 150,000,000 ordinary shares of £0.01 each were issued at par value for cash to provide additional working capital. A further 25,000,000 ordinary shares of £0.01 each were issued at par in consideration of settlement of convertible loan funding costs.

22. Reserves

	Share premium £	Profit and loss account £	Total £
Group			
Balance as at 1 July 2007	1,675,050	(8,618,653)	(6,943,603)
Costs of raising equity during year	(74,333)		(74,333)
Loss for the year	-	(3,749,598)	(3,749,598)
Balance as at 30 June 2008	**1,600,717**	**(12,368,251)**	**(10,767,534)**
Company			
Balance as at 1 July 2007	1,675,050	(4,096,819)	(2,421,769)
Costs of raising equity during year	(74,333)		(74,333)
Loss for the year	-	(8,918,690)	(8,918,690)
Balance as at 30 June 2008	**1,600,717**	**(13,015,509)**	**(11,414,792)**

As permitted by Section 230 of the Companies Act 1985 a separate profit and loss account is not presented for the company. The company's loss for the year was £8,918,690 (2007 - £169,770).

23. Reconciliation of movement in shareholders' funds

	As at 30 June 2008 £	As at 30 June 2007 £
Group		
Loss for the year	(3,749,598)	(651,272)
Issue of new share capital	1,675,667	612,000
Net increase/(decrease) in shareholders' funds	**(2,073,931)**	**(39,272)**
Opening shareholders' funds	3,326,985	3,366,250
Closing shareholders' funds	**1,253,054**	**3,326,978**
Company		
Loss for the year	(8,918,690)	(169,770)
Issue of new share capital	1,675,667	612,000
Net increase/(decrease) in shareholders' funds	**(7,243,023)**	**442,230**
Opening shareholders' funds	7,848,819	7,406,589
Closing shareholders' funds	**605,796**	**7,848,819**

24. 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)**

25. 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**

26. 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**

27. Other financial commitments

At the year end the company had annual commitments under non-cancellable operating leases which fall due:

	Land and buildings As at 30 June 2008 £	Land and buildings As at 30 June 2007 £	Other As at 30 June 2008 £	Other As at 30 June 2007 £
within one year	23,086	23,086	5,784	5,784
between one and five years	13,467	36,553	2,892	8,676
after five years	-	-	-	-
	36,553	**59,639**	**8,676**	**14,460**

28. Related party transactions

During the year the group bought services from PA Associates (UK) Limited, a company in which Mr P C A W Albuquerque (a former non-executive director of Qonnectis PLC) is a director. The cost of these services in the year was £34,458 (2007 - £53,626). At the balance sheet date the amount due to PA Associates (UK) Limited was £5,203 (2007 - £16,045).

The group bought services from Barnes Kavelle Limited, a company in which Mr R M Taylor (Chairman and non-executive director of Qonnectis plc) is a director. The cost of these services was £1000 (2007 – nil)

29. Contingent liabilities

The company had no contingent liabilities as at 30 June 2008.

HSBC Bank PLC has registered a mortgage creating fixed and floating charges over the company and all of its property and assets, present and future.

30. Post balance sheet events

As mentioned in the Chairman’s statement M Tapia is currently suffering from ill health and we do not have an anticipated date of return.

31. Control

The company is not under the control of any other party.

Notice of annual general meeting

NOTICE IS HEREBY GIVEN that the Annual General Meeting of the above named company will be held at 170 Windmill Road West, Sunbury-on-Thames, Middlesex TW16 7HB on 19th December 2008 at 12pm for the following purposes, namely:

Ordinary Business

1. To receive and adopt the annual report and financial statements for the year to 30 June 2008.

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

3. To re-appoint Mazars LLP 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 the authorised share capital of the Company be and is increased from £13,000,000 to £15,000,000 by the creation of 200,000,000 new ordinary shares of 1p each ranking equally in all respects with the existing ordinary share capital of the company."

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"

7. To consider and if thought fit to pass the following resolution as a Special 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 £1,781,008 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"

BY ORDER OF THE BOARD
Barbara Spurrier (Company Secretary)

Europe House, 170 Windmill Road West, Sunbury on Thames, Middlesex, TW16 7HB
(Registered Office)
27 November 2008

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 (excluding weekends and bank holidays). 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 Capita Registrars, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU by 12pm on 17th December 2008.

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.

4. In accordance with Regulation 41 of the Uncertificated Securities Regulations 2001, only those members entered on the company's register of members not later than 5pm on January 2009 or, if the meeting is adjourned, shareholders entered on the company's register of members not later than 48 hours before the time fixed for the adjourned meeting shall be entitled to attend and vote at the meeting.

Qonnectis PLC

FORM OF PROXY FOR THE ANNUAL GENERAL MEETING TO BE HELD AT 170 WINDMILL ROAD WEST, SUNBURY-ON-THAMES, MIDDLESEX TW16 7HB AT 12PM ON 19th December 2008

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 19 December 2008 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**	**VOTE WITHELD**
1.	To receive and adopt the accounts			
2.	To re-elect as Richard Taylor director			
3.	To re-appoint the auditors			
4.	To authorise the auditors remuneration			
5.	To increase the authorised share capital			
6.	To authorise the directors to make non pre-emptive share allotments			
7.	To authorise the directors to allot certain unissued shares			

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 ....

SIGNED: ....

Print name: ....

Notes:

1. To be valid this form of proxy must be completed and lodged with the company's Registrars, Capita Registrars, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU 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.