Qonnectis plc

Report and financial statements

for the 18 month period ended 31 December 2009

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for the 18 month period ended 31 December 2009

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Officers and professional advisors

Directors	Barbara Spurrier Harry Offer Patrick DeSouza Stanford Berenbaum
Secretary	Barbara Spurrier
Registered Office	St John's Innovation Centre Cowley Road Cambridge, CB4 0WS
Company number	Registered in England and Wales number 03923150
Nominated advisor and broker	Merchant John East Securities Limited, 10 Finsbury Square, London, EC2A 1AD
Registrar	Capita Registrars Limited, The Registry, 34 Beckenham Road, Beckenham, Kent, BR3 4TU
Auditors	Mazars LLP, Tower Bridge House, St. Katharine's Way, London, E1W 1DD
Bankers	HSBC Bank plc, 2 London Road, Twickenham, Middlesex, TW1 3RY

Chairman's Statement

Introduction

Following the last report the Company has been faced with significant challenges from both external and internal sources. The economic climate has created an environment where customers delay orders and opportunities can suffer setbacks from unexpected quarters. Qonnectis has not been immune from these adverse pressures and spent the majority of the eighteen month period under review seeking to strengthen its position. This has resulted in an opportunity for Qonnectis plc to acquire American Leak Detection Holding Corp ("ALD") and such acquisition will constitute a reverse takeover under the AIM Rules for Companies.

The Qonnectis Group suffered a significant reduction in sales revenues due to internal issues leading to a reduction in marketing activity and as customers delayed orders due to the economic climate. The sales revenue of £55,282 (2008: £456,678) generated in the period is reflective of the loss of sales staff in August 2008, followed by a reduction in cash resources which restricted the recruitment of any further staff. Towards the end of the eighteen month period this position changed and a new experienced sales manager was appointed.

In the first six months of the period the Company faced the loss of the founder and Chief Executive Officer, Mike Tapia, who left the company in December 2008 due to ill health, after many years of dedication and hard work. The Chief Executive role was filled by Guy Chant, from October 2008 through to March 2009. The challenges for the management team had already been exacerbated by the resignation of the key sales executive in August 2008.

Further senior management changes were seen in the second six months of the period. On 12 January, I was appointed as Non-Executive Director and 31 March 2009 saw the departure of Richard Taylor as Chairman of the Board, a role into which I stepped. Also in March 2009, Guy Chant stepped down as interim Chief Executive Officer, remaining on the Board as Non-Executive Director until 8 June 2009. Barbara Spurrier took over the role of interim Chief Executive Director in addition to continuing as Finance Director.

In April 2009, we focused our attention on raising funds to secure the future of Qonnectis. This process became protracted and after several months, it was considered appropriate to suspend trading in the shares of Qonnectis on AIM pending clarification of the financial position of the company, which took place at the end of July 2009.

During this review period, the opportunity to combine with ALD was explored culminating in an initial agreement being reached to enter into the process for an acquisition resulting in a reverse takeover. To help facilitate the process an interim round of funding was initiated and subsequently completed on the 8 January 2010, injecting £395,000 (gross) of new cash into Qonnectis plc.

Outlook

The opportunity to combine with ALD will give Qonnectis the stability it needs to develop its product portfolio, and offers the Company significant opportunity by opening up channels to parts of the water market hitherto inaccessible. The executive team has been strengthened by the appointment of an experienced sales manager. The Board of Directors has been enhanced by the addition of Patrick DeSouza and Stanford Berenbaum as non-executive directors, both of whom will have a significant impact on the future of the business after completion of the reverse takeover which was announced today.

Harry Offer

Date: 7 July 2010

Director's report

The directors present their report on the affairs of Qonnectis plc, "the Company", and its subsidiaries, referred to as "the Group", together with the audited financial statements and auditors report for the eighteen month period ended 31 December 2009.

Principal Activities and Review of the Business

The principal activity of the Group during the period was provision of data monitoring service for utilities and major commercial users of energy and water.

Business Review

The Chairman's statement has provided an overview of the past period and is therefore not repeated in this section.

During the period the Company did not achieve significant sales and operational advances and has therefore not included key performance indicators due to the reduced activity during the period.

The principal risks and uncertainties to which the Group is exposed to include:

Market Risk

The Group's activities expose it to the financial risk of changes in foreign currency exchange rates as it undertakes certain transactions denominated in foreign currencies. There has been no change to the Group's exposure to market risks. The Group and the Company had no material foreign exchange exposure at 31 December 2009 or 30 June 2008.

The Group's interest rate risk arises from short term borrowings. Borrowings issued at variable rates expose the group to fair value interest rate risk. This risk was reduced by the repayment of the final instalments of variable rate borrowings in the first two months of the period. Interest rate risk is managed by the Group as all borrowings at the period end are at fixed rates.

Credit Risk

The Group's credit risk is primarily attributable to its cash and cash equivalents and trade receivables. The credit risk on other classes of financial assets is considered insignificant. At 31 December 2009 the Group had no significant concentration of credit risk, with exposure being small in quantum.

Liquidity Risk

The Group manages its liquidity risk primarily through the monitoring of forecasts and actual cash flows. The Group is exploring opportunities to finance working capital through additional equity funding when required.

Other Risks

There is a risk that existing and new customer relationships will not lead to the sales currently forecast and as with any technology company the Group is reliant on a small number of highly skilled staff.

Going Concern

The Directors have prepared a business plan and cash flow forecast for the period to 31 December 2012. The forecast contains certain assumptions about the level of future sales and the level of gross margins and also the successful completion of the reverse takeover with ALD. These assumptions are the directors' best estimate of the future development of the business (as enlarged by the acquisition of ALD).

The Directors acknowledge that the Group is currently trading in difficult economic times and that the enlarged group, following the reverse takeover, will be looking to serve existing customers and new customers with a range of products and services where the level of uptake may be slower than forecast. The Directors have taken steps to satisfy themselves about the robustness of the sales forecasts.

In conjunction to the reverse takeover with ALD, the Company has received commitments, conditional on the passing of certain resolutions and admission of its new ordinary share capital to trading on AIM, for additional equity finance of approximately £657,000 which is sufficient to fund working capital and expansion of the Group over the coming eighteen months. The Board believe the risk that these conditions will not be met is remote and therefore have prepared the financial statements on the going concern basis. Further information on going concern is included in note 2.

Dividends

The Directors do not recommend the payment of a dividend (2008: £nil).

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 period are shown in note 18.

The Company has three classes of shares; ordinary shares of 0.1 pence each, deferred shares of 1 pence each and deferred A shares of 0.1 pence each. The ordinary shares carry no right to fixed income and represent 3.3per cent of the issued share capital of the Company. The deferred shares carry no right to participate in the income or capital of the Company. Each ordinary share carries the right to one vote at general meetings of the Company.

There are no specific restrictions on the size of a holding nor on the transfer of shares, which are both governed by 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 of securities or voting rights.

Details of the employee share scheme are set out in note 22.

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 7.

Under its Articles of Association and pursuant to authorities granted under the Companies Act 2006, the Company has authority to issue ordinary shares of 0.1 pence each up to a nominal value of £1,000,000.

Supplier Payment Policy

The average credit period for trade purchases is disclosed in note 19.

The Group's policy is to settle terms of payment with suppliers when agreeing the terms of each transaction.

Post Balance Sheet Events

A number of events have occurred post period end which it is deemed necessary to disclose in this accounts. Please see details of these in note 25.

Directors

The directors who served the company during the period, except as noted, were as follows:

Executive Directors
Michael Tapia (resigned 1 December 2008)

Barbara Spurrier (appointed Finance Director 7 October 2008 and interim Chief Executive Officer from 6 March 2009)

Non-Executive Directors
Richard Taylor (resigned 31 March 2009)
Guy Chant (resigned 8 June 2009)*
Harry Offer (appointed 16 January 2009 and appointed Chairman 31 March 2009)
Patrick DeSouza (appointed 8 January 2010)
Stanford Berenbaum (appointed 8 January 2010)

* Guy Chant was temporarily appointed to the role of Chief Executive Director between 8 October 2008 and 6 March 2009.

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 period amounted to £42,346 (2008: £244,988).

Statement of directors' responsibilities

Company law requires the Directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and of the Group and of the loss of the Group for the period. In preparing those financial statements, the Directors are required to:

- select suitable accounting policies and apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the accounts;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume the Group will continue in business.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Group and to enable them to ensure that the financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Statement as to disclosure of information to auditors

The Directors have each taken all the necessary steps to make us aware as Directors, of any relevant audit information and to establish that the auditors are aware of that information. As far as the directors are aware, there is no relevant audit information of which the Group's auditors are unaware.

By order of the Board

Barbara Spurrier
Interim Chief Executive Officer

Date: 7 July 2010

Corporate governance statement

It is the Board's policy to support the principle of good corporate governance and the code of best practice as set out in the FRC Combined Code on Corporate Governance (the "Combined Code") issued in June 2008; the Company is not required to comply with the Combined Code; however it is recommended best practice to do so. The Board considers that it has adopted the principles outlined in the Combined Code for corporate governance insofar as it is practical and appropriate for the company's size.

At year end, the Group was controlled by a Board consisting of one executive director and one non-executive director, following resignations during the period. The company intends to appoint a new executive director. Subsequent to the year end, two new non-executive directors were appointed to replace the directors that resigned during the period. There is a clear division of responsibilities between the chairman and the chief executive officer and the Board considers the non-executive director who is chairman to be independent of management.

The Board is responsible for the Group's corporate strategy, monitoring financial performance, approving capital expenditure, treasury and risk management policies. The Board meets regularly with Board meetings occurring once a month (some meetings were conducted by conference call). During the period ended 31 December 2009 the Board met 29 times. A schedule is circulated to the directors preceding a Board meeting that consists of an agenda, matters for approval and management accounts. Formal minutes of Board meetings are produced and circulated for comment and formally approved.

The Board previously delegated certain responsibilities to Board committees insofar as it was appropriate for the Company's size. The Company no longer has a remuneration committee or audit committee as there is currently only one non-executive director on the Board. The company intends to re-establish both committees following the appointment of new directors.

Due to the size of the Board, the Directors do not consider it necessary to have a nomination committee as suggested by the Combined Code. The appointment of directors is therefore considered by the whole Board. The Directors evaluate the balance of skills, knowledge and experience on the Board when defining the role and capabilities required for new appointments.

The Combined Code requires the Board to review the need for an internal audit function from time to time. The Company does not consider that an internal audit function is appropriate given the current size of the business and structure of its operations.

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

i) The safeguarding of assets against unauthorised use or disposal and;

ii) The reliability of financial information used within the business and for publication and the maintenance of proper accounting records.

In addition the key procedures on the internal financial control of the group are as follows:

i) The Board reviews and approves budgets and monitors performance against those budgets on a monthly basis with any variance being fully investigated and;

ii) The group has clearly defined reporting and authorisation procedures relating to the key financial areas.

The annual general meeting is the principal forum for dialogue with shareholders; the Company also has a dedicated electronic communication line specifically for shareholders enquiries.

Report of the independent auditors

for the period ended 31 December 2009

Independent auditor's report to the members of Qonnectis Plc

We have audited the financial statements of Qonnectis Plc for the period ended 31 December 2009 which comprise the Consolidated Statement of Comprehensive Income, the Consolidated and Parent Company Statements of Changes in Equity, the Consolidated and Parent Company Statements of Financial Position, the Consolidated and Parent Company Cash Flow Statements and the related notes. The financial reporting framework that has been applied in their preparation is applicable with law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

Respective responsibilities of directors and auditors

As explained more fully in the Directors' Responsibilities Statement set out on page 6, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors. This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. 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 auditor's 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.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the APB's web-site at www.frc.org.uk/apb/scope/UKNP.

Opinion on the financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2009 and of the group's loss for the period then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on the other matters prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial period for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns; or

- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Mazars LLP, Chartered Accountants (Statutory auditor)
Robert Henry Neate (Senior statutory auditor)

Tower Bridge House,
St. Katharine's Way,
London E1W 1DD

Date: 7 July 2010

Consolidated statement of comprehensive income

for the 18 month period ended 31 December 2009

	Note	18 month period to 31 December 2009 £	12 month period to 30 June 2008 £
Revenue	3	55,282	456,678
Cost of sales		(36,473)	(220,071)
Gross profit		18,809	236,607
Other income	4	75,287	49,514
Exceptional item – convertible loan funding costs		–	(250,000)
Impairment of goodwill		(603,473)	(2,920,379)
Administrative expenses	5	(1,095,209)	(845,383)
Operating loss		(1,604,586)	(3,729,641)
Finance income	9	9,241	6,241
Finance cost	9	(2,007)	(26,198)
Loss for the period before tax		(1,597,352)	(3,749,598)
Corporation Tax	10	55,093	–
Loss for the period and total comprehensive loss for the period		(1,542,259)	(3,749,598)
Loss per share (basic and diluted)	11	(0. 1p)	(1.49p)

The company has no other comprehensive income for the period.

The results reflected above relate to continuing operations.

As permitted by section 408 of the Companies Act 2006 a separate income statement has not been presented for the company. The Company's loss for the period was £339,924 (2008: £8,918,690).

The accompanying notes on pages 16 to 34 are an integral part of these financial statements.

Group statements of changes in equity

for the 18 month period ended 31 December 2009

Consolidated statement of changes in equity for the 18 month period ended 31 December 2009

	Share Capital £	Share Premium £	Retained Loss £	Total £
Balance at 1 July 2007	10,270,588	1,675,050	(8,618,653)	3,326,985
Issue of share capital	1,750,000	–	–	1,750,000
Costs of raising equity	–	(74,333)	–	(74,333)
Total comprehensive loss for the period	–	–	(3,749,598)	(3,749,598)
Balance at 1 July 2008	12,020,588	1,600,717	(12,368,251)	1,253,054
Total comprehensive loss for the period	–	–	(1,542,259)	(1,542,259)
Balance at 31 December 2009	12,020,588	1,600,717	(13,910,510)	(289,205)

Company statement of changes in equity for the 18 month period ended 31 December 2009

	Share Capital £	Share Premium £	Retained Loss £	Total £
Balance at 1 July 2007	10,270,588	1,675,050	(4,096,819)	7,848,819
Issue of share capital	1,750,000	–	–	1,750,000
Costs of raising equity	–	(74,333)	–	(74,333)
Total comprehensive loss for the period	–	–	(8,918,690)	(8,918,690)
Balance at 1 July 2008	12,020,588	1,600,717	(13,015,509)	605,796
Total comprehensive loss for the period	–	–	(339,924)	(339,924)
Balance at 31 December 2009	12,020,588	1,600,717	(13,355,433)	265,872

The following describes the nature and purpose of each reserve within owners' equity.

Share capital	Amount subscribed for share capital at nominal value
Share premium	Amount subscribed for share capital in excess of nominal value
Retained loss	Cumulative net losses recognised in the financial statements

The accompanying notes on pages 16 to 34 are an integral part of these financial statements.

Consolidated statement of financial position

as at 31 December 2009

	Note	31 December 2009 £	30 June 2008 £
Assets			
Non-current assets			
Intangible assets	12	–	603,473
Property, plant and equipment	13	16,285	4,495
		16,285	607,968
Current assets			
Inventories	15	33,689	30,137
Trade and other receivables	16	65,815	93,327
Cash and cash equivalents	17	105,728	697,341
		205,232	820,805
Total assets		221,517	1,428,773
Equity and liabilities			
Equity attributable to holders of the parent			
Share capital	18	12,020,588	12,020,588
Share premium	18	1,600,717	1,600,717
Retained loss		(13,910,510)	(12,368,251)
		(289,205)	1,253,054
Current liabilities			
Trade and other payables	19	347,833	169,719
Borrowings	20	162,889	6,000
		510,722	175,719
Total equity and liabilities		221,517	1,428,773

The Group does not have any non-current liabilities as at the 31 December 2009.

The financial statements were approved by the Board of Directors and authorised for issue on 7 July 2010 and signed on its behalf by:

Barbara Spurrier
Interim Chief Executive Officer

The accompanying notes on pages 16 to 34 are an integral part of these financial statements.

Company statement of financial position

as at 31 December 2009

	Note	31 December 2009 £	30 June 2008 £
Assets			
Non-current assets			
Investment in subsidiaries	14	–	–
		–	–
Current assets			
Trade and other receivables	16	486,750	15,056
Cash and cash equivalents	17	99,235	642,300
		585,985	657,356
Total assets		585,985	657,356
Equity and liabilities			
Equity attributable to holders of the parent			
Share capital	18	12,020,588	12,020,588
Share premium	18	1,600,717	1,600,717
Retained loss		(13,355,433)	(13,015,509)
		265,872	605,796
Current liabilities			
Trade and other payables	19	157,224	51,560
Borrowings	20	162,889	–
		320,113	51,560
Total equity and liabilities		585,985	657,356

The financial statements were approved by the Board of Directors and authorised for issue on 7 July 2010 and signed on its behalf by:

Barbara Spurrier
Interim Chief Executive Officer

The accompanying notes on pages 16 to 34 are an integral part of these financial statements.

Consolidated statement of cash flows

for the 18 month period ended 31 December 2009

	Note	18 month period to 31 December 2009 £	12 month period to 30 June 2008 £
Cash flows from operating activities			
Loss from operations		(1,604,586)	(3,729,641)
Adjustments for:			
Depreciation		10,735	4,352
Impairment losses		603,473	2,920,379
Funding costs – convertible loan funding costs		–	250,000
Corporation tax credit		55,093	–
Operating loss before working capital changes		(935,285)	(554,910)
(Increase) in inventories		(3,552)	(18,231)
Decrease in trade and other receivables		27,512	1,458
Increase/(decrease) in trade and other payables		178,114	(144,568)
Net cash from operating activities		(733,211)	(716,251)
Cash flows from investing activities			
Purchase of property, plant and equipment		(22,525)	(164)
Interest received		9,241	6,241
Interest paid		(2,007)	(26,198)
Net cash used in investing activities		(15,291)	(20,121)
Cash flows from financing activities			
Proceeds from issue of share capital		–	1,675,667
Exceptional item – convertible loan funding costs		–	(250,000)
Proceeds from loan notes issued		72,889	–
Proceeds from loan notes due to be issued (restricted cash)		90,000	–
Repayment of borrowings		(6,000)	(36,000)
Net cash used in financing activities		156,889	1,389,667
Net (decrease)/increase in cash and cash equivalents		(591,613)	653,295
Cash and cash equivalents at the beginning of period		697,341	44,046
Cash and cash equivalents at end of period	17	105,728	697,341

The accompanying notes on pages 16 to 34 are an integral part of these financial statements.

Company statement of cash flows

for the 18 month period ended 31 December 2009

	Note	18 month period to 31 December 2009 £	12 month period to 30 June 2008 £
Cash flows from operating activities			
Loss from operations		(347,324)	(8,901,457)
Adjustments for:			
Funding costs – convertible loan funding costs		–	250,000
Impairment losses		–	3,962,500
Operating loss before working capital changes		(347,324)	(4,688,957)
(Increase)/decrease in trade and other receivables		(471,694)	3,950,118
Increase/(decrease) in trade and other payables		105,664	(47,114)
Net cash from operating activities		(713,354)	(785,953)
Cash flows from investing activities			
Interest received		8,992	5,432
Interest paid		(1,592)	(22,665)
Net cash used in investing activities		7,400	(17,233)
Cash flows from financing activities			
Proceeds from issue of share capital		–	1,675,667
Exceptional item – convertible loan funding costs		–	(250,000)
Proceeds of loan notes issued		72,889	–
Proceeds on loan notes due to be issued (restricted cash)		90,000	–
Net cash used in financing activities		162,889	1,425,667
Net (decrease)/increase in cash and cash equivalents		(543,065)	622,481
Cash and cash equivalents at the beginning of period		642,300	19,819
Cash and cash equivalents at end of period	17	99,235	642,300

The accompanying notes on pages 16 to 34 are an integral part of these financial statements.

Notes to the financial statements

for the period ended 31 December 2009

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 the United Kingdom and incorporated under registered number 03923150 in England and Wales. The Company's registered office is St John's Innovation Centre, Cowley Road, Cambridge, CB4 0WS.

The Company is listed on the Alternative Investment Market ("AIM") of the London Stock Exchange. The Company's shares were suspended on 30 July 2009.

These group consolidated financial statements were authorised for issue by the Board of directors on 7 July 2010.

2 Summary of significant accounting policies

Basis of preparation

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 periods presented unless stated otherwise.

The consolidated financial statements of Qonnectis plc have been prepared in accordance with International Financial Reporting Standards (IFRSs and IFRIC Interpretations) issued by the International Accounting Standards Board, as adopted by the European Union.

Going concern

The Group's business activities, together with factors likely to affect its future development, performance and position are set out in the Directors' report. As described in the directors' report, the current economic environment is difficult and the Group has reported an operating loss for the period.

As explained in the Chairman's statement, the Group has agreed to undertake a reverse takeover with American Leak Detection Inc. ("ALD"). The directors raised £395,000 of interim funding in January 2010 to enable the Group to continue trading until the transaction is completed.

In conjunction to the reverse takeover with ALD, the Company has received commitments, conditional on the passing of certain Shareholder resolutions and admission of its new ordinary share capital to trading on AIM, for additional equity finance of approximately £657,000 which is sufficient to fund working capital and expansion of the Group over the coming eighteen months. If these conditions were not met then the Company may not have the financial resources to continue as a going concern. However, the Board believes the risk of these conditions not being met is remote and therefore no material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern for the foreseeable future. Consequently the accounts are prepared on a going concern basis.

Adoption of new and amended standards

The following standards and amendments to standards are mandatory for the groups accounting periods beginning on or after the 1 January 2009, the Group has decided to adopt these standards early:

- IAS 1 (revised) 'Presentation of financial statements' prescribes the basis for presentation of financial statements to ensure comparability both with the entity's financial statements of previous periods and with the financial statements of other entities. IAS 1 (revised) introduces a number of changes to the requirements for the presentation of financial statements, which include the following: the separate presentation of owner and non-owner changes in equity; requirement for entities making restatements or reclassifications of comparative information to present a Statement of Financial Position as at the beginning of the comparative period; and voluntarily name changes for certain primary statements.

The adoption of this revised standard has resulted in presentational changes to the group's financial statements. In addition, the primary statements are named as follows: Statement of Comprehensive Income, Statement of Financial Position, Statement of Changes in Equity and Statement of Cash Flows.

- IFRS 8 'Operating segments' requires operating segments to be identified on the basis of internal reports about components of the group that are regularly reviewed by the chief operating decision maker in order to assess their performance and to allocate resources to the segments. These operating segments are then aggregated into reporting segments to combine those with similar characteristics. In contrast, the predecessor standard, IAS 14 'Segmental Reporting', required the group to identify two sets of segments (business and geographical), using a risks and rewards approach. For further details regarding how the group now reports operating segments, refer to note 3.

The following standards and interpretations and amendments to existing standards have been published and are mandatory for the Group's accounting periods beginning on or after the 1 January 2009 (unless otherwise indicated), but the Group has not adopted these early:

- IFRS 2 (amendments), 'Share based payment'. The amendments to the standard relate to vesting conditions and cancellations, and group cash-settled share-based payment transactions. The IFRS 2 (amendments) are effective for annual periods beginning on or after 1 January 2009 and 1 January 2010 respectively. The Group will apply these amendments to IFRS 2 in their financial statements for the year ended 31 December 2010. This amendment is not expected to have a material impact on the Group's financial statements.

- IFRS 3 (revised), 'Business combinations' (effective from 1 July 2009). The revised standard continues to apply the acquisition method, with some significant changes being made. There is a choice on an acquisition to measure the non-controlling interest in the acquiree at fair value or at their proportionate interest in the acquiree's net assets. IFRS 3 is effective for annual periods beginning on or after 1 July 2009, the Group will apply this amendment for the first time in their financial statements for the year ended 31 December 2010. This amendment is not expected to have a material impact on the Group's financial statements.

  IFRS 3 (revised) has created consequential amendments to IAS 27, 'Consolidated and separate financial statements', IAS 28 'Investments in associates', and IAS 31 'Interests in joint ventures'. All of the consequential amendments to these standards are effective for annual periods beginning on or after 1 July 2009, the Group will apply these amendments for the first time in their financial statements for the year ended 31 December 2010. These amendments is not expected to have a material impact on the Group's financial statements.

- IFRS 7 'Financial instruments: Disclosures' (amendment). The amendments to IFRS 7 introduces a three level hierarchy for fair value measurement disclosures and require entities to provide additional disclosures about the relative reliability of fair value measurements. In addition, the amendments clarify the existing requirements for the disclosure of liquidity risk. The IFRS 7 (amendment) is effective for annual periods beginning on or after 1 January 2009, the Group will apply this amendment for the first time in their financial statements for the year ended 31 December 2010. This amendment is not expected to have a material impact on the Group's financial statements

- IAS 23, 'Borrowing costs'. The amendment to IAS 23 eliminates the option to expense borrowing costs attributable to the acquisition, construction or production of a qualifying asset as incurred. IAS 23 is effective for annual periods beginning on or after 1 January 2009, the Group will apply this amendment for the first time in their financial statements for the year ended 31 December 2010. This amendment is not expected to have a material impact on the Group's financial statements.

- IAS 24, 'Related Party Disclosures'. This revised standard simplifies the definition of a related party, clarifying its intended meaning and eliminating inconsistencies from the definition. IAS 24 is effective for annual periods beginning on or after 1 January 2011, the Group will apply this amendment for the first time in their financial statements for the year ended 31 December 2011. This amendment is not expected to have a material impact on the Group's financial statements.

- IAS 32 (amendment), 'Financial instruments: Presentation and disclosure', and the consequential amendment to IAS 1 (amendment), 'Presentation of financial statements', relating to puttable financial instruments and obligations arising on liquidation are effective for annual periods beginning on or after 1 January 2009. The Group will apply this amendment for the first time in their financial statements for the year ended 31 December 2010. This amendment is not expected to have a material impact on the Group's financial statements.
- IAS 32 (amendment), 'Financial instruments: Presentation and disclosure', relating to the classification of rights issues are effective for annual periods beginning on or after 1 February 2010. The Group will apply this amendment for the first time in their financial statements for the year ended 31 December 2011. This amendment is not expected to have a material impact on the Group's financial statements.
- IAS 39 (amendment), 'Financial instruments: Recognition and measurement', relating to eligible hedged items are effective for annual periods beginning on or after 1 July 2009. The Group will apply this amendment for the first time in their financial statements for the year ended 31 December 2010. This amendment is not expected to have a material impact on the Group's financial statements.
- IFRS 9, 'Financial Instruments: classification and measurement'. IFRS 9 introduces new requirements for classifying and measuring financial assets and replaces the requirements for accounting for financial assets that are contained in IAS 39. IFRS 9 is effective for annual periods beginning on or after 1 January 2013, the Group expects to apply this amendment for the first time in their financial statements for the year ended 31 December 2013. The Group is still assessing the impact that this standard may have on its' financial statements.
- Interpretations in issue not yet effective:
  - IFRIC 14 'Prepayments on a minimum funding requirement' (amendment). The amendment to IFRIC 14 is effective for annual periods beginning on or after 1 January 2011.
  - IFRIC 15 'Agreements for the construction of real estate'. The Interpretation is effective for annual periods beginning on or after 1 January 2009.
  - IFRIC 16 'Hedges of a net investment in a foreign operation. This Interpretation is effective for annual periods beginning on or after 1 October 2008.
  - IFRIC 17 'Distributions of non-cash assets to owners'. The Interpretation is effective for annual periods beginning on or after 1 July 2009.
  - IFRIC 19 'Extinguishing financial liabilities with equity instruments'. The Interpretation is effective for annual periods beginning on or after 1 July 2010

  Adoption of these Interpretations is not expected to have a material impact on the Group's financial statements.

Annual Improvements to IFRSs, resulting from the IASB annual improvements project make minor changes to a number of standards. The adoption of these amendments is not expected to have a material impact on the Group's financial statements.

Basis of consolidation
The consolidated statement of comprehensive income, consolidated statement of changes in equity, consolidated statement of financial position and consolidated statements of cash flows include the financial statements of the Company and its subsidiaries undertakings in the eighteen months to 31 December 2009. Accounts were previously drawn up to 30 June each year. Intercompany transactions, balances and unrealised gains on transactions between group companies have been eliminated. The accounting policies of the subsidiaries are the same as those of the parent company to ensure consistency within the Group.

Business combinations
The consolidated financial statements incorporate the results of business combinations using the purchase method. In the consolidated statement of financial position, the acquiree's identifiable assets, liabilities and contingent liabilities are initially recognised at their fair value at the acquisition date. The results of acquired operations are included in the consolidated statement of comprehensive income from the date on which control is obtained. The consideration given and the assets and liabilities acquired are recorded at their fair value.

Revenue recognition
Revenue comprises the fair value of the consideration received or receivable, i.e. the sale of goods, net of value added tax, rebates and discounts, after eliminating intercompany sales transactions. Revenue for the sale of goods is recognised when the Company has transferred goods to the buyer.

Interest income is recognised on a time proportion basis and dividend income is recognised when the right to receive payment is established.

Foreign currency translation
Foreign currency transactions are translated into the functional currency using exchange rates prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the rates of exchange prevailing at the period end and foreign exchange gains and losses resulting from such transactions are recognised in the statement of comprehensive income.

Financial assets and liabilities
The Group's financial assets consist of cash and cash equivalents and trade and other receivables.

Cash and cash equivalents are comprised of cash in hand and cash held on current account or short-term deposits at variable interest rates with maturity periods of up to three months. Any interest earned is accrued monthly and classified as interest income. Trade and other receivables are initially measured at fair value and subsequently less any provision for impairment.

Trade receivables, loans and other receivables that have fixed or determinable payments that are not quoted in an active market are categorised as loans and receivables. Loans and receivables are measured at amortised cost using the effective interest method, less any impairment.

The Group's financial liabilities consist of the following items:

- Trade and other payables, which are recognised at fair value net of transaction costs and subsequently measured at amortised cost using the effective interest method.
- Loan notes payable are initially recognised at the amount advanced net of any transaction costs directly attributable to the issue of the instrument. Such interest bearing liabilities are subsequently measured at amortised cost using the effective interest method.

All financial liabilities are categorised as other financial liabilities.

Financial liabilities and equity
Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement.

Equity instruments
An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group are recognised at the proceeds received, net of direct issue costs.

Property, plant and equipment
Property, plant and equipment are shown at historical cost less accumulated depreciation. The cost of property, plant and equipment is the purchase cost of the asset including any expenditure that is directly attributable to the acquisition of the item. Depreciation on assets is calculated using the straight line method to allocate their cost to their residual values over their estimated useful lives as follows:

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

The assets' residual values are reviewed and if appropriate they are adjusted at each statement of financial position date.

Intangible assets
Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the subsidiary acquired at the date of acquisition. Goodwill on acquisitions of subsidiaries is included as 'intangible assets'. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed.

Inventory
Inventories are stated at the lower of cost and net realisable value.

Current and deferred income tax
Income tax is provided at amounts expected to be paid using rates that have been enacted or substantively enacted. Deferred income tax 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.

Leases
Leases in which a significant proportion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the statement of comprehensive income on a straight line basis over the period of the lease.

Pensions
Contributions to individuals' defined contribution pension schemes are charged to the statement of comprehensive income in the period in which they become payable.

Share-based payments
Where material, equity settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date. The fair value excludes the effect of non market-based vesting conditions. Details regarding the determination of the fair value of equity-settled share-based transactions are set out in note 22.

The fair value determined at the grant date of the equity settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of equity instruments that will eventually vest. At each balance sheet date, the Group revises its estimate of the number of equity instruments expected to vest as a result of the effect of non market-based vesting conditions. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to the equity-settled employee benefits reserve.

Research and development
Research expenditure is recognised as an expense as incurred. Costs incurred on development projects (relating to the design and testing of our 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. Other 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 commencement of the commercial production of the product on a straight line basis over the period of its expected benefit, not exceeding five years.

Financial instruments – risk management
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.

Capital risk management
The Group manages its capital to ensure that entities in the Group will be able to continue as going concerns while maximising the return to stakeholders through the optimisation of the debt and equity balance.

The capital structure of the Group consists of debt, which includes the borrowings disclosed in note 20, cash and cash equivalents and equity attributable to equity holders of the parent, comprising issued capital, reserves and retained earnings.

The Group is not subject to any externally imposed capital requirements.

Credit risk
Credit risk is managed on a group basis. The maximum exposure to credit risk equates to the total value of cash and cash equivalents and the total value of trade receivables. The credit risk on liquid funds is limited because the counterparties are banks with high-credit ratings assigned by international credit-rating agencies. Due to the limited activity of the Group in the period, there is a high concentration of credit risk associated with trade receivables, however, the value of trade receivables exposed is considered immaterial.

Interest rate risk management
The Group's interest rate risk arises from short term borrowings. Borrowings issued at variable rates expose the group to fair value interest rate risk. This risk was reduced by the repayment of the final instalments of variable rate borrowings in the first two months of the period. Interest rate risk is managed by the Group as all borrowings at the period end are at fixed rates. Management anticipate the Group's fixed rate borrowings to be settled upon completion of the reverse takeover. The Group's borrowings are detailed in note 20.

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's borrowings are detailed in note 20.

Foreign currency exchange risk
The Group undertakes transactions denominated in foreign currencies; consequently exposures to exchange rate fluctuations arise. The exposure to exchange rate fluctuations is limited as transactions undertaken in the non-functional currency are not considered material.

Critical accounting estimates and judgments
The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Impairment of goodwill
Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the entity to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present value.

3 Segmental analysis

The Group has adopted IFRS 8 Operating Segments with effect from 1 July 2008. IFRS 8 requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the Board of Directors (Chief Operating Decision Makers) to allocate resources to the segments and to asses their performance. In contrast, the predecessor Standard (IAS 14 Segment Reporting) required Group to identify two sets of segments (business and geographical), using a risks and returns approach, with the Group's system of internal financial reporting to key management personnel serving starting only as the starting point for the identification of such segments. As a result, following the adoption to IFRS 8, the identification of the Group's reportable segments has changed.

In the opinion of the Directors, the revenue of the Group is attributable to continuing activity for a single inter-related class of business; being that of the supply of an integrated solution for remote data communications and leak detection.

The Group's revenue from external customers by geographical location is detailed below:

Geographical analysis

	18 month period to 31 December 2009 £	**12 month period to 30 June 2008 £**
United Kingdom	48,347	449,628
Europe	6,935	7,050
	55,282	456,678

Included in revenues arising from the supply of an integrated solution for remote data communications and leak detection are revenues of approximately £9,540 (2008: £92,000) which arose from sales to the Group's largest customer.

4 Other income

	18 month period to 31 December 2009 £	12 month period to 30 June 2008 £
Research and development tax credit	57,373	49,514
EEDA Proof of concept grant	17,914	–
	75,287	49,514

5 Expenses by nature

	18 month period to 31 December 2009 £	12 month period to 30 June 2008 £
Changes in inventories	3,552	18,231
Inventory written off	9,962	–
Royalties payable	3,415	–
Raw materials and consumables used	23,096	220,071
Research and development costs	42,346	49,713
Employee costs	357,047	281,504
Depreciation charge	10,735	4,352
Distribution costs	1,163	13,392
Operating lease payments	29,352	28,870
Funding costs related to convertible loan	–	250,000
Impairment of goodwill	603,473	2,920,379
Other expenses	616,030	425,840
	1,700,171	4,212,353
Auditor's remuneration		
Fees payable to company's auditor for audit of parent company and consolidated financial statements	17,750	8,400
Fees payable to company's auditor for other services:		
- The audit of the company's subsidiaries pursuant to legislation	11,834	5,600
- Tax services	5,400	9,481
Total cost of sales and operating expenses	1,735,155	4,235,833

6 Employees

Staff costs for the period comprised of the following:

	18 month period to 31 December 2009 £	12 month period to 30 June 2008 £
Wages and salaries	331,442	242,375
Social security costs	24,031	34,957
Other pension costs	1,574	4,172
	357,047	281,504

The average number of persons including executive directors employed by the Group during the period was:

	18 month period to 31 December 2009 £	12 month period to 30 June 2008 £
Management	2	3
Staff	2	5
	4	8

7 Directors' remuneration

	18 month period to 31 December 2009 £	12 month period to 30 June 2008 £
Emoluments	183,495	140,934
Compensation for loss of office	24,789	–
Aggregate directors remuneration	208,284	140,934

The highest-paid Director received emoluments of £100,095 (2008: £113,252), with nil contributions paid to a money purchase pension scheme (2008: Nil). No pension benefits accrued to the highest-paid Director under a defined benefit pension scheme (2008: Nil).

A contribution of £1,574 (2008: £4,172) has been made in respect of directors' personal pension schemes. There are no directors (2008: Nil) to whom retirement benefits are accruing in respect of qualifying services in respect of money purchase schemes of the company.

8 Directors' share options

	As at 31 December 2009	Excerise Price (pence)	Granted	Earliest Exercise Date	Expiry Date
R M Taylor	3,333,333	2.25	18/02/2005	24/02/2006	24/02/2015
B Spurrier	1,500,000	1.00	29/01/2009	29/01/2009	25/02/2015

The shares of Qonnectis were suspended at the reporting date and therefore there was no current market price at the reporting date.

As set out in note 22, no charge for the share options has been recognised in these financial statements as it is immaterial.

9 Finance income and costs

	18 month period to 31 December 2009 £	12 month period to 30 June 2008 £
Interest Expense		
– Bank loan and overdraft borrowings	(2,075)	(3,698)
– Other interest payable	–	(22,500)
– Gain on foreign exchange	68	–
Finance cost	(2,007)	(26,198)
Interest income on short term bank deposits	9,241	6,241
Finance income	9,241	6,241
Net finance costs	7,234	(19,957)

10 Income tax expense

(a) Analysis of charge in period

	18 month period to 31 December 2009 £	12 month period to 30 June 2008 £
Corporation tax	(55,093)	–
Total	(55,093)	–

(b) Factors affecting tax charge for period

	£	£
Loss for the period before taxation	(1,597,352)	(3,749,598)
Loss on ordinary activities multiplied by rate of corporation tax in the UK 28% (2008: 21%)	(447,258)	(787,416)
Adjustments for:		
Expenses not tax deductable	62,863	46,446
Impairment of goodwill	168,972	613,280
Tax effect of unrecognised losses for deferred tax	215,423	126,759
Other	(55,093)	931
Total income tax credit	(55,093)	–

The value of the unrecognised deferred tax asset for the period was £1,136,441 (2008: 912,843). 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

	18 month period to 31 December 2009 £	12 month period to 30 June 2008 £
Basic and diluted loss per share		
Net loss for the period	(1,542,259)	(3,749,598)
Weighted average number of ordinary shares	1,615,373,072	251,073,776
Basic and diluted loss per share (pence)	(0.1)	(1.49)

IAS 33 requires presentation of the diluted loss per share amount when a company could be called upon to issue shares that would decrease net profit or increase net loss per share. For the group an issue of shares would decrease the net loss per share, therefore these shares are anti-dilutive as defined by IAS 33 and so there is no difference between the basic and diluted earnings per share.

12 Intangible assets

Group intangible assets as at 31 December 2009

	Goodwill £
At 1 July 2007	
Cost	7,487,001
Accumulated impairment losses	(3,963,149)
Net book amount	3,523,852
Period ended 30 June 2008	
Opening net book value	3,523,852
Impairment charge for the period	(2,920,379)
Closing net book amount	603,473
At 30 June 2008	
Cost	7,487,001
Accumulated impairment losses	(6,883,528)
Net book amount	603,473
Period ended 31 December 2009	
Opening net book value	603,473
Impairment charge for the period	(603,473)
Closing net book amount	–
As at 31 December 2009	
Cost	7,487,001
Accumulated impairment losses	(7,487,001)
Closing net book amount	–

The goodwill on consolidation is related to the acquisition of Qonnectis Networks Limited.

Goodwill is not amortised but is tested for impairment on an annual basis or more frequently if there are any indications that goodwill should need to be further impaired.

At 31 December 2009, before impairment testing, goodwill of £603,473 was allocated to the Qonnectis Networks cash generating unit ("CGU"). The value to Qonnectis of the business of Qonnectis Networks Ltd has been reviewed in light of declining sales in a difficult and uncertain economic environment. Given this uncertain outlook, the Group has revised its cash flow forecasts for this CGU. As a result, goodwill allocated to the Qonnectis Networks CGU has been reduced to its recoverable amount through the recognition of an impairment loss against goodwill of £603,473.

13 Property, plant and equipment

Group property, plant and equipment as at 31 December 2009

	Computer equipment £	Fixtures, fittings and equipment £	Development tools and equipment £	Total £
Period ended 30 June 2008				
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 period	(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 2008	1,826	1,837	832	4,495
Period ended 31 December 2009				
Cost				
At 1 July 2008	103,133	5,005	15,693	123,831
Additions	5,127	518	16,880	22,525
At 31 December 2009	108,260	5,523	32,573	146,356
Accumulated depreciation				
At 1 July 2008	(101,307)	(3,168)	(14,861)	(119,336)
Charge for the period	(3,790)	(1,834)	(5,111)	(10,735)
At 31 December 2009	(105,097)	(5,002)	(19,972)	(130,071)
Net book amount				
At 31 December 2009	3,163	521	12,601	16,285

The Company does not hold any property, plant or equipment.

14 Investment in subsidiaries

Company investment in subsidiaries as at 31 December 2009

	Subsidiary undertakings £
At 30 June 2008	
Cost	3,962,500
Accumulated impairment losses	(3,962,500)
Net book amount	–
As at 31 December 2009	
Cost	3,962,500
Accumulated impairment losses	(3,962,500)
Closing net book amount	–

The principal subsidiary undertakings during the period were as follows:

Name	Country of incorporation	Interest held %
MyUtility Limited (business to business internet)	England and Wales	100
Qonnectis Group Limited (intermediate holding company)	England and Wales	100
Qonnectis Networks Limited (remote data communications)	England and Wales	100
Qonnectis Technologies Limited (dormant)	England and Wales	100

15 Inventories

Group inventories as at 31 December 2009

	18 month period to 31 December 2009 £	12 month period to 30 June 2008 £
Inventories	33,689	30,137

The Company does not hold any inventory.

16 Trade and other receivables

Group trade and other receivables as at 31 December 2009

	18 month period to 31 December 2009 £	12 month period to 30 June 2008 £
Trade receivables	4,290	42,493
Less: impairment of trade receivables	(4,155)	–
Net trade receivables	135	42,493
Prepayments	7,413	29,889
Corporation tax	55,093	–
Unpaid share capital	10	10
Recoverable VAT	3,164	20,935
	65,815	93,327

Trade receivables disclosed above are classified as loans and receivables and are therefore measured at amortised cost.

The average credit period taken on sales of goods is 1 day (2008: 34 days). The average credit period taken on sales of goods is skewed due the size of the trade receivables at the period end. The actual credit period taken on this balance is shown below as being between 90 and 120 days.

Ageing of past due but not impaired receivables

	18 month period to 31 December 2009 £	12 month period to 30 June 2008 £
30-60 days	–	33,534
60-90 days	–	(15,581)
90-120 days	135	7,191
Total	135	25,144

Movement in the allowance for doubtful debts

	18 month period to 31 December 2009 £	12 month period to 30 June 2008 £
Balance at the beginning of the period	–	–
Amounts provided during the year	(4,155)	–
Balance at the end of the period	(4,155)	–

Ageing of impaired trade receivables

	18 month period to 31 December 2009 £	12 month period to 30 June 2008 £
30-60 days	–	–
60-90 days	–	–
90-120 days	(4,155)	–
Total	(4,155)	–

Directors consider that the carrying amount of trade and other receivables is approximately equal to their fair value.

Company trade and other receivables as at 31 December 2009

	18 month period to 31 December 2009 £	12 month period to 30 June 2008 £
Prepayments	1,388	7,626
Recoverable VAT	148	7,430
Due from group undertakings	485,214	–
	486,750	15,056

17 Cash and cash equivalents

Group cash and cash equivalents as at 31 December 2009

	18 month period to 31 December 2009 £	12 month period to 30 June 2008 £
Cash at bank and on hand	102,779	67,331
Short term bank deposits	2,949	630,010
	105,728	697,341

Company and cash equivalents as at 31 December 2009

	18 month period to 31 December 2009 £	12 month period to 30 June 2008 £
Cash at bank and on hand	96,286	12,290
Short term bank deposits	2,949	630,010
	99,235	642,300

The average interest rate received on deposits in the period was 1.28 per cent (2008: 5.45 per cent).

18 Share Capital

Changes to Authorised Share Capital
During the period the Company reorganised its authorised share capital as follows:

On 10 June 2009 each ordinary share of 1p was re-designated as 10 new ordinary shares of 0.1p each.

On the same date each of the 696,500 ordinary B shares of 100p were sub-divided and re-designated into 1,000 ordinary shares of 0.1p each.

The Company resolved, on 25 June 2009, to convert nine of every ten issued ordinary shares of 0.1p into nine deferred A shares of 0.1p each.

The deferred A shares each carry the right to repayment of 0.1p each on a winding up or repayment of capital of the Company, after repayment of £100,000 on each ordinary shares of 0.1p each in issue and after payment of the amount due (if any) on any other classes of share capital of the Company, including the existing deferred shares of 1p each. The deferred A shares carry no other right to participate in the capital or income of the Company and carry no right to vote.

The total number of authorised ordinary shares with a nominal value of 0.1p is 3,373,020,193 (2008: nil). The total number of authorised shares with a nominal value of 1p is nil (2008: 421,899,200).

The total number of authorised ordinary B shares with nominal value of £1 is nil (2008: 696,500).

The total number of authorised deferred shares with a nominal value of 1p is 808,450,760 (2008: 808,450,760) and the total number of authorised deferred A shares with a nominal value of 0.1p is 3,542,472,207 (2008: nil).

Changes to Issued Share Capital

	Ordinary A shares No.	Deferred shares No.	Share capital £	Share premium £	Total £
As at 1 July 2007	218,608,023	808,450,760	10,270,588	1,675,050	11,945,638
Issue of share capital	150,000,000	–	1,500,000	(74,333)	1,425,667
Issue convertible loan	25,000,000	–	250,000	–	250,000
As at 30 June 2008	393,608,023	808,450,760	12,020,588	1,600,717	13,621,305
Subdivision of ordinary shares	3,542,472,207	–	–	–	–
Deferment 10:9 ordinary shares	(3,542,472,207)	3,542,472,207	–	–	–
As at 31 December 2009	393,608,023	4,350,922,967	12,020,588	1,600,717	13,621,305

19 Trade and other payables

Group trade and other payables as at 31 December 2009

	18 month period to 31 December 2009 £	12 month period to 30 June 2008 £
Trade payables	216,474	101,977
Other payables	–	3,060
Social security	16,530	3,030
Accrued expenses	95,133	48,052
Directors' current accounts	13,600	13,600
Prepaid revenue	3,958	–
Salaries	2,138	–
	347,833	169,719

Company trade and other payables as at 31 December 2009

	18 month period to 31 December 2009 £	12 month period to 30 June 2008 £
Trade payables	87,299	31,594
Other payables	–	2,400
Accrued expenses	69,925	17,566
	157,224	51,560

Trade creditors and accruals principally comprise amounts outstanding for trade purchases and ongoing costs. The average credit period taken for trade purchases is 153 days (2008: 71 days).

The directors consider that the carrying amount of the trade payables approximates to their fair value.

All the above payables are current liabilities payable with the next 12 months. The group has no non-current liabilities.

20 Borrowings

	18 month period to 31 December 2009 £	12 month period to 30 June 2008 £
Secured bank borrowings	–	6,000
Loan notes	72,889	–
Other borrowings	90,000	–
Borrowings	162,889	6,000

All borrowings are due for settlement within 12 months.

The balance of current borrowings was repaid in full during the period in two monthly instalments of £3,000 together with interest charged at a variable rate of 2.5 per cent. over the bank's base rate.

The Loan Note from American Leak Detection Inc. (ALD) carries an interest rate of 18 per cent. per annum. The Loan Note term is in perpetuity unless a Notice of Termination is served on Qonnectis or upon closing of the reverse takeover by ALD of Qonnectis. The Loan Note from ALD is repayable within 30 days of a Notice of Termination (Called Note) or shall be converted into equity upon the completion of the reverse takeover of Qonnectis plc by ALD. At the discretion of ALD, the Loan Note may be converted into 3 per cent. ordinary shares of Qonnectis plc post-closing the reverse takeover by ALD. If the Called Note is not paid within the 60 days, ALD has the option to convert the Loan Note into 10 per cent. of the fully diluted ordinary shares of Qonnectis plc.

There is a balance of £90,000 which relates to cash advances received before the period end, for loan notes to be issued post period end. This balance incurs no interest and will be converted into loan notes post period end.

21 Commitments

The future aggregate minimum lease payments under non cancellable operating leases as set out below:

	18 month period to 31 December 2009 £	12 month period to 30 June 2008 £
No later than 1 year	–	28,870
Later than 1 year and no later than 5 years	–	16,359
Later than 5 years	–	–
	–	45,229

The commitments shown above apply to the Group and the Company.

22 Share based payments

The Company has a share option scheme for employees of the Group. The Enterprise Management Incentive scheme has a vesting period of one year. If options remain unexercised after a period of 10 years from the date of grant, the options expire. Options are exercisable at a price equal to the average quoted market price of the Company's shares on the date of the grant.

The Company also grants share options at its discretion to Company directors. The options have no vesting period. If options remain unexercised after a period of 10 years from the date of grant the options expire. Options are exercisable at a price equal to the average quoted market price of the Company's shares on the date of the grant.

Details of the share options granted, exercised, lapsed and outstanding at the end of the year are as follows:

	No of share options	18 month period to 31 December 2009 Weighted average exercise price (pence)	No of share options	12 month period to 30 June 2008 Weighted average exercise price (pence)
Outstanding at beginning of period	28,591,010	1.98	21,218,850	2.31
Granted during the period	4,000,000	1.00	7,372,160	1.00
Forfeited during the period	(10,552,166)	2.50	–	–
Exercised during the period	–	–	–	–
Expired during the period		–	–	–
Outstanding at the end of the period	22,038,844	1.55	28,591,010	1.98
Exercisable at the end of the period	22,038,844	1.55	28,591,010	1.98

The options outstanding at 31 December 2009 had a weighted average exercise price of 1.55, and a weighted average remaining contractual life of 2.34 years. In 2009, options were granted on 29 January. The aggregate of the estimated fair values of the options granted on that date is immaterial. The inputs into the Black-Scholes model are as follows:

	18 month period to 31 December 2009 £
Weighted average share price	0.0015p
Weighted average exercise price	0.01p
Expected volatility	99%
Expected life	5 years
Risk-free rate	1.50%
Expected dividend yields	nil

Expected volatility was determined by calculating the historical volatility of the group's share price over the previous three years. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations.

No charge related to equity-settled share based payment transactions has been recognised in these financial statements as it is considered immaterial.

23 Contingencies

The Group and Company had no contingent liabilities as at 31 December 2009 (2008: Nil).

24 Related party transactions

During the period the Group purchased financial services from Cambridge Financial Partners LLP, a company of which Barbara Spurrier, a director of Qonnectis plc is a partner. The cost of services provided to the Group during the period was £162,872 (2008: £nil) and at the date of the statement of financial position the balance owing to Cambridge Financial Partners LLP was £83,823 (2008: £nil).

During the period the group entered into an agreement for the rent of storage space from The Offer Group Limited. The chairman of Qonnectis plc, Harry Offer, is also a director of this firm. Rent paid during the period to The Offer Group Limited was £863 (2008: Nil) of which £575 (2008: Nil) was outstanding at the period end.

The Group bought services from Barnes Kavelle Limited, a company in which Mr R M Taylor (a former chairman and non-executive director of Qonnectis plc) is a director. The cost of these services in the period of his directorship was £546 (2008: £1,000).

Key management personnel

The key management personnel of the company are the directors. Details regarding their remuneration received during the period are disclosed in note 7 to these financial statements.

25 Events after the reporting period

On 8 January 2010 a fundraising was concluded which secured £395,000 through a combination of debt and equity in contemplation of a proposed reverse takeover by ALD.

The Loan Note from ALD referred to in note 20 above, totalling £72,889, was partly repaid using some of the proceeds of the fundraising in January 2010. £35,000 was repaid on the 28th January leaving a total owed to ALD of £37,889.

An instrument dated 8 January 2010 between Qonnectis plc and ALD constituting preferred convertible loan notes to be issued to ALD in respect of monies owed by Qonnectis plc to ALD in the event that the Acquisition and Admission do not occur by 30 April 2010 ranking in preference to all unsecured obligations of Qonnectis plc secured by the debenture referred to below and carrying interest on the principal amount outstanding at 18 per cent. per annum and convertible into Ordinary Shares at par. The preferred convertible loan notes will be repayable at twice the principal amount and outstanding interest at any time within 3 business days of a written demand. If repayment is not made the noteholder may convert all or any of the notes and outstanding interest at any time in to fully paid ordinary shares at par.

A debenture dated 8 January 2010 between Qonnectis and ALD pursuant to which Qonnectis plc granted a fixed and floating charge over all its property, assets, rights and revenues in favour of ALD as security for any obligations due by Qonnectis plc to ALD pursuant to loan notes as set out above.

26 Control

The Group is not under control of any other party.

Notice of annual general meeting

Qonnectis plc

NOTICE IS HEREBY GIVEN that the Annual General Meeting of the above named company will be held at the offices of Merchant John East Securities Limited, 51-55 Gresham Street, London EC2V 7HQ on 2 August 2010 at 10.00 a.m. for the following purposes, namely:

Ordinary Business

1. To receive and adopt the reports of the directors and the auditors and the audited financial statements for the eighteen month period ended 31 December 2009.
2. To re-appoint as a director Harry JM Offer, who was appointed by the board on 16 January 2009.
3. To re-appoint as a director Stanford P Berenbaum, who was appointed by the board on 8 January 2010.
4. To re-appoint as a director Patrick J DeSouza, who was appointed by the board on 8 January 2010.
5. 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.
6. To authorise the directors to determine the auditors' remuneration.

BY ORDER OF THE BOARD
Barbara Spurrier
Company Secretary

Registered Office:
St John's Innovation Centre, Cowley Road, Cambridge, Cambridgeshire CB4 0WS

7 July 2010

Notes:

1. A member who is entitled to attend the meeting, speak and vote is entitled to appoint a proxy or proxies to do so in his/her place. 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 time fixed for holding the meeting (excluding weekends and bank holidays). A form of proxy is enclosed for your use.
2. To be valid, 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, PXS, 34 Beckenham Road, Beckenham, Kent BR3 4TU by 10.00 a.m. on 31 July 2010.
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 holder on the register of members will be accepted to the exclusion of the votes of the other joint holders.
4. The completion and return of a form of proxy will not preclude a member of the company from subsequently attending and voting in person at the meeting should he/she so wish. If you appoint a proxy and attend the meeting in person, your proxy appointment will automatically be terminated.
5. In accordance with Regulation 41 of The Uncertificated Securities Regulations 2001, only those members entered on the company's register of the members as at 6.00 p.m. on 30 July 2010 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. Changes to entries in the register of members after that time shall be disregarded in determining the rights of any person to attend or vote at that meeting.

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