Registered in England and Wales number 03923150

Qonnectis PLC and subsidiary undertakings

Annual report and financial statements for the year to 30 June 2007

Qonnectis PLC

Annual report and financial statements for the year to 30 June 2007

Contents | **Page**

Officers and professional advisers

Directors
Richard Mann Taylor, Non-executive Chairman
Michael Anthony Tapia, Chief Executive Officer
Guy Arthur Chant, Non-executive Director

Secretary
Robert Andrew Macdonald Watson

Registered office
85 Elsenham Street, London, SW18 5NX

Nominated adviser
HB Corporate, 40 Marsh Wall, London, E14 9TP

Nominated brokers
HB Corporate, 40 Marsh Wall, London, E14 9TP

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

Qonnectis PLC

Chairman's statement

Results
I am delighted to report that Qonnectis has seen strong revenue growth for the third year in succession, with turnover almost trebling in comparison to 2006 levels to £304,776 Of equal importance is the improvement in our gross profit margins which have widened from 29 1% in the last financial year to 63 6%

The reported loss of £861,129 was a similar figure to the prior year, reflecting additional investment in research and development

The most significant event in 2007 has been the development of our Leakfrog® product in partnership with Thames Water which, for the first time in the UK water industry, enables customer side leakage to be identified and measured This innovative device has been adopted by Thames Water following successful field trials and is currently being installed as part of their Victorian Mains Renewal Programme A £200,000 order was placed by them in October and the revenues from this will contribute to the 2008 financial results

Other highlights of the year included
- An ongoing relationship with Scottish Water, most notably a £56,000 order for 'iStaq' data loggers and web services
- New contracts with Schlumberger Oilphase and Redditch Borough Council for multi–utility monitoring
- Repeat business from a number of the NHS Trusts and local councils, the London Fire and Emergency Planning Authority and Aquavitae
- New business from Aga Rayburn, Jardine Motors, Smith Bellerby, Larsen Water Management and a number of other organisations

Fund Raising
In August, shortly after the financial year end, the company raised £250,000 through a secured convertible loan facility from Security Change Ltd If not repaid by 31 January 2008, the loan will become immediately convertible This funding has enabled us to complete the development work on Leakfrog® which led to the £200,000 order from Thames Water

Board Changes
Guy Chant joined the board as a non-executive director in May, following the resignation of Percival Albuquerque I would like to take this opportunity to thank Percy for his contribution to Qonnectis since flotation Guy brings to the company his extensive experience within the European water industry He was previously Commercial Director of Thames Water Utilities and External Affairs Director of Thames Water PLC

Outlook
Following the Thames Water order, Leakfrog® was launched commercially at a water industry conference in December The Board anticipates that Leakfrog® will generate significant revenues from the water utility industry in the future

To date, Qonnectis has primarily focused on the measurement and provision of utility-related data Whilst we will continue to exploit our technological lead in this area, where we are seeing increasing demand, customer feedback is highlighting opportunities for Qonnectis to address other operational issues – such as how to remediate a leak, improve metering, integrate financial systems, or improve the energy efficiency of heating and air conditioning Hence we are in conversations with complementary businesses with a view to providing integrated industry solutions, from data gathering to problem-solving for customers

RM Taylor

Richard M Taylor
Chairman
Date 19/12/07

Qonnectis PLC

Chief Executive's review

It is very gratifying to be able to report continued strong progress this year as a combination of new customer wins, existing customer roll-outs and the considerable potential of Leakfrog® has greatly strengthened the business

Customers and the market
In my review last year I stated that the key to our profitability is to win repeat orders from existing and new customers We have seen significant repeat business from existing customers – in particular Scottish Water, Aquavitae and the NHS Of particular note is that Qonnectis' myMeter service is now fully integrated into Scottish Water's own corporate web site and we continue to partner with them in marketing and selling Qonnectis products and services throughout Scotland as part of their "Smart Metering" service

Smart metering is now well-established as a way for energy and water utilities and their major commercial and public sector users to reduce both costs and their impact on the environment During the year we have added several new blue-chip customers who are using the "Qonnectis Network" system, comprising iStaq data loggers and myMeter web services, to achieve real cost savings and real reductions in energy, CO_2 and water losses By way of illustration of the benefits derived, we have included three customer case studies in the Annual Report

Thames Water ("Thames") represents our most significant new customer win this year and I should like to explain the significance of this partnership As part of their ongoing efforts to reduce leakages via their renewal programme of the Victorian mains system in London, Thames identified a major area of challenge and opportunity as being how to quantify and reduce the level of leakage within homes and private buildings Domestic monitoring has always presented a challenge for the utility industry – there are millions of properties and hence the associated costs are difficult to justify from an economic standpoint

Thames set us the challenge to develop a product that would meet their aggressive technical and cost criteria, and I am very pleased to say that our team have been able to deliver Working in partnership with Thames, we have developed Leakfrog®, a highly functional and cost-effective leakage monitor for the home Leakfrog® allows water companies to carry out large scale domestic leakage monitoring for the first time and we are highly optimistic that it will be widely adopted within the water industry The intellectual property rights for Leakfrog® are jointly owned by the two parties Just prior to writing this review we signed a licence agreement with Thames Water and Qonnectis can now market Leakfrog® to other UK and overseas water companies

New products
Last year we restructured our technical resources to focus on production, cost reduction and field support We have continued to do this in 2007, which necessitated a small increase in our R&D investment to facilitate the Thames Water/Leakfrog® opportunity By subcontracting manufacture of this highly innovative product to an established facility in the Far East, we have been able to produce Leakfrog® units to high quality standards and very cost-effectively

Developing new sales channels
Our focus remains very much on boosting sales and product roll-outs to attain profitability Leakfrog® is set to add significantly to our overall sales, combined with the growing sales of Qonnectis Network products Having a more effective sales resource, be it internal or external, is one way to achieve this, and we continue to seek additional channels to market Recently we have increased our efforts to establish strong channel partnerships in our industry and identify resellers with products and services complementary to the Qonnectis offering

Outlook

The benefits of our technology and services are increasingly being recognised Pressure on the environment, increasing energy prices and water shortages are leading to more reasons to adopt our technologies Looking ahead, Government moves to encourage the introduction of smart metering for energy such as seen in the Energy Review earlier in the year, and compulsory water metering, should be extremely beneficial to our business environment

The underlying business has continued its strong year-on-year growth With Leakfrog®, we have now added a new product with immense potential that represents a breakthrough for the water industry as a whole I should like to thank our staff for their great efforts over the past year Qonnectis enters its new financial year with significant momentum and we remain optimistic about the continued growth of the company

Michael A Tapia
Chief Executive

Date 19/12/07

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 2007

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

Business review
A review of the business and future prospects is covered in the chairman's statement on page 2 and the Chief Executive's review on pages 3 to 4 of this report

Results and dividends
The group's loss for the year after taxation was £861,129 (2006 – £806,946) The directors are unable to recommend the payment of a dividend for the year

Corporate governance
The directors' report on corporate governance is set out on pages 7 to 8 of this report

Annual general meeting
Notice of an Annual General Meeting of Shareholders is set out on pages 30 to 31 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 A Tapia	Chief Executive Officer
G A Chant (Appointed 17 May 2007)	Non-executive director
P C A W Albuquerque (Resigned 17 May 2007)	Non-executive director

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 2007

	As at 30 June 2007		As at 30 June 2006	
	Beneficial interest	Share options	Beneficial interest	Share options
R M Taylor	1,450,403	3,667,333	1,450,403	3,333,333
M A Tapia	22,144,470	8,944,444	20,528,776	4,444,444
G A Chant	1,115,694	-	1,115,694	-

Significant shareholdings
On 17 December 2007, 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
Pershing Keen Nominees Limited	26,731,069	12 23%
M A Tapia	22,144,470	10 13%
TD Waterhouse Nominees (Europe)	13,509,348	6 18%
Barclayshare Nominees Limited	10,840,962	4 96%
L R Nominees Limited	9,564,153	4 38%
Alasia Trading, Incorporated	7,147,138	3 27%

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 91 (2006 - 72 days) This is based on trade creditors at the year end and total purchases for the year

Statement of directors' responsibilities
The directors are responsible for preparing the annual report and the financial statements in accordance with applicable law and United Kingdom Generally Accepted Accounting Practice

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 profit or loss of the company for that period In preparing these financial statements, the directors are required to
- select suitable accounting policies and then apply them consistently,
- make judgements and estimates that are reasonable and prudent, and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the company and 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 hence for taking reasonable steps for the prevention and detection of fraud and other irregularities

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,

M A Tapia
Director

Date 19/12/07

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

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

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

(a) Audit committee
R M Taylor, non-executive Chairman, is Chairman of the Audit Committee of which G A Chant, non-executive Director, is also a member 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 It is responsible for reviewing performance of the executive director 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 Director and the grant of options

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

Internal control

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

The system of internal financial control comprises those controls established to provide reasonable assurance of

- The safeguarding of assets against unauthorised use or disposal
- 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

Qonnectis PLC

Report of the independent auditors to the members for the year to 30 June 2007

We have audited the financial statements of Qonnectis PLC and subsidiary undertakings for the year ended 30 June 2007 which comprise the group consolidated profit and loss account, 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
As described in the Statement of Directors' Responsibilities the company's directors are responsible for the preparation of financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice)

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

Report of the independent auditors to the members for the year to 30 June 2007

Opinion
In our opinion
- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice of the state of the company's and the group's affairs as at 30 June 2007 and of the group's loss 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 1 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

Mazars

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

Date 19/12/07

Qonnectis PLC

Consolidated profit and loss account for the year to 30 June 2007

	Notes	Year to 30 June 2007 £	Year to 30 June 2006 £
Turnover	2	**304,776**	**109,425**
Cost of sales		(110,985)	(77,553)
Gross profit		**193,791**	**31,872**
Operating expenses		(1,106,587)	(920,742)
Other operating income		49,313	75,952
Operating loss	5	**(863,483)**	**(812,918)**
Interest receivable and similar income		7,354	12,445
Interest payable and similar charges	6	(5,000)	(6,473)
Loss on ordinary activities before taxation		**(861,129)**	**(806,946)**
Tax on loss on ordinary activities	7	-	-
Loss on ordinary activities after taxation	**19**	**(861,129)**	**(806,946)**
Loss per share	8	(0 40 pence)	(0 51 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 15 to 29 are an integral part of these financial statements

Qonnectis PLC

Consolidated balance sheet as at 30 June 2007

	Notes	30 June 2007 £	30 June 2006 £
Fixed assets			
Goodwill	9	3,313,995	3,523,852
Tangible assets	10	8,683	5,916
		3,322,678	**3,529,768**
Current assets			
Stock	12	11,906	19,209
Debtors	13	94,785	99,331
Cash at bank and in hand		44,046	10,410
		150,737	**128,950**
Creditors amounts falling due within one year	14	(356,294)	(256,468)
Net current liabilities		**(205,557)**	**(127,518)**
Total assets less current liabilities		**3,117,121**	**3,402,250**
Creditors amounts falling due after more than one year	15	(6,000)	(42,000)
Net assets		**3,111,121**	**3,360,250**
Capital and reserves			
Share capital	18	10,270,588	9,658,588
Share premium	19	1,675,050	1,675,050
Profit and loss account	19	(8,834,517)	(7,973,388)
Equity shareholders' funds	**20**	**3,111,121**	**3,360,250**

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

19 December 2007 and were signed on its behalf by

M A Tapia
Director

The accompanying notes on pages 15 to 29 are an integral part of these financial statements

Qonnectis PLC

Company balance sheet as at 30 June 2007

	Notes	30 June 2007 £	30 June 2006 £
Fixed assets			
Investments	11	3,962,500	3,962,500
		3,962,500	**3,962,500**
Current assets			
Debtors	13	3,965,174	3,511,599
Cash at bank and in hand		19,819	8,448
		3,984,993	**3,520,047**
Creditors amounts falling due within one year	14	(98,674)	(75,958)
Net current assets		**3,886,319**	**3,444,089**
Total assets less current liabilities		**7,848,819**	**7,406,589**
Creditors. amounts falling due after more than one year	15	-	-
Net assets		**7,848,819**	**7,406,589**
Capital and reserves			
Share capital	18	10,270,588	9,658,588
Share premium	19	1,675,050	1,675,050
Profit and loss account	19	(4,096,819)	(3,927,049)
Equity shareholders' funds	20	**7,848,819**	**7,406,589**

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

19 December 2007 and were signed on its behalf by

M A Tapia
Director

The accompanying notes on pages 15 to 29 are an integral part of these financial statements

Qonnectis PLC

Consolidated cash flow statement for the year to 30 June 2007

	Notes	30 June 2007 £	30 June 2006 £
Net cash outflow from operating activities	**21**	**(538,386)**	**(664,961)**
Returns on investments and servicing of finance			
Interest received		7,354	12,445
Interest paid		(5,000)	(6,473)
Net cash in/(out) flow from returns on investments and servicing of finance		**2,354**	**5,972**
Taxation		-	-
Capital expenditure			
Payments to acquire fixed assets		(6,332)	(4,937)
Net cash outflow from capital expenditure		**(6,332)**	**(4,937)**
Net cash outflow before financing		**(542,364)**	**(663,926)**
Financing			
Issue of share capital		612,000	-
Repayment of other long term loan		(36,000)	(36,000)
Net cash inflow/(outflow) from financing		**576,000**	**(36,000)**
Increase/(Decrease) in cash in the period	**22**	**33,636**	**(699,926)**

The accompanying notes on pages 15 to 29 are an integral part of these financial statements

1. Accounting policies

The principal accounting policies which have been applied consistently in dealing with items which are considered material in relation to the company's financial statements are set out below

a) **Basis of preparation**
These financial statements have been prepared under the historical cost convention in accordance with the provisions of the Companies Act 1985 and with applicable accounting standards

b) **Going concern**
These financial statements have been prepared on the assumption that the company is a going concern The validity of this assumption is dependent on the company's ability to generate sufficient cash flow from revenues or additional borrowing or equity financing to enable it to meet its debts as they fall due for the foreseeable future When assessing the foreseeable future the directors have considered a period of twelve months from the date of approval of the financial statements

Should the going concern assumption not be valid then adjustments would have to be made to reduce the balance sheet values of assets to their recoverable amounts, to provide for any further liabilities which might then arise and to reclassify fixed assets and long-term liabilities as current assets and liabilities

c) **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 2007 The results of subsidiaries sold or acquired are included in the profit and loss account up to, or from the date control passes Intra-group sales and profits are eliminated fully on consolidation

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

e) **Fixed assets**
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

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

f) **Stock**
Stock is stated at the lower of cost or net realisable value

1. Accounting policies (continued)

g) Revenue recognition
The company recognises revenue at the date that the customer's order is shipped

h) Turnover
Turnover represents amounts receivable in the normal course of business, net of trade discounts and exclusive of value-added tax and other sales related taxes Turnover is recognised in the period to which it relates based on invoiced amounts with accrued income and adjusted for amounts relating to future periods invoiced in advance

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

j) Leased assets
Rentals paid under operating lease agreements are charged to the profit and loss account over the lease term

k) 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 Gains and losses arising on translation are included in the profit and loss account

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

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

2. Turnover

The turnover 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 2007 £	Year to 30 June 2006 £
United Kingdom	299,875	93,120
Rest of world	4,901	16,305
	304,776	109,425

3. Employees

	Year to 30 June 2007 £	Year to 30 June 2006 £
Staff costs comprise:		
Wages and salaries	261,884	239,525
Social security costs	25,291	33,046
Other pension costs	4,110	-
	291,285	272,571

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

	Year to 30 June 2007	Year to 30 June 2006
Management	3 6	3
Staff	5 3	4
	8 9	7

4. Directors

	Year to 30 June 2007 £	Year to 30 June 2006 £
Aggregate emoluments	135,003	109,407

A provision of £4,110 (2006 - £5,480) has been made in respect of directors' personal pension schemes There are no directors (2006 - 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 2007	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 2007 was 0 625 pence and the range during the year was 0 438 pence to 2 pence No options were exercised by the directors during the year

5. Operating loss

Operating loss is stated after charging/(crediting)

	Year to 30 June 2007 £	Year to 30 June 2006 £
Auditors remuneration		
• Audit services	13,000	13,000
• Non-audit services	6,000	9,585
Research and development – current year	49,060	26,822
Depreciation of tangible fixed assets – owned	3,565	2,535
Amortisation of goodwill	209,857	209,857
Operating lease rentals		
• Premises	22,891	19,950
• Other assets	7,965	19,584
Staff costs	291,285	272,571

The audit fee for the company was £4,000 (2006 - £4,000)

6. Interest payable and similar charges

	Year to 30 June 2007 £	Year to 30 June 2006 £
Interest payable on bank loans and overdrafts	5,000	6,473
Other interest payable	-	-
	5,000	6,473

7. Tax on loss on ordinary activities

a) Analysis of charge in the year

	Year to 30 June 2007 £	Year to 30 June 2006 £
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 20% (2006 - 10%) The differences are reconciled below

	Year to 30 June 2007 £	Year to 30 June 2006 £
Loss on ordinary activities before taxation	(861,129)	(806,946)
Loss on ordinary activities before taxation by rate of taxation of 20% (2006 - 10%)	(172,226)	(80,695)
Effects of		
• Expenses not deductible for tax purposes	(3,164)	3,871
• Amortisation of goodwill	41,971	20,985
• Decelerated/(Accelerated) capital allowances	(198)	(161)
• Tax losses created / (utilised)	141,333	63,595
• Other timing differences	(7,716)	(7,595)
Total current tax (note 7 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

8. Loss per share

	Year to 30 June 2007 £	Year to 30 June 2006 £
Basic		
Net loss for the year	(861,129)	(806,946)
Weighted average number of ordinary shares outstanding	213,508,023	157,408,023
Loss per share	**(0.40 pence)**	**(0 51 pence)**

FRS 14 requires presentation of diluted loss per share when a company could be called upon to issue shares that would decrease net profit or increase net loss per share For this company the issue of shares would decrease the net loss per share and, therefore, it does not meet the requirements of FRS 14 Accordingly no diluted EPS has been presented

9. Goodwill

	As at 30 June 2007 £	As at 30 June 2006 £
Cost		
Brought forward	7,487,001	7,487,001
Carried forward	7,487,001	7,487,001
Accumulated amortisation		
Brought forward	(3,963,149)	(3,753,292)
Charge for the year	(209,857)	(209,857)
Carried forward	4,173,006	(3,963,149)
Net book amount		
At beginning of year	3,523,852	3,733,709
At end of year	3,313,995	3,523,852

10. Tangible fixed assets

Group

	Computer equipment	Fixtures, fittings and equipment	Development tools and equipment	Total
	£	£	£	£
Cost				
At 1 July 2006	100,652	1,702	14,981	117,335
Additions	2,481	3,139	712	6,332
At 30 June 2007	103,133	4,841	15,693	123,667
Accumulated depreciation				
At 1 July 2006	(96,200)	(1,379)	(13,840)	(111,419)
Charge for the year	(2,660)	(562)	(343)	(3,565)
At 30 June 2007	(98,860)	(1,941)	(14,183)	(114,984)
Net book amount				
At 30 June 2006	4,452	323	1,141	5,916
At 30 June 2007	4,273	2,900	1,510	8,683

11. Fixed asset investments

Company

	Subsidiary undertakings £
Unlisted	
Cost	
At 1 July 2006	3,962,500
At 30 June 2007	3,962,500

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)	(63)
Qonnectis Group Limited	Intermediate holding company	100%	870,212	-
Qonnectis Networks Limited	Remote data communications	100%	(3,284,056)	(472,524)
Qonnectis Technologies Limited	Dormant	100%	100	-

All subsidiary companies are incorporated in England and Wales

12. Stocks

	Group As at 30 June 2007 £	As at 30 June 2006 £	Company As at 30 June 2007 £	As at 30 June 2006 £
Components	11,906	19,209	-	-

13. Debtors

	Group As at 30 June 2007 £	As at 30 June 2006 £	Company As at 30 June 2007 £	As at 30 June 2006 £
Called-up share capital not paid	-	110	-	-
Trade debtors	52,385	8,719	-	-
VAT recoverable	7,191	23,411	-	7,215
R&D Tax credit recoverable	-	46,167	-	-
Prepayments and accrued income	35,209	20,924	14,152	14,133
Amounts due from group undertakings	-	-	3,951,022	3,490,251
	94,785	**99,331**	**3,965,174**	**3,511,599**

14. Creditors: amounts falling due within one year

	Group		Company	
	As at 30 June 2007 £	As at 30 June 2006 £	As at 30 June 2007 £	As at 30 June 2006 £
Bank loans and overdrafts (see note 16	36,000	36,000	-	1,711
Trade creditors	196,126	124,679	80,657	48,202
Accruals and deferred income	106,217	66,094	18,017	26,045
Other creditors	554	6,803	-	-
Other taxation and social security	3,284	13,829	-	-
Directors' current accounts	14,113	9,063	-	-
Amounts due to group undertakings	-	-	-	-
	356,294	**256,468**	**98,674**	**75,958**

Directors current accounts comprise R M Taylor £7,280 (2006 - £7,280), G A Chant £6,800 (2006 – nil) and M A Tapia £33 (2006 - £1,783)

15. Creditors: amounts falling due after one year

	Group		Company	
	As at 30 June 2007 £	As at 30 June 2006 £	As at 30 June 2007 £	As at 30 June 2006 £
Bank loans (see note 16)	6,000	42,000	-	-

16. Loans and other borrowings

	Group As at 30 June 2007 £	As at 30 June 2006 £	Company As at 30 June 2007 £	As at 30 June 2006 £
Bank loans (secured)	42,000	78,000	-	-
Maturity of debt, amounts falling due:				
in one year or less, or on demand	36,000	36,000	-	-
in more than one year but not more than two years	6,000	36,000	-	-
in more than two years but not more than five years	-	6,000	-	-
in more than five years	-	-	-	-
	42,000	78,000	-	-

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 14 monthly instalments of £3,000 together with interest charged at a variable rate of 2 5% above the bank's base rate

17. Financial instruments

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

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

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

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

The interest rate profile of the group's financial liabilities is shown in note 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 FRS 13 from disclosing information about its short-term debtors and creditors

Financial assets
The group's financial assets comprise cash balances placed on the money market on call

18. Share capital

Equity

	As at 30 June 2007 £	As at 30 June 2006 £
Authorised		
421,899,200 (2006 - 221,899,200) ordinary shares of £0 01 each	4,218,992	2,218,992
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
	11,000,000	**11,000,000**
Allotted and called up and fully paid		
218,608,023 (2006 – 157,408,023) ordinary shares of £0 01 each	2,186,080	1,574,080
808,450,800 deferred shares of £0 01 each	8,084,508	8,084,508
Total shares	**10,270,588**	**9,658,588**

During the year 61,200,000 ordinary shares of £0 01 each were issued at par value for cash to provide additional working capital

On 25 January 2007 the authorised share capital of the company was increased by £2,000,000 by the creation of an additional 200,000,000 ordinary shares of 1p each ranking pari passu with the existing share capital of the company

19. Reserves

	Share premium £	Profit and loss account £	Total £
Group			
Balance as at 1 July 2006	1,675,050	(7,973,388)	(6,298,338)
Loss for the year	-	(861,129)	(861,129)
Balance as at 30 June 2007	**1,675,050**	**(8,834,517)**	**(7,159,467)**
Company			
Balance as at 1 July 2006	1,675,050	(3,927,049)	2,251,999
Loss for the year	-	(169,770)	(169,770)
Balance as at 30 June 2007	**1,675,050**	**(4,096,819)**	**2,421,769**

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 £169,770 (2006 - £39,944)

20. Reconciliation of movement in shareholders' funds

	As at 30 June 2007 £	As at 30 June 2006 £
Group		
Loss for the year	(861,129)	(806,946)
Issue of new share capital	612,000	-
Net increase/(decrease) in shareholders' funds	**(249,129)**	**(806,946)**
Opening shareholders' funds	3,360,250	4,167,196
Closing shareholders' funds	**3,111,121**	**3,360,250**
Company		
Loss for the year	(169,770)	(39,944)
Issue of new share capital	612,000	-
Net increase/(decrease) in shareholders' funds	**442,230**	**(39,944)**
Opening shareholders' funds	7,406,589	7,446,533
Closing shareholders' funds	**7,848,819**	**7,406,589**

21. Reconciliation of operating loss to net cash outflow

	As at 30 June 2007 £	As at 30 June 2006 £
Operating loss	**(863,483)**	**(812,918)**
Adjusted for		
• Depreciation of fixed assets	3,565	2,535
• Amortisation of intangible assets	209,857	209,857
• Decrease/(Increase) in stock	7,303	(9,608)
• Decrease/(Increase) in debtors	4,546	(40,476)
• Increase/(Decrease) in creditors	99,826	(14,351)
Net cash outflow from operating activities	**(538,386)**	**(664,961)**

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

	As at 30 June 2007 £	As at 30 June 2006 £
Increase/(Decrease) in cash in the period	33,636	(699,926)
Cash outflow from decrease in debt	36,000	36,000
Movement in net debt in the period	**69,636**	**(663,926)**
Net (debt)/funds at beginning of year	(67,590)	596,336
Net funds/(debt) at end of year	**2,046**	**(67,590)**

23. Analysis of net funds/(debt)

	As at 1 July 2006 £	Cashflow £	As at 30 June 2007 £
Cash	10,410	33,636	44,046
Bank overdraft	-	-	-
Cash and cash equivalents	**10,410**	**33,636**	**44,046**
Loan falling due within one year	(36,000)	-	(36,000)
Loan falling after one year	(42,000)	36,000	(6,000)
Net (debt)/funds	**(67,590)**	**69,636**	**2,046**

24. Other financial commitments

At the year end the company had annual commitments under non-cancellable operating leases as set out below

	Land and buildings As at 30 June 2007 £	Land and buildings As at 30 June 2006 £	Other As at 30 June 2007 £	Other As at 30 June 2006 £
Operating leases which expire				
within one year	-	1,650	-	2,816
between one and five years	23,086	-	5,784	-
after five years	-	-	-	-
	23,086	**1,650**	**5,784**	**2,816**

25. 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 £53,626 (2006 - £63,687) At the balance sheet date the amount due to PA Associates (UK) Limited was £16,045 (2006 - £14,406)

26. Contingent liabilities

The company had no contingent liabilities as at 30 June 2007

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

27. Post balance sheet events

On 28 August 2007 the company entered an agreement with Security Change Limited whereby the latter provided the company with a £250,000 secured convertible loan facility repayable by 31 January 2008 If not previously repaid, the loan may be converted at the request of the loan holders at a price based on the market value of the shares

28. Control

The company is not under the control of any other party