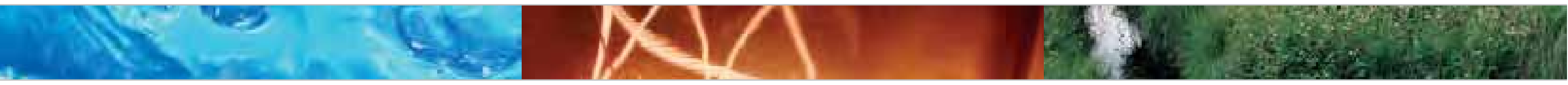
Qonnectis

UTILITY INTELLIGENCE



ANNUAL REPORT & ACCOUNTS 2006

WATER ENERGY ENVIRONMENT

Company Registration No.

3923150 (England and Wales)

Qonnectis Plc and Subsidiary Undertakings

Annual Report and Accounts

30 June 2006

Associated British Ports Ltd and Aquavitae

Qonnectis works with leading ports business and Independent Water Company to tackle escalating water consumption.

As significant industrial consumers of water, and market leaders, Associated British Ports are continuously seeking ways to promote water efficiency, both as part of their sustainable development policy and to reduce operating costs. Aquavitae, ABP's water supply Licensee Company and a business partner of Qonnectis, drew their customer's attention to a successful trial of Qonnectis' remote monitoring of water meters at Southampton Docks.

Qonnectis' state-of-the-art smart meter reading technology enables delivery of precise water meter readings via the Internet, allowing engineers to fully automate the data collection process to enable fast accurate assessment of the network to minimise leakage. In addition, this comprehensive utility monitoring system enables ABP to monitor the local area water supply company's meter for bill validation.

Brin Humphreys, of ABP commented, *"In the current climate, most businesses have identical objectives: efficiency, lower costs and improved environmental performance. The accurate real-time data, which the Qonnectis system provides, has enabled us to manage our water consumption proactively. As a result, we have been able to evaluate demand changes and identify leakages within the water network, resulting in a $280,000m^3$ per year reduction in consumption over the period of 2003 to 2006. The resultant improvements in operational efficiency have led to significant cost savings."*

NHS Gwent

Qonnectis saves Gwent Healthcare NHS Trust £66,000 on its annual water bill.

The implementation of a water leakage detection initiative by the Energy Management team at County Hospital, Griffithstown, has saved the Gwent Healthcare NHS Trust over £66,000 on its annual water bill, and an additional £132,000 in sewerage rebates.

Qonnectis installed its water meter monitoring system and provided web services to track water usage at the County Hospital, where the presence of a leak had long been suspected. The iStaq-LG GSM-enabled universal logger was installed next to the site water meter and continuously transmitted water usage trends to the Qonnectis myMeter.info web site. When the hospital engineer analysed the results, he discovered a very high level of water consumption during the early hours of the morning – a period when water demand should have been low. It soon became apparent that there was a leak of 4 cubic metres per hour on the site and, once located and repaired, water demand on the site was reduced by a factor of 10.

Wayne Churches, Gwent Healthcare NHS Trust's Energy Manager, was so pleased with the results that Qonnectis' metering technology has been deployed at all of the Trust's major sites. He says of the initiative *"Qonnectis has fulfilled all of our requirements and the results are beyond our expectations. From our perspective the loggers are virtually 'fit and forget', the system is sophisticated, and combined with the MyMeter.info website we have a highly effective tool. By reducing our water charges we have been able to finance further energy saving schemes that can only be seen as a positive for both the Trust and the environment. Many other NHS Trusts will see this as a solution to their metering needs and I am sure that our experience will be readily replicated."*

First Group plc and Scottish Water

Prominent Water Utility partners with Qonnectis to provide valuable metering solutions to premier passenger transport company.

Scottish Water has selected Qonnectis' integrated web-based services to keep one of its key business customers fully informed of their water and energy consumption. First Group now benefits from Scottish Water's "Smart Metering" solution, which uses branded Qonnectis myMeter Services and iStaq data loggers to enable the collection of flow data from workshop and bus depot site meters and delivery of the real-time information directly to their desktops.

The comprehensive remote water monitoring system was implemented as part of First Group's water and energy management initiative, and now monitors water usage trends within depots

throughout Scotland. It has proved particularly successful on sites using drive-through bus washing machines, which can wash in excess of 300 buses a day. By monitoring these sites on a continuous basis, Environmental Managers have instant access to their water consumption data within 15-minute intervals, providing them with a comprehensive record of their water usage. This has resulted in improved methods to reduce water consumption by altering the manner in which machines are now utilised.

Michael Milne, Financial Director of First Group Glasgow explains, *"As is the case with many other major companies today, we have become fully aware of the opportunities to make considerable savings by measuring water usage during utility intensive processes. Qonnectis has provided a highly effective, yet straightforward system to allow us to make those crucial cost savings and make a positive environmental contribution by identifying waste minimisation opportunities."*

Knowsley Metropolitan Borough Council (Merseyside)

Qonnectis Network meets council challenge to provide simple-to-use multi-utility metering solution.

The search for a metering system capable of being extended to all utilities, and to be linked to several buildings at a school in Ruffwood, led the Knowsley Council Energy Management Team to Qonnectis. With a complete solution for energy and water efficiency, their remote automated meter reading system allows delivery of precise meter readings to a customised website where the information can be instantly accessed and analysed by engineers at each of the council's main sites. The real-time monitoring of energy flow and consumption is enhanced by the system's data download ability; making historical meter reads accessible and enabling consumption charting and profiling. The team can now monitor on-site energy use 24 hours a day, enabling them to pinpoint any abnormal usage.

Barry McKean, Knowsley Council Energy Manager and winner of the UK Energy Manager of the Year award 2004, has been impressed with the achievements at Ruffwood. He commented: *"The Qonnectis system has made an impact by successfully identifying consumption anomalies, particularly out of normal business hours. Knowsley already has a strong reputation for implementing conservation practices, and this service has given us further scope to allocate resources to reduce utility usage, make substantial savings and help to meet reduced CO² emission targets."*

Qonnectis Plc

ANNUAL REPORT AND ACCOUNTS 2006

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Qonnectis Plc

ANNUAL REPORT AND ACCOUNTS 2006

OFFICERS AND PROFESSIONAL ADVISERS

DIRECTORS
Richard Mann Taylor, Non-executive Chairman
Michael Anthony Tapia, Chief Executive Officer
Percival Charles Antony William Albuquerque, Non-executive Director

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Robert Macdonald Watson

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AUDITORS
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Clifton Down House
Beaufort Buildings
Clifton
Bristol BS8 4AN

Qonnectis Plc

CHAIRMAN'S STATEMENT

Results

I am very pleased to report that for the second year in succession turnover in comparison to the prior year has almost doubled (+82%) to £109,425, in line with market expectations, and this growth has continued into the current financial year. The last financial year has been one in which we have looked to commercialise our technology, and we have made significant progress in achieving this. We now have over 50 companies, including national and international utilities, using our products and our patented technology has proven itself in the marketplace.

The reported loss for the year to 30 June was £806,946, an improvement on the previous year, in which losses exceeded £1 million.

The significant milestones during the year were:

- A roll-out plan with Scottish Water which started in the last quarter of the financial year. As part of this agreement the company has trained Scottish Water field personnel to carry out site installation under its 'Smart Metering' initiative.
- The launch of the iStaq-AMR product. This is targeted at the growing market segment for automated meter reading and provides readings for the billing of large domestic users.
- Installation through Bedfordshire County Council to remotely read water consumption at its caravan park customers.
- Establishment of a resale partner to the pub industry together with further reseller recruitment initiatives
- Sales to a major UK emergency service provider of a multi-utility meter reading solution encompassing water, gas and electricity.
- The award, with an initial £52,000 order in October, of a project with one of the UK's leading utilities to develop an innovative bespoke product using Qonnectis intellectual property.

Fund Raising

In July, shortly after the financial year-end the company raised £558,163 (net of expenses) to enable it to further expand its operations and to take advantage of the opportunities available in a number of market segments.

The future

The recent fund raising has allowed us to build upon our success to date and we are continuing to expand the client base and to develop relationships with major utilities and end users. Qonnectis intends to build on the existing 50 national and international utilities, end user businesses and public sector organisations utilising its systems and, although the company would like to report greater penetration at this stage of its development, these users do represent a wide cross section of organisations in sectors within which we expect to be able to develop significant future business. The outlook for the company continues to be positive and we are confident that we now have in place a structure that will allow us to take advantage of the opportunities we have developed.

Richard M Taylor
Chairman
Qonnectis plc

22nd November 2006

CHIEF EXECUTIVE'S REVIEW

When I wrote to you this time last year, I said that the previous year had very much been one of transition – of moving from a company with unique technology to a commercially successful business. The subsequent year to June 2006 has continued this process and we have gone from a year of transition to one of progression – of customers rolling out product; of sales increasing; of the business maturing in terms of its product and its structure. I would like to take this opportunity to cover the progress we have made in all areas of the business, and how we aim to continue and accelerate that progress.

Customers and the Market
We have once again seen year-on-year sales almost double and our objective is to accelerate this rate of growth in order to achieve profitability. The key to this is large customers buying product on a regular basis.

In 2006 we saw the first customer roll-outs with regular monthly shipments of Qonnectis product to customers. This was led by Scottish Water, not just as a customer of Qonnectis, but also in the water industry, by rolling out its 'Smart Metering' programme to its business customers. This programme involves marketing remote meter reading and web services, supplied by Qonnectis, under the Scottish Water brand.

We have trained their installation staff and are providing regular, monthly shipments of product and services. Our IT systems have also been integrated with theirs so that a customer logging into the 'Smart Metering' page on the Scottish Water web site connects to the system provided by Qonnectis. Qonnectis takes care of the data collection and web services – allowing Scottish Water to focus on marketing and providing these high value-added water and energy efficiency services to their key account business and public sector customers.

We are also involved with a number of other utility companies, such as Aquavitae, for the provision of similar services and foresee this as a major area of opportunity for the business. We have therefore increased our sales and marketing resource into the direct utility sales segment and will continue to do so as we look to expand this segment of the market.

With regard to our end user segment, which we define as commercial and governmental users of energy and water, we have in the past year added a number of organisations to our portfolio and continue to have a significant prospect list.

Our clients range from local and county councils, hospitals and emergency services, transport and ports, breweries and pubs, and commercial entities of many types. Our fundamental offer to these organisations is to provide up-to-date information allowing them to reduce their energy and water bills plus manage their carbon emissions and other performance measurements. You will have read much in the press about climate change and energy prices. To us, the argument is very simple – it is much more cost-effective for business and the public sector, and indeed individual homes, to invest in technologies which allow energy consumption to be managed and reduced by 10%-15%, which is a typical Qonnectis customer saving, than for the country to argue about nuclear power stations, wind farms, solar energy, and so on. In our opinion energy efficiency does not have the prominence it should have, and we shall be pressing to move it up the national agenda.

Elsewhere in this annual report you will gain a view of the types of customers and applications we are now successfully supplying.

New products
Again, we have focused on progression of our product range. The development work has been concluded and we are now marketing a range of products targeted at various segments of the market. Having invested heavily in prior years to develop a complete end-to-end, meter-to-desktop solution for the utility industry, we have continued evolving the solution through improvements or additions in terms of communications hardware and data collection software. The main hardware addition in the period was the iStaq-AMR, which is focused on large domestic utility customers, thus complementing our business solutions. Additional variants for environmental monitoring have also been developed. In October, we announced a partnership with a major utility to develop a new product in conjunction with themselves, which we expect to launch in 2007.

With the emphasis now on the commercial side of the business we have restructured our Engineering and Production department to be more in tune with the volume roll-out and support of product in the field.

During the year Alan Wall joined us as Chief Technology Officer to lead this project, and he has already made a significant positive impact in terms of the manufacturing processes and project management. Alan was previously in similar positions with BCN Data Systems and Cellnet Data Systems in the USA, one of the largest providers of remote meter reading products in that market.

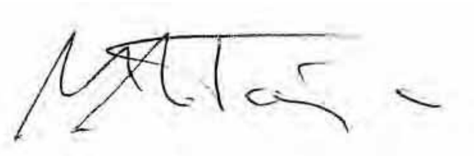
Focus on sales

Our overarching objective is to achieve sustainable profitability, and the July fund raising was aimed at assisting us in getting closer to that objective. The rate of sales growth we achieved last year, and that achieved at the end of the first four months of the new financial year, continues this progress and we expect this rate of growth to increase in the coming months. We are matching this growth in sales with tight cost control and our low overhead structure means that a handful of customers rolling out in a similar way to Scottish Water will allow us to achieve profitability.

Outlook

We have successfully made the transition from development company to one that can commercialise its technology and we are now in a position to build upon the relationships that we have with major companies. We are also confident that we can continue to increase market penetration and to expand the client base further.

Sales are continuing to increase and the cost base is tightly controlled. Overall, the outlook is positive and we are confident that this financial year will be one of significant progress towards our aim of achieving profitability.



Michael Tapia
Chief Executive
Qonnectis plc

22nd November 2006

Qonnectis Plc

DIRECTORS' REPORT

The directors present their annual report and the audited financial statements for the year ended 30 June 2006.

Principal activities

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

Business review

A review of the business and future prospects is covered in the Chairman's statement on page 8 and the Chief Executive's review on pages 9 and 10.

Results and dividends

The loss for the year after taxation is £806,946 (2005 £1,048,503). The directors do not recommend payment of a dividend (2005 £nil).

Annual General Meeting

Notice of an Annual General Meeting of Shareholders is set out on page 40 of this report.

Directors and directors' interests

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

Name	Position
Richard Mann Taylor	Non-executive Chairman
Michael Anthony Tapia	Chief Executive Officer
Percival Charles Antony William Albuquerque	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 2006:

	At 30 June 2006		At 30 June 2005	
	Beneficial Interest	**Share Options**	**Beneficial Interest**	**Share Options**
Richard Mann Taylor	1,450,403	3,333,333	1,450,403	3,333,333
Michael Anthony Tapia	20,528,776	4,444,444	20,528,776	4,444,444
Percival Charles Antony William Albuquerque	-	222,222	-	222,222

Significant shareholdings

On 16th November 2006, the Company had been notified, in accordance with section 198 to 208 of the Companies Act 1985, of the following interests in the ordinary share capital of the Company:

	Ordinary Shares	%
ALASIA TRADING INC	7,147,138	3.27%
GILTSPUR NOMINEES LIMITED	7,190,945	3.29%
PERSHING KEEN NOMINEES LIMITED	32,097,357	14.68%
SP ANGEL (NOMINEES) LIMITED	7,805,000	3.57%
MICHAEL ANTHONY TAPIA	21,028,776	9.62%

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 (2005 £Nil).

Policy on payment of suppliers

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

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

The number of days trade creditors of the Company at the balance sheet date was 72 (2005: 70 days). This is based on trade creditors at the year end divided by total purchases in the year.

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 each of the directors is aware, there is no relevant audit information (as defined in the Companies Act 1985) of which the company's auditors are unaware; and
- each of the directors has taken all the steps that he ought to have taken as a director to make himself aware of any relevant audit information (as defined) and to establish that the company's auditors are aware of that information.

Qonnectis Plc

DIRECTORS' REPORT

Auditors

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

Approved and authorised for issue by the Board of Directors
and signed on behalf of the Board

Director

22nd November 2006

CORPORATE GOVERNANCE

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

Board

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

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

Board Committees

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

(a) Audit Committee

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

(b) Remuneration Committee

The Remuneration Committee comprises R M Taylor, non-executive Chairman, and P Albuquerque, non-executive Director. It is responsible for reviewing performance of the executive 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; and
- The maintenance of proper accounting records and the reliability of financial information used within the business and for publication

The key procedures of internal financial control of the Group are as follows:

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

CORPORATE GOVERNANCE

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.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

United Kingdom company law requires the directors to prepare financial statements for each financial year, which give a true and fair view of the state of affairs of the Company and the Group as at the end of the financial year and of the profit or loss of the Group for that period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently
- make judgements and estimates that are reasonable and prudent
- state whether applicable accounting standards have been followed

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and the Group and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for the system of internal control, for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF QONNECTIS PLC

We have audited the financial statements of Qonnectis Plc and Subsidiary Undertakings for the year ended 30 June 2006 which comprise Consolidated Profit and Loss Account, the Consolidated Balance Sheet, the Company's Balance Sheet, the Consolidated Cash Flow Statement and related notes. These financial statements have been prepared under 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 and other members of the group is not disclosed.

We read other information contained in the Annual Report, and consider whether it is consistent with the audited financial statements. This other information comprises only the 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 circumstances of the company and the group, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Going concern

In forming our opinion we have considered the adequacy of disclosures made in note one to the accounts 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.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF QONNECTIS PLC

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 2006 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 Director's report is consistent with the financial statements.

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

22nd November 2006

Qonnectis Plc

CONSOLIDATED PROFIT AND LOSS ACCOUNT

Year ended 30 June 2006

	Note	2006 (£)	2005 (£)
TURNOVER	3	109,425	60,007
Cost of sales		(77,553)	(32,510)
Gross profit		31,872	27,497
Administrative expenses		(920,742)	(1,097,720)
Other operating income – R&D tax credit		75,952	24,815
OPERATING LOSS	7	(812,918)	(1,045,408)
Net finance costs	6	5,972	(3,095)
LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION		(806,946)	(1,048,503)
Tax credit on loss on ordinary activities	8	-	-
LOSS ON ORDINARY ACTIVITIES AFTER TAXATION		(806,946)	(1,048,503)
LOSS FOR THE FINANCIAL YEAR		(806,946)	(1,048,503)
Loss per share – basic	9	(0.51 p)	(0.93p)

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

All transactions are derived from continuing operations.

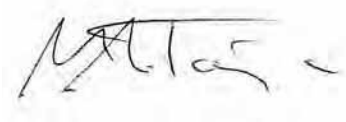
Qonnectis Plc

CONSOLIDATED BALANCE SHEET

Year ended 30 June 2006

	Note	2006 (£)	2005 (£)
FIXED ASSETS			
Goodwill	10	3,523,852	3,733,709
Tangible assets	11	5,916	3,514
		3,529,768	3,737,223
CURRENT ASSETS			
Stock	2	19,209	9,601
Debtors	13	99,331	58,855
Cash at bank and in hand		10,410	710,336
		128,950	778,792
CREDITORS: amounts falling due within one year	14	(256,468)	(270,819)
NET CURRENT (LIABILITIES)/ASSETS		(127,518)	507,973
TOTAL ASSETS LESS CURRENT LIABILITIES		3,402,250	4,245,196
CREDITORS: amounts falling due after more than one year	15	(42,000)	(78,000)
		3,360,250	4,167,196
CAPITAL AND RESERVES			
Called up share capital	17	9,658,588	9,658,588
Share premium account	18	1,675,050	1,675,050
Profit and loss account	18	(7,973,388)	(7,166,442)
EQUITY SHAREHOLDERS' FUNDS	19	3,360,250	4,167,196

The financial statements were approved and authorised for issue by the Board of Directors on 22nd November 2006.
Signed on behalf of the Board of Directors



Director

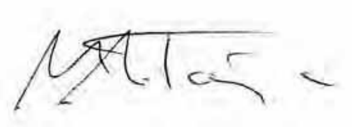
Qonnectis Plc

COMPANY BALANCE SHEET

Year ended 30 June 2006

	Note	2006 (£)	2005 (£)
FIXED ASSETS			
Investments	12	3,962,500	3,962,500
CURRENT ASSETS			
Debtors	13	3,511,599	2,903,328
Cash at bank and in hand		8,448	705,152
		3,520,047	3,608,480
CREDITORS: amounts falling due within one year	14	(75,958)	(124,447)
NET CURRENT ASSETS		3,444,089	3,484,033
TOTAL ASSETS LESS CURRENT LIABILITIES		7,406,589	7,446,533
CAPITAL AND RESERVES			
Called up share capital	17	9,658,588	9,658,588
Share premium account	18	1,675,050	1,675,050
Profit and loss account	18	(3,927,049)	(3,887,105)
EQUITY SHAREHOLDERS' FUNDS		7,406,589	7,446,533

The financial statements were approved and authorised for issue by the Board of Directors on 22nd November 2006.
Signed on behalf of the Board of Directors



Director

Qonnectis Plc

CONSOLIDATED CASH FLOW STATEMENT

Year ended 30 June 2006

	Note	2006 (£)	2005 (£)
Net cash outflow from operating activities	20	(664,961)	(854,739)
Returns on investments and servicing of finance			
Interest received		12,445	10,687
Interest paid		(6,473)	(13,782)
Net cash inflow/(outflow) from returns on investments and servicing of finance		5,972	(3,095)
Capital expenditure			
Payments to acquire tangible assets		(4,937)	(2,693)
Net cash outflow from capital expenditure		(4,937)	(2,693)
Net cash outflow before management of liquid resources and financing		(663,926)	(860,527)
Financing			
Issue of ordinary share capital		-	1,600,003
Repayment of long-term bank loan		(36,000)	(36,000)
Net cash (outflow)/inflow from financing		(36,000)	1,564,003
(Decrease)/increase in cash in the year		(699,926)	703,476

Qonnectis Plc

NOTES TO THE ACCOUNTS

Year ended 30 June 2006

1. BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

The early stage of development of the Group's business is such that there can be considerable unpredictable variation in the amount of revenue and timing and amounts of cash flows. The directors have projected cash flow information for the period to 30 June 2010. The directors are working towards bringing the Group to a level of profitable trading. In doing so, they are assessing, on a regular basis, cost levels, sales activities and research and development expenditure.

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

2. ACCOUNTING POLICIES

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

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

Basis of consolidation
The consolidated profit and loss account and balance sheet include the financial statements of the company and its subsidiary undertakings made up to 30 June 2006. The results of subsidiaries sold or acquired are included in the profit and loss account up to, or from the date control passes. Intra-group sales and profits are eliminated fully on consolidation.

Revenue recognition

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

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

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

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

ACCOUNTING POLICIES (CONTINUED)

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

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

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

Computer equipment	33% straight line
Fixtures, fittings & equipment	33% straight line
Development tools & equipment	25% straight line

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

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

3. TURNOVER

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

	2006 (£)	2005 (£)
UK	93,120	42,865
Overseas	16,305	17,142
	109,425	60,007

4. STAFF COSTS

	2006 (£)	2005 (£)
Staff costs during the year (including directors)		
Wages and salaries	239,525	177,556
Social security costs	33,046	24,027
	272,571	201,583

	No.	No.
Average number of persons employed:		
Management	3	3
Staff	4	3
	7	6

5. DIRECTORS' EMOLUMENTS

	2006 (£)	2005 (£)
Directors' emoluments		
Salary payments (including benefits in kind)	109,407	83,529

A provision of £5,480 has been made in respect of directors' personal pension schemes (2005 – Nil). There are no directors (2005 – None) to whom retirement benefits are accruing in respect of qualifying services in respect of money purchase schemes of the company.

			Total emoluments	
	Salary	Benefits	2006	2005
Remuneration by director was:	£	£	£	£
Executive directors				
M. Tapia	74,667	12,240	86,907	61,029
Non-Executive directors				
R.M. Taylor	15,000	-	15,000	15,000
P. Albuquerque	7,500	-	7,500	7,500
Total emoluments	97,167	12,240	109,407	83,529

DIRECTORS' SHARE OPTIONS

Share options held by directors were as follows:

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

The market price of the ordinary shares at 30 June 2006 was 1.625p and the range during the year was 1.5p to 2.375p. No options were exercised by the directors during the year.

6. NET FINANCE COSTS

	2006 (£)	2005 (£)
Interest receivable	12,445	10,687
Interest payable to bank	(6,473)	(13,782)
	5,972	(3,095)

Qonnectis Plc

NOTES TO THE ACCOUNTS

Year ended 30 June 2006

7. LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION

	2006 (£)	2005 (£)
Loss on ordinary activities is stated after charging:		
Corporate audit	13,000	13,000
Non-audit services provided by auditors:		
- Taxation compliance	8,360	4,100
- Acting as Reporting Accountants	1,225	41,125
Depreciation of tangible assets	2,535	1,835
Amortisation of goodwill	209,857	209,857
Operating lease rentals – premises	19,950	19,800
– other assets	19,584	19,096

The audit fee for the Company was £4,000 (2005-£4,000).

8. TAX CREDIT ON LOSS ON ORDINARY ACTIVITIES

	2006 (£)	2005 (£)
United Kingdom corporation tax at nil% (2005 – nil %) based on the loss for the year	-	-
The differences are explained below:		
Loss on ordinary activities before tax	(806,946)	(1,048,503)
Tax at 10% (2005 10%) thereon:	(80,695)	(104,850)
Expenses not deductible for tax purposes	3,871	1,069
Write of goodwill on acquisition of shares in subsidiary	20,985	20,985
Depreciation in excess of capital allowances	(161)	111
Creation of tax losses	63,595	57,735
Other timing differences	(7,595)	24,950
Current tax credit for year	-	-

A deferred tax asset has not been recognised in respect of timing differences relating to carried forward tax losses as there is insufficient evidence that the asset will be recovered. The Group could have tax losses available for carry forward of up to £2.5m (2005 £1.9m).

9. LOSS PER SHARE

	2006 (£)	2005 (£)
Basic		
Net loss for the year:	(806,946)	(1,048,503)
Weighted average number of ordinary shares outstanding	157,408,023	112,946,184
Loss per share:	(0.51p)	(0.93p)

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

10. GOODWILL

	2006 (£)	2005 (£)
Cost		
Brought forward	7,487,001	7,487,001
Carried forward	7,487,001	7,487,001
Amortisation		
Brought forward	3,753,292	3,543,435
Charge for the year	209,857	209,857
Carried forward	3,963,149	3,753,292
Net book value		
At beginning of the year	3,733,709	3,943,566
At end of the year	3,523,852	3,733,709

Qonnectis Plc

NOTES TO THE ACCOUNTS

Year ended 30 June 2006

11. TANGIBLE FIXED ASSETS

	Computer equipment (£)	Fixture, fittings and equipment (£)	Development tools and equipment (£)	Total (£)
Group				
Cost				
At 1 July 2005	14,406	58,425	2,994	75,825
Additions	4,013	117	807	4,937
At 30 June 2006	18,419	58,542	3,801	80,762
Accumulated depreciation				
At 1 July 2005	12,036	58,117	2,158	72,311
Charge for the year	1,931	102	502	2,535
At 30 June 2006	13,967	58,219	2,660	74,846
Net book value				
At 30 June 2006	4,452	323	1141	5,916
At 30 June 2005	2,370	308	836	3,514

12. INVESTMENTS IN SUBSIDIARY UNDERTAKINGS

Cost

	2006 (£)
At 1 July 2005 and 30 June 2006	3,962,500

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

Subsidiaries owned throughout the year	**Principal activities**
Qonnectis Networks Ltd	The development and marketing of electronic and information technology
Qonnectis Technologies Limited	Dormant
Qonnectis Group Limited	Business to business internet service
MyUtility Ltd	Business to business internet service

All companies are incorporated in England and Wales and the Company owns 100% of the issued share capital of its subsidiaries.

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

13. DEBTORS

	Group 2006 (£)	Group 2005 (£)	Company 2006 (£)	Company 2005 (£)
Amounts falling due within one year:				
Trade debtors	8,719	26,592	-	-
Amounts owed by groups undertakings	-	-	3,490,251	2,895,193
VAT recoverable	23,411	16,196	7,215	-
R&D Tax Credit recoverable	46,167	-	-	-
Called up share capital not paid	110	110	-	-
Prepayments and accrued income	20,924	15,957	14,133	8,135
	99,331	58,855	3,511,599	2,903,328

14. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	Group 2006 (£)	Group 2005 (£)	Company 2006 (£)	Company 2005 (£)
Bank loan and overdraft	36,000	36,000	1,711	-
Trade creditors	124,679	128,282	48,202	75,374
Other creditors	6,803	6,803	-	-
Social security and other taxes	13,829	6,521	-	-
Directors current accounts	9,063	9,112	-	-
Accruals and deferred income	66,094	84,101	26,045	49,073
	256,468	270,819	75,958	124,447

Directors current accounts comprise R Taylor £7,280 (2005: £7,280) and M Tapia £1,783 (2005: £1,832).

Security

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

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

	Group		Company	
	2006	2005	2006	2005
	£	£	£	£
Other loans – due between one & two years	36,000	36,000	-	-
- due between two & five years	6,000	42,000	-	-
	42,000	78,000	-	-

The loans are at variable rates of interest.

16. FINANCIAL INSTRUMENTS

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

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

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

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

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

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

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

Financial assets

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

17. CALLED UP SHARE CAPITAL

	2006 (£)	2005 (£)
Ordinary Share of 1p each		
Authorised		
221,899,200 Ordinary Shares of 1p each	2,218,992	2,218,992
Allotted, issued and fully paid		
157,408,040 Ordinary shares of 1p each	1,574,080	893,128
68,095,240 Ordinary shares of 1p each issued in year	-	680,952
Ordinary shares of 1p each at 30 June 2006	1,574,080	1,574,080
Deferred Shares of 1p each		
Authorised		
808,450,800 Deferred Shares of 1p each	8,084,508	7,781,008
Increase in deferred shares during the year on conversion and subdivision of 303,500 issued £1 B shares into 30,350,000 Deferred shares of 1p each	-	303,500
	8,084,508	8,084,508
Allotted, issued and fully paid		
778,100,800 Deferred Shares of 1p each	8,084,508	7,781,008
30,350,000 Deferred Shares of 1p each issued in year in exchange for B shares converted	-	303,500
Deferred shares of 1p each at 30 June 2006	8,084,508	8,084,508

17. CALLED UP SHARE CAPITAL – Continued

	2006 (£)	2005 (£)
Ordinary B Shares at £1 each		
Authorised		
1,000,000 Ordinary B shares of £1 each	696,500	1,000,000
Conversion and subdivision of 303,500 B Shares into 100 deferred shares of 1p each	-	(303,500)
	696,500	696,500
Allotted, issued and fully paid		
303,500 Ordinary B shares of £1 each	-	303,500
B Ordinary shares of £1 each converted and subdivided into 1p deferred shares		(303,500)
At 30 June 2006	-	-

	2006 (£)	2005 (£)
Total Shares		
Ordinary shares of 1p each	1,574,080	1,574,080
Deferred shares of 1p each	8,084,508	8,084,508
	9,658,588	9,658,588

18. RESERVES

	Share premium account (£)	Profit and loss account (£)
Group		
At 1 July 2005	1,675,050	(7,166,442)
Loss for the year	-	(806,946)
At 30 June 2006	1,675,050	(7,973,388)
Company		
At 1 July 2005	1,675,050	(3,887,105)
Loss for the year	-	(39,944)
At 30 June 2006	1,675,050	(3,927,049)

As permitted by Section 230 of the Companies Act 1985 a separate profit and loss account is not presented for Qonnectis Plc. The loss for the year of the parent undertaking was £39,944 (2005: £372,988).

19. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	2006 £	2005 £
Loss for the year	(806,946)	(1,048,503)
Issue of new share capital	-	1,600,000
Net (reduction in)/ addition to equity shareholders' funds	(806,946)	551,497
Opening shareholders' funds	4,167,196	3,615,699
Closing shareholders' funds	3,360,250	4,167,196

20. RECONCILIATION OF OPERATING LOSS TO NET CASH OUTFLOW

	2006	2005
	£	£
Operating loss	(812,918)	(1,045,408)
Depreciation and amortisation of tangible assets	2,535	1,835
Amortisation of goodwill	209,857	209,857
Increase in stock	(9,608)	(9,601)
Increase in debtors	(40,476)	(16,674)
(Decrease)/increase in creditors	(14,351)	5,252
Net cash flow from operating activities	(664,961)	(854,739)

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

	2006	2005
	£	£
(Decrease)/increase in cash in the year	(699,926)	703,476
Cash outflow from decrease in debt	36,000	36,000
Movement in net debt in the year	(663,926)	739,476
Net funds at 1 July 2005	596,336	(143,140)
Net (debt)/funds at 30 June 2006	(67,590)	596,336

22. ANALYSIS OF NET FUNDS / (DEBT)

	At 1 July 2005 (£)	Cash flows (£)	At 30 June 2006 (£)
Cash	710,336	(699,926)	10,410
	710,336	(699,926)	10,410
Loan falling due within one year	(36,000)	-	(36,000)
Loan falling due after one year	(78,000)	36,000	(42,000)
	596,336	(663,926)	(67,590)

23. OBLIGATIONS UNDER OPERATING LEASES & COMMITTED EXPENDITURE

	Group 2006 (£)	Group 2005 (£)
The following amounts are payable within the next year on operating leases & committed expenditure expiring:		
Within 1 year - premises	1,650	1,650
- other assets	2,816	19,584
	4,466	21,234
The above lease obligations are analysed between Group companies as follows:		
Subsidiary	4,466	21,234
	4,466	21,234

24. RELATED PARTY TRANSACTIONS

During the year the Group bought services from PA Associates (UK) Limited, a company in which Mr P. Albuquerque (a non-executive director of Qonnectis plc) is a director. The amount involved was £63,687 (2005-£71,120). At the balance sheet date the amount due to PA Associates (UK) Limited was £14,406 (2005: £5,314).

25. POST BALANCE SHEET EVENT

On the 25th of July 2006, the Company raised £558,163 net of expenses by the issue of 61,200,000 shares at 1p per share.

QONNECTIS PLC
ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the Annual General Meeting of the above named company will be held at 170 Windmill Road West, Sunbury-on-Thames, Middlesex TW16 7HB at 2pm on 25th January 2007

Ordinary Business

1. To receive and adopt the report and accounts for the period ended 30 June 2006.

2. To re-elect as a director Percival Charles Antony William Albuquerque, being a director retiring in accordance with the Articles of Association.

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

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

Special Business

5. To consider and if thought fit to pass the following resolution as an ordinary resolution:
That the authorised share capital of the Company be and is increased from £11,000,000 to £13,000,000 by the creation of 200,000,000 new ordinary shares of 1p each ranking equally in all respects with the existing ordinary share capital of the company.

6. To consider and if thought fit to pass the following resolution as an ordinary resolution:
"THAT for the purposes of Section 80 of the Companies Act 1985 ("the Act") (and so that expressions used in this resolution shall bear the same meaning as in the said section) the Directors be and they are hereby generally and unconditionally authorised to exercise all or any of the powers of the Company to allot relevant securities of the Company up to an aggregate nominal value of £2,032,910 in respect of ordinary shares of 1p to such persons at such times and on such terms as they think proper, such authority to expire (unless previously renewed, varied or revoked by the Company in General Meeting) at the conclusion of the next Annual General Meeting of the Company following the passing of this resolution or if sooner 15 months after the date of this resolution, save that the Company may prior to such expiry make any offer or agreement which would or might require relevant securities to be allotted after such expiry and the Directors may allot relevant securities pursuant to any such offer or agreement notwithstanding the expiry of the authority given by this resolution and so that all previous authorities of the Directors pursuant to Section 80 of the Act be and they are hereby revoked"

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

BY ORDER OF THE BOARD
R A MacDonald Watson (Company Secretary)
85 Elsenham Street, London SW18 5NX (Registered Office)
22nd November 2006

Notes:

1. Only holders of ordinary shares on the Register at 6.00pm on the day prior to the day immediately before the meeting or any adjourned meeting(as the case may be) shall be entitled to attend and/or vote at the meeting. Such shareholder can vote in respect of the number of shares registered in their names at that time, but any subsequent changes to the register shall be disregarded in determining rights to attend and vote.

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

3. 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, 34 Beckenham Road, Beckenham, Kent BR3 4BR by 2pm on 23rd January 2007.

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

QONNECTIS PLC

FORM OF PROXY FOR THE ANNUAL GENERAL MEETING TO BE HELD AT 170 WINDMILL ROAD WEST, SUNBURY-ON-THAMES, MIDDLESEX TW16 7HB AT 2PM ON 25th JANUARY 2007

I/We
of

being members of Qonnectis plc

HEREBY APPOINT

either 1. The Chairman of the meeting

or failing him 2.
of
as my/our proxy to vote in my/our name(s) and on my/our behalf at the Annual General Meeting of the Company to be held on 25th January 2007 and at any adjournment of the same.

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

RESOLUTIONS	**FOR**	**AGAINST**	**ABSTAIN**
1 To receive and adopt the accounts			
2 To re-elect P C A W Albuquerque as director			
3 To re-appoint the auditors			
4 To authorise the auditors' remuneration			
5 To increase the authorised share capital			
6 To authorise the directors to allot certain unissued shares			
7 To authorise the directors to make non pre-emptive share allotments			

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

DATED 200

SIGNED:

Print name:

NOTES:

1. To be valid this form of proxy must be completed and lodged with the Registrars at Capita Registrars, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4BR not less than 48 hours prior to the time fixed for the meeting or adjourned meeting.

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

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

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

Qonnectis plc

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