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Knowledge Technology Solutions PLC

Report and Accounts for the year ended 30 June 2008

REGISTERED NUMBER: 4062416 (England and Wales)

Knowledge Technology Solutions PLC

Year ended 30 June 2008

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Chairman's Statement

Commentary

The year ended 30 June 2008 was one of many challenges for Knowledge Technology Solutions. We have addressed these challenges and have emerged with a stronger business based on the Arcontech product set.

As reported in my interim statement we concluded that the MarketTerminal subscription business should be closed. We announced on 22 May 2008 the intended closure of this business on 29 August 2008 and the sale to Ionic Information Limited of certain of the MarketTerminal assets, including goodwill for an initial consideration of £50,000 and further consideration dependent on the number of clients transferred to the Ionic platform. The aggregate proceeds accounted for during the year were £137,500.

During the year the traditional KTS business, which largely comprises MarketTerminal contributed post tax losses of £1,337,363. In the period since its acquisition on 4 September 2007, Arcontech contributed post tax losses of £300,135.

Exceptional charges, which were reported in the interim statement earlier this year were also incurred, amounting to £222,062. These costs related to the termination of the Arcontech lease prior to moving to the KTS premises, and the settlement with our previous Chief Executive. These costs will not reoccur.

The Arcontech business, acquired in September 2007, contributed turnover of £1,037,177 in the financial year under review. Arcontech has been adversely affected by our focus in dealing with the MarketTerminal business, as well as delivering the Borse Berlin/Equiduct project, which with hindsight, was significantly under-specified by the previous management. These issues are now largely behind us and we are therefore able to concentrate on delivering the Arcontech CFD and spread betting AXE system and winning new business in this area, as well as extending market share in Arcontech's traditional distribution and contributions market space. To this end we have added to our sales resource in order that we are more able to identify and respond to the opportunities available in our markets.

Financing

We completed a fund-raising of £1,185,000 (net of expenses) on 3 April 2008. During the year under review the group sustained a significant net cash outflow from operations amounting to £1,681,851. This outflow has been reduced by the disposal of the MarketTerminal business. Once the benefits of focusing on the Arcontech business begin to be realised we expect to start generating cash, however, the timing of this will be dependant upon when orders are won and clients invoiced.

Management and Staff

I would like to thank all our employees for their hard work, commitment and dedication during what undoubtedly has been a period of change and uncertainty. Their continued support will contribute to the future success of the Company.

I would also like to thank Andrew Miller, who joined the board following the acquisition of Arcontech in September 2007, and became Chief Executive in December 2007. Without his unstinting hard work and focus the reshaping of the Group would have been significantly more difficult. I look forward to continuing to work with him to drive the refocused business forward to sustain profitability.

Change of Name

Reflecting the new focus of our business a resolution will be proposed at our forthcoming Annual General Meeting to change the name of the group to Arcontech Group plc.

Outlook

It should not be underestimated the amount of management time and energy that has needed to be dedicated to dealing with the cessation of the MarketTerminal business and its ultimate sale. As a result it has not been possible to apply sufficient resources (mainly management time) to realising the many opportunities presented by the Arcontech business. This has now been rectified and already we are seeing notable increase in sales prospects and opportunities, some of which we are hopeful will result in orders in the near future.

Chairman’s Statement (continued)

The general level of uncertainty in the UK financial markets means the precise timing of such orders is even more difficult to predict. We view the future with renewed optimism and believe we have created a stronger platform for growth.

Richard Last
Chairman

27 November 2008

Chief Executive's Review

This is my first review following the departure of my predecessor and my appointment as CEO earlier in the year.

It has been a period of great change and challenge. Nonetheless, we are emerging with a more focussed product range and see signs of forthcoming recovery in performance.

The implementation date for the much discussed Markets in Financial Instruments Directive (MiFID) passed without the anticipated increase in demand for technology and related services. For KTS/Arcontech however, MiFID provided the opportunity to work jointly on the real-time web portal for Borse Berlin's Equiduct, the new Pan-European stock exchange, which went live on 4th April. Although the return from this contract was disappointing, it has enabled us to develop additional direct exchange connectivity components and know-how that add to our capability in core business areas.

The withdrawal of KTS from the MarketTerminal business was expensive in terms of management time but nonetheless has been achieved within the provisions made. The associated staff and infrastructure reductions means that the Group will move forward with a lower cost base, focussed on the proven Arcontech product range and with the opportunity to incorporate the MarketTerminal intellectual property.

We have continued to invest and advance AXE, our on-line trading system platform. We now have broking clients running this platform live, in both spread betting and Contracts for Difference, servicing customers in Europe and the Middle East. The last report mentioned the Hichens Harrison contract win and I am pleased to report that their AXE system is now trading successfully.

Growth in the major retail margin trading firms has been strong and we watch with interest the moves from the London Stock Exchange and other markets towards on-exchange CFD trading. This could further stimulate demand for the margin trading technology that AXE provides as more firms see the benefits of offering margin products directly to their retail clients but also via brokers as a "White labelled" service, a strong feature of AXE. We look forward to developing the AXE product further to cater for the ongoing requirements of customers.

We continue to enhance Arcontech's traditional 'CityVision' products aimed at firms seeking both vendor independence and cost-efficiency, particularly for their vital market data contributions. We are engaged with several major investment banks and are encouraged that the 'credit crunch' does not appear to be impeding progress towards new business. We have added a raft of additional features in response to increasingly sophisticated requirements from existing customers and new prospects, maintaining CityVision's position at the forefront of its market. Recurring revenue remains strong, with no clients lost during the year.

I look forward to developing the opportunities for growth that we believe exist for the refocused Group, soon to be renamed Arcontech Group plc, in the coming year.

Andrew Miller
Chief Executive

27 November 2008

Company Information

Directors	Richard Last *(Chairman and Non-Executive Director)**+ Andrew Miller *(Chief Executive)*+ Michael Levy *(Group Finance Director)* Louise Barton *(Non-Executive Director)**+
Secretary and Registered Office	Michael Levy 8th Floor Finsbury Tower 103-105 Bunhill Row London EC1Y 8LZ
Nominated Adviser and Broker	Blue Oar Securities Plc 30 Old Broad Street London EC2N 1HT
Registered Number	4062416
Solicitors	TLT LLP One Redcliff Street Bristol BS1 6TP
Auditors	Nexia Smith & Williamson LLP Portwall Place Portwall Lane Bristol BS1 6NA
Registrars	Capita IRG Plc Northern House Woodsome Park Fenay Bridge Huddersfield West Yorkshire HD8 0LA
Principal Bankers	HSBC Bank plc 20 Eastcheap London EC4N 6AR

* Members of the Remuneration Committee
+ Members of the Audit Committee

Board of Directors

Directors - Executive

Andrew Miller (50)

Andrew was appointed Chief Technology Officer in September 2007 and subsequently Chief Executive in December 2007. Andrew has been Managing Director of Arcontech Limited since 2000. He conceived the CityVision product strategy in response to market demand for fast, reliable, cost-effective alternatives. He is a vocal advocate of technology to reduce costs and increase quality of real-time market data and has been instrumental in turning Arcontech Limited into an award-winning technology provider in the City with a blue-chip client list.

Michael Levy (47)

Michael was appointed Group Finance Director in May 2001. In addition he operates his own Chartered Accountants practice, Michael Levy & Co. Michael obtained a BA (Econ) in Economics and Social Studies from the University of Manchester in 1983. He qualified as a Chartered Accountant in 1986 with BDO Stoy Hayward and is a Fellow of The Institute of Chartered Accountants in England & Wales.

Directors – Non-Executive

Richard Last (51)

Richard was appointed Chairman and Non-Executive Director in February 2007. He has over 15 years' senior experience in information technology, having worked at board level for a number of publicly quoted and private companies operating in this sector. Currently, he is Chairman of Patsystems plc, an AIM listed provider of solutions for futures trading and exchange systems, and the British Smaller Technology Companies VCT 2 plc, a fully listed venture capital trust. Richard also sits on the Boards of Corero plc, an AIM listed it solutions provider, Lighthouse Group plc, an AIM listed financial services group and the British Smaller Companies VCT plc, a fully listed venture capital trust, as well as a number of other private businesses.

Louise Barton (58)

Louise was appointed Non-Executive Director in February 2007. She has more than 26 years' experience as an investment analyst. Louise's background embraces a high profile City career, including having held senior positions with fund management group Prudential Portfolio Managers and stockbrokers CCF Laurence Prust and Investec Securities.

Directors' Report

The Directors present their Report and Accounts for the year ended 30 June 2008.

Principal activities

The principal activities of the Company and its subsidiaries during the year were the development and sale of proprietary software, publishing a financial information service across the internet and provision of computer consultancy services.

Review of the business and prospects

A full review of the operations, financial position and prospects of the Group is given in the Chairman's Statement and Chief Executive's Summary on pages 1 to 3.

Results and dividends

Details of the results for the year are given on page 12. The Directors do not recommend the payment of a dividend. (2007: £Nil).

Key performance indicators (KPIs)

The Directors monitor the business using management reports and information, reviewed and discussed at monthly Board meetings. Financial and non-financial KPIs used in this report include:

- subscription, software development and consultancy revenues
- revenue and overhead variations against budget
- technical development (e.g. project updates and progress)
- personnel matters

As noted in the income statement on page 12, turnover for the year has increased by 98%, whilst distribution and administrative costs for the year increased by 59%.

Principal risks and uncertainties

The Group's performance is affected by a number of risks and uncertainties, which the Board monitor on an ongoing basis in order to identify, manage and minimise their possible impact. General risks and uncertainties include changes in economic conditions, interest rate fluctuations and the impact of competition. Examples of specific risk areas and the action taken to mitigate their outcome are shown below:

Risk area	Mitigation
Competition	Ongoing investment in R&D Responding to the changing needs of clients to remain competitive
Loss of key personnel	Keyman insurance policies held for certain senior management Employee share option scheme in place

Directors

The Directors who have held office during the period from 1 July 2007 to the date of this report are as follows:

Richard Last
Andrew Miller - appointed 4 September 2007
Michael Levy
Louise Barton
Dr Marc Pinter-Krainer - resigned 7 December 2007

In accordance with the Company's Articles of Association, Richard Last, who retires by rotation, offers himself for re-election.

Directors' Report (continued)

Directors (continued)

Except as disclosed in note 24 to the accounts none of the Directors had an interest in any contracts with the Company or its subsidiaries during the year.

Employees

The Directors recognise the importance of good communication with employees to ensure a common awareness of factors affecting the Group. They also recognise their statutory responsibilities. Matters of current concern or interest are discussed with staff on a regular basis.

Charitable and political contributions

The Group did not make any political or charitable donations during the year.

Corporate Governance

The Company's shares are traded on AIM, a market operated by the London Stock Exchange and the Company is not, therefore, required to report on compliance with the Combined Code ("the Code"). However, the Board of Directors support the Code and also the recommendations made by Quoted Companies Alliance in its bulletin "Guidance for Smaller Quoted Companies". The bulletin provides a series of recommendations for smaller quoted companies in approaching the question of corporate governance.

Internal control

The Directors acknowledge their responsibilities for the Group's system of internal control. The Board considers major business and financial risks. All strategic decisions are referred to the Board, which meets monthly, for approval. Accepting that no system of control can provide absolute assurance against material misstatement or loss, the Directors believe that the established systems of internal control within the Group are appropriate to the business.

Financial risk management

The Group's financial instruments comprise cash and cash equivalents, and items such as trade payables and trade receivables, which arise directly from its operations.

The main risks arising from the Group's financial instruments are interest rate fluctuations and liquidity risk. It is the Group's policy to finance it's operations through a mixture of cash and, where appropriate, external finance and to review the projected cash flow requirements of the Group with an acceptable level of risk exposure.

Going concern

On the basis of current projections, and having regard to the facilities available to the Group, the Directors consider that the Group has adequate resources to continue in operational existence for the foreseeable future. Accordingly the Directors have adopted the going concern basis in the preparation of the accounts.

Supplier payment policy

The Group's policy is to settle the terms of payment with suppliers when agreeing the terms of each transaction, and to ensure that suppliers are made aware of the terms of payment and abide by them. At 30 June 2008, the average trade creditors for the Group, expressed as a number of days, were 52 days (2007: 84 days).

Research and Development

The Group continues to make progress in product development, while continuing to keep control of costs. Research and development expenditure is charged to the Income Statement in the year incurred, unless it meets the criteria under IAS 38 to capitalise.

Directors' Report (continued)

Disclosures to auditors

In the case of each of the persons who are Directors at the time when the report is approved, the following applies:

- so far as each of the Directors are aware, there is no relevant audit information of which the Company's auditors are unaware; and

- each of the Directors have taken all the steps that they ought to have taken as Directors in order to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

This information is given and should be interpreted in accordance with the provisions of s234ZA of the Companies Act 1985.

Auditors

On 18 February 2008 Smith & Williamson Solomon Hare Audit LLP changed its name to Nexia Smith & Williamson Audit (Bristol) LLP, trading as Nexia Smith & Williamson LLP.

A resolution to re-appoint Nexia Smith & Williamson LLP as the Group's Auditors for the ensuing year will be proposed at the Annual General Meeting in accordance with section 489 of the Companies Act 2006.

On behalf of the Board

Michael Levy
Company Secretary

27 November 2008

Statement of Directors' Responsibilities

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable United Kingdom law and International Financial Reporting Standards (IFRS) as adopted by the European Union.

The Directors are required to prepare financial statements for each financial year which present fairly the financial position of the Company and of the Group and the financial performance and cash flows of the Company and 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;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRS is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- state that the Company and the Group have complied with IFRS, subject to any material departures disclosed and explained in the financial statements.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and of the Group 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.

The Directors are responsible for the maintenance and integrity of the Company website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements differs from legislation in other jurisdictions and third parties in such jurisdictions should take their own legal or professional advice as appropriate.

The Directors confirm that they have complied with these requirements and, having a reasonable expectation that the Company and the Group has adequate resources to continue in operational existence for the foreseeable future, continue to adopt the going concern basis in preparing the financial statements.

Independent Auditors' Report to the shareholders of Knowledge Technology Solutions PLC

We have audited the Group and Parent Company financial statements (the 'financial statements') of Knowledge Technology Solutions Plc for the year ended 30 June 2008 which comprise the Group Income Statement, the Group and Parent Company Statement of Changes in Shareholders' Equity, the Group and Parent Company Balance Sheets, the Group and Parent Company Cash Flow Statements, and the related notes 1 to 33. These accounts have been prepared under the accounting policies set out therein.

This report is made solely to the Company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Directors and auditors

The directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union applied in accordance with the provisions of the Companies Act 1985 are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We report to you whether in our opinion 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 the information specified by law regarding directors' remuneration and transactions with the Company 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 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.

Independent Auditors' Report to the shareholders of Knowledge Technology Solutions PLC

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union applied in accordance with the provisions of the Companies Act 1985, of the state of the group's and parent Company's affairs as at 30 June 2008 and of the group's loss for the year then ended; and
- 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.

Nexia Smith & Williamson LLP
Chartered Accountants
Registered Auditors

Portwall Place
Portwall Lane
Bristol
BS1 6NA

27 November 2008

Consolidated Income Statement

For the year ended 30 June 2008

	Note	2008	2007
		£	£
Revenue	3	1,939,604	981,745
Distribution costs		(907,155)	(1,043,738)
Administrative costs		(2,557,363)	(1,129,359)
Administrative costs - exceptional	4	(222,062)	-
Operating loss	5	(1,746,976)	(1,191,352)
Finance income		41,724	50,834
Loss before taxation		(1,705,252)	(1,140,518)
Taxation	9	67,754	-
Loss for the year		(1,637,498)	(1,140,518)
Basic loss per share	10	(0.31)p	(0.45)p
Diluted loss per share	10	(0.31)p	(0.45)p

On 29 August 2008 Knowledge Technology Services Limited terminated its MarketTerminal subscription service (see note 28).

The notes on pages 17 to 39 form part of these accounts.

Statement of Changes in Equity

For the year ended 30 June 2008

Group:

	Share capital	Share premium	Share option reserve	Retained earnings	Total equity
	£	£	£	£	£
Balance at 1 July 2006	148,275	4,777,574	-	(4,139,108)	786,741
Loss for the year	-	-	-	(1,140,518)	(1,140,518)
Total recognised income and expenses for the year	148,275	4,777,574	-	(5,279,626)	(353,777)
Issue of equity share capital	184,257	1,539,296	-	-	1,723,553
Balance at 30 June 2007	332,532	6,316,870	-	(5,279,626)	1,369,776
Loss for the year	-	-	-	(1,637,498)	(1,637,498)
Total recognised income and expenses for the year	332,532	6,316,870	-	(6,917,124)	(267,722)
Share-based payments	-	-	45,920	-	45,920
Issue of equity share capital	403,911	2,200,070	-	-	2,603,981
Balance at 30 June 2008	736,443	8,516,940	45,920	(6,917,124)	2,382,179

Company:

	Share capital	Share premium	Share option reserve	Retained earnings	Total equity
	£	£	£	£	£
Balance at 1 July 2006	148,275	4,777,574	-	(590,400)	4,335,449
Loss for the year	-	-	-	(5,068,307)	(5,068,307)
Total recognised income and expenses for the year	148,275	4,777,574	-	(5,658,707)	(732,858)
Issue of equity share capital	184,257	1,539,296	-	-	1,723,553
Balance at 30 June 2007	332,532	6,316,870	-	(5,658,707)	990,695
Loss for the year	-	-	-	(1,300,854)	(1,300,854)
Total recognised income and expenses for the year	332,532	6,316,870	-	(6,959,561)	(310,159)
Share-based payments	-	-	45,920	-	45,920
Issue of equity share capital	403,911	2,200,070	-	-	2,603,981
Balance at 30 June 2008	736,443	8,516,940	45,920	(6,959,561)	2,339,742

The notes on pages 17 to 39 form part of these accounts.

Balance Sheets

As at 30 June 2008

	Note	Group 2008 £	Group 2007 £	Company 2008 £	Company 2007 £
Non-current assets					
Goodwill	11	1,634,547	-	-	-
Property, plant and equipment	12	154,390	122,226	-	-
Investments in subsidiaries	13	-	-	2,016,060	79,297
Total non-current assets		1,788,937	122,226	2,016,060	79,297
Current assets					
Trade and other receivables	14	563,159	216,641	128,685	31,085
Cash and cash equivalents	15	1,082,604	1,473,451	404,579	915,511
Total current assets		1,645,763	1,690,092	533,264	946,596
Current liabilities					
Trade and other payables	16	(1,052,521)	(442,542)	(209,582)	(35,198)
Total current liabilities		(1,052,521)	(442,542)	(209,582)	(35,198)
Net current assets		593,242	1,247,550	323,682	911,398
Net assets		2,382,179	1,369,776	2,339,742	990,695
Equity					
Called up share capital	18	736,443	332,532	736,443	332,532
Share premium account	19	8,516,940	6,316,870	8,516,940	6,316,870
Share option reserve	19	45,920	-	45,920	-
Retained earnings		(6,917,124)	(5,279,626)	(6,959,561)	(5,658,707)
		2,382,179	1,369,776	2,339,742	990,695

Approved on behalf of the board on 27 November 2008 by:

Andrew Miller
Chief Executive

Michael Levy
Group Finance Director

The notes on the pages 17 to 39 form part of these accounts.

Consolidated Cash Flow Statement

For the year ended 30 June 2008

	Note	2008	2007
		£	**£**
Net cash used in operating activities	22	**(1,681,851)**	**(1,254,885)**
Investing activities			
Interest received		41,724	50,834
Acquisition of subsidiary, net of cash acquired	21	(784,523)	-
Purchases of plant and equipment		(75,178)	(8,971)
Disposal of plant and equipment		-	1,042
Net cash (used in)/generated from investing activities		**(817,977)**	**42,905**
Financing activities			
Proceeds on issue of shares		2,239,000	1,842,571
Expenses paid in connection with share issues	19	(130,019)	(119,018)
Net cash generated from financing activities		**2,108,981**	**1,723,553**
Net (decrease)/increase in cash and cash equivalents		**(390,847)**	**511,573**
Cash and cash equivalents at beginning of year		1,473,451	961,878
Cash and cash equivalents at end of year	15	**1,082,604**	**1,473,451**

The notes on the pages 17 to 39 form part of these accounts.

Company Cash Flow Statement

For the year ended 30 June 2008

	Note	2008	2007
		£	£
Net cash used in operating activities	22	**(1,321,842)**	**(1,743,775)**
Investing activities			
Interest received		23,692	44,583
Acquisition of subsidiary	21	(1,321,763)	-
Net cash (used in)/generated from investing activities		**(1,298,071)**	**44,583**
Financing activities			
Proceeds on issue of shares	18	2,239,000	1,842,571
Expenses paid in connection with share issues	19	(130,019)	(119,018)
Net cash generated from financing activities		**2,108,981**	**1,723,553**
Net (decrease)/increase in cash and cash equivalents		**(510,932)**	**24,361**
Cash and cash equivalents at beginning of year		915,511	891,150
Cash and cash equivalents at end of year	15	**404,579**	**915,511**

The notes on the pages 17 to 39 form part of these accounts.

Notes to the Financial Statements

For the year ended 30 June 2008

1. Accounting policies

The principal accounting policies are summarised below. They have all been applied consistently throughout the period covered by these financial statements.

Basis of preparation

The financial information has been prepared in accordance with International Financial Reporting Standards ("IFRS") for the first time. The disclosures required by IFRS 1 concerning the transition from UK GAAP to IFRS are given in note 31. The financial statements have been prepared in accordance with IFRS as adopted by the European Union applied in accordance with the provisions of the Companies Act 1985.

On the basis of current projections, confidence of future profitability and the availability of shareholder support if required, the Directors have adopted the going concern basis in the preparation of the financial statements.

The financial statements have been prepared under the historical cost convention.

Effect of new IFRS and changes to IFRS

Standards, interpretations and amendments to existing standards that have been published, and are not mandatory to accounting periods beginning on or after 1 July 2008 or later periods and that have not been early adopted by the Group or the Company are as follows:

- IFRS 8: Operating Segments (EU adopted) – the directors do not anticipate the adoption of this standard will have a material impact on the Group Financial Statements in the period of initial application.
- IAS 1: Presentation of Financial Statements – comprehensive revision requiring a statement of comprehensive income (not yet EU adopted).
- IAS 23: Borrowing Costs – comprehensive revision to prohibit immediate expensing (not yet EU adopted).
- IAS 27: Consolidated and Separate Financial Statements (revised) (not yet EU adopted).
- IFRS 2: Share-based Payment – amendment relating to vesting conditions and cancellations (not yet EU adopted).
- IFRS 3: Business Combinations (revised) (not yet EU adopted).

With the exception of IFRS 8 (see above) none of the above standard amendments have been EU adopted at the balance sheet date, the Group and the Company have not yet determined their effect on the accounts.

Changes in standards or interpretations which are not currently mandatory and are not expected to be relevant to the Group's and Company's activities:

- IAS 1: Presentation of Financial Statements – Amendments relating to disclosure of puttable instruments and obligations arising on liquidation (not yet EU adopted).
- IAS 28: Investments in Associates (revised) (not yet EU adopted).
- IAS 31: Interests in Joint ventures (revised) (not yet EU adopted).
- IAS 32: Financial Instruments: Presentation – amendments relating to puttable instruments and obligations arising on liquidation (not yet EU adopted).
- IFRIC 12: Service Concession Arrangements (not yet EU adopted).
- IFRIC 13: Customer Loyalty Programmes (not yet EU adopted).
- IFRIC 14: IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction (not yet EU adopted).
- IFRIC 15: Agreements for the Construction of Real Estate (not yet EU adopted).
- IFRIC 16: Hedges of a Net Investment in a Foreign Operation (not yet EU adopted).

The Directors do not anticipate that the adoption of these statements and interpretations will have a material impact on the Group's financial statements in the period of initial application.

Notes to the Financial Statements

For the year ended 30 June 2008 (continued)

1. Accounting policies (continued)

Basis of consolidation

The Group financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries) prepared to 30 June 2008. Control is achieved where the Company has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with those used by the Group.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Business combinations and goodwill

On acquisition, the assets and liabilities and contingent liabilities of subsidiaries are measured at their fair value at the date of acquisition. Any excess of cost of acquisition over the fair values of the identifiable net assets acquired is recognised as goodwill. Any deficiency of the cost of acquisition below the fair values of the identifiable net assets acquired (i.e. discount on acquisition) is credited to profit and loss in the period of acquisition. Goodwill arising on consolidation is recognised as an asset and reviewed for impairment at least annually. Any impairment is recognised immediately in the Income Statement and is not subsequently reversed.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business, net of discounts, VAT and other sales related taxes.

Sales of goods and services are recognised when delivered and title has passed.

Revenue arising from the provision of services is recognised when and to the extent that the Group obtains the right to consideration in exchange for the performance of its contractual obligations as follows:

Subscriptions, consultancy, advertising and sponsorship – over the contract period
Long-term contracts - attributable turnover in the period.

Foreign currency

Transactions in foreign currency are recorded at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Exchange gains and losses on short-term foreign currency borrowings and deposits are included within net interest payable. Exchange differences on all other transactions, except relevant foreign currency loans, are taken to operating profit.

Taxation

The tax credit represents the sum of the tax currently recoverable and any deferred tax.

The tax currently payable is based on the taxable loss for the year. Taxable loss differs from net loss as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Company's liability for current tax is calculated using tax rates that have been enacted or substantially enacted by the balance sheet date.

Notes to the Financial Statements

For the year ended 30 June 2008 (continued)

1. Accounting policies (continued)

Taxation (continued)

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised. Deferred tax is charged or credited to profit or loss, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current assets and liabilities on a net basis.

Share-based payments

The cost of share-based employee compensation arrangements, whereby employees receive remuneration in the form of shares or share options, is recognised as an employee benefit expense in the income statement.

The total expense to be apportioned over the vesting period of the benefit is determined by reference to the fair value (excluding the effect of non market-based vesting conditions) at the date of grant. The assumptions underlying the number of awards expected to vest are subsequently adjusted for the effects of non market-based vesting to reflect the conditions prevailing at the balance sheet date. Fair value is measured by the use of the Black-Scholes model. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of the non- transferability, exercise restrictions and behavioural considerations.

Plant and equipment

Plant and equipment are stated at cost less accumulated depreciation and any recognised impairment loss.

Depreciation is charged so as to write off the cost of assets, over their estimated useful lives, on the following bases:

Leasehold property	-	over the period of the lease
Computer equipment	-	33% - 40% on cost
Office furniture and equipment	-	20% - 25% on reducing balance

Investments in subsidiaries

Investments in subsidiaries are stated at cost less any provision for impairment.

Notes to the Financial Statements

For the year ended 30 June 2008 (continued)

1. Accounting policies (continued)

Inventories

Inventories comprise long term contracts. Long term contract costs are recognised when incurred. When the outcome of a contract can be estimated reliably and it is probable that the contract will be profitable, contract revenue is recognised over the period of the contract. When the outcome of a contract cannot be estimated reliably, contract revenue is recognised only to the extent of costs incurred that it is probable will be recoverable. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised immediately.

Financial instruments

Financial assets and financial liabilities are recognised on the balance sheet when the Group becomes a party to the contractual provisions of the instrument.

Trade and other receivables are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest method. A provision is established when there is objective evidence that the Group will not be able to collect all amounts due. The amount of any provision is recognised in the income statement.

Cash and cash equivalents comprise cash held by the Group and short-term bank deposits with an original maturity of three months or less.

Trade and other payables are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method.

Financial liabilities and equity instruments issued by the Group are classified in accordance with the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

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

Leasing commitments

Rentals payable under operating leases are charged to income on a straight-line basis over the term of the relevant lease.

Research and development

Research costs are charged to the Income Statement in the year incurred. Development expenditure is capitalised to the extent that it meets all of the criteria required by IAS38, otherwise it is charged to the profit and loss account in the year incurred.

2. Critical accounting judgements and key sources of estimation uncertainty

The preparation of financial statements in conformity with generally accepted accounting practice requires management to make estimates and judgements that affect the reported amounts of assets and liabilities as well as the disclosure of contingent assets and liabilities at the balance sheet date and the reported amounts of revenues and expenses during the reporting period.

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

For the year ended 30 June 2008 (continued)

2. Critical accounting judgements and key sources of estimation uncertainty (continued)

Critical accounting judgements:

Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash generating units to which goodwill has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. No provision for impairment was made in the year and the carrying value of goodwill at the balance sheet date was £1,634,547.

Share-based payments

In determining the fair value of equity settled share-based payments and the related charge to the income statement, the Group makes assumptions about future events and market conditions. In particular, judgement must be made as to the likely number of shares that will vest, and the fair value of each award granted. The fair value is determined using a valuation model which is dependent on further estimates, including the Group's future dividend policy, employee turnover, the timing with which options will be exercised and the future volatility in the price of the Group's shares. Such assumptions are based on publicly available information and reflect market expectations and advice taken from qualified personnel. Different assumptions about these factors to those made by the Group could materially affect the reported value of share-based payments.

Deferred consideration

As referred to in note 21, deferred consideration in connection with the acquisition of Arcontech Limited is payable in cash or shares, capped at £300,000. In the opinion of the Directors, based on current forecasts this consideration is estimated to be in the region of £120,000.

Key sources of estimation uncertainty:

Bad debt and inventory provisions

The trade receivables balances recorded in the Group's balance sheet comprise a relatively small number of large balances. A full line by line review of trade receivables is carried out at the end of each month. Whilst every attempt is made to ensure that the bad debt and inventory provisions are as accurate as possible, there remains a risk that the provisions do not match the level of debts which ultimately prove to be uncollectible and the inventory is not sold at its carrying amount.

3. Revenue

An analysis of the Group's revenue is as follows:

	2008 **£**	**2007** **£**
Financial information service, advertising and sponsorship	902,427	981,745
Software development and consultancy	1,037,177	-
	1,939,604	981,745

Notes to the Financial Statements

For the year ended 30 June 2008 (continued)

4. Administrative costs - exceptional:

	2008 £	2007 £
Directors' remuneration – payment in lieu of notice	135,315	-
(in respect of Marc Pinter-Krainer, the former Chief Executive)		
Restructuring costs – office relocation expenses	86,747	-
	222,062	-

5. Operating loss for the year is stated after charging/(crediting):

	2008 £	2007 £
Depreciation of plant and equipment	47,580	44,722
Loss/(profit) on disposal of fixed assets	171	(492)
Staff costs (see note 8)	1,890,619	718,474
Operating lease rentals - land and buildings (see note 23)	55,300	55,300
Research and development	736,693	816,682

The Company has taken advantage of the exemption provided under section 230 of the Companies Act 1985 not to publish its individual income statement and related notes. The loss dealt with in the financial statements of the Parent Company was £1,300,854 (2007: £5,068,307).

6. Auditor's remuneration:

	2008 £	2007 £
Fees payable to the Group's auditor for the audit of the Group's annual accounts	12,000	6,000
Fees payable to the Company's auditor for other services:		
- audit of the Company's subsidiaries, pursuant to legislation	8,500	3,500
- advice in respect of the interim report, EMI scheme and EIS relief	4,225	620

Notes to the Financial Statements

For the year ended 30 June 2008 (continued)

7. Business and geographical segments:

For management purposes, the Group is currently organised into two main operating divisions:

Financial information service and advertising and sponsorship (Knowledge Technology Services Limited) and software development and consultancy (Arcontech Limited). These divisions are the business segments for which the Group reports its primary segment information. The Group's operations are predominantly in one geographical segment, the United Kingdom.

	2008	2007
	£	£
Revenue by segment		
Financial information service, advertising and sponsorship	902,427	981,745
Software development and consultancy	1,037,177	-
Total revenue	1,939,604	981,745
Operating loss by segment		
Financial information service, advertising and sponsorship	(958,286)	(946,453)
Software development and consultancy	(379,794)	-
Unallocated overheads	(408,896)	(244,899)
Total operating loss	(1,746,976)	(1,191,352)
Finance income	41,724	50,834
Taxation	67,754	-
Total loss after tax as reported in the Group income statement	(1,637,498)	(1,140,518)
Carrying value of assets by segment		
Financial information service, advertising and sponsorship	604,731	865,495
Software development and consultancy	772,991	-
Unallocated assets	2,056,978	946,823
Total assets	3,434,700	1,812,318

Notes to the Financial Statements

For the year ended 30 June 2008 (continued)

7. Business and geographical segments (continued):

	2008	2007
	£	£
Carrying value of liabilities by segment		
Financial information service, advertising and sponsorship	344,890	405,588
Software development and consultancy	497,034	-
Unallocated liabilities	210,597	36,954
Total liabilities	1,052,521	442,542
Additions of property, plant and equipment assets by segment		
Financial information service, advertising and sponsorship	75,177	8,971
Software development and consultancy	172,150	-
Total additions	247,327	8,971
Depreciation of property, plant and equipment assets recognised in the period by segment		
Financial information service, advertising and sponsorship	41,551	44,722
Software development and consultancy	6,029	-
Total depreciation	47,580	44,722

Notes to the Financial Statements

For the year ended 30 June 2008 (continued)

8. Staff costs

		2008 £	2007 £
a)	**Aggregate staff costs, including Directors' remuneration**		
	Wages and salaries	1,667,055	646,443
	Social security costs	177,644	72,031
	Share-based payment costs	45,920	-
		1,890,619	718,474
b)	**The average number of full time equivalent employees (including executive Directors) was:**		
	Sales and administration	30	16
		£	**£**
c)	**Directors' emoluments**		
	Remuneration	190,576	117,700
	Payment in lieu of notice	135,315	-
		£	**£**
	Executive Directors		
	Marc Pinter-Krainer (resigned 7 December 2007)	187,623	103,000
	Michael Levy *	15,750	3,500
	Andrew Miller (appointed 4 September 2007)	98,518	-
	Non-Executive Directors		
	Richard Last	24,000	11,200
	Louise Barton	-	-
		325,891	117,700

None of the Directors are members of defined contribution or defined benefit pension schemes.

* Fees payable to Michael Levy & Co, Chartered Accountants, in which Michael Levy is the principal, in respect of accountancy services are disclosed in note 24.

Key management personnel

In the opinion of the Board, the Group's key management are the Directors of Knowledge Technology Solutions PLC.

Share-based payments relating to Directors was £14,110 (2007: £Nil). Social security costs relating to Directors was £20,853 (2007: £13,693).

Notes to the Financial Statements

For the year ended 30 June 2008 (continued)

9. Taxation

	2008	2007
	£	£
Current tax	(67,754)	-
Deferred tax	-	-
Total tax credit for the period	(67,654)	-

The difference between the total tax credit shown above and the amount calculated by applying the standard rate of UK corporation tax to the loss before tax is as follows:

	2008 £	2007 £
Loss on ordinary activities before tax	(1,705,252)	(1,140,518)
Loss on ordinary activities multiplied by the standard rate of corporation tax in the UK of 29.5% (2007 - 30%)	(503,049)	(342,155)
Effects of:		
Disallowed expenses	1,774	-
Depreciation for the year in excess of capital allowances	(6,417)	13,517
Pre-acquisition loss	(7,646)	-
Prior year adjustment	(67,754)	-
Losses carried back	73,681	-
Losses carried forward	441,657	328,638
Current tax credit for the year	(67,754)	-

Factors which may affect future tax charges

At 30 June 2008 the Group has losses of approximately £4,400,000 (2007: £4,975,000) to offset against future profits.

Notes to the Financial Statements

For the year ended 30 June 2008 (continued)

10. Earnings per share

	2008	2007
	£	£
Earnings		
Earnings for the purpose of basic and diluted earnings per share being net loss attributable to equity shareholders	(1,637,498)	(1,140,518)
	No.	**No.**
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	520,890,310	254,113,141
Number of dilutive shares under option	-	-
Weighted average number of ordinary shares for the purposes of dilutive earnings per share	520,890,310	254,113,141

The calculation of diluted earnings per share assumes conversion of all potentially dilutive ordinary shares, all of which arise from share options. A calculation is done to determine the number of shares that could have been acquired at fair value, based upon the monetary value of the subscription rights attached to outstanding share options.

11. Goodwill

	2008	2007
	£	£
Cost and net book amount		
At 1 July 2006 and 1 July 2007	-	-
Additions	1,634,547	-
At 30 June 2008	1,634,547	-

Goodwill acquired in a business combination is allocated at acquisition, to the cash generating units (CGUs) that are expected to benefit from that business combination. The carrying amount of goodwill has been allocated as follows:

	2008	2007
	£	£
Arcontech Limited	1,634,547	-

The group tests goodwill annually for impairment or more frequently if there are indications that goodwill might be impaired.

The recoverable amounts of the CGUs are determined from value in use calculations. The key assumptions for the value in use calculations are those regarding the discount rates, growth rates and expected changes to selling prices and direct costs during the period. The discount rate is estimated using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the CGUs. The growth rates are based on industry growth forecasts. Changes in selling prices are based on past practices and expectations of future changes in the market. Changes in direct costs are based on expected cost of inflation of 2.5%.

Notes to the Financial Statements

For the year ended 30 June 2008 (continued)

11. Goodwill (continued)

Cashflow forecasts are based on the latest financial budgets and extrapolate the cashflows for the next five years based on an estimated growth in revenue of 15% per annum, after which the UK long-term growth rate is applied.

As the Group does not have any borrowings, the rate used to discount all the forecast cash flows is 4.5%, which represents the expected average bank base rate over the period.

Goodwill on the purchase of Arcontech Limited is attributable to the anticipated future operating synergies which will arise as a result of the combination.

12. Property, plant and equipment - Group

	Leasehold Property	Office furniture & equipment	Total
Cost	**£**	**£**	**£**
At 1 July 2006	6,373	379,582	385,955
Additions	-	8,971	8,971
Disposals	-	(1,179)	(1,179)
At 1 July 2007	6,373	387,374	393,747
Additions	-	75,178	75,178
On acquisition of subsidiaries	-	172,150	172,150
Disposals	-	(129,364)	(129,364)
At 30 June 2008	6,373	505,338	511,711
Depreciation			
At 1 July 2006	1,795	225,631	227,426
Charge for the year	1,077	43,644	44,721
On disposals	-	(627)	(627)
At 1 July 2007	2,872	268,649	271,521
Charge for the year	1,077	46,503	47,580
On acquisition of subsidiaries	-	167,413	167,413
On disposals	-	(129,193)	(129,193)
At 30 June 2008	3,949	353,372	357,321
Net book amount at 30 June 2008	2,424	151,966	154,390
Net book amount at 30 June 2007	3,501	118,725	122,226

Notes to the Financial Statements

For the year ended 30 June 2008 (continued)

13. Investment in subsidiaries

	£	£
Cost and net book amount		
At 1 July 2006 and 1 July 2007	79,297	79,297
Additions (see note 21)	1,936,763	-
At 30 June 2008	2,016,060	79,297

Details of the investments in which the Group and the Company holds 20% or more of the nominal value of any class of share capital are as follows:

	Country of Incorporation	Nature of business	% voting rights and shares held
Knowledge Technology Services Limited	England and Wales	Provision of financial information services	100% of Ordinary shares
Cognita Technologies Limited	England and Wales	Software development	100% of Ordinary shares
Arcontech Limited	England and Wales	Software development and consultancy	100% of Ordinary shares

14. Trade and other receivables

	Group 2008 £	Group 2007 £	Company 2008 £	Company 2007 £
Due within one year:				
Trade receivables	323,491	16,073	-	-
Amounts owed by group undertakings	-	-	110,832	-
Other receivables	63,304	35,055	8,357	24,038
Prepayments and accrued income	176,364	165,513	9,496	7,047
	563,159	216,641	128,685	31,085

Trade receivables, other receivables, prepayments and accrued income constitute the financial assets within the category "Loans and receivables" as defined by IAS 39. Trade receivables are non-interest bearing and generally have a 30-90 day term. Due to their short maturities, the fair value of trade receivables approximates their book value.

A provision for impairment of trade receivables is established when there is no objective evidence that the Group will be able to collect all amounts due according to the original terms. The Group considers factors such as default or delinquency in payment, significant financial difficulties of the debtor and the probability that the debtor will enter bankruptcy in deciding whether the trade receivable is impaired.

Trade and other receivables are disclosed net of allowances for bad and doubtful debts.

Notes to the Financial Statements

For the year ended 30 June 2008 (continued)

14. Trade and other receivables (continued)

As at 30 June 2008, trade receivables of £Nil were impaired (2007: £Nil). As at 30 June 2008 trade receivables of £272,600 (2007: £15,310) were past due but not impaired. The ageing analysis of these trade receivables is as follows:

	Group 2008 £	Group 2007 £	Company 2008 £	Company 2007 £
Up to 3 months past due	182,380	9,365	-	-
Over 3 months past due	90,220	5,945	-	-
	272,600	15,310	-	-

Other receivables do not contain impaired assets.

15. Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and in hand.

16. Trade and other payables

	Group 2008 £	Group 2007 £	Company 2008 £	Company 2007 £
Trade payables	194,829	325,772	3,196	12,615
Other tax and social security payable	83,799	21,433	12,103	5,922
Other payables and accruals	773,893	95,337	194,283	16,661
	1,052,521	442,542	209,582	35,198

The Directors consider that the carrying amount of trade and other payables approximates to their fair value.

Trade payables, other tax and social security payable and other payables and accruals constitute the financial liabilities within the category "Financial liabilities at amortised cost" as defined by IAS 39.

17. Deferred tax

There is no actual or potential liability for deferred taxation due to the availability of losses, which at 30 June 2008 amounted to approximately £4,480,000 (2007: £4,975,000). The unprovided deferred tax asset at 30 June 2008 was £1,254,000 (2007: £980,000).

Currently the criteria for the recognition of a deferred tax asset have not been met and accordingly a deferred tax asset has not been included in the balance sheet as at 30 June 2008 and as at 30 June 2007.

Notes to the Financial Statements

For the year ended 30 June 2008 (continued)

18. Called up share capital

	2008 £	2007 £
Company		
Authorised:		
1,000,000,000 (2007: 500,000,000) Ordinary Shares of 0.1p each	1,000,000	500,000
Allotted, called up and fully paid:		
736,442,943 (2007: 332,531,832) Ordinary Shares of 0.1p each	736,443	332,532

On 3 September 2007 the authorised share capital of the Company was increased from £500,000 to £1,000,000 by the creation of 500,000,000 Ordinary Shares of 0.1 pence each.

The Company allotted Ordinary Shares of 0.1 pence each for cash during the year as follows:

Date	Number
3 September 2007	111,111,111 shares at 0.9 pence per share
4 September 2007	45,000,000 shares at 1.1 pence per share*
4 April 2008	247,800,000 shares at 0.5 pence per share

*in connection with the acquisition of Arcontech Limited

Notes to the Financial Statements

For the year ended 30 June 2008 (continued)

18. Share capital (continued)

Share options and warrants

Under the Company's approved 2002 Share Option Scheme, certain Directors and employees held options at 30 June 2008 for unissued Ordinary Shares of 0.1 pence each as follows:

Share options	At 1 July 2007	Granted	Exercised	Lapsed/ cancelled	At 30 June 2008	Exercise price	Normal exercise period
Employees:	980,000	-	-	980,000	-	4.5 pence	2 May 04 – 1 May 08
	450,000	-	-	225,000	225,000	12.5 pence	17 Nov 06 – 17 Nov 10
	425,000	-	-	225,000	200,000	6.13 pence	7 Jan 07 – 6 Jan 11
	500,000	-	-	500,000	-	4.88 pence	4 May 07 – 3 May 11
	-	21,330,128	-	1,250,000	20,080,128	0.78 pence	20 Dec 09 – 19 Dec 13
	-	1,145,299	-	1,145,299	-	0.78 pence	21 Feb 10 – 20 Feb 14
Directors:							
Marc Pinter-Krainer	500,000	-	-	500,000	-	4.5 pence	2 May 04 – 1 May 08
	500,000	-	-	500,000	-	12.5 pence	17 Nov 06 – 16 Nov 10
	356,443	-	-	356,443	-	6.13 pence	7 Jan 07 – 6 Jan 11
Andrew Miller	-	4,444,444	-	-	4,444,444	0.9 pence	20 Dec 09 – 19 Dec 13
Share options (to Directors):							
Michael Levy	125,000	-	-	-	125,000	15.0 pence	17 Nov 05 – 16 Nov 09
	-	1,851,852	-	-	1,851,852	0.9 pence	20 Dec 09 – 19 Dec 13
Richard Last	-	2,777,778	-	-	2,777,778	0.9 pence	20 Dec 09 – 19 Dec 13
Warrants (to Directors):							
Michael Levy	500,000	-	-	-	500,000	2.5 pence	10 May 04 –10 May11

Options granted under the Company's approved 2002 Share Option Scheme lapse when the Optionholder ceases to be a Director or employee of a Participating Company. The Directors may before the expiry of 3 months following cessation of employment permit an Optionholder to exercise their Option within a period ending no later than 12 months from the cessation of employment.

In the case of the warrant instruments, Ordinary Shares resulting from the exercise of any such rights will rank pari passu in all respects with the Ordinary Shares in issue at the time of exercise.

The highest price of the Company's shares during the year was 1.2p, the lowest price was 0.53p and the price at the year-end was 0.57p.

Notes to the Financial Statements

For the year ended 30 June 2008 (continued)

19. Other reserves

Share premium:

	Group 2008 £	Group 2007 £	Company 2008 £	Company 2007 £
At 1 July 2007	6,316,870	4,777,574	6,316,870	4,777,574
Issue of shares	2,330,089	1,658,314	2,330,089	1,658,314
Cost of share issues	(130,019)	(119,018)	(130,019)	(119,018)
At 30 June 2008	8,516,940	6,316,870	8,516,940	6,316,870

Share option reserve:

	Group 2008 £	Group 2007 £	Company 2008 £	Company 2007 £
At 1 July 2006	-	-	-	-
Share-based payments	-	-	-	-
At 30 June 2007	-	-	-	-
Share-based payments	45,920	-	45,920	-
At 30 June 2008	45,920	-	45,920	-

The share option reserve arises as a result of the expense recognised in the income statement for the cost of share-based employee compensation arrangements.

20. Income statement

The Parent Company has taken advantage of the exemption not to disclose a separate Income Statement in respect of the Company as an individual undertaking.

Notes to the Financial Statements

For the year ended 30 June 2008 (continued)

21. Acquisition of subsidiary

On 4 September 2007, the Group acquired 100 per cent of the issued share capital of Arcontech Limited. The initial consideration was satisfied with cash of £1,239,933 and the issue of 45 million shares of 0.1 pence. In addition, contingent consideration capped at £300,000 is payable in cash or shares if Arcontech Limited achieves turnover over £1.2 million and up to £2.2 million in the 18 month period immediately following the completion of the acquisition. The principal activity of Arcontech Limited is that of real-time software specialists. This transaction has been accounted for by the purchase method of accounting.

Net assets acquired:	Book value £	Fair value adjustments £	Fair value £
Plant and equipment	4,737	-	4,737
Trade and other receivables	266,263	-	266,263
Cash and cash equivalents	537,240	-	537,240
Trade and other payables	(506,024)	-	(506,024)
	302,216		302,216
Goodwill	1,634,547		1,634,547
Total consideration	1,936,763		1,936,763
Satisfied by:			
Cash	1,239,933		1,239,933
Directly attributable costs	81,830		81,830
Contingent consideration	120,000		120,000
	1,441,763		1,441,763
Shares	495,000		495,000
	1,936,763		1,936,763
Net cash outflow arising on acquisition:			
Cash consideration	1,321,763	-	1,321,763
Cash and cash equivalents acquired	(537,240)	-	(537,240)
	784,523	-	784,523

Equity shares issued are included at market value at the date of acquisition.

If the acquisition of Arcontech Limited had been completed on the first day of the financial year, Group revenues for the period would have been £1,897,578 and Group loss attributable to equity holders of the Parent would have been £1,663,416.

Arcontech Limited contributed £1,037,177 to the Group's revenue and £300,135 to the Group's loss after tax for the period from the date of acquisition to the balance sheet date.

Notes to the Financial Statements

For the year ended 30 June 2008 (continued)

22. Net cash used in operations - Group

	2008 £	2007 £
Operating loss	(1,746,976)	(1,191,352)
Depreciation charge	47,580	44,722
Non cash share option charges	45,920	-
(Increase)/decrease in trade and other receivables	(31,920)	12,418
Increase/(decrease) in trade and other payables	40,939	(120,181)
Loss/(profit) on disposal of plant and equipment	171	(492)
Cash used in operations	(1,644,286)	(1,254,885)
Tax paid	(37,565)	-
	(1,681,851)	(1,254,885)

Net cash used in operations - Company

	2008 £	2007 £
Operating loss	(1,324,547)	(5,112,890)
Non cash share option charges	45,920	-
(Increase)/decrease in trade and other receivables	(97,599)	3,353,704
Increase in trade and other payables	54,384	15,411
Cash used in operations	(1,321,842)	(1,743,775)

23. Operating lease commitments

At the year-end date the Group has lease agreements in respect of property for which the payments extend over a number of years.

	Group 2008 £	Group 2007 £	Company 2008 £	Company 2007 £
Land and buildings:				
Due within one year	55,300	55,300	-	-
Due between two and five years	69,087	124,387	-	-
	124,387	179,687	-	-

Notes to the Financial Statements

For the year ended 30 June 2008 (continued)

24. Related party transactions

Group

Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note.

Key management compensation

Key management are those persons having authority and responsibility for planning, controlling and directing the activities of the Group. In the opinion of the Board, the Group's key management are the Directors of Knowledge Technology Solutions PLC. Information regarding their compensation is given in notes 4, 8 and 18 for each of the categories specified in IAS 24 *Related Party Disclosures*. All emoluments given in notes 4 and 8 relate to short-term employee benefits and there are no post-employment or other long-term benefits.

The accounts include the following amounts in respect of services provided to the Group:

Michael Levy:
Fees payable to Michael Levy & Co, Chartered Accountants, in which Michael Levy is the principal, in respect of accountancy services of £50,837 (2007: £48,985). At 30 June 2008 the amount outstanding was £Nil (2007: £9,372).

Company

Transactions between the Parent Company and its subsidiaries during the year were as follows:

Management charges payable by subsidiaries £262,318 (2007: £103,981).

There were no amounts due to subsidiaries at the balance sheet date (2007: £Nil). The amounts due from subsidiaries at the balance sheet date were as follows:

	2008 £	2007 £
Amount due from subsidiaries	6,182,190	4,977,647
Less: Provision for impairment	(6,071,358)	(4,977,647)
Amount due from subsidiaries - net	110,832	-

25. Dividends

There were no dividends paid or proposed during the period (2007: Nil).

26. Share-based payments

The Group operates an approved Share Option Scheme for the benefit of Directors and employees. Options are granted to acquire shares at a specified exercise price at any time following but no later than 6 years after the grant date. There are no performance conditions on the exercise of the share options. Outstanding options granted under the Scheme are disclosed in note 18.

Options granted under the Scheme lapse when the Optionholder ceases to be a Director or employee of a Participating Company. The Directors may before the expiry of 3 months following cessation of employment permit an Optionholder to exercise their Option within a period ending no later than 12 months from the cessation of employment.

Notes to the Financial Statements

For the year ended 30 June 2008 (continued)

26. Share-based payments (continued)

The fair value of options is valued using the Black-Scholes pricing model. An expense of £45,920 (2007: £Nil) has been recognised in the period in respect of share options granted. The cumulative share option reserve at 30 June 2008 is £45,920 (2007: £Nil). The inputs into the Black-Scholes pricing model are as follows:

	30 June 2008	**30 June 2008**	**30 June 2007**	**30 June 2007**
	Directors	**Employees**	**Directors**	**Employees**
Exercise price	0.9 pence	0.78 pence	-	-
Expected life	6 years	6 years	-	-
Expected volatility	100%	100%	-	-
Risk free rate of interest	5%	5%	-	-
Fair value of option	0.5851 pence	0.5961 pence	-	-

Volatility has been estimated based on the historic volatility over a period equal to the expected term from the grant date.

27. Material non-cash transactions

As referred to in note 21, on 4 September 2007, the Group acquired 100 per cent of the issued share capital of Arcontech Limited. The initial consideration was satisfied with cash of £1,239,933 and the issue of 45 million shares of 0.1 pence.

28. Post balance sheet events

On 29 August 2008 Knowledge Technology Services Limited terminated its MarketTerminal subscription service. The attributable operating loss for the year ended 30 June 2008, before unallocated overheads, is estimated to be £814,381.

29. Financial instruments

The Group's financial instruments comprise cash and cash equivalents, and items such as trade payables and trade receivables, which arise directly from its operations. The main purpose of these financial instruments is to provide finance for the Group's operations.

The Group's operations expose it to a variety of financial risks including credit risk, liquidity risk, interest rate risk and equity price risk. Given the size of the Group, the Directors have not delegated the responsibility of monitoring financial risk management to a sub-committee of the board. The policies set by the Board of Directors are implemented by the Company's finance department.

Credit risk

The Group's credit risk is primarily attributable to its trade receivables. The Group has implemented policies that require appropriate credit checks on potential customers before sales are made. The amount of exposure to any individual counterparty is subject to a limit, which is reassessed annually by the Board.

Notes to the Financial Statements

For the year ended 30 June 2008 (continued)

29. Financial instruments (continued)

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

	2008	**2007**
	£	**£**
Trade receivables	323,491	16,073
Cash and cash equivalents	1,082,604	1,473,451
	1,406,095	1,489,524

Interest rate risk

The Group has interest bearing assets and no interest bearing liabilities. Interest bearing assets comprise only cash and cash equivalents, which earn interest at a variable rate.

The Group has not entered into any derivative transactions during the period under review.

The Group does not have any borrowings.

The Group's cash and cash equivalents earned interest at variable rates based on bank base rate, between 2.5% and 0.65% below bank base rate (2007: between 2.5% and 0.65% below bank base rate).

Liquidity risk

The Group's debt finance comprises short-term debt finance that is designed to ensure it has sufficient available funds for operations and planned expansions. The Group monitors its levels of working capital to ensure that it can meet its debt repayments as they fall due.

The Group's only financial liabilities comprise trade payables with a carrying value equal to the gross cash flows payable of £194,829 (2007: £325,772) all of which are payable within 6 months.

Market risk and sensitivity analysis

Equity price risk

The Group has no exposure to equity price risk as it does not hold any investments classified as available for sale.

Foreign currency exchange risk

The Group is exposed to foreign currency exchange rate risk as a result of trade payables, which will be settled in Euros and US dollars. During the year the Group did not enter into any arrangements to hedge this risk, as the Directors did not consider the exposure to be significant given the short-term nature of the balances. The Group will review this policy as appropriate in the future.

Interest rate risk

The Group is exposed to interest rate risk as a result of positive cash balances, denominated in sterling, which earn interest at a variable rate. As at 30 June 2008, if bank base rate had increased by 0.5% with all other variables held constant, post-tax loss and equity would have been £6,000 (2007: £6,000) higher. Conversely, if bank base rate had fallen 0.5% with all other variables held constant, post-tax loss and equity would have been £6,000 (2007: £6,000) lower.

Notes to the Financial Statements

For the year ended 30 June 2008 (continued)

30. Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and maintain an optimal capital structure to reduce the cost of capital.

The Group defines capital as being share capital plus reserves. The Board of Directors monitors the level of capital as compared to the Group's other debt commitments and adjusts the ratio of debt to capital as is determined to be necessary, by issuing new shares and reducing or increasing debt.

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

31. Transition to IFRS

Knowledge Technology Solutions PLC reported under UK GAAP in its previously published financial statements for the year ended 30 June 2007. The transition to IFRS has not resulted in any impact on the equity, loss or cash flow statement at 30 June 2006 and 30 June 2007.

Cashflow statement

The Group's consolidated cash flow statements are presented in accordance with IAS 7. The statements present substantially the same information as that required under UK GAAP, with the following principle exceptions:

1. Under UK GAAP, cashflows' are presented under nine standard headings, whereas IFRS requires the classification of cash flows resulting from operating, investing and financing activities.
2. The cash flows reported under IAS 7 relate to movements in cash and cash equivalents, which include cash and short-term liquid investments. Under UK GAAP, cash comprises cash in hand and deposits repayable on demand.

32. Ultimate controlling party

There is no ultimate controlling party.

33. Copies of this statement

Copies of this statement are available from the Company Secretary at the Company's registered office at 8th Floor Finsbury Tower, 103-105 Bunhill Row, London, EC1Y 8LZ or from the Company's website at www.ktsplc.com.

Notice of the Annual General Meeting

KNOWLEDGE TECHNOLOGY SOLUTIONS PLC
Company Number 4062416

NOTICE IS HEREBY GIVEN that the annual general meeting of Knowledge Technology Solutions PLC (the "Company") will be held at the Company's offices, 8th Floor, Finsbury Tower, 103-105 Bunhill Row, London EC1Y 8LZ on 24 December 2008 at 9 a.m. to consider, and if thought fit, pass the following Ordinary and Special Resolutions specified below:

Ordinary Business

1. **THAT** the audited annual accounts of the Company for the financial year ended 30 June 2008 together with the reports on those accounts of (i) the Directors of the Company (the "**Directors**") and (ii) the Auditors of the Company (the "**Auditors**") be received and adopted.

2. **THAT** Nexia Smith & Williamson LLP be reappointed as Auditors to the Company to hold office until the conclusion of the next general meeting at which accounts are laid before the Company, and that the Directors be authorised to determine their remuneration.

3. **THAT** Richard Last, who retires by rotation under Article 107 of the Company's Articles of Association and, who being eligible offers himself to be re-elected, be re-elected as a Director.

4. **THAT** any other ordinary business of the Company be transacted.

Special Business

THAT the following resolutions be considered as Ordinary Resolutions:

5. **THAT** the authorised share capital of the Company be increased from £1,000,000 to £2,000,000 by the creation of 1,000,000,000 ordinary shares of 0.1 pence each.

6. **THAT** in substitution for all existing authorities, for the purposes of section 80 of the Companies Act 1985 as amended (the "Act") and so that any expressions used in this resolution shall, where relevant, bear the same meanings as in section 80 of the Act, the Directors be and are generally and unconditionally authorised to exercise all the powers of the Company to allot and grant rights to subscribe for, or to convert into shares, relevant securities of the Company up to an aggregate nominal value equal to £600,000 to such persons and at such times and on such terms as they think proper provided that this authority shall expire on the day falling fifteen months after the passing of this resolution or at the conclusion of the annual general meeting of the Company to be held in calendar year 2009 (whichever is the later) unless previously revoked, varied or extended by the Company in general meeting; and that the Company may before such expiry make an offer or agreement which would or might require relevant securities to be allotted after the expiry of the said period and the Directors may allot relevant securities in pursuance of any such an offer or agreement notwithstanding the expiry of the authority given by this resolution.

THAT the following resolutions be considered as Special Resolutions:

7. **THAT** subject to and conditional upon the passing of resolution 5 above, the Directors be and are empowered, pursuant to section 95(1) of the Act, to allot equity securities (as defined in section 94(2) of the Act) for cash pursuant to the authority under section 80 of the Act conferred by resolution 5 above, as if section 89(1) of the Act did not apply to any such allotment, such power to operate in addition to any previous or subsequent power given to the Directors pursuant to section 95(1) of the Act and to expire on the day falling fifteen months after the passing of this resolution or at the conclusion of the annual general meeting of the Company to be held in calendar year 2009 (whichever is the later) unless previously revoked, varied or extended by the Company in general meeting, and provided that such power shall be limited to the allotment of equity securities up to an aggregate nominal value equal to £600,000 save that the Company may at any time prior to the expiry of such power make an offer or enter into an agreement (subject to the foregoing limitations) which would or might require equity securities to be allotted after the expiry of such power and the Directors may allot equity securities (subject to the foregoing limitations) in pursuance of such an offer or agreement as if such power had not expired.

8. **THAT** the name of the Company be changed to "Arcontech Group plc" with effect from the issue by the Registrar of Companies of a certificate of incorporation on change of name to that effect.

By Order of the Board

Registered Office:
8th Floor
Finsbury Tower
103-105 Bunhill Road
London
EC1Y 8LZ

....
Michael Levy
Secretary

Dated: 27 November 2008

Background to the Special Business resolutions

Ordinary Resolution - Resolution 5

This resolution seeks to increase the authorised share capital of the Company from 1,000,000,000 shares of 0.1 pence to 2,000,000,000 of 0.1 pence. This is necessary if the directors are to exercise the authority granted to them by Resolutions 6 and 7.

Ordinary Resolution – Resolution 6

Directors may only allot shares if authorised to do so by shareholders. The authority granted at the last Annual General Meeting ("AGM") is due to expire at the conclusion of this year's AGM. Therefore, this resolution seeks to grant a new authority to allow authority to allow directors to allot shares until the conclusion of the next AGM or until 15 months from the date of this meeting, whichever is the earlier. The maximum amount of shares which the directors would be able to allot without further authority from shareholders is 600,000,000. It is expected that this amount will be sufficient for the day to day running of the Company.

Special Resolution – Resolution 7

Under the requirements of the Companies Act, if directors wish to allot any of the unissued shares, they must first offer them to existing shareholders on a pro-rata basis in proportion to their shareholdings. There may be occasions, however where the directors will need the flexibility to finance business opportunities through the issue of shares without a pre-emptive offer to existing shareholders. This resolution asks shareholders to waive the pre-emption rights on shares issued up to a maximum aggregate number of shares of 600,000,000. As with Resolution 6, this authority will expire at the next AGM or within 15 months of the date of this meeting, whichever is the earlier.

Special Resolution - Resolution 8

This resolution seeks to change the name of the Company. On 31 March 2008 the Company announced its interim results for the six-month period ending 31 December 2007. In this document the Company set out its intention to change its name to "Arcontech Group plc".

Notice of the Annual General Meeting

Notes:

1. Any member who is entitled to attend and vote at this meeting is entitled to appoint one or more persons as proxies to attend, speak and vote on their behalf. A proxy need not be a member of the Company.

2. The Company, pursuant to regulation 41 of the Uncertificated Securities Regulations 2001, specifies that only those members registered in the register of members of the Company 48 hours before the time appointed for the meeting or any adjournment thereof, shall be entitled to attend, speak or vote at the meeting in respect of the number of shares registered in their name at the relevant time. Changes to entries in the relevant register of securities less than 48 hours before the time appointed for the proposed meeting or, any adjournment thereof, shall be disregarded in determining the rights of any person to attend, speak or vote at the meeting. A form of proxy is provided with this notice. To be valid, a form of proxy together with any power of attorney or other authority under which it is executed or a copy thereof certified notarially or in accordance with the Power of Attorney Act 1971 or as the Directors shall accept must be lodged with the Capita Registrars, Proxies Department, The Registry, 34 Beckenham, Kent, BR3 4TU, so as to arrive not later than 48 hours before the start of the meeting. Completion of the form of proxy will not affect the right of a member to attend, speak and vote at the meeting.

3. The register of Directors' share interests will be available for inspection at the meeting convened by this notice, as will the Directors' service contracts.

4. In the case of joint holders, the vote of the senior who tenders a vote, whether in person or by proxy, will be accepted to the exclusion of the votes of the other joint holders and seniority shall be determined by the order in which their names stand on the register of members of the Company.

KNOWLEDGE TECHNOLOGY SOLUTIONS PLC

I/We of
being (a) member(s) of the above-named Company hereby appoint the Chairman of the meeting (Note 3)
as my/our proxy to vote for me/us on my/our behalf at the annual general meeting to be held on 24 December 2008 at 9 a.m. and at any adjournment thereof.

Dated .... 2008 Signature(s) ....

	For	Against
1. Ordinary resolution - To receive and adopt the Report of the Directors and the Audited Accounts of the Company for the year ended 30 June 2008		
2. Ordinary resolution - To reappoint Nexia Smith & Williamson LLP as Auditors of the Company and to authorise the Directors to fix their remuneration		
3. Ordinary resolution - To re-elect Richard Last as a Director		
4. Ordinary resolution - To increase authorised share capital		
5. Ordinary resolution - Directors' authority to allot shares		
6. Special resolution - Disqualification of pre-emption rights		
7. Special resolution - Change of name to Arcontech Group plc		

Notes

1. Please indicate with an "X" in the appropriate boxes how you wish your proxy to vote. Unless otherwise directed the proxy will vote or abstain as he or she thinks fit.

2. If you do not indicate how you wish your proxy to vote, your proxy will exercise his/her discretion as to whether, and if so how, he/she votes. Your proxy may also vote or abstain from voting as he/she thinks fit on any other business which may properly come before the meeting including on any permissible amendment to the resolutions set out in the notice of meeting.

3. A proxy need not be a member of the Company. A member may appoint a proxy of his/her own choice. If you wish to appoint someone else other than the Chairman as proxy please delete the words "the Chairman of the meeting" and insert the name of the person whom you wish to appoint in the space provided. The Chairman of the meeting will act as your proxy, whether or not such deletion is made, if no other name is inserted.

4. In the case of joint registered holders the signature of one holder on the form of proxy will be accepted by the vote of the senior who tenders a vote whether in person or by proxy to the exclusion of the votes of any joint holders and for this purpose seniority shall be determined by the order in which the names stand in the register of members in respect of such joint holdings.

5. In the case of a corporation the form of proxy must be executed under its common seal or signed on its behalf by a duly authorised attorney or a duly authorised officer of the corporation.

6. Any alteration made to the form of proxy should be initialled.

7. This form of proxy should be signed and dated.

8. Completion and return of the form of proxy will not affect the right of a member to attend and vote at the meeting.

To be effective, this form of proxy, together with any power of attorney or any other authority (if any) under which it is executed, or a copy of such power of attorney or other authority, certified notarially, must be lodged at the Company's registrars – Capita IRG Plc, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU, not later than 48 hours before the time appointed for the holding of the meeting or adjourned meeting at which it is to be used.

3rd Fold and tuck in

BUSINESS REPLY SERVICE
Licence No. MB122

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Capita Registrars
(Proxies)
P O Box 25
Beckenham
Kent BR3 4BR

1st Fold

2nd Fold

Service you can bank on

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