Service you can bank on

RNS Release

31 March 2008

KNOWLEDGE TECHNOLOGY SOLUTIONS PLC

INTERIM REPORT FOR THE SIX MONTHS ENDED 31 DECEMBER 2007

Knowledge Technology Solutions PLC (AIM: KTS), providers of market information services in the finance sector, reports its unaudited results for the six months ended 31 December 2007.

Financial and business highlights:

- Increase in turnover of 65% to £917,701 (2006: £555,884)
- Group loss of £718,908 (2006: £596,356) before tax, interest and exceptional items.
- Completed substantial fund raising amounting to over £0.9 million (net of expenses)
- Completed acquisition of Arcontech Limited

Richard Last, Chairman of Knowledge Technology Solutions, said:

"The Directors consider that the opportunities for the re-shaped business, focussed on the Arcontech product set and exploiting the skill set and Intellectual Property of the Market Terminal team, are good despite the present uncertainties in the financial services sector generally. In particular we are experiencing strong demand for the CFD and Spread Betting AXE system with new prospects arising in Europe and the Middle East."

Enquiries; please contact:

Andrew Miller	Knowledge Technology Solutions PLC	020 7256 2300
Mike Coe/Marc Davies	Blue Oar Securities PLC	0117 933 0020

KNOWLEDGE TECHNOLOGY SOLUTIONS PLC

Interim report
for the six months ended

31 DECEMBER 2007

CONTENTS **PAGES**

Commentary

The results for the six months ended 31 December show an increase in turnover of 65 % to £917,701 (2006 £555,884). This includes a four-month contribution from Arcontech of £504,708, which was acquired on 4 September 2007. The Group loss before tax, interest and exceptional items amounted to £718,908 (2006 £596,356).

The acquisition of Arcontech has proved to be extremely positive for the Group, in its first four months it contributed £504,708 to turnover and produced an operating profit of £109,153. It continues to grow its business with increasing interest in its CityVision and Axe products. The Contract for Difference (CFD) and Spread Betting sector is also a significant area of opportunity for Arcontech. The Arcontech business has relocated successfully to the KTS premises resulting in rent and other property cost savings and improving business efficiency.

In my Chairman's statement dated 4 December 2007 I reported that we were carrying out a detailed review of the Market Terminal subscription business, this review is now complete. We have concluded that the financial and management resources required to develop this business further should more appropriately be applied to growing our software and solutions business where the financial results are more certain. We are presently in discussions for the sale of the subscription business. These discussions are at an early stage and therefore not certain as to the outcome and are not as yet exclusive. We will however, continue to maintain ownership of the Market Terminal Intellectual Property ("IP") which is currently being used to deliver the recently awarded contract to provide a managed and hosted solution to Borse Berlin/Equiduct, the new pan-European stock exchange, for a real-time market data and full order book web portal. The IP will be incorporated within the Arcontech product set, with which integration is already completed.

The exceptional charge of £221,787 relates to the cost of terminating the Arcontech lease prior to moving to the KTS premises, and the settlement with the former chief executive. These costs will not recur.

Financing

At close of business on 28th March the Group held total cash balances of £355,000. We are currently undertaking a fund raising by way of a placing of new ordinary shares. The proceeds of the fund raising will be used to increase sales and marketing resources and related expenditure, to support further product development as well as to provide the working capital necessary to support the implementation and delivery of larger contracts that tend to be of a longer duration.

Employees

We are extremely grateful to our staff for their excellent support and commitment during these changing times.

Outlook

The Directors consider that the opportunities for the re-shaped business, focussed on the Arcontech product set and exploiting the skill set and Intellectual Property of the Market Terminal team, are good despite the present uncertainties in the financial services sector generally. In particular we are experiencing strong demand for the CFD and Spread Betting AXE system with new prospects arising in Europe and the Middle East.

Commentary (continued)

The Board is planning to change the name of the company to Arcontech Plc at the AGM in December 2008 and expects the company to trade profitably in 2008/2009.

In addition to the organic growth of the business we will continue to look for suitable acquisition opportunities, which add to our product proposition as well as increasing the size and scale of the Group.

Richard Last
Chairman

CONSOLIDATED INCOME STATEMENT for the six months ended 31 December 2007

	Notes	Six months ended 31 December 2007 £	Six months ended 31 December 2006 £	Year ended 30 June 2007 £
Continuing operations				
Revenue	4	**917,701**	**555,884**	**981,745**
Distribution costs		(523,257)	(595,667)	(1,043,738)
Administrative expenses		(1,113,352)	(556,573)	(1,129,359)
Administrative expenses - exceptional	3	(221,787)	-	-
Operating loss	4	**(940,695)**	**(596,356)**	**(1,191,352)**
Finance income		25,732	16,073	50,834
Loss before taxation		**(914,963)**	**(580,283)**	**(1,140,518)**
Taxation	5	-	-	-
Loss for the year		**(914,963)**	**(580,283)**	**(1,140,518)**
Loss per share				
Basic	6	(0.21)p	(0.33)p	(0.45)p
Diluted	6	(0.21)p	(0.33)p	(0.45)p

CONSOLIDATED BALANCE SHEET as at 31 December 2007

	Notes	31 December 2007 £	31 December 2006 £	30 June 2007 £
Non-current assets				
Goodwill	7	1,422,598	-	-
Plant and equipment		128,731	140,523	122,226
Total non-current assets		1,551,329	140,523	122,226
Current assets				
Inventories		281	-	-
Trade and other receivables		519,158	253,929	216,641
Cash and cash equivalents		796,951	1,937,108	1,473,451
Total current assets		1,316,390	2,191,037	1,690,092
Current liabilities				
Trade and other payables		962,851	373,487	421,109
Current tax liabilities		121,536	28,062	21,433
Total current liabilities		1,084,387	401,549	442,542
Net current assets		**232,003**	**1,789,488**	**1,247,550**
Net assets		**1,783,332**	**1,930,011**	**1,369,776**
Equity				
Share capital	10	488,643	332,532	332,532
Share premium account		7,489,278	6,316,870	6,316,870
Retained earnings		(6,194,589)	(4,719,391)	(5,279,626)
		1,783,332	**1,930,011**	**1,369,776**

CONSOLIDATED CASH FLOW STATEMENT for the six months ended 31 December 2007

	Notes	Six months ended 31 December 2007 £	Six months ended 31 December 2006 £	Year ended 30 June 2007 £
Net cash used in operating activities	8	**(821,433)**	**(759,096)**	**(1,254,885)**
Investing activities				
Interest received		25,732	16,073	50,834
Acquisition of subsidiary, net of cash acquired	7	(782,574)	-	-
Purchases of property, plant and equipment		(21,744)	(6,344)	(8,971)
Disposal of property, plant and equipment		-	1,044	1,042
Net cash (used in)/generated from investing activities		**(778,586)**	**10,773**	**42,905**
Financing activities				
Proceeds on issue of shares		1,000,000	1,842,571	1,842,571
Expenses paid in connection with share issues		(76,481)	(119,018)	(119,018)
Net cash generated from financing activities		**923,519**	**1,723,553**	**1,723,553**
Net (decrease)/increase in cash and cash equivalents		**(676,500)**	**975,230**	**511,573**
Cash and cash equivalents at beginning of year		1,473,451	961,878	961,878
Cash and cash equivalents at end of year		796,951	1,937,108	1,473,451

NOTES TO THE FINANCIAL INFORMATION for the six months ended 31 December 2007

1 Accounting policies

Basis of preparation

The next annual financial statements of the Knowledge Technology Solutions plc ("the Group") will be prepared in accordance with International Financial Reporting Standards (IFRS) as adopted for use in the EU, applied in accordance with the provisions of the Companies Act 1985.

Accordingly, the interim financial information in this report has been prepared using accounting policies consistent with IFRS. IFRS is subject to amendment and interpretation by the International Accounting Standards Board (IASB) and the International Financial Reporting Interpretations Committee (IFRIC) and there is an ongoing process of review and endorsement by the European Commission. The financial information has been prepared on the basis of IFRS that the Directors expect to be applicable as at 30 June 2008.

The financial information has been prepared under the historical cost convention. The principal accounting policies set out below have been consistently applied to all periods presented.

IFRS transition

The disclosures required by IFRS 1 concerning the transition from UK GAAP to IFRS are given in note 12.

Non-statutory accounts

The financial information for the year end 30 June 2007 set out in this interim report does not comprise the Group's statutory accounts as defined in section 240 of the Companies Act 1985.

The statutory accounts for the year ended 30 June 2007, which were prepared under UK Generally Accepted Accounting Practice (UK GAAP), have been delivered to the Registrar of Companies. The auditors reported on those accounts; their report was unqualified and did not contain a statement under either Section 237 (2) or Section 237 (3) of the Companies Act 1985.

The financial information for the 6 months ended 31 December 2007 and 31 December 2006 is unaudited.

Basis of consolidation

The financial information incorporates the results of the Company and entities controlled by the Company (its subsidiaries). 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 period 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 results 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.

NOTES TO THE FINANCIAL INFORMATION for the six months ended 31 December 2007 (continued)

1 Accounting policies (continued)

Business combinations and goodwill

On acquisition, the assets and liabilities and contingent liabilities of subsidiaries are measured at their fair values 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. Goodwill arising on consolidation is recognised as an asset and reviewed for impairment at least annually. Any impairment is recognised immediately in profit or loss 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 are recognised when goods are delivered and title has passed.

Revenue arising from the sale 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, software, 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 with net interest payable. Exchange differences on all other transactions, except relevant foreign currency loans, are taken to operating profit.

Taxation

The tax expense represents the sum of the tax currently payable and any deferred tax.

The tax currently payable is based on the estimated taxable profit for the year. Taxable profit differs from net profit 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 Group’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 INFORMATION for the six months ended 31 December 2007 (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. Management give consideration to the best estimate for the effects of the non-transferability, exercise restrictions and behavioural considerations.

NOTES TO THE FINANCIAL INFORMATION for the six months ended 31 December 2007 (continued)

1 Accounting policies (continued)

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, using the straight-line method, on the following bases:

Leasehold property	-	over the period of the lease
Computer equipment	-	33%
Office furniture and equipment	-	25%

Inventories

Inventories comprise long term contracts, which are stated at cost, less foreseeable losses and applicable payments on account. Cost is comprised of direct labour costs and, where applicable, those overheads that have been incurred in bringing the inventories to their present location and condition.

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 comprises 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 issued by the Group are classified in accordance with the substance of the contractual arrangements entered into and the definitions of a financial liability.

Leasing commitments

Payments made under operating leases are charged against profit as incurred.

Research and development

Research costs are charged to the profit and loss account in the year incurred. Development expenditure is capitalised to the extent that it meets all of the criteria required by IAS 38, otherwise it is charged to the profit and loss account in the year incurred.

NOTES TO THE FINANCIAL INFORMATION for the six months ended 31 December 2007 (continued)

2 Critical accounting judgements and key sources of estimation uncertainty

The preparation of financial information 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. The significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were:

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 period and the carrying value of goodwill at the balance sheet date was £1,422,598.

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 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. Different assumptions about these factors to those made by the Group could materially affect the reported value of share based payments.

3 Administrative costs – exceptional	**Six months ended 31 December 2007 £**	**Six months ended 31 December 2006 £**	**Year ended 30 June 2007 £**
Directors remuneration – payment in lieu of notice	135,315	-	-
Restructuring costs – office relocation expenses	86,472	-	-
	221,787	-	-

NOTES TO THE FINANCIAL INFORMATION for the six months ended 31 December 2007 (continued)

4 Segmental reporting

Revenue and operating profit/(loss) for the period are attributable as follows:

	Revenue	Operating profit/(loss)
	£	£
Arcontech Limited	504,708	109,153
MarketTerminal business	412,993	(639,639)
PLC costs	-	(188,422)
	917,701	(718,908)
Exceptional items	-	(221,787)
	917,701	**(940,695)**

5 Taxation	**Six months ended 31 December 2007**	**Six months ended 31 December 2006**	**Year ended 30 June 2007**
	£	**£**	**£**
Current tax	**-**	**-**	**-**
Deferred tax	**-**	**-**	**-**
Total tax expense for the period	**-**	**-**	**-**

Tax has been calculated using an estimated annual effective tax rate of 30% (2006 interim 30%, 2007 actual 30%) on loss before tax and exceptional items.

NOTES TO THE FINANCIAL INFORMATION for the six months ended 31 December 2007 (continued)

6	Earnings per share	Six months ended 31 December 2007 £	Six months ended 31 December 2006 £	Year ended 30 June 2007 £
	Earnings			
	Earnings for the purposes of basic and diluted earnings per share being net loss attributable to equity shareholders	**(914,963)**	**(580,283)**	**(1,140,518)**
	Number of shares			
	Weighted average number of ordinary shares for the purposes of basic earnings per share	**434,098,861**	**176,973,016**	**254,113,141**
	Number of dilutive shares under option	**-**	**-**	**-**
	Weighted average number of ordinary shares for the purposes of dilutive earnings per share	**434,098,861**	**176,973,016**	**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 performed 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. The impact on the net loss of these potential ordinary shares is anti-dilutive.

NOTES TO THE FINANCIAL INFORMATION for the six months ended 31 December 2007 (continued)

7 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, deferred 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 twelve 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	1,422,598	-	1,422,598
Total consideration	1,724,814	-	1,724,814
Satisfied by:			
Cash	1,239,933	-	1,239,933
Directly attributable costs	79,881		79,881
	1,319,814	-	1,319,814
Shares	405,000	-	405,000
	1,724,814	-	1,724,814
Net cash outflow arising on acquisition:			
Cash consideration	1,319,814	-	1,319,184
Cash and cash equivalents acquired	(537,240)	-	(537,240)
	782,574	-	782,574

NOTES TO THE FINANCIAL INFORMATION for the six months ended 31 December 2007 (continued)

8 Cash used in operations

	Six months ended 31 December 2007 £	Six months ended 31 December 2006 £	Year ended 30 June 2007 £
Operating loss	(940,695)	(596,356)	(1,191,352)
Depreciation charge	19,976	23,796	44,722
(Increase)/decrease in trade and other receivables	(36,255)	(24,870)	12,418
Increase in inventories	(281)	-	-
Increase/(decrease) in trade and other payables	135,822	(161,174)	(120,181)
Profit on disposal of property, plant and equipment	-	(492)	(492)
Cash used in operations	(821,433)	(759,096)	(1,254,885)

9 Dividends

There were no dividends paid or proposed during the period (2006: Nil).

10 Share capital

The Company allotted Ordinary Shares of 0.1 pence each during the period 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 0.9 pence per share

11 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.

12 Transition to IFRS

The transition to IFRS has not resulted in any impact on the net assets, loss or cash flow statement at 1 July 2006, 31 December 2006 or 30 June 2007.

NOTES TO THE FINANCIAL INFORMATION for the six months ended 31 December 2007 (continued)

12 Transition to IFRS (continued)

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.