



Report and Accounts for the year ended 30 June 2002

unlock the power of information

Knowledge Technology Solutions PLC

Year ended 30 June 2002

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Chief Executive's Statement

Introduction

As we enter our third year as a quoted company, I am delighted to be able to report a year of continued progress for Knowledge Technology Solutions PLC (the "Company"). This encouraging performance has been delivered against a background of poor market conditions, but I am pleased that we have been able to maintain our strategy for growth and have developed our technology platform to deliver world class solutions to an ever larger client base, whilst at the same time moving towards sustainable profitability.

Starting to establish renewable revenues

We continued to invest in and develop our MarketTerminal™ product, constantly enhancing the rich functionality of our service and striving at all times to deliver the highest standards of customer service and ongoing support.

During the year in excess of £250,000 was invested in this platform and we remain confident that this expenditure will improve returns to shareholders over the coming years. As in previous years, the value of our software is not reflected in the Balance Sheet as the costs relating to its development continue to be written off as incurred.

Most importantly, the Company completed the development of its MarketTerminal™ platform and, using this platform, we successfully launched QuoteTerminal™, the brand name for our UK-only version of MarketTerminal™, towards the beginning of the second half.

Customer interest in this product among our target market of first and second tier financial institutions has been strong. Our ability to execute and support much larger enterprise-wide contracts has been progressively developed over the past year and we are confident that the current year will see us close a number of these contracts.

The MarketTerminal™ model is based around developing a business with a high level of renewable revenues, a low breakeven hurdle point and a marginal cost to service each new customer. It is important to note that our conservative accounting policies mean that, while sales and marketing expenses are written off as incurred, cash received from customers is not recognised as revenue immediately but spread over the full term of the subscription.

The MarketTerminal™ business continued to make progress throughout the year with a number of customers now live. Results for the year reflect just a few months of revenue from early adopters consistent with our conservative income recognition. The current year will see a full twelve month contribution from existing contracts, established customers increasing screen counts and new customers.

Strategic Development

The capability of MarketTerminal™ (encompassing QuoteTerminal™) has to date been confined to UK market data. In the near term, our committed policy has been to make an incremental investment in extending the MarketTerminal™ product's capability globally with the addition of international data. The Board and also our tier one customers and shareholders consider this is the key factor if we are to realise our growth aspirations.

Our in-depth experience of operating the UK-only service has facilitated the integration of international markets data, initially including Nasdaq, NYSE, Euronext and Frankfurt, into the MarketTerminal™ service during the past few months to address the needs of this much bigger and less competitive market. The first trials for the international product are scheduled to commence in November 2002.

In the wake of the stock market's continuing poor performance, with pressure faced by potential customers to reduce fixed costs and to maximise their return on investment through improved technology, we believe that there is a renewed consideration to switch to more cost-effective market data service suppliers.

On the back of an open evaluation process with prospective customers, including first tier institutions, MarketTerminal™ has already been designed to be effective and flexible without the need for expensive proprietary hardware.

Chief Executive's Statement

The thin client ASP ("application service provision") structure of our technology enables it to be priced transparently and gives us a genuine competitive advantage against less flexible rival vendors, whose legacy technologies are based around expensive networks.

The portability of MarketTerminal™ and our ability to deliver at a cost-effective price to the international market will now further strengthen our proposition.

We expect to announce the appointment of a Head of Sales in due course and this will enable us to strengthen our ability to win new contracts significantly.

Sharepages.com Limited

The Company continues to operate the Sharepages financial information website profitably. This free financial information website is focused on the information and data needs of UK retail investors. The site has an established presence and requires little additional dedicated resource to operate it. Although Sharepages.com is a distinctly non-core business, we are optimistic about the future opportunities for it to grow revenues once stock markets recover and there is a resurgence of investor interest.

Financial Review

We have a sound balance sheet with no borrowings and a product capable of excellent cash generation. Operating expenses remain tightly controlled.

Following initial sales of the MarketTerminal™ product, high quality renewable revenues from this side of the business started to flow during 2002. The financial year just ended also saw us make continued investment in MarketTerminal™, in particular as we extended this product's capability globally with the addition of international data to ensure our longer-term goals are achieved. The Group produced a net loss after tax of £450,641 consistent with managing this major investment program.

New Shareholders

Since moving to AIM in December 2000, Knowledge Technology Solutions has become increasingly aware of strong interest shown by institutional investors, especially for a company of our small size. Last year we were pleased to announce that two of the first tier institutions who trialled the MarketTerminal™ product during its development, HSBC Investment Bank plc and Dresdner RCM Global Investors (UK) Ltd, subsequently became significant shareholders.

We are pleased to welcome all shareholders who have acquired shares during the course of the past year, both institutional and private clients.

Supply and demand for shares has been regularly out of balance and the average size of share transactions has been very small, which makes it difficult for new shareholders to buy in a reasonable quantity. We were recently approached by Octopus Asset Management who indicated a desire to invest. As an initial phase of this endeavour, we have agreed to issue 2,650,000 new Ordinary Shares to Octopus Asset Management at 4p per share following the Annual General Meeting of the Company to be held on 15 November 2002.

Following their recent appointment, we also look forward to working together with Seymour Pierce, our new stockbroker and nominated adviser.

Outlook

Finally, I would like to thank all members of staff for their support in implementing the Company's strategy and creating the necessary momentum that set the business on a positive course for the future.

Chief Executive's Statement

As we enter a new financial year, I am firmly convinced that the launch of our significantly broader international product will provide the platform for the transformation of the Company. There are still challenges ahead. However, by seizing on the significant opportunities that exist in our marketplace, I believe we can materially enhance the future performance of your Company.

Dr Marc Pinter-Krainer
Chief Executive

8 October 2002

Directors, Secretary and Advisers

Directors	Marc Pinter-Krainer (<i>Chief Executive</i>) Paul McGroary (<i>Group Commercial Director</i>) Michael Stewart Levy (<i>Group Finance Director</i>) Smit Berry (<i>Non-executive Director</i>)
Secretary and Registered Office	Michael Stewart Levy Wembley Point 1 Harrow Road Wembley Middlesex HA9 6DE
Nominated Adviser and Broker	Seymour Pierce Limited 29/30 Cornhill London EC3V 3NF
Registered Number	4062416
Solicitors	Nicholson Graham & Jones 110 Cannon Street London EC4N 6AR
Auditors	Solomon Hare LLP Oakfield House Oakfield Grove Clifton Bristol BS8 2BN
Registrars	Capita IRG PLC Bourne House 34 Beckenham Road Beckenham Kent BR3 4TU
Principal Bankers	HSBC 1 High Street Chislehurst Kent BR7 5AB

Board of Directors

Directors - Executive

Dr Marc Pinter-Krainer (31)

Marc manages the business on a day-to-day basis with a particular emphasis on technology development. Previously, he worked on the PowerVR 3D graphics technology programme at Imagination Technologies PLC. Marc obtained a BSc in Physics with Management Studies at Sussex University in 1993 and was awarded a PhD in Physics by the University of Surrey in 1996.

Paul McGroary (45)

Paul is responsible for the commercial aspects of the Group. He is also Chairman of Eyeconomy Holdings PLC, an advertising agency, as well as being an investor in a number of private businesses. Paul obtained a BSc (Econ) in Economics and Social Studies from the University of Wales in 1978.

Michael Stewart Levy (41)

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.

Director - Non-Executive

Smit Berry (32)

Smit is the founder of Equitylink Limited, a publisher of two investment newsletters which provide research on fully listed and AIM stocks across a variety of industry classifications. He is also Chief Executive of Silentpoint PLC, an investment company, and a non-executive Director of Legendary Investments PLC, a technology investor. Smit obtained a BEng (Hons) in Computing Science from Imperial College, University of London in 1991.

Directors' Report

The Directors present their Report and Accounts for the year ended 30 June 2002.

Principal activities

The principal activities of the Company and its subsidiaries during the year were the development and sale of proprietary software and publishing a financial information service across the Internet.

Review of the business and prospects

A full review of the operations, financial position and prospects of the Group is given in the Chief Executive's Statement on page 1.

Results and dividends

Details of the results for the year are given on page 11. The Directors do not recommend the payment of a dividend.

Directors and Directors' shareholdings

Details of the Directors of the Company at the date of this report are given on page 5.

In accordance with the Company's Articles of Association, all of the Directors will offer themselves for re-election at the Annual General Meeting.

The beneficial interests of the Directors in the Ordinary Shares of the Company were as follows:

	At 30 June 2002		At 1 July 2001	
	Number	%	Number	%
Dr Marc Pinter-Krainer *	20,000,000	24.51	20,000,000	28.43
Paul McGroary **	10,810,300	13.25	10,600,000	15.07
Michael Stewart Levy	209,960	0.26	Nil	Nil
Smit Berry	10,013,600	12.27	10,000,000	14.21

* The interests of Dr Marc Pinter-Krainer derive from the 20,000,000 Ordinary Shares held by Smartshares Inc. of which he is a Director and majority shareholder.

** Interest held jointly with wife.

Bernard Fisher resigned from the Board on 30 November 2001.

The interests of the Directors in the Company's share warrants and options are shown in note 13.

Except as disclosed in note 21 to the accounts none of the Directors had an interest in any contracts with the Company or its subsidiaries during the year.

Directors' Report (continued)

Substantial shareholdings

The Company has been notified of the following interests at the date of approval of these accounts (other than the Directors) of 3% or more in the issued ordinary share capital of the Company:

	Number of Shares	%
Ennis International Limited	7,500,000	9.19
HSBC Investment Bank	5,000,000	6.13
Allianz AG (Dresdner RCM Global Investors (UK) Ltd)	4,150,000	5.09
Billam PLC	3,050,000	3.74
Rosedene Investments Limited	2,500,000	3.06
A W P Cross	2,500,000	3.06

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 the Alternative Investment Market of 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.

The Board has established an Audit Committee, amongst whose members is the non-executive Director.

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.

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. The average trade creditors for the Group, expressed as a number of days, were 18 (2001: 2 days).

Economic and monetary union

The Directors continue to review the implications of economical monetary union and of the introduction of the Euro, although at present they do not consider that it will affect the Group.

Directors' Report (continued)

Research and Development

The Group has made considerable progress in product development, while continuing to keep a control of costs. MarketTerminal, a real-time financial information system for market professionals, was launched during the year. Development has continued on Sharepages.com, the Company's investor information website for the retail market. Research and development expenditure is charged to the profit and loss account in the year incurred.

Auditors

On 1 October 2002 Solomon Hare, the Group's Auditors transferred its entire business to Solomon Hare LLP, a Limited Liability Partnership incorporated under the Limited Liability Partnership Act 2000. The Directors consented to treating the appointment of Solomon Hare as extending to Solomon Hare LLP with effect from 1 October 2002. A resolution to re-appoint Solomon Hare LLP as the Group's Auditors will be proposed at the Annual General Meeting.

On behalf of the Board

Michael Levy
Company Secretary

8 October 2002

Statement of Directors' Responsibilities

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

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

The Directors are responsible for maintaining proper accounting records which disclose with reasonable accuracy at any time the financial position of the Group and enable them to ensure that the accounts comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

We have audited the accounts of Knowledge Technology Solutions PLC for the year ended 30 June 2002 set out on pages 11 to 22. These accounts have been prepared under the historical cost convention and the accounting policies set out therein.

Respective responsibilities of Directors and Auditors

As described in the Statement of Directors' Responsibilities the Company's Directors are responsible for the preparation of the accounts in accordance with applicable law and United Kingdom Accounting Standards.

Our responsibility is to audit the accounts in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards.

We report to you our opinion as to whether the accounts give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' Report is not consistent with the accounts, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding Directors' remuneration and transactions with the Company is not disclosed.

We read other information contained in the Annual Report and consider whether it is consistent with the audited accounts. This other information comprises only the Directors' Report and the Chief Executive's Statement. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the accounts. Our responsibilities do not extend to any other information. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

Basis of audit opinion

We conducted our audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the accounts, and of whether the accounting policies are appropriate to the Group's and 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 accounts 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 accounts.

Opinion

In our opinion the accounts give a true and fair view of the state of affairs of the Group and Company as at 30 June 2002 and of the Group's loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Solomon Hare LLP
Chartered Accountants
Registered Auditors
Oakfield House
Oakfield Grove
Clifton
Bristol BS8 2BN

8 October 2002

Consolidated Profit and Loss Account

For the year ended 30 June 2002

	Note	Year ended 30 June 2002 £	Period 24 August 2000 to 30 June 2001 £
Turnover	2	76,539	150,583
Distribution costs		(184,532)	(54,531)
Administrative costs		(487,532)	(295,242)
		(595,525)	(199,190)
Other operating income	3	125,000	-
Operating loss	3	(470,525)	(199,190)
Interest receivable		19,884	5,329
Loss on ordinary activities before taxation		(450,641)	(193,861)
Taxation	5	-	-
Loss on ordinary activities after taxation		(450,641)	(193,861)
Dividends		-	-
Retained loss for the year	16	(450,641)	(193,861)
Loss per share	6	(0.57)p	(0.38)p
Diluted loss per share	6	(0.57)p	(0.38)p

All of the results relate to continuing operations.

There are no recognised gains or losses other than the loss for the year.

In respect of the results for the period ended 30 June 2001, cost of sales in the sum of £54,531 have been reclassified as distribution costs as in the opinion of the directors this gives a fairer reflection of the results for the year. This has no impact on reported loss.

The notes on pages 14 to 22 form part of these accounts.

Balance Sheets

As at 30 June 2002

	Note	Group 2002 £	Group 2001 £	Company 2002 £	Company 2001 £
Fixed assets					
Tangible assets	7	36,788	16,601	-	-
Investments	8	-	-	79,297	79,297
		36,788	16,601	79,297	79,297
Current assets					
Debtors	9	120,808	61,081	586,060	159,887
Cash at bank and in hand		366,074	440,946	251,782	387,591
		486,882	502,027	837,842	547,478
Creditors: amounts falling due within one year	10	(82,168)	(83,549)	(25,319)	(54,075)
Net current assets		404,714	418,478	812,523	493,403
Net assets		441,502	435,079	891,820	572,700
Capital and reserves					
Called up share capital	13	81,606	70,342	81,606	70,342
Share premium account	14	1,004,398	558,598	1,004,398	558,598
Profit and loss account	16	(644,502)	(193,861)	(194,184)	(56,240)
Equity shareholders' funds	15	441,502	435,079	891,820	572,700

Approved on behalf of the board on 8 October 2002 by:

Marc Pinter-Krainer
Chief Executive

Michael Levy
Group Finance Director

The notes on the pages 14 to 22 form part of these accounts.

Consolidated Cash Flow Statement

For the year ended 30 June 2002

	Note	Year ended 30 June 2002 £	Period 24 August 2000 to 30 June 2001 £
Net cash outflow from operating activities	17	(480,980)	(169,302)
Returns on investments and servicing of finance			
Interest received		19,884	5,329
Net cash inflow from returns on investments and servicing of finance		19,884	5,329
Capital expenditure and financial investment			
Purchase of tangible fixed assets		(30,038)	(2,462)
Net cash outflow from capital expenditure and financial investment		(30,038)	(2,462)
Acquisition and disposals			
Net cash acquired with subsidiary undertakings		-	57,737
Net cash inflow from acquisitions and disposals		-	57,737
Net cash outflow before financing		(491,134)	(108,698)
Financing			
Issue of share capital		434,755	796,906
Expenses paid in connection with share issues		(18,493)	(247,262)
Net cash inflow from financing		416,262	549,644
(Decrease)/Increase in cash in the year	18	(74,872)	440,946

All cash flows relate to continuing operations.

The notes on the pages 14 to 22 form part of these accounts.

Notes to the Accounts

1. ACCOUNTING POLICIES

Accounting convention

The accounts have been prepared under the historical cost convention and are in accordance with applicable accounting standards.

Basis of consolidation

The consolidated accounts incorporate the accounts of the Company and all of its subsidiary undertakings made up to 30 June 2002. The results of subsidiaries acquired are included in the consolidated profit and loss account from the date control passes using the acquisition basis of accounting.

Turnover

Turnover represents net invoiced sales of services, excluding value added tax.

Tangible fixed assets and depreciation

Depreciation has been provided at the following annual rates in order to write off the cost less estimated residual value of each asset over its estimated useful life:

Office furniture and equipment	-	25% on cost
Computer equipment	-	33% on cost

Investments

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

Foreign currencies

Assets and liabilities denominated in foreign currencies are translated into sterling at the rates of exchange ruling at the balance sheet date. Transactions in foreign currencies are translated into sterling at the rate of exchange ruling at the date of the transaction. Exchange differences are taken into account in arriving at the operating profit.

Deferred taxation

In accordance with FRS19, deferred tax is provided in full in respect of taxation differences between the treatment of certain items for taxation and accounting purposes. The deferred tax balance has not been discounted.

The above amounts to a change in accounting policy. The previous policy was to provide deferred tax only to the extent that it was probable that liabilities would crystallise in the foreseeable future.

However, the change in accounting policy does not give rise to a prior year adjustment because the criteria for the recognition of a deferred tax asset were not met at 30 June 2001. It is not therefore necessary to restate the comparative results.

Leasing commitments

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

Research and development

Research and development expenditure is charged to the profit and loss account in the year incurred.

Notes to the Accounts

5. TAXATION ON LOSS ON ORDINARY ACTIVITIES

Charge for the year:	Year ended	Period 24
	30 June 2002	August 2000 to 30 June 2001
	£	£
UK corporation tax in respect of current year at 30%	-	-

Factors affecting the tax charge for the year

The UK standard rate of corporation tax is 30% (2001: 30%), whereas the amount assessed to tax for the year ended 30 June 2002 as a percentage of loss before tax is 0% (2001: 0%). The reasons for this difference are explained below:

	2002	2001
	%	%
Standard rate of corporation tax in UK of 30% (2001: 30%)	30	30
Effects of:		
Capital allowances for the year in excess of depreciation	1	-
Tax losses available to carry forward	(31)	(30)
Current tax charge for the year	-	-

Factors which may affect future tax charges

The Group expects to make sufficient profits in future years to utilise the tax losses carried forward at 30 June 2002 of approximately £850,000 (2001: £372,000).

6. LOSS PER SHARE

The loss per Ordinary Share has been calculated by dividing the loss on ordinary activities after tax attributable to shareholders by 78,588,504 (2001: 50,455,544), being the weighted average number of Ordinary Shares in issue during the year, which carry the right to receive a dividend. The diluted loss per Ordinary Share has been calculated by dividing the loss on ordinary activities after tax attributable to shareholders by 79,506,110 (2001: 50,455,544), being the theoretical Ordinary Shares that would have been issued, based on average market value if all outstanding options and warrants were exercised.

Notes to the Accounts

7. TANGIBLE FIXED ASSETS

Group	Office furniture & equipment	Computer equipment	Total
	£	£	£
At 1 July 2001	6,156	26,702	32,858
Additions	575	29,463	30,038
At 30 June 2002	6,731	56,165	62,896
Depreciation			
At 1 July 2001	2,561	13,696	16,257
Charge for year	924	8,927	9,851
At 30 June 2002	3,485	22,623	26,108
Net book value at 30 June 2002	3,246	33,542	36,788
Net book value at 30 June 2001	3,595	13,006	16,601

8. INVESTMENT IN SUBSIDIARY UNDERTAKINGS

Company	Investments £
Cost and net book value	
At 30 June 2001 and 30 June 2002	79,297

The Company owned 100% of the ordinary share capital in the following subsidiary undertakings at 30 June 2002:

	<u>Country of Registration</u>	<u>Country of operation</u>	<u>Activity</u>
Sharepages.com Limited	England and Wales	United Kingdom	Provision of financial information over the internet
Cognita Technologies Limited	England and Wales	United Kingdom	Software development

Notes to the Accounts

9. DEBTORS

	Group 2002 £	Group 2001 £	Company 2002 £	Company 2001 £
Due within one year:				
Trade debtors	14,544	23,898	-	-
Amounts owed by Group undertakings	-	-	566,968	135,783
Other debtors	17,652	13,104	6,633	12,854
Prepayments and accrued income	88,612	24,079	12,459	11,250
	<hr/> 120,808	<hr/> 61,081	<hr/> 586,060	<hr/> 159,887

The amounts owed by Group undertakings are repayable on demand. However, it is not anticipated that this will be repaid within one year.

10. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	Group 2002 £	Group 2001 £	Company 2002 £	Company 2001 £
Trade creditors	44,910	532	15,682	532
Amounts owed to Group undertakings	-	-	-	1
Taxation and social security	8,082	14,447	2,078	-
Other creditors and accruals	29,176	68,570	7,559	53,542
	<hr/> 82,168	<hr/> 83,549	<hr/> 25,319	<hr/> 54,075

11. ANNUAL COMMITMENTS UNDER OPERATING LEASES

	Group 2002 £	Group 2001 £	Company 2002 £	Company 2001 £
Expiring between two and five years:				
Land and buildings	18,000	16,596	-	-
Expiring within one year: Other	-	23,881	-	-

12. DEFERRED TAXATION

There is no actual or potential liability for deferred taxation due to the availability of losses, which at 30 June 2002 amounted to approximately £850,000 (2001: £372,000). The unprovided deferred tax asset at 30 June 2002 was £164,000 (2001: £74,000).

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 2002 and as at 30 June 2001.

Notes to the Accounts

13. SHARE CAPITAL

	2002 £	2001 £
Company		
Authorised:		
200,000,000 Ordinary Shares of 0.1p each	200,000	200,000
Allotted, called up and fully paid:		
81,606,321 (2001: 70,342,326) Ordinary Shares of 0.1p each	81,606	70,342

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

Date	Number
10 July 2001	5,000,000 shares at 2.5 pence per share
28 November 2001	980,135 shares at 5.625 pence per share
7 December 2001	920,000 shares at 6.0 pence per share
10 December 2001	3,230,000 shares at 6.0 pence per share
25 January 2002	209,960 shares at 4.43 pence per share
15 February 2002	823,900 shares at 3.82 pence per share
7 March 2002	100,000 shares at 5.625 pence per share

Share options and warrants

Under the Company's approved 2002 Share Option Scheme, certain Directors and employees held options at 30 June 2002 for 2,775,000 unissued Ordinary Shares of 0.1 pence each as follows:

Share options	At 1 July 2001	Granted	Exercised	Lapsed	At 30 June 2002	Exercise price	Normal exercise period
Employees	-	2,275,000	-	-	2,275,000	4.5 pence	2 May 04 – 1 May 08
Directors:							
Marc Pinter-Krainer	-	500,000	-	-	500,000	4.5 pence	2 May 04 – 1 May 08
Adviser warrants	3,267,116	-	1,080,135	-	2,186,981	5.625 pence	7 Nov 01 – 7 Nov 03
Founder warrants (to Directors):							
Marc Pinter-Krainer*	20,000,000	-	-	-	20,000,000	0.1 pence	7 Nov 01 – 7 Nov 03
Paul McGroary**	10,000,000	-	-	-	10,000,000	0.1 pence	7 Nov 01 – 7 Nov 03
Smit Berry	10,000,000	-	-	-	10,000,000	0.1 pence	7 Nov 01 – 7 Nov 03
Founder Warrants (to others):	10,000,000	-	-	-	10,000,000	0.1 pence	7 Nov 01 – 7 Nov 03

* The interests of Marc Pinter-Krainer derive from the 20,000,000 ordinary shares held by Smartshares Inc. of which he is a director and majority shareholder.

** Interest held jointly with wife.

Notes to the Accounts

13 SHARE CAPITAL (CONTINUED) Share options and warrants (continued)

The Founder Warrants are exercisable provided that the share price of the Company's Ordinary Shares shall have been maintained at an average price of 13.5 pence per share for a period of 30 days.

	At 1 July 2001	Granted	Exercised	Lapsed	At 30 June 2002	Exercise price	Normal exercise period
Other Warrants:							
Bernard Fisher	1,960,269	-	-	1,960,269	-	4.5 pence	1 Jan 04 – 31 Dec 07
Michael Levy	500,000	-	-	-	500,000	2.5 pence	10 May 04 – 10 May 11

In the case of each 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.

14. SHARE PREMIUM

	Group 2002 £	Group 2001 £	Company 2002 £	Company 2001 £
At 1 July 2001	558,598	-	558,598	-
Issues of shares	464,293	824,360	464,293	824,360
Cost of share issues	(18,493)	(265,762)	(18,493)	(265,762)
At 30 June 2002	1,004,398	558,598	1,004,398	558,598

15. RECONCILIATION OF MOVEMENTS IN EQUITY SHAREHOLDERS' FUNDS

Group	2002 £	2001 £
Opening equity shareholders' funds	435,079	-
Loss retained for the financial year	(450,641)	(193,861)
New share capital issued less costs	457,064	628,940
Closing equity shareholders' funds	441,502	435,079

Company	2002 £	2001 £
Opening equity shareholders' funds	572,700	-
Loss retained for the financial year	(137,944)	(56,240)
New share capital issued less costs	457,064	628,940
Closing equity shareholders' funds	891,820	572,700

Notes to the Accounts

16. PROFIT AND LOSS ACCOUNT

	2002	2001
Group	£	£
At 1 July 2001	(193,861)	-
Loss for the financial year	(450,641)	(193,861)
<hr/>		
At 30 June 2002	(644,502)	(193,861)
<hr/>		
Company	2002	2001
	£	£
At 1 July 2001	(56,240)	-
Loss for the financial year	(137,944)	(56,240)
<hr/>		
At 30 June 2002	(194,184)	(56,240)
<hr/>		

The parent company has taken advantage of the exemption not to disclose a separate profit and loss account in respect of the company as an individual undertaking.

17. RECONCILIATION OF OPERATING LOSS TO NET CASH FLOW FROM OPERATING ACTIVITIES

	2002	2001
	£	£
Operating loss	(470,525)	(199,190)
Non-cash consideration (note 19)	40,802	-
Depreciation of fixed assets	9,851	5,372
Increase in debtors	(59,727)	(42,103)
(Decrease)/Increase in creditors	(1,381)	66,619
<hr/>		
Net cash outflow from operating activities	(480,980)	(169,302)
<hr/>		

18. RECONCILIATION OF NET CASH FLOW TO MOVEMENT OF LIQUID FUNDS

	2002	2001
	£	£
Net funds at start of year	440,946	-
(Decrease)/Increase in cash in the year	(74,872)	440,946
<hr/>		
Net funds at the end of the year	366,074	440,946
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Net funds at the end of the year relate to cash at bank and in hand.

19. MATERIAL NON-CASH TRANSACTIONS

On 25 January 2002, the Company issued 1,033,860 Ordinary Shares of 0.1 pence per share to Paul McGroary, Michael Levy and Smit Berry in lieu of their Directors' emoluments and consultancy fees in the sum of £40,802.

Notes to the Accounts

20. POST BALANCE SHEET EVENTS

Subsequent to the end of the year, the Company has agreed to place 2,650,000 ordinary shares at 4 pence per share, conditional upon approval at the Annual General Meeting of the Company.

21. RELATED PARTY TRANSACTIONS

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

Bernard Fisher:

Fees payable to Musashi Partners, in which Bernard Fisher is a partner, in respect of services as a non-executive Director and Chairman of £6,250 (2001: £12,500) and consultancy fees of £11,250 (2001: £22,000). At 30 June 2002 the amount outstanding was £Nil (2001: £34,500).

Smit Berry:

Fees payable to Berrymist Limited, in which Smit Berry is a director, in respect of services as a non-executive Director of £1,500 (2001: £1,000) and consultancy fees of £4,000 (2001: £3,667). At 30 June 2002 the amount outstanding was £78 (2001: £4,667).

Paul McGroary:

Fees payable in respect of services as a Director of £1,500 (2001 - £1,000) and consultancy fees of £17,000 (2001: £11,333). At 30 June 2002 the amount outstanding was £4,250 (2001: £12,333).

Michael Levy:

Fees payable to Michael Levy & Co, Chartered Accountants, in which Michael Levy is the principal, in respect of services as a Director of £1,500 (2001: £181) and accountancy services of £18,065 (2001: £2,664). At 30 June 2002 the amount outstanding was £3,280 (2001: £1,390).

22. FINANCIAL INSTRUMENTS

The Group's financial instruments, comprise cash and liquid resources, and various items, such as trade debtors and trade creditors that 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 its operations through cash, and to periodically review the projected cashflow requirements of the Group. The Group invests its cash and obtains a variable rate of interest dependent on balances held and market rates.

The Group's sales and purchases are priced and invoiced in sterling.

It is, and has been throughout the period under review, the Group's policy that no trading in financial instruments shall be undertaken.

There is no material difference between the book value and the fair value of the Group's financial statements.

23. COMPARITIVE FIGURES

In respect of the period ended 30 June 2001, cost of sales in the sum of £54,531 have been reclassified as distribution costs as in the opinion of the directors this gives a fairer reflection of the results for the year. This has no impact on the reported loss.

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 Wembley Point, 1 Harrow Road, Wembley, Middlesex, HA9 6DE on 15 November 2002 at 2pm for the following purposes:

To consider and if thought fit, pass the following resolutions, as ordinary resolutions in the case of resolutions 1 to 7 and as special resolutions in the case of resolution 8.

Ordinary Business

1. THAT the report of the Directors of the Company (the "Directors") and the audited accounts of the Company for the year ended 30 June 2002 be received and adopted.
2. THAT Solomon Hare LLP (formerly Solomon Hare) be reappointed as Auditors to the Company until the conclusion of the next Annual General Meeting, and that the Directors be authorised to fix their remuneration.
3. THAT Marc Pinter-Krainer who retires by rotation be reappointed as a Director.
4. THAT Paul McGroary who retires by rotation be reappointed as a Director.
5. THAT Michael Levy who retires by rotation be reappointed as a Director.
6. THAT Smit Berry who retires by rotation be reappointed as a non-executive Director.

Special Business

7. THAT the Directors be generally and unconditionally authorised to exercise all powers of the Company, pursuant to section 80 of the Companies Act 1985 (the "Act"), to allot relevant securities (as defined in the Act) up to a maximum nominal amount of £118,398.68 at such times and generally on such terms as they think proper, in accordance with Article 5 of the Articles of Association of the Company, provided that this authority shall expire on the date of the next Annual General Meeting of the Company.
8. THAT, subject to the passing of resolution 7 above, the Directors be and are hereby empowered pursuant to section 95 of the Companies Act 1985 to allot equity securities (within the meaning of Section 94 of the Act) for cash pursuant to the authority conferred by the Article as Section 89(1) of the Act did not apply to any such allotments, provided that this power shall be limited to the allotment of equity securities:
 - (a) in connection with a rights issue, open offer or otherwise in favour of ordinary shareholders in proportion (as nearly as possible) to the respective number of shares held by them, subject only to such exclusions or other arrangements as the Directors may consider appropriate to deal with fractional entitlements or problems arising in any territory or with the requirements of any recognised regulatory body or stock exchange in any territory; and
 - (b) (otherwise than pursuant to sub-paragraph (a) above) up to an aggregate nominal amount of £45,000.00 or such lesser amount as represent 55 percent (fifty five per cent) of the issued share capital of the Company from time to time;

and such power to expire, unless sooner revoked, at the conclusion of the Company's next Annual General Meeting after the passing of this resolution, save that the Company may, before such expiry, make an offer or agreement which would or might require equity securities to be allotted after such expiry and, notwithstanding such expiry, the Directors may allot equity securities pursuant to any such offer or agreement as if the power conferred by this resolution had not so expired. In this resolution the expression "equity securities" and references to allotment of equity securities shall have the same respective meanings as in section 94 of the Act.

Notice of the Annual General Meeting

By Order of the Board

Michael Levy
Secretary

8 October 2002

Registered Office:
Wembley Point
1 Harrow Road
Wembley
Middlesex HA9 6DE

Notes

1. A member who is entitled to attend and vote at this meeting is entitled to appoint a proxy to attend and vote in his stead. 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 shareholders registered in the register of members of the Company as at 2pm on 13 November 2002, or in the event that the meeting is adjourned, in such register 48 hours before the time of any adjourned meeting, shall be entitled to attend 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 after 2pm on 13 November 2002 or, in the event that the meeting is adjourned, in such register less than 48 hours before the time of any adjourned meeting, shall be disregarded in determining the rights of any person to attend or vote at the meeting.
3. A form of proxy is provided with this notice. To be effective 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 sent to the Company Secretary, Knowledge Technology Solutions PLC, c/o Capita IRG Plc, Balfour House, 390/398 High Road, Ilford, Essex IG1 1BR, so as to arrive not later than 48 hours before the start of the meeting.
4. Completion of the form of proxy will not affect the right of a member to attend and vote at the meeting.
5. The register of Directors' share interests will be available for inspection at the meeting convened by this notice, as will Directors' service contracts.

Proxy Notice

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 at 2pm on 15 November 2002 and at any adjournment thereof.

Dated 2002 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 2002.		
2. Ordinary resolution - To reappoint Solomon Hare LLP as Auditors of the Company and to authorise the Directors to fix their remuneration.		
3. Ordinary resolution - To reappoint Marc Pinter-Krainer as a Director		
4. Ordinary resolution - To reappoint Paul McGroary as a Director.		
5. Ordinary resolution - To reappoint Michael Levy as a Director.		
6. Ordinary resolution - To reappoint Smit Berry as a non-executive Director.		
7. Ordinary resolution - To renew the power of the Directors to allot equity securities pursuant to Section 80 of the Companies Act 1985.		
8. Special resolution – To renew the power of the Directors to allot equity securities on a non-pre-emptive basis subject to certain limitations.		

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.
9. 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 notorially, must be lodged at the Company's registrars – Capita IRG Plc, Balfour House, 390/398 High Road, Ilford, Essex IG1 1BR, 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.





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