



Knowledge Technology Solutions PLC
Report and Accounts for the year ended 30 June 2004

REGISTERED NUMBER: 4062416 (England and Wales)

Knowledge Technology Solutions PLC

Year ended 30 June 2004

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Chief Executive's Statement

Overview

Knowledge Technology Solutions PLC (KTS) has made significant progress in the year to 30 June 2004. Development of MarketTerminal, our international financial data and news service, has been successfully completed. Sales of QuoteTerminal, our UK-only financial data and news service, continue to grow with the service now increasingly well established among its target market of banks, stockbrokers and other financial professionals.

During the year, recurring revenues have increased month-on-month and are currently running at an annualised rate of £1.2 million, an increase of 140% over the past twelve months. Despite only launching in May, sales of MarketTerminal have already begun and are incorporated in the annualised revenues. Overall Group turnover rose to £770,185, a 379% increase on the previous year (2003: £160,708). Group loss before tax was £940,161 (2003: £705,651), reflecting our continued investment in the development of MarketTerminal as well as considerable strengthening of the sales and technical support teams. While increasing our development spend, we continue to remain firmly in control of operating expenses, and are pleased to have maintained a highly efficient and focused team.

Our cash balance remains strong and, following a successful fundraising in May which raised £1.9 million net of expenses, at 30 June 2004 stood at £2.7 million. A stronger balance sheet has been an important factor in being able to market our services to national and international institutions who are reassured by our financial security.

We have continued to invest in our unique technology, and as in previous years, we follow best practice in the IT industry by writing off development costs as incurred and not valuing them on the Balance Sheet.

As previously announced, Paul McGroary and Smit Berry, non-executive directors, departed the board to pursue other business interests, while Gavin Casey, former Chief Executive of the London Stock Exchange, joined as non-executive Chairman.

MarketTerminal

Early in 2004 a number of organisations among our target client base of international financial institutions with significant London operations trialled MarketTerminal. We received favourable responses to the trials because of the comprehensive content and ease of use. Like its sister service QuoteTerminal, MarketTerminal is based on our "zero-client" application service technology that does not require users to install any infrastructure, hardware or software. The associated ease of deployment, maintenance and low cost of ownership appeals to clients when our service is compared to competing market data applications offered by incumbent suppliers. Other initial customer feedback welcomed MarketTerminal's flexible accessibility allowing users to access the service from any Internet enabled PC, laptop or handheld device worldwide.

Following the trials, the service was successfully introduced in May at 'Dealing with Technology', a key market data industry event. MarketTerminal is a service aimed at clients with international market data requirements, and therefore on launch its coverage included data from The New York Stock Exchange (NYSE), NASDAQ, American Stock Exchange (Amex), London Stock Exchange, London International Financial Futures and Options Exchange (LIFFE), Euronext, Deutsche Boerse, Irish Stock Exchange and Xetra. Since launch we have added the Stockholm, Oslo, Copenhagen, Helsinki, Madrid and Milan exchanges as part of our goal to ultimately provide global exchange coverage. As we continue to expand the exchange coverage, we increase the addressable market size for sales.

As a result of the strength of our technology, we are benefiting from a continued increase in popularity of live market data services that require the installation of little or no IT infrastructure or software at the client's site. MarketTerminal, like QuoteTerminal, is positioned to capitalise on this demand.

Initial customer feedback on MarketTerminal has shown that the service is competitive and is appealing to our target market. From the experience of marketing QuoteTerminal, we have anticipated that sales leads, especially to larger institutions with existing providers, will take time to convert into actual sales because of their requirement to honour existing contracts, some of which only renew bi-annually.

Chief Executive's Statement

QuoteTerminal

QuoteTerminal, based on the same unique technology as MarketTerminal, continues to attract substantial interest and we have been pleased to announce a host of new customers in the twelve months under review. Among others, City stockbrokers Seymour Pierce, Hoodless Brennan, Sky Capital and City Equities have joined our list of subscribers. Our total customer base for QuoteTerminal has now risen to over 110 separate organisations.

With the high levels of customer satisfaction, shareholders will be pleased to know that our retention rate for QuoteTerminal customers is high, with user cancellations totalling less than 10% over the past two years.

Outlook

In a year of progress, KTS now has two fully-developed live financial data and news services based on common technology, and a shared sales, marketing and customer support platform. This allows us to expand our exchange coverage without incurring new infrastructure development costs. The services have been well received in the market and it is our aim to maximise revenues from them and continue to focus on future profitability.

Integral to the Company's advance towards profitability is our re-shaped sales team and as part of this reorganisation I have taken overall responsibility for sales. In addition, we have assembled a very capable technical team to support QuoteTerminal as well as the roll-out of MarketTerminal and its extended exchange coverage.

Our future sales are predicated on securing additional subscriptions from our existing client base and from an active sales and marketing programme for both services to new customers. We look forward with optimism to the year ahead.

Marc Pinter-Krainer
Chief Executive
12 October 2004

*MarketTerminal is a registered trademark

Directors, Secretary and Advisers

Directors

Gavin Casey (*Chairman*)
Marc Pinter-Krainer (*Chief Executive*)
Michael Stewart Levy (*Group Finance Director*)

Secretary and Registered Office

Michael Stewart Levy
Wembley Point
1 Harrow Road
Wembley
Middlesex HA9 6DE

Nominated Adviser and Broker

KBC Peel Hunt Ltd
111 Old Broad Street
London EC2N 1PH

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
The Registry
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 (33)

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.

Michael Stewart Levy (43)

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.

Gavin Casey (57)

Gavin is an investor in, and the chairman or a director of, a number of companies including Tragus Holdings Ltd, Corporate Synergy PLC, EDM Group Ltd and Lawrence PLC. He was previously chief executive of London Stock Exchange PLC for four years and, before that, chief operating officer of Smith New Court PLC.

Directors' Report

The Directors present their Report and Accounts for the year ended 30 June 2004.

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 2004		At 1 July 2003 (or date of appointment if later)	
	Number	%	Number	%
Dr Marc Pinter-Krainer *	20,040,000	13.54	20,040,000	18.34
Michael Stewart Levy	209,960	0.14	209,960	0.19
Smit Berry (resigned 29 July 2004)	10,013,600	6.77	10,013,600	9.17
Gavin Casey (appointed 17 November 2003)	250,000	0.17	-	-

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

Paul McGroary resigned from the Board on 2 March 2004.

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 30 June 2004 (other than the Directors) of 3% or more in the issued ordinary share capital of the Company:

	Number of Shares	%
ISIS Asset Management	14,516,667	9.81
Global Value Investment Portfolio Mgt Pte Ltd	6,680,000	4.51
Gartmore Investment Ltd	5,000,000	3.38

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.

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 28 (2003: 29 days).

Economic and monetary union

The Directors continue to review the implications of economic 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 continues to make progress in product development, while continuing to keep a control of costs. MarketTerminal, a real-time international financial information system, was introduced during the year. Research and development expenditure is charged to the profit and loss account in the year incurred.

Auditors

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

12 October 2004

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 2004 set out on pages 10 to 21. These accounts have been prepared under the historical cost convention and the accounting policies set out therein.

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

Respective responsibilities of Directors and Auditors

As described in the Statement of Directors' Responsibilities the Company's Directors are responsible for the preparation of 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 2004 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

12 October 2004

Consolidated Profit and Loss Account

For the year ended 30 June 2004

	Note	Year ended 30 June 2004 £	Year ended 30 June 2003 £
Turnover	2	770,185	160,708
Distribution costs		(686,722)	(303,031)
Administrative costs		(1,062,895)	(572,949)
Operating loss	3	(979,432)	(715,272)
Interest receivable		39,271	9,621
Loss on ordinary activities before taxation		(940,161)	(705,651)
Taxation	5	92,071	41,837
Loss on ordinary activities after taxation		(848,090)	(663,814)
Dividends		-	-
Retained loss for the year	16	(848,090)	(663,814)
Loss per share	6	(0.71)p	(0.73)p
Diluted loss per share	6	(0.71)p	(0.73)p

All of the results relate to continuing operations.

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

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

Balance Sheets

As at 30 June 2004

	Note	Group 2004 £	Group 2003 £	Company 2004 £	Company 2003 £
Fixed assets					
Tangible assets	7	175,677	184,949	-	-
Investments	8	-	-	79,297	79,297
		175,677	184,949	79,297	79,297
Current assets					
Debtors	9	113,586	89,004	1,782,090	1,179,810
Cash at bank and in hand		2,702,533	439,245	2,618,022	345,377
		2,816,119	528,249	4,400,112	1,525,187
Creditors: amounts falling due within one year	10	(234,053)	(102,065)	(40,731)	(12,084)
Net current assets		2,528,066	426,184	4,359,381	1,513,103
Net assets		2,757,743	611,133	4,438,678	1,592,400
Capital and reserves					
Called up share capital	13	148,015	109,256	148,015	109,256
Share premium account	14	4,766,134	1,810,193	4,766,134	1,810,193
Profit and loss account	16	(2,156,406)	(1,308,316)	(475,471)	(327,049)
Equity shareholders' funds	15	2,757,743	611,133	4,438,678	1,592,400

Approved on behalf of the board on 12 October 2004 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 2004

	Note	Year ended 30 June 2004 £	Year ended 30 June 2003 £
Net cash outflow from operating activities	17	(809,156)	(630,020)
Returns on investments and servicing of finance			
Interest received		39,271	9,621
Net cash inflow from returns on investments and servicing of finance		39,271	9,621
Taxation			
Corporation tax refund		92,071	41,837
Net cash inflow from taxation		92,071	41,837
Purchase of tangible fixed assets		(53,598)	(181,712)
Net cash outflow from capital expenditure and financial investment		(53,598)	(181,712)
Net cash outflow before financing		(731,412)	(760,274)
Financing			
Issue of share capital		3,123,019	856,000
Expenses paid in connection with share issues		(128,319)	(22,555)
Net cash inflow from financing		2,994,700	833,445
Increase in cash in the year	18	2,263,288	73,171

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 2004. 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, advertising and sponsorship revenue, excluding value added tax.

Income is recognised over the contract period.

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 result.

Deferred taxation

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date.

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

Credit for the year:	Year ended 30 June 2004	Year ended 30 June 2003
	£	£
UK corporation tax –prior years	92,071	41,837

Factors affecting the tax charge for the year

The tax assessed for the year ended 30 June 2004 is lower than the standard rate of corporation tax in the UK. The reasons for this difference are explained below:

	2004	2003
	%	%
Standard rate of corporation tax in UK of 30% (2003 30%)	30	30
Effects of:		
Depreciation for the year in excess of capital allowances	(2)	6
Research and development tax credit – prior years	10	6
Tax losses available to carry forward	(28)	(36)
Current tax credit for the year	10	6

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 2004 of approximately £2,000,000 (2003: £1,500,000).

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 119,973,753 (2003: 91,292,074), being the weighted average number of Ordinary Shares in issue during the year, which carry the right to receive a dividend. As a result of the loss for the year there is no difference between the basic and diluted loss per share.

Notes to the Accounts

7. TANGIBLE FIXED ASSETS

Group	Office furniture & equipment	Computer equipment	Total
	£	£	£
At 1 July 2003	12,939	231,669	244,608
Additions	661	52,937	53,598
At 30 June 2004	13,600	284,606	298,206
Depreciation			
At 1 July 2003	4,427	55,233	59,660
Charge for year	1,989	60,880	62,869
At 30 June 2004	6,416	116,113	122,529
Net book value at 30 June 2004	7,184	168,493	175,677
Net book value at 30 June 2003	8,513	176,436	184,949

8. INVESTMENT IN SUBSIDIARY UNDERTAKINGS

Company	Investments £
Cost and net book value	
At 30 June 2003 and 30 June 2004	79,297

The Company owned 100% of the ordinary share capital in the following subsidiary undertakings at 30 June 2004:

	<u>Country of Registration</u>	<u>Country of operation</u>	<u>Activity</u>
Knowledge Technology Services 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 2004 £	Group 2003 £	Company 2004 £	Company 2003 £
Due within one year:				
Trade debtors	24,539	11,338	-	-
Amounts owed by Group undertakings	-	-	1,764,558	1,169,447
Other debtors	8,777	30,622	8,678	3,414
Prepayments and accrued income	80,270	47,044	8,854	6,949
	113,586	89,004	1,782,090	1,179,810

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 2004 £	Group 2003 £	Company 2004 £	Company 2003 £
Trade creditors	127,217	54,313	16,347	1,213
Taxation and social security	40,065	12,596	14,539	2,121
Other creditors and accruals	66,771	35,156	9,845	8,750
	234,053	102,065	40,731	12,084

11. ANNUAL COMMITMENTS UNDER OPERATING LEASES

	Group 2004 £	Group 2003 £	Company 2004 £	Company 2003 £
Land and buildings:				
Expiring within one year	25,668	-	-	-
Expiring between two and five years	-	18,000	-	-
	25,668	18,000	-	-

12. DEFERRED TAXATION

There is no actual or potential liability for deferred taxation due to the availability of losses, which at 30 June 2004 amounted to approximately £2,000,000 (2003: £1,500,000). The unprovided deferred tax asset at 30 June 2004 was £380,000 (2003: £280,000).

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 2004 and as at 30 June 2003.

Notes to the Accounts

13. SHARE CAPITAL

	2004 £	2003 £
Company		
Authorised:		
200,000,000 Ordinary Shares of 0.1p each	200,000	200,000
Allotted, called up and fully paid:		
148,014,732 (2003: 109,256,321) Ordinary Shares of 0.1p each	148,015	109,256

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

Date	Number
19 August 2003	1,506,846 shares at 5.625 pence per share
12 September 2003	180,135 shares at 5.625 pence per share
23 September 2003	8,000,000 shares at 12.5 pence per share
25 September 2003	100,000 shares at 5.625 pence per share
6 October 2003	400,000 shares at 5.625 pence per share
27 May 2004	28,571,430 shares at 7.00 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 2004 for 5,700,000 unissued Ordinary Shares of 0.1 pence each as follows:

Share options	At 1 July 2003	Granted	Exercised	Lapsed/ cancelled	At 30 June 2004	Exercise price	Normal exercise period
Employees:	2,275,000	-	-	-	2,275,000	4.5 pence	2 May 04 – 1 May 08
	-	2,425,000	-	-	2,425,000	12.5 pence	17 Nov 03 – 17 Nov 06
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 03 – 17 Nov 06
Adviser warrants	2,186,981	-	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 Dr Marc Pinter-Krainer include 20,000,000 Ordinary Shares held by Smartshares Inc. of which he is a Director and majority shareholder.

** Interest held jointly with wife.

The Founder Warrants were all cancelled on 4 September 2003.

Notes to the Accounts

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

	At 1 July 2003	Granted	Exercised	Lapsed/ cancelled	At 30 June 2004	Exercise price	Normal exercise period
Other Warrants:							
Michael Levy	500,000	-	-	-	500,000	2.5 pence	10 May 04 – 10 May 11
Share options (to Directors):							
Michael Levy	-	125,000	-	-	125,000	15.0 pence	17 Nov 05 – 17 Nov 09
Gavin Casey	-	1,000,000	-	-	1,000,000	15.0 pence	17 Nov 05 – 17 Nov 09
	-	1,000,000	-	-	1,000,000	25.0 pence	17 Nov 05 – 17 Nov 09

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.

The highest price of the company's shares during the year was 16.0p, the lowest price was 5.13p and the price at the year-end was 7.6p.

14. SHARE PREMIUM

	Group 2004 £	Group 2003 £	Company 2004 £	Company 2003 £
At 1 July 2003	1,810,193	1,004,398	1,810,193	1,004,398
Issues of shares	3,084,260	828,350	3,084,260	828,350
Cost of share issues	(128,319)	(22,555)	(128,319)	(22,555)
At 30 June 2004	4,766,134	1,810,193	4,766,134	1,810,193

15. RECONCILIATION OF MOVEMENTS IN EQUITY SHAREHOLDERS' FUNDS

Group	2004 £	2003 £
Opening equity shareholders' funds	611,133	441,502
Loss retained for the financial year	(848,090)	(663,814)
New share capital issued less costs	2,994,700	833,445
Closing equity shareholders' funds	2,757,743	611,133
Company	2004 £	2003 £
Opening equity shareholders' funds	1,592,400	891,820
Loss retained for the financial year	(148,422)	(132,865)
New share capital issued less costs	2,994,700	833,445
Closing equity shareholders' funds	4,438,678	1,592,400

Notes to the Accounts

16. PROFIT AND LOSS ACCOUNT

	2004	2003
Group	£	£
At 1 July 2003	(1,308,316)	(644,502)
Loss for the financial year	(848,090)	(663,814)
<hr/>		
At 30 June 2004	(2,156,406)	(1,308,316)
<hr/>		
Company	2003	2002
	£	£
At 1 July 2003	(327,049)	(194,184)
Loss for the financial year	(148,422)	(132,865)
<hr/>		
At 30 June 2004	(475,471)	(327,049)
<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

	2004	2003
	£	£
Operating loss	(979,432)	(715,272)
Depreciation of fixed assets	62,869	33,551
(Increase)/Decrease in debtors	(24,582)	31,804
Increase in creditors	131,989	19,897
<hr/>		
Net cash outflow from operating activities	(809,156)	(630,020)
<hr/>		

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

	2004	2003
	£	£
Net funds at start of year	439,245	366,074
Increase in cash in the year	2,263,288	73,171
<hr/>		
Net funds at the end of the year	2,702,533	439,245
<hr/>		

Net funds at the end of the year relate to cash at bank and in hand.

19. MATERIAL NON-CASH TRANSACTIONS

There were no material non-cash transactions during the year.

20. POST BALANCE SHEET EVENTS

There were no events since the balance sheet date, which materially affect the position of the Group.

Notes to the Accounts

21. RELATED PARTY TRANSACTIONS

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

Smit Berry:

Fees payable to Berrymist Limited, in which Smit Berry is a Director, in respect of consultancy fees of £9,000 (2003: £5,250). At 30 June 2004 the amount outstanding was £Nil (2003: £78).

Paul McGroary:

Fees payable to Paul McGroary and Scorpion Asset Management Limited, in which Paul McGroary is a Director, in respect of consultancy fees of £11,334 (2003: £17,000). At 30 June 2004 the amount outstanding was £Nil (2003: £ Nil).

Michael Levy:

Fees payable to Michael Levy & Co, Chartered Accountants, in which Michael Levy is the principal, in respect of accountancy services of £34,224 (2003: £20,015). At 30 June 2004 the amount outstanding was £6,500 (2003: £4,470).

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 assets and liabilities.

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 KBC Peel Hunt Ltd, 111 Old Broad Street, London EC2N 1PH on Thursday 25 November 2004 at 5.15pm for the following purposes:

To consider and if thought fit, pass the following resolutions, as ordinary resolutions in the case of resolutions 1 to 6 and as a special resolution in the case of resolution 7.

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 2004 be received and adopted.
2. THAT Solomon Hare LLP 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 Michael Levy who retires by rotation be reappointed as a Director.
5. THAT Gavin Casey who was appointed as a Director by resolution of the Board be reappointed as a Director.
6. THAT the Directors be generally and unconditionally authorised to exercise all the 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 £43,660.27 at such times and generally on such terms as they think proper, provided that this authority shall expire on the date of the next Annual General Meeting of the Company or, if earlier, the date falling 15 months from the date of this resolution, provided that within that period the Company may make any offer or agreement which would or might require such securities to be allotted after the expiry of this authority.
7. THAT, subject to the passing of resolution 6 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 resolution number 6 above as if 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 £24,013.15 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 or, if earlier, the date falling 15 months from the date 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.

By Order of the Board

Michael Levy
Secretary
12 October 2004

Notice of the Annual General Meeting

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 5.15 pm on 23 November 2004, 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 5.15 pm on 23 November 2004 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.

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, The Registry, 34 Beckenham Road, 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 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 Directors' service contracts.

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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 5.15pm on Thursday 25 November 2004 and at any adjournment thereof.

Dated 2004 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 2004.		
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 Michael Levy as a Director.		
5. Ordinary resolution - To reappoint Gavin Casey as a Director.		
6. Ordinary resolution - To renew the power of the Directors to allot equity securities pursuant to Section 80 of the Companies Act 1985.		
7. 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 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.



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