Service you can bank on

Knowledge Technology Solutions PLC
Report and Accounts for the year ended 30 June 2006

REGISTERED NUMBER: 4062416 (England and Wales)

Knowledge Technology Solutions PLC

Year ended 30 June 2006

THIS PAGE LEFT INTENTIONALLY BLANK

Contents

	Page
Chief Executive's Review	1-2
Company Information	3
Board of Directors	4
Directors' Report	5-7
Statement of Directors' Responsibilities	8
Independent Auditors' Report	9-10
Consolidated Profit and Loss Account	11
Balance Sheets	12
Consolidated Cash Flow Statement	13
Notes to the Accounts	14-21
Notice of Annual General Meeting	22

THIS PAGE LEFT INTENTIONALLY BLANK

Chief Executive's Review

During the year, sales increased resulting in a year-end turnover of £1.4 million, an increase of 12% compared with the previous year (2005: £1.25m). Pre-tax losses of £1.0 million are similar to the losses for the previous year. Going forward, we expect to strengthen our trading performance by focusing MarketTerminal on domestic markets. Accordingly, we will be discontinuing overseas exchange coverage from 1 January 2007, from which we expect to generate an estimated net saving in excess of £0.5 million per annum.

Last year there was sustained competition among desktop data providers which led to KTS introducing a new company strategy aimed at building a broader, higher margin revenue base. KTS's new strategy will be focussed more specifically on the strength and flexibility of our proprietary technology and will capitalise on the positive reputation gained by KTS's principal business as a provider of a professional market data display application.

I am pleased to report in the year under review we have made considerable progress in the delivery of this new strategy, particularly in two new high growth markets.

The first high growth market is driven by demand from global investment banks to have a customised viewing application that improves the interface between their own internally originated and derived information and the external data and prices sourced from a plethora of third party suppliers.

To address this need we have introduced a new product branded MarketTerminal ON-SITE. This uses the same proprietary technology platform as MarketTerminal and integrates seamlessly with the bank's existing infrastructure. It is being sold on a licence model and aimed at a new market for KTS – mid-tier users within major international investment banks operating in the City of London.

Our MarketTerminal ON-SITE highly-tailored solution offers banks far greater control over the presentation and manipulation of their own data, and also considerable cost savings by reducing their dependence on the large data vendors supplying this market.

To date, the response to MarketTerminal ON-SITE has been very encouraging. We are now at an advanced stage with several banks, including having successfully completed a 'proof of concept' phase with one global investment bank.

There is also significant interest from other banks, albeit at an earlier stage. Banks are responding positively to our proposition, and are welcoming a new competitor that challenges the dominance of larger established vendors such as Reuters.

The commercial revenue model for MarketTerminal ON-SITE is based on initially granting the bank a technology licence for a one-off fee. We expect to also generate annually recurring maintenance fees, together with a professional services revenue stream arising from consultancy, customisation and support activities.

The second new market where we can report progress is in the creation of specific solutions addressing the market requirements arising from the planned introduction of MiFID. MiFID is an EU directive aimed at creating transparency throughout the European Union for market participants dealing in securities and is expected to become law from 1 November 2007.

Our response to MiFID has been to design particular solutions that assist market participants in securing the maximum business benefit and comply with its introduction next year. We know this new market well, having actively participated in MiFID implementation forums over the last 15 months. Accordingly, our MiFID solutions, all available on MarketTerminal, are designed to help users commercially benefit from its introduction, and also be intuitive to use. For example, we have added to MarketTerminal the ability to concurrently display quotes or orders from multiple transaction venues, and easy-to-use functionality that analyses post-trade transactions.

To further capitalise on MiFID and other opportunities, the Company has recently announced that it has raised £242,571 by way of a placing of new ordinary shares in order to provide additional working capital. The Company is currently in the process of undertaking a further placing of new ordinary shares for cash to raise up to £1.6 million, details of which are expected to be announced shortly.

Chief Executive's Review (continued)

The new MiFID solutions are not the only additions to MarketTerminal. In July, in collaboration with Microsoft, Hewlett-Packard and T-Mobile we launched MarketTerminal Mobile Messenger, a new real-time financial information service accessed from a mobile-connected Personal Digital Assistant.

We believe this product will be increasingly important in helping retain existing MarketTerminal users, many of whom now require live market data, news, analytics and email access while out of the office. A new stockbroker client was signed up in October 2006 as a direct result of MarketTerminal Mobile Messenger's introduction.

As part of our focus on the UK, from early next year we will be adding real-time equity prices, news and other company data from two exchanges (Virt-x and Plus Markets) that are becoming increasingly established within the UK trading community. Virt-x and Plus Markets will be added to MarketTerminal at no additional subscription costs to users.

Outlook

Following an encouraging initial response from prospective clients for both MarketTerminal ON-SITE and from our MiFID initiatives, we expect to report further revenue progress this trading year. Together with improved financial results from our existing MarketTerminal subscription business, this should strengthen our trading performance in the future.

Marc Pinter-Krainer

Chief Executive
4 December 2006

Directors, Secretary and Advisers

Directors	Marc Pinter-Krainer *(Chief Executive)* Michael Stewart Levy *(Group Finance Director)*
Secretary and Registered Office	Michael Stewart Levy 8th Floor Finsbury Tower 103-105 Bunhill Row London EC1Y 8LZ
Nominated Adviser and Broker	Corporate Synergy Plc 30 Old Broad Street London EC2N 1HT
Registered Number	4062416
Solicitors	TLT LLP One Redcliff Street Bristol BS1 6TP
Auditors	Solomon Hare Audit LLP Oakfield House Oakfield Grove Clifton Bristol BS8 2BN
Registrars	Capita IRG Plc Northern House Woodsome Park Fenay Bridge Huddersfield West Yorkshire HD8 0LA
Principal Bankers	HSBC Bank plc 20 Eastcheap London EC4N 6AR

Board of Directors

Directors - Executive

Dr Marc Pinter-Krainer (35)

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 Group 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 (45)

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

Directors' Report

The Directors present their Report and Accounts for the year ended 30 June 2006.

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 Review on pages 1 and 2.

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.

Key performance indicators

Key performance indicators include subscription revenues. As noted in the profit and loss account on page 11, turnover for the year has increased by 12%, whilst distribution and administrative costs for the year increased by 8%.

With the exception of the product development referred to in the Chief Executive's Review, the Directors consider that there are no non-financial key performance indicators relevant to the business at the current stage of development.

Directors and Directors' shareholdings

Details of the Directors of the Company at the date of this report are given on page 4.

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 2006		At 1 July 2005	
	Number	%	Number	%
Dr Marc Pinter-Krainer *	20,390,000	13.75	20,390,000	13.75
Michael Stewart Levy	259,960	0.18	259,960	0.18

* 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.

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 2006 (other than the Directors) of 3% or more in the issued ordinary share capital of the Company:

	Number of Shares	%
HSBC Global Custody Nominee (UK) Limited	24,300,000	16.39
Chase Nominees Limited	15,416,667	10.40
Sinjul Nominees Limited	8,059,163	5.44
Barclayshare Nominees Limited	6,412,963	4.33
T D Waterhouse Nominees (Europe) Limited	4,991,431	3.37
J M Finn Nominees Limited	4,915,000	3.31

Employees

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

Charitable and political contributions

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

Corporate Governance

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

Internal control

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

Financial risk management

With the exception of cash at bank, the Group does not have any financial instruments.

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 a mixture of cash and, where appropriate, external finance and to review the projected cash flow requirements of the Group with an acceptable level of risk exposure.

Going concern

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

Directors' Report (continued)

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 50 days (2005: 22 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.

Research and Development

The Group continues to make progress in product development, while continuing to keep control of costs. Research and development expenditure is charged to the profit and loss account in the year incurred.

Disclosures to auditors

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

- So far as the directors are aware, there is no relevant audit information of which the company's auditors are unaware; and
- The directors have taken all the steps that they ought to have taken as directors in order to make themselves aware of any relevant audit information and to establish that the company's auditors are aware of that information.

Auditors

A resolution to re-appoint Solomon Hare Audit LLP as the Group's Auditors will be proposed at the Annual General Meeting.

On behalf of the Board

Michael Levy
Company Secretary

Date: 4 December 2006

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 Group and parent company accounts ('the accounts') of Knowledge Technology Solutions PLC for the year ended 30 June 2006 which comprise the Consolidated Profit and Loss Account, the Consolidated and Company Balance Sheets, the Consolidated Cash Flow Statement and the related notes 1 to 22. These accounts have been prepared under the accounting policies set out therein.

This report is made solely to the company's shareholders, 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 shareholders 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 shareholders as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the Annual Report and the accounts in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities.

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

We report to you our opinion as to whether the accounts give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We report to you whether in our opinion the information given in the Directors' Report is consistent with the accounts. The information given in the Directors' Report includes that specific information presented in the Chief Executive's Review that is cross-referenced from the Principal Activities and Review of Business section of the Directors' Report. We also report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if the information specified by law regarding directors' remuneration and transactions with the company is not disclosed.

We read other information contained in the Annual Report and consider whether it is consistent with the audited accounts. This other information comprises only the Directors' Report, and the Chief Executive's Review. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the accounts. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the 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 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.

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

Opinion

In our opinion:

- the accounts give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of affairs of the Company and the Group as at 30 June 2006 and of the loss of the Group for the year then ended; and
- the accounts have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the accounts.

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

Date: 4 December 2006

Consolidated Profit and Loss Account

For the year ended 30 June 2006

	Note	Year ended 30 June 2006	Year ended 30 June 2005
		£	£
Turnover	2	1,417,063	1,250,474
Distribution costs		(1,316,988)	(1,192,594)
Administrative costs		(1,170,498)	(1,119,527)
Operating loss	3	(1,070,423)	(1,061,647)
Interest receivable		54,257	95,111
Loss on ordinary activities before taxation		(1,016,166)	(966,536)
Taxation	5	–	–
Loss on ordinary activities after taxation	16	(1,016,166)	(966,536)
Loss per share	6	(0.69)p	(0.65)p
Diluted loss per share	6	(0.69)p	(0.65)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 21 form part of these accounts.

Balance Sheets

As at 30 June

	Note	Group 2006 £	Group 2005 £	Company 2006 £	Company 2005 £
Fixed assets					
Tangible assets	7	158,527	180,027	–	–
Investments	8	–	–	79,297	79,297
		158,527	180,027	79,297	79,297
Current assets					
Debtors	9	229,059	162,926	3,384,789	2,660,949
Cash at bank and in hand		961,878	1,716,053	891,150	1,672,858
		1,190,937	1,878,979	4,275,939	4,333,807
Creditors: amounts falling due within one year	10	(562,723)	(256,099)	(19,787)	(19,099)
Net current assets		628,214	1,622,880	4,256,152	4,314,708
Net assets		786,741	1,802,907	4,335,449	4,394,005
Capital and reserves					
Called up share capital	13	148,275	148,275	148,275	148,275
Share premium account	14	4,777,574	4,777,574	4,777,574	4,777,574
Profit and loss account	16	(4,139,108)	(3,122,942)	(590,400)	(531,844)
Equity shareholders' funds	15	786,741	1,802,907	4,335,449	4,394,005

Approved on behalf of the board on 4 December 2006 by:

Marc Pinter-Krainer
Chief Executive

Michael Levy
Group Finance Director

The notes on pages 14 to 21 form part of these accounts.

Consolidated Cash Flow Statement

For the year ended 30 June 2006

	Note	Year ended 30 June 2006	Year ended 30 June 2005
		£	£
Net cash outflow from operating activities	17	**(778,952)**	**(1,027,646)**
Returns on investments and servicing of finance			
Interest received		54,257	95,111
Net cash inflow from returns on investments and servicing of finance		**54,257**	**95,111**
Purchase of tangible fixed assets		(29,480)	(65,645)
Net cash outflow from capital expenditure and financial investment		**(29,480)**	**(65,645)**
Net cash outflow before financing		**(754,175)**	**(998,180)**
Financing			
Issue of share capital		–	11,700
Net cash inflow from financing		**–**	**11,700**
Decrease in cash in the year	18	**(754,175)**	**(986,480)**

All cash flows relate to continuing operations.

The notes on pages 14 to 21 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 2006. 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 revenue arising from subscriptions, advertising and sponsorship, 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:

Leasehold property	–	over the period of the lease
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

Provision is made for deferred taxation, using the full provision method on an undiscounted basis on all material timing differences. Deferred taxation has been recognised as a liability or an asset if transactions have occurred at the balance sheet date that give rise to an obligation to pay more tax in the future, or a right to pay less taxation in the future. An asset is not recognised to the extent that the transfer of economic benefits in the future is uncertain.

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.

2. TURNOVER

Turnover is attributable to the principal activities of the Group being the sale of real-time data and analysis services, together with advertising and sponsorship revenue. All turnover arises within the UK.

3. OPERATING LOSS

	Year ended 30 June 2006 £	Year ended 30 June 2005 £
The operating loss is stated after charging:		
Depreciation of owned assets	50,979	58,682
Loss on disposal of fixed assets	–	2,613
Rentals under operating leases – land and buildings	55,300	41,923
Auditors' remuneration – audit	8,850	8,000
– other	–	1,600
Research and development	907,862	751,324

Fees paid to the auditors in respect of non-audit work in the prior year are in respect of the company's Share Option scheme. These services are reviewed by the Board of Directors to ensure that the independence of the auditor is not compromised.

4. STAFF COSTS

		Year ended 30 June 2006 £	Year ended 30 June 2005 £
a)	**Aggregate staff costs, including Directors' remuneration**		
	Wages and salaries	712,560	637,495
	Social security costs	79,069	70,945
		791,629	708,440
b)	**The average number of full time equivalent employees (including executive Directors) was:**		
	Sales and administration	20	19
		£	£
c)	**Directors' emoluments**		
	Aggregate remuneration:		
	Emoluments	89,000	104,500

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

5. TAXATION ON LOSS ON ORDINARY ACTIVITIES

Credit for the year:	Year ended 30 June 2006 £	Year ended 30 June 2005 £
UK corporation tax	–	–

Factors affecting the tax charge for the year

The tax assessed for the year ended 30 June 2006 is lower than the standard rate of corporation tax in the UK. The reasons for this difference are explained below:

	2006 %	2005 %
Standard rate of corporation tax in UK of 30% (2005 - 30%)	30	30
Effects of:		
Depreciation for the year in excess of capital allowances	(1)	(2)
Tax losses available to carry forward	(29)	(28)
Current tax credit 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 2006 of approximately £3,900,000 (2005: £2,900,000).

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 148,274,732 (2005: 148,256,472), 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	Leasehold Property £	Office furniture & equipment £	Computer equipment £	Total £
At 1 July 2005	6,373	51,315	298,786	356,474
Additions	–	374	29,106	29,480
At 30 June 2006	6,373	51,689	327,892	385,954
Depreciation				
At 1 July 2005	718	9,682	166,048	176,448
Charge for year	1,077	9,371	40,531	50,979
At 30 June 2006	1,795	19,053	206,579	227,427
Net book value at 30 June 2006	4,578	32,636	121,313	158,527
Net book value at 30 June 2005	5,655	41,634	132,738	180,027

8. INVESTMENT IN SUBSIDIARY UNDERTAKINGS

Company	Investments £
Cost and net book value	79,297
At 30 June 2005 and 30 June 2006	79,297

The Company owned 100% of the ordinary share capital in the following subsidiary undertakings at 30 June 2006:

	Country of Registration	Country of operation	Activity
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

9. DEBTORS

	Group 2006 £	Group 2005 £	Company 2006 £	Company 2005 £
Due within one year:				
Trade debtors	18,597	15,179	–	–
Amounts owed by Group undertakings	–	–	3,371,285	2,647,241
Other debtors	5,814	5,072	5,700	4,781
Prepayments and accrued income	204,648	142,675	7,804	8,927
	229,059	162,926	3,384,789	2,660,949

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 2006 £	Group 2005 £	Company 2006 £	Company 2005 £
Trade creditors	437,518	89,158	3,869	5,210
Taxation and social security	37,819	35,150	2,466	3,943
Other creditors and accruals	87,386	131,791	13,452	9,946
	562,723	256,099	19,787	19,099

11. ANNUAL COMMITMENTS UNDER OPERATING LEASES

	Group 2006 £	Group 2005 £	Company 2006 £	Company 2005 £
Land and buildings:				
Expiring within one year	–	–	–	–
Expiring between two and five years	55,300	55,300	–	–
	55,300	55,300	–	–

12. DEFERRED TAXATION

There is no actual or potential liability for deferred taxation due to the availability of losses, which at 30 June 2006 amounted to approximately £3,900,000 (2005: £2,900,000). The unprovided deferred tax asset at 30 June 2006 was £740,000 (2005: £550,000).

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 2006 and as at 30 June 2005.

13. SHARE CAPITAL

	2006 £	2005 £
Company		
Authorised:		
200,000,000 Ordinary Shares of 0.1p each	200,000	200,000
Allotted, called up and fully paid:		
148,274,732 (2005: 148,274,732) Ordinary Shares of 0.1p each	148,275	148,275

Share options and warrants

Under the Company's approved 2002 Share Option Scheme, certain Directors and employees held options at 30 June 2006 for 4,586,443 unissued Ordinary Shares of 0.1 pence each as follows:

Share options	At 1 July 2005	Granted	Exercised	Lapsed/ cancelled	At 30 June 2006	Exercise price	Normal exercise period
Employees:	2,015,000	–	–	610,000	1,405,000	4.5 pence	2 May 04 – 1 May 08
	1,125,000	–	–	525,000	600,000	12.5 pence	17 Nov 06 – 17 Nov 10
	2,000,000	–	–	1,275,000	725,000	6.13 pence	7 Jan 07 – 6 Jan 11
	500,000	–	–	–	500,000	4.88 pence	4 May 07 – 3 May 11
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
	356,443	–	–	–	356,443	6.13 pence	7 Jan 07 – 6 Jan 11
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

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 4.38p, the lowest price was 0.88p and the price at the year-end was 1.0p.

14. SHARE PREMIUM

	Group 2006 £	Group 2005 £	Company 2006 £	Company 2005 £
At 30 June 2005 and 30 June 2006	4,777,574	4,777,574	4,777,574	4,777,574

Notes to the Accounts

15. RECONCILIATION OF MOVEMENTS IN EQUITY SHAREHOLDERS' FUNDS

Group	2006 £	2005 £
Opening equity shareholders' funds	1,802,907	2,757,743
Loss retained for the financial year	(1,016,166)	(966,536)
New share capital issued less costs	–	11,700
Closing equity shareholders' funds	786,741	1,802,907

Company	2006 £	2005 £
Opening equity shareholders' funds	4,394,005	4,438,678
Loss retained for the financial year	(58,556)	(56,373)
New share capital issued less costs	–	11,700
Closing equity shareholders' funds	4,335,449	4,394,005

16. PROFIT AND LOSS ACCOUNT

Group	2006 £	2005 £
At 1 July 2005	(3,122,942)	(2,156,406)
Loss for the financial year	(1,016,166)	(966,536)
At 30 June 2006	(4,139,108)	(3,122,942)

Company	2006 £	2005 £
At 1 July 2005	(531,844)	(475,471)
Loss for the financial year	(58,556)	(56,373)
At 30 June 2006	(590,400)	(531,844)

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

	2006 £	2005 £
Operating loss	(1,070,423)	(1,061,647)
Depreciation of fixed assets	50,979	58,682
Loss on disposal of fixed assets	–	2,613
Increase in debtors	(66,133)	(49,340)
Increase in creditors	306,625	22,046
Net cash outflow from operating activities	(778,952)	(1,027,646)

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

	2006 £	2005 £
Net funds at start of year	1,716,053	2,702,533
Decrease in cash in the year	(754,175)	(986,480)
Net funds at the end of the year	961,878	1,716,053

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.

21. RELATED PARTY TRANSACTIONS

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

Michael Levy:
Fees payable to Michael Levy & Co, Chartered Accountants, in which Michael Levy is the principal, in respect of accountancy services of £40,233 (2005: £41,257). At 30 June 2006 the amount outstanding was £5,680 (2005: £6,956).

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 the offices of Corporate Synergy Plc 30 Old Broad Street London EC2N 1HT on 29 December 2006 at 12.30 pm to consider, and if thought fit, pass the following Ordinary and Special Resolutions specified below:

Ordinary Business

1. THAT the audited annual accounts of the Company for the financial year ended 30 June 2006 together with the reports on these accounts of (i) the Directors of the Company (the "Directors") and (ii) the Auditors of the Company (the "Auditors") be received and adopted.

2. THAT Solomon Hare Audit LLP be reappointed as auditors to the Company to hold office until the conclusion of the next general meeting at which accounts are laid before the Company, and that the Directors be authorised to determine their remuneration.

3. THAT Marc Pinter-Krainer who retires by rotation and who offers himself for re-election be re-elected as a Director.

4. THAT Michael Levy who retires by rotation and who offers himself for re-election be re-elected as a Director.

5. THAT the following resolution be considered as an Ordinary Resolution:

   THAT for the purposes of section 80 of the Companies Act 1985 as amended (the "Act") and so that any expressions used in this resolution shall, where relevant, bear the same meanings as in section 80 of the Act, the Directors be and are generally and unconditionally authorised to exercise all the powers of the Company to allot and grant rights to subscribe for, or to convert into shares, relevant securities of the Company up to an aggregate nominal value equal to the authorised but unissued share capital of the Company to such persons and at such times and on such terms as they think proper provided that this authority shall expire on the day falling fifteen months after the passing of this resolution or at the conclusion of the annual general meeting of the Company to be held in calendar year 2007 (whichever is the later) unless previously revoked, varied or extended by the Company in general meeting; and that the Company may before such expiry make an offer or agreement which would or might require relevant securities to be allotted after the expiry of the said period and the Directors may allot relevant securities in pursuance of any such an offer or agreement notwithstanding the expiry of the authority given by this resolution.

6. THAT the following resolution be considered as a Special Resolution:

   THAT subject to and conditional upon the passing of resolution 5 above, the Directors be and are empowered, pursuant to section 95(1) of the Act, to allot equity securities (as defined in section 94(2) of the Act) for cash pursuant to the authority under section 80 of the Act conferred by resolution 5 above, as if section 89(1) of the Act did not apply to any such allotment, such power to operate in addition to any previous or subsequent power given to the Directors pursuant to section 95(1) of the Act and to expire on the day falling fifteen months after the passing of this resolution or at the conclusion of the annual general meeting of the Company to be held in calendar year 2007 (whichever is the later) unless previously revoked, varied or extended by the Company in general meeting, and provided that such power shall be limited to the allotment of equity securities having an aggregate nominal value of up to £160,000 save that the Company may at any time prior to the expiry of such power make an offer or enter into an agreement (subject to the foregoing limitations) which would or might require equity securities to be allotted after the expiry of such power and the Directors may allot equity securities (subject to the foregoing limitations) in pursuance of such an offer or agreement as if such power had not expired.

7. THAT any other ordinary business of the Company be transacted.

By Order of the Board

Michael Levy
Secretary

Dated: 4 December 2006

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

KNOWLEDGE TECHNOLOGY SOLUTIONS PLC

I/We of

being (a) member(s) of the above-named Company hereby appoint the Chairman of the meeting (Note 3) as my/our proxy to vote for me/us on my/our behalf at the annual general meeting to be held on Friday 29 December 2006 at 12.30pm and at any adjournment thereof.

Dated .... 2006 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 2006		
2. Ordinary resolution - To reappoint Solomon Hare Audit LLP as Auditors of the Company and to authorise the Directors to fix their remuneration		
3. Ordinary resolution - To re-elect Marc Pinter-Krainer as a Director		
4. Ordinary resolution - To re-elect Michael Levy as a Director		
5. Ordinary resolution - To renew the power of the Directors to allot equity securities pursuant to Section 80 of the Companies Act 1985		
6. 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.

Second Fold

BUSINESS REPLY SERVICE
Licence No. MB122

1

Capita Registrars
Proxy Department
P.O. Box 25
BECKENHAM
Kent
BR3 4BR

First Fold

Third Fold and tuck in

Service you can bank on

Knowledge Technology Solutions PLC
8th Floor, Finsbury Tower
103-105 Bunhill Row
London EC1Y 8LZ

tel 020 7256 2300
web www.ktsplc.com
email enquiries@ktsplc.com