



Annual Report and Accounts 2005

Focus on FORscene



Forbidden Technologies plc has created a powerful internet video platform. This is packaged as FORscene for the professional market and as Clesh for consumers.

**Accessible video is here now.
Forbidden has brought it to you.**



Forbidden Technologies' FORscene won the award 'Technology in the Post-Production Process' at the 2005 Royal Television Society Awards.

Highlights

- **FORscene editing/publishing:** Dozens of new features including audio/video levels, text alerts
- **FORscene import:** Windows DV capture and file import software; QuickTime import on the Mac
- **Marketing:** Tapeless production, SIDF, IOV 2005, BBC Digilab, Travel Technology, IBC 2005
- **FORlive:** Showcase with live webcasts of AGM and IBC 2005 stand
- **Integration:** FORscene supports EDL/XML export to industry editing systems
- **Logging:** Professional logging added to FORscene
- **TV broadcast:** FORscene's first national TV broadcast – "Trust Me – I'm a Holiday Rep"
- **FORscene milestone:** Video in FORscene for broadcast use passes 1,000 hours
- **New codec:** Forbidden develops Blackbird – a codec for editing
- **Nokia N90:** FORscene supports near-VHS quality camera phones with over-the-air upload/download
- **White label:** FORscene easily branded for third-party distribution
- **International:** Foreign language versions of FORMobile and FORscene
- **Partners:** New international partners in Europe and North America
- **RTS Award:** Royal Television Society Technology Award for FORscene

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**The video sharing platform for
the wired and wireless world**

**"The ability to view programmes
in real-time, from anywhere in the
world, is a huge leap forward for
television journalists."**

Geoff Wright, Chief Engineer, **GMTV**



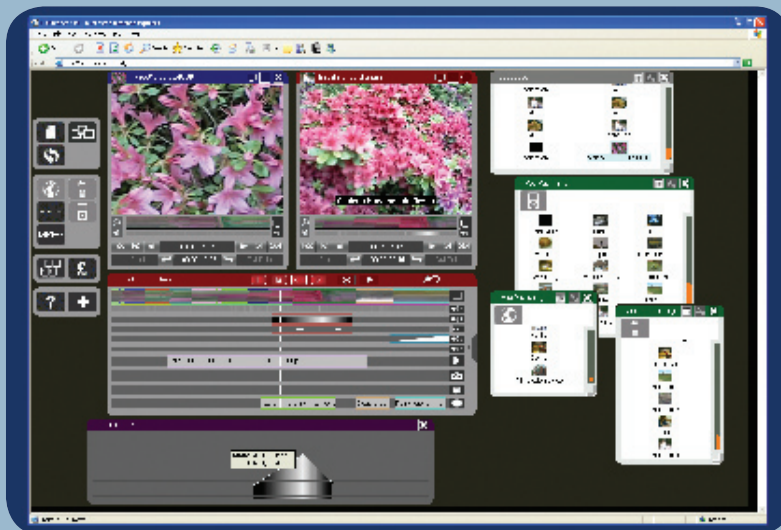
**The accessible consumer
internet video platform**

**"The launch of the Clesh package
will allow consumers that next
level of functionality when it
comes to editing their footage
and sharing videos with family
and friends."**

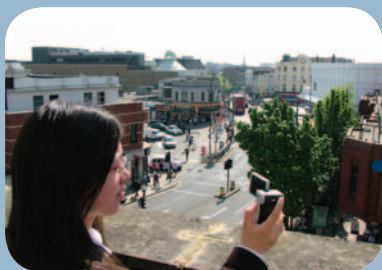
Richard Ayres, Portal Director and Editor, **Tiscali.co.uk**

FORscene is a simple solution for professional video logging, editing and publishing. Use it to:

- Log video content
- Edit video content
- Edit collaboratively over the internet
- Publish video for web, mobile, podcast
- Make programmes for broadcast



Film



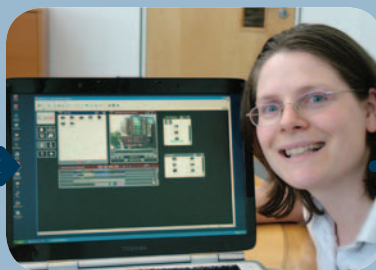
From PCs and Macs with broadband:

- Upload videos and photos
- Video formats include AVI and QuickTime

From Mobile:

- One-button upload for videos and pictures shot on mobile handset

Use Clesh software



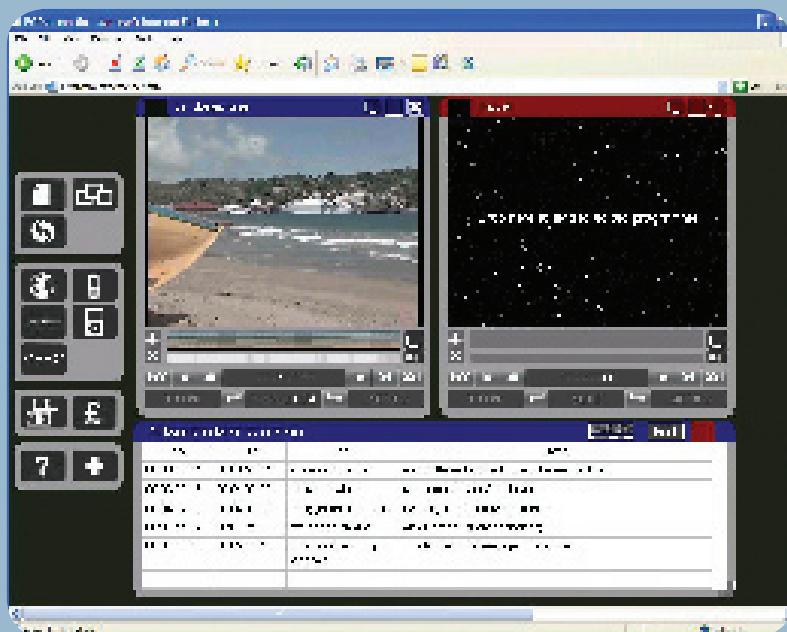
- Point & click, drag & drop
- Learn as you go, with tool tips
- Multiple audio channels per video
- Subtitles
- Dissolves
- Simple colour correction
- Audio levels control

Playback



- Web sharing – link to website, email, attach to blogs
- Mobile – play back on Symbian camera phones
- Podcast directly from Clesh

Case study: logging and assembly editing for Granada

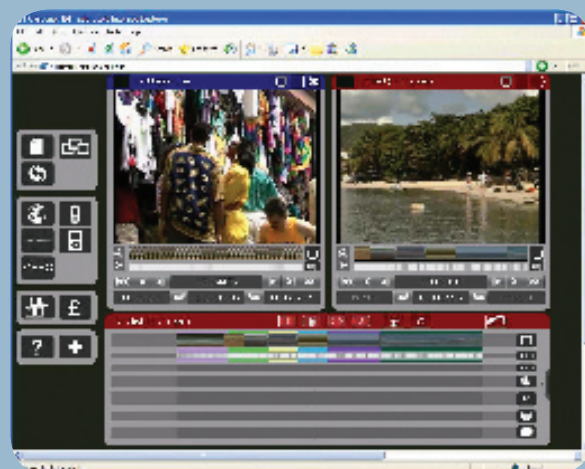


In the summer of 2005 Granada used FORscene to automate its entire logging process for the new reality show 'Trust Me I'm a Holiday Rep'. It compressed and uploaded footage directly to the FORscene platform on the internet where it was accessible for logging through any desktop PC or Mac with a broadband internet connection.

Chosen to reduce the cost and increase the efficiency of the project, FORscene was delivered to Granada under licence by Nats Post Production. The tool was initially brought in to electronically log all the footage generated. However, the producer/directors working on the series were so impressed by FORscene's overall functionality and ease of use that they started to use it to create assembly edits.

'Trust Me I'm a Holiday Rep', was filmed in Cyprus and aired on Five in September 2005.

Stephen Streater, CEO, **Forbidden Technologies**



"Our shareholders should begin to see significant change in the profile of the business."

In the year to 31 December 2005, the sixth year of our development, the company recorded sales of £59,705 compared to £76,788 in the previous year. Administrative expenses were £874,637 (2004: £787,563) and the loss for the year was £725,379 (2004: loss of £614,127).

At the year end the balance sheet showed £957,369 of net current assets (2004: £1.68 million) and liquid resources of £876,919 (2004: £1.61 million).

The lower sales level is a reflection of the change in our business model from the licensing of individual copies of our compression software to organisations putting video onto websites, to the delivery of logging and editing solutions to television post production teams.

The increase in administrative expenses was almost entirely due to the recruitment of new staff.

The balance sheet reflects the continuing tight control which is exercised over all costs in the company.

Strategy

In the annual report for the year ended 31 December 2004 the board outlined a revised strategy for the company and indicated key market sectors upon which Forbidden would concentrate:

1. Professional post production
2. Consumer (i.e. in-home) editing and publishing
3. Intruder and fire security

To date these sectors have proven to be an appropriate selection. Mobile phone applications which we previously identified separately are now an integral part of each of our sector offerings. All three of these sectors are developed from the same core platform – FORscene. All gain from improvements in our dynamic R & D activities and our ability to enhance our products to meet our partners' and customers' individual needs.

The pace of commercialisation in each sector has varied through the past year as we have flexed our resource allocations to reflect the urgency and immediacy of each opportunity, however, the chosen strategic sectors remain our focus going forward.

Market place

As predicted, 2005 saw significant growth of the key technologies and their market penetration in the UK which are critical to the expansion of our business. Computers provided much increased storage capacity, broadband connections accelerated at a remarkable rate to a level today in excess of 10 million homes and the typical broadband speed on new computers has gone from 512Kbps to around 2Mbps. Broadband costs have come down from an average of £20+ per month to the latest launch of free broadband 8Mb connection from Carphone Warehouse. Picture quality on mobile phones has increased significantly. The latest models can now capture video at near VHS quality.

All of these developments increase the potential sales revenues of the company's products, since they are the pre requisite conditions upon which our research and development efforts have been based.

Current activities

Professional post production

The continuing development and refinement of FORscene has been our top priority over the past six months. It has absorbed a high proportion of our R & D effort as interest and involvement of major broadcasters and partners has increased month by month throughout the various pilots that have been taking place. Individual customer needs have been identified and satisfied.

FORscene is a truly revolutionary product in the post production process of programme creation and is described as 'disruptive technology' by experts in the

Chairman's statement continued

industry. In December 2005, Forbidden won the Royal Television Society Award for the best technology innovation in the post production process. The award ceremony was videoed on one of the new generation mobile phones, uploaded over the air into FORscene, edited and published for web and mobile delivery. It can be seen on our website at <http://www.forbidden.co.uk/videos/rts/>.

FORscene provides very high value by saving both significant time and money and simplifying life for loggers, editors, producers and directors. More detail is provided in the Chief Executive's Review in the next pages.

Post production costs can represent 25% or more of total programme costs, and, as the hours shot increase for productions (partly driven by lower costs of digital footage), so the attraction of significant savings offered by FORscene increases. This is a world wide market and is worth hundreds of millions of pounds a year.

Another example of the power of the FORscene platform is its use by the British Army to publish frequent videos, recording an expedition to Mount Everest. The videos can be downloaded onto mobile phones of interested parties and potential army recruits as part of an Army recruitment drive.

FORscene will also be used by IBC TV News at the International Broadcasting Convention in Amsterdam in September, providing a most appropriate exposure of our mobile capability.

Consumer editing and publishing

Clesh is the consumer version of FORscene. You can sign up for Clesh at our website at <http://info.clesh.com>.

The consumer use of video clips is soaring following the introduction of internet video sites such as Google Video and YouTube, where consumers contribute and share their video content.

A site such as YouTube in the USA has grown in twelve months to have 40 million video clips per day viewed by its members, demonstrating the explosive potential of the web as the primary medium for communication.

Clesh was introduced to the UK market in early 2006 through a promotion with Tiscali, the internet and broadband company. Consumers now have access to a free, basic account through the Clesh.com website.



Forbidden's office

Summary of the Chairman's statement

- UK home broadband connections grew to over 10 million
- FORscene won Royal Television Society Award in 2005
- Clesh begins to develop its customer base for sharing videos

constituents to be able to take its place in this explosion:

- a) Simplicity and accessibility: go to the web page and Clesh is there.
- b) It is cross-platform: it can be used on PC, mobile or video iPod.
- c) The content is generated by the user and consumer: the more videos that people put into the system the more there is to view.

During the next year the strategic imperative for Clesh is to build our customer base by attracting large groups of consumers to share their videos across the globe.

Intruder and fire security

In the latter stages of the year, management took the decision to focus resources on the immediate opportunity for FORscene in the broadcast market rather than an intruder and fire security product. However, the company intends to use the FORscene platform to develop a competitive product in this large market, albeit at a somewhat later date than was anticipated previously.

Board and staff

During 2005 the board welcomed Phil Madden as Finance Director following the retirement of Douglas Blaikie. One sales person resigned to relocate abroad and two new employees joined the Company.

Our thanks are owed to the dedication, enthusiasm and skill of our team in all capacities and it continues to be a pleasure to see such good product and service output, consistently achieved.

Prospects

In the interim report for 2005 I indicated that the company had high confidence in significant sales expansion in 2006. This continues to be our view and orders in the first quarter are significantly ahead of the first six months of the previous year. If our expectations of the outcome of the various pilots and projects with broadcasters are realised, our shareholders should begin to see significant change in the profile of the business.



Victor Steel

Chairman
25 April 2006



View from Forbidden's office

“The internet is becoming a major force in video creation and distribution. Forbidden's FORscene internet platform is ready for it.”

Introduction

In last year's review, I outlined some of the technical and market expectations which have been fulfilled since the Forbidden Technologies flotation. Forbidden has applied its technology in an increasingly focused way as part of its plan to create the video platform for the internet – FORscene.

Internet video platform

The internet is becoming a major force in video creation and distribution. Consider the features to expect in an internet video platform:

- internet based – accessed through a web browser
- no installation – can run on any / every computer
- no configuration – easy to get up and running
- low cost or free
- simple to learn
- cross-platform editing – PC, Mac, Linux
- cross-platform publishing – Desktop, Mobile phone, video iPod
- wide in scope:
 - reviewing
 - logging
 - editing
 - web publishing
 - mobile / iPod publishing
 - hosting
- available in volume

The year has seen a further expansion of FORscene's web and mobile publishing capability and a major acceleration in the internet video editing tool. It will come as no surprise that Forbidden's FORscene meets all the criteria above for an internet video platform.

The professional video market

To appreciate the focus of Forbidden's market entry strategy, it helps to understand the workflow in the professional video market.

Video post production processes vary widely between productions. Video is shot using video cameras, and is generally stored on tape. Some or all of the following steps may then be carried out:

- ingest – transfer of video into the system
- review – look through source material and note what is there
- log – add transcript / enable shots to be found simply during editing
- shot selection – select shots / speech which might be useful
- shot ordering – construct the story
- rough cut – order the shots; trim to about the right length
- possibly re-ingest tape for the offline
- offline – make the programme, often at relatively low video quality
- possible re-ingest tape for the online
- online – finish the programme at top video quality for broadcast

The strategy has been to introduce FORscene into the relatively simple early stages of this process: ingest, review and log. As customers discover the benefits of our intuitive web based solution, it is simple to move up the value chain by just staying on the FORscene escalator a bit longer. In the few short months since its first broadcast use, FORscene has already moved up to shot selection, shot ordering and rough cut.

Summary of the Chief Executive's review

- Forbidden is technologically strong
- FORscene is a one-stop-shop for internet video
- Cheap internet allows us to make Clesh free

Both FORscene and the global IT infrastructure it runs on continue to improve. It is already possible to finish entire programmes with FORscene on web and mobile.

Consumer video – Clesh

Clesh is the consumer interface into the power of FORscene, with simplicity of use as the key priority. It allows consumers to experience the functionality and features of FORscene to edit and share their own video and mobile phone footage on the internet, through a home PC. The internet is so cheap that we can make our consumer version available for free. You can sign up for Clesh on our website at <http://info.clesh.com/>.

As we upgrade the Clesh video library to allow users to submit their own content, Clesh will be an increasingly attractive one-stop shop for internet video. Higher volume users will be able to purchase packages with extra features, extra storage, extra views and extra editing time, depending on requirements.

Technology

Underlying all Forbidden's work is its technological strength.

Forbidden's video compression technology has provided a unique codec designed for web-based editing. Control of the codec has led to improvements all the way through from storyboard editing to web publishing.

Forbidden's Java player gives almost universal reach to Windows, Macs and PCs. The web player, which does not require installation, security updates or machine configuration, will play automatically on standard machines. Forbidden upgrades its Java player to meet the evolving needs of the market.

These days, high end mobile phones have internet access. Mobile publishing is a key component of Forbidden's armoury.

FORscene is robust, automatically tuning itself to work well on a wide range of computer speeds and internet connection speeds.

These technical solutions are not easily copied by third parties as the expertise required is so specialised and has taken a long time to accumulate.

Technology award

FORscene has been recognised in the recent Royal Television Society Technology Award, awarded by the unanimous decision of the judges.

FORscene is the perfect product for this potentially vast and exciting market.

Shareholder offer

This year's shareholder offer is £1,000 worth of free credits. The form is at the back of the annual report and accounts.

Regulatory (IFRS)

Forbidden Technologies plc expects to adopt IFRS in the financial statements for the year ended 31 December 2007. The board has begun considering the differences between UK accounting standards and IFRS, and have identified 'accounting for development' costs as an area which could impact on the Company's financial statements going forward.



Stephen Streater
Chief Executive
25 April 2006

Directors and advisors

Vic Steel
Chairman

Victor Steel is chairman of MyGard plc and IdeasHub plc. Previous positions include having been deputy chairman of the Navy, Army and Air Force Institute (NAAFI), a non-executive director of Eidos plc, chairman of European Leisure plc, Mansfield Brewery plc, Woolworths plc and Superdrug. His career includes having been an executive director of Kingfisher plc, Guinness plc and the Beecham Group plc. He is a fellow of the Chartered Institute of Marketing and has wide experience of international business.

Stephen Streater
Chief Executive

Stephen Streater started his public company career as a founder of Eidos plc where his positions included managing director and director of video technology. Stephen founded and successfully floated Forbidden Technologies plc where his combination of expertise in technology, business and finance has been instrumental in the creation of this exciting and technically vibrant company. Stephen's visionary approach can be controversial at times and he enjoys presenting his revolutionary ideas to public audiences, both at Exhibitions and in the press.

Phil Madden
Finance Director

Phil Madden has held senior finance positions at board and sub-board level for over 16 years. He has acted as Finance Director to Greater London Supplies, as Director of Finance and IT for the British Tourist Authority and as Director of Finance for a market-leading international development consultancy.

Greg Hirst
Business Development Director

In his Business Development role at Forbidden, Greg is responsible for managing customer and partner relationships and delivering the company's technology into real life applications. Greg has held a number of senior positions in a 22-year career in the high tech industry. At Cap Gemini he was business development director of Cap Gemini Finance, responsible for the sourcing and introduction of new products. From 1998 to 2001 he was a director and managing director of Raft International, the business software company, which floated on the London Stock Exchange in October 2000. He has wide experience of delivering complex technological solutions to an international audience.

David Main
Non-Executive Director

David Main is currently an executive of Talisman Management Limited, a management advisory company for private equity groups, Chairman of Aqua Service Group based in Norway and a Director of Golf Entertainment International. He brings a wealth of retail, consumer products and technology experience to the board of Forbidden. Previously, he held a key board position within GUS Home Shopping, the largest home shopping company in the UK. David Main was also a partner within Bain & Company in both the UK and North America.

Registered office
2-4 St George's Road
London SW19 4DP

Registered number
3507286

Solicitors
Tarlo Lyons
Watchmaker Court
33 St John's Lane
London EC1M 4DB

Nominated advisor
Brewin Dolphin Securities Limited
48 St Vincent Street
Glasgow G2 5TS

Brokers
Bell Lawrie White
A division of Brewin Dolphin Securities Limited
48 St Vincent Street
Glasgow G2 5TS

Registrars
Capita Registrars
The Registry
34 Beckenham Road
Beckenham
Kent BR3 4TU

Principal bankers
NatWest
Putney Branch
153 High Street
London SW15 1RX

Auditors
KPMG Audit Plc
8 Salisbury Square
London EC4Y 8BB

The directors present their annual report and the audited financial statements for the year ended 31 December 2005.

Principal activities

The principal activity of the company is the development and commercial exploitation of video compression technology.

Business review

The company has continued with the development of video compression technology. A detailed review of the company's performance is provided within the Chairman's report. The results of the company are shown on page 18.

Proposed dividend

The directors do not recommend the payment of a dividend (2004: £nil).

Directors and directors' interests

The directors who held office during the year were as follows:

SB Streater
VJ Steel
DD Blaikie (until 30 June 2005)
DP Main
GB Hirst
PJ Madden (from 5 September 2005)

The directors who held office at the end of the financial year had the following interests in the shares of the company according to the register of directors' interests:

		Interest at end of year	Interest at start of year or date of appointment if later
SB Streater	Ordinary shares of 0.8 pence	62,760,000	62,635,000
VJ Steel	Ordinary shares of 0.8 pence	362,500	352,500
DP Main	Ordinary shares of 0.8 pence	—	—
GB Hirst	Ordinary shares of 0.8 pence	10,000	10,000
PJ Madden	Ordinary shares of 0.8 pence	—	—

Directors' report (continued)

Directors and directors' interests (continued)

According to the register of directors' interests, no rights to subscribe for shares in or debentures of the company were granted to any of the directors or their immediate families, or exercised by them, during the financial year except as indicated below:

	At start of year	Number of options during the year			At end of year	Exercise price £	Market price on date of exercise £	Date from which exercisable	Expiry date
		Granted	Exercised	Lapsed					
VJ Steel	200,000	—	—	—	200,000	2.175	—	02/10/2003	02/10/2010
VJ Steel	50,000	—	—	—	50,000	0.625	—	30/03/2004	30/03/2011
VJ Steel	150,000	—	—	—	150,000	0.255	—	21/09/2004	21/09/2011
VJ Steel	100,000	—	—	—	100,000	0.475	—	04/04/2005	04/04/2012
VJ Steel	100,000	—	—	—	100,000	0.215	—	04/10/2005	04/10/2012
VJ Steel	100,000	—	—	—	100,000	0.31	—	08/05/2006	08/05/2013
VJ Steel	100,000	—	—	—	100,000	0.65	—	06/10/2006	06/10/2013
VJ Steel	100,000	—	—	—	100,000	0.35	—	04/05/2007	04/05/2014
VJ Steel	100,000	—	—	—	100,000	0.39	—	30/09/2007	30/09/2014
VJ Steel	—	100,000	—	—	100,000	0.22	—	29/04/2008	29/04/2015
VJ Steel	—	100,000	—	—	100,000	0.26	—	06/09/2008	06/09/2015
DD Blaikie	187,500	—	—	187,500	Nil	2.175	—	02/10/2003	31/12/2005
DD Blaikie	25,000	—	—	25,000	Nil	0.625	—	30/03/2004	31/12/2005
DD Blaikie	25,000	—	—	25,000	Nil	0.255	—	21/09/2004	31/12/2005
DD Blaikie	50,000	—	—	50,000	Nil	0.475	—	04/04/2005	31/12/2005
DD Blaikie	50,000	—	—	—	50,000	0.35	—	04/05/2007	04/11/2007
DD Blaikie	25,000	—	—	—	25,000	0.39	—	30/09/2007	30/03/2008
DP Main	50,000	—	—	—	50,000	0.625	—	19/04/2004	19/04/2011
DP Main	25,000	—	—	—	25,000	0.255	—	21/09/2004	21/09/2011
DP Main	25,000	—	—	—	25,000	0.215	—	04/10/2005	04/10/2012
DP Main	30,000	—	—	—	30,000	0.65	—	06/10/2006	06/10/2013
DP Main	50,000	—	—	—	50,000	0.35	—	04/05/2007	04/05/2014
DP Main	50,000	—	—	—	50,000	0.39	—	30/09/2007	30/09/2014
DP Main	—	20,000	—	—	20,000	0.22	—	29/04/2008	29/04/2015
DP Main	—	50,000	—	—	50,000	0.26	—	06/09/2008	06/09/2015
GB Hirst	50,000	—	—	—	50,000	0.255	—	21/09/2004	21/09/2011
GB Hirst	20,000	—	—	—	20,000	0.475	—	04/04/2005	04/04/2012
GB Hirst	50,000	—	—	—	50,000	0.215	—	04/10/2005	04/10/2012
GB Hirst	15,000	—	—	—	15,000	0.31	—	08/05/2006	08/05/2013
GB Hirst	25,000	—	—	—	25,000	0.31	—	08/05/2006	08/05/2013
GB Hirst	40,000	—	—	—	40,000	0.65	—	06/10/2006	06/10/2013
GB Hirst	50,000	—	—	—	50,000	0.35	—	04/05/2007	04/05/2014
GB Hirst	50,000	—	—	—	50,000	0.39	—	30/09/2007	30/09/2014
GB Hirst	—	75,000	—	—	75,000	0.22	—	29/04/2008	29/04/2015
GB Hirst	—	50,000	—	—	50,000	0.26	—	06/09/2008	06/09/2015
PJ Madden	—	50,000	—	—	50,000	0.26	—	06/09/2008	06/09/2015

Directors' report (continued)

Directors and directors' interests (continued)

The market value of the shares at the year-end was 22.5p. The highest market value during the year was 34.5p and the lowest market value 17.5p.

Policy and practice on payment of creditors

The company does not follow any code. Creditors are paid in accordance with the terms of the invoice, subject to any particular agreement between the two parties. At the year-end trade creditors stood at £7,918 (2004: £nil).

Substantial shareholdings

At the year-end there were no shareholders, other than directors, who held an interest of 3% or more in the company's ordinary share capital.

Share option schemes

Under the company's approved share option scheme, options over 109,772 ordinary shares of 0.8p in the company were granted to five employees on 29 April 2005, exercisable at 22p per share within the period 29 April 2008 to 29 April 2015, on condition of employment with the company. Options over 62,500 ordinary shares of 0.8p in the company were granted to four employees on 6 September 2005, exercisable at 26p per share within the period 6 September 2008 and 6 September 2015, on condition of employment with the company.

The company also has an unapproved share option scheme under which options over 627,728 ordinary shares of 0.8p in the company were granted in total to eight directors and employees on 29 April 2005, exercisable at 22p per share within the period 29 April 2008 to 29 April 2015, on condition of employment with the company. Options over 652,500 ordinary shares of 0.8p in the company were granted in total to nine directors and employees on 6 September 2005, exercisable at 26p per share within the period 6 September 2008 to 6 September 2015, on condition of employment with the company.

On termination of employment, employees lose their share options unless the board exercises its discretion to let an employee retain their share options for a limited period.

The exercise price for the share options issued was the market value at the date the options were granted.

Directors' report (continued)

Corporate governance

In June 1998, the London Stock Exchange published the Principles of Good Governance and Code of Best Practice (the Combined Code) which embraces the work of the Cadbury, Greenbury and Hampel committees and became effective in respect of accounting periods ending on or after December 1998.

The listing rules require that listed companies (but not companies traded on the Alternative Investment Market "AIM") incorporated in the UK should state in the report and accounts whether they comply with the Code of Best Practice and identify and give reasons for any area of non-compliance. The company is listed on AIM and therefore no disclosure is required.

The company supports the principles and aims of the code and follows the code wherever it is reasonable to do so. It operates an effective board which meets on a timely basis.

The board is aware of the requirements of the code and the need for appropriate controls and systems to safeguard the company's assets. Wherever possible appropriate controls are in place and monitored by the board. However, full compliance with the code is not possible because of the size and resource constraints of the company and because of the relative cost benefit assessment in putting in place the additional procedures.

As the company grows in size and resources the board intends to increase its compliance.

This is not a statement of compliance as required by the Combined Code and should therefore not be relied upon to give the disclosures that would normally be made.

Political and charitable donations

The company made no political or charitable donations in the year (2004: £nil).

Research and development

The company has carried on research and development during the year, the costs of which are written off to the profit and loss account.

Auditors

In accordance with Section 384 of the Companies Act 1985, a resolution for the re-appointment of KPMG Audit Plc as auditors of the company is to be proposed at the forthcoming annual general meeting.

On behalf of the board

SB Streater

Director
2-4 St George's Road
London SW19 4DP
18 May 2006

Statement of directors' responsibilities

The directors are responsible for preparing the Directors' report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with UK Accounting Standards.

The financial statements are required by law to give a true and fair view of the state of affairs of the company and of the profit or loss for that period.

In preparing those financial statements, 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 financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

Under applicable law the directors are also responsible for preparing a Directors' report that complies with that law.

Independent auditors' report

to the members of Forbidden Technologies plc

We have audited the financial statements of Forbidden Technologies plc for the year ended 31 December 2005 which comprise the profit and loss account, the balance sheet, the cash flow statement and the related notes. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's 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 on page 15, the company's directors are responsible for the preparation of the financial statements in accordance with applicable law and UK accounting standards (UK Generally Accepted Accounting Practice). Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' report is not consistent with the financial statements, 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 financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Independent auditors' report (continued)

to the members of Forbidden Technologies plc

Basis of audit opinion

We conducted our audit in accordance with 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 financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 December 2005 and of its loss for the year then ended; and
- have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit Plc

Chartered Accountants
Registered Auditor
London
18 May 2006

Profit and loss account

for the year ended 31 December 2005

	Note	2005 £	2004 £
Turnover	2	59,705	76,788
Administrative expenses		(874,637)	(787,563)
Operating loss		(814,932)	(710,775)
Interest receivable and similar income	6	54,605	68,259
Loss on ordinary activities before taxation	3 – 5	(760,327)	(642,516)
Tax on loss on ordinary activities	7	34,948	28,389
Loss for the financial year	14	(725,379)	(614,127)
Basic and diluted loss per ordinary 0.8p share	8	(0.96p)	(0.81p)

A statement of recognised gains and losses has not been included as part of these financial statements as the Company made no gains or losses in the year other than as disclosed in the profit and loss account.

A note on historical cost gains and losses has not been included as part of the financial statements as the results disclosed in the profit and loss account are prepared on an unmodified historical cost basis.

The results stated above are all derived from continuing operations.

Balance sheet

as at 31 December 2005

	Note	2005 £	2005 £	2004 £	2004 £
Fixed assets					
Tangible assets	9		9,729		15,812
Current assets					
Debtors	10	172,592		142,551	
Cash		—		—	
Current asset investments	19	876,919		1,606,903	
		1,049,511		1,749,454	
Creditors: amounts falling due within one year	11	(92,142)		(72,789)	
Net current assets			957,369		1,676,665
Net assets			967,098		1,692,477
Capital and reserves					
Called up share capital	12		605,300		605,300
Share premium account	14		2,925,375		2,925,375
Capital contribution reserve	14		125,000		125,000
Profit and loss account	14		(2,688,577)		(1,963,198)
Shareholders' funds – equity			967,098		1,692,477

These financial statements were approved by the board of directors on 18 May 2006 and were signed on its behalf by:

SB Streater
Director

PJ Madden
Director

Cash flow statement

for the year ended 31 December 2005

	Note	2005 £	2004 £
Reconciliation of operating loss to net cash outflow from operating activities			
Operating loss		(814,932)	(710,775)
Depreciation charges		25,541	30,130
Decrease/(increase) in debtors		(4,618)	27,163
Increase/(decrease) in creditors		19,353	(12,193)
Net cash outflow from operating activities		(774,656)	(665,675)
Cash flow statement			
Cash flow from operating activities		(774,656)	(665,675)
Returns on investments and servicing of finance	16	64,130	68,882
Taxation		—	25,277
Capital expenditure	16	(19,458)	(32,124)
Cash outflow before management of liquid resources		(729,984)	(603,640)
Management of liquid resources	16	729,984	589,945
Financing	16	—	5,625
(Decrease) in cash in the year		—	(8,070)
Reconciliation of net cash flow to movement in net funds			
(Decrease)/increase in cash in the year	17	—	(8,070)
Cash outflow from decrease in liquid resources	17	(729,984)	(589,945)
Movement in net funds in the year		(729,984)	(598,015)
Net funds at the start of the year		1,606,903	2,204,918
Net funds at the end of the year		876,919	1,606,903

Reconciliation of movements in shareholders' funds

for the year ended 31 December 2005

	2005 £	2004 £
Loss for the financial year	(725,379)	(614,127)
New share capital subscribed (net of issue costs)	—	5,625
Net reduction in shareholders' funds	(725,379)	(608,502)
Opening shareholders' funds	1,692,477	2,300,979
Closing shareholders' funds	967,098	1,692,477

Notes

forming part of the financial statements

1 Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the financial statements, except as noted below. In these financial statements the following new standards have been adopted for the first time:

- FRS 21 'Events after the balance sheet date';
- the presentation requirements of FRS 25 'Financial instruments: presentation and disclosure'; and
- FRS 28 'Corresponding amounts'.

FRS 28 'Corresponding amounts' has had no material effect as it imposes the same requirements for comparatives as hitherto required by the Companies Act 1985.

Fixed assets and depreciation

Depreciation is provided to write off the cost less the estimated residual value of tangible fixed assets by equal instalments over their estimated useful economic lives as follows. A full year's charge is provided in the year of acquisition:

Leasehold improvements	– Over the life of lease
Fixtures and fittings	– 50% straight line per annum
Computer equipment	– 50% straight line per annum

Foreign currencies

Transactions in foreign currencies are recorded using the rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated using the rate of exchange ruling at the balance sheet date and the gains and losses on translation are included in the profit and loss account.

Leases

Operating lease rentals are charged to the profit and loss account on a straight line basis over the period of the lease.

Employee share schemes

The cost of awards to employees that take the form of rights to shares are recognised over the period of the employee's related performance. The company does not issue options at below market price. National insurance contributions are accrued in accordance with standard accounting practice.

Research and development expenditure

Expenditure on research and development is written off to the profit and loss account in the year in which it is incurred.

Taxation

The charge for taxation is based on the loss for the year and takes into account taxation deferred because of timing differences. Deferred tax is recognised, without discounting, in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed by the balance sheet date, except as otherwise required by FRS 19.

Turnover

Turnover represents the amounts (excluding value added tax) derived from the provision of goods and services to customers. For the supply of equipment and maintenance charges, turnover is recognised at the time of invoicing and invoices are raised upon the completion of the services provided. Revenue derived from the sale of FORscene credits is recognised on an accruals basis in line with the amount of editing time used. FORscene credits that have been billed but not used are treated as deferred revenue.

1 Accounting policies (continued)

Cash and liquid resources

Cash, for the purpose of the cash flow statement, comprises cash in hand and deposits repayable on demand, less overdrafts payable on demand. Liquid resources are current asset investments which are disposable without curtailing or disrupting the business and are either readily convertible into known amounts of cash at, or close to, their carrying values or traded in an active market. Liquid resources comprise term deposits of less than one year and a corporate bond.

2 Turnover

Turnover represents the amounts (excluding value added tax) derived from the principal activity and has been entirely earned within the UK.

3 Loss on ordinary activities before taxation

	2005 £	2004 £
Loss on ordinary activities before taxation is stated after charging:		
Auditors' remuneration		
Audit	19,000	17,850
Other services	13,300	3,159
Depreciation and other amounts written off tangible fixed assets: owned	25,541	30,130
Hire of other assets – operating leases	44,150	44,150
Research and development expenditure	159,773	116,896

4 Remuneration of directors

	2005 £	2004 £
Directors' emoluments	98,333	94,999
Amounts paid to third parties in respect of directors' services	7,500	12,000
	105,833	106,999

Share options held by the directors are disclosed under directors' share interests in the Directors' report.

5 Staff numbers and costs

The average number of persons employed by the company (including directors) during the year, analysed by category, was as follows:

	Number of employees 2005	Number of employees 2004
Management	4	5
Technical	5	4
Marketing	4	3
	13	12

The aggregate payroll costs of these persons were as follows:

	2005 £	2004 £
Wages and salaries	359,700	290,774
Social security costs	35,736	32,135
	395,436	322,909

Notes (continued)

forming part of the financial statements

6 Other interest receivable and similar income

	2005 £	2004 £
Bank interest	54,605	68,259

7 Taxation

Analysis of credit in the period

	2005 £	2004 £
UK corporation tax		
Current tax on income for the period	—	—
Research and development tax credit	(34,948)	(28,055)
Adjustments in respect of prior periods	—	(334)
Total current tax	(34,948)	(28,389)
Current tax reconciliation		
Loss on ordinary activities before tax	(760,327)	(642,516)
Current tax at 20% (2004: 20%)	(152,065)	(128,503)
Effects of:		
Expenses not deductible for tax purposes	5,108	1,123
Capital allowances for period lower than/(in excess of) depreciation	5,108	6,026
Employee share acquisition relief	3,785	(12,410)
Tax losses carried forward	108,941	145,454
Additional deduction for research and development expenditure	(14,562)	(11,690)
Rate differences for research and development tax credit	8,737	—
Research and development tax credit	—	(28,055)
Adjustment to tax charge in respect of previous periods	—	(334)
Total current tax credit (see above)	(34,948)	(28,389)

Tax losses amounting to £2,606,000 (2004: £2,062,000) are available to relieve against future profits of the company.

Unrecognised deferred tax assets

	2005 £	2004 £
Depreciation in excess of capital allowances	18,163	13,055
Tax losses carried forward	521,293	412,352
	539,456	425,407

Deferred tax assets have not been recognised as they are not considered recoverable in the foreseeable future.

8 Earnings per share

Diluted earnings per share has not been presented as including all potential ordinary shares in the calculation would be anti-dilutive.

Basic earnings per share

The weighted average number of shares in issue during the year is 75,662,500 (2004: 75,539,726).

9 Tangible fixed assets

	Leasehold improvements £	Fixtures and fittings £	Computer equipment £	Total £
Cost				
At beginning of year	14,084	23,281	145,788	183,153
Additions	—	273	19,185	19,458
At end of year	14,084	23,554	164,973	202,611
Depreciation				
At beginning of year	14,084	22,765	130,492	167,341
Charge for year	—	653	24,888	25,541
At end of year	14,084	23,418	155,380	192,882
Net book value				
At 31 December 2005	—	136	9,593	9,729
At 31 December 2004	—	516	15,296	15,812

10 Debtors

	2005 £	2004 £
Trade debtors	24,974	26,212
Other debtors	8,993	14,730
Prepayments and accrued income	138,625	101,609
	172,592	142,551

11 Creditors: amounts falling due within one year

	2005 £	2004 £
Trade creditors	7,918	—
Directors' loans	6,640	—
Taxation and social security	23,145	21,930
Accruals and deferred income	54,439	50,859
	92,142	72,789

12 Called up share capital

	2005 £	2004 £
Authorised:		
125,000,000 ordinary shares of 0.8p each (2004: 125,000,000 ordinary shares of 0.8p each)	1,000,000	1,000,000
Allotted, called up and fully paid:		
75,662,500 ordinary shares of 0.8p each (2004: 75,662,500 ordinary shares of 0.8p each)	605,300	605,300

During the year the company issued no shares under the terms of the share option schemes.

Notes (continued)

forming part of the financial statements

12 Called up share capital (continued)

The directors held the following options to subscribe for shares in the company:

	Class of share	At end of year	At beginning of year
VJ Steel	Ordinary shares of 0.8 pence	1,200,000	1,000,000
DD Blaikie	Ordinary shares of 0.8 pence	75,000	362,500
DP Main	Ordinary shares of 0.8 pence	300,000	230,000
GB Hirst	Ordinary shares of 0.8 pence	425,000	300,000
PJ Madden	Ordinary shares of 0.8 pence	50,000	—

Details of the dates and prices at which the shares are exercisable are disclosed under directors' share interests in the Directors' report.

13 Share options

The company believes that share ownership by executive directors and key staff strengthens the link between their personal interests and those of the shareholders. It therefore operates both an approved and an unapproved share option scheme under which options have been granted.

The exercise price must not be less than the higher of 1) the nominal value of the share and 2) the market value of the share at the date of the grant.

Exercise price (pounds)	Date granted	Range of dates exercisable	Number of shares for which rights are exercisable 2005	Number of shares for which rights are exercisable 2004
Unapproved				
2.175	02/10/2000	02/10/2003 – 02/10/2010	200,000	387,500
0.625	30/03/2001	30/03/2004 – 30/03/2011	50,000	75,000
0.625	19/04/2001	19/04/2004 – 19/04/2011	50,000	50,000
0.255	21/09/2001	21/09/2004 – 21/09/2011	643,750	668,750
0.475	04/04/2002	04/04/2005 – 04/04/2012	412,500	462,500
0.215	04/10/2002	04/10/2005 – 04/10/2012	487,500	487,500
0.31	08/05/2003	08/05/2006 – 08/05/2013	306,534	306,534
0.65	06/10/2003	06/10/2006 – 06/10/2013	447,884	447,884
0.35	04/05/2004	04/05/2007 – 04/05/2014	564,143	564,143
0.39	30/09/2004	30/09/2007 – 30/09/2014	599,359	443,109
0.22	29/04/2005	29/04/2008 – 29/04/2015	627,728	—
0.26	06/09/2005	06/09/2008 – 06/09/2015	652,500	—
Approved				
0.255	21/09/2001	21/09/2004 – 21/09/2011	62,500	62,500
0.475	04/04/2002	04/04/2005 – 04/04/2012	20,000	20,000
0.215	04/10/2002	04/10/2005 – 04/10/2012	15,000	15,000
0.31	08/05/2003	08/05/2006 – 08/05/2013	188,466	188,466
0.65	06/10/2003	06/10/2006 – 06/10/2013	74,616	74,616
0.35	04/05/2004	04/05/2007 – 04/05/2014	115,857	93,107
0.39	30/09/2004	30/09/2007 – 30/09/2014	88,141	88,141
0.22	29/04/2005	29/04/2008 – 29/04/2015	109,772	—
0.26	06/09/2005	06/09/2008 – 06/09/2015	62,500	—

Notes (continued)

forming part of the financial statements

14 Share premium and reserves

	Share premium account £	Capital contribution reserve £	Profit and loss account £
At beginning of year	2,925,375	125,000	(1,963,198)
Loss for year	—	—	(725,379)
At end of year	2,925,375	125,000	(2,688,577)

The capital contribution reserve is distributable.

15 Commitments

Annual commitments under non-cancellable operating leases are as follows:

	2005 Land and buildings £	2004 Land and buildings £
Operating leases which expire: within one year	44,150	44,150

16 Analysis of cash flows

	2005 £	2004 £
Returns on investment and servicing of finance		
Interest received	64,130	68,882
Capital expenditure		
Purchase of tangible fixed assets	(19,458)	(32,124)
Management of liquid resources		
Cash on term deposit	729,984	589,945
Financing		
Issue of ordinary share capital	—	5,625

17 Analysis of net funds

	At beginning of year £	Cash flow £	At end of year £
Cash in hand and at bank	—	—	—
Current asset investments	1,606,903	(729,984)	876,919
	1,606,903	(729,984)	876,919

Notes (continued)

forming part of the financial statements

18 Related party transactions

Fees of £11,250 (2004: £12,000) in respect of DD Blaikie's services first, as a director of the company and subsequently as a consultant, were paid to Kittaspec Securities Limited, a company of which DD Blaikie is a director. No amounts were outstanding at the year-end.

Fees of £180 (2004: £708) in respect of security fittings being made by MyGard, a company of which VJ Steel is a director, were paid in the year. No amounts (2004: £118) were due to MyGard by Forbidden Technologies plc at the year-end.

19 Financial instruments

The company's financial instruments comprise trade debtors, trade creditors, cash, corporate bond and equity shares.

The company has not entered into any derivative or other hedging instruments.

The company's policy is to finance its operation and expansion through the issue of equity share capital.

Financial assets comprise cash at bank and in hand and current asset investments. Financial assets and financial liabilities exclude short term debtors and creditors. The fair value of the financial assets and financial liabilities are not materially different from their carrying values.

Interest rate risk

Cash balances attract a floating rate of interest. The corporate bond has a fixed interest rate of 4.355%.

The company does not have any borrowings.

Liquidity risk

All financial liabilities fall due in one year or less. The company has no material un-drawn committed borrowing facilities.

Foreign currency risk

The company has no transactional exposure in respect of costs denominated in currencies other than sterling.

The company does not currently hedge against foreign currency risk because there is no exposure at this time.

20 Ultimate controlling party

The ultimate controlling party of the company is SB Streater by virtue of his shareholding.

Notice of annual general meeting

NOTICE IS HEREBY GIVEN that the annual general meeting of Forbidden Technologies plc will be held at 2-4 St George's Road, Wimbledon, London SW19 4DP on 27 June 2006 at 11.00 am for the following purposes:

As ordinary business

1. To receive the report of the directors and the audited accounts of the company for the financial year ended 31 December 2005.
2. To re-elect Mr VJ Steel, who retires by rotation pursuant to Article 118 of the company's Articles of Association and who, being eligible, offers himself for re-election, as a director.
3. To elect Mr PJ Madden, who was appointed a director on 5 September 2005 and retires in accordance with Article 113 of the company's Articles of Association and who, being eligible, offers himself for election, as a director.
4. To re-appoint KPMG Audit Plc as auditors and to authorise the directors to fix their remuneration.

As special business

5. To consider and, if thought fit, pass the following resolution as a Special Resolution:

THAT the directors be and they are hereby empowered, pursuant to Section 95 of the Companies Act 1985 (the "Act"), to allot equity securities (within the meaning of Section 94 of the Act) pursuant to the authority given in accordance with Section 80 of the Act by ordinary resolution dated 29 April 2005, as if Section 89(1) of the Act did not apply to such allotment, provided that this power shall be limited to:

- (a) the allotment of ordinary shares of 0.8p each in the capital of the company pursuant to the following share option schemes of the company:

- (i) the Approved Share Option Scheme adopted by the company on 13 January 2000;

- (ii) the Unapproved Share Option Scheme adopted by the company on 13 January 2000 (as amended by resolution of the board dated 25 January 2000),

up to a maximum of 10% of the issued share capital of the company from time to time;

- (b) the allotment otherwise than pursuant to sub-paragraph (a) above of equity securities up to an aggregate nominal value of £30,265 (representing 5% of the company's issued share capital as at the date of this Notice),

and shall expire at the conclusion of the next annual general meeting of the company in 2007, except 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 the directors may allot equity securities in pursuance of such offer or agreement as if the power conferred hereby had not expired.

By order of the board

MC Kay
Secretary
29 May 2006

Registered office:
2-4 St George's Road
London SW19 4DP

Notice of annual general meeting (continued)

Notes:

1. A member entitled to attend and vote at the meeting may appoint one or more proxies to attend and (on a poll) vote instead of him. A proxy need not be a member of the company. Appointment of a proxy will not preclude a member from attending and voting in person if he so wishes.
2. A proxy form is enclosed. To be effective, the proxy form and the power of attorney or other authority (if any) under which it is signed or a notarially certified copy of such power or authority must be deposited at Capita Registrars, Proxy Department, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU not less than 48 hours before the time fixed for the meeting or, in the case of a poll, not less than 24 hours before the time of taking of the poll.
3. Pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001, only holders of shares in the capital of the company who are registered in the Register of Members at 11.00 am on 25 June 2006 (or 48 hours before any adjourned meeting) are entitled to vote at the meeting (or any adjourned meeting). Changes to entries on the Register of Members after such times shall be disregarded in determining the rights of any person to attend and vote at the meeting.
4. The Register of directors' interests in the shares of the company and copies of the service agreements between the company and its directors will be available for inspection at the registered office of the company during usual business hours on any weekday (Saturdays and public holidays excluded) and also on the date and at the place of the meeting from 10.00 am until the conclusion of the meeting.

FORscene shareholder offer

I am a registered shareholder and would like to apply for the Forbidden Technologies plc shareholder offer of £1,000.00 of free credits for use with FORscene.

My details follow:

*Registered name

*Registered address
(account details will be posted here)

.....

.....

.....

.....

*Email address

Connection speed (eg 2Mb/s)

Computer CPU speed (eg 3GHz).....

*denotes compulsory field

Current FORscene details can be found on the Forbidden Technologies website: <http://forscene.net/>

I understand that these credits are not refundable for cash. I understand that any credits unused after one year will expire. I understand that I will be using FORscene under the standard terms and conditions as published on Forbidden's website and amended from time to time.

Signed.....

Name

Dated



Second fold

Affix
stamp
here

Forbidden Technologies plc
2-4 St George's Road
Wimbledon
London SW19 4DP

First fold

Third fold and tuck in



Forbidden Technologies plc
2-4 St George's Road
London SW19 4DP
Tel: +44 (0)20 8879 7245
Fax: +44 (0)20 8946 4871
Web: www.forbidden.co.uk