The web's video toolkit

FORBIDDEN TECHNOLOGIES

Annual report and accounts 2006

Forbidden Technologies plc has created a powerful internet video platform. It is being used by broadcasters, citizen journalists and consumers.

Forbidden brings you the web's video toolkit.

Highlights

- **Technology:** advanced compression designed for web editing
- **Cross platform upload:** PC, Mac, Linux
- **Publishing/hosting:** web, mobile, video podcasts
- **Extra functionality:** chat, storyboard and spell checker
- **Integration:** Avid and Final Cut Pro
- **Internet:** new website
- **Clesh:** simpler consumer offer with library and web upload
- **Citizen journalism:** shoot on mobile, edit and publish on FORscene
- **Customers:** BBC, ITV, corporates, charities, universities
- **Used by:** IBC Citizen Journalism, IBC TV News, Wildscreen Festival, WCSFP
- **Speaking slots at:** Broadcast Live, IVCA, IBC 2006, FTX West (Canada)
- **Placing:** 500,000 shares to founder of partner, Formidable Technologies

Broadcast

First prime-time TV series made using FORscene

Citizen Journalism

Multiple media events use new 'DVD quality' mobile phones to shoot and FORscene to edit and publish

Consumer

First appearance of Clesh in Tiscali competition

The web's video toolkit

FORscene

The FORscene video post production platform is one of the world's most advanced browser-based applications.

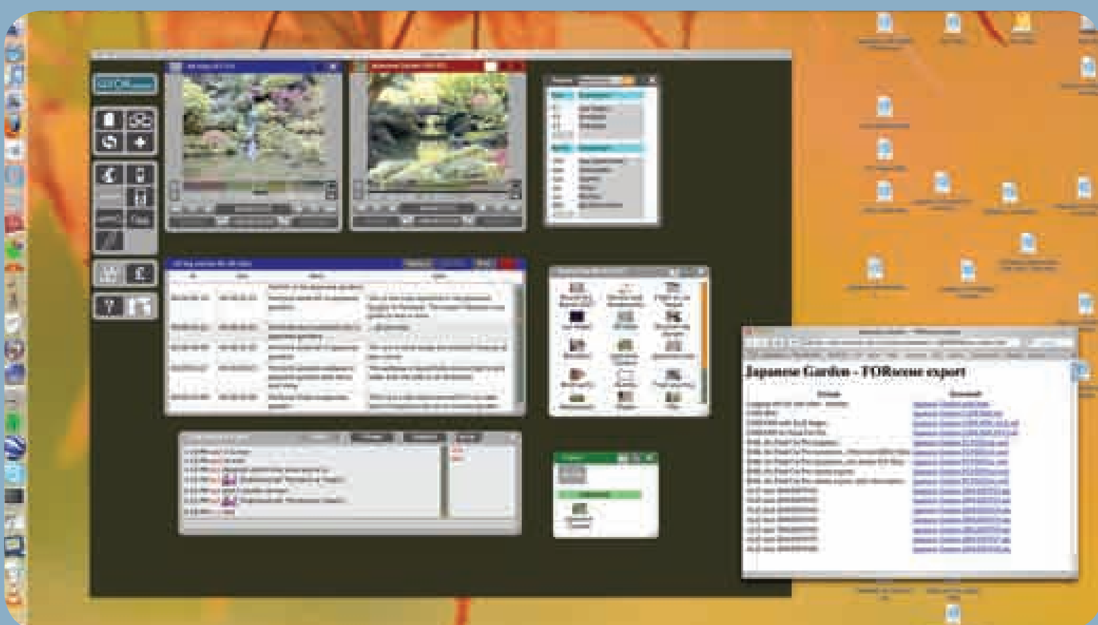
It gives each member of a post production team their own window onto programmes during their creation. Producers and directors can have the simplicity of the "review and approve" interface for viewing and commenting on dailies and rough cuts. Loggers can add searchable shot and sync metadata to the source material for use later on. Editors have an intuitive interface allowing them to make frame accurate rough cuts for export to Avid or FCP.

Production managers can grant (and revoke) these different levels of access for their production team, and monitor progress and usage patterns.

The integrated private chat system connects members of the team. Its ease of communication increases the efficiency of post production and the quality of the final output.

Reflecting the increasing importance of user-generated video and Citizen Journalism, FORscene supports wide area moderation.

Individuals upload mobile phone and camera footage to the web, choose the best shots and submit them for moderation. The broadcasters then take over, using FORscene to select the best videos and add any of their own finishing touches. The videos can then be broadcast, including (given the immediacy of the process), in news bulletins.



Web video mobilised

clip | load | edit | share

Film

- Film on mobile

Upload

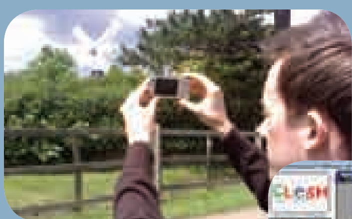
- From phone over-the-air
- PC via broadband
- Mac via broadband

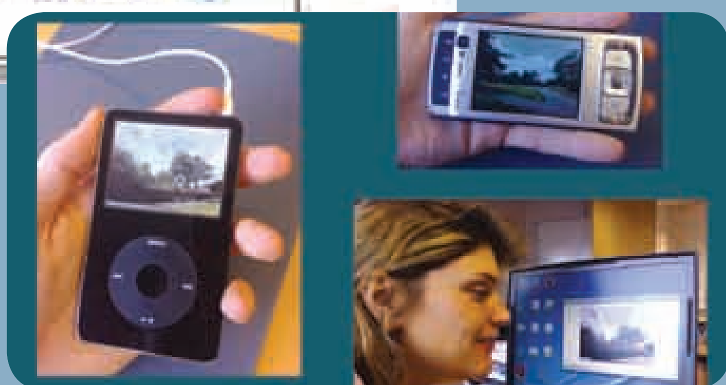
Edit

- Point & click, drag & drop
- Learn as you go, with tool tips
- Multiple audio channels
- Subtitles
- Dissolves
- Video levels
- Audio levels
- Storyboard

Playback

- Web sharing
- Podcast from Clesh on:
  - video iPods
  - mobile phones
  - PCs
  - Macs





Chairman's statement

> **We have actively been promoting awareness of the Company at gatherings in Europe and North America.**

In the year to 31 December 2006, the seventh year of our development, the Company recorded sales of £131,535 compared to £59,705 in the previous year. Administrative expenses were £872,000 (£874,637) and the loss for the year was £785,188 (£826,578).

At the year end the balance sheet showed £358,794 of net current assets (£967,098), comprising primarily cash and liquid assets.

The movement in net funds for the year was an outflow of £516,293 (£729,984).

The higher sales level achieved in the year reflects, in part, the increased number of pilot projects undertaken with the BBC in the first half and repeat business from BBC and other broadcasters in the second half.

Strategy

We have continued with our strategy of focusing upon professional post production in the broadcast market and on editing and publishing in the growing consumer video market.

Our intention of developing a product in the intruder and fire security market remains in our strategy but has not been pursued in the past year as the Company has focused entirely on the broadcast and consumer market.

Progress

Part way through the year, at one of our regular strategy review meetings we concluded that, if we are to achieve adequate scale in our chosen strategic sectors, we would be unable to do so quickly enough within our existing resources.

To achieve scale we need the reach and customer base that international companies can provide. Therefore, we are seeking strategic relationships in each of our two market sectors. To support this effort we have also widened our geographic coverage, particularly in North America where we have appointed a distributor, Formidable Technologies, based in Toronto, Canada.

We have actively been promoting awareness of the Company at major gatherings; in Europe at IBC (Europe's biggest broadcaster convention) and at London's Broadcast Live; in the USA at Video on the Net in San Jose, California and at NAB (the biggest broadcaster convention in the world) in Las Vegas.

Being seen and being active at these functions has raised awareness of Forbidden and its products and has enabled us to meet and discuss opportunities with some world-scale players.

On a smaller note, a number of universities in North America have begun to teach FORscene in their media schools thus turning out graduates who can take their knowledge of FORscene into their working lives in post production.

In Canada, through our distributor, we are in discussion with two major broadcasters and FORscene is being trialed by 9 Story Entertainment, a major animation studio.

Following the Company's decision to simplify the FORscene pricing model we have begun to convince more independent production companies in the UK to use the product, particularly since the product benefits are now clearer and the economic advantages are more easily understood.

Recently (June 2007) Mr Paparazzi, the world's largest celebrity picture agency has chosen to use Clesh on its newly designed website. Consumers taking video shots of celebrities are invited to upload footage onto their own Clesh accounts, edit the shots and submit them to Mr Paparazzi for saleability. Mr Paparazzi then sells the user-generated videos to a variety of media and part of the proceeds goes back to the consumer. That is the first wide-scale monetised use of Clesh.

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- Sales more than double

- Million pound loan agreement in place

- Clesh on Mr Paparazzi website

Corporate finance

Loan facility

At the end of the first quarter of 2007 the net assets of the Company fell below half of the nominal value of the issued share capital. Under Section 142 of the Companies Act 1985, in this circumstance an Extraordinary General Meeting (EGM) has to be called to consider what action, if any, should be taken to deal with the situation.

Accordingly, an EGM was held on 22 May 2007 and it was concluded that no further immediate action would be required, since the directors intended to make a loan facility of up to £1 million available to the Company. A second resolution, to increase the borrowing powers of the Board up to a limit of £2 million was agreed.

As you may have read from our press releases a loan agreement was completed on 5 June 2007 between the Company, Stephen Streater and myself providing a facility of up to £1 million. This secures sufficient working capital for the foreseeable future. For further details of this loan, please refer to note 18 in the financial statements.

IFRS

The Board has recently considered whether or not to adopt International Financial Reporting Standards (IFRS) for future accounting periods, being optional to AIM listed companies which do not have to present group accounts.

The Board concluded that the UK GAAP remains appropriate to Forbidden as a Company with a very transparent balance sheet and an absence of subjective valuations of intangible assets.

Share placing

In December 2006 one of the founding shareholders of our Canadian distributor, Formidable Technologies, purchased 500,000 new ordinary shares for 15p each from the Company. The purchase was a welcome confirmation of confidence from our active and energetic Canadian partner.

Board and staff

There were no changes to the Board in 2006 and we welcomed one new staff member, Peter Burns.

Our thanks are owed to the dedication and enthusiasm of our team in continuing the development of our technology and the pursuit of commercial opportunities.

Prospects

Following good sales growth in 2006 and the visibility of the Company and products being created this year, we are hopeful of a breakthrough to new partnerships and customers in 2007 which can lead to the desired scale for the Company.

Vic Steel

Victor Steel
Chairman
12 June 2007

Chief Executive's review

The FORscene collaborative post production system offers to improve both price and quality.

Introduction
In 2006, Forbidden consolidated its strong offering in the broadcast market and equipped its technology with appropriate interfaces for the consumer market and the emerging market of Citizen Journalism.

Forbidden's customers worldwide include major broadcasters, with products being acknowledged as providing practical solutions. This is reflected in the tone of press and internet coverage. The market is starting to understand FORscene.

Video on the web is catching on. As broadband continues to expand in coverage and speed, video looks set to dominate its new medium.

The world's infrastructure
FORscene is a service. It has minimal cost of capital or distribution as it runs in a web browser. The world's infrastructure it depends on continues to improve in leaps and bounds.

On the client side, broadband is getting faster and more common, and people's computers are better than ever. We now use client computers for demonstrations.

On the server side, we are benefiting from the falling cost of disk storage: a 5,000 hour server now costs us around £2,500 in components.

In the wider market, modern camera phones provide high quality video – ideal for consumers and citizen journalists. And there are many website outlets for web video.

The gap is in the middle. How to get from the original video content to the 5% which is actually interesting – and to tell a story. FORscene for citizen journalists, and Clesh for consumers, fill this gap.

FORscene
Forbidden's focus on FORscene is paying off. We have been able to let our product mature, making the refinements which can only come with real-life use. We have not just added more features, we have also improved ease of learning and ease of use, while maintaining the high degree of reliability which comes from a well maintained web system.

Commercially, the new FORscene pricing model is a major advance. Our understanding of usage patterns has enabled us to offer an "all you can eat" pricing which encourages new users within each organisation.

FORscene's main professional uses are reviewing, logging and editing. Our end-to-end ingest once solution minimises wear and tear on source tapes – FORscene outputs a broadcast quality rough cut for finishing on a high-end machine. Integration with the Avid and Apple systems led to the first prime time TV broadcasts of programmes made with FORscene.

Where mobile phones are used for filming, FORscene provides a complete post production solution, including podcasting, web delivery and output for TV broadcasts.

Forbidden's customers now extend from the BBC and ITV to charities, corporates and universities.

Working as a team
Making videos is a team effort. Producers, directors, editors, loggers, camera men and clients all contribute. FORscene's foundation in the internet helps team working considerably by being so accessible. The chat system, which includes private chat rooms and technical support, also aids communication, making post production more efficient.

The FORscene collaborative post production system offers to improve both price and quality.

- FORscene is a maturing web-based video platform

- Forbidden's technology continues to advance

- The growth of video on the internet is multiplying commercial opportunities

Clesh

The mass acceptance of internet video has left a gap for a high-end web-based consumer product. To explore this market, in 2006 Forbidden launched Clesh (Clip Load Edit Share), a storyboard version of FORscene for consumers.

Consumers edit their video for sharing with friends and family. There is a wide variety of web services on the internet.

The Forbidden tool has many advantages. Its compression works well over variable speed connections. Its intuitive interface is the result of many years of experience, while its professional pedigree allows a depth which consumers will appreciate as they build up more content and experience.

The advantages of the web-based approach are coming into focus: people can – and do – log on from anywhere. Chat helps build a community, allowing sharing of content and getting tips on how to make better videos.

Companies providing Clesh will also find relevant features, such as moderation, are provided as standard.

Put simply, Clesh is the best tool around. It is a live system and is available for licence for use in consumer websites around the world.

Promotion

Forbidden's main targets have been in Europe and North America. Forbidden directors have given talks at shows both in the UK and abroad, including Broadcast Live, IBC (who used it for news and citizen journalism) and IVCA.

These speaking opportunities have continued into 2007 with presentations at Video on the Net, NAB and Broadcast Live.

Press coverage has continued as the FORscene product has become more established.

Shareholder offer

Forbidden offers shareholders free accounts on FORscene. This allows users to try out Forbidden's latest versions, and of course to make the odd internet video for themselves.

Stephen B. Streater

Stephen Streater
Chief Executive
12 June 2007

Case Study: Consumer Clesh

Clesh is a simplified version of FORscene.
Mark Kilby, a user, writes:

I have used Clesh since 2006 and have been impressed by its ease of use, uncluttered interface and useful features.

I Bluetooth my mobile clips to my PC and upload them over broadband.

With Clesh, I can edit and chat over the web on any computer. I use the storyboard and trimming to choose the best bits to tell each story. I also adjust video and audio levels.

I publish my videos on the web for my friends and family and can track views. I keep all the rights, and can withdraw my published videos if I change my mind.

Now I have used Clesh, I can't imagine going back to access from a single computer.

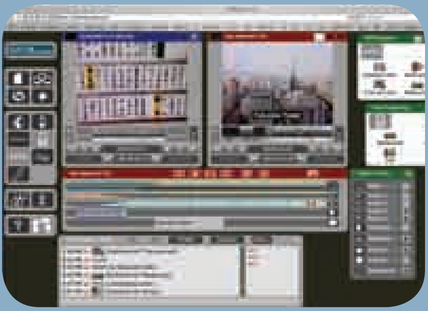
"I used to think of making videos as a hobby, but now it just happens naturally."
Mark Kilby, Clesh user

Case Study: Citizen Journalism IBC Citizen TV

2006 saw the International Broadcasting Convention's (IBC's) first venture into citizen journalism.

Attendees used their mobile phones to record and submit a video story on any aspect of IBC. Contributions were posted on a dedicated website www.ibccitizentv.com, every day of the show. The videos were accessible both on mobile phones and computer browsers. To get a variety of stories, IBC Citizen TV distributed smartphones to a mixture of contributors from students to delegates. Their goal was to seek out and record stories ranging from the serious and interesting to the humorous and quirky. Those without video on their phones could still contribute through a diary room equipped with a video camera and internet connection to upload the clip to FORscene.

Clips were moderated and edited in FORscene and then published straight to the website and for mobile phone download.

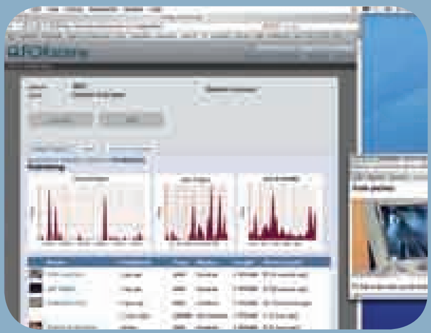


"FORscene is the perfect tool for a project like this: as editor the process was seamless. I saw there were new contributions in my inbox, I trimmed them and published them – it was simple."
Dick Hobbs, Editor of IBC Citizen TV

Case Study: Broadcast ITV

ITV Productions again chose FORscene in Autumn 2006.

FORscene was chosen by the Marbella Belles production team to strip out cost and achieve significant time reductions in their post production process. Used throughout the shooting period, FORscene enabled the Marbella Belles production team to ingest footage directly into the web-based system, allowing loggers in the UK to immediately begin work on the rushes. Once logged, the team on location in Spain was able to access FORscene to review the material, shot select and significantly short cut the post production process.



"Allowing users to view content irrespective of their location, made an incredible impact on the speed and efficiency of the post production process."
Natalie Wall, Production Manager, Marbella Belles

"By delivering immediate access to on-location footage, FORscene is helping production companies to achieve strategic cost reduction targets, while significantly reducing the time to market of the completed programme. In today's competitive broadcast industry, these are key business goals."
Stephen Streater, CEO, Forbidden Technologies

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 B. Streater started his public company career as a founder of Eidos plc. A decade later, Stephen 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. Years at the cutting edge of computer video have enabled Stephen to fulfill his vision with Forbidden's powerful web-based video platform. Stephen's radical approach can be controversial at times, and he enjoys presenting his revolutionary ideas to public audiences both at industry events and in the press.

Phil Madden
Finance Director

Phil Madden has held senior finance positions at board and sub-board level for over 17 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 23-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 a Director 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.

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Directors' report

The directors present their annual report and the audited Financial statements for the year ended 31 December 2006.

Principal activities
The principal activity of the Company is the development and commercial exploitation of web-based video tools.

Business review
The Company has continued with the development of video compression technology and tools. A detailed review of the Company's financial performance during the year and a summary of future prospects is provided within the Chairman's statement on page 4 and the Chief Executive's review on page 6. Turnover for the year was £131,535 (2005: £59,705); the loss for the year was £785,188 (2005: £826,578). The results of the Company are shown in more detail on page 16.

Proposed dividend
The directors do not recommend the payment of a dividend (2005: £nil).

Financial instruments
The Company's financial instruments comprise trade debtors, trade creditors, cash and liquid assets.

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. Since the year end, the Company has made arrangements with two of its directors for the availability of a loan facility to meet working capital requirements. Further detail of this arrangement is given in note 18.

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. At the year end, the Company did not have any borrowings.

The directors review interest payable and receivable on an ongoing basis to assess the Company's risk relating to changes in interest rates.

Liquidity risk
All financial liabilities at the year end fall due in one year or less. The Company had no material undrawn committed borrowing facilities.

The Company reviews future working capital requirements on a monthly basis, and since the year end has put into place a credit facility to meet financing requirements, as noted above.

Foreign currency risk
The Company enters into transactions in the UK, Europe and North America and is exposed to currency fluctuations in the exchange rates for these regions. The Company does not currently hedge against foreign currency risk since the directors feel that at current levels of income and expenditure, the risk is low and its effect does not materially influence the Company's working capital position.

The directors review foreign exchange movements on an ongoing basis to assess the Company's risk relating to changes in foreign currency exchange rates.

Directors and directors' interests
The directors who held office during the year were as follows:

SB Streater, VJ Steel, DP Main, GB Hirst and PJ Madden

The directors who held office at the beginning and 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**	62,760,000
VJ Steel	Ordinary shares of 0.8 pence	**362,500**	362,500
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	**31,488**	—

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 Granted	Exercised	Lapsed	**At end of year**	Exercise price £	Market price on date of exercise £	Date from which exercisable	Expiry date
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
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
GB Hirst	—	15,000	—	—	**15,000**	0.23	—	09/05/2009	09/05/2016
PJ Madden	50,000	—	—	—	**50,000**	0.26	—	06/09/2008	06/09/2015
PJ Madden	—	25,000	—	—	**25,000**	0.23	—	09/05/2009	09/05/2016

The market value of the shares at the year end was 14p. The highest market value during the year was 33.5p and the lowest market value 13.5p.

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, there were 9 days (2005: 7 days) purchases in trade creditors.

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 38,695 ordinary shares of 0.8p in the Company were granted to four employees on 9 May 2006, exercisable at 23p per share within the period 9 May 2009 to 9 May 2016, on condition of employment with the Company.

Share option schemes continued

The Company also has an unapproved share option scheme under which options over 388,805 ordinary shares of 0.8p in the Company were granted in total to eight directors and employees on 9 May 2006, exercisable at 23p per share within the period 9 May 2009 to 9 May 2016, 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.

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 (2005: £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.

Disclosure of information to auditors

The directors who held office at the date of approval of this Directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditors are unaware; and each director has taken all the steps that he ought to have taken as a director to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Auditors

Your directors have decided that after seven years and in the interests of good corporate governance the audit contract should be retendered. A resolution for the appointment of KingstonSmith LLP as auditors of the Company in place of the retiring auditors is to be proposed at the forthcoming annual general meeting.

On behalf of the Board

Stephen B. Streater

SB Streater
Director
2–4 St George's Road
London SW19 4DP
12 June 2007

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 and applicable law (UK Generally Accepted Accounting Practice).

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 UK 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 that 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.

The directors are responsible for the maintenance and integrity of corporate and financial information included on the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

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 2006 which comprise the Profit and loss account, the Balance sheet, the Reconciliation of movements in shareholders' funds, the Cash flow statement, the Statement of total recognised gains and losses 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

The directors' responsibilities for preparing the financial statements in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities on page 14.

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 whether in our opinion the information given in the Directors' Report is consistent with the financial statements.

In addition we 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 information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read the Directors' report and consider the implications for our report if we become aware of any apparent misstatements within it.

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 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 UK Generally Accepted Accounting Practice, of the state of the Company's affairs as at 31 December 2006 and of its loss for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the financial statements.

KPMG Audit Plc

KPMG Audit Plc
Chartered Accountants
Registered Auditor
8 Salisbury Square
London EC4Y 8BB
12 June 2007

Profit and loss account

for the year ended 31 December 2006

	Note	**2006** £	Restated 2005 £
Turnover	2	**131,535**	59,705
Administrative expenses before FRS 20 employee share option cost		**(872,000)**	(874,637)
FRS 20 employee share option cost		**(101,884)**	(101,199)
Administrative expenses		**(973,884)**	(975,836)
Operating loss		**(842,349)**	(916,131)
Interest receivable and similar income	6	**18,648**	54,605
Loss on ordinary activities before taxation	3 – 5	**(823,701)**	(861,526)
Tax on loss on ordinary activities	7	**38,513**	34,948
Loss for the financial year	14	**(785,188)**	(826,578)
Basic and diluted loss per ordinary 0.8p share	8	**(1.04p)**	(1.09p)

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 2006

	Note	2006 £	2006 £	2005 £	2005 £
Fixed assets					
Tangible assets	9		**5,063**		9,729
Current assets					
Debtors	10	**94,912**		172,592	
Current asset investments	19	**360,626**		876,919	
		455,538		1,049,511	
Creditors: amounts falling due within one year	11	**(101,807)**		(92,142)	
Net current assets			**353,731**		957,369
Net assets			**358,794**		967,098
Capital and reserves					
Called up share capital	12		**609,300**		605,300
Share premium account	14		**2,996,375**		2,925,375
Capital contribution reserve	14		**125,000**		125,000
Profit and loss account	14		**(3,371,881)**		(2,688,577)
Equity shareholders' funds			**358,794**		967,098

These financial statements were approved by the Board of directors on 12 June 2007 and were signed on its behalf by:

Stephen B. Streater

SB Streater
Director

P J Madden

PJ Madden
Director

Cash flow statement

for the year ended 31 December 2006

	Note	2006 £	Restated 2005 £
Reconciliation of operating loss to net cash outflow from operating activities			
Operating loss		**(842,349)**	(916,131)
Add back FRS 20 employee share option cost		**101,884**	101,199
Depreciation charges		**14,791**	25,541
Decrease/(increase) in debtors		**18,767**	(4,618)
Increase in creditors		**9,665**	19,353
Net cash outflow from operating activities		**(697,242)**	(774,656)
Cash flow statement			
Cash flow from operating activities		**(697,242)**	(774,656)
Returns on investments and servicing of finance	16	**18,648**	64,130
Taxation	16	**97,426**	—
Capital expenditure	16	**(10,125)**	(19,458)
Cash outflow before management of liquid resources		**(591,293)**	(729,984)
Management of liquid resources	16	**516,293**	729,984
Financing	16	**75,000**	—
Increase/(decrease) in cash in the year		**—**	—
Reconciliation of net cash flow to movement in net funds			
Increase/(decrease) in cash in the year	17	**—**	—
Cash outflow from decrease in liquid resources	17	**(516,293)**	(729,984)
Movement in net funds in the year		**(516,293)**	(729,984)
Net funds at the start of the year		**876,919**	1,606,903
Net funds at the end of the year		**360,626**	876,919

Reconciliation of movements in shareholders' funds

for the year ended 31 December 2006

	2006 £	Restated 2005 £
Loss for the financial year	**(785,188)**	(826,578)
Add back FRS 20 employee share option cost	**101,884**	101,199
New share capital subscribed (net of issue costs)	**75,000**	—
Net reduction in shareholders' funds	**(608,304)**	(725,379)
Opening shareholders' funds	**967,098**	1,692,477
Closing shareholders' funds	**358,794**	967,098

Statement of total recognised gains and losses

for the year ended 31 December 2006

	2006 £	Restated 2005 £
Loss for the financial year	**(785,188)**	(826,578)
Total recognised gains and losses relating to the financial year	**(785,188)**	(826,578)
Prior year adjustment (as explained in notes 1 and 13)	**(101,199)**	
Total gains and losses recognised since last annual report	**(886,387)**	

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 FRS 20 'Share based payments' has been adopted for the first time.

Prior year adjustment
FRS 20 'Share based payments' has led to the inclusion of a charge to profit in the current and prior years representing the cost of issue of share options to employees. The adoption of FRS 20 'Share based payment' has led to a charge of £101,884 in the profit and loss account in the current year, along with a restatement of prior period profit to include the corresponding charge of £101,199. There has been no impact on the opening or closing profit and loss account reserve for the 2005 and 2006 financial years. Note 13 includes further detail of the share options in issue.

Basis of preparation
The financial statements have been prepared in accordance with applicable accounting standards and under the historical cost accounting rules.

Going concern
The financial statements have been prepared on the going concern basis, notwithstanding the current asset investment balance of £360,626 (2005: £876,919) which at current income, expenditure and working capital levels is insufficient to finance the Company for the next twelve months.

The Company incurred losses of £785,188 (2005: £826,578) during the year ended 31 December 2006. Since the year end, VJ Steel and SB Streater have made available to the Company a £1,000,000 drawing facility to finance future cash flows. Note 18 contains further detailed information relating to the terms and availability of the arrangement.

The directors have prepared cash flow forecasts that demonstrate the Company will have sufficient headroom to remain a going concern for the foreseeable future once the cost reduction measures approved by the Board have been implemented. The Company's ability to generate positive cash flows and move to profitability remains dependent upon enhanced sales beyond those achieved in the current financial year.

On this basis, the directors consider that the Company will have access to sufficient financial resources to fund its working capital requirements for at least twelve months from the date of the financial statements and thereafter for the foreseeable future. The financial statements do not include any adjustments that would result should the going concern basis of preparation prove no longer to be appropriate.

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.

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.

1. Accounting policies continued

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 at the year end are treated as deferred revenue. Revenue is recognised as the credits are subsequently used or expire.

Classification of financial instruments issued by the Company

Following the adoption of FRS 25, financial instruments issued by the Company are treated as equity (i.e. forming part of shareholders' funds) only to the extent that they meet the following two conditions:

a) they include no contractual obligations upon the Company to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the Company; and

b) where the instrument will or may be settled in the Company's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the Company's own equity instruments or is a derivative that will be settled by the Company exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments.

To the extent that this definition is not met, the proceeds of issue are classified as a financial liability. Where the instrument so classified takes the legal form of the Company's own shares, the amounts presented in these financial statements for called up share capital and share premium account exclude amounts in relation to those shares.

At the balance sheet date the Company had no such financial instruments.

Finance payments associated with financial liabilities are dealt with as part of interest payable and similar charges. Finance payments associated with financial instruments that are classified as part of shareholders' funds (see dividends policy), are dealt with as appropriations in the reconciliation of movements in shareholders' funds.

Dividends on shares presented within shareholders' funds

Dividends unpaid at the balance sheet date are only recognised as a liability at that date to the extent that they are appropriately authorised and are no longer at the discretion of the Company. Unpaid dividends that do not meet these criteria are disclosed in the notes to the financial statements.

Share based payments

The share option programme allows employees to acquire shares of the Company. Options granted after 7 November 2002 and those not yet vested as at 1 January 2006 meet the definition of equity settled so the fair value is recognised as an employee expense with a corresponding increase in equity. The fair value is measured at grant date and spread over the period during which the employees become unconditionally entitled to the options. The fair value of the options granted is measured using an option pricing model, taking into account the terms and conditions upon which the options were granted. The amount recognised as an expense is adjusted to reflect the actual number of share options that vest except where forfeiture is only due to share prices not achieving the threshold for vesting.

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 earned in the following geographic areas:

	2006 **£**	2005 £
UK	**126,845**	59,705
Europe	**1,800**	—
North America	**2,890**	—
	131,535	59,705

Notes continued
forming part of the Financial statements

3. Notes to the profit and loss account

	2006 £	2005 £
Loss on ordinary activities before taxation is stated after charging:		
Amounts receivable by the auditors and their associates in respect of:		
Audit of these financial statements	**28,190**	19,000
Other services relating to taxation	**9,490**	13,300
Depreciation and other amounts written off tangible fixed assets: owned	**14,791**	25,541
Hire of other assets – operating leases	**44,150**	44,150
Exchange losses	**531**	182
Research and development expenditure	**156,474**	159,773

4. Remuneration of directors

	2006 £	2005 £
Directors' emoluments	**112,500**	98,333
Amounts paid to third parties in respect of directors' services	**—**	7,500
	112,500	105,833

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 2006	Number of employees 2005
Management	**4**	4
Technical	**5**	5
Marketing	**5**	4
	14	13

The aggregate payroll costs of these persons were as follows:

	2006 £	2005 £
Wages and salaries	**380,379**	359,700
Share based payments (see note 13)	**101,884**	101,199
Social security costs	**39,679**	35,736
	521,942	496,635

6. Other interest receivable and similar income

	2006 £	2005 £
Bank interest	**18,648**	54,605

7. Taxation

Analysis of credit in the period

	2006 £	Restated 2005 £
UK corporation tax		
Current tax on income for the period	**—**	—
Research and development tax credit	**(38,513)**	(34,948)
Total current tax	**(38,513)**	(34,948)

Factors affecting the tax charge for the current period

The current tax charge for the period is lower (2005: lower) than the standard rate of corporation tax in the UK (20%, 2005: 20%). The differences are explained below.

	2006 £	Restated 2005 £
Current tax reconciliation		
Loss on ordinary activities before tax	**(823,701)**	(861,526)
Add back FRS 20 employee share option cost	**101,884**	101,199
	(721,817)	(760,327)
Current tax at 20% (2005: 20%)	**(144,363)**	(152,065)
Effects of:		
Expenses not deductible for tax purposes	**24,994**	5,108
Capital allowances for period lower than/(in excess of) depreciation	**2,958**	5,108
Employee share acquisition relief	**—**	3,785
Tax losses carried forward	**84,316**	108,941
Additional deduction for research and development expenditure	**(16,047)**	(14,562)
Rate differences for research and development tax credit	**9,629**	8,737
Total current tax credit (see above)	**(38,513)**	(34,948)

Tax losses amounting to £3,028,046 (2005: £2,606,000) are available to relieve against future profits of the Company.

Unrecognised deferred tax assets

	2006 £	2005 £
Depreciation in excess of capital allowances	**21,121**	18,163
Tax losses carried forward	**605,609**	521,293
	626,730	539,456

In accordance with FRS 19, the 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 75,704,167 (2005: 75,662,500).

Notes continued
forming part of the Financial statements

9. Tangible fixed assets

	Leasehold improvements £	Fixtures and fittings £	Computer equipment £	Total £
Cost				
At beginning of year	14,084	23,554	164,973	202,611
Additions	—	521	9,604	10,125
At end of year	14,084	24,075	174,577	212,736
Depreciation				
At beginning of year	14,084	23,418	155,380	192,882
Charge for year	—	397	14,394	14,791
At end of year	14,084	23,815	169,774	207,673
Net book value				
At 31 December 2006	**—**	**260**	**4,803**	**5,063**
At 31 December 2005	—	136	9,593	9,729

10. Debtors

	2006 £	2005 £
Trade debtors	**14,507**	24,974
Other debtors	**51,445**	8,993
Prepayments and accrued income	**28,960**	138,625
	94,912	172,592

11. Creditors: amounts falling due within one year

	2006 £	2005 £
Trade creditors	**9,210**	7,918
Other creditors	**407**	—
Directors' loans	**4,955**	6,640
Taxation and social security	**13,123**	23,145
Accruals and deferred income	**74,112**	54,439
	101,807	92,142

12. Called up share capital

	2006 £	2005 £
Authorised:		
125,000,000 ordinary shares of 0.8p each (2005: 125,000,000 ordinary shares of 0.8p each)	**1,000,000**	1,000,000
Allotted, called up and fully paid:		
76,162,500 ordinary shares of 0.8p each (2005: 75,662,500 ordinary shares of 0.8p each)	**609,300**	605,300

During the year, the Company issued 500,000 ordinary shares of 0.8p each (aggregate nominal value £4,000) for a consideration of £75,000, settled in cash.

12. Called up share capital continued

During the year the Company issued share options under the terms of the share option schemes.

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**	1,200,000
DP Main	Ordinary shares of 0.8 pence	**300,000**	300,000
GB Hirst	Ordinary shares of 0.8 pence	**440,000**	425,000
PJ Madden	Ordinary shares of 0.8 pence	**75,000**	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.

For all options, the exercise price is the market value of the share at the date of the grant. On each occasion, options are granted ad hominem to selected employees and directors. Options vest three years after the date of grant on condition that the recipient is still an employee or director of the Company. Options are exercisable within seven years of vesting. All options are equity settled.

Exercise price (pounds)	Date granted	Range of dates exercisable	**Number of shares for which rights are exercisable 2006**	Number of shares for which rights are exercisable 2005
Unapproved				
2.175	02/10/2000	02/10/2003 – 02/10/2010	**200,000**	200,000
0.625	30/03/2001	30/03/2004 – 30/03/2011	**50,000**	50,000
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**	643,750
0.475	04/04/2002	04/04/2005 – 04/04/2012	**412,500**	412,500
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**	599,359
0.22	29/04/2005	29/04/2008 – 29/04/2015	**627,728**	627,728
0.26	06/09/2005	06/09/2008 – 06/09/2015	**652,500**	652,500
0.23	09/05/2006	09/05/2009 – 09/05/2016	**388,805**	—
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**	115,857
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	**59,772**	109,772
0.26	06/09/2005	06/09/2008 – 06/09/2015	**37,500**	62,500
0.23	09/05/2006	09/05/2009 – 09/05/2016	**28,695**	—

13. Share options continued

The number and weighted average exercise prices of share options are as follows:

	2006 Weighted average exercise price	**2006 Number of options**	2005 Weighted average exercise price	2005 Number of options
Outstanding at the beginning of the period	**0.41**	**5,703,750**	0.53	4,613,750
Granted during the period	**0.23**	**427,500**	0.24	1,452,500
Forfeited during the period	**0.23**	**10,000**	1.30	362,500
Exercised during the period	**—**	**—**	—	—
Lapsed during the period	**—**	**—**	—	—
Outstanding at the end of the period	**0.39**	**6,121,250**	0.41	5,703,750
Exercisable at the end of the period	**0.50**	**2,958,750**	0.51	1,941,250

The options outstanding at the year end have an exercise price in the range of £0.215 to £2.175 and a weighted average contractual life of ten years.

The fair value of services received in return for share options granted are measured by reference to the fair value of share options granted. The estimate of the fair value of the services received is measured based on a Black-Scholes approximation model.

For the purposes of the valuation, it has been assumed that the exercise price equates to the share price at the date of grant. The management estimate for time from grant to exercise is four years, based on the volatility of shares. The contractual life of options in issue is ten years. Management also estimate that 50% of the options will lapse. Volatility is based on daily share prices since floatation, excluding the first month of trading, and compared to the volatility of companies conducting broadly comparable activities.

Details of share options granted in the current and prior year are as follows:

	2006 Approved	2005 Approved		**2006 Unapproved**	2005 Unapproved	
	9 May	6 Sept	29 Apr	**9 May**	6 Sept	29 Apr
Fair value at measurement date	**0.1047**	0.1196	0.1067	**0.1047**	0.1196	0.1067
Weighted average share price	**0.219**	0.260	0.220	**0.219**	0.260	0.220
Exercise price	**0.23**	0.26	0.22	**0.23**	0.26	0.22
Expected volatility (expressed as % used in the modelling under Black-Scholes model)	**59%**	60%	64%	**59%**	60%	64%
Option life (expressed as weighted average life used in the modelling under Black-Scholes model)	**4**	4	4	**4**	4	4
Expected dividends	**0%**	0%	0%	**0%**	0%	0%
Risk free interest rate (based on national government bonds)	**4.63%**	4.21%	4.62%	**4.63%**	4.21%	4.62%

The expected volatility is based on the historic volatility (calculated based on the weighted average remaining life of the share options), adjusted for any expected changes to future volatility due to publicly available information.

Share options are granted under a service condition. Such conditions are not taken into account in the grant date fair value measurement of the services received. There are no market conditions associated with the share option grants.

The total expenses recognised for the period arising from share based payments are as follows:

	2006 £	2005 £
Equity settled share based payments	**101,844**	101,199

14. Share premium and reserves

	Share premium account £	Capital contribution reserve £	Profit and loss account £
At beginning of year	2,925,375	125,000	(2,688,577)
Loss for year	—	—	(785,188)
Add back FRS 20 employee share option scheme cost	—	—	101,884
Premium on new shares issued	71,000	—	—
At end of year	**2,996,375**	**125,000**	**3,371,881**

The capital contribution reserve is distributable.

15. Commitments

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

	2006 Land and buildings £	2005 Land and buildings £
Operating leases which expire:		
within one year	**44,150**	44,150

16. Analysis of cash flows

	2006 £	2005 £
Returns on investment and servicing of finance		
Interest received	**18,648**	64,130
Taxation		
Tax credit received	**97,426**	—
Capital expenditure		
Purchase of tangible fixed assets	**(10,125)**	(19,458)
Management of liquid resources		
Cash on term deposit	**516,293**	729,984
Financing		
Issue of ordinary share capital	**75,000**	—

17. Analysis of net funds

	At beginning of year £	Cash flow £	**At end of year £**
Cash in hand and at bank	276,919	83,707	**360,626**
Liquid resources	600,000	(600,000)	**—**
Current asset investments	876,919	(516,293)	**360,626**

18. Related party transactions

Fees of £143 (2005: £180) 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 (2005: £nil) were due to MyGard by Forbidden Technologies plc at the year end.

Directors' loans (see note 11) included the following balances:

	31 December 2006 £	31 December 2005 £
PJ Madden	**4,995**	—
VJ Steel	**—**	6,640
	4.995	6,640

On 5 June 2007, the Company entered into an agreement with two of its directors (SB Streater and VJ Steel) to provide additional funding in order to meet its short-term working capital requirements. The credit facility made available by the directors allows a drawing of funds by the Company of up to a maximum of £1 million between 1 June 2007 and 30 June 2010. The directors have made funds available in the following proportions:

SB Streater:	£900,000
VJ Steel:	£100,000

The facility allows the Company to make one drawing per month up to the following maximum amounts based on the month of the request:

June 2007 – August 2007	£70,000
September 2007 – November 2007	£60,000
December 2007 – February 2008	£40,000
March 2008 – May 2008	£30,000
June 2008 – May 2009	£25,000
June 2009 – May 2010	£8,000
June 2010	£4,000

In the event that the forecast indicates that the standard monthly drawing will not be sufficient to meet the working capital requirements of the Company for that month, the agreement also allows the Company to request any unclaimed drawings, up to a maximum of twice the standard monthly drawing, The drawing shall also be limited such that the sum of the advance and existing cash and liquid assets shall not exceed £120,000 in the first six months of the agreement, and £100,000 thereafter. The lenders shall transfer the monthly advances in proportion to the funds originally made available by each (i.e. 90% by SB Streater and 10% by VJ Steel).

The agreement stipulates that, in the event of a rights issue to shareholders where the issue is proposed to raise more than £1 million, the current outstanding proportion of the directors' loan relating to VJ Steel shall be convertible to ordinary shares at the average price per share of the issue in satisfaction of the outstanding balance at the lenders request.

The loan may be repaid by the Company at any time, and must be repaid up to the amount which the outstanding balance of the loan exceeds £250,000 where the forecast cash and liquid assets of the Company exceed £250,000. Each repayment shall be apportioned to the lenders in proportion with the total amounts made available by each in the loan agreement.

The loan and all interest payable upon it shall become fully payable in the event that the Company raises a minimum of £1 million by way of issuance of shares.

Interest on the loan shall be payable at the following rates:

1 June 2007 – 30 November 2008	nil
1 December 2008 – 30 November 2009	10%
1 December 2009 – 30 November 2010	20%
1 December 2010 – 30 November 2011	30%

Increasing at 10% per annum thereafter until repayment is made in full.

During the period in which the loan is outstanding, the Company shall not create security over any of its assets without the prior written consent of the lenders.

19. Financial instruments

The Company's financial instruments comprise trade debtors, trade creditors, cash and liquid assets.

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. Since the year end, the Company has made arrangements with two of its directors for the availability of a loan facility to meet short-term working capital requirements. Further detail of this arrangement is given in note 18.

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. At the year end, the Company did not have any borrowings.

The directors review interest payable and receivable on an ongoing basis to assess the Company's risk relating to changes in interest rates.

Liquidity risk

All financial liabilities at the year end fall due in one year or less. The Company had no material undrawn committed borrowing facilities.

The Company reviews future working capital requirements on a monthly basis, and since the year end has put into place a credit facility to meet short-term financing requirements, as noted above.

Foreign currency risk

The Company enters into transactions in the UK, Europe and North America and is exposed to currency fluctuations in the exchange rates for these regions. The Company does not currently hedge against foreign currency risk since the directors feel that at current levels of income and expenditure, the risk is low and its effect does not materially influence the Company's working capital position.

The directors review foreign exchange movements on an ongoing basis to assess the Company's risk relating to changes in foreign currency exchange rates

20. Ultimate controlling party

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

21. Post balance sheet events

On 5 June 2007, two of the directors (SB Streater and VJ Steel) provided the Company with a long-term loan facility of £1 million. The issue of this loan allows the Company to meet its short-term working capital requirements for at least twelve months from the signing of these financial statements. The terms of the loan are detailed in note 18.

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 13 July 2007 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 2006.
2. To re-elect Mr DP Main, 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 appoint KingstonSmith LLP as auditors of the Company in place of the retiring auditors, to hold office from the date of this resolution until the conclusion of the next general meeting of the Company at which accounts are laid before the Company and to authorise the directors to fix their remunerations.

As special business

4. 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 and issue of ordinary shares of 0.8p each in the capital of the Company up to a nominal value of £100,000 pursuant to any exercise by VJ Steel of his debt conversion rights in accordance with a loan agreement dated 5 June 2007 between SB Streater (1), VJ Steel (2) and the Company (3).

   (c) the allotment otherwise than pursuant to sub-paragraphs (a) and (b) above of equity securities up to an aggregate nominal value of £30,465 (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 2008, 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
20 June 2007

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

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 Processing Centre, Telford Road, Bicester OX26 4LD 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 11 July 2007 (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 (e.g. 8Mb/s)..

Computer CPU speed (e.g. 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 ....

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the design portfolio
marketing services.
www.design-portfolio.co.uk

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