

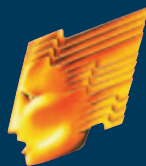


Interim Report 2006

Log in to FORscene



**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.

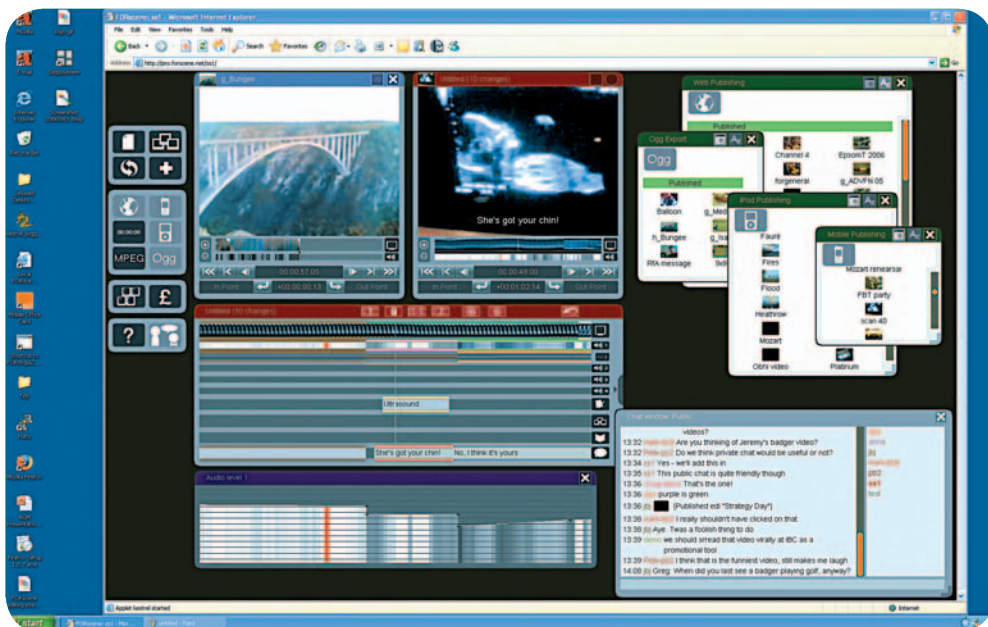
# FORscene

The Internet is getting faster and many modern applications, such as Google, Ebay, Amazon, Yahoo, YouTube and Wikipedia, are provided over the web.

The web browser might be Internet Explorer, Firefox, Safari or Opera. And it might be running on a Windows PC, an Apple Mac or a Linux computer. It doesn't matter – the web page is the window onto these popular applications.

FORscene is the corresponding tool for video. It provides video editing and publishing through a web browser, and is already being used by major broadcasters and production companies to make their TV programmes. See page 8 for details of the shareholder offer, and try it for yourself here:

<http://pro.forscene.net/trial/>



## Chairman's statement

In the six months to 30 June 2006 the Company recorded sales of £68,228 compared to £17,851 in the first half of the previous year. Administrative expenses were £384,760 (2005: £401,493) and the loss in the six months was £360,274 (2005: £390,929).

At 30 June 2006, the balance sheet showed £655,474 of net current assets (2005: £1,328,915) and cash and liquid resources of £645,676 (2005: £1,280,451).

Sales are significantly higher than in the first six months of 2005 and in fact, have exceeded the total sales achieved in the whole of the previous year (2005: £59,705).

With higher sales and lower administration costs, the loss is also reduced and the cash outflow from operating activities is consequently lower at £305,543 (H1 2005: £337,837).

For the first time in this interim reporting period, we are obliged to implement FRS 20, the new accounting standard which requires us to reflect the 'cost' of share options in the profit and loss account of the Company. We have included a line 'FRS 20 employee share option cost' shown within 'Operating loss'. This results in an increase in the reported loss for the six months to the end of June 2005 by £46,007 and for the six months to the end of June 2006 by £55,638. This is a non-cash item, does not affect cash flow and is neutral to the balance sheet.

### Progress and prospects

The Forbidden Team have just returned from the International Broadcasting Convention (IBC) in Amsterdam. It is gratifying to note that, whereas a year ago visitors to IBC were impressed by our technology, this year there was a marked difference. Visitors looked at FORscene as a complete working product and were primarily interested in how it could be used in their individual businesses. We secured a large number of promising leads from the UK and from many other countries and these will be followed up in the coming weeks and months.

At IBC the FORscene web-based post production platform was the base for IBC's first citizen journalism project which allowed attendees to contribute their own video stories through their mobile phones. The news clips sent to the IBC Citizen TV base were edited daily using FORscene, which automatically formatted and compressed the video into mobile-size clips for viewers.



Forbidden's stand at IBC2006.

## Summary of the Chairman's statement

- Successful IBC show
- Product becoming established
- Major broadcasters using FORscene

Regular visitors to our website (<http://www.forbidden.co.uk>) will have seen the regular news items on customers and new markets. To summarise some of these I would highlight: repeat business being done with Granada; ongoing and regular use of FORscene by BBC News 24; the first two successful FORscene projects by Ryerson University in Toronto (thus training future producers and editors to use FORscene); the imaginative use of FORscene by Save the Children in webcasts and tapeless distribution for project coverage on BBC Breakfast, This Morning, Channel 4 News, Channel 5 News and Sky News. Our mobile and podcasting services have recently been used by the Armed Forces and advertisers.

These examples indicate the wide variety of applications of FORscene, improving speed and cost efficiency in different circumstances.

As the speed of the Internet continues to grow rapidly, the marketplace for Forbidden as a key supplier of video across the world grows with it. Our opportunity to capitalise on our technological lead expands as a consequence.

In my report to shareholders for the full year results of 2005, I indicated that we expected significant sales increases in 2006, and that, if our expectations of the outcome of the various pilots and projects with broadcasters are realised, shareholders should begin to see significant change in the profile of the business.

The increase in sales is clearly beginning. However, the degree of caution with which some of our potentially large customers approach changes in technology and workflow changes has resulted in a longer gestation period than expected in some cases. Our confidence in the outcome is not diminished and we believe that the difference in timing is a matter of months rather than years.

As FORscene becomes used more widely, and with the commercial opportunities emerging, the Board is now reviewing a number of options including a fundraising. If a fundraising is chosen, my preference is to include our existing shareholders – the directors personally have £1 million available.



**Vic Steel**

Chairman

27 September 2006

## Profit and loss account

for the six months ended 30 June 2006

	Unaudited half year to 30 June 2006 £	(Restated) Unaudited half year to 30 June 2005 £	(Restated) Unaudited year to 31 December 2005 £
<b>Turnover</b>	<b>68,228</b>	17,851	59,705
Administrative expenses before FRS 20 employee share option cost	<b>(384,760)</b>	(401,493)	(874,637)
FRS 20 employee share option cost	<b>(55,638)</b>	(46,007)	(101,199)
Administrative expenses	<b>(440,398)</b>	(447,500)	(975,836)
<b>Operating loss</b>	<b>(372,170)</b>	(429,649)	(916,131)
Interest receivable	<b>11,896</b>	38,720	54,605
<b>Loss on ordinary activities before taxation</b>	<b>(360,274)</b>	(390,929)	(861,526)
Tax on loss on ordinary activities	—	—	34,948
<b>Loss for the period</b>	<b>(360,274)</b>	(390,929)	(826,578)
Basic and diluted loss per ordinary 0.8 pence share	<b>(0.48p)</b>	(0.52p)	(1.09p)

## Reconciliation of movements in shareholders' funds

for the six months ended 30 June 2006

	Unaudited half year to 30 June 2006 £	(Restated) Unaudited half year to 30 June 2005 £	(Restated) Unaudited year to 31 December 2005 £
<b>Loss for the period</b>	<b>(360,274)</b>	(390,929)	(826,578)
FRS 20 employee share option cost	<b>55,638</b>	46,007	101,199
<b>Net reduction in shareholders' funds</b>	<b>(304,636)</b>	(344,922)	(725,379)
Opening shareholders' funds	<b>967,098</b>	1,692,477	1,692,477
<b>Closing shareholders' funds</b>	<b>662,462</b>	1,347,555	967,098

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

The results stated above are all derived from continuing operations.

# Balance sheet

as at 30 June 2006

	Unaudited as at 30 June 2006 £	Unaudited as at 30 June 2005 £	Unaudited as at 31 December 2005 £
<b>Fixed assets</b>			
Tangible assets	<b>6,988</b>	18,640	9,729
<b>Current assets</b>			
Debtors	<b>117,751</b>	167,481	172,592
Cash and liquid resources	<b>645,676</b>	1,280,451	876,919
	<b>763,426</b>	1,447,932	1,049,511
<b>Creditors:</b> amounts falling due within one year	<b>(107,953)</b>	(119,017)	(92,142)
<b>Net current assets</b>	<b>655,474</b>	1,328,915	957,369
<b>Net assets</b>	<b>662,462</b>	1,347,555	967,098
<b>Capital and reserves</b>			
Called up share capital	<b>605,300</b>	605,300	605,300
Share premium account	<b>2,925,375</b>	2,925,375	2,925,375
Capital contribution reserve	<b>125,000</b>	125,000	125,000
Profit and loss account	<b>(2,993,213)</b>	(2,308,120)	(2,688,577)
<b>Equity shareholders' funds</b>	<b>662,462</b>	1,347,555	967,098

This Interim Report was approved by the Board of Directors on 27 September 2006 and was signed on their behalf by:

*Stephen B. Streater*

**Stephen Streater**  
Director

# Cash flow statement

for the six months ended 30 June 2006

	Unaudited half year to 30 June 2006 £	(Restated) Unaudited half year to 30 June 2005 £	(Restated) Unaudited year to 31 December 2005 £
<b>Reconciliation of operating loss to net cash outflow from operating activities</b>			
Operating loss	(372,170)	(429,649)	(916,131)
FRS 20 employee share option cost	55,638	46,007	101,199
Depreciation charges	6,988	11,484	25,541
Decrease/(increase) in debtors	(11,810)	768	(4,618)
Increase/(decrease) in creditors	15,811	33,553	19,353
<b>Net cash outflow from operating activities</b>	<b>(305,543)</b>	<b>(337,837)</b>	<b>(774,656)</b>
<b>Cash flow statement</b>			
<b>Cash outflow from operating activities</b>	<b>(305,543)</b>	<b>(337,837)</b>	<b>(774,656)</b>
<b>Returns on investment and servicing of finance</b>	<b>17,122</b>	<b>23,787</b>	<b>64,130</b>
<b>Taxation</b>	<b>61,425</b>	<b>—</b>	<b>—</b>
<b>Capital expenditure</b>	<b>(4,247)</b>	<b>(14,312)</b>	<b>(19,458)</b>
<b>Cash outflow before management of liquid resources</b>	<b>(231,243)</b>	<b>(328,362)</b>	<b>(729,984)</b>
<b>Management of liquid resources</b>	<b>231,243</b>	<b>338,128</b>	<b>729,984</b>
<b>Financing</b>	<b>—</b>	<b>—</b>	<b>—</b>
<b>Increase/(decrease) in cash in the period</b>	<b>—</b>	<b>9,766</b>	<b>—</b>
<b>Reconciliation of net cash flow to movement in net funds</b>			
<b>Increase/(decrease) in cash in the period</b>	<b>—</b>	<b>9,766</b>	<b>—</b>
Cash outflow from liquid resources	(231,243)	(338,128)	(729,984)
<b>Movement in net funds in the period</b>	<b>(231,243)</b>	<b>(328,362)</b>	<b>(729,984)</b>
<b>Net funds at the start of the period</b>	<b>876,919</b>	<b>1,606,903</b>	<b>1,606,903</b>
<b>Net funds at the end of the period</b>	<b>645,676</b>	<b>1,278,541</b>	<b>876,919</b>



### 1. Basis of preparation

The Interim Report for the six months ended 30 June 2006 and 2005 is unaudited and does not constitute statutory accounts within the meaning of Section 240 of The Companies Act 1985. It has been prepared under the historical cost convention and on a basis consistent with the accounting policies for the year ended 31 December 2005 except as noted below.

The results for the year ended 31 December 2005 and the balance sheet of that date are an extract from the statutory financial statements for that year, which have been filed with the Registrar of Companies and on which the Company's auditors gave an unqualified report and did not contain a statement under Section 237 (2) or (3) of that Act. As explained below, these results have however been adjusted following the adoption of FRS 20 and these adjustments have not been audited. Accordingly the comparative information for the year ended 31 December 2005 is unaudited.

The interim financial statement has been prepared on a basis consistent with the accounting policies disclosed in the Annual Report and Accounts for the year ended 31 December 2005 and also the new accounting policy applicable in this period as described below.

#### Share-based payments

The share option programme allows employees to acquire shares of the Company. The fair value of options granted after 7 November 2002 and those not yet vested as at the Company's effective date of FRS 20 (which is 1 January 2006) 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.

The prior year figures in the profit and loss accounts for the six month period to 30 June 2005 and for the year to 31 December 2005 have been restated for the impact of FRS 20. In the six month period to 30 June 2005 a charge in relation to share-based payments of £46,007 has been made; in the year to 31 December 2005 a charge in relation to share-based payments of £101,199 has been made.

# 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 .....





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](http://www.forbidden.co.uk)