

Chairman's statement

It gives me great pleasure to present this, the 9th annual report to shareholders of Forbidden Technologies since its flotation on the AIM stock exchange in February 2000.

Profit and Loss Account and Balance Sheet

In the year to 31st December 2007, the company recorded sales of £70,848 compared to £131,535 in the previous year. Administrative expenses in the year to 31st December 2007, at £760,342 were £213,542 lower than the £973,884 in the previous year. Consequently, the operating loss of £689,494 for the year to 31st December 2007 was £152,855 less than the £842,349 recorded for the year to 31st December 2006.

The Balance Sheet shows net assets reduced from £358,794 at 31st December 2006 to -£245,462 at 31st December 2007. The move to negative equity is the result of the retained loss of £648,324 in the year. The Company continues as a going concern following the creation, at the beginning of June 2007, of a £1 million loan facility by two of the directors (Stephen Streater and Vic Steel). At 31st December 2007 £335,000 of this facility had been drawn down.

In the second half of 2007 and continuing throughout the first half of 2008, Forbidden has progressively reduced its fixed cost base for the administration of the business through a combination of permanent cost savings and through converting a significant number of fixed costs into variable costs with the support and co-operation of the team of managers and staff. Also, as the lease on the office at 2-4 St George's Road expired during the year, the company took the opportunity to relocate to a more cost-efficient site in Tuition House, approximately 300 yards further along St George's Road. In total, the cost management initiatives have reduced the administrative costs from an average of £63,000 per month in 2007 to an expected running rate of £30,000 per month as at June 2008. This gives financing cover at least to the end of 2009 at modest turnover assumptions.

The directors believe that the recorded sales for 2007 when contrasted with the previous year should not be read as a meaningful trend nor an indication of the future potential of the company. The 2007 year saw major progress in the refinement of products and platform, much innovation and the introduction of a significant number of customisations in support of more pilots and trials by potential customers in a variety of countries. The details of many of these innovations and upgrades are contained in the Chief Executive report on the pages that follow.

Strategy and Marketplace

By focussing its strategy on perfecting a world-leading capability in web-based video editing and publishing, Forbidden believes that it has now created the world's most advanced web-based video platform. The execution of this strategy has required an abundance of innovation, frequent upgrades and the customisation of features required by potential customers as they engage in pilots and trials in many different locations.

The evolving marketplace divides into four overlapping sectors:

- The Broadcast market;
- The Education market;
- The user-generated video (UGV) market;
- The consumer market.

In each of these sectors Forbidden can now provide an advanced and competitively superior solution for the editing, publishing and hosting of video in a wide range of formats.

As each sector comes to recognise the huge potential of web-based video and seeks the most appropriate solution, Forbidden believes that it has available a tested and most fitting platform with the ability to be flexible and creative in fulfilling individual customer needs.

Over the past months, Forbidden's senior management has spent an increasing amount of time in contact with North American organisations where scale and imagination have produced many of the world's biggest web-based businesses, such as Google, Yahoo, YouTube, eBay and Amazon. In anticipation that North America will provide the highest number of early adopters and the fastest expansion of mass users in our target markets, Forbidden is in the process of creating a presence on the West Coast USA, in addition to its active Canadian Distributor (Formidable Technologies). The company is finding increasingly that it is able to meet with senior members of appropriate North American organisations.

Outlook

The company's enthusiasm for its technologies continues to be very high.

Forbidden has experienced the over-conservatism and risk-aversion which greets most disruptive, breakthrough technologies, particularly where changes in work-flow often accompany adoption of the new. But this same conservatism has allowed and prompted the pursuit of improvements and refinements, which, in the end help produce a reliable and proven product. The company believes that it is at a point where FORscene and Clesh are sufficiently powerful to persuade customers to come on board as they recognise the strong tidal flow to web-based video platforms.

Vic J Steel
Chairman

Chief Executive's review

Introduction

Forbidden Technologies' green field flotation was founded on its vision of video on the web, which lies at the nexus of the three areas of exuberance at the time: Technology, Media and Telecoms.

Moving forward eight years we can, with the luxury of hindsight, see what has happened in these areas. Forbidden's web video platform still lies at this nexus, but all three areas have matured. Technology has moved on with the arrival of mass market camcorders and camera phones providing the essential raw material for Forbidden's web-based video editing platform. On the media side, sites such as YouTube demonstrate the consumer appetite for video on the web. And telecoms is now the Internet – where the arrival of mass market broadband completes the picture.

Forbidden's FORscene video platform covers everything after video has been shot: reviewing material; logging material to add metadata; search using the built in content management system; assembly editing; rough cuts; fine cuts; publishing in a wide range of formats including our own web formats; storing the published material; and distributing through FORscene's own server infrastructure.

We are in the middle of a sweeping move of computer applications to the web. Web-based applications such as Google, Facebook and Amazon are used every day by millions. We believe that FORscene is the natural video editing, publishing and hosting counterpart to these sites.

The FORscene platform has now been validated by an impressive list of customers around the world. Clever design has enabled many improvements in functionality without cluttering the interface, giving easy access to new users. The system's underlying technology has continued its rapid progress, ensuring that the platform maintains its leading technological position in the sector it pioneered. In our view, this lead is brought into focus by the emergence of less sophisticated competitors.

FORscene and Clesh are applicable in a wide range of markets as the following examples show. We believe that in each of these areas demand for web-based video services such as FORscene and Clesh is set to grow to a substantial value, albeit (as can be seen from our current sales) from a low base.

Broadcast

We entered this market first, as our services fit well into existing television workflows and budgets. Demanding requirements make this technologically the hardest market. The need for high reliability also makes this market very conservative: all programmes have to be delivered on time and news has rapidly diminishing value if it arrives late.

With advertising revenue moving to the web, companies are being forced to adapt. FORscene, which according to industry sources "is beneficial in terms of both time and money", should be the solution of choice.

Programmes made using FORscene have been broadcast on the BBC, ITV, Channel 4, E4 and CBC in Canada.

Education

The growth in Media Studies has led to a major problem for universities: buildings they built ten years ago to house edit suites for their students are not big enough for the new intake. The solution is simple: requiring low investment whilst delivering high functionality, FORscene allows students to work over the web from their rooms and even in their holidays. Lecturers can check students' work and give feedback when convenient. Students can even continue to use the system after they graduate.

You can see the results of a State University of New York (SUNY) video project here:
<http://clesh.com/videos/list/suny-saltpotatoes>

User Generated Video (UGV)

Broadcasters and newspaper publishers are finding that internet advertising is displacing traditional forms; improving their websites is a priority. But web users are demanding more interesting content, and these days that means video. Their users are a convenient source of up to date and relevant material, possibly with some moderation and fine tuning. Forbidden's web-based systems are a perfect fit. The demand for UGV leads us to believe that this area has great potential.

This exclusive interview with Boris Johnson, now Mayor of London, was shot on a mobile phone and demonstrates the reach of UGV:

<http://clesh.com/videos/view/BorisJoh-1207808863.can/>

We also made around 50 video interviews at the Master Investor 2008 show:

<http://clesh.com/videos/list/mi2008>

Consumer

YouTube set the consumer video market alight – alexa.com shows over 15% of each day's global internet visitors visit YouTube. It has around 30% of US views; total US views topped 10,000,000,000 in December 2007.

Modern camera phones put the means of production in everyone's pocket. But with even professionally shot content being edited to 1/20 of its original length, the days of popular unedited material are numbered. With advertisers showing an interest in consumer video, the next big step is to improve its quality. Forbidden's Clesh web-based video editing system is well placed for this task.

Chief Executive's review

Forbidden sees this market as having the biggest potential.

A successful video portal is expected to be advertiser funded. Advertisers require viewers. Viewers require good content. Good content is made by good editors. And good editors will follow the best tools - and that is where Forbidden comes in. We provide the engine for driving the growth of a successful consumer video portal.

Our main approach is to follow the precedent set by the mobile phone operators: increase Average Revenue Per User (ARPU). With so many internet users watching video, the trick is to maximise revenue from those users. We are looking to piggy back on existing high volumes websites, adding significant value to their visitors.

We are also looking into creating a video portal ourselves. Backed by the world's best web-based editing system, we could recruit the best editors, the best content, the most viewers, and the most advertising revenue. This project would require investment from a significant fund raising.

Here is a typical consumer video - 1/20 the length of the original mobile source video:
<http://clesh.com/videos/view/2ndbirth-1204640976.can/>

Here is our prototype Showreel:
<http://clesh.com/videos/>

Trends

There has been a clear trend in video: the cost of making and distributing it has fallen steadily. As it falls, the market size increases. In the 1990s, tape based editing machines were replaced by computer video editing suites, running initially with the aid of hardware cards and then later running entirely in software. FORscene, the world's most advanced professional web-based video platform, continues this trend.

Features now include many you would expect in a traditional desktop based system: a range of special effects; video and audio levels; colour control; titling – as well as input from a wide range of sources from mobile phone to high definition, and output to the web, podcasting, and multiple formats for broadcast and consumer use. FORscene editing is at lower resolution than broadcast TV, but the launch of FORscene DV allows even broadcast programmes to be made on FORscene, over the web. Full HD support is on our Roadmap.

So we can see that Forbidden Technologies plc, floated at the conjunction of Technology, Media and Telecoms has now placed itself at another critical junction – linking the web-based revolution, the video revolution, and the consumer mobile phone revolution.

This market evolution has been reflected in our press coverage. Broadcast, a leading UK broadcast magazine, included us in their top 10 technologies for the future. AV Interactive quotes us on the Web revolution. Speaking slots at the Broadcast Live conference in London, at IBC2007 in Amsterdam, at the Video on the Net conference in San Jose, and another at NAB in Las Vegas show the interest generated globally. The potential of Clesh is now attracting comment worldwide. Meanwhile, our University customers around the world continue to extoll the virtues of FORscene in their own publications, and to arrange speaking opportunities at major conferences.

Conclusion

As FORscene and Clesh become more established, we are generating interest in larger deals. It is here that the benefits of a web-based solution show up most clearly. The easy scalability, wide area access and integration costs amortised over a large number of users all play to our strengths.

By floating at such an early stage in its platform development, Forbidden has been able to punch above its weight in terms of exposure and profile. Now we have created and own this unique combination of video technologies, products and services, the market at last seems ready for us to capitalise on this investment. We fully intend to meet the challenge of exploiting this exciting opportunity.

Stephen B Streater
Chief Executive

Directors and advisors

Vic Steel

Chairman

Victor Steel is chairman of MyGard 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 24-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.

Registered office

Tuition House
27-37 St George's Road
Wimbledon
London SW19 4EU

Registered number

3507286

Solicitors

Blake Laphorn Tarlo Lyons

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

Nominated advisor

Brewin Dolphin 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

Northern House
Woodsome Park
Fenay Bridge
Huddersfield
West Yorkshire HD8 0LA

Principal bankers

NatWest

Putney Branch
153 High Street
London SW15 1RX

Auditors

Kingston Smith LLP

Devonshire House
60 Goswell Road
London EC1M 7AD

Directors' report

The directors present their annual report and the audited Financial statements for the year ended 31 December 2007.

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 1 and the Chief Executive's review on page 2. Turnover for the year was £70,848 (2006: £131,535); the loss for the year was £648,324 (2006: £785,188). The results of the Company are shown in more detail on page 10.

Proposed dividend

The directors do not recommend the payment of a dividend (2006: £nil).

Financial instruments

The Company's financial instruments comprise trade debtors, trade creditors, directors' loans 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. 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 19.

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. Interest on loans from directors is fixed. Until 30 November 2008 interest on the loan is 0%; thereafter it increases annually by 10% per annum.

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

Certain directors have provided a credit facility which allows the Company to draw funds up to a maximum of £1m between 1 June 2007 and 30 June 2010. At the year end the undrawn facility amounted to £665,000.

The Company reviews future working capital requirements on a monthly basis. The directors consider that the credit facility will be sufficient to meet financing requirements.

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	31,488

Directors' report

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		Date from which exercisable	Expiry date
		Granted	Exercised	Lapsed			on date of exercise £			
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
PJ Madden		25,000			25,000	0.135	—		27/07/2010	27/07/2017

The market value of the shares at the year end was 8p. The highest market value during the year was 18.5p and the lowest market value 8p.

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 6 days (2006: 9 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.

Directors' report

Share option schemes

Under the Company's approved share option scheme, options over 40,000 ordinary shares of 0.8p in the Company were granted to two employees on 27 July 2007, exercisable at 13.5p per share within the period 27 July 2010 to 27 July 2017, on condition of employment with the Company.

The Company also has an unapproved share option scheme under which options over 95,000 ordinary shares of 0.8p in the Company were granted in total to seven directors and employees on 27 July 2007, exercisable at 13.5p per share within the period 27 July 2010 to 27 July 2017, 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 political or charitable donations in the year (2006: £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. During the year Kingston Smith LLP were appointed as auditors of the Company. A resolution re-appointing them as auditors of the Company is to be proposed at the forthcoming annual general meeting.

On behalf of the Board

SB Streater

Director

Tuition House
27 – 37 St George's Road
London SW19 4EU
30 May 2008

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 2007 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 8.

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. The information given in the Directors' Report includes the information given in the Chairman's Statement and the Chief Executive's Review that is cross-referenced from the Business Review section of the Directors' Report.

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 other information contained in the Annual Report and consider whether it is inconsistent with the financial statements. The other information comprises only the Company Overview. 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.

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 2007 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.

KingstonSmith LLP Chartered Accountants

Devonshire House
60 Goswell Road
London EC1M 7AD
24 June 2008

Profit and loss account
for the year ended 31 December 2007

	Note	2007 £	2006 £
Turnover	2	70,848	131,535
Administrative expenses before FRS 20 employee share option cost		(716,273)	(872,000)
FRS 20 employee share option cost		(44,069)	(101,884)
Administrative expenses		(760,342)	(973,884)
Operating loss		(689,494)	(842,349)
Interest receivable and similar income	6	4,873	18,648
Loss on ordinary activities before taxation	3 – 5	(684,621)	(823,701)
Tax on loss on ordinary activities	7	36,297	38,513
Loss for the financial year	15	(648,324)	(785,188)
Basic and diluted loss per ordinary 0.8p share	8	(0.85p)	(1.04p)

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 2007

	Note	2007 £	2007 £	2006 £	2006 £
Fixed assets					
Tangible assets	9		2,175		5,063
Current assets					
Debtors	10	104,829		94,912	
Cash at bank and in hand	20	59,657		360,626	
		164,486		455,538	
Creditors: amounts falling due within one year	11	(77,122)		(101,807)	
Net current assets			87,364		353,731
Total assets less current liabilities			89,539		358,794
Creditors: amounts falling due after more than one year	12	(335,000)			—
Net assets		(245,461)			358,794
Capital and reserves					
Called up share capital	13	609,300		609,300	
Share premium account	15	2,996,375		2,996,375	
Capital contribution reserve	15	125,000		125,000	
Profit and loss account	15	(3,976,136)		(3,371,881)	
Equity shareholders' funds		(245,461)			358,794

These financial statements were approved by the Board of directors and authorised for issue on 24 June 2008 and were signed on its behalf by:

SB Streater
Director

PJ Madden
Director

Cash flow statement
for the year ended 31 December 2007

	Note	2007 £	2006 £
Reconciliation of operating loss to net cash outflow from operating activities			
Operating loss		(689,494)	(842,349)
Add back FRS 20 employee share option cost		44,069	101,884
Depreciation charges		7,238	14,791
(Increase)/decrease in debtors		(14,125)	18,767
(Decrease)/ncrease in creditors		(24,685)	9,665
Net cash outflow from operating activities		(676,997)	(697,242)
Cash flow statement			
Cash flow from operating activities		(676,997)	(697,242)
Returns on investments and servicing of finance	17	4,873	18,648
Taxation	17	40,505	97,426
Capital expenditure	17	(4,350)	(10,125)
Cash outflow before management of liquid resources		(635,969)	(591,293)
Management of liquid resources	17	-	516,293
Financing	17	335,000	75,000
Increase/(decrease) in cash in the year		(300,969)	
Reconciliation of net cash flow to movement in net funds			
Increase/(decrease) in cash in the year	18	(300,969)	
Cash outflow from decrease in liquid resources	18	-	(516,293)
Movement in net funds in the year		(300,969)	(516,293)
Net funds at the start of the year		360,626	876,919
Net funds at the end of the year		59,657	360,626

Reconciliation of movements in shareholders' funds

for the year ended 31 December 2007

	2007	2006
	£	£
Loss for the financial year	(648,324)	(785,188)
Add back FRS 20 employee share option cost	44,069	101,884
New share capital subscribed (net of issue costs)	—	75,000
Net reduction in shareholders' funds	(604,255)	(608,304)
Opening shareholders' funds	358,794	967,098
Closing shareholders' funds	(245,461)	358,794

Statement of total recognised gains and losses

for the year ended 31 December 2007

	2007	2006
	£	£
Loss for the financial year	(648,324)	(785,188)
Total recognised gains and losses relating to the financial year	(648,324)	(785,188)
Prior year adjustment	—	(101,199)
Total gains and losses recognised since last annual report	(648,324)	(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.

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 year end cash balance of £59,657 (2006: £360,626) which at current income, expenditure and working capital levels is insufficient to finance the Company for the next twelve months.

However, during the year VJ Steel and SB Streater made available to the Company a £1,000,000 drawing facility to finance future cash flows of which £335,000 was drawn down by the year end.

The directors have implemented a range of cost reduction measures during the year and have approved additional future measures, should they be required. The cash flow forecasts prepared by the Company demonstrate that it will have sufficient headroom to remain a going concern for the foreseeable future. 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.

Notes

forming part of the Financial statements

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 licences is recognised on an accruals basis over the life of the licence. Revenue relating to that proportion of the licence falling after the year end is treated as deferred revenue.

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. The fair value of equity settled though the options 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:

	2007	2006
	£	£
UK	45,129	126,845
Europe	Nil	1,800
North America	25,719	2,890
	70,848	131,535

The Company's products are delivered through an integrated web-based platform and the Board manages the business as a single business segment. Because of the nature of the Company's business the directors do not consider it to be meaningful to analyse the loss before tax or the Company's net assets between countries on an operational basis.

Notes

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3. Notes to the profit and loss account

	2007	2006
	£	£
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	16,550	28,190
Other services relating to taxation	2,250	9,490
Depreciation and other amounts written off tangible fixed assets: owned	7,238	14,791
Hire of other assets – operating leases	40,024	44,150
Exchange losses	224	531
Research and development expenditure	178,870	156,474

4. Remuneration of directors

	2007	2006
	£	£
Directors' emoluments	115,000	112,500
Amounts paid to third parties in respect of directors' services	—	—
	115,000	112,500

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 2007	Number of employees 2006
Management	4	4
Technical	5	5
Marketing	4	5
	13	14

The aggregate payroll costs of these persons were as follows:

	2007	2006
	£	£
Wages and salaries	365,980	380,379
Share based payments (see note 14)	44,069	101,884
Social security costs	39,211	39,679
	449,260	521,942

6. Other interest receivable and similar income

	2007	2006
	£	£
Bank interest	4,873	18,648

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7. Taxation

Analysis of credit in the period

	2007	2006
	£	£
UK corporation tax		
Current tax on income for the period	—	—
Research and development tax credit	(36,297)	(38,513)
Total current tax	(36,297)	(38,513)

Factors affecting the tax charge for the current period

The current tax charge for the period is lower (2006: lower) than the standard rate of corporation tax in the UK (20%, 2006: 20%). The differences are explained below.

	2007	2006
	£	£
Current tax reconciliation		
Loss on ordinary activities before tax	(684,621)	(823,701)
Add back FRS 20 employee share option cost	44,069	101,884
	(640,552)	(721,817)
Current tax at 20% (2006: 20%)	(128,110)	(144,363)
Effects of:		
Expenses not deductible for tax purposes	399	24,994
Capital allowances for period lower than/(in excess of) depreciation	1,448	2,958
Employee share acquisition relief	—	—
Tax losses carried forward	96,017	84,316
Additional deduction for research and development expenditure	(15,124)	(16,047)
Rate differences for research and development tax credit	9,073	9,629
Total current tax credit (see above)	(36,297)	(38,513)

Tax losses of approximately £3,600,000 (2006: £3,000,000) are available to relieve against future profits of the Company.

Unrecognised deferred tax assets

	2007	2006
	£	£
Depreciation in excess of capital allowances	24,356	21,121
Tax losses carried forward	725,754	629,738
	750,110	650,859

In accordance with FRS 19, the deferred tax assets have not been recognised due to the uncertainty of the timing of future taxable profits to enable recovery of these assets.

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 76,162,500 (2006: 75,704,167).

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9. Tangible fixed assets

	Leasehold improvements £	Fixtures and fittings £	Computer equipment £	Total £
Cost				
At beginning of year	14,084	24,075	174,577	212,736
Additions	—	—	4,350	4,350
Disposals	(14,084)	—	—	(14,084)
At end of year	—	24,075	178,927	203,002
Depreciation				
At beginning of year	14,084	23,815	169,774	207,673
On disposals	(14,084)	—	—	(14,084)
Charge for year	—	260	6,978	7,238
At end of year	—	24,075	176,752	200,827
Net book value				
At 31 December 2007	—	—	2,175	2,175
At 31 December 2006	—	260	4,803	5,063

10. Debtors

	2007 £	2006 £
Trade debtors	33,876	14,507
Other debtors	55,113	51,445
Prepayments and accrued income	15,840	28,960
	104,829	94,912

11. Creditors: amounts falling due within one year

	2007 £	2006 £
Trade creditors	5,616	9,210
Other creditors	299	5,362
Taxation and social security	9,715	13,123
Accruals and deferred income	61,492	74,112
	77,122	101,807

12. Creditors: amounts falling due in more than one year

	2007 £	2006 £
Directors' loans	335,000	4,955
	335,000	4,955

13. Called up share capital

	2007 £	2006 £
Authorised:		
125,000,000 ordinary shares of 0.8p each (2006: 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 (2006: 76,162,500 ordinary shares of 0.8p each)	609,300	609,300

During the year, the Company issued no ordinary shares under the terms of the share option schemes.

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13. 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	440,000
PJ Madden	Ordinary shares of 0.8 pence	100,000	75,000

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

14. 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 2007	Number of shares for which rights are exercisable 2006
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	514,143	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	387,500	388,805
0.135	27/07/2007	27/07/2010 – 27/07/2017	75,000	—
Approved				
0.255	21/09/2001	21/09/2004 – 21/09/2011	50,000	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	10,000	15,000
0.31	08/05/2003	08/05/2006 – 08/05/2013	180,966	188,466
0.65	06/10/2003	06/10/2006 – 06/10/2013	64,616	74,616
0.35	04/05/2004	04/05/2007 – 04/05/2014	93,357	115,857
0.39	30/09/2004	30/09/2007 – 30/09/2014	58,141	88,141
0.22	29/04/2005	29/04/2008 – 29/04/2015	29,772	59,772
0.26	06/09/2005	06/09/2008 – 06/09/2015	15,000	37,500
0.23	09/05/2006	09/05/2009 – 09/05/2016	5,000	28,695
0.135	27/07/2007	27/07/2010 – 27/07/2017	40,000	—

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14. Share options *continued*

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

	2007 Weighted average exercise price	2007 Number of options	2006 Weighted average exercise price	2006 Number of options
Outstanding at the beginning of the period	0.39	6,121,250	0.41	5,703,750
Granted during the period	0.135	135,000	0.23	427,500
Forfeited during the period	0.29	185,000	0.23	10,000
Exercised during the period	—	—	—	—
Lapsed during the period	0.35	50,000	—	—
Outstanding at the end of the period	0.39	6,021,250	0.39	6,121,250
Exercisable at the end of the period	0.46	4,188,750	0.50	2,958,750

The options outstanding at the year end have an exercise price in the range of £2.175 to £0.135 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:

	2007 Approved 27 July	2006 Approved 9 May	2007 Unapproved 27 July	2006 Unapproved 9 May
	0.0576	0.1047	0.0576	0.1047
Weighted average share price	0.133	0.219	0.133	0.219
Exercise price	0.135	0.23	0.135	0.23
Expected volatility (expressed as % used in the modelling under Black-Scholes model)	50%	59%	50%	59%
Option life (expressed as weighted average life used in the modelling under Black-Scholes model)	4	4	4	4
Expected dividends	0%	0%	0%	0%
Risk free interest rate (based on national government bonds)	5.39%	4.63%	5.39%	4.63%

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:

	2007 £	2006 £
Equity settled share based payments	44,069	101,844

Notes

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15. Share premium and reserves

	Share premium account £	Capital contribution reserve £	Profit and loss account £
At beginning of year	2,996,375	125,000	(3,371,881)
Loss for year	—	—	(684,324)
Add back FRS 20 employee share option scheme cost	—	—	44,069
At end of year	2,996,375	125,000	(3,976,136)

The capital contribution reserve is distributable.

16. Commitments

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

	2007 Land and buildings £	2006 Land and buildings £
Operating leases which expire: within one year	25,200	44,150

17. Analysis of cash flows

	2007 £	2006 £
Returns on investment and servicing of finance		
Interest received	4,873	18,648
Taxation		
Tax credit received	40,505	97,426
Capital expenditure		
Purchase of tangible fixed assets	4,350	(10,125)
Management of liquid resources		
Cash on term deposit	—	516,293
Financing		
Receipt of Directors' loan	335,000	—
Issue of ordinary share capital	—	75,000
	335,000	75,000

18. Analysis of net funds

	At beginning of year £	Cash flow £	At end of year £
Cash in hand and at bank	360,626	(300,969)	59,657
Liquid resources	—	—	—
Current asset investments	360,626	(300,696)	59,657

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19. Related party transactions

Fees of £57 (2006: £143) 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 (2006: £nil) were due to MyGard by Forbidden Technologies plc at the year end.

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

	31 December 2007 £	31 December 2006 £
PJ Madden	—	4,995
SB Streater	306,000	—
VJ Steel	29,000	—
	335,000	4,995

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 by 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.

Notes

forming part of the Financial statements

20. 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 and directors' loans. The Company has made arrangements with two of its directors for the availability of a loan to meet its working capital requirements.

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's borrowings were restricted to the amount drawn down from the funds made available by SB Streater and VJ Steel.

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

With the exception of the loan facility made available by two of the Directors, all financial liabilities at the year end fall due in one year or less. The Directors' loan may be repaid by the Company at any time, before or after the expiry of one year after the year end. At the year end £665,000 of the Directors' loan remained to be drawn down. Otherwise, the Company had no material undrawn committed borrowing facilities.

The Company reviews its future working capital requirements on a monthly basis.

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

Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligation and arises principally from trade debtors.

The Company's exposure to credit risk is influenced mainly by the individual characteristics of each customer. There are 4 customers that individually represent more than 10% of the trade debtor balance. In order to manage credit risk the aging of the balances is reviewed regularly by the credit controller and limits are set for customers with a poor payment history.

21. 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 Tuition House, 27-37 St George's Road, Wimbledon, London SW19 4EU on 5 September 2008 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 2007.
2. To re-elect GB Hirst, 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 re-appoint KingstonSmith LLP as auditors of the Company and to authorise the directors to fix their remuneration.

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 £60,930 (representing 10% 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 2009, 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
23 June 2008

Registered office:
Tuition House
27–37 St George's Road
Wimbledon
London SW19 4EU

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 the Company's registered office 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 6.00 pm on 3 September 2008 (or 6.00 pm on the date being two days 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.
5. The issued share capital of the Company as at 23 June 2008 was 76,162,500 ordinary shares of 0.8p each, carrying one vote each. The Company holds no treasury shares, therefore the total number of voting rights in the Company on 23 June 2008 was 76,162,500.