FORBIDDEN

Annual report and accounts 2008

Corporate statement

Forbidden Technologies plc (AIM: FBT, "Forbidden", www.forbidden.co.uk) develops and markets a powerful internet video platform, which is used by broadcasters, in professional web video, in education and by consumers. Forbidden's video post production platform, FORscene, is one of the world's most advanced browser-based applications.

2008 highlights

* Major cost reductions accompanied by significant increase in turnover

* Chosen by London Stock Exchange as subject of new independent analysts service

* FORscene extends technical lead through development of additional editing features

* New codecs improve video and audio quality

* FORscene Server improves scaleability of FORscene system

* Facilities Houses begin promoting FORscene to their customers

* America's Got Talent and Shameless use FORscene in broadcast post-production

* Cayuga Community College launches ground breaking FORscene remote video editing course

* Broadcast Interactive Media (BIM) uses FORscene in over 50 TV stations in USA

I am pleased to present this, the tenth annual report to shareholders of Forbidden Technologies since its flotation on the AIM market of the London Stock Exchange in February 2000.

Profit and Loss Account and Balance Sheet

In the year to 31 December 2008, the company recorded sales of £121,199 compared to £70,848 in the previous year, an increase of 71%. Administrative expenses in the year to 31 December 2008 at £406,193 were £354,149 lower than the £760,342 in the previous year, a reduction of 46.6%. Consequently, the operating loss of £284,994 for the year to 31 December 2008 was £404,500 less than the £689,494 for the year to 31 December 2007.

The balance sheet shows net liabilities of £514,124 at 31 December 2008, compared with £245,461 at 31 December 2007. 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 31 December 2008, £635,000 of this facility had been drawn down. The company has written off all R&D costs each year since its formation.

Throughout the 2008 year, Forbidden has continued to contain the cost base for the administration of the business through a combination of permanent cost savings and the conversion of fixed costs into variable costs, with the continued support and co-operation of all staff. As sales growth has begun to accelerate, cost control will continue, but there will be associated cost increases in those areas which are variable with sales.

It is gratifying to report that throughout 2008 the company has experienced a high level of repeat business from existing customers, and also an increase in the number of potential customers approaching the company to discuss possible relationships. This trend continues in the current year to date.

Market Place and Strategy

The current credit crisis and recessionary environment combined with rapid growth of the web as the mass medium for advertising and entertainment are creating conditions that the directors believe are favourable to Forbidden Technologies.

Broadcasters and post-production companies are being encouraged to adopt new web-based workflows. Customers say FORscene "saves time and money". This is an attractive benefit when costs are under a great deal of pressure.

The changing market place has led the company to refine its strategy. We now define four market opportunities:

- Broadcast (including all post-production companies);
- Professional web-video;
- In-house video;
- Serious hobbyists.

Whereas broadcast is well defined and established as a market, **professional web-video** is a new and fast growing market worldwide, with the potential to overtake broadcast TV in size. Both audience and advertising are moving from TV and print to the web, creating an explosion in demand for high quality video for media websites. Journalists are being asked to add video production and post-production to their varied skill sets, aiming to meet the low-production cost requirements. FORscene, the directors believe, will prove to be the most attractive toolset to produce the necessary professional quality output. Forbidden expects this new market to grow rapidly.

In House Video

Smaller companies will need to populate their websites with video, which many will make themselves to save cost – a long tail which over time should become very large.

Serious Hobbyists

This is the market appropriate to Clesh. As user-generated video (UGV) grows with the speed of broadband and the proliferation of high-quality camera phones, the need to edit content before distribution to websites and to friends and family will increase. Clesh has been designed to be the practical user-friendly tool integrating upload from camera, editing, publishing and distribution.

Of the four market opportunities describe, the focus of the company throughout 2008 has been in the broadcast and professional web video markets. This will continue during 2009.

We are experiencing increased interest and take-up of FORscene in the broadcast market, and we expect sales to continue to grow as more customers bring repeat business and as our reputation spreads by word of mouth.

The company is achieving considerable success in the professional web video market, particularly in the USA. The partnership with BIM established at the end of 2008 has resulted in FORscene being used in 53 TV station web sites across North America, and is producing a significant monthly income flow. The recent announcement of the partnership with Chyron in the USA could provide similar widespread use in broadcast during the coming months and years.

Throughout 2008 and continuing into 2009 the company has participated in a number of key events and has been invited to take part in seminars. The London Stock Exchange chose Forbidden Technologies as one of a handful of companies to be subject to its new independent analyst research reports. Stephen Streater has made two TV appearances before investor communities and took part in an investor seminar in 2009. Forbidden was active at IBC in September 2008 and at the NAB convention in April 2009 where the partnership with Chyron was announced and created much interest with existing Chyron customers. We are convinced that these participations increase our visibility significantly.

Outlook

The company is enthusiastic and optimistic of a bright future.

Sales continued to grow in the first quarter of 2009 and at the end of March unaudited sales exceeded the full year numbers for 2007. The company is expecting that growth rate in 2009 will exceed the growth rate experienced in 2008.

Forbidden is fortunate in having a high calibre and loyal team of R&D and sales professionals who have produced technologies which were developed ahead of the markets for which they were intended but which we now believe are coming into alignment to produce an exciting business future.

Vic J Steel
Chairman

Introduction

Forbidden is a world leader in providing video post-production services over the internet, through its professional FORscene system and its consumer version Clesh. As a technology leader, our services are regularly encompassed by the latest buzz words. The newly relevant term is "The Cloud". Essentially, with FORscene, video content is sent into the Cloud (a symbolic word to represent somewhere accessible over the Internet whose position or internal structure is not that relevant to a user), from where it can be readily accessed by customers from anywhere.

During 2008, both the capabilities of the FORscene service and its markets have come sharply into focus. We have refined many features, and dramatically increased our capacity and user base. Forbidden's website (http://www.forbidden.co.uk/) has been enhanced as an information resource by the inclusion of strategy papers and workflow diagrams.

Markets

The Chairman's statement covers the commercial side of our main markets. The product side is covered here.

In broadcast, FORscene is used for review, logging, shot selection and rough cut. The advances outlined below have improved customer experience in all these areas.

In our professional web video sector, BIM's FORscene accounts provide immediate access to all recent content broadcast on over 50 TV stations. To enable this rate of content assimilation, we have released a new product for customers to install at their main sites: FORscene Server. Just as FORscene's editing client automatically increases the capacity of the FORscene system every time someone logs on through their web browser, every new FORscene Server increases the capacity of FORscene's distributed central server.

Our Canadian distributor has started to tweak the long tail market for businesses making their own videos – an ideal market for the FORscene system, though one which will be hard to penetrate cost effectively until we are better known.

We used the Master Investor Show 2008 to illustrate FORscene DV – ideal for news gathering. Web versions of the broadcast quality output are at http://clesh.com/videos/list/mi2008.

User Generated Video (UGV) is a route to keeping costs down on professional sites. With its easy web accessibility and camera phone integration, Clesh provides an elegant solution - as you can see from Forbidden's opportunistic exclusive interview with Boris Johnson, now Mayor of London: http://clesh.com/videos/view/BorisJoh-1207808863.can/ .

Development

FORscene was launched in 2004, so many of its capabilities are well established. However, FORscene is a dynamic system, with continuous improvements. The three main developmental themes of 2008 are: major FORscene capacity upgrades; new fine-cut editing features; and integration with third party systems, both in broadcast and professional Web.

The news section of the website http://www.forbidden.co.uk/news/ contains details.

Server upgrades

The FORscene Server product allows high volume users to supplement the capacity of the central FORscene servers as they join the system. For other users, who typically have up to a thousand hours of material each, we have increased the capacity of the central server system:

FORscene has seven new server computers on the Internet backbone;
server disk storage has been increased by a multiple, as disks have grown in capacity;
improved software has multiplied the number of concurrent users supported by each server;
a second site on the Internet backbone has increased overall reliability; and
new FORscene software is turning the server network into a single distributed machine

Codec – Blackbird 5 and Impala

For strategic reasons, Forbidden owns and controls its own video and audio compression technology. The Blackbird 5 video codec, released in 2008, provides improved quality at a lower data rate and while using less CPU and memory. You can hear the (also improved) Impala audio codec on this example recording: http://clesh.com/videos/view/Schubert-1202327990.can/.

Other upgrades

The other FORscene components upgraded this year are: native compression / upload software for Linux, Windows and Mac OS; the Web browser editing interface; video publishing; the Forbidden Web player; and the Clesh Showreel.

Partners

Forbidden's North American sales have grown rapidly, and the US is featuring increasingly in Forbidden's world view. Given our current resources, we generally supply and support these sales through local companies and contacts. BIM sells FORscene as an integral component of its own services to television clients for Web output; and since the year end we have formed a partnership with Chyron, a large and established supplier to the broadcast market. FORscene's integration into Chyron's Axis system has begun, with single sign on and import of graphics already supported.

Restructuring

Forbidden embarked on a major transformation, which started in the summer of 2007 and which continued into 2008, exemplified by the move into our new office. The changes have proved a success, with R&D's continued ground breaking progress supporting a dramatic increase in sales – even while costs have fallen markedly. I here express appreciation to all our staff for their assistance in implementing this plan.

Outlook

The technological base underlying FORscene continues to advance rapidly: faster Internet, bigger disks, faster computers. At the same time, FORscene is starting to benefit from economies of scale, both technically and through customer awareness and confidence. FORscene has advanced rapidly since its inception and it shows every sign of continuing to do so now that it is increasingly gaining traction.

Stephen B Streater
Chief Executive

Directors and advisors

Vic Steel

Chairman

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

Stephen Streater

Chief Executive

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

Phil Madden

Finance Director

Phil Madden has held senior finance positions at board and sub-board level for over 19 years. He has acted as Finance Director to Greater London Supplies, as Director of Finance and IT for the British Tourist Authority and as Director of Finance for a market-leading international development consultancy.

Greg Hirst

Business Development Director

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

David Main

Non-Executive Director

David Main is currently an executive of Talisman Management Limited, a management advisory company for private equity groups, Chairman of Aqua Service Group based in Norway and a consultant to 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 with 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

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Watchmaker Court
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London EC1M 4DB

Nominated advisor

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Glasgow G2 5TS

Brokers

Brewin Dolphin Limited
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Glasgow G2 5TS

Registrars

Capita Registrars
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West Yorkshire HD8 0LA

Bankers

NatWest
Putney Branch
153 High Street
London SW15 1RX

Auditors

Kingston Smith LLP
Devonshire House
60 Goswell Road
London EC1M 7AD

The directors present their annual report and the audited Financial statements for the year ended 31 December 2008.

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 2 and the Chief Executive's review on page 4. Turnover for the year was £121,199 (2007: £70,848); the loss for the year was £254,383 (2007: £648,324). The results of the Company are shown in more detail on page 12.

Dividend

The directors do not recommend the payment of a dividend (2007: £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 20.

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 was 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 £365,000.

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
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	60,000	10,000
PJ Madden	Ordinary shares of 0.8 pence	65,685	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
VJ Steel		100,000			100,000	0.085	—	18/06/2011	18/06/2018
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
		50,000			50,000	0.085	—	18/06/2011	18/06/2018
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	40,000				40,000	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
		35,000			35,000	0.085	—	18/06/2011	18/06/2018
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
		65,000			65,000	0.085	—	18/06/2011	18/06/2018

The market value of the shares at the year end was 8p. The highest market value during the year was 9.88p and the lowest market value 4p.

Policy and practice on payment of creditors

The Company does not follow any code. Creditors are normally paid in accordance with the terms of the invoice, subject to any particular agreement between the two parties. At the year end, there were 17 days (2007: 6 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 145,000 ordinary shares of 0.8p in the Company were granted to two employees on 18 June 2008, exercisable at 8.5p per share within the period 18 June 2011 to 18 June 2018, on condition of employment with the Company.

The Company also has an unapproved share option scheme under which options over 355,000 ordinary shares of 0.8p in the Company were granted in total to eight directors and employees on 18 June 2008, exercisable at 8.5p per share within the period 18 June 2011 to 18 June 2018, 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 (2007: £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

In accordance with Section 385 of the Companies Act 1985 a resolution re-appointing Kingston Smith LLP 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
13 May 2009

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 2008 which comprise the Profit and loss account, the Balance sheet, the Reconciliation of movements in shareholders' funds, the Cash flow statement and the related notes. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the Company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

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 10.

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

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the information given in the Directors' Report is not 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 2008 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.

Kingston Smith LLP
Chartered Accountants
Registered Auditors
Devonshire House
60 Goswell Road
London EC1M 7AD
13 May 2009

Profit and loss account

For the year ended 31 December 2008

	Note	2008 £	2007 £
Turnover	2	**121,199**	70,848
Administrative expenses before FRS 20 employee share option cost		**(420,473)**	(716,273)
FRS 20 employee share option cost		**14,280**	(44,069)
Administrative expenses		**(406,193)**	(760,342)
Operating loss		**(284,994)**	(689,494)
Interest payable	6	**(5,292)**	—
Interest receivable and similar income	7	**1,583**	4,873
Loss on ordinary activities before taxation	3 – 5	**(288,703)**	(684,621)
Tax on loss on ordinary activities	8	**34,320**	36,297
Loss for the financial year	16	**(254,383)**	(648,324)
Basic and diluted loss per ordinary 0.8p share	9	**(0.33p)**	(0.85p)

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.

There are no other recognised gains or losses arising other than the loss for the period.

Balance sheet
as at 31 December 2008

	Note	2008 £	2008 £	2007 £	2007 £
Fixed assets					
Tangible assets	10		**19,746**		2,175
Current assets					
Debtors	11	**149,103**		104,829	
Cash at bank and in hand	21	**51,424**		59,657	
		200,527		164,486	
Creditors: amounts falling due within one year	12	**(99,397)**		(77,122)	
Net current assets			**101,130**		87,364
Total assets less current liabilities			**120,876**		89,539
Creditors: amounts falling due after more than one year	13		**(635,000)**		(335,000)
Net liabilities			**(514,124)**		(245,461)
Capital and reserves					
Called up share capital	14		**609,300**		609,300
Share premium account	16		**2,996,375**		2,996,375
Capital contribution reserve	16		**125,000**		125,000
Profit and loss account	16		**(4,244,799)**		(3,976,136)
Equity shareholders' funds			**(514,124)**		(245,461)

These financial statements were approved by the Board of directors and authorised for issue on 13 May 2009 and were signed on its behalf by:

SB Streater
Director

PJ Madden
Director

Cash flow statement

For the year ended 31 December 2008

	Note	2008 £	2007 £
Reconciliation of operating loss to net cash outflow from operating activities			
Operating loss		**(284,994)**	(689,494)
Add back FRS 20 employee share option cost		**(14,280)**	44,069
Depreciation charges		**9,244**	7,238
(Increase)/decrease in debtors		**(46,251)**	(14,125)
(Decrease)/increase in creditors		**16,983**	(24,685)
Net cash outflow from operating activities		**(319,298)**	(676,997)

	Note	2008 £	2007 £
Cash flow statement			
Cash flow from operating activities		**(319,298)**	(676,997)
Returns on investments and servicing of finance	18	**1,583**	4,873
Taxation	18	**36,297**	40,505
Capital expenditure	18	**(26,815)**	(4,350)
Cash outflow before management of liquid resources		**(308,233)**	(635,969)
Management of liquid resources	18	**—**	—
Financing	18	**300,000**	335,000
Increase/(decrease) in cash in the year		**(8,233)**	(300,969)

	Note	2008 £	2007 £
Reconciliation of net cash flow to movement in net funds			
Increase/(decrease) in cash in the year	19	**(8,233)**	(300,969)
Movement in net funds in the year		**(8,233)**	(300,969)
Net funds at the start of the year		**59,657**	360,626
Net funds at the end of the year		**51,424**	59,657

Reconciliation of movements in shareholders' funds

for the year ended 31 December 2008

	2008	2007
	£	£
Loss for the financial year	**(254,383)**	(648,324)
Add back FRS 20 employee share option cost	**(14,280)**	44,069
Net reduction in shareholders' funds	**(268,663)**	(604,255)
Opening shareholders' funds	**(245,461)**	358,794
Closing shareholders' funds	**(514,124)**	(245,461)

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 £51,424 (2007: £59,657) which at current income, expenditure and working capital levels is insufficient to finance the Company for the next twelve months.

However, VJ Steel and SB Streater have made available to the Company a £1,000,000 drawing facility to finance future cash flows of which £635,000 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.

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 from the following geographic areas:

	2008	2007
	£	£
UK	**53,311**	45,129
Europe	**Nil**	Nil
North America	**67,888**	25,719
	121,199	70,848

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.

3. Notes to the profit and loss account

	2008 £	2007 £
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	**15,500**	16,550
Other services relating to taxation	**2,250**	2,250
Depreciation and other amounts written off tangible fixed assets: owned	**9,244**	7,238
Hire of other assets – operating leases	**25,200**	40,024
Exchange losses/(profits)	**(2,261)**	224
Research and development expenditure	**157,462**	178,870

4. Remuneration of directors

	2008 £	2007 £
Directors' emoluments	**63,745**	115,000

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 2008	Number of employees 2007
Management	**4**	4
Technical	**5**	5
Marketing	**2**	4
	11	13

The aggregate payroll costs of these persons were as follows:

	2008 £	2007 £
Wages and salaries	**232,580**	365,980
Share based payments (see note 15)	**(14,280)**	44,069
Social security costs	**23,250**	39,211
	241,550	449,260

6. Interest payable

	2008 £	2007 £
Interest payable on Directors' loan	**5,292**	—

7. Other interest receivable and similar income

	2008 £	2007 £
Bank interest	**1,583**	4,873

8. Taxation

Analysis of credit in the period

	2008 £	2007 £
UK corporation tax		
Current tax on income for the period	—	—
Research and development tax credit	**(34,320)**	(36,297)
Total current tax	**(34,320)**	(36,297)

Factors affecting the tax charge for the current period

The current tax credit for the period is lower (2007: lower) than the standard rate of corporation tax in the UK (21%, 2007: 20%). The differences are explained below.

	2008 £	2007 £
Current tax reconciliation		
Loss on ordinary activities before tax	**(288,703)**	(684,621)
Add back FRS 20 employee share option cost	**(14,280)**	44,069
	(302,983)	(640,552)
Current tax at 21% (2007: 20%)	**(63,626)**	(128,110)
Effects of:		
Expenses not deductible for tax purposes	**355**	399
Capital allowances for period lower than/(in excess of) depreciation	**(4,785)**	(4,968)
Employee share acquisition relief		
Tax losses carried forward	**38,284**	102,432
Additional deduction for research and development expenditure	**(17,987)**	(15,124)
Rate differences for research and development tax credit	**13,439**	9,074
Total current tax credit (see above)	**(34,320)**	(36,297)

Tax losses of approximately £3,800,000 (2007: £3,600,000) are available to relieve against future profits of the Company.

Unrecognised deferred tax assets

	2008 £	2007 £
Depreciation in excess of capital allowances	**19,902**	24,356
Tax losses carried forward	**799,304**	732,170
	819,206	756,526

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.

9. 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 (2007: 76,162,500).

10. Tangible fixed assets

	Leasehold improvements £	Fixtures and fittings £	Computer equipment £	Total £
Cost				
At beginning of year	—	24,075	178,927	203,002
Additions	21,127	—	5,688	26,815
Disposals	—	—	—	—
At end of year	21,127	24,075	184,615	229,818
Depreciation				
At beginning of year	—	24,075	176,752	200,827
On disposals	—	—	—	—
Charge for year	4,225	—	5,019	9,244
At end of year	4,225	24,075	181,771	210,072
Net book value				
At 31 December 2008	**16,902**	—	**2,844**	**19,746**
At 31 December 2007	—	—	2,175	2,175

11. Debtors

	2008 £	2007 £
Trade debtors	**92,274**	33,876
Other debtors	**15,900**	18,816
Taxation and social security	**35,683**	36,297
Prepayments and accrued income	**5,246**	15,840
	149,103	104,829

Included in Other Debtors is a rental deposit of £15,900 (2007:£15,900) which is subject to a charge.

12. Creditors: amounts falling due within one year

	2008 £	2007 £
Trade creditors	**20,041**	5,616
Other creditors	**10,520**	299
Interest due on Directors’ loans	**5,292**	—
Taxation and social security	**13,424**	9,715
Accruals and deferred income	**50,120**	61,492
	99,397	77,122

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

	2008 £	2007 £
Directors’ loans	**635,000**	335,000
	635,000	335,000

14. Called up share capital

	2008 £	2007 £
Authorised:		
125,000,000 ordinary shares of 0.8p each (2007: 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 (2007: 76,162,500 ordinary shares of 0.8p each)	**609,300**	609,300

14. Called up share capital *continued*

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

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	**1,300,000**	1,200,000
DP Main	Ordinary shares of 0.8 pence	**350,000**	300,000
GB Hirst	Ordinary shares of 0.8 pence	**475,000**	440,000
PJ Madden	Ordinary shares of 0.8 pence	**165,000**	100,000

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

15. 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 at 31/12/2008**	Number of shares for which rights are exercisable at 31/12/2007
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	**512,500**	514,143
0.39	30/09/2004	30/09/2007 – 30/09/2014	**534,359**	599,359
0.22	29/04/2005	29/04/2008 – 29/04/2015	**577,728**	627,728
0.26	06/09/2005	06/09/2008 – 06/09/2015	**612,500**	652,500
0.23	09/05/2006	09/05/2009 – 09/05/2016	**362,500**	387,500
0.135	27/07/2007	27/07/2010 – 27/07/2017	**65,000**	75,000
0.085	18/06/2008	18/06/2011 – 18/06/2018	**355,000**	—
Approved				
0.255	21/09/2001	21/09/2004 – 21/09/2011	**50,000**	50,000
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	**5,000**	10,000
0.31	08/05/2003	08/05/2006 – 08/05/2013	**155,966**	180,966
0.65	06/10/2003	06/10/2006 – 06/10/2013	**44,616**	64,616
0.35	04/05/2004	04/05/2007 – 04/05/2014	**70,000**	93,357
0.39	30/09/2004	30/09/2007 – 30/09/2014	**58,141**	58,141
0.22	29/04/2005	29/04/2008 – 29/04/2015	**29,772**	29,772
0.26	06/09/2005	06/09/2008 – 06/09/2015	**15,000**	15,000
0.23	09/05/2006	09/05/2009 – 09/05/2016	**5,000**	5,000
0.135	27/07/2007	27/07/2010 – 27/07/2017	**40,000**	40,000
0.085	18/06/2008	18/06/2011 – 18/06/2018	**145,000**	—

15. Share options *continued*

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

	2008 Weighted average exercise price	**2008 Number of options**	2007 Weighted average exercise price	2007 Number of options
Outstanding at the beginning of the period	**0.393**	**6,021,250**	0.395	6,121,250
Granted during the period	**0.085**	**500,000**	0.135	135,000
Forfeited during the period	**0.319**	**265,000**	0.29	185,000
Exercised during the period	—	—	—	—
Lapsed during the period	—	—	0.35	50,000
Outstanding at the end of the period	**0.371**	**6,256,250**	0.393	6,021,250
Exercisable at the end of the period	**0.413**	**5,283,750**	0.463	4,188,750

The options outstanding at the year end have an exercise price in the range of £2.175 to £0.085 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.

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

	2008 Approved 18 June	2007 Approved 27 July	**2008 Unapproved 18 June**	2007 Unapproved 27 July
Expected volatility (expressed as % used in the modelling under Black-Scholes model)	**67%**	50%	**67%**	50%
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)	**5.10%**	5.39%	**5.10%**	5.39%
Weighted average fair value of options granted	**0.434**	0.0576	**0.434**	0.0576
Weighted average share price	**0.081**	0.133	**0.081**	0.133
Exercise price	**0.085**	0.135	**0.085**	0.135

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:

	2008 £	2007 £
Equity settled share based payments	**(14,280)**	44,069

16. Share premium and reserves

	Share premium account £	Capital contribution reserve £	Profit and loss account £
At beginning of year	2,996,375	125,000	(3,976,136)
Loss for year	—	—	(254,383)
Add back FRS 20 employee share option scheme cost	—	—	(14,280)
At end of year	**2,996,375**	**125,000**	**(4,244,799)**

The capital contribution reserve is distributable.

17. Commitments

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

	2008 Land and buildings £	2007 Land and buildings £
Operating leases which expire:		
within one year	**25,200**	25,200

18. Analysis of cash flows

	2008 £	2007 £
Returns on investment and servicing of finance		
Interest received	**1,583**	4,873
Taxation		
Tax credit received	**36,297**	40,505
Capital expenditure		
Purchase of tangible fixed assets	**26,815**	4,350
Financing		
Receipt of Directors' loan	**300,000**	335,000

19. Analysis of net funds

	At beginning of year £	Cash flow £	**At end of year £**
Cash in hand and at bank	59,657	(8,233)	51,424
Liquid resources	—	—	—
Current asset investments	59,657	(8,233)	51,424

20. Related party transactions

Fees of £1,602 (2007: £57) in respect of security fittings being made by MyGard, a company of which VJ Steel was a director, were paid in the year. No amounts (2007: £nil) were due to MyGard by Forbidden Technologies plc at the year end.

Directors' loans (see note 13) included the following balances:

	31 December 2008 £	31 December 2007 £
SB Streater	**571,500**	306,000
VJ Steel	**63,500**	29,000
	635,000	335,000

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%

Interest of £5,292 was accrued in the accounts for the year (see note 6).

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.

21. 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 £365,000 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 2 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.

22. 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 26 June 2009 at 11.00 am for the purpose of considering and, if thought fit, passing the following resolutions which, in the case of Resolutions Nos. 1 to 4 (inclusive) will be proposed as ordinary resolutions and, in the case of Resolutions Nos. 5 and 6, will be proposed as special resolutions:

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 2008.
2. The Company having received special notice of this resolution in accordance with Article 122 of the Company's Articles of Association, to re-elect Vic J Steel who has reached the age of 70 and 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.
4. THAT the directors be and generally and unconditionally are authorised pursuant to section 80 of the Companies Act 1985 (the "Act") to exercise all powers of the Company to allot relevant securities (within the meaning of that section) up to an aggregate nominal amount of £390,700 (representing the Company's unissued share capital as at the date of this Notice), such authority to expire 5 years from the passing of this resolution, save that the Company may before such expiry make an offer or agreement which would or might require relevant securities to be allotted after such expiry and the directors may allot relevant securities in pursuance of such offer or agreement as if the power conferred hereby had not expired.

   .

As special business

5. 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 resolution no. 4 above, 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); and
   (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 2010, 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.
6. To authorise the Company to send or supply documents and information to shareholders in electronic form and via a website and, for such purpose and generally, to amend the Company's Articles of Association in the manner set out in the Appendix to this Notice.

By order of the Board

MC Kay
Secretary
14 May 2009

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 11.00 am on 24 June 2009 (or 11.00 am 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 14 May 2009 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 14 May 2009 was 76,162,500.

Appendix

The Company's Articles of Association shall be amended by:

(a) deleting Articles 194 to 197 (inclusive) thereof and substituting therefor the following new articles:

"194. Any notice or other document may be served on or delivered to any member by the Company either personally or by sending it through the post in a prepaid letter addressed to such member at his registered address as appearing in the Register or by delivering it to or leaving it at such registered address, addressed as aforesaid or, in the case of any notice or other document other than a share certificate or other document of title, by giving it using Electronic Communications to an Address for the time being notified to the Company by the member.

195. In the case of joint holders of a share, service or delivery of any notice or other document on or to one of the joint holders shall for all purposes be deemed a sufficient service on or delivery to all the joint holders.

196. Any member described in the Register by an address not within the United Kingdom who shall, from time to time, give to the Company a postal address within the United Kingdom at which notices may be served upon him shall be entitled to have notices served upon him otherwise than by Electronic Communications at such address but, save as aforesaid, no member other than a member described in the Register by an address within the United Kingdom shall be entitled to receive any notice from the Company.

197. Any information, notice or other document is validly sent or supplied by the Company to a person by being made available on a website if:

(a) the person has agreed (generally or specifically) that the information, notice or document may be sent or supplied to him in that manner, or he is taken to have so agreed under Schedule 5 to the 2006 Act and, in either case, he has not revoked that agreement;

(b) the Company has notified the intended recipient of: (i) the presence of the information, notice or other document on the website; (ii) the address of the website; (iii) the place on the website where it may be accessed; (iv) how to access the information, notice or other document; and (v) any other information prescribed by the Companies Acts including, when the information comprises a notice of meeting, that fact, the place, date and time of the meeting and whether the meeting is an annual general meeting; and

(c) the information, notice or other document is available on the website throughout the period specified by any applicable provision of the 2006 Act or, if no such period is specified, the period of 28 days starting on the date on which the notification referred to in this Article 197 is sent to the relevant person.";

(b) deleting Article 201 thereof and substituting therefor the following new articles:

"201 Any such notice or other document, if sent by first class post, shall be deemed to have been served or delivered 48 hours after it was put in the post and in proving such service or delivery it shall be sufficient to prove that the notice or document was properly addressed, prepaid and put in the post. Proof that a notice or other document contained in an Electronic Communication was sent in accordance with guidance issued by the Institute of Chartered Secretaries and Administrators shall be conclusive evidence that the notice or other document was given or sent. Any notice or other document delivered or left at a registered address otherwise than by post shall be deemed to have been served or delivered on the day it was so delivered or left. Any notice or other document contained in an Electronic Communication shall be deemed to have been delivered at the expiration of 48 hours after it was sent.

201A Where any information, notice or document is sent or supplied by means of a website it is deemed to have been received by the recipient when the material was first made available on the website or, if later, when the recipient received (or is deemed to have received) notice of the fact that the material was available on the website.

201B Any notice or other document delivered or sent by post to or left at the registered address of any member in pursuance of these Articles shall, notwithstanding that such member is then dead or bankrupt or that any other event has occurred, and whether or not the Company has notice of the death or bankruptcy or other event, be deemed to have been duly served or delivered in respect of any share registered in the name of such member as sole or joint holder unless his name shall, at the time of the service or delivery of the notice or document, have been removed from the Register as the holder of the share. Such service or delivery shall for all purposes be deemed a sufficient service or delivery of such notice or document on all persons interested (whether jointly with or as claiming through or under him) in the share.

201C Any summons, notice, order or other document required to be sent to or served upon the Company, or upon any officer of the Company, may be sent or served by leaving the same or sending it through the post in a prepaid letter addressed to the Company, or to such officer, at the Office, or may be given using Electronic Communications to an Address for the time being notified for that purpose to the person giving the notice.

201D Any notice or other document may be served or delivered by the Company by reference to the Register as it stands at any time not more than 15 days before the date of despatch by the Company. No change in the Register after that time shall invalidate that service or delivery. Where any notice or other document is served on, or delivered to, any person in respect of a share in accordance with these Articles, no person deriving any title or interest in that share shall be entitled to any further service or delivery of that notice or document and shall be bound by such notice or document.

201E Nothing in any of the preceding Articles shall affect any requirement of the Companies Acts that any particular offer, notice or other document be served in any particular manner."; and

(c) by inserting the following new Article 204A immediately after Article 204 thereof:

"204A For the purposes of Articles 194 to 204A (inclusive):

"**Address**", when used in relation to Electronic Communications, includes any number or address used for the purposes of such communications;

"**Communication**" includes a communication comprising images and a communication effecting a payment;

the "**Companies Acts**" means every statute including any orders, regulations and other subordinate legislation made under it from time to time in force concerning companies insofar as the same applies to the Company (whether or not called a Companies Act or within the statutory citation of Companies Acts);

"**Electronic Communication**" means a Communication by facsimile or electronic mail, and any other form of electronic communication, as defined by the Electronic Communications Act 2000;

the "**2006 Act**" means the Companies Act 2006. "

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