REGISTERED NUMBER: 03507286 (England and Wales)

REPORT OF THE DIRECTORS AND

AUDITED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2012

FOR

FORBIDDEN TECHNOLOGIES PLC

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FOR THE YEAR ENDED 31 DECEMBER 2012

DIRECTORS:	VJ Steel SB Streater PJ Madden GB Hirst DP Main
SECRETARY:	MC Kay
REGISTERED OFFICE:	Tuition House 27/37 St George's Road Wimbledon London SW19 4EU
REGISTERED NUMBER:	03507286 (England and Wales)
AUDITORS:	Kingston Smith LLP Statutory Auditor Chartered Accountants Devonshire House 60 Goswell Road London EC1M 7AD
SOLICITORS:	Blake Lapthorn Watchmaker Court 33 St John's Lane London EC1M 4DB

CHAIRMAN'S STATEMENT

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

Statements of Comprehensive Income and Financial Position

In the year to 31st December 2012 the Company achieved sales of £812,744, an increase of 74% over the previous year. The Gross Profit was £680,514, £262,745 (63%) up on last year but at a lower margin (84%), influenced by the increased level of hardware sales at a more modest but still valuable margin of more than 60%. Administrative Expenses, at £963,237 were 42% higher than in 2011 and reflect the Company's policy of increasing investment in R&D, marketing and sales resources in order to accelerate growth. As a result, the loss for the year of £216,715 was 16% higher than the £186,218 loss recorded for 2011.

On the balance sheet the closing net assets were £1,628,208, £29,572 (2%) less than the opening position on 1st January 2012. The closing cash balance was £459,787, a reduction of £232,707 (34%) from the opening position of £692,494. The Company continues to be debt free with a strong balance sheet.

Strategy

The Company has recently completed a review of strategy and has reaffirmed its focus on the four primary sectors where our Cloud-based video platform has the opportunity to play a major role and to be a significant force in shaping new workflows that can save time and money for all our customers. Our focus is to develop leadership positions in the Broadcast Post-Production and News and Sport sectors.

1. **Broadcast Post-Production**
   In the continuing tight economic conditions affecting the broadcast industry, FORscene is gaining increased recognition for its time and cost saving benefits and for the value of its availability anytime, anyplace on any desktop or laptop that has broadband access. Sales in 2012 grew by 61% over the previous year, with an average of 69 productions using FORscene each month between September and December 2012. Once it is used by a post-production facility, FORscene enjoys a high customer retention rate, with valuable repeat purchasing and regular extension further into the post-production process. Having achieved a modest share of the market to date we anticipate significant growth in the UK. 21 Post Houses have purchased FORscene servers. We plan to use FORscene's reputation in the UK to assist in post-production expansion in a number of the bigger markets across the world.

2. **News and Sport**
   News and Sport share requirements for speed of delivery, cost efficiency and ability to operate from diverse and sometimes remote locations. The FORscene Cloud-based platform has demonstrated that it fulfils all of these needs.

   News and Sport is a high growth sector as more consumers view web-video on mobile devices and PCs.

   2012 was a highly successful year for FORscene in News and Sport where revenue grew by 84% in comparison with 2011. The role played in the Olympic Games through YouTube and NBC in North America increased the visibility, reputation and credibility of FORscene to an extent that should not be under estimated. As a single, but valuable contract, it has led to a number of current discussions with global companies who were involved with or observed the qualities of FORscene in the Olympics project. The Company is devoting significant resources to bring as many of these discussions as possible to a successful conclusion during 2013.

   In the light of our strategy of investing in partnerships in this sector, we expect News and Sport to continue to be a major growth area for the Company over coming years, as Cloud-based technology becomes the standard platform internationally.

3. **Education**
   The value of this sector to the Company is not primarily in its contribution to turnover but, instead, in raising awareness of FORscene among the next generation of video editors and on-line entrepreneurs. The Company will continue to encourage education institutions to use and teach the FORscene platform.

4. **The Social Media Consumer**
   The Company has marketed consumer-orientated forms of the platform for some years as Clesh, a consumer version of the browser-based interface. The launch of our Android app in February 2011 brought new visibility of the Company's depth of video editing functionality to consumers and has kick started a revenue stream with significant potential.

   There are around 300 million Android-based portable devices (smartphones and tablets) currently in use around the world and this is forecast to grow at an annual rate of 250% (source: Google, February 2012). Penetration to only 1% of these devices with a version of the product would generate significant sales. Furthermore, the product fits well with the increasing trend towards crowd-sourced, Internet published news and entertainment, and with the increasing drive on social media sites to increase the quality of their video offerings.

True penetration will only be achieved with a collaborating partner, who has a broad existing customer base either as a mobile manufacturer, a mobile service provider or a major consumer social media site. The Company places high priority in the long term development of this sector.

Corporate Activities

In 2012 Forbidden has played an active role at the key broadcast conventions: NAB in Las Vegas where some 100,000 individuals register, and Europe's IBC in Amsterdam which attracts a footfall of over 40,000. Our stands attract many visitors and produce useful contacts and sales leads. We also have participated in smaller UK events such as Master Investor and BVE where individual investors can discuss progress with the Forbidden team.

Early in 2012 we appointed Cenkos as our Company Broker and have recently added the role of Nominated Advisor to the Cenkos agreement. Having increased our number of customers and our level of sales, we believe that Forbidden is becoming institution-friendly and appreciate the reputation of Cenkos, particularly in the technology sector.

Press and Internet coverage have continued to grow, reflecting both the Company's efforts to publicise its successes and the readiness of journalists to write about Forbidden's state-of-the-art video platform.

Since the 2012 year end the Company has announced a pan-African agreement with systems integrator ATOS. This is the first agreement which involves a partner in setting up, managing and maintaining for itself a FORscene Cloud and therefore an important milestone in the development of the Company.

Outlook

With our enhanced reputation in Broadcast Post-Production, our ambition over time is to extend our international penetration of this sector. Post the Olympics the Company is conducting an extensive number of on-going discussions with global businesses in News and Sports. Not all discussions lead to firm partnership agreements but with the current pipeline we are confident that our opportunities for growth are real, exciting and will continue to add significant value to the Forbidden business.

Vic Steel
Chairman

The year 2012 in review

Forbidden's stature grew again in 2012.

Our increased marketing spend resulted directly in more exposure, with a steady stream of trade shows and events throughout the year. In professional markets, where being visible and demonstrating success are major factors in establishing reputation, Forbidden's presence has contributed to the company's long term value.

The Olympic Games is a phenomenal event. Even large broadcasters struggle to provide perfect coverage. So Forbidden's successful integration into YouTube's Olympics 2012 video solutions, as used by NBC and elsewhere, was an unrivalled opportunity for Forbidden to show off its FORscene Cloud video platform - both to broadcasters, who could see NBC's use, and to the professional Internet side, who could appreciate YouTube's connection.

With Forbidden's business model focused on selling through partners who are already established in each market, Forbidden has taken the opportunity created by the Olympics to forge new partnerships in both News and Sport. These are in addition to the growth in post houses who offer the FORscene service. All these clients use Forbidden's FORscene Cloud.

The adoption by Atos, the systems integrator, in South Africa as a partner marks a significant step. It is set to be the first organisation outside Forbidden to build and operate its own FORscene Cloud, illustrating a route for scaling up FORscene globally.

Technical achievements have continued in abundance. New features for our biggest clients, such as support for closed captioning in the US, have been combined with ever higher efficiency, driving increases in capacity.

Heavy duty broadcasters use Forbidden's Linux-based FORscene Server to ingest their material. The launch of PC Server Lite, a Windows application, fills the gap caused by the growth of more lightweight opportunities in corporate videos and news.

Clesh, Forbidden's cloud video editing solution for the interested consumer, continued to benefit from progress of the FORscene platform as a whole, supplemented by a number of mobile specific upgrades. The rapid improvements in smartphones and tablets are creating a major platform for Forbidden's Internet services. Despite the minimal marketing resources applied to Clesh, sales growth for the year of 74% matched the professional markets which still dominate Forbidden's turnover. The role of Clesh in Forbidden's mobile and consumer strategies is discussed further below.

Forbidden's growth has allowed it to engage its own full time in house professional video producer. A constant stream of FORscene training videos to support our growing user base has been spiced up with regular promos for Shows and upgrades.

Long term success in a dynamic world

Every day, millions pay to go by train, when they can walk for free. They pay because it is better.

When I entered the broadcast video market in 1991, a tape offline edit suite cost around £30k. But a few months later, liquidators couldn't give them away. Despite the apparent bargain price of these systems, customers were happy to pay £6,000 for my modern replacement. People paid for it because it was better.

More recently, some have asked why people will pay to use the FORscene video platform when there is "free" editing software available. The answer is because it is better. The cost of FORscene in a modern TV workflow today is not dissimilar to the cost of my much more primitive system twenty years ago.

There are many reasons why companies and individuals pay to use FORscene. One objective of Forbidden's technology programme is to ensure that this continues to be the case.

Hunters and farmers

Forbidden's roadmap covers two distinct types of progress.

The hunting side grabs headlines: integration into the YouTube / NBC Olympic Games solution, multicam logging and editing, major codec upgrades, the mobile capability. Hunting opens up new opportunities directly. FORscene Multicam has opened up many high volume workflows by allowing multiple cameras to be worked on at the same time. HD publishing allows professional programmes to be finished in FORscene without the need to move to another system.

The farming side continuously nurtures the platform, improving reliability, efficiency, capacity, features - and reducing the cost of delivering the platform. Farming upgrades are often individually barely noticeable, but cumulatively over years they contribute to an unrivalled end-user experience.

Competition

Intel uses its world leading manufacturing technology to make "industry standard" CPUs. But the market is moving on, with volume shifting from desktops and laptops to tablets and smartphones. The new devices generally use CPU designs from the UK company ARM. By CPUs shipped, the ARM design vastly outsells Intel.

So why doesn't Intel just makes chips like ARM? Apart from the technology issues about making power efficient chips, the problem for Intel is that the ARM chips simply don't cost very much. If Intel made chips like ARM, and charged similarly, they simply wouldn't be the size of Intel.

I mention Intel vs ARM because there are many parallels in Forbidden's world. FORscene has an extremely efficient architecture, has a low price and a high gross margin (typically 85-90%). If the large traditional suppliers of Forbidden's broadcast markets made and sold what Forbidden does, at Forbidden's prices, they could destroy their business models.

But just as ARM are designing faster chips, Forbidden is transforming the video market by making better cloud post-production software. Just as with ARM, the new technology is seeding new markets.

Although low cost, Forbidden does not compete on price. Instead, through continual innovation based on a strong and flexible technology base, Forbidden strives for ever higher performance.

Forbidden has maintained FORscene's pricing power over the last eight years by encouraging demand too. Building FORscene's reputation and customer awareness of the platform has taken time, marketing and user experience. Several new markets value FORscene's advantages highly. Specialist partners eager to add the benefits of FORscene to their existing offerings provide new and more efficient routes to market.

Looking forward

The majority of Forbidden's turnover comes from editing / finishing in FORscene in the high value area of News and Sports. Looking forward in this sector, we are targeting live and near live events, more efficient HD export and further integration with established systems.

Growth in Broadcast Post continues as we add customers and embrace more of the value chain. With review, logging, sync pulls and rough cut editing well established, we are increasingly pushing into offline editing in Broadcast Post.

In mobile, Forbidden is using its Android app to prepare its mobile technology for future needs. Adapting the interface for touch screen devices, aligning the video codec technology for ARM CPUs, working reliably on mobile networks and making an Android software-only version of the $20,000 FORscene Server all take time to settle.

There is little doubt that the rapid improvements in smartphone and tablet technology will lead to its widespread adoption in both the consumer and professional worlds. Tablet devices already have 2560x1600 pixel colour displays, and 8 core ARM chips from Samsung have been demonstrated.

Forbidden's technology continues to develop to meet the needs of its growing user base. Our strategic developments are positioning us to benefit from the platforms and markets which will be prevalent in the future.

SB Streater
Chief Executive

The directors present their report with the financial statements of the company for the year ended 31 December 2012.

PRINCIPAL ACTIVITY
The principal activity of the company in the year under review was the development and commercial exploitation of cloud-based video technology.

REVIEW OF BUSINESS
The Company has continued the development of its video technology, extending both its functionality and its ability to take advantage of emerging opportunities, markets and partnerships. A detailed review of the Company's financial performance during the year and an outlook for the future is provided within the Chairman's statement on page 2.

Key Performance Indicators

Turnover for the year was £812,744 (2011: £466,674); the loss for the year was £216,715 (2011: £186,218). The results of the Company are shown in more detail on page 11.

In addition to the monthly management accounts, the Board uses the following key performance indicators in the management of the key risks of the business and as a measure of business efficiency.

- Sales performance is measured against plan, and against latest expectations which are updated monthly.
- Costs are categorised and monitored against plan and current needs on a monthly basis.
- Cash is managed closely to ensure that the company avoids an overdraft and is planned to ensure that cash resources will be sufficient to meet the Company's future needs. The cash balance at the year-end was £459,787 (2011: £692,494).

Corrective actions would have been taken during the year if these indicators had not been satisfactory.

DIVIDENDS
No dividends will be declared for the year ended 31 December 2012 (2011:£Nil).

EVENTS SINCE THE END OF THE YEAR
Information relating to events since the end of the year is given in the notes to the financial statements.

DIRECTORS AND DIRECTORS' INTERESTS
The directors shown below have held office during the whole of the period from 1 January 2012 to the date of this report.

VJ Steel
SB Streater
PJ Madden
GB Hirst
DP Main

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:

	Class of share	Interest at end of year	Interest at start of year
VJ Steel	Ordinary shares of 0.8 pence	1,099,500	999,500
SB Streater	Ordinary shares of 0.8 pence	62,700,000	62,700,000
PJ Madden	Ordinary shares of 0.8 pence	221,378	221,378
GB Hirst	Ordinary shares of 0.8 pence	253,100	128,100
DP Main	Ordinary shares of 0.8 pence	50,000	50,000

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	Granted	Exercised	Lapsed	At end of year	Exercise price £	Market price on date of exercise £	Date from which exercisable	Expiry date
VJ Steel	100,000			100,000	-	0.475	-	04/04/2005	03/04/2012
VJ Steel	100,000		100,000		-	0.215	0.29	04/10/2005	03/10/2012
VJ Steel	100,000				100,000	0.31	-	08/05/2006	07/05/2013
VJ Steel	100,000				100,000	0.65	-	06/10/2006	05/10/2013
VJ Steel	100,000				100,000	0.35	-	04/05/2007	03/05/2014
VJ Steel	100,000				100,000	0.39	-	30/09/2007	29/09/2014
VJ Steel	100,000				100,000	0.22	-	29/04/2008	28/04/2015
VJ Steel	100,000				100,000	0.26	-	06/09/2008	05/09/2015
VJ Steel	100,000				100,000	0.085	-	18/06/2011	17/06/2018
VJ Steel	20,000				20,000	0.24	-	25/08/2012	24/08/2019
VJ Steel	100,000				100,000	0.16	-	05/07/2013	04/07/2020
VJ Steel	150,000				150,000	0.36	-	05/11/2013	04/11/2020
VJ Steel	110,000				110,000	0.1275	-	06/10/2014	05/10/2021
VJ Steel	-	100,000			100,000	0.245	-	12/05/2015	11/05/2022
VJ Steel	-	40,000			40,000	0.26	-	20/08/2015	19/08/2022
DP Main	30,000				30,000	0.65	-	06/10/2006	05/10/2013
DP Main	50,000				50,000	0.35	-	04/05/2007	03/05/2014
DP Main	50,000				50,000	0.39	-	30/09/2007	29/09/2014
DP Main	20,000				20,000	0.22	-	29/04/2008	28/04/2015
DP Main	50,000				50,000	0.26	-	06/09/2008	05/09/2015
DP Main	50,000				50,000	0.085	-	18/06/2011	17/06/2018
DP Main	20,000				20,000	0.24	-	25/08/2012	24/08/2019
DP Main	50,000				50,000	0.16	-	05/07/2013	04/07/2020
DP Main	50,000				50,000	0.36	-	05/11/2013	04/11/2020
DP Main	55,000				55,000	0.1275	-	06/10/2014	05/10/2021
DP Main	-	75,000			75,000	0.245	-	12/05/2015	11/05/2022
DP Main	-	40,000			40,000	0.26	-	20/08/2015	19/08/2022
GB Hirst	20,000			20,000	-	0.475	-	04/04/2005	03/04/2012
GB Hirst	50,000		50,000		-	0.215	0.29	04/10/2005	03/10/2012
GB Hirst	40,000				40,000	0.31	-	08/05/2006	07/05/2013
GB Hirst	40,000				40,000	0.65	-	06/10/2006	05/10/2013
GB Hirst	50,000				50,000	0.35	-	04/05/2007	03/05/2014
GB Hirst	50,000				50,000	0.39	-	30/09/2007	29/09/2014
GB Hirst	75,000		75,000		-	0.22	0.21	29/04/2008	28/04/2015
GB Hirst	50,000				50,000	0.26	-	06/09/2008	05/09/2015
GB Hirst	15,000				15,000	0.23	-	09/05/2009	08/05/2016
GB Hirst	35,000				35,000	0.085	-	18/06/2011	17/06/2018
GB Hirst	30,000				30,000	0.24	-	25/08/2012	24/08/2019
GB Hirst	150,000				150,000	0.36	-	05/07/2013	04/07/2020
GB Hirst	150,000				150,000	0.36	-	05/11/2013	04/11/2020
GB Hirst	150,000				150,000	0.1275	-	06/10/2014	05/10/2021
GB Hirst	-	100,000			100,000	0.245	-	12/05/2015	11/05/2022
GB Hirst	-	40,000			40,000	0.26	-	20/08/2015	19/08/2022
PJ Madden	50,000				50,000	0.26	-	06/09/2008	05/09/2015
PJ Madden	25,000				25,000	0.23	-	09/05/2009	08/05/2016
PJ Madden	25,000				25,000	0.135	-	27/07/2010	26/07/2017
PJ Madden	65,000				65,000	0.085	-	18/06/2011	17/06/2018
PJ Madden	30,000				30,000	0.24	-	25/08/2012	24/08/2019
PJ Madden	50,000				50,000	0.16	-	05/07/2013	04/07/2020
PJ Madden	75,000				75,000	0.36	-	05/11/2013	04/11/2020
PJ Madden	55,000				55,000	0.1275	-	06/10/2014	05/10/2021
PJ Madden	-	75,000			75,000	0.245	-	12/05/2015	11/05/2022
PJ Madden	-	40,000			40,000	0.26	-	20/08/2015	19/08/2022

The market price of the shares at the year end was 20.5p. The highest market price during the year was 43.0p and the lowest market price 18.0p.

COMPANY'S POLICY 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 3 days (2011: 8 days) purchases in trade creditors.

FINANCIAL INSTRUMENTS
The Company's financial instruments comprise trade debtors, trade creditors and cash. The Company has not entered into any derivative or other hedging instruments.
The Company's practice has been to finance its operations and expansion through the issue of equity share capital.
Financial assets comprise cash at bank and in hand. 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.

PRINCIPAL RISKS AND UNCERTAINTIES
Interest rate risk
Cash balances attract a floating rate of interest.
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
The Company reviews future working capital requirements on a monthly basis.

Foreign currency risk
The Company enters into transactions in the UK and North America and is exposed to currency fluctuations in the exchange rates for these regions although most of its overseas transactions are denominated in sterling. 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.

SUBSTANTIAL SHAREHOLDERS
At the year end no-one, other than directors, held an interest of 3% or more in the Company's ordinary share capital.

POLITICAL AND CHARITABLE CONTRIBUTIONS
The Company made no political or charitable donations in the year (2011: £nil).

SHARE OPTION SCHEMES
On 12 May 2012, under the Company's Enterprise Management Incentive (EMI) Share Option Scheme 2012, options over 825,000 ordinary shares of 0.8p in the Company were granted to 15 directors and employees. On the same date, under the Company’s unapproved share option scheme, options over 75,000 ordinary shares of 0.8p in the Company were granted to 1 director. All these options are exercisable at 24.5p per share within the period 12 May 2015 to 11 May 2022, on condition of employment with the Company.
On 20 August 2012, under the Company’s EMI scheme, options over 360,000 ordinary shares of 0.8p in the Company were granted to 15 directors and employees. On the same date, under the Company’s unapproved share option scheme, options over 40,000 ordinary shares of 0.8p in the Company were granted to 1 director. All these options are exercisable at 26.0p per share within the period 20 August 2015 to 19 August 2022, on condition of employment with the Company.
On termination of employment, employees lose their share options unless the Board exercises its discretion to allow an employee to retain their share options for a limited period.
The exercise price for the share options issued was the market price at the date the options were granted.

CORPORATE GOVERNANCE
The listing rules require that listed companies (but not companies traded on the Alternative Investment Market - "AIM") incorporated in the UK should state in their report and accounts whether they comply with the UK Corporate Governance Code (“the Code”) and identify and give reasons for any area of non-compliance. The Code is published by the Financial Reporting Council and is periodically reviewed and updated. 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 normally meets at least 11 times a year to consider the progress of the Company. The Board holds additional, one-off meetings to review and reset the Company’s strategy and future direction.
The objective of our corporate governance structure and processes is to create transparency in business decisions and actions so that we remain accountable to all our stakeholders. The value we place on good corporate governance is reflected in our

CORPORATE GOVERNANCE - continued

governance practices and our everyday working processes. 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.
During the year, the Board reviewed its corporate governance arrangements and is in the process of implementing a range of steps to increase its compliance with the Code, in line with the guidelines of the Quoted Companies' Alliance.
As the Company grows in size and resources the Board intends to continue to increase its compliance with the Code.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors are responsible for preparing the Annual 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. The directors are required by the AIM Rules of the London Stock Exchange to prepare the financial statements in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union ("EU").

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and the financial performance and cash flows of the company for that year. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether in the preparation of the financial statements the company has complied with IFRS as adopted by the EU, subject to any material departures disclosed and explained in the financial statements; and
- prepare the accounts on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

STATEMENT AS TO DISCLOSURE OF INFORMATION TO AUDITORS

So far as the directors are aware, there is no relevant audit information of which the company's auditors are unaware and they have taken all the steps that they ought to have taken as directors in order to make themselves aware of any relevant audit information and to establish that the company's auditors are aware of that information.

AUDITORS

The auditors, Kingston Smith LLP, will be proposed for re-appointment at the forthcoming Annual General Meeting.

ON BEHALF OF THE BOARD:

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SB Streater - Director

Date: 22 February 2013

REPORT OF THE INDEPENDENT AUDITORS TO THE MEMBERS OF FORBIDDEN TECHNOLOGIES PLC

We have audited the financial statements of Forbidden Technologies Plc for the year ended 31 December 2012 which comprise the Statement of Comprehensive Income, the Statement of Financial Position, the Statement of Changes in Equity, the Statement of Cash Flows and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken for no purpose other than to draw to the attention of the company's members those matters which we are required to include in an auditors' report addressed to them. To the fullest extent permitted by law, we do not accept or assume responsibility to any party other than the company and company's members as a body, for our work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 9 the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition we read all the financial and non-financial information in the 2012 Annual Report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the company's financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2012 and of the company's loss for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the company, or returns adequate for our audit have not been received from branches not visited by us; or
- the company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

John Staniforth (Senior Statutory Auditor)
for and on behalf of Kingston Smith LLP, Statutory Auditor
Chartered Accountants

Devonshire House
60 Goswell Road
London
EC1M 7AD

Date: 22 February 2013

STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2012

	Notes	2012 £	2011 £
CONTINUING OPERATIONS			
Revenue	2	812,744	466,674
Cost of Sales		(132,230)	(48,905)
GROSS PROFIT		680,514	417,769
Other operating income	3	6,431	4,443
Administrative expenses		(963,237)	(674,841)
OPERATING LOSS		(276,292)	(252,629)
Finance costs	5	-	-
Finance income	5	5,974	8,122
LOSS BEFORE INCOME TAX	6	(270,318)	(244,507)
Income Tax	7	53,603	58,289
LOSS FOR THE YEAR		(216,715)	(186,218)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		(216,715)	(186,218)
Earnings per share expressed in pence per share:	8		
Basic – continuing and total operations		(0.25p)	(0.22p)
Fully diluted		(0.25p)	(0.22p)

STATEMENT OF FINANCIAL POSITION
31 DECEMBER 2012

	Notes	2012 £	2011 £
ASSETS			
NON-CURRENT ASSETS			
Intangible assets	9	953,856	749,894
Property, plant and equipment	10	13,182	9,425
		967,038	759,319
CURRENT ASSETS			
Inventories	11	24,156	-
Trade and other receivables	12	205,117	534,247
Tax receivable		53,603	58,289
Cash and cash equivalents	13	459,787	692,494
		742,663	1,285,030
TOTAL ASSETS		1,709,701	2,044,349
EQUITY			
SHAREHOLDERS' EQUITY			
Called up share capital	14	696,936	692,636
Share premium	15	5,311,637	5,199,999
Capital contribution reserve	15	125,000	125,000
Retained earnings	15	(4,505,365)	(4,359,855)
TOTAL EQUITY		1,628,208	1,657,780
LIABILITIES			
NON-CURRENT LIABILITIES			
Trade and other payables	16	-	-
CURRENT LIABILITIES			
Trade and other payables	16	81,493	386,569
TOTAL LIABILITIES		81,493	386,569
TOTAL EQUITY AND LIABILITIES		1,709,701	2,044,349

The financial statements were approved by the Board of Directors on 22 February 2013 and were signed on its behalf by:

....
SB Streater - Director

....
PJ Madden - Director

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2012

	Called up share capital £	Profit and loss account £	Share premium £	Capital contribution reserve £	Total equity £
Balance at 1 January 2011	689,356	(4,214,109)	5,106,479	125,000	1,706,726
Changes in equity					
Issue of share capital	3,280	-	93,520	-	96,800
Share based payment	-	40,472	-	-	40,472
Total comprehensive income	-	(186,218)	-	-	(186,218)
Balance at 31 December 2011	692,636	(4,359,855)	5,199,999	125,000	1,657,780
Changes in equity					
Issue of share capital	4,300	-	111,638	-	115,938
Share based payment	-	71,205	-	-	71,205
Total comprehensive income	-	(216,715)	-	-	(216,715)
Balance at 31 December 2012	696,936	(4,505,365)	5,311,637	125,000	1,628,208

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2012

	Notes	2012 £	2011 £
Cash flows from operating activities			
Cash generated from operations	1	(95,667)	(221,998)
Finance costs paid		-	-
Tax received		58,289	50,461
Net cash from operating activities		(37,378)	(171,537)
Cash flows from investing activities			
Purchase of intangible fixed assets		(290,878)	(254,105)
Purchase of tangible fixed assets		(26,363)	(10,397)
Interest received		5,974	8,122
Net cash from investing activities		(311,267)	(256,380)
Cash flows from financing activities			
Share issue		115,938	96,800
Sale of share options		-	-
Net cash from financing activities		115,938	96,800
Increase/(Decrease) in cash and cash equivalents		(232,707)	(331,117)
Cash and cash equivalents at beginning of year	2	692,494	1,023,611
Cash and cash equivalents at end of year	2	459,787	692,494

NOTES TO THE STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2012

1. RECONCILIATION OF LOSS BEFORE INCOME TAX TO CASH GENERATED FROM OPERATIONS

	2012 £	2011 £
Loss before income tax	(270,318)	(244,507)
Depreciation charges	22,606	18,463
Amortisation charges	86,916	61,505
Employee share option costs	71,205	40,472
Finance costs	-	-
Finance income	(5,974)	(8,122)
	(95,565)	(132,189)
Decrease/(Increase) in trade and other receivables	304,974	(323,391)
(Decrease)/Increase in trade and other payables	(305,076)	233,582
Cash generated from operations	(95,667)	(221,998)

2. CASH AND CASH EQUIVALENTS

The amounts disclosed on the cash flow in respect of cash and cash equivalents are in respect of these balance sheet amounts:

Year ended 31 December 2012

	31/12/12 £	1/1/12 £
Cash and cash equivalents	459,787	692,494

Year ended 31 December 2011

	31/12/11 £	1/1/11 £
Cash and cash equivalents	692,494	1,023,611

1. ACCOUNTING POLICIES

Basis of preparation
The financial statements of the company have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union, IFRIC interpretations and the Companies Act 2006 as applicable to companies reporting under IFRS. These accounts have been prepared under the historical cost convention, as modified by the revaluation of land and buildings and certain financial instruments.

New and Revised Standards

Standards in effect in 2012 adopted by the Company
The following standards, interpretations, and amendments to standards have been adopted in the financial statements.

Standards in effect in 2012
The following new and amended standards, and interpretations are mandatory for the first time for the financial year beginning 1 January 2012 but not currently relevant to the Company (although they may affect the accounting for future transactions and events):

- Amendment to IAS 12, 'Income taxes' on deferred tax, effective date 1 January 2012
- Amendment to IAS 1, Financial statement presentation' regarding other comprehensive income, effective date 1 July 2012

IFRS in issue but not applied in the current financial statements
The following IFRS and IFRIC Interpretations have been issued but have not been applied by the Group in preparing these financial statements as they are not as yet effective. The Group intends to adopt these Standards and Interpretations when they become effective, rather than adopt them early.

- IFRS 9, 'Financial instruments', effective 1 January 2013
- Amendment to IAS 19, 'Employee benefits', effective date 1 January 2013
- IFRS 9, 'Financial instruments', effective date 1 January 2013
- IFRS 10, 'Consolidated financial statements', effective date 1 January 2013
- IFRS 11, 'Joint arrangements', effective date 1 January 2013
- IFRS 12, 'Disclosures of interests in other entities', effective date 1 January 2013
- IFRS 13, 'Fair value measurement', effective date 1 January 2013
- IAS 27 (revised 2011), 'Separate financial statements', effective date 1 January 2013
- IAS 28 (revised 2011), 'Associates and joint ventures', effective date 1 January 2013
- IFRIC 20, 'Stripping Costs in the Production Phase of a Surface Mine', effective date 1 January 2013
- Annual improvements to IFRS (2009-2011) cycle, various effective dates

A number of IFRS and IFRIC interpretations are also currently in issue which are not relevant for the Company's activities and which have not therefore been adopted in preparing these financial statements.

Revenue recognition
Revenue 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 or the delivery of equipment. 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.

Segmental reporting
The Company's products are delivered through an integrated web-based platform and the Board manages the business as a single business segment. In accordance with IFRS 8, information is presented based on the way in which financial information is reported internally to the chief operating decision maker and therefore the directors do not consider it to be meaningful to analyse the loss before tax or the Company's net assets further.
Information regarding geographical revenues is disclosed in note 2 to the financial statements.

Property, plant and equipment
Depreciation is provided at the following annual rates in order to write off each asset over its estimated useful life.

Leasehold improvements	-	over the lease term
Fixtures and fittings	-	50% on cost
Computer equipment	-	50% on cost

1. **ACCOUNTING POLICIES - continued**

Property, plant and equipment are stated at purchase cost less accumulated depreciation.

Inventories
Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average method. Net realisable value is the estimated selling price of the stocks less any applicable costs to sell.

Financial instruments
Financial instruments are classified and accounted for according to the substance of the contractual arrangement, as either financial assets, financial liabilities or equity instruments. An equity instrument is any contract that evidences a residual interest in the assets of the Company after deducting all of its liabilities.

Cash and cash equivalents
Cash, for the purposes 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.

Trade and other receivables
Trade and other receivables do not carry any interest and are stated at their nominal value as reduced by appropriate allowances for estimated irrevocable amounts.

Trade and other payables
Trade and other payables are recognised for amounts to be paid in the future for goods or services received, whether or not billed to the Company. The amounts are unsecured, non interest bearing and are stated at cost.

Financial liabilities and equity
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.

Taxation
Current taxes are based on the results shown in the financial statements and are calculated according to local tax rules, using tax rates enacted or substantially enacted by the balance sheet date.

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.

Deferred tax assets are only recognised to the extent that it is possible that future taxable profits will be available against which temporary differences can be utilised.

Intangible assets
Expenditure on research is written off in the year in which it is incurred.

1. **ACCOUNTING POLICIES - continued**

Development costs are also charged to the income statement in the year of expenditure except when individual projects satisfy the following criteria:
- the project is clearly defined,
- related expenditure is separately identifiable,
- the project is technically feasible and commercially viable,
- current and future costs will be exceeded by future sales,
- adequate resources exist for the project to be completed.

In such circumstances the costs are carried forward. Each year's costs are amortised on a straight line basis, starting from the following year, over a period of 10 years and are charged to Administrative Expenses in the Statement of Comprehensive income.

Foreign currencies
Assets and liabilities in foreign currencies are translated into sterling at the rates of exchange ruling at the balance sheet date. Transactions in foreign currencies are translated into sterling at the rate of exchange ruling at the date of transaction. Exchange differences are taken into account in arriving at the operating result.

Hire purchase and leasing commitments
Rentals paid under operating leases are charged to the profit and loss account on a straight line basis over the period of the lease.

Share based payments
The share option programme allows employees to acquire shares of the Company. The fair value of equity settled through 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.

Government grants
Grants from the government are recognised at their face value where there is a reasonable assurance that the grant will be received and the company will comply with all attached conditions.

Government grants relating to costs are deferred and recognised in the income statement over the period necessary to match them with the costs that they are intended to compensate.

Critical accounting judgements and key sources of estimation and uncertainty
The preparation of financial statements in conformity with generally accepted accounting practice requires management to make estimates and judgements that affect the reported amounts of assets and liabilities as well as the disclosure of contingent assets and liabilities at the Statement of Financial Position date and the reported amounts of revenues and expenses during the reporting period.

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Estimates have been used principally when determining the probable economic benefits to be derived from development expenditure and therefore whether those costs should be capitalised or whether there is subsequent evidence of impairment.

2. SEGMENTAL REPORTING

Turnover represents externally generated amounts (excluding value added tax) derived from the principal activity and has been earned from the following geographic areas:

	2012 £	2011 £
UK	332,927	213,768
Europe	-	281
North America	479,817	252,491
Asia	-	134
Total	812,744	466,674

An analysis of the Company's significant categories of revenue, all of which relate to the company's sole activity of the sale of internet-based video tools, is as follows:

	2012 £	2011 £
UK Broadcast Post Production	336,083	208,366
News and Sport	465,422	247,042
Education, Prosumer and Consumer	11,239	11,266
	812,744	466,674

During the year, sales to two customers each accounted for more than 10% of the total turnover. Total sales to one customer amounted to £235,040 and to the other £218,769.

3. OTHER OPERATING INCOME

During the year the company received government grants of £260 (2011: £3,105) which subsidised the cost of attendance at an international trade fair. Other income of £6,171 (2011: £1,338) was also received.

4. EMPLOYEES AND DIRECTORS

	2012 £	2011 £
Wages and salaries	606,711	475,505
Social security costs	63,683	49,574
	670,394	525,079

After capitalisation in respect of development costs the following amounts were charged directly to the Statement of Comprehensive income:

	2012 £	2011 £
Wages and salaries	374,661	279,989
Social security costs	38,079	28,195
	412,740	308,184

4. EMPLOYEES AND DIRECTORS - continued

The average monthly number of employees during the year was as follows:

	2012	2011
Management	4	4
Technical	7	6
Marketing	5	4
	16	14

Directors' and key management personnel remuneration

	2012 £	2011 £
VJ Steel	10,000	10,000
SB Streater	-	-
PJ Madden	36,667	15,292
GB Hirst	95,492	96,190
DP Main	1,933	1,200
	144,092	122,682

5. NET FINANCE COSTS

	2012 £	2011 £
Finance income:		
Deposit account interest	5,974	8,122
Finance costs:		
Other interest payable	-	-
Net finance costs/(income)	(5,974)	(8,122)

6. LOSS BEFORE INCOME TAX

The loss before income tax is stated after (charging)/crediting:

	2012 £	2011 £
Cost of inventories recognised as an expense	(3,020)	-
Other operating leases	(21,200)	(21,200)
Foreign exchange differences	(6,149)	(2,021)
Research and development	(28,693)	(25,091)
Auditors' remuneration	(17,233)	(14,754)
Auditor's remuneration – non audit – taxation	(1,400)	(910)
Auditors' remuneration – non audit – all other services	-	-
Earnings before interest, taxation, depreciation and amortisation	(166,770)	(172,661)
Depreciation – owned assets	(22,606)	(18,463)
Development costs amortisation	(86,916)	(61,505)
Operating loss (before interest and taxation)	(276,292)	(252,629)

7. INCOME TAX

Analysis of the tax credit

	2012 £	2011 £
Current tax:		
Tax credit	53,603	58,289
Additional tax receipt related to prior year	-	-
Total tax credit in income statement	53,603	58,289

7. **INCOME TAX - continued**

Factors affecting the tax charge
The tax assessed for the year is lower than the standard rate of corporation tax in the UK. The difference is explained below:

	2012 £	2011 £
Loss on ordinary activities before tax	(270,318)	(244,507)
Loss on ordinary activities multiplied by the standard rate of corporation tax in the UK of 20% (2011 – 20.25%)	(54,064)	(49,513)
Effects of:		
Expenses not deductible for tax	331	(1,198)
Adjustment for provisions	-	1,032
Capital allowances in excess of depreciation	14,783	12,022
Tax losses	41,627	33,595
Additional relief for R&D expenditure	(51,308)	(44,485)
Effect of tax rate on credit	41,213	33,519
Capitalised development costs	(58,176)	(51,456)
Employee share option cost	11,991	8,195
Total income tax	(53,603)	(58,289)

Tax effects relating to effects of other comprehensive income

	Gross	2012 Tax	Net
Employee share option cost	(71,205)	-	(71,205)
Ordinary share issue	115,938	-	115,938
	44,733	-	44,733

	Gross	2011 Tax	Net
Employee share option cost	(40,472)	-	(40,472)
Ordinary share issue	96,800	-	96,800
	56,328	-	56,328

Tax losses of approximately £4,600,000 (2011: £4,400,000) are available to relieve against future profits of the Company.

7. **INCOME TAX - continued**

Unrecognised deferred tax assets

	2012 £	2011 £
Depreciation in excess of capital allowances	5,945	9,644
Tax losses carried forward	927,734	880,000
	933,679	889,644

In accordance with IAS 12 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**

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the company by the weighted average number of ordinary shares in issue during the year, excluding equity shares held by the company's Employee Share Ownership Plan.

	2012	2011
Loss attributable to equity holders of the company (£)	(216,715)	(186,218)
Weighted average number of ordinary shares in issue	87,043,348	86,521,747
Basic earnings per share (pence per share)	(0.25p)	(0.22p)

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares in issue to assume the conversion of all potential ordinary shares. The company's potential ordinary shares arise from share options. The share options calculation is performed to determine the number of shares that could have been acquired at fair value, based upon the monetary value of the subscription rights attached to the outstanding share options.

	2012	2011
Loss used to determine diluted earnings per share (£)	(216,715)	(186,218)
Weighted average number of ordinary shares in issue	87,043,348	86,521,747
Share options	8,082,500	7,797,500
Weighted average number of ordinary shares used to determine diluted earnings per share	95,125,848	94,319,247
Diluted earnings per share (pence per share)	(0.23p)	(0.20p)

As can be seen from the above table during the year ended 31 December 2012 the potential ordinary shares were anti-dilutive because the company was loss-making. As a result, they are not treated on the face of the Income Statement as diluting basic earnings per share.

9. INTANGIBLE ASSETS

Development costs

	2012	2011
COST	£	£
At beginning of year	869,151	615,046
Additions	290,878	254,105
At end of year	1,160,029	869,151
AMORTISATION		
At beginning of year	119,257	57,752
Amortisation for year	86,916	61,505
At end of year	206,173	119,257
NET BOOK VALUE		
At end of year	953,856	749,894

10. PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvements	Fixtures and fittings	Computer equipment	Client-facing IT equipment	Totals
COST	£	£	£	£	£
At 1 January 2012	23,417	24,075	202,590	18,621	268,703
Additions	-	827	11,472	14,064	26,363
At 31 December 2012	23,417	24,902	214,062	32,685	295,066
DEPRECIATION					
At 1 January 2012	18,046	24,075	201,354	15,803	259,278
Charge for year	5,371	413	6,972	9,850	22,606
At 31 December 2012	23,417	24,488	208,326	25,653	281,884
NET BOOK VALUE					
At 31 December 2012	-	414	5,736	7,032	13,182
At 31 December 2011	5,371	-	1,236	2,818	9,425

10. PROPERTY, PLANT AND EQUIPMENT - continued

	Leasehold improvements £	Fixtures and fittings £	Computer equipment £	Client-facing IT equipment £	Totals £
COST					
At 1 January 2011	21,127	24,075	200,118	12,986	258,306
Additions	2,290	-	2,472	5,635	10,397
At 31 December 2011	23,417	24,075	202,590	18,621	268,703
DEPRECIATION					
At 1 January 2011	12,676	24,075	197,571	6,493	240,815
Charge for year	5,370	-	3,783	9,310	18,463
At 31 December 2011	18,046	24,075	201,354	15,803	259,278
NET BOOK VALUE					
At 31 December 2011	5,371	-	1,236	2,818	9,425
At 31 December 2010	8,451	-	2,547	6,493	17,491

11. INVENTORIES

	2012 £	2011 £
Finished goods	24,156	-
	24,156	-

The cost of inventories recognised as an expense and included in Cost of Sales amounted to £3,020 (2011: £nil).

12. TRADE AND OTHER RECEIVABLES

Current:	2012 £	2011 £
Trade debtors	166,168	370,046
Less: provision for doubtful receivables	(43,277)	(1,500)
Other debtors	16,509	18,900
Prepayments and accrued income	65,717	146,801
	205,117	534,247

Included in other debtors is a rental deposit of £15,900 (2011: £15,900) which is subject to a charge.

13. CASH AND CASH EQUIVALENTS

	2012 £	2011 £
Bank and cash	459,787	692,494

14. CALLED UP SHARE CAPITAL

	2012 £	2011 £
Authorised:		
125,000,000 ordinary shares of 0.8p each (2011: 125,000,000 ordinary shares of 0.8p each)	1,000,000	1,000,000
Allotted, called up and fully paid:		
87,117,000 ordinary shares of 0.8p each (2011: 86,579,500 ordinary shares of 0.8p each)	696,936	692,636

During the year 537,500 ordinary shares of £0.008 were allotted as fully paid at an average premium of £0.2077 per share.

During the year the Company issued 1,300,000 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	31/12/2012	31/12/2011
VJ Steel	Ordinary shares of 0.8 pence	1,220,000	1,280,000
DP Main	Ordinary shares of 0.8 pence	540,000	425,000
GB Hirst	Ordinary shares of 0.8 pence	900,000	905,000
PJ Madden	Ordinary shares of 0.8 pence	490,000	375,000

15. RESERVES

	Retained earnings £	Share premium £	Capital contribution reserve £	Totals £
At 1 January 2012	(4,359,855)	5,199,999	125,000	965,144
Deficit for the year	(216,715)	-	-	(216,715)
Cash share issue	-	111,638	-	111,638
Employee share option costs	71,205	-	-	71,205
At 31 December 2012	(4,505,365)	5,311,637	125,000	931,272

The capital contribution is a distributable reserve which was created prior to the Company's flotation.

16. TRADE AND OTHER PAYABLES

Current:	2012 £	2011 £
Trade creditors	1,861	5,878
Social security and other taxes	34,535	138,150
Other creditors	-	437
Accruals and deferred income	45,097	242,104
	81,493	386,569

17. LEASING AGREEMENTS

Minimum lease payments under non-cancellable operating leases fall due as follows:

	2012 £	2011 £
In the next 12 months	-	21,200
Between one and five years	-	-

18. 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.
Financial assets comprise cash at bank and in hand and current asset investments. Financial assets and financial liabilities exclude short-term debtors and creditors. The fair value of the financial assets and financial liabilities are not materially different from their carrying values.

Interest rate risk
Cash balances attract a floating rate of interest. The directors review interest payable and receivable on an ongoing basis to assess the Company's risk relating to changes in interest rates.

Liquidity risk
All financial liabilities at the year end fall due in one year or less. At the year end 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 although most of its overseas transactions are denominated in sterling. 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 ageing of the balances is reviewed regularly by the credit controller and limits are set for customers with a poor payment history.

19. **RELATED PARTY DISCLOSURES**

During the year salaries as casual employees amounting to £350 were paid to relatives of PJ Madden (2011: £nil). Sponsorship of £180 was paid to the school of the daughter of VJ Steel (2011: £nil).

20. **POST BALANCE SHEET EVENTS**

After the balance sheet date the company entered into a 5 year lease in respect of new offices.

21. **ULTIMATE CONTROLLING PARTY**

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

22. SHARE-BASED PAYMENT TRANSACTIONS

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 Enterprise Management Incentive (EMI) and an unapproved share option scheme under which options have been granted. It has in the past operated an approved share option scheme under which options have been granted and remain exercisable.

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 (£)	Date granted	Range of dates exercisable	Number of shares for which rights are exercisable at 31/12/2012	Number of shares for which rights are exercisable at 31/12/2011
Unapproved				
0.475	04/04/2002	04/04/2005-03/04/2012	-	412,500
0.215	04/10/2002	04/10/2005-03/10/2012	-	462,500
0.31	08/05/2003	08/05/2006-07/05/2013	306,534	306,534
0.65	06/10/2003	06/10/2006-05/10/2013	447,884	447,884
0.35	04/05/2004	04/05/2007-03/05/2014	512,500	512,500
0.39	30/09/2004	30/09/2007-29/09/2014	534,359	534,359
0.22	29/04/2005	29/04/2008-28/04/2015	502,728	577,728
0.26	06/09/2005	06/09/2008-05/09/2015	612,500	612,500
0.23	09/05/2006	09/05/2009-08/05/2016	362,500	362,500
0.135	27/07/2007	27/07/2010-26/07/2017	65,000	65,000
0.085	18/06/2008	18/06/2011-17/06/2018	355,000	355,000
0.24	25/08/2009	25/08/2012-24/08/2019	165,000	165,000
0.16	05/07/2010	05/07/2013-04/07/2020	670,000	670,000
0.36	05/11/2010	05/11/2013-04/11/2020	682,431	682,431
0.1275	06/10/2011	06/10/2014-05/10/2021	780,000	780,000
0.245	12/05/2012	12/05/2015-11/05/2022	75,000	-
0.26	20/08/2012	20/08/2015-19/08/2022	40,000	-
Approved				
0.475	04/04/2002	04/04/2005-03/04/2012	-	20,000
0.215	04/10/2002	04/10/2005-03/10/2012	-	5,000
0.31	08/05/2003	08/05/2006-07/05/2013	155,966	155,966
0.65	06/10/2003	06/10/2006-05/10/2013	44,616	44,616
0.35	04/05/2004	04/05/2007-03/05/2014	70,000	70,000
0.39	30/09/2004	30/09/2007-29/09/2014	58,141	58,141
0.22	29/04/2005	29/04/2008-28/04/2015	29,772	29,772
0.26	06/09/2005	06/09/2008-05/09/2015	15,000	15,000
0.23	09/05/2006	09/05/2009-08/05/2016	5,000	5,000
0.135	27/07/2007	27/07/2010-26/07/2017	20,000	20,000
0.085	18/06/2008	18/06/2011-17/06/2018	65,000	65,000
0.24	25/08/2009	25/08/2012-24/08/2019	25,000	25,000
0.36	05/11/2010	05/11/2013-04/11/2020	17,569	17,569
0.1275	06/10/2011	06/10/2014-05/10/2021	320,000	320,000
EMI				
0.245	12/05/2012	12/05/2015-11/05/2022	795,000	-
0.26	20/08/2012	20/08/2015-19/08/2022	350,000	-

22. SHARE-BASED PAYMENT TRANSACTIONS - continued

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

	2012 Weighted average exercise price (£)	2012 Number of options	2011 Weighted average exercise price (£)	2011 Number of options
Outstanding at the beginning of the period	0.279	7,797,500	0.301	7,686,250
Granted during the period	0.250	1,300,000	0.128	1,100,000
Forfeited during the period	0.249	40,000	0.23	300,000
Exercised during the period	0.216	537,500	0.23	120,000
Lapsed during the period	0.472	437,500	0.32	568,750
Outstanding at the end of the period	0.268	8,082,500	0.279	7,797,500
Exercisable at the end of the period	0.312	4,352,500	0.318	5,137,500

The options outstanding at the year end have an exercise price in the range of £0.65 to £0.085 and a 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. The expected volatility is based on the daily fluctuation in the share price in the two years preceding the date of grant.

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

	2012 EMI	2011 Approved	2012 Unapproved	2011 Unapproved
Expected volatility (expressed as % used in the modelling under Black-Scholes model)	79.53%	68.81%	79.41%	68.81%
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)	1.95%	2.49%	1.92%	2.49%
Weighted average fair value of options granted	0.1472	0.068	0.1473	0.068
Weighted average share price	£0.250	£0.1275	£0.250	£0.1275
Exercise price	£0.250	£0.1275	£0.250	£0.1275

22. **SHARE-BASED PAYMENT TRANSACTIONS - continued**

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:

	2012 £	2011 £
Equity settled share based payments	71,205	40,472