

THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION. If you are in any doubt about the contents of this document you should consult a person authorised under the Financial Services Act 1986 who specialises in advising on the acquisition of shares and other securities.

Application has been made for the existing issued Ordinary Shares and the New Ordinary Shares to be admitted to trading on the Alternative Investment Market of the London Stock Exchange ("AIM"). AIM is a market designed primarily for emerging or smaller companies to which a higher investment risk than that associated with established companies tends to be attached. A prospective investor should be aware of the potential risks in investing in such companies and should make the decision to invest only after careful consideration and consultation with his or her own independent financial adviser. The rules of AIM are less demanding than those of the Official List of the London Stock Exchange. It is emphasised that no application is being made for admission of these securities to the Official List of the London Stock Exchange. Further, the London Stock Exchange has not itself approved the contents of this document.

It is expected that Admission to AIM will become effective and that dealings in the New Ordinary Shares and the existing Ordinary Shares will commence on 29 February 2000 (unless the Offers are closed earlier or extended by Bell Lawrie Wise Speke and the Directors).

The Directors of Forbidden Technologies plc, whose names are set out on page 4 of this document, accept responsibility for the information contained in this document. To the best of the knowledge and belief of the Directors (who have taken all reasonable care to ensure that such is the case) the information contained in this document is in accordance with the facts and does not omit anything likely to affect the import of such information.

Forbidden Technologies plc

(Incorporated in England and Wales under the Companies Act 1985 with registered number 3507286)

Offers for Subscription

by Bell Lawrie Wise Speke

of up to 1,520,000 New Ordinary Shares in units of 2,500 New Ordinary Shares at 20p per share (the A Offer)

and

of up to 1,520,000 New Ordinary Shares in units of 40,000 New Ordinary Shares at 25p per share (the B Offer)

subject to an overall maximum aggregate allotment in respect of both Offers of
2,000,000 New Ordinary Shares

and

Admission to trading on the Alternative Investment Market

Share Capital (immediately following Admission)

Authorised			Issued and fully paid	
£	Number		£	Number
1,000,000	25,000,000	ordinary shares of 4p each	580,000	14,500,000

The subscription lists for the New Ordinary Shares will open at 10.00 am on 27 January 2000, and may be closed at any time thereafter but not later than 3.00 pm on 22 February 2000, unless extended by Bell Lawrie Wise Speke and the Directors. A copy of this document has been delivered to the Registrar of Companies in England and Wales for registration in accordance with Regulation 4(2) of the Public Offers of Securities Regulations 1995. This document has been drawn up in accordance with the Public Offers of Securities Regulations 1995.

Bell Lawrie Wise Speke is acting exclusively for Forbidden Technologies plc and no one else in connection with the matters described herein and will not be responsible to anyone other than Forbidden Technologies plc for providing the protections afforded to customers of Bell Lawrie Wise Speke or for advising them on the contents of this document or any matter referred to herein.

The whole text of this document should be read. Your attention is drawn to the section entitled "Risk Factors" on page 12 of this document.

CONTENTS

		<i>Page</i>
	DEFINITIONS	3
	DIRECTORS, SECRETARY AND ADVISERS	4
	OFFER STATISTICS	5
	EXPECTED TIMETABLE OF PRINCIPAL EVENTS	5
PART I	INFORMATION ON THE COMPANY	6
	Introduction	6
	Licence	6
	Description of the Business	7
	Competition	7
	Prospects	7
	Offers for Subscription	8
	Use of the Proceeds	8
	Reasons for the Flotation	9
	Dividend Policy	9
	Directors and Employees	9
	Restriction on Disposal of Shares	9
	Corporate Governance	9
	Share Incentive Arrangements	10
	Tax Considerations	10
	Risk Factors	12
PART II	ACCOUNTANTS' REPORT ON THE COMPANY	13
PART III	ADDITIONAL INFORMATION	19
PART IV	TERMS AND CONDITIONS OF APPLICATION	31
	Procedure for Application	31
	How to Complete the Application Form	35
PART V	APPLICATION FORM	37
	Spare Application Form	39

DEFINITIONS

The following definitions apply throughout this document unless the context requires otherwise:

"Act"	the Companies Act 1985, as amended
"Admission"	the admission of the existing issued Ordinary Shares and the New Ordinary Shares to trading on AIM becoming effective in accordance with Rule 16.6 of the AIM Rules
"AIM Rules"	the rules set out in Chapter 16 of the Rules of the London Stock Exchange
"AIM"	the Alternative Investment Market of the London Stock Exchange
"Application Form"	the application form (and/or spare application form) to subscribe for New Ordinary Shares set out at the end of this document
"Approved Share Option Scheme"	the Forbidden Technologies plc Approved Share Option Scheme
"Bell Lawrie Wise Speke"	Bell Lawrie Wise Speke (a division of Brewin Dolphin Securities Limited which is regulated by The Securities and Futures Authority Limited and is a member of the London Stock Exchange)
"Directors" or "Board"	the directors of the Company, whose names are set out on page 4 of this document
"Forbidden" or "Company"	Forbidden Technologies plc
"Issue Price"	in the case of the A Offer, 20p per share and, in the case of the B Offer, 25p per share
"London Stock Exchange"	London Stock Exchange Limited
"Maximum Offer Price"	the price of 25p per share at which New Ordinary Shares are being offered under the B Offer
"Maximum Subscription"	the maximum subscription under the Offers of £476,000
"Minimum Subscription"	the minimum subscription under the Offers of £424,000
"New Ordinary Shares"	new Ordinary Shares to be issued pursuant to the Offers
"Offer for Subscription Agreement"	the conditional agreement dated 26 January 2000, between (1) Forbidden, (2) the Directors and (3) Bell Lawrie Wise Speke relating to the Offers, details of which are set out in paragraph 14(b) of Part III of this document
"Offers"	the A Offer and the B Offer
"Ordinary Shares"	ordinary shares of 4p each in the capital of the Company
"Regulations"	the Public Offers of Securities Regulations 1995
"Share Option Schemes"	the Approved Share Option Scheme and the Unapproved Share Option Scheme further details of which are set out in paragraph 9 of Part III of this document
"Unapproved Share Option Scheme"	the Forbidden Technologies plc Unapproved Share Option Scheme
"A Offer"	the invitation to subscribe for New Ordinary Shares at a price of 20p per share contained in this document
"B Offer"	the invitation to subscribe for New Ordinary Shares at a price of 25p per share contained in this document

DIRECTORS, SECRETARY AND ADVISERS

Directors	<p>Victor John Steel (<i>Chairman</i>) Stephen Bernard Streater (<i>Chief Executive</i>) Douglas Davidson Blaikie (<i>Finance Director</i>)</p> <p>all of: 2-4 St. George's Road Wimbledon London SW19 4DP</p>
Secretary and Registered Office	<p>Martin Colin Kay 2-4 St. George's Road Wimbledon London SW19 4DP</p>
Nominated Adviser and Nominated Broker	<p>Bell Lawrie Wise Speke (a division of Brewin Dolphin Securities Limited) 48 St. Vincent Street Glasgow G2 5TS</p>
Auditors and Reporting Accountants	<p>KPMG 1 Puddle Dock Blackfriars London EC4V 3PD</p>
Solicitors to the Company	<p>Vizards Staples & Bannisters 44 Bedford Row London WC1R 4LL</p>
Solicitors to Nominated Adviser and Nominated Broker	<p>McGrigor Donald Pacific House 70 Wellington Street Glasgow G2 6SB</p>
Bankers	<p>National Westminster Bank Plc Putney Branch 153 Putney High Street London SW15 1RX</p>
Registrars and Receiving Bank	<p>IRG plc Bourne House 34 Beckenham Road Beckenham Kent BR3 4TU</p>

OFFER STATISTICS

Number of Ordinary Shares in issue following the Offers	14,500,000
Number of Ordinary Shares being offered for subscription	2,000,000
Market capitalisation at the Maximum Offer Price	£3,625,000
Minimum proceeds of the Offers receivable by the Company, net of expenses	£324,000
Maximum proceeds of the Offers receivable by the Company, net of expenses	£376,000

EXPECTED TIMETABLE OF PRINCIPAL EVENTS

	2000
Subscription lists for the Offers open	10.00 am on 27 January
Subscription lists for the Offers close	3.00 pm on 22 February
Dealings to commence in the existing issued Ordinary Shares and in the New Ordinary Shares	8.00 am on 29 February
Share certificates in respect of the New Ordinary Shares to be despatched and/or CREST accounts credited	29 February

PART I

INFORMATION ON THE COMPANY

Introduction

Broadcast TV is watched by millions of viewers. However, in terms of provision of programmes to its viewers, it has limitations. For example, if a viewer misses a particular programme when it is broadcast then, in the absence of an available recording, in order to watch the programme the viewer will need to wait until the programme is repeated, if it ever is. Similarly, specialist programmes with perceived less audience appeal can be expected to be broadcast at off-peak times, if indeed such programmes are broadcast at all. A further limitation is that of the broadcaster's reach which can be confined by broadcasting technology and licence requirements. In comparison, when the system is fully functioning, it is possible to make material on the World Wide Web available to all subscribers at the time of each subscriber's choosing on a huge variety of subjects. With programme distribution over the internet, the Directors believe that programme makers would produce a broader range of programmes as there would be the potential to gain additional revenue over an extended period of time.

Currently technological and infrastructure constraints restrict the supply of programming over the internet. However, continuing advances are being made in the areas of (a) network speed, (b) computer speed and (c) compression technology. Modems have increased in speed within the last decade. Cable modems and ADSL (Asymmetric Digital Subscriber Line) are being introduced which are expected to improve the bandwidth to the internet users' machines compared with modems presently widely in use. At the same time the internet as a whole is getting faster. In combination with this, telecommunication costs have been falling, computer processing speeds have been increasing and the cost of computer power has been falling. The new generation of internet enabled games consoles demonstrate the increase in the supply of low cost, powerful computers. Forbidden is not directly involved in increasing the speed of the installed base of computers or of the internet as a whole.

With current technological limitations, distributing programmes over the internet results in a compromise being made between picture quality and transmission time. Video compression allows improved picture quality or accelerated transmission time or a combination of both.

Forbidden has been licensed to use video compression technology owned by Eidos Technologies Limited. Forbidden intends to develop the video compression technology to meet the challenges in the development of programme distribution over the internet.

In due course, the Directors anticipate that receiving programmes over the internet will become common worldwide with corresponding benefits to the viewer in terms of programme choice and timing. Forbidden is raising funds with the objective of becoming a major participant in this market.

Licence

Stephen Streater co-founded Eidos plc in 1990 and resigned as a director of Eidos plc in June 1999. During that time he was responsible for, *inter alia*, research and development of video compression. Due to his continuing interest in this technology, which was not core to the business of Eidos plc, he set up Forbidden to continue work in video compression. Forbidden has a non-exclusive licence ("the Licence") to use and sell products incorporating this video compression technology.

The detailed terms of the Licence are described in paragraph 14(a) of Part III of this document. However, prospective investors should note that the continuance of the Licence is dependent upon, *inter alia*:—

- (i) Stephen Streater remaining a director or employee of the Company and continuing to be personally involved in the operation of the Company's business;
- (ii) Stephen Streater remaining beneficially interested in 15 per cent or more of the Company's equity share capital;

- (iii) no one person (or persons acting in concert) acquiring an interest (direct or indirect) in 25 per cent or more of the Company's equity share capital; and
- (iv) no one person (or persons acting in concert) committing to provide the Company with an aggregate amount, otherwise than from the purchase of products sold by the Company pursuant to the Licence, which exceeds 50 per cent of the market capitalisation of the Company from time to time.

Eidos Technologies Limited has the right to terminate the Licence if any of these events occur.

The Directors expect that as the Company's business develops, its dependence on the Licence will diminish.

Description of the Business

Forbidden is a start-up company, however, Stephen Streater has been working in the area of video compression technology for more than 10 years. The objective of the Company is to develop further video compression technology including the detailed computer programming necessary to produce an initial demonstration product. This should show the potential for this technology to make an impact on the distribution of programme content over the internet.

As progress is made new versions of the product suite are expected to be released to progressively wider test audiences. It is not expected that this activity will be revenue earning this year but it is expected that trial products will be on general release towards the end of this year.

Competition

The Directors believe that video compression could become a cornerstone technology for the internet. Consequently there are many companies involved in this and other related technologies and, due to the possible size of the market, it has the potential to attract many more. The Directors are aware of many businesses and organisations which already operate in this area. These include GEO Interactive Media, which is listed on the London Stock Exchange, RealNetworks which is quoted on NASDAQ and AT&T, which is listed on the New York Stock Exchange. The Directors are also aware of the international standards for video compression at a wide range of data rates and which are generally available.

In addition, the Directors believe that as distribution of programmes over the internet increases companies currently engaged in programme making or programme distribution will seek to establish a position in internet broadcasting.

The Directors believe that the initial key to success for Forbidden will be the development of a video compression product suite with superior attributes to available alternatives.

Prospects

The development of internet programme distribution is dependent on many factors including the following technical factors:

- significant increase in the speed of data transmission over the internet;
- continuing improvements in power and reducing cost of computers; and
- continuing improvements in video and audio compression.

The Directors believe that ultimately the quality of the picture and sound will need to match that available by conventional methods of distribution before potential subscribers will consider internet distribution as a viable alternative.

Consequently, whilst the Directors believe that, in due course, programme content distribution over the internet will become widespread it may be several years until material revenues can be generated by the Company. However, if Forbidden succeeds in developing compression technology with attributes which are superior to competitor products then the Directors believe that due to the size of the potential market it will have created valuable intellectual property. The attention of prospective investors is drawn to the Risk Factors set out on page 12.

Offers for Subscription

A total of 2,000,000 New Ordinary Shares are being offered in separate offers:

- under the A Offer in units of 2,500 New Ordinary Shares at 20p per share
- under the B Offer in units of 40,000 New Ordinary Shares at 25p per share.

While it is intended that 1,000,000 New Ordinary Shares will be issued under each of the A Offer and the B Offer, the Directors may, at their sole discretion, allocate up to 520,000 New Ordinary Shares from the A Offer to the B Offer or vice versa. Accordingly, up to 1,520,000 New Ordinary Shares may be allocated under either Offer. The minimum subscription for each of the A Offer and the B Offer is 480,000 New Ordinary Shares.

Neither Offer will proceed unless the aggregate amount subscribed under the Offers is £424,000. The maximum subscription under the Offers is £476,000. If all the New Ordinary Shares are taken up under the Offers, the Company will raise between approximately £324,000 and £376,000 after expenses. The New Ordinary Shares will represent approximately 13.8 per cent of the enlarged issued share capital of the Company following Admission.

Applicants must lodge an Application Form, together with their remittance for the full amount payable upon application, with IRG plc ("the Receiving Agents") prior to 3.00 pm on 22 February 2000. Applicants should note that the Directors may close either the A Offer or the B Offer at any time should that Offer be fully subscribed prior to 22 February 2000. The Company also reserves the right to accept Application Forms and accompanying remittances received after 3.00 pm on 22 February 2000 where there was evidence that they were posted prior to that time. It is expected that share certificates will be despatched or CREST accounts credited on 29 February 2000.

The terms and conditions of the Offers and details of the procedure for application are set out in Part IV of this document. The Directors reserve the right to scale down, accept or reject in whole or in part any application. **In the event that the Offers are oversubscribed the Directors intend to scale down larger applications under the A Offer and to allot New Ordinary Shares only in blocks of 40,000 New Ordinary Shares under the B Offer and/or reject applications in whole.**

The subscription lists will open at 10.00 am on 27 January 2000 and may be closed at any time thereafter but will close not later than 3.00 pm on 22 February 2000, unless extended by Bell Lawrie Wise Speke and the Directors. The Issue Price is payable in full on application.

All payments must be made by cheque or banker's draft in pounds sterling drawn on a bank or building society in the UK which is either a settlement member of the Cheque and Credit Clearing Company Limited or the CHAPS and Town Clearing Company Limited or a member of the Scottish or Belfast clearing houses, or which has arranged for its cheques and banker's drafts to be cleared through the facilities provided by those companies or committees. All such cheques or banker's drafts must bear the appropriate sort code in the top right-hand corner. Cheques or banker's drafts should be made payable to "IRG plc A/C Forbidden Technologies plc" and crossed "A/C payee only". It is a term of the Offers that all cheques, which are liable to be presented on receipt, will be honoured on first presentation. The Company reserves the right to seek special clearance of cheques. No interest will be paid on amounts received.

Applicants may submit any number of Application Forms for either Offer (and a spare Application Form is included at the end of this document). Applicants should note, however, that, save as disclosed in paragraph 15 of Part III of this document, allocation of New Ordinary Shares is at the Directors' sole discretion and that, accordingly, applications may be rejected or scaled down in whole or in part. The Company intends to bank all cheques and banker's drafts received with the Application Forms and allotments will only be made after their clearance. Application monies will be held in a separate account by the Receiving Agents. Application monies in respect of unsuccessful applications will be returned without interest by first-class post, at the applicants' risk, as soon as possible after the final closing date of the Offers.

Use of the Proceeds

The net proceeds of the Offers will be used by the Company to develop further and promote video compression technology and related products.

Reasons for the Flotation

The Directors believe that Admission is an important step in the development of the Company and that, in particular, it will facilitate any future funding required for the continuing development of its products. The Directors also intend to utilise the Company's share capital to assist the expansion of its business. The Directors believe that the profile and visibility of being a publicly traded company will be important to Forbidden in the future.

Dividend Policy

The Directors do not intend to pay dividends until sustainable profits have been achieved.

Directors and Employees

The Board consists currently of two executive Directors (one part time) and one Non-Executive Director:

Non-Executive Chairman

Vic Steel (age 61) has a professional marketing background and significant boardroom experience internationally both as an executive and a non-executive director. He spent 15 years with Beecham Group latterly as a main board director. In 1985 he became a main board director of Guinness plc. In 1988 he was appointed director of Kingfisher plc and from 1991 to 1994 he was executive chairman of a major Canadian retailing chain, Consumers Distributing Inc. He was until recently chairman of Mansfield Brewery plc, chairman of European Leisure plc and is a non-executive director of Eidos plc and The Navy, Army and Air Force Institutes. Further details on Mr Steel are set out in paragraph 5 of Part III of this document.

Chief Executive

Stephen Streater (age 34) graduated from Trinity College Cambridge in 1987. In 1990 he co-founded Eidos plc where he held various positions being technical director, sales and marketing director, managing director and director of video technology. By year end March 1999, Eidos plc had grown to have annual revenues of £226 million and by the end of 1999 had become a constituent of the FTSE 250 index.

Finance Director (part time)

Douglas Blaikie (age 64) qualified as a Chartered Accountant in 1960. He held a number of positions in industry and was a main board director of Saatchi & Saatchi in 1975. In 1978 he set up his own consultancy company providing management and financial advice across a range of businesses.

Employees

The Company has employed a small team of highly skilled technical staff with relevant expertise.

Restriction on Disposal of Shares

Stephen Streater has undertaken to retain his existing Ordinary Shares until the preliminary announcement of the Company's results for its financial year ending 31 December 2001 and any New Ordinary Shares acquired by him under the Offers for a period of one year from Admission. Details of this undertaking are set out in paragraph 6 of Part III of this document.

Corporate Governance

The Directors intend that the Company will comply with the Principles of Good Governance and Code of Best Practice prepared by the Committee on Corporate Governance and published in June 1998 so far as is appropriate having regard to the size and stage of the Company.

The Company will hold Board Meetings regularly throughout the year at which financial and other reports will be considered.

The functions which would normally be overseen by the Audit and Remuneration Committees will be initially reviewed by the Non-Executive Chairman. The Company intends to appoint a further Non-Executive Director at which time formation of these committees will be considered by the Board.

Share Incentive Arrangements

The Directors believe that it is important for the Company to have established incentive arrangements in order to assist recruitment and to encourage employee loyalty and long-term commitment. Employees are entitled to options as part of their contracts of employment. It is the intention of the Company to issue further options to certain Directors on an annual basis. The Company has established the Share Option Schemes summary details of which are set out below. Further details of the Share Option Schemes and the options granted under them are set out in paragraph 9 of Part III of this document.

Approved Share Option Scheme

The Approved Share Option Scheme is an Inland Revenue approved scheme which includes limits on the value of options granted to enable participants to take advantage of the tax relief available. This scheme is open to full-time Executive Directors and employees of the Company.

Unapproved Share Option Scheme

The Unapproved Share Option Scheme has not been approved by the Inland Revenue, but enables options to be granted to Directors and employees who are not eligible to participate under the Approved Share Option Scheme and also to grant options in excess of the limits imposed under the terms of the Approved Share Option Scheme.

In any ten-year period, not more than ten per cent of the issued share capital for the time being of the Company may in aggregate be issued or issuable under options and rights granted after Admission under all employees' share schemes adopted by the Company.

Tax Considerations

Information regarding certain aspects of UK taxation is set out below with further information provided in paragraph 10 of Part III of this document. If you are in any doubt as to your tax position, you should consult your professional adviser immediately.

Venture Capital Trust Investments

The Company has received provisional clearance of its status as a Venture Capital Trust ("VCT") investment. Potential investors who are VCTs who require further details on this point are advised to communicate directly with the Company.

Enterprise Investment Scheme ("EIS")

The EIS is designed to encourage, through the availability of certain tax relief to qualifying investors, investment in qualifying, unquoted trading companies by subscription for ordinary shares in such companies.

The principal tax reliefs currently available to each qualifying individual are:

- income tax relief equal to 20 per cent of the amount subscribed for the qualifying EIS investment (up to a maximum aggregate amount for all qualifying EIS investments made in any one year of £30,000, or 20 per cent of £150,000 or the actual income tax liability of the investor for the year if this is lower,) may be set off, on a pound for pound basis, against the investor's income tax liability for the tax year in which those shares are issued to him, thus potentially reducing the effective initial cost of investment to 80 per cent of the sum invested;
- provided that a qualifying EIS investment is held for at least five years and income tax relief is not withdrawn or reduced, it is exempt from capital gains tax on its first disposal;

- a subscription for EIS shares may also entitle individual investors to capital gains tax deferral on gains from disposals of other assets (see below), in which case an individual investor paying tax at the higher rate may qualify for income tax relief of 20 per cent and capital gains deferment of 40 per cent, totalling 60 per cent of the investment; and
- if the qualifying EIS investment fails or is sold at less than cost, loss relief (see below) should be available on the net loss against the investor's taxable income or capital gains. For the purposes of such loss relief the loss incurred will be reduced by the amount of EIS income tax relief given which has not been withdrawn.

There are a number of conditions that the company in which the investment is held and the investor need to meet. Investors should take appropriate professional advice to ensure that the conditions applicable to them are met and continue to be met.

Availability of Tax Certificates

The Company has received provisional clearance of its EIS status from the Inland Revenue. A formal application for EIS qualification will be made once the New Ordinary Shares have been issued. Once this has been approved by the Inland Revenue an EIS form will be issued by the Company to relevant investors to enable them to claim their tax relief. There is no guarantee that the Company is or will remain a qualifying company, as defined, for the relevant three year period, to ensure that any EIS relief given to shareholders is not put at risk. Subject to the above, the Directors consider that qualifying individuals subscribing for New Ordinary Shares in the Company should be able to obtain EIS income tax relief within the EIS limits in respect of the year ending 5 April 2000 on the amounts subscribed for the New Ordinary Shares provided they continue to satisfy the statutory conditions and the Company continues to be a qualifying company. Eligibility for relief will depend on individual investors' circumstances. In addition, the New Ordinary Shares must have been issued and registered in the name of the investors by 5 April 2000 to qualify for income tax relief in 1999/00.

Applicants wishing to claim EIS relief on their subscriptions for New Ordinary Shares should read paragraph 12 of the section entitled 'How to Complete the Application Form' set out in Part IV of this document and tick Box 11 on the Application Form in Part V.

CGT Deferral

If the Company is a qualifying company for EIS purposes, the subscription for New Ordinary Shares by an individual may qualify for CGT deferral relief irrespective of whether EIS income tax relief is claimed by the individual in respect of such subscription. Where individuals have made a chargeable gain on the disposal of any asset in the period of three years before and twelve months after investment in qualifying shares, they should be eligible to claim deferment of some or all of the gains against the subscription for the New Ordinary Shares provided that the Company continues to satisfy the relevant statutory requirements.

The deferred gain would then crystallise when the New Ordinary Shares were disposed of, or when the Company ceased to satisfy the conditions for relief, or if the individual ceased to be UK resident within five years from the issue of the New Ordinary Shares (other than in specified circumstances), whichever first occurs.

It should be noted that, for tax purposes, a subscription for shares in the Company cannot be used to defer a gain on the disposal of other shares in the Company.

This deferral relief, unlike EIS income tax relief, is available to trustees.

Loss Relief

If an investor is an individual or an investment company, relief for any net loss (in the case of individuals, after taking into account any EIS income tax relief given and not withdrawn) incurred by the investor on disposal of the New Ordinary Shares should in principle be available against income of the same or previous year.

This relief would be available provided the Company and the investor satisfy the relevant statutory requirements.

Inheritance Tax — Business Property Relief

Unlisted ordinary shares (which includes shares traded on AIM) representing minority interests in trading companies such as the Company potentially qualify for business property relief which gives up to 100 per cent exemption from Inheritance Tax. Investors need to take their own advice on whether the relief applies in their case.

Other Tax Matters

Information relating to United Kingdom capital gains tax, stamp duty, stamp duty reserve tax and the taxation of dividends is set out in paragraph 10 of Part III of this document.

The Directors have been advised that the Company is a close company for tax purposes, as defined by the Income and Corporation Taxes Act 1988.

Risk Factors

The Directors consider the following risk factors to be the most significant to potential investors:

- The investment offered in this document may not be suitable for all recipients of this document. Investors are accordingly advised to consult an investment adviser authorised under the Financial Services Act 1986 who specialises in investments of this kind before making their decision.
- Potential investors should be aware that the value of shares can rise or fall and that investment in a share which is traded on AIM is likely to be less realisable and to carry a higher risk than investment in a share listed on the Official List of the London Stock Exchange. Investors may realise less than their original investment.
- The departure from the Company of the Chief Executive could materially adversely affect the Company. While the Company has entered into a service agreement with the Chief Executive, the retention of his services cannot be guaranteed. In particular his departure from the Company or death would result in Eidos Technologies Limited having the right to terminate the Licence. The Directors do not consider that it is cost effective to take out key man insurance on the life of the Chief Executive. In addition, the departure of any of the Company's employees could adversely affect the Company.
- The Company's business is dependent on the Licence which, under its terms as described in paragraph 14 of Part III of this document, could be terminated or its value diluted as a result of a number of factors some of which are not necessarily within the Company's control.
- Development and selling of new technology products is subject to higher risks than those associated with a product having an established track record. There is no certainty that the Company will be able to develop technology products successfully or that the finished technology products will achieve market acceptance or generate material revenues for several years. Moreover distribution of programmes via the internet may require licence arrangements with various third parties and there are no guarantees that these will be forthcoming.
- While the Directors believe that the Company has sufficient working capital for its present requirements, the Directors expect that the Company may seek additional capital or issue further shares to enable the Company to progress through further stages of development.
- The Company will, immediately following Admission, remain under the control of Stephen Streater, whose shareholding will represent just over 86 per cent of the Company's enlarged issued share capital (excluding any further New Ordinary Shares which he may subscribe under the Offers). This, combined with the restriction on disposal of shares by him described in paragraph 6 of Part III of this document, may result in a limited market for trading the New Ordinary Shares. In addition, if a significant proportion of the New Ordinary Shares are held for EIS tax relief, this may further reduce liquidity.

PART II

ACCOUNTANTS' REPORT ON THE COMPANY

The following is a copy of a report by KPMG to the Directors and Bell Lawrie Wise Speke.

The Directors
Forbidden Technologies plc
2-4 St. George's Road
London SW19 4DP

The Directors
Bell Lawrie Wise Speke
(a division of Brewin Dolphin Securities Limited)
48 St. Vincent Street
Glasgow G2 5TS

KPMG
PO Box 486
1 Puddle Dock
London EC4V 3PD

26 January 2000

Dear Sirs

Forbidden Technologies plc

We report on the financial information set out below. This financial information has been prepared for inclusion in the prospectus dated 26 January 2000 for Forbidden Technologies plc ("the Company").

BASIS OF PREPARATION

The financial information set out below is based on the audited financial statements of the Company for the year ended 31 December 1999 and the period ended 31 December 1998, prepared on the basis described below, to which no adjustments were considered necessary.

RESPONSIBILITY

Such financial statements are the responsibility of the Directors of the Company who approved their issue.

The Directors of the Company are responsible for the contents of the prospectus dated 26 January 2000 in which this report is included.

It is our responsibility to compile the financial information set out in our report from the financial statements, to form an opinion on the financial information and to report our opinion to you.

BASIS OF OPINION

We conducted our work in accordance with the Statements of Investment Circular Reporting Standards issued by the Auditing Practices Board. Our work included an assessment of evidence relevant to the amounts and disclosures in the financial information. The evidence included that previously obtained by us relating to the audit of the financial statements underlying the financial information. It also included an assessment of significant estimates and judgements made by those responsible for the preparation of the financial statements underlying the financial information and whether the accounting policies are appropriate to the entity's circumstances, consistently applied and adequately disclosed.

We planned and performed our work 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 information is free from material misstatement whether caused by fraud or other irregularity or error.

OPINION

In our opinion the financial information gives, for the purposes of the Prospectus, a true and fair view of the state of affairs of Forbidden Technologies plc as at the dates stated and of its results and cash flows for the periods then ended.

We consent to the inclusion in the Prospectus dated 26 January 2000 of this report and accept responsibility for this report for the purposes of paragraph 45 (1)(b)(iii) of Schedule 1 of the Public Offers of Securities Regulations 1995.

PROFIT AND LOSS ACCOUNT

	Note	Year ended 31 December 1999 £	Period from 10 February 1998 to 31 December 1998 £
Administrative expenses		(72,048)	—
Operating loss		(72,048)	—
Other interest receivable and similar income	6	8,870	—
Loss on ordinary activities before taxation	2-4	(63,178)	—
Tax on loss on ordinary activities	5	(1,786)	—
Loss for the financial year		(64,964)	—

All amounts are derived from continuing operations.

There is no difference between the loss on ordinary activities before taxation and the loss for the year stated above, and their historical cost equivalents.

BALANCE SHEET at 31 December

	Note	1999 £	1998 £
Fixed assets			
Tangible assets	7	19,351	—
Current assets			
Called up share capital not paid		—	500,000
Debtors	8	37,844	—
Cash at bank and in hand		530,938	—
		568,782	500,000
Creditors: amounts falling due within one year	9	(28,097)	—
Net current assets		540,685	500,000
Net assets		560,036	500,000
Capital and reserves			
Called up share capital	10	500,000	500,000
Capital contribution reserve	11	125,000	—
Profit and loss account	11	(64,964)	—
Shareholders' funds — equity		560,036	500,000

These financial statements were approved by the board of directors on 11 January 2000 and were signed on its behalf by:

S B Streater
Director

D D Blaikie
Director

CASH FLOW STATEMENT
for the year ended 31 December

	Note	1999 £	1998 £
Net cash outflow from operating activities	12	(68,064)	—
Return on investments and servicing of finance			
Interest received		8,870	—
Capital expenditure			
Payments to acquire tangible fixed assets		(34,868)	—
Financing			
Receipts from issue of share capital		500,000	—
Capital contribution introduced		125,000	—
Increase/(decrease) in cash in the year	13	<u>530,938</u>	<u>—</u>

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES
for the year ended 31 December

	1999 £	1998 £
Loss for the financial year	(64,964)	—
Capital contributions in year	<u>125,000</u>	<u>—</u>
Total recognised gains and losses relating to the year	<u>60,036</u>	<u>—</u>
Total gains and losses recognised since last annual report	<u>60,036</u>	<u>—</u>

NOTES

1. Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the company's financial statements.

Basis of preparation

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

Fixed assets and depreciation

Depreciation has been provided to write off the cost less estimated residual value of tangible fixed assets by equal instalments over their estimated useful economic lives as follows:

Leasehold improvements	— life of lease
Fixtures and fittings	— 50 per cent per annum
Computer equipment	— 50 per cent per annum

Leases

Operating lease rentals are charged to the profit and loss account on a straight line basis over the period of the lease.

Taxation

The charge for taxation is based on the profit for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes. Provision is made for deferred tax to the extent that it is probable that an actual liability will crystallise.

Cash

Cash, for the purpose of the cash flow statement, comprises cash in hand and deposits repayable on demand, less overdrafts payable on demand.

2. Profit on ordinary activities before taxation

	1999	1998
	£	£

Profit on ordinary activities before taxation is stated after charging:

Auditors remuneration		
Audit	10,000	—
Other services	2,000	—
Depreciation and other amounts written off tangible fixed assets	15,517	—

3. Remuneration of Directors

	1999	1998
	£	£

Directors' emoluments:

Emoluments for services as directors	1,500	—
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4. 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	
	1999	1998
Technical	2	—

The aggregate payroll costs of these persons were as follows:

	1999	1998
	£	£
Wages and salaries	11,160	—
Social security costs	840	—
	12,000	—

5. Taxation

	1999	1998
	£	£
UK corporation tax at 21%	1,786	—

6. Other interest receivable and similar income

	1999	1998
	£	£
Bank interest	8,870	—

7. Tangible fixed assets

	Leasehold improvement	Fixtures and fittings	Computer equipment	Total
	£	£	£	£
Cost				
At beginning of year	—	—	—	—
Additions	15,398	4,712	14,758	34,868
At end of year	15,398	4,712	14,758	34,868
Depreciation				
At beginning of year	—	—	—	—
Charge for year	5,781	2,356	7,380	15,517
At end of year	5,781	2,356	7,380	15,517
Net book value				
At 31 December 1999	9,617	2,356	7,378	19,351
At 31 December 1998	—	—	—	—

8. Debtors

	1999 £	1998 £
Prepayments	10,737	—
Other debtors	27,107	—
	<u>37,844</u>	<u>—</u>

9. Creditors: amounts falling due within one year

	1999 £	1998 £
Corporation tax	1,786	—
Other taxation and social security	1,440	—
Accruals and deferred income	24,871	—
	<u>28,097</u>	<u>—</u>

10. Called up share capital

	1999 £	1998 £
Authorised:		
Ordinary shares of 4p each (1998: ordinary shares of £1 each)	<u>1,000,000</u>	<u>1,000,000</u>
Allotted, called up and fully paid:		
Ordinary shares of 4p each (1998: ordinary shares of £1 each)	<u>500,000</u>	<u>500,000</u>

On 24 June 1999 each of the company's ordinary shares of £1 were subdivided into 20 ordinary shares of 5p.

On 29 November 1999 the ordinary share capital was further split into 25,000,000 ordinary shares of 4p.

11. Reconciliation of movements in shareholders' funds

	Capital contribution reserve £	Profit and loss account £	Shareholders' funds £
At beginning of year	—	—	500,000
Loss for year	—	(64,964)	(64,964)
Capital contribution in year	125,000	—	125,000
At end of year	<u>125,000</u>	<u>(64,964)</u>	<u>560,036</u>

12. Reconciliation of operating loss to net cash outflow from operating activities

	1999 £	1998 £
Operating loss	(72,048)	—
Depreciation charge	15,517	—
Increase in debtors	(37,844)	—
Increase in creditors	26,311	—
Net cash outflow from operating activities	<u>(68,064)</u>	<u>—</u>

13. Analysis of net funds

	At 31 December 1998 £	Cash flow £	Non-cash changes £	At 31 December 1999 £
Cash in hand, at bank	—	530,938	—	530,938
Total	—	<u>530,938</u>	—	<u>530,938</u>

14. Operating lease commitments

At 31 December 1999 the company had annual commitments under non-cancellable operating leases as set out below:

	1999	1998
	Land and buildings	Land and buildings
	£	£
Operating leases which expire: between two and five years	<u>42,948</u>	<u>—</u>

15. Related party transactions

During the year capital contributions totalling £125,000 were made to the Company by S B Streater.

Fees of £1,358 were paid to Kittaspec Securities Limited, a company of which D D Blaikie is a director. No amounts were outstanding at the year end.

16. Ultimate controlling party

The ultimate controlling party of the company is S B Streater.

Yours faithfully

KPMG

PART III

ADDITIONAL INFORMATION

1. THE COMPANY

The Company was incorporated in England and Wales on 10 February 1998 as a private limited company under the Companies Act 1985 (the "Act"), registered with number 3507286 and with the name Doublepower Limited. The Company changed its name to Forbidden Technologies Limited on 1 May 1998 and was re-registered as a public limited company on 22 November 1999.

The Company's registered office is at 2-4 St. George's Road, London SW19 4DP.

2. SHARE CAPITAL

The current authorised, issued and fully paid share capital of the Company is as follows:

Authorised			Issued and fully paid	
Number	£		Number	£
25,000,000	1,000,000	Ordinary Shares of 4p each	12,500,000	500,000

3. AUTHORITY TO ALLOT SHARES

At the Annual General Meeting of the Company held on 25 January 2000:

- (a) the Directors were authorised in accordance with section 80 of the Act to exercise all powers of the Company to allot relevant securities (as defined in that section) up to an aggregate nominal amount of £500,000, such authority to expire 5 years from the passing of the 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 thereby had not expired; and
- (b) the Directors were empowered pursuant to section 95 of the Act, until the conclusion of the Company's annual general meeting in 2001, to allot equity securities (as defined in section 94 of the Act) for cash pursuant to the authority referred to in sub-paragraph (a) above as if section 89(1) of the Act did not apply to the allotment, provided that the power was limited to:
 - (i) the allotment of Ordinary Shares pursuant to the Offers contained in this document;
 - (ii) the allotment of Ordinary Shares pursuant to the Share Option Schemes referred to in paragraph 9 below, up to a maximum of 10 per cent of the issued share capital of the Company from time to time;
 - (iii) the allotment otherwise than pursuant to sub-paragraphs (i) and (ii) above of Ordinary Shares up to an aggregate nominal value of £29,000 (representing 5 per cent of the enlarged issued share capital of the Company, assuming that the Offers are fully subscribed).

4. MEMORANDUM AND ARTICLES OF ASSOCIATION

The Memorandum of Association of the Company provides that the Company's principal object is to carry on business as a general commercial company. The objects of the Company are set out in full in clause 4 of the Company's Memorandum of Association.

The new Articles of Association of the Company (the "Articles") were adopted pursuant to a special resolution of the Company passed on 25 January 2000 and include provisions to the following effect:

(a) Votes of members

(i) Votes attaching to shares

Subject to the provisions of the Act (and every other applicable statute) and to any special terms as to voting on which any shares may have been issued or may for the time being be held, and to any suspension or abrogation of voting rights pursuant to the Articles, at a general meeting of the Company every member who is present in person (including any corporation present by its duly authorised representative) shall on a show of hands have one vote and every member present in person or by proxy shall on a poll have one vote for each share of which he is a holder. In the case of joint holders, the vote of the senior who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of the other joint holder(s).

(ii) No voting rights where calls outstanding or information not provided

Unless the Board otherwise determines, no member is entitled to vote at a general meeting or at a separate meeting of the holders of any class of shares, either in person or by proxy (save as proxy for another member), or to exercise any other right or privilege as a member in respect of any share held by him unless

all calls presently payable by him in respect of that share, whether alone or jointly with any other person, together with interest and expenses (if any) have been paid to the Company or if he, or any other person appearing to be interested in such shares, has been issued with a notice pursuant to section 212 of the Act (requiring disclosure of interests in shares) and has failed in relation to any such shares to give the Company the information required by such notice within 14 days.

(b) **Transfer of shares**

(i) *Form of transfer*

Every member may transfer all or any of his shares by instrument of transfer in writing in any usual form or in any form approved by the Board. Such instrument must be executed by or on behalf of the transferor and (in the case of a transfer of a share which is not fully paid up) by or on behalf of the transferee. The transferor is deemed to remain the holder of such shares until the transferee's name is entered in the register of members.

(ii) *Rights to refuse to register a transfer*

The Board may, in its absolute discretion and without giving any reason, refuse to register any transfer (or renunciation of a renounceable letter of allotment) of, or which includes, shares which are not fully paid to a person of whom it does not approve so long as the Directors do not exercise such discretion in a manner which could prevent dealings in the shares from taking place on an open and proper basis. The Board may also decline to register any transfer of shares upon which the Company has a lien. The Board may also decline to register any instrument of transfer (or renunciation of a renounceable letter of allotment) unless:

- (aa) it is in respect of only one class of shares;
- (bb) it is in favour of a single transferee or not more than four joint transferees;
- (cc) it is duly stamped (if so required); and
- (dd) it is delivered for registration to the registered office for the time being of the Company or such other place as the Board may from time to time determine, accompanied (except in the case of a transfer by a recognised person (as defined in the Articles) where a certificate has not been issued or in the case of a renunciation) by the certificate for the shares to which it relates and such other evidence as the Board may reasonably require to prove the title of the transferor or person renouncing and the due execution of the transfer or renunciation by him or, if the transfer or renunciation is executed by some other person on his behalf, the authority of that person to do so.

- (iii) Unless the Board otherwise determines, a transfer of shares will not be registered if the transferor or any other person appearing to be interested in the transferor's shares has been duly served with a notice under section 212 of the Act, has failed to supply the information required by such notice within 14 days and the shares in respect of which such notice has been served represent at least 0.25 per cent in nominal value of their class, unless the member is not himself in default as regards supplying the information required and proves to the satisfaction of the Board that no person in default as regards supplying such information is interested in any of the shares the subject of the transfer, or unless such transfer is by way of acceptance of a takeover offer, or in consequence of a sale on a recognised stock exchange, or is a sale to an unconnected party.

(c) **Dividends**

(i) *Final dividends*

Subject to the provisions of the Act and of the Articles, the Company may by ordinary resolution declare dividends to be paid to members according to their respective rights and interests in the profits of the Company. However, no dividend shall exceed the amount recommended by the Board.

Except as otherwise provided by the rights attached to shares, all dividends shall be declared and paid according to the amounts paid up (otherwise than in advance of calls and disregarding any premium) on the shares on which the dividend is paid.

(ii) *Interim dividends*

Subject to the provision of the Act, the Board may declare and pay such interim dividends as appears to the Board to be justified by the profits of the Company available for distribution.

(iii) *Retention of dividends*

Unless the Board otherwise determines, the payment of any dividend or other money that would otherwise be payable in respect of shares will be withheld if such shares represent at least 0.25 per cent in nominal value of their class and the holder, or any other person appearing to be interested in those shares, has been duly served with a notice under section 212 of the Act and has failed to supply the information required by such notice within 14 days.

(iv) *Unclaimed dividend*

All dividends unclaimed for a period of 12 years after having been declared or become due for payment shall (if the Board so resolves) be forfeited and shall cease to remain owing by the Company.

(v) *Distribution in specie*

The Board may, with the authority of an ordinary resolution of the Company, direct that payment of any dividend declared may be satisfied wholly or partly by the distribution of assets, and in particular of paid up shares or debentures of any other company, or in any one or more of such ways.

The Board may also, with the prior authority of an ordinary resolution of the Company and subject to such terms and conditions as the Board may determine, offer to holders of ordinary shares the right to elect to receive ordinary shares, credited as fully paid, instead of the whole (or some part, to be determined by the Board) of any dividend specified by the ordinary resolution.

(vi) *Distribution in specie on a winding up*

If the Company is wound up, the liquidator may, with the sanction of a special resolution of the Company and any other sanction required by law, divide among the members *in specie* the whole or any part of the assets of the Company and may, for that purpose, value any assets and determine how the division shall be carried out as between the members or vest the whole or any part of the assets in trustees on such trusts for the benefit of the members as he with the like sanction shall determine, but no member shall be compelled to accept any assets on which there is liability.

(d) **Capitalisation of profits and reserves**

(i) The Board may, with the authority of an ordinary resolution of the Company, capitalise any sum standing to the credit of any reserve or fund of the Company which is available for distribution or standing to the credit of any share premium account or other undistributable reserve.

(ii) Such capitalisation shall be effected by appropriating such sum to the holders of Ordinary Shares in proportion to the nominal amounts of their shares and applying such sum on their behalf in paying up in full unissued shares.

(e) **Share capital**

(i) *Variation of rights*

If at any time the share capital of the Company is divided into shares of different classes, any of the rights for the time being attached to any share or class of shares in the Company may be varied or abrogated in such manner (if any) as may be provided by such rights or, in the absence of any such provision, either with the consent in writing of the holders of not less than three-quarters in nominal value of the issued shares of the class or with the sanction of an extraordinary resolution passed at a separate general meeting of the holders of shares of the class.

(ii) *Changes in share capital*

The Company in general meeting may from time to time, by special resolution, increase its share capital and, by ordinary resolution, consolidate and divide all or any of its share capital into shares of larger amount, cancel any shares which at the date of the passing of the resolution have not been taken or agreed to be taken by any person and diminish the amount of its share capital by the amount of the shares so cancelled and, subject to the provisions of the Act, sub-divide all or any of its shares into shares of smaller amount. The Company may also, subject to the provisions of the Act (and any other applicable statute), reduce its share capital and any capital redemption reserve or any share premium account in any way.

(iii) *Purchase of own shares*

The Company may, subject to the provisions of the Act (and any other applicable statute), purchase its own shares.

(f) **Forfeiture and lien**

(i) *Notice on failure to pay a call*

If a member fails to pay in full any call or instalment of a call on or before the due date for payment the Board may at any time serve a notice on him (or on any person entitled to the share by transmission) requiring payment within 14 clear days and shall state that in the event of non-payment in accordance with such notice the shares on which such call was made will be liable to be forfeited.

(ii) *Lien on partly-paid shares*

Subject to section 150 of the Act, the Company shall have a first and paramount lien on every share which is not fully paid for all amounts payable to the Company (whether presently or not) in respect of that share.

(iii) *Sale of shares subject to lien*

The Company may, in such manner as the Board thinks fit, sell any share on which the Company has a lien, if payment has not been made within 14 clear days after a notice in writing stating and demanding payment of the sum presently payable and giving notice of intention to sell.

(j) **Directors**

(i) *Number of Directors*

Unless and until otherwise determined by ordinary resolution of the Company, the number of Directors shall be not more than seven or less than two.

(ii) *Directors' fees*

The Directors (other than alternate Directors) shall be entitled to receive by way of fees for their services as Directors such sum as the Board may from time to time determine. Such sum shall be divided among the Directors in such proportions and in such manner as the Board may determine or, in default of such determination, equally.

The salary or remuneration of any Director appointed to hold any employment or executive office may be either a fixed sum of money, or may altogether or in part be governed by business done or profits made or otherwise determined by the Board, and may be in addition to or in lieu of any fee payable to him for his services as Director.

(iii) *Directors' expenses*

The Directors are entitled to be repaid all reasonable travelling, hotel and other expenses properly incurred by them in or about the performance of their duties as Directors, including any expenses incurred in attending meetings of the Board and any general or class meetings of shareholders.

(iv) *Age limit*

The Articles do not contain any provision to exclude the operation of section 293 of the Act and accordingly special notice will be required of any resolution appointing or approving the appointment of a Director who has attained the age of 70.

(v) *Appointment and retirement by rotation*

Directors may be appointed by the Company by ordinary resolution or by the Board. If appointed by the Board, a Director holds office only until the next annual general meeting and shall not be taken into account in determining the number of Directors who are to retire by rotation. A Director shall not be required to hold any shares in the Company.

At each annual general meeting of the Company one-third of the Directors who are subject to retirement by rotation will retire by rotation and be eligible for re-election. Subject to the Act and to the Articles, the Directors to retire shall exclude any Director who is for the time being the Chief Executive or Managing Director of the Company and shall include, first, any Director who wishes to retire and not offer himself for re-election and secondly, those who have been longest in office since their last appointment or re-appointment, but as between those who have been in office an equal length of time, those to retire shall (unless they otherwise agree) be determined by lot.

(vi) *Restrictions on voting*

Save as provided in the Articles, a Director shall not vote on, or be counted in the quorum in relation to, any resolution of the Board or of a committee of the Board concerning any contract, arrangement, transaction or any other proposal whatsoever to which the Company is or is to be a party and in which he has an interest which (together with any interest of any person connected with him within the meaning of section 346 of the Act) is to his knowledge a material interest otherwise than by virtue of his interests in shares or debentures or other securities of or otherwise in or through the Company, unless the resolution concerns any of the following matters:

- (aa) the giving of any guarantee, security or indemnity in respect of money lent or obligations incurred by him or any other person at the request of or for the benefit of the Company or any of its subsidiary undertakings;
- (bb) the giving of any guarantee, security or indemnity in respect of a debt or obligation of the Company or any of its subsidiary undertakings for which he himself has assumed responsibility in whole or in part under a guarantee or indemnity or by the giving of security;
- (cc) any proposal concerning an offer of shares or debentures or other securities of or by the Company or any of its subsidiary undertakings in which offer he is or may be entitled to participate as a holder of securities or in the underwriting or sub-underwriting of which he is to participate;

- (dd) any proposal concerning any other body corporate in which he (together with persons connected with him) does not to his knowledge have an interest (as the term is used in Part VI of the Act) in one per cent or more of the issued equity share capital of any class of such body corporate or of the voting rights available to members of such body corporate;
- (ee) any proposal relating to an arrangement for the benefit of the employees of the Company or any of its subsidiary undertakings which does not award him any privilege or benefit not generally awarded to the employees to whom such arrangement relates; or
- (ff) any proposal concerning insurance which the Company proposes to maintain or purchase for the benefit of Directors or for the benefit of persons who include Directors.

A Director shall not vote or be counted in the quorum on any resolution of the Board or committee of the Board concerning his own appointment (including fixing or varying the terms of his appointment or its termination) as the holder of any office or place of profit with the Company or any company in which the Company is interested.

(h) **Borrowing powers**

The Board may exercise all the powers of the Company to borrow money and to mortgage or charge all or any part of its undertaking, property and assets (present and future) and uncalled capital and, subject to the provisions of the Act, to create and issue debentures and other securities, whether outright or as collateral security for any debt, liability or obligation of the Company or of any third party. The Board shall restrict the borrowings of the Company, and shall exercise all voting and other rights and powers of control exercisable by the Company in relation to its subsidiary undertakings, so as to procure (so far as it can in relation to its subsidiary undertakings) that the aggregate principal amount outstanding in respect of moneys borrowed by the Company and its subsidiary undertakings does not at any time, without the previous sanction of an ordinary resolution of the Company, exceed the sum of £100,000.

5. **ADDITIONAL INFORMATION ON THE BOARD**

- (a) The directorships and partnerships of the Directors, other than in the Company, currently held and held over the five years preceding the date of this document are as follows:

<i>Director</i>	<i>Current</i>	<i>Past</i>
V.J. Steel	All Equity Holdings Inc Eidos plc The Navy, Army and Air Force Institutes Westbourne Management Group Limited	Consumers Distributing Inc European Leisure plc Mansfield Brewery plc
S.B. Streater	Paganmark Limited	Eidos plc Eidos Technologies Limited
D.D. Blaikie	Avco Equipment AG Kittaspec Securities Limited Norill Inc. North Atlantic Ventures Limited	Blaikie Travers Limited

- (b) Consumers Distributing Inc entered into an insolvent liquidation in July 1996, when Victor Steel was a non-executive director of that company, with a deficit of approximately C\$259,000,000. Mr Steel has not been the subject of any public criticism by any statutory or regulatory authority in connection with his conduct as a director of Consumers Distributing Inc.
- (c) Save as disclosed above, none of the Directors:
- (i) is or has been a director of any company or partner in any firm in the last five years;
 - (ii) has any unspent convictions in relation to indictable offences;
 - (iii) has been declared bankrupt or made individual voluntary arrangements with creditors;
 - (iv) has been a director of any company which has been subject to any receivership, compulsory liquidation, creditors voluntary liquidation, administration, company voluntary arrangement or any composition or arrangement with its creditors generally or any class of its creditors, at the time of or during the period of 12 months preceding such events;
 - (v) has been a partner in any firm which has been subject to any compulsory liquidation, administration or partnership voluntary arrangement or any composition or arrangement with its creditors generally or any class of its creditors, at the time of or during the period of 12 months preceding such events;
 - (vi) has in relation to any asset of such person or any partnership of which he has been a partner suffered any appointment of a receiver (where in the case of a partnership that person was a partner at that time of or during the period of 12 months preceding such event); or

- (vii) has been the subject of any public criticism by any statutory or regulatory authority (including recognised professional bodies) or has ever been disqualified by a court from acting as a director of a company or from acting in the management or conduct of the affairs of any company.

6. DIRECTORS' AND OTHER INTERESTS

- (a) The interests of the Directors and their families in the issued share capital of the Company (all of which are beneficial) shown in the register of Directors' interests maintained under the provisions of section 325 of the Act can be summarised as follows:

<i>Director</i>	<i>Number of Ordinary Shares</i>	<i>Percentage of issued share capital</i>
S.B. Streater	12,500,000	100 per cent
V.J. Steel	—	—
D.D. Blaikie	—	—

- (b) The Company has granted options under the Unapproved Share Option Scheme at an exercise price of 15p per share to certain of the Directors as follows:

<i>Director</i>	<i>Number of Ordinary Shares</i>	<i>Percentage of issued share capital immediately after Admission</i>
V.J. Steel	25,000	0.17 per cent
D.D. Blaikie	12,500	0.09 per cent

The Company intends to grant further options to Vic Steel and Douglas Blaikie under the Unapproved Share Option Scheme on an annual basis.

- (c) Stephen Streater, being the only Director or employee of the Company who will own more than 1 per cent of the Company's issued Ordinary Shares at Admission, has undertaken not to dispose of any interest in the Ordinary Shares held by him or in which he is interested at the date of this document until the preliminary announcement of the results of the Company for its financial year ending 31 December 2001 and any New Ordinary Shares acquired by him under the Offers until 12 months after Admission, without the consent of Bell Lawrie Wise Speke and the Company save in certain limited circumstances.
- (d) Vic Steel and Douglas Blaikie intend to apply for New Ordinary Shares under the Offers. Stephen Streater may apply for New Ordinary Shares under the Offers.

7. SUBSTANTIAL SHAREHOLDERS

- (a) Save as disclosed in paragraph 6 above, the Directors are not aware of any person who is directly or indirectly interested in 3 per cent or more of the Company's issued share capital.
- (b) Insofar as the Company has the information, the Directors are not aware of any person or persons, other than Stephen Streater who either alone or, if connected, jointly at the date of this document or following Admission will (directly or indirectly) exercise or could exercise control over the Company.

8. DIRECTORS' SERVICE AGREEMENTS AND REMUNERATION

The Directors have entered into agreements with the Company as follows:

- (a) Vic Steel was engaged as a Non-Executive Director and the Chairman of the Company by a letter of appointment dated 25 January 2000 for the period until the Company's annual general meeting in 2001, subject to Admission becoming effective on or before 17 March 2000. The current fee payable to him is £6,000 per annum.
- (b) Stephen Streater has entered into a service agreement dated 25 January 2000 with the Company for his appointment as Chief Executive. The agreement is for an initial period of 1 year commencing 1 January 2000 and is terminable on 12 months' notice to expire at any time after 31 December 2000. Stephen Streater's remuneration for each financial year of the Company is a sum equal to 5 per cent of the Company's pre-tax profits for that year as shown in its audited accounts, such payment to be made in a single lump sum following publication of the accounts. The Board has a limited power to summarily terminate the agreement and the prior sanction of an ordinary resolution of the Company in general meeting is required in the case of dismissal by reason of misconduct or breach. Stephen Streater has separately agreed that if a general meeting is convened to consider any such resolution, his votes (and the votes of any persons connected with him) in excess of 43 per cent of the total number of votes capable of being cast by shareholders other than Stephen Streater and such persons connected with him at any such meeting shall be disregarded.

- (c) Douglas Blaikie was appointed as a part-time Finance Director of the Company by a letter of appointment dated 25 January 2000 for the period until the Company's annual general meeting in 2001, subject to Admission becoming effective on or before 17 March 2000. Douglas Blaikie's services are being made available with the consent of Kittaspec Securities Limited and the Company has agreed to pay that company a fee of £8,000 per annum (plus VAT).
- (d) In addition, each of the Directors has entered into a Confidentiality Agreement dated 25 January 2000 with the Company under which he has agreed *inter alia* to maintain the confidentiality of the Company's know-how and information and accepted certain restrictive covenants.
- (e) The aggregate remuneration paid and benefits in kind granted to the Directors (including, in the case of Douglas Blaikie, payments to Kittaspec Securities Limited) during the last completed financial year of the Company was £2,858. The estimated aggregate amount payable and of benefits in kind to be granted to the Directors (including, in the case of Douglas Blaikie, payments (exclusive of VAT) to Kittaspec Securities Limited) for the current financial year of the Company under the arrangements in force at the date of this document is £14,000 (excluding the value, if any, of the benefit of the options granted to Vic Steel and Douglas Blaikie as described in paragraph 6(b) above).

9. SHARE OPTION SCHEMES

The Company has established:

- the Approved Share Option Scheme; and
- the Unapproved Share Option Scheme.

The Approved Share Option Scheme

The Approved Share Option Scheme has been approved by the Inland Revenue. Options may be granted under the Approved Share Option Scheme by the Board or the trustee of an employee share ownership trust (ESOT) (if one were to be established by the Company) nominated for the purpose by the Board (in either case, "the Grantor"). The principal features of the Approved Share Option Scheme are:

- (a) **Eligibility**
Only those directors or employees of the Company who devote substantially all their working time to the business of the Company and who are not within two years of their normal retirement date are eligible to participate.
- (b) **Exercise price**
The exercise price for an option is determined by the Grantor but, in the case of an option to subscribe for shares, may not be less than the higher of the nominal value of an ordinary share and its market value, as agreed with the Inland Revenue.
- (c) **Grant of options**
Options may be granted at any time or times until Admission and during a period of 42 days commencing on the day on which the Approved Share Option Scheme was approved by the Inland Revenue. Thereafter, options may be granted in the 42 day period after the announcement of the Company's interim and annual results. In exceptional circumstances the Board may permit the grant of options outside these periods. Options cannot be granted after the tenth anniversary of the date on which the Approved Share Option Scheme was adopted.
- (d) **Individual Limit**
An option may only be granted to an individual if the aggregate market value at the respective dates of grant of subsisting options granted to the individual under the Approved Share Option Scheme and any other Inland Revenue approved discretionary share option scheme established by the Company (or any company which is associated with it) does not exceed £30,000.
- (e) **Exercise of options**
Options may normally only be exercised between the third and tenth anniversary of the date of grant.

If an option holder ceases to be an employee of the Company due to injury, ill health, disability, redundancy or retirement, his options may be exercised until the expiry of six months from the date his employment ceased, but will thereafter lapse. The Board has discretion to extend this period to enable option holders to exercise their options in a manner which qualifies for relief from income tax.

If an option holder dies, his options may be exercised within twelve months of his death by his legal personal representatives. His options will then lapse.

If an option holder ceases to be an employee of the Company for any reason other than those set out above his options will normally lapse on cessation unless the Board exercises its discretion to allow his options to be exercised within a specified period.

Options will also become exercisable during limited periods if the Company is taken over, wound up or if there is a scheme of reconstruction.

Options may not be exercised in any event more than ten years after the date of grant. Options may be exercised in whole or in part.

(f) **Substitution of options**

Where there is a general offer to acquire the Company, options may by agreement between the offeror and the option holder be rolled over into options over the shares of the offeror.

(g) **Variation of share capital**

On a variation of the Company's share capital by way of capitalisation or rights issue, sub-division, consolidation or a reduction, the exercise price and the number of shares subject to option can be varied at the discretion of the Board subject to certification by the Company's auditors that in their opinion the variation is fair and reasonable and subject to the prior agreement of the Inland Revenue. The aggregate numbers of shares noted in the section headed "Schemes Limit" below will also be adjusted to reflect any variation of the share capital of the Company in such manner as the auditors confirm in writing to be, in their opinion, fair and reasonable.

(h) **General**

Ordinary Shares allotted on the exercise of options rank *pari passu* with Ordinary Shares in issue at the date of allotment but shall not rank for dividends the record date for which precedes the date of allotment.

The Company shall keep sufficient available unissued ordinary share capital to meet the exercise of options to subscribe and, if established, the ESOT trustee shall keep sufficient shares available to meet the exercise of options to purchase.

Options may not be transferred or charged.

If an option holder ceases to be employed by the Company he waives any right to compensation for the loss of his options.

Benefits under the Approved Share Option Scheme will not be pensionable.

The Approved Share Option Scheme will terminate on the tenth anniversary of its adoption.

(i) **Amending the Approved Share Option Scheme**

The Board has power to administer and amend the Approved Share Option Scheme. No amendment may be made to provisions relating to:

- (i) the eligibility conditions;
- (ii) the maximum entitlement for any one option holder;
- (iii) the aggregate limit noted in the section headed "Schemes Limit" below and the variation of share capital rules noted in sub-paragraph (g) above,

to the advantage of option holders without the prior approval of shareholders in general meeting (except for minor amendments to benefit the administration of the Approved Share Option Scheme or to take account of a change in legislation or to obtain or maintain favourable tax, exchange control or regulatory treatment for option holders or the Company). All amendments require the prior approval of the Inland Revenue.

The Unapproved Share Option Scheme

The Unapproved Share Option Scheme is similar to the Approved Share Option Scheme except that:

- (i) it is not approved by the Inland Revenue so options cannot qualify for favourable tax treatment;
- (ii) all Directors and employees of the Company are eligible to participate;
- (iii) in respect of options granted prior to Admission, the only limit on the exercise price of an option is the nominal value of an ordinary share;
- (iv) the £30,000 limit outlined in sub-paragraph (d) above does not apply; and
- (v) adjustments to options and amendments to the scheme do not require the prior consent of the Inland Revenue.

Schemes Limit

In any ten year period, not more than ten per cent of the issued share capital for the time being of the Company may in aggregate be issued or issuable under options and rights granted after Admission under all employees' share schemes adopted by the Company.

Options granted

The Company has granted options to employees over a total of 300,000 Ordinary Shares under the Approved Share Option Scheme at an exercise price of 15p per share and (as detailed in paragraph 6(b) above) options over a total of 37,500 Ordinary Shares to certain Directors under the Unapproved Share Option Scheme at an exercise price of 15p per share.

10. UNITED KINGDOM TAXATION

The following information, which sets out the taxation treatment for holders of Ordinary Shares, is based on the law and practice currently in force in the United Kingdom. The information is not exhaustive and if shareholders are in any doubt as to their taxation position, they should consult their professional adviser. Shareholders should note that the levels and bases of, and relief from, taxation may change and that changes may affect the benefits of investment in the Company.

Advance Corporation Tax ("ACT") was abolished from 6 April 1999. Accordingly, the Company will not have to account to the Inland Revenue for ACT on dividends paid.

In addition, the dividend tax credit was reduced to one ninth of the net dividend with effect from the same date. The aggregate of the dividend and the associated tax credit will form the individual's top slice of income. For individual shareholders who are UK resident for tax purposes, the tax credit will satisfy the whole of the lower or basic rate income tax liability. Higher rate taxpayers pay tax at 32.5 per cent on the total of the dividend and the associated tax credit. However, the tax credit is available for offset against the higher rate liability, such that the net additional amount payable is equal to 22.5 per cent of the dividend plus the tax credit. The higher rate taxpayer therefore pays income tax at an effective tax rate of 25 per cent on the cash dividend received. The reduction in the tax credit is therefore tax neutral for lower, basic and higher rate taxpayers. The tax credit cannot, however, be reclaimed from the Inland Revenue where the tax credit exceeds the tax liability of a United Kingdom resident individual unless, for a limited period, the shares are held in an ISA or PEP.

For dividends paid to trustees of UK resident discretionary or accumulation trusts, the dividend plus tax credit will be subject to UK income tax at a rate of 25 per cent, with a non-refundable tax credit equal to one ninth of the cash dividend.

The amount of the tax credit in respect of a dividend paid which constitutes income of a pension fund, charity or venture capital trust, will not be repaid. Special transitional rules will apply to charities to compensate them, on a phased basis, for the loss of repayable tax credits.

Subject to the terms of any applicable double tax treaty, non-resident shareholders are liable to UK tax on dividend income but the liability should be covered by the tax credit. The terms of an applicable double tax treaty may provide for repayment of part of the tax credit but following the reduction in the amount of the tax credit referred to above this will generally mean that no repayment is due. Non-resident shareholders may also be subject to tax on dividend income under any law to which they are subject outside the UK. Non-resident shareholders should consult their own tax advisers on the possible application of such provisions.

A corporate shareholder (other than a share dealer) resident for tax purposes in the United Kingdom will not generally be liable to United Kingdom corporation tax on any dividend received.

The issue and allotment of New Ordinary Shares by the Company pursuant to the Offers will not give rise to a charge to stamp duty or stamp duty reserve tax unless the New Ordinary Shares are acquired for the purposes of arrangement for the provision of clearance services or depository receipts.

Unless it takes place within the CREST system, the conveyance or transfer on sale of Ordinary Shares following the Offers will be subject to stamp duty at the rate of $\frac{1}{4}$ per cent of the amount or value of consideration, rounded up to the next £5. An agreement to purchase Ordinary Shares attracts a charge to stamp duty reserve tax (at the same rate). However, this potential charge is cancelled by the timely payment of stamp duty. A transfer of Ordinary Shares in uncertified form within the CREST system following the Offers will be subject to stamp duty reserve tax at the rate of $\frac{1}{2}$ per cent of the value of the consideration in money or money's worth.

To the extent that an individual or corporate holder of Ordinary Shares subsequently disposes of those shares, liability to UK tax on chargeable gains may arise depending on the circumstances of the transaction and the particular shareholder's tax status.

The above comments are intended as a general guide to the position under the current law and practice in the UK and may not apply to certain classes of shareholders. Any person who is in any doubt as to his tax position or who is subject to tax in a jurisdiction other than the UK should consult his own professional adviser.

11. WORKING CAPITAL

The Company is of the opinion, having made due and careful enquiry, that the working capital available to the Company will, from the time of Admission, be sufficient for its present requirements, that is for at least the next twelve months.

12. LITIGATION

The Company is not engaged in any litigation or arbitration proceedings and no litigation, arbitration proceedings or claim is known to be pending or threatened against, or being brought by, the Company which is or are having or may have a significant effect on the Company's financial position.

13. PREMISES

The Company occupies the third floor of 2-4 St. George's Road, Wimbledon, London SW19 4DP under a full repairing and insuring lease for a term expiring on 23 June 2002 at an annual rent of £36,550 plus VAT.

14. MATERIAL CONTRACTS

The following contracts, not being contracts entered into in the ordinary course of business, have been entered into by the Company since its incorporation and are, or may be, material:

- (a) An agreement dated 10 June 1999 as amended by a supplemental agreement dated 25 January 2000 (the "Licence") made between Eidos Technologies Limited ("Eidos Technologies") (1) and the Company (2) pursuant to which Eidos Technologies has granted to the Company a non-exclusive licence in the field of video and/or audio compression, de-compression and playback technology (and in such other technical fields as may be agreed in accordance with the provisions of the agreement) to use, make, sell and/or otherwise deal in any products or services (the "Licensed Products") which incorporate, or are made in accordance with, or are supplied in connection with, any of the following:
- (i) manufacturing drawings and instructions, information, experience, knowledge, skill and know-how created and/or developed by *inter alia* Stephen Streater and other persons now employed by the Company during their respective periods of engagement by Eidos Technologies or Eidos plc which Eidos Technologies is free to disclose and license to others (the "Technical Information"); and
 - (ii) certain granted patents and pending patent applications relating to the processing of digital information (and any patents subsequently granted pursuant to such applications), as set out in the Licence (the "Licensed Patents").

The Licence has been granted for a period of 20 years, but either Eidos Technologies or the Company is entitled to terminate the Licence by 3 months' notice to the other if at any time all Licensed Patents granted or applied for at the date of the Licence have expired, lapsed or been revoked.

The Company is obliged to pay a royalty in respect of all Licensed Products sold or disposed of by it (and/or its associates), as follows:

- (i) where the Licensed Products have been sold on a unit basis, a payment at the rate of 5 per cent of the net invoice value;
- (ii) where the Licensed Products have been sold on a lump sum basis, a payment of 5 per cent of the net invoice value;
- (iii) where the Company has granted a sub-licence, a payment of 5 per cent of the sub-licensee's net invoice value from sales by it (whether the sales are calculated on a unit or lump sum basis),

but excluding, for this purpose, sales within certain limits of promotional products. The royalty is payable together with VAT, if applicable. In addition, if the Company is required by law to make any deduction for withholding or other income taxes, the Company must pay an additional amount to Eidos Technologies so as to result in the net amount received by Eidos Technologies being equal to the amount which it would have received had no such deduction or withholding been made.

The Company is obliged to use its reasonable endeavours to commence commercial production of Licensed Products as soon as reasonably possible and to promote and fulfil the demand for such products.

Eidos Technologies is under no obligation to continue to prosecute any of the pending patent applications to grant or upon any opposition and gives no representation or warranty as to the validity of any of the granted patents, the accuracy of the Technical Information or whether manufacture, sale, possession or use of Licensed Products infringes third party rights. In addition, the Company has indemnified Eidos Technologies for any claim against it arising, *inter alia*, from the quality of Licensed Products sold. The Company has also given confidentiality undertakings to Eidos Technologies.

The Licence may be terminated in the case of a material breach by the Company of its obligations or certain events of insolvency. In addition, the Licence may be terminated if:

- (i) Stephen Streater ceases to be a director or employee of the Company or in any other way ceases to be personally involved in the operation of the Company's business; or
- (ii) Stephen Streater ceases to be beneficially interested in more than 15 per cent of the Company's equity share capital; or

- (iii) a person acquires or persons acting in concert acquire an interest (direct or indirect) in 25 per cent or more of the Company's equity share capital; or
- (iv) a person commits or persons acting in concert commit to providing the Company with an aggregate amount, otherwise than from the purchase of Licensed Products, which exceeds 50 per cent of the market capitalisation of the Company from time to time; or
- (v) the Company enters into any arrangement with any third party which is a direct competitor of Esdos Technologies giving access to confidential Technical Information and/or Licensed Products (save for certain permitted sub-licence arrangements).

- (b) By an Agreement dated 26 January 2000 (the "Offer for Subscription Agreement") Bell Lawrie Wise Speke has agreed conditionally, *inter alia*, on Admission becoming effective not later than 17 March 2000 as agents for the Company to make the Offers and to assist the Company in procuring subscribers for the New Ordinary Shares at the Issue Price.

Under the Offer for Subscription Agreement, the Company and the Directors have given Bell Lawrie Wise Speke certain warranties regarding, *inter alia*, the accuracy of the information contained in this document and certain indemnities. The provisions of the Offer for Subscription Agreement permit that Agreement to be terminated by Bell Lawrie Wise Speke prior to Admission in certain circumstances, including if any of the warranties are when given or become not true and accurate in any material respects.

- (c) By a letter dated 26 January 2000 the Company has appointed Bell Lawrie Wise Speke as its Nominated Adviser and Nominated Broker under the AIM Rules. The Company has given certain undertakings to Bell Lawrie Wise Speke whilst it remains so appointed.

In addition, by the same letter, Stephen Streater has undertaken to Bell Lawrie Wise Speke for so long as he remains a Director and has a shareholding of 50 per cent or more of the issued shares in the capital of the Company that subject to certain duties and provisions he will exercise his rights and discretions as a Director and exercise the voting rights attached to his shares with a view to ensuring, so far as he is able, (1) compliance by the Company with the aforementioned undertakings; and (2) that the independence of the Board is maintained so as to enable decisions to be taken independently of any majority shareholder.

Bell Lawrie Wise Speke will be paid an annual fee for its services as Nominated Adviser and Nominated Broker.

15. GENERAL

- (a) The auditors of the Company are KPMG.
- (b) The total costs and expenses, which are all payable by the Company, relating to the Offers and Admission are estimated to be £100,000 (including VAT). As part of the foregoing, Vizards Staples & Barnisters ("VSB"), the Company's solicitors, are being paid a fee of £12,500 (excluding VAT). VSB has agreed to apply for 12,500 New Ordinary Shares under the A Offer and 40,000 New Ordinary Shares under the B Offer and the Directors intend to accept such applications in full. In addition McGrigor Donald, the solicitors to Bell Lawrie Wise Speke are being paid a fee of £7,500 (excluding VAT). McGrigor Donald has agreed to apply for 37,500 New Ordinary Shares under the A Offer and the Directors intend to accept such application in full.
- (c) If the B Offer is oversubscribed, the Directors intend to accept any applications for New Ordinary Shares under the B Offer from Vic Steel and Douglas Blaikie and any of the Company's employees up to an aggregate limit of 200,000 New Ordinary Shares (or, if less, 40 per cent of the New Ordinary Shares issued under the B Offer) with an individual limit of 40,000 New Ordinary Shares under the B Offer for each such Director and employee.
- (d) The financial information in this document does not comprise statutory accounts for the purposes of section 240 of the Act.
- (e) Other than the application for admission of the issued Ordinary Shares and the New Ordinary Shares to trading on AIM, the Ordinary Shares have not been admitted to dealings on any recognised investment exchange, nor has any application for such admission been made. There are not, nor are there intended to be, any other arrangements for dealings in the Ordinary Shares.
- (f) The Nominated Adviser and Nominated Broker to the Company is Bell Lawrie Wise Speke (a division of Brewin Dolphin Securities Limited, a member of the London Stock Exchange and regulated by The Securities and Futures Authority Limited) of 48 St. Vincent Street, Glasgow G2 5TS.
- (g) Save as disclosed in this document, there are no significant investments under active consideration by the Company.
- (h) The Company's accounting reference date is 31 December.
- (i) Save as disclosed in this document, there are no patents or other intellectual property rights, licences or particular contracts which are or may be of fundamental importance to the Company's business.

- (j) Save as disclosed in this document, there have been no significant recent trends concerning the development of the Company's business nor any significant acquisitions or disposals of assets since its incorporation.
- (k) The existing Ordinary Shares are in registered form. The existing Ordinary Shares are capable of being transferred by means of the CREST system in certificated and uncertificated form.
- (l) There is no minimum amount which, in the opinion of the Directors, must be raised under the Offers to provide the sums required in respect of each of the matters specified in paragraph 21(a) of Schedule 1 to the Regulations. The Directors are of the opinion that the Company's cash resources on 21 January 2000 of £527,000 are sufficient to provide in respect of the matters referred to in that paragraph.
- (m) By a resolution of the Board dated 25 January 2000, the Company adopted the AIM Model Code for share dealings by Directors and employees as required by Rule 16.12 of the AIM Rules.
- (n) There are no arrangements in force for the waiver of future dividends.
- (o) There are no specified dates on which entitlement to dividends or interest thereon on Ordinary Shares arise.
- (p) Save as disclosed in this document, there has been no significant change in the financial or trading position of the Company since 31 December 1999 being the date to which the latest audited accounts of the Company were prepared.
- (q) No person has received, directly or indirectly, from the Company within the twelve months preceding the application for Admission or is contractually entitled to receive, directly or indirectly, from the Company on or after Admission (excluding in either case persons who are professional advisers otherwise disclosed in this document and persons who are trade suppliers) fees totalling £10,000 or more, securities in the Company with a value of £10,000 or more at the issue price of 25p per share, or any other benefit with a value of £10,000 or more at the date of Admission.

16. AVAILABILITY OF PROSPECTUS

Copies of this document are available during normal business hours on any weekday (except Saturdays and public holidays) free of charge from the Company's registered office and at the office of the Nominated Adviser and shall remain available for at least fourteen days after Admission.

26 January 2000

PART IV

TERMS AND CONDITIONS OF APPLICATION

PROCEDURE FOR APPLICATION

1. HOW TO APPLY FOR NEW ORDINARY SHARES

(a) General

If you wish to apply for New Ordinary Shares pursuant to the A Offer and/or the B Offer you must complete the Application Form in accordance with the instructions accompanying that form.

(b) Allocation of New Ordinary Shares

Allocation of New Ordinary Shares issued under the Offers will be at the discretion of the Directors. A total of 2,000,000 New Ordinary Shares are being offered in separate offers:

- under the A Offer in units of 2,500 New Ordinary Shares at 20p per share
- under the B Offer in units of 40,000 New Ordinary Shares at 25p per share.

While it is intended that 1,000,000 New Ordinary Shares will be issued under each of the A Offer and the B Offer, the Directors may, at their sole discretion, allocate up to 520,000 New Ordinary Shares from the A Offer to the B Offer or *vice versa*. Accordingly, up to 1,520,000 New Ordinary Shares may be allocated under either offer. The minimum subscription for each of the A Offer and the B Offer is 480,000 New Ordinary Shares.

Neither Offer will proceed unless the aggregate amount subscribed under the Offers is £424,000. The maximum subscription under the Offers is £476,000.

(c) Expected despatch of definitive share certificates and crediting of CREST Accounts

An application will be made for the Ordinary Shares to be admitted to CREST. It is expected that all of such shares, when issued and fully paid, may be held and transferred by means of CREST.

It is anticipated that you will be able to hold your New Ordinary Shares in either certificated or uncertificated form. If you do not complete Box 6 on the Application Form a share certificate will be sent to you incorporating the details shown on the Application Form. Share certificates are expected to be dispatched on 29 February 2000. No temporary documents of title will be issued and, pending such dispatch, transfers will be certified against the register of members of the Company. If you complete Box 6 on the Application Form, CRESTCo will be instructed to credit your electronic stock account with the appropriate number of New Ordinary Shares on the date of Admission. It is anticipated that trading in the existing Ordinary Shares and the New Ordinary Shares on AIM will commence on 29 February 2000.

2. TERMS AND CONDITIONS OF APPLICATION

In the case of a joint application, references to you in these terms and conditions of application (which form part of the document setting out the Offers) are to each of you, and your liability is joint and several. In these terms and conditions and in the Application Form words importing a gender include every gender and references to persons include an individual, company, corporation, and, where applicable, firm, partnership, unincorporated association or body of persons.

The section headed "How to Apply for New Ordinary Shares" as set out above and the section headed "How to Complete the Application Form" as set out below form part of these terms and conditions of application.

- (a) The contract created by the acceptance of applications under the Offers (other than mentioned in paragraph 2(d)(ii) below) will be conditional upon the following occurring on or before 8.00 am on 29 February 2000 or such later date as Bell Lawrie Wise Speke and the Directors may agree but not later than close of business on 17 March 2000:
- (i) the Offer for Subscription Agreement becoming unconditional and not being terminated; and
 - (ii) the London Stock Exchange admitting the existing issued Ordinary Shares and the New Ordinary Shares to AIM and such admission becoming effective.
- (b) The right is reserved by the Company to present all cheques and banker's drafts for payment on receipt and to retain share certificates and surplus application monies pending clearance of successful applicants' cheques and banker's drafts. The Company also reserves the right to reject, in whole or in part, or to scale down or limit any application. If any application is not accepted in full or if any contract created by acceptance does not become fully unconditional, the application monies or, as the case may be, the balance thereof will be returned (without interest) by returning

each relevant applicant's cheque or banker's draft or by crossed cheque in favour of the first-named applicant, through the post at the risk of the person(s) entitled thereto as soon as possible after the final closing date of the Offers. In the meantime, application monies will be retained by IRG plc ("the Receiving Agents") in a separate account, any interest thereon accruing for the benefit of the Company.

- (c) It is a condition of the Offers that applications to the value of £9,000 or more which are settled by way of a third party payment e.g. banker's draft, building society cheque or cheque drawn by someone other than the applicant, will be subject to the United Kingdom's verification of identity requirements which are contained in the Money Laundering Regulations 1993.

For UK applications this may involve verification of names and addresses through a reputable agency. For non-UK applicants verification of identity may be sought from the applicant's bankers or from another reputable institution or financial adviser in the applicant's country of residence. If satisfactory evidence of identity has not been obtained within a reasonable time, the transaction shall not proceed any further and the application monies (without interest) will be returned to the bank account where the cheque was drawn.

Payment made on behalf of a third party by a UK or EC regulated person or institution must be accompanied by a written confirmation that evidence has been obtained and recorded to verify the identity of the applicant as required by the Money Laundering Regulations 1993 and that such record will be retained for at least five years. The name of the regulatory body and the relevant membership number should also be stated.

If an Application Form is lodged by an agent which is an organisation required to comply with the money laundering directive, the Council Directive on prevention of the use of the financial system for the purpose of money laundering (no 91/308/EEC) or which is subject to anti money laundering regulation in a country which is a member of the Financial Action Task Force (the non-European Union members of which are Australia, Canada, Hong Kong, Iceland, Japan, New Zealand, Norway, Singapore, Switzerland, Turkey and the United States of America), the agent should provide written confirmation that it has that status, and written assurance that it has obtained and recorded evidence available to the Company's Registrars or the relevant authority. In order to confirm acceptability of such written assurance, the acceptor should contact the Receiving Agents.

- (d) By completing and delivering an Application Form, you, as the applicant (and, if you sign the Application Form on behalf of somebody else or a corporation, that person or corporation):
- (i) offer to subscribe under the A Offer and/or the B Offer for the number of New Ordinary Shares specified in your Application Form in respect of each such Offer (or such lesser number for which your application is accepted) at the Issue Price on the terms of and subject to this document, including these terms and conditions of application, and the memorandum and articles of association of the Company;
 - (ii) warrant that your cheque or banker's draft will be honoured on first presentation and agree that if it not so honoured you will not be entitled to receive a share certificate or have your CREST account credited in respect of the shares applied for or to enjoy or receive any rights or distributions in respect of such shares unless and until you make payment in cleared funds for such shares and payment is accepted by the Company in its absolute discretion (which acceptance shall be on the basis that you indemnify it against all costs, damages, losses, expenses and liabilities arising out of, or in connection with, the failure of your remittance to be honoured on first presentation) and you agree that, at any time prior to the unconditional acceptance by the Company of such later payment, the Company may (without prejudice to its other rights) avoid the agreement to subscribe for such shares and may allot such shares to some other person, in which case you will not be entitled to any payment in respect of such shares other than the refund to you at your risk of any proceeds of the cheque or banker's draft accompanying your application, without interest;
 - (iii) agree that, in respect of those New Ordinary Shares for which your application has been received and is not rejected, acceptance of your application shall be constituted by notification of acceptance thereof to the Receiving Agents;
 - (iv) agree that any monies returnable to you may be retained by the Receiving Agents pending clearance of your remittance and that such monies will not bear interest;
 - (v) authorise the Receiving Agents to send share certificate(s) in respect of the number of New Ordinary Shares for which your application is accepted and/or a crossed cheque for any monies returnable, by post, without interest, at the risk of the person(s) entitled thereto, to the address of the person (or in the case of joint holders the first-named person) named as an applicant in the Application Form and to procure that your name (together with the name(s) of any other joint applicant(s)) is/are placed on the register of members of the Company in respect of such New Ordinary Shares;
 - (vi) warrant that, if you sign the Application Form on behalf of somebody else or on behalf of a corporation, such person or corporation will also be bound accordingly and will be deemed also to have given the confirmations, warranties and undertakings contained herein and undertake to enclose the power of attorney or a copy thereof duly certified by a solicitor with the Application Form;

- (vii) agree that all applications, acceptances of applications and contracts resulting therefrom under the Offers shall be governed by and construed in accordance with English law, and that you submit to the jurisdiction of the English Courts and agree that nothing shall limit the right of the Company to bring any action, suit or proceedings arising out of or in connection with any such applications, acceptances of applications and contracts in any other manner permitted by law or in any court of competent jurisdiction;
 - (viii) authorise the Receiving Agents or any person authorised by them, as your agent, to do all things necessary to effect registration of any New Ordinary Shares subscribed by you into your name(s) or into the name(s) of any persons in whose favour the entitlement to receive any such New Ordinary Shares has been transferred and authorise any representative of the Receiving Agents to execute any document required therefor;
 - (ix) confirm that you are not relying on any information and representation in relation to the Company other than contained in this document and agree that neither the Company nor any person responsible solely or jointly for this document or any part thereof or involved in the preparation thereof shall have any liability for any such other information or representation;
 - (x) declare that you have read, understood and agree to the terms and conditions contained in this document and the Application Form, including the Risk Factors set out in Part I of this document and have taken the appropriate professional advice which you consider necessary before submitting the application and that you are aware of the special risks involved in participating in an investment of this nature and you understand that your application is made upon the terms of this document and the Application Form;
 - (xi) acknowledge that in relation to the transactions described in this document, the advisers of the Company mentioned therein are acting for the Company and are not acting for you or on your account and that, accordingly, will not be responsible to you for providing protections afforded to their clients, for advising you on any transactions described herein or for ensuring that such transactions are suitable for you;
 - (xii) confirm and warrant that you have read and complied with paragraph (e) below;
 - (xiii) confirm that you have reviewed the restrictions contained in paragraphs (f) and (g) below and warrant as provided therein;
 - (xiv) warrant that neither you nor any person on whose behalf you are applying is under the age of 18;
 - (xv) agree that all documents and cheques sent by post to, or by or on behalf of, the Company or the Receiving Agents, will be sent at the risk of the person(s) entitled thereto;
 - (xvi) agree, on request by the Company or at its discretion on behalf of the Company, to disclose promptly in writing to it, any information which it may reasonably request in connection with your application and authorise it to disclose any information relating to your application as it considers appropriate; and
 - (xvii) confirm that you have read and understood the information and requirements contained in paragraph 2(c) above dealing with the Money Laundering Regulations 1993.
- (e) No person receiving a copy of this document or an Application Form in any territory other than the UK may treat the same as constituting an invitation or offer to him, nor should he in any event use such Application Form unless, in the relevant territory, such an invitation or offer could lawfully be made to him or such Application Form could be used without contravention of any registration or other legal requirements. It is the responsibility of any person outside the UK wishing to make an application hereunder to satisfy himself as to full observance of the laws of any relevant territory in connection therewith, including obtaining any requisite governmental or other consents, observing any other formalities required to be observed in such territory and paying any issue, transfer or other taxes required to be paid in such territory.
- (f) The New Ordinary Shares have not been and it is not expected that they will be registered under the United States Securities Act of 1933 (as amended) and, subject to certain exceptions (including, *inter alia*, qualified institutional buyers as defined in Rule 144A of that Act), the New Ordinary Shares may not be offered, sold, transferred or delivered, directly or indirectly, in the United States or to any US Person. Persons subscribing for New Ordinary Shares shall be deemed, and (unless the Company is satisfied that the New Ordinary Shares can be allotted without breach of the United States securities laws) shall be required, to represent and warrant to the Company that they are not a US Person and that they are not subscribing for such New Ordinary Shares for the account of any such person and will not offer, sell, renounce, transfer or deliver, directly or indirectly, such New Ordinary Shares in the United States or to any such persons. As used herein, "United States" means the United States of America (including the States thereof and the District of Columbia), its territories and possessions and "US Person" means any person or entity defined as such under the Securities Act of 1933 and, without limiting the generality of the foregoing, US Person includes a natural person resident in the United States a corporation or partnership organised or incorporated under the laws of the United States (including any state thereof) and an estate or trust, if any executor, administrator or trustee is a US Person, but shall not include a branch or agency of a US Person located outside the United States if such agency or branch operates for valid business reasons and is engaged in the business

of insurance or banking and is subject to substantive insurance or banking regulation, respectively, in the jurisdiction where located. The Company has not been and will not be registered under the United States Investment Company Act of 1940 (as amended).

- (g) The New Ordinary Shares have not been and will not be registered or qualified for sale or distribution under the securities laws of Canada and may only be offered or sold within Canada pursuant to certain exemptions under local securities laws.
- (h) The New Ordinary Shares have not been and will not be registered with the Australian Securities Commission.
- (i) The basis of allocation will be determined by the Directors in their absolute discretion. In addition, the right is reserved to reject in whole or in part and/or scale down any application not in all respects completed in accordance with the instructions relating to the Application Form including if the accompanying cheque or banker's draft is for the wrong amount. Dealings prior to the receipt of share certificates or the crediting of a CREST Account will be at the risk of the applicants. A person so dealing must recognise the risk that an application may not have been accepted to the extent anticipated or at all.
- (j) Save where the context otherwise requires, words and expressions defined in this document have the same meaning when used in the Application Form and any other explanatory notes in relation thereto.

HOW TO COMPLETE THE APPLICATION FORM

Before making any application to acquire New Ordinary Shares, you are recommended to consult an independent financial adviser authorised under the Financial Services Act 1986. The following instructions should be read in conjunction with the Application Form and the Terms and Conditions of Application set out in this document.

Applications must be made in units of 2,500 New Ordinary Shares under the A Offer.

Applications must be made in units of 40,000 New Ordinary Shares under the B Offer.

1. Insert in Box 1 (in figures) the number of New Ordinary Shares for which you are applying under the A Offer and/or the B Offer.
2. If you wish your application for New Ordinary Shares under the B Offer, to the extent that such application is unsuccessful, to be considered as an application under the A Offer, you should tick Box 2 on the Application Form.
3. Insert in Box 3 (in figures) the total amount of your cheque or banker's draft under the Offers.
4. Insert your full name and address in BLOCK CAPITALS in Box 4.
5. Insert your registration details (if different from the details provided in Box 4) in Box 5.
6. Insert your Member Account ID No. (if any) and your Participant ID No. in Box 6 if you wish to hold the New Ordinary Shares in uncertificated form.
7. Sign and date the Application Form in Box 7.
The Application Form may be signed by another person on your behalf (and/or on behalf of any joint applicant(s)) if that person is duly authorised to do so, but the power(s) of attorney (or (a) copy(ies) thereof duly certified by a solicitor) or form(s) of authority must be enclosed for inspection. A corporation should sign under the hand of a duly authorised official whose representative capacity must be stated.
8. You must pin a single cheque or banker's draft to your completed Application Form in Box 8. Your cheque or banker's draft must be payable to "IRG plc A/C Forbidden Technologies plc" — for the total amount payable on application (inserted in Box 3) and should be crossed "A/C PAYEE ONLY".
A separate cheque or banker's draft must accompany each application. No other method of payment is acceptable. No receipt will be issued for this payment.
Your cheque or banker's draft must be drawn in Sterling and bear a UK bank sorting code in the top right-hand corner.
An application may be accompanied by a cheque drawn by a person other than the applicant(s), but monies to be returned will be sent by crossed cheque in favour of the person named in Box 4.
9. You may apply jointly with up to three persons.
You must then arrange for the Application Form to be completed by or on behalf of each joint applicant. Their full names and addresses should be inserted in BLOCK CAPITALS in Box 9.
10. Box 10 must signed by or on behalf of each joint applicant (other than the first applicant who should complete Box 4 and sign Box 7).
11. If an Application Form is delivered by hand by you in person and payment is being settled by way of a third party payment, you should ensure that you have evidence of your identity bearing a photograph (for example full valid passport) and evidence of your address.
12. EIS Relief — Applicants' subscriptions for New Ordinary Shares may qualify for EIS relief. Eligible investors who wish to claim EIS relief on their subscriptions for New Ordinary Shares should tick Box 11 on the Application Form. Applicants should note that qualification for relief is not guaranteed nor do the Directors undertake to maintain any such qualification in the future.

A spare Application Form is attached in Part V for the assistance of applicants.

PART V

FORBIDDEN TECHNOLOGIES PLC

APPLICATION FORM

IMPORTANT: This Application Form is subject to the terms and conditions of, and should be read in conjunction with, the Prospectus of the Company dated 26 January 2000. Before completing this Application Form you should read the preceding notes on How to Complete the Application Form. Boxes 1, 3, 4 and 7 must be completed by all applicants. Boxes 2, 5 and 6 should be completed if relevant. Your remittance must be pinned at Box 8. Boxes 9 and 10 must also be completed in the case of joint applicants. Box 11 should be completed by applicants wishing to apply for EIS relief. Applications must be in units of 2,500 New Ordinary Shares under the A Offer and in units of 40,000 New Ordinary Shares under the B Offer.

Please return your completed application form by post to, or deliver it to: IRG plc, Bourne House, 34 Beckenham Road, Beckenham, Kent BR3 4TU. In each case it must arrive not later than 3.00 pm on 22 February 2000 (unless the Offers are closed earlier or extended by Bell Lawrie Wise Speke and the Directors).

A OFFER I/We offer to subscribe for	(in units of 2,500 shares)	New Ordinary Shares at 20p each	1
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and/or

B OFFER I/We offer to subscribe for	(in units of 40,000 shares)	New Ordinary Shares at 25p each
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in Forbidden Technologies plc on the terms and subject to the conditions of application set out in the Prospectus dated 26 January 2000 and the Memorandum and Articles of Association of the Company.

In the event that you apply for New Ordinary Shares under the B Offer and are unsuccessful either in whole or in part and wish such non-accepted portion to be considered instead as an application under the A Offer, please tick Box 2.	2
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I/We attach a cheque or banker's draft for the total amount payable namely	£	3
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PLEASE USE BLOCK CAPITALS

Mr/Mrs/Miss or Title		Surname		4
Forename(s) in full				
Address (in full)				
		Postcode		

REGISTRATION DETAILS (if different from Box 4 above)

Mr/Mrs/Miss or Title		Surname		5
Forename(s) in full				
Address (in full)				
		Postcode		

For CREST Settlement only (if relevant)

Member Account ID No. (if any)		6
Participant ID No.		

Signature			7
Date		2000	

Pin your cheque or banker's draft for the amount shown in Box 3 made payable to "IRGI plc A/C Forbidden Technologies plc" and crossed "A/C payee only."		8
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BOXES 9 AND 10 MUST BE COMPLETED IN THE CASE OF JOINT APPLICANTS ONLY

PLEASE USE BLOCK CAPITALS

2nd Applicant to complete		3rd Applicant to complete		4th Applicant to complete		9
Mr/ Mrs/ Miss or Title		Mr/ Mrs/ Miss or Title		Mr/ Mrs/ Miss or Title		
Surname		Surname		Surname		
Forename(s) in full		Forename(s) in full		Forename(s) in full		
Address in full		Address in full		Address in full		
Postcode		Postcode		Postcode		

Signature		Signature		Signature		10
Date	2000	Date	2000	Date	2000	

Tick Box 11 if you want to apply for EIS relief		11
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FORBIDDEN TECHNOLOGIES PLC

SPARE APPLICATION FORM

IMPORTANT: This Application Form is subject to the terms and conditions of, and should be read in conjunction with, the Prospectus of the Company dated 26 January 2000. Before completing this Application Form you should read the preceding notes on How to Complete the Application Form. Boxes 1, 3, 4 and 7 must be completed by all applicants. Boxes 2, 5 and 6 should be completed if relevant. Your remittance must be pinned at Box 8. Boxes 9 and 10 must also be completed in the case of joint applicants. Box 11 should be completed by applicants wishing to apply for EIS relief. Applications must be in units of 2,500 New Ordinary Shares under the A Offer and in units of 40,000 New Ordinary Shares under the B Offer.

Please return your completed application form by post to, or deliver it to: IRG plc, Bourne House, 34 Beckenham Road, Beckenham, Kent BR3 4TU. In each case it must arrive not later than 3.00 pm on 22 February 2000 (unless the Offers are closed earlier or extended by Bell Lawrie Wise Speke and the Directors).

A OFFER I/We offer to subscribe for	(in units of 2,500 shares)	New Ordinary Shares at 20p each	1
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and/or

B OFFER I/We offer to subscribe for	(in units of 40,000 shares)	New Ordinary Shares at 25p each
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in Forbidden Technologies plc on the terms and subject to the conditions of application set out in the Prospectus dated 26 January 2000 and the Memorandum and Articles of Association of the Company.

In the event that you apply for New Ordinary Shares under the B Offer and are unsuccessful either in whole or in part and wish such non-accepted portion to be considered instead as an application under the A Offer, please tick Box 2.	2
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I/We attach a cheque or banker's draft for the total amount payable namely	£	3
--	---	----------

PLEASE USE BLOCK CAPITALS

Mr/Mrs/Miss or Title	Surname	4
Forename(s) in full		
Address (in full)		
Postcode		

REGISTRATION DETAILS (if different from Box 4 above)

Mr/Mrs/Miss or Title	Surname	5
Forename(s) in full		
Address (in full)		
Postcode		

For CREST Settlement only (if relevant)

Member Account ID No. (if any)	
Participant ID No.	

6

Signature		
Date	2000	

7

Pin your cheque or banker's draft for the amount shown in Box 3 made payable to "IRG plc A/C Forbuden Technologies plc" and crossed "A/C payee only."	
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8

BOXES 9 AND 10 MUST BE COMPLETED IN THE CASE OF JOINT APPLICANTS ONLY

PLEASE USE BLOCK CAPITALS

2nd Applicant to complete

3rd Applicant to complete

4th Applicant to complete

Mr/Mrs/Miss or Title		Mr/Mrs/Miss or Title		Mr/Mrs/Miss or Title	
Surname		Surname		Surname	
Forename(s) in full		Forename(s) in full		Forename(s) in full	
Address in full		Address in full		Address in full	
Postcode		Postcode		Postcode	

9

Signature		Signature		Signature	
Date	2000	Date	2000	Date	2000

10

Tick Box 11 if you want to apply for EIS relief

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11