



Directors' report and financial statements
31 December 2004

Internet Unleashed

Corporate statement Forbidden Technologies plc has created a powerful internet digital media platform appropriate for a wide range of markets, including broadcast video post production, web and mobile publishing, security and surveillance.

Accessible video is here now. Forbidden has brought it to you.

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2004 highlights

- Web/mobile publishing added to FORscene editing software
- Mentorn MD supports FORscene vision with web interview
- FORlive used to webcast Forbidden AGM, giving record “attendance”
- FORmobile matures, with Viewtooth, branded player and SMS billing
- Octopus provides trade PR, leading to record trade press coverage
- Mobile partner Orange supports FORscene vision with video
- Partnership with IBC2004 – FORmobile used to distribute IBC Television News
- FORscene released at IBC2004
- FORupload software allows low cost video ingest into FORscene system
- Forbidden wins Local Business Award for Innovative Technology

02

Publishing



By combining Forbidden's core technologies of FORweb, FORMobile and FORscene,

03

Consumer applications



Forbidden's products can easily address a wide range of markets

Summary of the Chairman's statement

- Professional FORscene product is gaining acceptance
- Domestic FORscene product to be launched this year
- Mobile phone applications developing international interest
- Security and surveillance are promising markets

Forbidden expects to soft-launch this product in the second half of the current year.

c) Mobile phones

The application of Forbidden's technologies on mobile phones is attracting attention in conjunction with the FORlive product and the Viewtooth capability. The company is working to develop complete products with a range of potential partners in the UK and internationally. Potential partners range from a major pharmaceutical company, a Finnish TV broadcaster, an Italian multi-media company, a Canadian medical monitoring firm and the multi-media arm of a leading telecoms provider.

d) Security

Forbidden believes that the huge security market will develop from an audio-based market dependent upon bells and sirens to one where video will dominate and be used widely to monitor homes and business in order to prevent losses by fire and intruders.

The company has developed a working prototype of such a product and has recently signed an agreement to licence it, for sales and marketing implementation, to an internet based security company. In addition, Forbidden is in discussion with other potential partners in traffic and other surveillance areas. Beta testing of the security product is planned for the second half of 2005.

Board and staff

As we announced last year, our Finance Director Douglas Blaikie retires this year. I would like to thank him for his contribution over the last five years. During the year, we added another full time member to our technical team, and employed a Sales Manager with experience in the video editing market, who joined us at the beginning of 2005.

Prospects

As outlined above, the company has generated a wide level of serious interest in the strategic market sectors with the current product line-up.

Accepting that innovative technology products take time to gain large scale committed customers, each sector has significant sales and profit potential. The board is increasingly confident that the past five years of technological innovation and development will lead to attractive returns to shareholders, as larger customers begin to adopt and expand their use of Forbidden Technologies' portfolio of state-of-the-art solutions.



Victor Steel

Chairman
14 April 2005

Chief Executive's review

To lay the foundations of our visionary position in the new internet based video world, Forbidden Technologies had to understand and accurately predict multiple trends.

Forbidden's position

Forbidden Technologies stands on the shoulders of computer and technology giants. These giants power the advancing installed base of CPUs (Central Processing Units), memory, discs, displays and internet connectivity of today's modern PCs and mobile phones. To lay the foundations of our visionary position in the new internet based video world, Forbidden Technologies had to understand and accurately predict multiple trends.

Predictions we made five years ago

Our long term product success relies on the successful outcome of predictions we made five years ago:

- Java would become widely available. Even Microsoft has been unable to prevent the extremely high penetration of Java, on Windows PCs, Macs and Linux. Java enables anyone with a modern computer to access Forbidden's software without installing any software.
- Broadband would have high penetration. A dramatic improvement in price and speed has led to a surge in usage. This is a key development for Forbidden, whose products use the internet for video distribution.
- Internet access would become unmetered. Customers don't have to pay by the minute to be on the internet. When combined with broadband, this opens up the world of data rich internet applications.
- The installed base of PCs would be increasingly high powered. Consumers' continuing willingness to upgrade their computers at their own expense has accelerated Forbidden's ability to deliver impressive products to standard desktops.
- Mobile phones would become high performance. Gone are the small black and white screens. Modern handsets have colour screens, faster CPUs, 2.5G/3G internet connectivity, and high memory. Devices which can run Forbidden's software are becoming mainstream.
- Customers. Customers can take time to adopt new technology, and this is what we planned for.

Accessibility

The key to Forbidden's product strategy is accessibility:

- simple things are simple to do;
- common things are quick to do;
- minimal training is needed to use the product; and
- the product is reliable.

Open a web page containing Forbidden format content, and our Java technology springs into action automatically. Simplicity itself. By the beginning of 2004, Forbidden's powerful technology was already easily accessible to end users.

Forbidden spent 2004 creating our master tool to simplify content creation. FORscene combines our web and mobile publishing expertise with an intuitive, flexible and powerful editing front end.

Anyone can access our complete editing and web/mobile publishing system from a PC, Mac or Linux computer through their web browser. There is no need to install hardware or software – customers have access to their FORscene accounts from any computer.

Market clarity

Forbidden's new customers are helping us gain valuable insight. Our FORscene tools are well placed to tackle the professional video post production market, particularly in the areas of web/mobile publishing, client review, and off-line editing (which typically covers the bulk of editing time). FORscene's simplicity allows directors and executive producers direct access to the editing process from their own PCs. Forbidden is proving a valuable strategic alternative supplier in a market currently occupied by US players.

Exhibitions

Forbidden again stepped up the level of promotion during the year. The launch of FORscene at the International Broadcasting Convention (IBC) caused quite a stir. IBC also chose FORMobile to distribute IBC Television News. This industry traditionally takes time to adopt new products, and Forbidden has been actively promoting FORscene to interested parties.



Chief Executive's review continued



Summary of the Chief Executive's review

- The key to Forbidden's product strategy is accessibility
- Forbidden's visionary policy of making FORscene run in a web page makes it ideally suited for internet distribution
- Forbidden's registered shareholders are being offered £1,000.00 of free credits

IFRS

Forbidden Technologies plc will have the option to adopt IFRS in the financial statements for periods starting on or after 1 January 2005. The board has begun considering the differences between UK accounting standards and IFRS. We have initially identified accounting for share options and development costs as two areas which could impact on our financial statements.

Technology development

Last summer, we gave FORMobile users the ability to forward videos (and the FORMobile application itself) from phone to phone for free using Forbidden's "Viewtooth" technology. This push technology complements the pull technology of downloading video over the internet.

Just as FORscene unifies web and mobile publishing within an editing user interface, our next video compression technology, under development since September, will unify web, mobile and live compression under the FORscene banner.

Internet distribution

Forbidden's visionary policy of making FORscene run in a web page makes it ideally suited for internet distribution with electronic payment – and the mass market.

See below for demonstration web pages:

<http://www.forbidden.co.uk/demos/live/> shows live video from Forbidden's offices, <http://forscene.net/guest/> lets you try out the latest version of FORscene for yourself.

Shareholder offer

Forbidden has benefited from shareholder feedback over the last year of FORscene development. We have increased the value of the shareholder offer this year to reflect the wider capabilities of FORscene and our increased capacity to serve it. This year, Forbidden's registered shareholders are being offered £1,000.00 of free credits. Shareholders can now actively participate in our vision.



Stephen Streater

Chief Executive
14 April 2005

Directors and advisors

Vic Steel

Non-Executive Chairman

Victor Steel is non-executive chairman of MyGard plc and IdeasHub plc, and a non-executive director of Eidos, where he is also chairman of the audit committee. Previous positions include having been deputy chairman of the Navy, Army and Air Force Institute (NAAFI), chairman of European Leisure, Mansfield Brewery, Woolworths and Superdrug and having been an executive director of Kingfisher, Guinness and the Beecham Group. He is a fellow of the Institute of Marketing and has wide experience of international business.

Greg Hirst

Business Development Director

Greg Hirst has held a number of senior positions in a 21-year career in the computer software industry. His recent experience has included four years with Cap Gemini where he was appointed as business development director of Cap Gemini Finance, responsible for the sourcing and introduction of new products. From 1998 to 2001 he was a director and managing director of Raft International, the business software company, which floated on the London Stock Exchange in October 2000.

Stephen Streater

Chief Executive

Stephen Streater started his public company career as a founder of Eidos plc where his positions included managing director and director of video technology. Stephen founded and successfully floated Forbidden Technologies plc where his combination of expertise in technology, business and finance has been instrumental in the creation of this exciting and technically vibrant company.

Douglas Blaikie

Financial Director

Douglas Blaikie is a chartered accountant who gained his initial experience in a number of positions in industry. He subsequently moved into the advertising sector and in 1975 became group financial and development director of the entire Saatchi Compton Group. In 1978 he set up his own consultancy company providing management and financial advice to a wide range of businesses.

David Main

Non-Executive Director

David Main is currently an executive of Talisman Management Limited, a management advisory company for private equity groups, chairman of Aqua Service Group based in Norway and a director of Golf Entertainment International. He brings a wealth of retail, consumer products and technology experience to the board of Forbidden. Previously, he held a key board position within GUS Home Shopping, the largest home shopping company in the UK. David Main was also a partner with Bain & Company in both the UK and North America.

Registered office

2-4 St George's Road
London SW19 4DP

Registered number

3507286

Solicitors

Tarlo Lyons

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

Nominated advisor

Brewin Dolphin Securities Limited

48 St Vincent Street
Glasgow G2 5TS

Brokers

Bell Lawrie White

A division of Brewin Dolphin Securities Limited

48 St Vincent Street
Glasgow G2 5TS

Registrars

Capita Registrars

The Registry
34 Beckenham Road
Beckenham
Kent BR3 4TU

Principal bankers

NatWest

Putney Branch
153 High Street
London SW15 1RX

Auditors

KPMG Audit Plc

8 Salisbury Square
London EC4Y 8BB



Directors' report

The directors present their annual report and the audited financial statements for the year ended 31 December 2004.

Principal activities

The principal activity of the company is the development and commercial exploitation of video compression technology.

Business review

The company has continued with the development of video compression technology. A detailed review of the company's performance is provided within the Chairman's report. The results of the company are shown on page 18.

Proposed dividend

The directors do not recommend the payment of a dividend (2003: £nil).

Directors and directors' interests

The directors who held office during the year were as follows:

SB Streater
VJ Steel
DD Blaikie
DP Main
GB Hirst

The directors who held office at the end of the financial year had the following interests in the shares of the company according to the register of directors' interests:

		Interest at end of year	Interest at start of year or date of appointment if later
SB Streater	Ordinary shares of 0.8 pence	62,635,000	62,560,000
VJ Steel	Ordinary shares of 0.8 pence	352,500	237,500
DD Blaikie	Ordinary shares of 0.8 pence	28,500	28,500
DP Main	Ordinary shares of 0.8 pence	—	—
GB Hirst	Ordinary shares of 0.8 pence	10,000	10,000

Directors' report continued

Directors and directors' interests (continued)

According to the register of directors' interests, no rights to subscribe for shares in or debentures of the company were granted to any of the directors or their immediate families, or exercised by them, during the financial year except as indicated below:

	Number of options during the year			At end of year	Exercise price £	Market price on date of exercise £	Date from which exercisable	Expiry date
	At start of year	Granted	Exercised					
VJ Steel	125,000	—	125,000	—	0.030	0.24	25/01/2003	25/01/2010
VJ Steel	200,000	—	—	200,000	2.175	—	02/10/2003	02/10/2010
VJ Steel	50,000	—	—	50,000	0.625	—	30/03/2004	30/03/2011
VJ Steel	150,000	—	—	150,000	0.255	—	21/09/2004	21/09/2011
VJ Steel	100,000	—	—	100,000	0.475	—	04/04/2005	04/04/2012
VJ Steel	100,000	—	—	100,000	0.215	—	04/10/2005	04/10/2012
VJ Steel	100,000	—	—	100,000	0.31	—	08/05/2006	08/05/2013
VJ Steel	100,000	—	—	100,000	0.65	—	06/10/2006	06/10/2013
VJ Steel	—	100,000	—	100,000	0.35	—	04/05/2007	04/05/2014
VJ Steel	—	100,000	—	100,000	0.39	—	30/09/2007	30/09/2014
DD Blaikie	62,500	—	62,500	—	0.030	0.30	25/01/2003	25/01/2010
DD Blaikie	187,500	—	—	187,500	2.175	—	02/10/2003	02/10/2010
DD Blaikie	25,000	—	—	25,000	0.625	—	30/03/2004	30/03/2011
DD Blaikie	25,000	—	—	25,000	0.255	—	21/09/2004	21/09/2011
DD Blaikie	50,000	—	—	50,000	0.475	—	04/04/2005	04/04/2012
DD Blaikie	—	50,000	—	50,000	0.35	—	04/05/2007	04/05/2014
DD Blaikie	—	25,000	—	25,000	0.39	—	30/09/2007	30/09/2014
DP Main	50,000	—	—	50,000	0.625	—	19/04/2004	19/04/2011
DP Main	25,000	—	—	25,000	0.255	—	21/09/2004	21/09/2011
DP Main	25,000	—	—	25,000	0.215	—	04/10/2005	04/10/2012
DP Main	30,000	—	—	30,000	0.65	—	06/10/2006	06/10/2013
DP Main	—	50,000	—	50,000	0.35	—	04/05/2007	04/05/2014
DP Main	—	50,000	—	50,000	0.39	—	30/09/2007	30/09/2014
GB Hirst	50,000	—	—	50,000	0.255	—	21/09/2004	21/09/2011
GB Hirst	20,000	—	—	20,000	0.475	—	04/04/2005	04/04/2012
GB Hirst	50,000	—	—	50,000	0.215	—	04/10/2005	04/10/2012
GB Hirst	15,000	—	—	15,000	0.31	—	08/05/2006	08/05/2013
GB Hirst	25,000	—	—	25,000	0.31	—	08/05/2006	08/05/2013
GB Hirst	40,000	—	—	40,000	0.65	—	06/10/2006	06/10/2013
GB Hirst	—	50,000	—	50,000	0.35	—	04/05/2007	04/05/2014
GB Hirst	—	50,000	—	50,000	0.39	—	30/09/2007	30/09/2014

Directors and directors' interests (continued)

The market value of the shares at the year-end was 29.5p. The highest market value during the year was 51.5p and the lowest market value 22p.

Policy and practice on payment of creditors

The company does not follow any code, creditors are paid in accordance with the terms of the invoice, subject to any particular agreement between the two parties. At the year-end there were no trade creditors (2003: £nil).

Substantial shareholdings

At the year-end there were no shareholders, other than directors, who held an interest of 3% or more in the company's ordinary share capital.

Share option schemes

Under the company's approved share option scheme, options over 93,107 ordinary shares of 0.8p in the company were granted to five employees on 4 May 2004, exercisable at 35p per share within the period 5 May 2007 to 8 May 2014, and options over 88,141 ordinary shares of 0.8p in the company were granted to four employees on 30 September 2004, exercisable at 39p per share within the period 30 September 2007 and 30 September 2014 on condition of employment with the company.

The company also has an unapproved share option scheme under which options over 564,143 ordinary shares of 0.8p in the company were granted in total to seven directors and employees on 4 May 2004, exercisable at 35p per share within the period 4 May 2007 to 8 May 2014, on condition of employment with the company. In addition, options over 443,109 ordinary shares of 0.8p in the company were granted in total to seven directors and employees on 30 September 2004, exercisable at 39p per share within the period 30 September 2007 to 30 September 2014, on condition of employment with the company.

From the unapproved share option scheme 187,500 ordinary shares of 0.8p were exercised at 3p each by two directors during the year.

On termination of employment, employees lose their share options unless the board exercises its discretion to let an employee retain their share options for a limited period.

The exercise price for the share options issued was the market value at the date the options were granted.

Directors' report continued

Corporate governance

In June 1998, the London Stock Exchange published the Principles of Good Governance and Code of Best Practice (the Combined Code) which embraces the work of the Cadbury, Greenbury and Hampel committees and became effective in respect of accounting periods ending on or after December 1998.

The listing rules require that listed companies (but not companies traded on the Alternative Investment Market "AIM") incorporated in the UK should state in the report and accounts whether they comply with the Code of Best Practice and identify and give reasons for any area of non-compliance. The company is listed on AIM and therefore no disclosure is required.

The company supports the principles and aims of the code and follows the code wherever it is reasonable to do so. It operates an effective board which meet on a timely basis.

The board is aware of the requirements of the code and the need for appropriate controls and systems to safeguard the company's assets. Wherever possible appropriate controls are in place and monitored by the board. However, full compliance with the code is not possible because of the size and resource constraints of the company and because of the relative cost benefit assessment in putting in place the additional procedures.

As the company grows in size and resources the board intends to increase its compliance.

This is not a statement of compliance as required by the Combined Code and should therefore not be relied upon to give the disclosures that would normally be made.

Political and charitable donations

The company made no political or charitable donations in the year (2003: £nil).

Research and development

The company has carried on research and development during the year, the costs of which are written off to the profit and loss account.

Auditors

In accordance with Section 384 of the Companies Act 1985, a resolution for the re-appointment of KPMG Audit Plc as auditors of the company is to be proposed at the forthcoming annual general meeting.

On behalf of the board

SB Streater

Director
2-4 St George's Road
London SW19 4DP
29 April 2005

Statement of directors' responsibilities

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and of the profit or loss for that period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

Independent auditors' report

to the members of Forbidden Technologies plc

We have audited the financial statements on pages 18 to 29.

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

Respective responsibilities of directors and auditors

The directors are responsible for preparing the Directors' report and, as described on page 16, the financial statements in accordance with applicable UK law and accounting standards. Our responsibilities, as independent auditors, are established in the UK by statute, the Auditing Practices Board and by our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the company is not disclosed.

We read the other information accompanying the financial statements and consider whether it is consistent with those statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

Basis of audit opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the company as at 31 December 2004 and of the loss of the company for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit Plc

Chartered Accountants
Registered Auditor
London
29 April 2005

Profit and loss account

for the year ended 31 December 2004

	Note	2004 £	2003 £
Turnover	2	76,788	40,471
Administrative expenses		(787,563)	(664,071)
Operating loss		(710,775)	(623,600)
Interest receivable and similar income	6	68,259	82,589
Loss on ordinary activities before taxation	3-5	(642,516)	(541,011)
Tax on loss on ordinary activities	7	28,389	64,168
Loss for the financial year	14	(614,127)	(476,843)
Basic and diluted loss per ordinary 0.8p share	8	(0.81p)	(0.64p)

A statement of recognised gains and losses has not been included as part of these financial statements as the company made no gains or losses in the year other than as disclosed in the profit and loss account.

A note on historical cost gains and losses has not been included as part of the financial statements as the results disclosed in the profit and loss account are prepared on an unmodified historical cost basis.

The results stated above are all derived from continuing operations.

Balance sheet

as 31 December 2004

	Note	2004 £	2004 £	2003 £	2003 £
Fixed assets					
Tangible assets	9		15,812		13,818
Current assets					
Debtors	10	142,551		167,224	
Cash		—		8,070	
Liquid resources	19	1,606,903		2,196,848	
		1,749,454		2,372,142	
Creditors: amounts falling due within one year	11	(72,789)		(84,981)	
Net current assets			1,676,665		2,287,161
Net assets			1,692,477		2,300,979
Capital and reserves					
Called up share capital	12		605,300		603,800
Share premium account	14		2,925,375		2,921,250
Capital contribution reserve	14		125,000		125,000
Profit and loss account	14		(1,963,198)		(1,349,071)
Shareholders' funds – equity			1,692,477		2,300,979

These financial statements were approved by the board of directors on 29 April 2005 and were signed on its behalf by:

SB Streater
Director

DD Blaikie
Director

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Cash flow statement

for the year ended 31 December 2004

	Note	2004 £	2003 £
Reconciliation of operating loss to net cash outflow from operating activities			
Operating loss		(710,775)	(623,600)
Depreciation charges		30,130	31,631
Decrease/(increase) in debtors		27,163	(55,306)
(Decrease)/increase in creditors		(12,193)	11,152
Net cash outflow from operating activities		(665,675)	(636,123)
Cash flow statement			
Cash flow from operating activities		(665,675)	(636,123)
Returns on investments and servicing of finance	16	68,882	152,965
Taxation		25,277	24,599
Capital expenditure	16	(32,124)	(31,185)
Cash outflow before management of liquid resources		(603,640)	(489,744)
Management of liquid resources	16	589,945	476,655
Financing	16	5,625	33,750
(Decrease)/increase in cash in the year		(8,070)	20,661
Reconciliation of net cash flow to movement in net funds			
(Decrease)/increase in cash in the year	17	(8,070)	20,661
Cash outflow from decrease in liquid resources	17	(589,945)	(476,655)
Movement in net funds in the year		(598,015)	(455,994)
Net funds at the start of the year		2,204,918	2,660,912
Net funds at the end of the year		1,606,903	2,204,918

Reconciliation of movements in shareholders' funds

for the year ended 31 December 2004

	2004 £	2003 £
Loss for the financial year	(614,127)	(476,843)
New share capital subscribed (net of issue costs)	5,625	33,750
Net reduction in shareholders' funds	(608,502)	(443,093)
Opening shareholders' funds	2,300,979	2,744,072
Closing shareholders' funds	1,692,477	2,300,979

Notes

forming part of the financial statements

1 Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the 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 is provided to write off the cost less the estimated residual value of tangible fixed assets by equal instalments over their estimated useful economic lives as follows. A full year's charge is provided in the year of acquisition:

Leasehold improvements	– Over the life of lease
Fixtures and fittings	– 50% straight line per annum
Computer equipment	– 50% straight line per annum

Foreign currencies

Transactions in foreign currencies are recorded using the rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated using the rate of exchange ruling at the balance sheet date and the gains and losses on translation are included in the profit and loss account.

Leases

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

Employee share schemes

The cost of awards to employees that take the form of rights to shares are recognised over the period of the employee's related performance. The company does not issue options at below market price. National insurance contributions are accrued in accordance with standard accounting practice.

Research and development expenditure

Expenditure on research and development is written off to the profit and loss account in the year in which it is incurred.

Taxation

The charge for taxation is based on the loss for the year and takes into account taxation deferred because of timing differences. Deferred tax is recognised, without discounting, in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed by the balance sheet date, except as otherwise required by FRS 19.

Turnover

Turnover represents the amounts (excluding value added tax) derived from the provision of goods and services to customers. For the supply of equipment and maintenance charges, turnover is recognised at the time of invoicing and invoices are raised upon the completion of the services provided. Revenue derived from the sale of FORscene credits is recognised on an accruals basis in line with the amount of editing time used. FORscene credits that have been billed but not used are treated as deferred revenue.

Cash and liquid resources

Cash, for the purpose of the cash flow statement, comprises cash in hand and deposits repayable on demand, less overdrafts payable on demand. Liquid resources are current asset investments which are disposable without curtailing or disrupting the business and are either readily convertible into known amounts of cash at, or close to, their carrying values or traded in an active market. Liquid resources comprise term deposits of less than one year and a corporate bond.

2 Turnover

Turnover represents the amounts (excluding value added tax) derived from the principal activity and has been entirely earned within the UK.

3 Loss on ordinary activities before taxation

	2004 £	2003 £
Loss on ordinary activities before taxation is stated after charging:		
Auditors' remuneration		
Audit	17,850	16,125
Other services	3,159	5,000
Depreciation and other amounts written off tangible fixed assets: owned	30,130	31,630
Hire of other assets – operating leases	44,150	44,149
Research and development expenditure	116,896	143,426

4 Remuneration of directors

	2004 £	2003 £
Directors' emoluments	94,999	94,981
Amounts paid to third parties in respect of directors' services	12,000	12,000
	106,999	106,981

Share options held by the directors are disclosed under directors' share interests in the Directors' report.

5 Staff numbers and costs

The average number of persons employed by the company (including directors) during the year, analysed by category, was as follows:

	Number of employees 2004	Number of employees 2003
Management	5	5
Technical	4	4
Marketing	3	3
	12	12

Notes continued

forming part of the financial statements

5 Staff numbers and costs (continued)

The aggregate payroll costs of these persons were as follows:

	2004 £	2003 £
Wages and salaries	290,774	297,470
Social security costs	32,135	32,930
	322,909	330,400

6 Other interest receivable and similar income

	2004 £	2003 £
Bank interest	68,259	82,589

7 Taxation**Analysis of credit in the period**

	2004 £	2003 £
UK corporation tax		
Current tax on income for the period	—	—
Research and development tax credit	(28,055)	(64,168)
Adjustments in respect of prior periods	(334)	—
Total current tax	(28,389)	(64,168)
Current tax reconciliation		
Loss on ordinary activities before tax	(642,516)	(541,011)
Current tax at 20% (2003: 20%)	(128,503)	(108,202)
Effects of:		
Expenses not deductible for tax purposes	1,123	44
Capital allowances for period lower than/(in excess of) depreciation	6,026	(307)
Employee share acquisition relief	(12,410)	—
Tax losses carried forward	145,454	58,996
Additional deduction for research and development expenditure	(11,690)	(24,735)
Surrender of tax losses for research and development tax credit refund	—	74,204
Research and development tax credit	(28,055)	(64,168)
Adjustment to tax charge in respect of previous periods	(334)	—
Total current tax credit (see above)	(28,389)	(64,168)

Tax losses amounting to £2,062,000 (2003: £1,510,000) are available to relieve against future profits of the company.

7 Taxation (continued)

Unrecognised deferred tax assets

	2004 £	2003 £
Depreciation in excess of capital allowances	13,055	395
Tax losses carried forward	412,352	232,100
	425,407	232,495

Deferred tax assets have not been recognised as they are not considered recoverable in the foreseeable future.

8 Earnings per share

Diluted earnings per share has not been presented as including all potential ordinary shares in the calculation would be anti-dilutive.

Basic earnings per share

The weighted average number of shares in issue during the year is 75,539,726 (2003: 74,678,125).

9 Tangible fixed assets

	Leasehold improvements £	Fixtures and fittings £	Computer equipment £	Total £
Cost				
At beginning of year	14,084	21,848	115,097	151,029
Additions	—	1,433	30,691	32,124
At end of year	14,084	23,281	145,788	183,153
Depreciation				
At beginning of year	14,084	20,020	103,107	137,211
Charge for year	—	2,745	27,385	30,130
At end of year	14,084	22,765	130,492	167,341
Net book value				
At 31 December 2004	—	516	15,296	15,812
At 31 December 2003	—	1,828	11,990	13,818

Notes continued

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10 Debtors

	2004 £	2003 £
Trade debtors	26,212	23,099
Other debtors	14,730	47,348
Prepayments and accrued income	101,609	96,777
	142,551	167,224

11 Creditors: amounts falling due within one year

	2004 £	2003 £
Taxation and social security	21,930	53,007
Accruals and deferred income	50,859	31,974
	72,789	84,981

12 Called up share capital

	2004 £	2003 £
Authorised:		
125,000,000 ordinary shares of 0.8p each (2003: 125,000,000 ordinary shares of 0.8p each)	1,000,000	1,000,000
Allotted, called up and fully paid:		
75,662,500 ordinary shares of 0.8p each (2003: 75,475,000 ordinary shares of 0.8p each)	605,300	603,800

During the year the company issued 187,500 shares at 3p each under the terms of the share option schemes.

The directors held the following options to subscribe for shares in the company:

	Class of share	At end of year	At beginning of year
VJ Steel	Ordinary shares of 0.8 pence	1,000,000	925,000
DD Blaikie	Ordinary shares of 0.8 pence	362,500	350,000
DP Main	Ordinary shares of 0.8 pence	230,000	130,000
GB Hirst	Ordinary shares of 0.8 pence	300,000	200,000

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

13 Share options

The company believes that share ownership by executive directors and key staff strengthens the link between their personal interests and those of the shareholders. It therefore operates both an approved and an unapproved share option scheme under which options have been granted.

The exercise price must not be less than the higher of 1) the nominal value of the share and 2) the market value of the share at the date of the grant.

Exercise price (pounds)	Date granted	Range of dates exercisable	Number of shares for which rights are exercisable 2004	Number of shares for which rights are exercisable 2003
Unapproved				
0.030	25/01/2000	25/01/2003 – 25/01/2010	—	187,500
2.175	02/10/2000	02/10/2003 – 02/10/2010	387,500	387,500
0.625	30/03/2001	30/03/2004 – 30/03/2011	75,000	75,000
0.625	19/04/2001	19/04/2004 – 19/04/2011	50,000	50,000
0.255	21/09/2001	21/09/2004 – 21/09/2011	668,750	668,750
0.475	04/04/2002	04/04/2005 – 04/04/2012	462,500	462,500
0.215	04/10/2002	04/10/2005 – 04/10/2012	487,500	487,500
0.310	08/05/2003	08/05/2006 – 08/05/2013	306,534	367,017
0.650	06/10/2003	06/10/2006 – 06/10/2013	447,884	447,884
0.35	04/05/2004	04/05/2007 – 04/05/2014	564,143	—
0.39	30/09/2004	30/09/2007 – 30/09/2014	443,109	—
Approved				
0.255	21/09/2001	21/09/2004 – 21/09/2011	62,500	62,500
0.475	04/04/2002	04/04/2005 – 04/04/2012	20,000	20,000
0.215	04/10/2002	04/10/2005 – 04/10/2012	15,000	15,000
0.310	08/05/2003	08/05/2006 – 08/05/2013	188,466	188,466
0.650	06/10/2003	06/10/2006 – 06/10/2013	74,616	74,616
0.35	04/05/2004	04/05/2007 – 04/05/2014	93,107	—
0.39	30/09/2004	30/09/2007 – 30/09/2014	88,141	—

Notes continued

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14 Share premium and reserves

	Share premium account £	Capital contribution reserve £	Profit and loss account £
At beginning of year	2,921,250	125,000	(1,349,071)
Exercised options	4,125	—	—
Loss for year	—	—	(614,127)
At end of year	2,925,375	125,000	(1,963,198)

The capital contribution reserve is distributable.

15 Commitments

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

	2004 Land and buildings £	2003 Land and buildings £
Operating leases which expire:		
Within one year	44,150	—
In the second to fifth years inclusive	—	44,150

16 Analysis of cash flows

	2004 £	2003 £
Returns on investment and servicing of finance		
Interest received	68,882	152,965
Capital expenditure		
Purchase of tangible fixed assets	(32,124)	(31,185)
Management of liquid resources		
Cash on term deposit	589,945	476,655
Financing		
Issue of ordinary share capital	5,625	33,750

17 Analysis of net funds

	At beginning of year £	Cash flow £	At end of year £
Cash in hand at bank	8,070	(8,070)	—
Current asset investments	2,196,848	(589,945)	1,606,903
	2,204,918	(598,015)	1,606,903

18 Related party transactions

Fees of £12,000 (2003: £12,000) in respect of DD Blaikie's services as a director of the company were paid to Kittaspec Securities Limited, a company of which DD Blaikie is a director. No amounts were outstanding at the year-end.

Fees of £708 (2003: £nil) in respect of security fittings being made by MyGard, a company of which VJ Steel is a director, were paid in the year. £118 (2003: £nil) was due to MyGard by Forbidden Technologies plc at the year-end.

19 Financial instruments

The company's financial instruments comprise trade debtors, trade creditors, cash, corporate bond and equity shares.

The company has not entered into any derivative or other hedging instruments.

The company's policy is to finance its operation and expansion through the issue of equity share capital.

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

Interest rate risk

Cash balances attract a floating rate of interest. The corporate bond has a fixed interest rate of 4.945%.

The company does not have any borrowings.

Liquidity risk

All financial liabilities fall due in one year or less. The company has no material un-drawn committed borrowing facilities.

Foreign currency risk

The company has no transactional exposure in respect of costs denominated in currencies other than sterling.

The company does not currently hedge against foreign currency risk because there is no exposure at this time.

20 Ultimate controlling party

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

Notice of annual general meeting

NOTICE IS HEREBY GIVEN that the annual general meeting of the above named company will be held at 2-4 St George's Road, Wimbledon, London SW19 4DP on 10 June 2005 at 11.00am for the following purposes:

As ordinary business

1. To receive the report of the directors and the audited accounts of the company for the financial year ended 31 December 2004.
2. To re-elect Mr GB Hirst, who retires by rotation pursuant to Article 118 of the company's Articles of Association and who, being eligible, offers himself for re-election, as a director.
3. To re-appoint KPMG Audit Plc as auditors and to authorise the directors to fix their remuneration.

As special business

4. To consider and, if thought fit, pass the following resolution as a Special Resolution:

THAT the directors be and they are hereby empowered, pursuant to Section 95 of the Companies Act 1985 (the "Act"), to allot equity securities (within the meaning of Section 94 of the Act) pursuant to the authority given in accordance with Section 80 of the Act by ordinary resolution dated 29 April 2005, as if Section 89(1) of the Act did not apply to such allotment, provided that this power shall be limited to:

- (a) the allotment of ordinary shares of 4/5p each in the capital of the company pursuant to the following share option schemes of the company:
 - (i) the Approved Share Option Scheme adopted by the company on 13 January 2000;
 - (ii) the Unapproved Share Option Scheme adopted by the company on 13 January 2000 (as amended by resolution of the board dated 25 January 2000),
 up to a maximum of 10% of the issued share capital of the company from time to time;
- (b) the allotment otherwise than pursuant to sub-paragraph (a) above of equity securities up to an aggregate nominal value of £30,265 (representing 5% of the company's issued share capital as at the date of this Notice),

and shall expire at the conclusion of the next annual general meeting of the company in 2006, except that the company may before such expiry make an offer or agreement which would or might require equity securities to be allotted after such expiry and the directors may allot equity securities in pursuance of such offer or agreement as if the power conferred hereby had not expired.

By order of the board

MC Kay
Secretary
10 May 2005

Registered office:
2-4 St George's Road
London SW19 4DP

Notes:

1. A member entitled to attend and vote at the meeting may appoint one or more proxies to attend and (on a poll) vote instead of him. A proxy need not be a member of the company. Appointment of a proxy will not preclude a member from attending and voting in person if he so wishes.
2. A proxy form is enclosed. To be effective, the proxy form and the power of attorney or other authority (if any) under which it is signed or a notarially certified copy of such power or authority must be deposited at Capita Registrars, Proxy Department, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU not less than 48 hours before the time fixed for the meeting or, in the case of a poll, not less than 24 hours before the time of taking of the poll.
3. Pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001, only holders of shares in the capital of the company who are registered in the Register of Members at 11.00am on 8 June 2005 (or 48 hours before any adjourned meeting) are entitled to vote at the meeting (or any adjourned meeting). Changes to entries on the Register of Members after such times shall be disregarded in determining the rights of any person to attend and vote at the meeting.
4. The Register of directors' interests in the shares of the company and copies of the service agreements between the company and its directors will be available for inspection at the registered office of the company during usual business hours on any weekday (Saturdays and public holidays excluded) and also on the date and at the place of the meeting from 10.00am until the conclusion of the meeting.



FORscene shareholder offer

I am a registered shareholder and would like to apply for the Forbidden Technologies plc shareholder offer of £1,000.00 of free credits for use with FORscene.

My details follow:

*Registered name _____

*Registered address _____

(account details will be posted here)

*Email address _____

Computer disc space (eg 120GB) _____

Computer CPU speed (eg 3GHz) _____

*denotes compulsory field

Current FORscene details can be found on the Forbidden Technologies website: <http://forscene.net/>

I understand that these credits are not refundable for cash. I understand that any credits unused after one year will expire. I understand that I will be using FORscene under the standard terms and conditions as published on Forbidden's website and amended from time to time.

Signed _____

Name _____

Dated _____



Forbidden Technologies plc

2-4 St George's Road

London SW19 4DP

Tel: +44 (0)20 8879 7245

Fax: +44 (0)20 8946 4871

Web: www.forbidden.co.uk