

Forbidden Technologies plc

**Directors' report and financial
statements**

Registered number 3507286

31 December 2000



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Directors and advisors

Directors

SB Streater
VJ Steel
DD Blaikie

Registered office

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

Registered number : 3507286

Solicitors

Vizards Staples & Bannisters
44 Bedford Row
London WC1R 4LL

Brokers

Bell, Lawrie and White
48 St Vincents Street
Glasgow
G2 5TS

Registrars

IRG plc
Bourne House
34 Beckenham Road
Beckenham
Kent BR2 4TU

Principal bankers

NatWest
Putney Branch
153 High Street
London SW15 1RX

Auditors

KPMG Audit Plc
PO Box 695
8 Salisbury Square
London
EC4Y 8BB

Chairman's statement

Results

I am pleased to report the full year results to the end of December 2000 for Forbidden Technologies. The company incurred a loss of £115,218 before tax after using £266,274 on the running costs of the business and having the advantage of £151,056 of interest income from its cash resources. The closing balance sheet shows net assets of £3,405,907 of which cash represents £3,311,838. The operating costs are in line with those forecast at the beginning of the year and our interest income proved to be higher than originally expected giving us a better than expected loss before tax. Prudent cost control means that the loss after tax represents a diminution of present cash resources of less than 5%.

This has been an excellent development year for Forbidden Technologies. In February we floated the company successfully on the Alternative Investment Market (AIM) of the London Stock Exchange with the objectives of creating a significant shareholder base and of raising sufficient funds to cover the development of our technology. By approaching the market through an Offer for Subscription we have laid the foundation of a wide private shareholder base and have in excess of 2,200 shareholders. Following the Offer for Subscription we did a number of share placings which brought cash into the business of £2,643,628, increasing the cash balance to £3,400,000.

Business review

The purpose of our business is to make money for our shareholders by enabling people throughout the world to use our technology on the internet to watch whatever they choose whenever they choose.

At the beginning of the year we had a working assumption that this was only achievable with the advent of broadband but our rapid technological progress over the twelve months has proved that high resolution and high frame rate video can be achieved via a standard modem. This opens up market opportunities irrespective of the speed of development of broadband, and recent evidence of further delays in broadband delivery gives us encouragement for the early adoption of our video compression.

Our product is proving to be extremely easy to use by both the user and the supplier of video content, since no additional hardware or software is required by either party.

I would like to emphasise that our product development programme is a continuous process and our technology continues to be improved at the rate of approximately 2.5% per week in terms of the data compression rate. This is quite different from the implanting of an industry standard like MPEG which is very specific, rigid and inflexible. By comparison, Forbidden's compression works within a framework of internet standards including TCP/IP, http and Java, as well as working on a variety of widely used web browsers and operating systems. The number of viewers on our web site has been growing by a factor of ten each quarter.

In our half year results, we anticipated that we would have an initial product worthy of commercialisation by the end of the year. This was duly achieved and following announcement of its availability in February, the level of interest from potential customers has been most encouraging and the proportion of positive consumer comment increases in line with the upgrades of the video on our web site, <http://www.forbidden.co.uk/>. We are very grateful to the significant number of our shareholders who have helped us in trialing and testing the different stages of our product development by giving us regular constructive critical feedback and we hope that they will continue with this valuable contribution.

Our management and staff continue to be highly motivated, dedicated and enthusiastic in the pursuit of achieving visible results.

Prospects

There is clear need for an effective method of delivering high quality video via typical internet connections.

As we have introduced better compression rates and better picture quality, the scope for application of our technology is broadening into new areas. These include set top boxes, mobile phones, games consoles – any internet linked device is a potential delivery platform.

In the year ahead we anticipate some expansion of our people resources as we begin the commercial development of our business. Although we expect sales to commence at a modest level during this next year, we are confident that our rate of expansion will increase as our technology becomes more widely exposed and adopted.

Our progress to date makes us increasingly confident of Forbidden Technologies' ability to become a major participant in the new media of the world.

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Directors' report

The directors present their annual report and the audited financial statements for the year ended 31 December 2000.

Principal activities

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

Business review

The company floated on the Alternative Investment Market on 29 February 2000. The company has continued with the development of the video compression technology. A detailed review of the company's performance is provided within the Chairman's report.

Results

The results of the company are shown on page 9.

Proposed dividend

The directors do not recommend the payment of a dividend (1999 : £nil).

Directors and directors' interests

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

SB Streater
 VJ Steel
 DD Blaikie

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
SB Streater	Ordinary shares of 0.8 pence (1999 : Ordinary shares of 4 pence)	62,510,000	12,500,000
VJ Steel	Ordinary shares of 0.8 pence (1999 : Ordinary shares of 4 pence)	212,500	-
DD Blaikie	Ordinary shares of 0.8 pence (1999 : Ordinary shares of 4 pence)	40,000	-

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				Exer- cise price £	Market price at date of exercise £	Date from which exer- cisable	Expiry date
	At start of year	Granted	Exer- cised	At end of year				
VJ Steel	-	125,000	-	125,000	0.03	-	25/01/2003	25/01/2010
VJ Steel	-	200,000	-	200,000	2.175	-	2/10/2003	2/10/2010
DD Blaikie	-	62,500	-	62,500	0.03	-	25/01/2003	25/01/2010
DD Blaikie	-	187,500	-	187,500	2.175	-	2/10/2003	2/10/2010

The market value of the shares at the year end was £1.20. Since listing on the AIM, the highest market value during the year was £2.52 and the lowest market value £0.20.

Directors' report *(continued)*

Policy and practice on payment of creditors

Creditors are paid in accordance with the terms of the invoice, subject to any particular agreement between the two parties. The number of days outstanding between receipt of invoices and date of payment, calculated by reference to the amount owed to trade creditors at the year end as a proportion of the amount invoiced by suppliers during the year. At the year end there were nil days purchases in trade creditors (1999 : 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 scheme

Under the Company's Approved Share Option Scheme 2000, options over 1,500,000 ordinary shares of 0.8p in the Company were granted to 4 employees on 25 January 2000. These options are exercisable at 3p per share within the period 25 January 2003 to 25 January 2010, on condition of employment with the Company. On 2 October 2000, options over 34,480 ordinary shares of 0.8p in the Company were granted to 4 employees, exercisable at 217.5p per share within the period 2 October 2003 to 2 October 2010, on condition of employment with the Company.

The Company also has an Unapproved Share Option scheme 2000 under which 187,500 ordinary shares of 0.8p were granted to 2 directors on 25 January 2000. These options are exercisable at 3p per share within the period 25 January 2003 to 25 January 2010. On 2 October 2000, options over 1,603,020 ordinary shares of 0.8p in the Company were granted to 6 directors and employees, exercisable at 217.5p per share within the period 2 October 2003 to 2 October 2010, on condition of employment with the Company.

On termination of employment, employees lose their share options unless the Board exercises its discretion to let an employee retain their share options.

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

Corporate Governance

In June 1988, 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.

Directors' report *(continued)*

Political and charitable donations

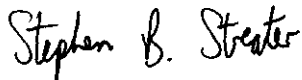
The company made no political or charitable donations in the year (1999 : £nil.)

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
2001

Statement of directors' responsibilities

Company law requires the directors to prepare financial statements for each financial period which give a true and fair view of the state of the company's affairs 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;
- 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.



KPMG Audit Plc

PO Box 695
8 Salisbury Square
London
EC4Y 8BB

Report of the auditors to the members of Forbidden Technologies plc

We have audited the financial statements on pages 9 to 20.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the directors' report and, as described on page 7, the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom 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. 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 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 2000 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

KPMG Audit Plc

19 March 2001

Profit and loss account

for the year ended 31 December 2000

	<i>Note</i>	2000 £	1999 £
Administrative expenses		(266,274)	(72,048)
Operating loss		(266,274)	(72,048)
Other interest receivable and similar income	5	151,056	8,870
Loss on ordinary activities before taxation	2-5	(115,218)	(63,178)
Tax on loss on ordinary activities	6	(30,211)	(1,786)
Loss for the financial year		(145,429)	(64,964)
Basic loss per ordinary 0.8 pence share	7	(0.20) pence	(0.10) pence

All amounts are derived from continuing operations.

There were no gains or losses in the current or previous year other than those recognised within the profit and loss account.

The results for the year disclosed in the profit and loss account are on an historical cost basis.

Balance sheet

at 31 December 2000

	Note	2000		1999	
		£	£	£	£
Fixed assets					
Tangible assets	8		20,025		19,351
Current assets					
Debtors	9	158,562		37,844	
Cash at bank and in hand	10	3,311,838		530,938	
			<u>3,470,400</u>		<u>568,782</u>
Creditors: amounts falling due within one year	11	<u>(84,518)</u>		<u>(28,097)</u>	
Net current assets			<u>3,385,882</u>		<u>540,685</u>
Net assets			<u>3,405,907</u>		<u>560,036</u>
Capital and reserves					
Called up share capital	12		594,800		500,000
Share premium account	13		2,896,500		-
Capital contribution reserve	13		125,000		125,000
Profit and loss account	13		(210,393)		(64,964)
Shareholders' funds - equity			<u>3,405,907</u>		<u>560,036</u>

These financial statements were approved by the board of directors on 9 March 2001 and were signed on its behalf by:

Stephen B. Streater

SB Streater

Director

DD Blaikie

DD Blaikie

Director

Cash flow statement

for the year ended 31 December 2000

	<i>Note</i>	2000 £	1999 £
Reconciliation of operating loss to net cash outflow from operating activities			
Operating loss		(266,274)	(72,048)
Depreciation charges		29,758	15,517
Loss on sale of fixed assets		1,314	-
Increase in debtors		(36,052)	(37,844)
Increase in creditors		27,996	26,311
		<hr/>	<hr/>
Net cash outflow from operating activities		(243,258)	(68,064)
		<hr/>	<hr/>
Cash flow statement			
Cash flow from operating activities		(243,258)	(68,064)
Returns on investments and servicing of finance	15	66,390	8,870
Taxation		(1,786)	-
Capital expenditure	15	(31,746)	(34,868)
		<hr/>	<hr/>
Cash outflow before management of liquid resources and financing		(210,400)	(94,062)
Management of liquid resources	15	(3,043,492)	-
Financing	15	2,991,300	625,000
		<hr/>	<hr/>
(Decrease)/increase in cash in the year		(262,592)	530,938
		<hr/>	<hr/>
Reconciliation of net cash flow to movement in net funds	16		
(Decrease)/increase in cash in the year		(262,592)	530,938
Cash used to increase liquid resources		3,043,492	-
		<hr/>	<hr/>
Movement in net funds in the year		2,780,900	530,938
Net funds at the start of the year		530,938	-
		<hr/>	<hr/>
Net funds at the end of the year		3,311,838	530,938
		<hr/>	<hr/>

Reconciliation of movements in shareholders' funds
for the year ended 31 December 2000

	2000 £	1999 £
Loss for the financial year	(145,429)	(64,964)
New share capital subscribed (net of issue costs)	2,991,300	500,000
Capital contribution	-	125,000
	<hr/>	<hr/>
Net addition to shareholders' funds	2,845,871	560,036
Opening shareholders' funds	560,036	-
	<hr/>	<hr/>
Closing shareholders' funds	3,405,907	560,036
	<hr/> <hr/>	<hr/> <hr/>

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 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 annum
Computer equipment	-	50% 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.

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. Where there are no performance criteria, the cost is recognised when the employee becomes unconditionally entitled to the shares. No cost is recognised in respect of SAYE schemes that are offered on similar terms to all or substantially all employees.

Development expenditure

Expenditure on development is written off against the result for the year in which it is incurred.

Taxation

The charge for taxation is based on the result 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 asset or liability will crystallise.

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.

Notes (continued)

2 Loss on ordinary activities before taxation

	2000	1999
	£	£
<i>Loss on ordinary activities before taxation is stated after charging:</i>		
Auditors' remuneration		
Audit	11,000	10,000
Other services	25,087	2,000
Depreciation and other amounts written off tangible fixed assets	29,758	15,517
Loss on disposal of fixed assets	1,314	-
Hire of other assets -- operating leases	43,294	8,884
	43,294	36,401

The loss on ordinary activities before taxation and net assets of the company are attributable to the principal activity of the company.

3 Remuneration of directors

	2000	1999
	£	£
Directors' emoluments	6,000	1,500
Amounts paid to third parties in respect of directors' services	8,000	1,358
	14,000	2,858

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

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	
	2000	1999
Management	3	2
Technical	4	2
	7	4

The aggregate payroll costs of these persons were as follows:

	2000	1999
	£	£
Wages and salaries	47,709	11,160
Social security costs	2,851	840
	50,560	12,000

Notes *(continued)*

5 Other interest receivable and similar income

	2000	1999
	£	£
Bank interest	151,056	8,870
	<u> </u>	<u> </u>

6 Taxation

	2000	1999
	£	£
UK corporation tax at 20%	30,211	1,786
	<u> </u>	<u> </u>

Corporation tax is payable on the interest receivable in the year. The company did not commence trading during the year and therefore the losses generated cannot be offset against this corporation tax charge.

7 Earnings per share

No diluted earnings per share has been presented as all potential ordinary shares would be anti-dilutive.

Basic earnings per share

The weighted average number of shares in issue during the period is 72,174,590 (1999:62,500,000). Explanation of the number of shares used for 1999 is supplied in note 12.

Notes (continued)

8 Tangible fixed assets

	Leasehold improvements £	Fixtures and fittings £	Computer equipment £	Total £
<i>Cost</i>				
At beginning of year	15,398	4,712	14,758	34,868
Additions	-	4,013	27,733	31,746
Disposals	(1,314)	-	-	(1,314)
	<hr/>	<hr/>	<hr/>	<hr/>
At end of year	14,084	8,725	42,491	65,300
	<hr/>	<hr/>	<hr/>	<hr/>
<i>Depreciation</i>				
At beginning of year	5,781	2,356	7,380	15,517
Charge for year	4,152	4,362	21,244	29,758
	<hr/>	<hr/>	<hr/>	<hr/>
At end of year	9,933	6,718	28,624	45,275
	<hr/>	<hr/>	<hr/>	<hr/>
<i>Net book value</i>				
At 31 December 2000	4,151	2,007	13,867	20,025
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 1999	9,617	2,356	7,378	19,351
	<hr/>	<hr/>	<hr/>	<hr/>

9 Debtors

	2000 £	1999 £
Other debtors	58,071	27,107
Prepayments and accrued income	100,491	10,737
	<hr/>	<hr/>
	158,562	37,844
	<hr/>	<hr/>

Debtors include other debtors of £13,096 (1999 : £13,096) due after more than one year.

Notes *(continued)*

10 Cash at bank and in hand

	2000	1999
	£	£
Cash on current account	268,346	530,938
Cash on term deposit	1,043,492	-
Cash held as corporate bond	2,000,000	-
	3,311,838	530,938
	3,311,838	530,938

11 Creditors: amounts falling due within one year

	2000	1999
	£	£
Corporation tax	30,211	1,786
Other taxation and social security	27,790	1,440
Accruals and deferred income	26,517	24,871
	84,518	28,097
	84,518	28,097

Notes (continued)

12 Called up share capital

	2000 £	1999 £
<i>Authorised:</i>		
125,000,000 Ordinary shares of 0.8p each (1999: 25,000,000 ordinary shares of 4p each)	1,000,000	1,000,000
	=====	=====
<i>Allotted, called up and fully paid:</i>		
74,350,000 Ordinary shares of 0.8p each (1999: 12,500,000 ordinary shares of 4p each)	594,800	500,000
	=====	=====

Date of allotment	Number of shares allotted	Nominal value of shares issued	Total consideration
29 February 2000	2,050,000	82,000	646,700
2 March 2000	80,000	3,200	342,280
3 March 2000	100,000	4,000	616,900
6 March 2000	100,000	4,000	1,014,900
17 March 2000	40,000	1,600	454,250

On 16 May 2000 the company performed a 1 for 5 share split on all ordinary shares of 4p. The nominal value of the resulting ordinary shares is 0.8p each. The share split has increased retrospectively the number of shares in issue for 1999 in the earnings per share calculation from 12,500,000 shares to 62,500,000 shares per FRS 14.

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	325,000	-
DD Blaikie	Ordinary shares of 0.8 pence	250,000	-

Notes (continued)

13 Share premium and reserves

	Share premium	Capital contribution reserve	Profit and loss account
	£	£	£
At beginning of year	-	125,000	(64,964)
Loss for year	-	-	(145,429)
Premium on share issues (net of issue costs)	2,896,500	-	-
At end of year	2,896,500	125,000	(210,393)

The capital contribution reserve is distributable.

14 Commitments

- (a) There were no capital commitments at the end of the financial year (1999: £nil.)
- (b) At 31 December 2000 the company had annual commitments under non-cancellable operating leases as set out below:

	2000 Land and buildings £	1999 Land and buildings £
Operating leases which expire: between two and five years	43,292	42,948

15 Analysis of cash flows

	2000 £	2000 £	1999 £	1999 £
Returns on investment and servicing of finance				
Interest received		66,390		8,870
Capital expenditure				
Purchase of tangible fixed assets		(31,746)		(34,868)
Management of liquid resources				
Purchase of corporate bond	(2,000,000)		-	
Cash on term deposit	(1,043,492)		-	
		(3,043,492)		-
Financing				
Issue of ordinary share capital	3,075,030		500,000	
Expenses paid in connection with share issue	(83,730)		-	
Capital contribution received	-		125,000	
		2,991,300		625,000

Notes (continued)

16 Analysis of net funds

	At beginning of year £	Cash flow £	At end of year £
Cash per FRS 1	530,938	(262,592)	268,346
Current asset investments	-	3,043,492	3,043,492
	530,938	2,780,900	3,311,838
	530,938	2,780,900	3,311,838

17 Related party transactions

Fees of £8,000 (1999: £1,358) 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.

18 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.

Interest rate risk

Cash balances attract a floating rate of interest. The corporate bond has a fixed interest rate of 6.35%.

The company does not have any borrowings.

Liquidity risk

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

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.

19 Ultimate controlling party

The ultimate controlling party of the company is SB Streater.