

COMPANY REGISTRATION NUMBER 3959429

**LO-Q PLC**

**FINANCIAL STATEMENTS**

**31 DECEMBER 2006**

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**LO-Q PLC**  
**OFFICERS AND PROFESSIONAL ADVISERS**  
**FOR THE YEAR ENDED 31 DECEMBER 2006**

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<b>Company registration number</b>	3959429
<b>The board of directors</b>	Jeff McManus - Chairman Leonard Sim - Executive Steve Drake - Executive John Lillywhite - Non-executive Anthony Bone - Non-executive
<b>Company secretary</b>	Throgmorton Secretaries Limited
<b>Registered office</b>	42 Portman Road Reading Berkshire RG30 1EA
<b>Auditors</b>	Menzies Chartered Accountants & Registered Auditors Neville House 55 Eden Street Kingston Upon Thames Surrey KT1 1BW
<b>Bankers</b>	Barclays Bank plc 5th Floor 50 Pall Mall London SW1Y 5AX

**LO-Q PLC**  
**CHAIRMAN'S STATEMENT (continued)**  
**FOR THE YEAR ENDED 31 DECEMBER 2006**

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Before 2006 started, we knew that we were facing the most important year of the Company's operation. The prime objective that we set for the year was to generate an operating profit for the twelve months of 2006 and to retain sufficient cash from our operations so that there would be adequate funding at the end of the year to take us through the winter and into the spring with some degree of financial comfort. The Board charged the operating team, led by Steve Drake, to more than meet these objectives and encouraged maximum performance by implementing an aggressive bonus plan. I am pleased to report that an excellent team performance led to a commendable level of sales with an outstanding performance in the Six Flags Georgia Park in Atlanta. The year ended with an operating profit of £341,729 (2005: £139,423 loss) with a £643,967 net cash balance.

The performance in the Six Flags parks was at such a high level that the chief executive officer of Six Flags announced to the New York stock exchange in the late autumn that he would be asking Lo-Q to sell Q-bots in two further parks and he also wanted our operations team to manage and run the sales of Q-bots in all of the Six Flags park in which we were present. This was a great complement to Steve's team, and will require us to employ approximately 350 seasonal staff (24 seasonal staff in 2005).

**Patent Settlement**

The operating profit was, however, offset by an exceptional item during the year. On 14 December 2006, the Company announced that it has concluded negotiations with Palmtop Productions Inc. ('Palmtop'), the owners of a theme park line management patent based on hand-held personal organisers. Whilst it was alleged that Lo-Q has been contravening their patent, the Company's lawyers and specialist patent attorneys believe this not to be the case. As a result, it had been the view of the Board that this claim could be successfully defended. After weighing the balance of risk present in any USA patent law case, the Company made the decision to pursue an out of court agreement to settle the case expediently. The Company recognises that this has the advantage of releasing a significant amount of management time and avoids the potential costs if any defence case were to become protracted.

The cost involved in this legal settlement is taken as an extraordinary item in the 2006 accounts and has led to an after tax loss of £269,208. The Board and I can confirm that the Company has not been notified of any similar legal action.

**Theme Park Contracts**

The trial at the Dollywood Park in Tennessee progressed well with the new software for booking the prime shows that are continuously run in the park, helping park guests throughout the last three months of the year. This park's management were pleased with the system and saw the guests' reaction as positive confirmation that a full system, including reservations for coaster and other attractions, would benefit the park. A three-year contract, with the provision of a further three-year extension on expiration, was signed by both parties at the end of February. Our Company is very pleased with this commitment and looks forward to discussing with other members of the Silver Dollar theme park chain, which owns Dollywood Park, how the system could give guests in those parks a more enjoyable day.

On the 23 April 2007, the Company signed a new agreement with the Six Flags Corporation, covering the period to December 2009, for Q-bot rentals in seven of their parks: the current five parks plus two additional parks in Chicago and Montreal. We have also, through this agreement, taken over the rentals and operation of the Q-bots in all seven parks.

I believe that this agreement is very important to the Company as Lo-Q has committed to research and development activities in order to continue to supply the latest queue management systems to the Six Flags Corporation.

## **LO-Q PLC**

### **CHAIRMAN'S STATEMENT (continued) FOR THE YEAR ENDED 31 DECEMBER 2006**

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#### **Research and Development**

Our team started work on a new and improved version of our software at the beginning of the year and in the late summer we were able to trial the new system, VQ 2020, and, following the success of this trial, we are now installing this system in new parks. Users will find the system to be more flexible and the larger Q-bot screen will enable much better communication with the central system. We expect to develop extended systems to add to the ride/show reservation backbone. A major consideration for the new Six Flags senior management, in committing to our system in their new contract, was that through joint communication in forecasting theme parks future methods of operation, and through our ability to harness new technology, we are charged by them in keeping our system as the world leader in the line management/guest communication field. We believe that this will lead to us installing our system and renting Q-bots in more Six Flags parks in the future.

The Company has also signed an agreement with Proximities, Inc. of Florida, USA ('Proximities') that will accelerate the Company's development of its cyber queuing product line. Under this RFID Agreement, Lo-Q and Proximities will work together to add RFID functionality to Lo-Q's product offering, and Lo-Q's queuing software will be integrated with Proximities product offering.

The relationship established with Proximities will allow Lo-Q to expand its product offerings into water parks and other markets where a less sophisticated or lower cost queuing device is required. It also supports Lo-Q's vision of having every guest in the park on the system and not waiting in line for the prime attractions.

To sum up the last year, I believe that Lo-Q has come of age that we have now finished the building of the structural foundations of our Company and this year will see the first floor of the new building arising through the commitment of our staff. I wish to thank every one of them for the hard work and expertise that has been contributed in this important year.

Jeff McManus  
23 April 2007

**LO-Q PLC**  
**DIRECTORS' REPORT (continued)**  
**FOR THE YEAR ENDED 31 DECEMBER 2006**

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The directors present their report and the financial statements of the group for the year ending 31 December 2006.

**RESULTS AND DIVIDENDS**

The trading results for the period and the group's financial position at the end of the period are shown in the attached financial statements.

**IFRS**

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") for the first time. The effects of the changes in the accounts previously reported under Generally Accepted Accounting Practice ("GAAP") to IFRS are notified in Note 1.

**PRINCIPAL ACTIVITY AND REVIEW OF THE BUSINESS**

The principal activity of the group is the development and application of virtual queuing technologies.

The group made an operating profit of £341,729 before deducting £663,337 being the exceptional items, as disclosed in note 7, which resulted in a net loss of £321,608.

The group will continue to develop, market, sell, and operate its virtual queuing technologies.

**KEY PERFORMANCE INDICATORS**

The company has a very seasonal cash flow due to its income arising largely from park operations, through the daily sales of Q-bots. Park attendances peak in the summer months, and so income peaks in these months. The company watches the cash generated during each week's trading in detail and includes this inflow in the weekly production of cash position modelling. Due to the lack of income during the winter recess this cash forecasting is crucial to company operations during this period.

Overhead costs are to a large extent known well in advance and are thus very predictable.

Systems are sold to finance houses and then leased back in accordance with the park's contract. Little cash is spent on assets other than the large amounts on R&D (in IP origination) and thus the company's profitability translates largely into cash at the bank.

**RESEARCH AND DEVELOPMENT**

The group's research and development activities relate to the development of virtual queuing technologies, by applying state of the art communications and information technology.

**FINANCIAL INSTRUMENTS**

Details of the group's financial risk management objectives and policies, including the use of financial instruments, are included in note 13 to the financial statements.

**CREDITOR PAYMENT POLICY AND PRACTICE**

It is the group's objective to obtain the best possible terms for all business and abide by the terms of business agreed. At 31 December 2006 trade creditors represented 36 days (2005 - 28 days) purchases for the group, and 39 days (2005 - 35 days) purchases for the company.

**LO-Q PLC**  
**DIRECTORS' REPORT (continued)**  
**FOR THE YEAR ENDED 31 DECEMBER 2006**

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**DIRECTORS AND THEIR INTERESTS**

The directors set out in the table below have held office during the whole of the year from 1 January 2006 to the date of this report, unless otherwise stated. The interests of the directors in the share capital of the group were as follows:

		<b>At</b>	
	<b>Class of share</b>	<b>31 December 2006</b>	<b>At 1 January 2006</b>
Jeff McManus - Chairman	Ordinary Shares of £0.01 each	903,414	485,414
* Leonard Sim - Executive	Ordinary Shares of £0.01 each	4,398,575	4,453,575
Steve Drake - Executive	Ordinary Shares of £0.01 each	214,384	214,384
John Lillywhite - Non-executive	Ordinary Shares of £0.01 each	41,000	41,000
Anthony Bone - Non-executive	Ordinary Shares of £0.01 each	240,079	240,079

132,000 of Jeff McManus's shares are owned by Jeff McManus Limited, a company in which he is a director and controlling shareholder.

\* 2005 shareholding includes 55,000 shares held by a minor who has reached majority in 2006.

Details of the directors' share options are disclosed in Note 6.

**SUBSTANTIAL SHAREHOLDINGS**

	<b>Number of Ordinary Shares</b>	<b>% of Issued Ordinary Share Capital</b>
Mr Leonard Sim	4,398,575	29.79%
Barclayshare Nominees Limited	918,101	6.22%
Sinjul Nominees Limited	830,500	5.62%
L R Nominees Limited	613,319	4.15%
Mr Ian K Johnson	580,000	3.93%
Mr Jeffrey Robert McManus	500,758	3.39%
Mr Robin Nicholas White	488,000	3.31%
Mr John B Clarke	443,300	3.00%

**CORPORATE GOVERNANCE**

The directors acknowledge the importance of the 'Principles of Good Governance and Code of Best Practice' published by the London Stock Exchange (usually described as the 'Combined Code') and intend to apply them as appropriate to the company given its size and nature.

The company holds Board meetings regularly throughout the year at which financial and other reports are considered.

An Audit Committee has been established comprising John Lillywhite and Anthony Bone, both non-executive directors.

A Remuneration Committee has also been established comprising John Lillywhite and Anthony Bone which meets as and when necessary but at least annually to review, inter alia, the performance and salaries of the executive directors.

**DISABLED EMPLOYEES**

The Group's policy is one of equal opportunity in the selection, training, career development and promotion of staff. The Group has a policy not to discriminate against disabled employees for those vacancies that they are able to fill and will provide facilities, equipment and training to assist any disabled persons employed.

All necessary assistance with initial training courses will be given. Once employed, a career plan is developed so as to ensure suitable opportunities for each disabled person. Arrangements are made, wherever possible, for re-training employees who become disabled, to enable them to perform work identified as appropriate to their aptitudes and abilities.

**EMPLOYEE**

The Group's policy is to consult and discuss with employees, by way of meetings and through personal contact by directors and other senior executives, matters likely to affect employees' interests.

Information on matters of concern to employees is given in meetings, handouts, letters and reports, which seek to achieve a common awareness on the part of all employees on the financial and economic factors affecting the Group's performance.

**STATEMENT AS TO DISCLOSURE OF INFORMATION TO AUDITORS**

In so far as the directors are aware:

- there is no relevant audit information of which the group's auditor is unaware, and
- the directors have taken all steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the auditor is aware of that information.

**AUDITORS**

Menzies Chartered Accountants & Registered Auditors have signified their willingness to continue in office and a resolution to re-appoint them as auditor will be proposed at the Annual General Meeting.

Approved by the board on 23 April 2007  
and signed on its behalf by

Throgmorton Secretaries Limited  
Secretary

**LO-Q PLC**  
**STATEMENT OF DIRECTORS' RESPONSIBILITIES**  
**FOR THE YEAR ENDED 31 DECEMBER 2006**

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The directors are responsible for preparing the financial statements in accordance with applicable United Kingdom law and International Financial Reporting Standards (IFRSs) as adopted for use in the European Union.

The directors are required to prepare financial statements for each financial year which present fairly the financial position of the group for that period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRSs is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the group's financial position and financial performance;
- state that the group has complied with IFRSs, 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 group will continue in business.

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the group and enable them to ensure that the financial statements comply with the Companies Act 1985 and Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

# **LO-Q PLC**

## **INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF LO-Q PLC FOR THE YEAR ENDED 31 DECEMBER 2006**

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We have audited the financial statements of Lo-Q plc for the year ended 31 December 2006 which comprise the Consolidated Income Statement, Consolidated Statement of Changes in Equity, Consolidated Balance Sheet, Consolidated Cash Flow Statement, Company Balance Sheet, Company Cash Flow Statement and the related notes to the financial statements. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's shareholders, 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 shareholders those matters we are required to state to them in an auditors' 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 shareholders as a body, for our audit work, for this report or for the opinions we have formed.

### **RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS**

As described in the Statement of Directors' Responsibilities the company's directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and International Financial Reporting Standards (IFRSs) as adopted by the European Union as set out in the Statement of Directors' Responsibilities.

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

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation, and whether the information given in the Directors' report is consistent with the financial statements. We also report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the company is not disclosed.

We read the Directors' report and consider the implications for our report if we become aware of any apparent misstatements within it. Our responsibilities do not extend to any other information.

### **BASIS OF OPINION**

We conducted our audit work in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in preparation of the financial statements, and of whether the accounting policies are appropriate for 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 a 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.

## **LO-Q PLC**

### **INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF LO-Q PLC (continued) FOR THE YEAR ENDED 31 DECEMBER 2006**

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#### **OPINION**

In our opinion:

- the group financial statements give a true and fair view, in accordance with IFRSs adopted for use in the European Union, of the state of the group's affairs as at 31 December 2006 and of its loss and cash flow for the year then ended;
- the parent company financial statements give a true and fair view, in accordance with IFRS as adopted for use in the European Union as applied in accordance with the provisions of the Companies Act 1985, of the state of the parent company's affairs as at 31 December 2006 and cash flows for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985 and, as regards the group financial statements, Article 4 of the IAS Regulations; and
- the information given in the Directors' report is consistent with the financial statements.

Menzies Chartered Accountants & Registered Auditors  
Neville House  
55 Eden Street  
Kingston Upon Thames  
Surrey  
KT1 1BW

23 April 2007

**LO-Q PLC**  
**CONSOLIDATED INCOME STATEMENT**  
**FOR THE YEAR ENDED 31 DECEMBER 2006**

	Notes	12 months ended 31 December 2006 £	<i>15 months ended 31 December 2005 (restated) £</i>
Revenue	3	1,978,554	1,596,482
Cost of sales		<u>(432,336)</u>	<u>(273,270)</u>
<b>GROSS PROFIT</b>		<b>1,546,218</b>	<b>1,323,212</b>
Other operating income		4,264	2,139
Administrative expenses		<u>(1,208,753)</u>	<u>(1,464,774)</u>
<b>OPERATING PROFIT/(LOSS)</b>	4	<b>341,729</b>	<b>(139,423)</b>
Other non-operating income		-	75,671
Exceptional Items - Other non operating expenses	7	<u>(663,337)</u>	<u>-</u>
<b>LOSS BEFORE TAX</b>		<b>(321,608)</b>	<b>(63,752)</b>
Tax	8	<u>52,400</u>	<u>29,565</u>
<b>LOSS FOR THE YEAR/PERIOD</b>		<b><u>(269,208)</u></b>	<b><u>(34,187)</u></b>
<b>EARNINGS PER SHARE</b>	9		
Basic for loss for the year/period		<b>(1.83)</b>	<b>(0.24)</b>
Basic for profit before exceptional costs		<b>2.68</b>	<b>(0.24)</b>
Diluted for loss for the year/period		<b>(1.73)</b>	<b>(0.23)</b>

All of the activities of the group are classed as continuing.

**LO-Q PLC**  
**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**  
**FOR THE YEAR ENDED 31 DECEMBER 2006**

	Issued capital £	Share premium £	Other reserves £	Retained earnings £	Total equity £
<b>Balance at 1 January 2006</b>	143,478	4,971,617	12,473	(4,318,964)	808,604
Prior year adjustments: change in accounting policy	-	-	5,812	(5,812)	-
<b>Balance at 1 January 2006 restated</b>	<u>143,478</u>	<u>4,971,617</u>	<u>18,285</u>	<u>(4,324,776)</u>	<u>808,604</u>
Total expense for the year recognised directly in equity – foreign exchange	-	-	-	(42,917)	(42,917)
Loss for the year	-	-	-	(269,208)	(269,208)
<b>Total recognised expense for the year</b>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(312,125)</u>	<u>(312,125)</u>
Issue of share capital	4,180	10,450	-	-	14,630
Recognition of share-based payments	-	-	2,293	-	2,293
<b>Balance at 31 December 2006</b>	<u><u>147,658</u></u>	<u><u>4,982,067</u></u>	<u><u>20,578</u></u>	<u><u>(4,636,901)</u></u>	<u><u>513,402</u></u>

	Issued capital £	Share premium £	Other reserves £	Retained earnings £	(restated) Total equity £
<b>Balance at 1 October 2004</b>	143,478	4,971,617	12,473	(4,295,638)	831,930
Prior year adjustments: change in accounting policy	-	-	2,225	(2,225)	-
<b>Balance at 1 October 2004 restated</b>	<u>143,478</u>	<u>4,971,617</u>	<u>14,698</u>	<u>(4,297,863)</u>	<u>831,930</u>
Total income for the year recognised directly in equity – foreign exchange	-	-	-	7,274	7,274
Loss for the year	-	-	-	(34,187)	(34,187)
<b>Total recognised expense for the year</b>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(26,913)</u>	<u>(26,913)</u>
Recognition of share-based payments	-	-	3,587	-	3,587
<b>Balance at 31 December 2005</b>	<u><u>143,478</u></u>	<u><u>4,971,617</u></u>	<u><u>18,285</u></u>	<u><u>(4,324,776)</u></u>	<u><u>808,604</u></u>

**LO-Q PLC**  
**CONSOLIDATED BALANCE SHEET**  
**AS AT 31 DECEMBER 2006**

	Notes	2006 £	(restated) 2005 £
<b>ASSETS</b>			
<b>NON CURRENT ASSETS</b>			
Property, plant and equipment	10	15,010	18,304
		<u>15,010</u>	<u>18,304</u>
<b>CURRENT ASSETS</b>			
Inventories	11	195,226	208,124
Trade and other receivables	12	145,150	54,006
Prepayments	15	20,375	22,310
Cash and cash equivalents	16	643,967	637,429
		<u>1,004,718</u>	<u>921,869</u>
<b>TOTAL ASSETS</b>		<u><b>1,019,728</b></u>	<u><b>940,173</b></u>
<b>EQUITY</b>			
<b>ISSUED CAPITAL AND RESERVES</b>			
Issued share capital	17	147,658	143,478
Share Premium account		4,982,067	4,971,617
Other Reserves	18	20,578	18,285
Retained profits		(4,636,901)	(4,324,778)
<b>TOTAL EQUITY</b>		<u><b>513,402</b></u>	<u><b>808,602</b></u>
<b>CURRENT LIABILITIES</b>			
Trade and other payables	19	473,832	116,405
Tax payables		32,494	15,166
		<u>506,326</u>	<u>131,571</u>
<b>TOTAL EQUITY AND LIABILITIES</b>		<u><b>1,019,728</b></u>	<u><b>940,173</b></u>

Approved by the Board on 23 April 2007 and authorised for issue by

Jeff McManus - Chairman

**LO-Q PLC**  
**CONSOLIDATED CASH FLOW STATEMENT**  
**FOR THE YEAR ENDED 31 DECEMBER 2006**

	<b>2006</b>	<i>(restated)</i> <b>2005</b>
	<b>£</b>	<b>£</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Total operating Loss	<b>(321,608)</b>	<i>(63,752)</i>
<b>ADJUSTMENTS TO RECONCILE TO LOSS FROM OPERATIONS</b>		
Share based payment expense	<b>2,293</b>	<i>3,587</i>
	<b>(319,315)</b>	<i>(60,165)</i>
<b>NON-CASH ADJUSTMENTS</b>		
Depreciation	<b>17,427</b>	<i>38,545</i>
Unrealised gains on foreign currency exchange	<b>(42,917)</b>	<i>7,273</i>
<b>NON-CASH ADJUSTMENTS</b>	<b>(25,490)</b>	<i>45,818</i>
<b>CASH FLOWS BEFORE CHANGES IN WORKING CAPITAL</b>	<b>(344,805)</b>	<i>(14,347)</i>
<b>INCREASE IN WORKING CAPITAL</b>		
Decrease/(Increase) in inventories	<b>12,898</b>	<i>(9,677)</i>
(Increase)/Decrease in trade and other receivables	<b>(68,024)</b>	<i>334,499</i>
Decrease in prepayments	<b>1,935</b>	<i>9,699</i>
Increase in trade and other payables	<b>357,427</b>	<i>20,735</i>
Increase in tax payable	<b>46,608</b>	<i>42,915</i>
<b>INCREASE IN WORKING CAPITAL</b>	<b>350,844</b>	<i>398,171</i>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	<b>6,039</b>	<i>383,824</i>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Payments to acquire property, plant and equipment	<b>(14,132)</b>	<i>(5,692)</i>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Gross proceeds from issue of equity share capital	<b>14,630</b>	<i>-</i>
<b>NET CASH FLOWS FROM FINANCING ACTIVITIES</b>	<b>498</b>	<i>(5,692)</i>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>6,537</b>	<i>378,132</i>
Cash and cash equivalents as at 1 January 2006	<b>637,429</b>	<i>259,297</i>
<b>CASH AND CASH EQUIVALENTS AS AT 31 DECEMBER 2006</b>	<b>643,967</b>	<i>637,429</i>

**LO-Q PLC**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2006**

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**1. STATEMENT OF COMPLIANCE WITH IFRS'S**

The group's financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 1985. The principal accounting policies adopted by the group are set out in note 2.

This is the first year in which the group and company have prepared their accounts under IFRS. The adoption of these standards has required a restatement on the comparative figures, as explained in the employee expenses policy in note 2 and in note 18.

**New standards and interpretations not yet adopted**

A number of new standards, amendments to standards and interpretations are not effective for 2006 and therefore have not been applied in preparing these accounts:

IFRS 7 Financial Instruments: Disclosures and Amendments to IAS 1 Presentation of Financial Statements: Capital Disclosures require extensive disclosures about the significance of financial instruments for an entity's financial position and performance, and qualitative and quantitative disclosures on the nature and extent of risks.

IFRIC 8 Scope of IFRS 2 Share Based Payments addresses the accounting for share-based payment transactions in which some or all of the goods or services received cannot be specifically identified. IFRIC 8 will become mandatory in the 2007 accounts. The Group has included the financial effects of the Employee and Director Share Option scheme in these accounts. The Group does not pay for any goods or services using share based payment methods.

IFRIC 10 Interim Financial reporting and Impairment prohibits the reversal of an impairment loss recognised in a previous interim period in respect of goodwill, an investment in an equity instrument or a financial asset carried at cost. IFRIC 10 will become mandatory in the 2007 accounts. IFRIC 10 is not expected to have any significant impact on the company.

The Group does not consider that any other standard or interpretations issues, but not yet applicable, will have any significant impact on the consolidated accounts.

**2. SIGNIFICANT ACCOUNTING POLICIES**

**Revenue recognition**

All turnover arises from the development and application of virtual queue technologies and represents sales to external customers less value added tax or local taxes on sales.

**Interest expense recognition**

Expense is recognised as interest accrues, using the effective interest method, to the net carrying amount of the financial liability.

**Foreign currency exchange**

Transactions in currencies other than the functional currency of the group are recorded at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary assets and liabilities carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined.

Gains and losses arising on retranslation are included in net profit or loss for the period, except for exchange differences arising on non-monetary assets and liabilities where the changes in fair value are recognised directly in equity.

# LO-Q PLC

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued) FOR THE YEAR ENDED 31 DECEMBER 2006

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### SIGNIFICANT ACCOUNTING POLICIES (continued)

On consolidation, the assets and liabilities of the group's overseas operations are translated at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the period unless exchange rates fluctuate significantly. Exchange differences arising, if any, are classified as equity and movement shown in reserves.

#### Employee expenses

The Group has applied the requirements of IFRS 2 Share-Based Payment. In accordance with the transitional provisions, IFRS2 has been applied to all grants of equity instruments after 7 November 2002 that were unvested as of 1 January 2006.

The Group issues equity-settled share-based payments to all full time employees. Equity settled share-based payments are measured at the fair value at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest.

Fair value is measured by use of a Black-Scholes model for all share options in issue. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations.

As a result of adopting IFRS 2, there has been a change of accounting policy requiring a restatement of the comparative figures. The effects of these restatements are shown in note 18.

#### Exceptional items

Exceptional items are presented in the financial statements where there are material items of income and expense which, because of their nature and the expected rarity of the circumstances, which generate them, they should be presented separately to shareholders so as to enhance their judgement of the current year's financial performance and its comparability with prior years.

#### Deferred Tax

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profits ("temporary differences") and is accounted for using the balance sheet liability method.

Deferred tax liabilities are generally recognised for all taxable temporary differences. Where there are taxable temporary differences arising on subsidiaries, deferred tax liabilities are recognised.

Deferred tax assets are generally recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Where there are deductible temporary differences arising on subsidiaries, deferred tax assets are recognised only where it is probable that they will reverse in the foreseeable future and taxable profits will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient tax profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised.

#### Property, plant and equipment

Items of property, plant and equipment are stated at cost of acquisition or production cost less accumulated depreciation and impairment losses.

Depreciation is charged so as to write off the cost or valuation of assets over their estimated useful lives, using the straight-line method, on the following bases:

Plant and equipment	20%
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## **LO-Q PLC**

### **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued) FOR THE YEAR ENDED 31 DECEMBER 2006**

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#### **SIGNIFICANT ACCOUNTING POLICIES (continued)**

##### **Inventories**

Stocks are valued at the lower of cost and net realisable value, after making due allowance for obsolete and slow moving items.

Raw materials costs are calculated on a weighted average basis.

Work in progress is valued on the basis of the cost of raw materials and labour plus attributable overheads.

Net realisable value is based on estimated selling price less additional costs to completion and disposal.

##### **Trade and other receivables**

Trade and other receivables are recognised by the group and carried at original invoice amount less an allowance for any uncollectible or impaired amounts.

An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off when they are identified as being bad.

Other receivables are recognised at fair value.

##### **Cash and cash equivalents**

Cash and cash equivalents comprise cash at bank and in hand and short term deposits. Short-term deposits are defined as deposits with an initial maturity of three months or less.

Bank overdrafts that are repayable on demand and form an integral part of the group's cash management are included as a component of cash and cash equivalents for the purposes of the consolidated cash flow statement.

##### **Trade and other payables**

Trade and other payables are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method.

##### **Commitments under operating leases**

Operating leases payments are recognised as an expense in the consolidated income statement on a straight-line basis over the lease term.

##### **Basis of Consolidation**

The consolidated financial statements incorporate the results of Lo-Q plc and all of its subsidiary undertakings as at 31 December 2006 using the acquisition method of accounting. The results of subsidiary undertakings are included from the date of acquisition.

##### **Pension Costs**

Contributions to the group's defined contribution pension scheme are charged to the profit and loss account in the year in which they became payable.

##### **Research and Development**

Development expenditure is charged to the profit and loss account in the year in which it is incurred.

# LO-Q PLC

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued) FOR THE YEAR ENDED 31 DECEMBER 2006

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### 3. REVENUE

	12 months 2006 £	15 months (restated) 2005 £
Q-Bot rental income	1,977,929	1,596,482
Other income	625	-
	<u>1,978,554</u>	<u>1,596,482</u>

The geographical analysis of turnover is such that all rental income arises through sales generated in America.

### 4. OPERATING PROFIT/(LOSS)

Operating profit/(loss) is stated after charging/(crediting) the following:

	12 months 2006 £	15 months (restated) 2005 £
Auditor's remuneration - audit services - United Kingdom	15,025	11,750
Auditor's remuneration - non-audit services - United Kingdom	<u>9,060</u>	<u>15,253</u>

Included in the audit fee above is £15,025 (31 December 2005 £11,750), which relates to the company.

	12 months 2006 £	15 months (restated) 2005 £
<b>Included in cost of sales:</b>		
Raw materials and consumables used	170,687	90,664
Research and development cost	218,304	168,248
Employee benefits expense	224,188	133,247
	<u>613,179</u>	<u>392,159</u>
<b>Included in administrative expenses:</b>		
Employee benefits expense	789,719	916,359
Depreciation and amortisation	17,427	36,664
Net foreign currency exchange	42,180	(3,135)
	<u>849,326</u>	<u>949,888</u>

# LO-Q PLC

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued) FOR THE YEAR ENDED 31 DECEMBER 2006

### 5. EMPLOYEE EXPENSES

	12 months 2006 £	15 months (restated) 2005 £
Wages and salaries	890,671	915,460
Post employment expense for defined contribution plans	26,647	30,643
Share-based payment transactions	2,293	3,587
Social security costs	94,296	99,916
	<u>1,013,907</u>	<u>1,049,606</u>

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

	12 months 2006 No.	15 months (restated) 2005 No.
Research & development	5	5
Management and finance	3	3
Production and administration	5	5
Part Time Seasonal staff	31	24
	<u>44</u>	<u>37</u>

### 6. DIRECTORS' EMOLUMENTS

The directors' aggregate emoluments in respect of qualifying services were:

	12 months 2006 £	15 months (restated) 2005 £
Emoluments (including pension contributions)	<u>331,468</u>	<u>293,392</u>
Contributions to money purchase pension schemes	<u>11,892</u>	<u>12,740</u>

During the year the following number of directors:

	12 months 2006 No.	15 months (restated) 2005 No.
Accrued benefits under money purchase pension schemes	<u>2</u>	<u>2</u>

The emoluments of directors disclosed above include the following in respect of the highest paid director.

# LO-Q PLC

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued) FOR THE YEAR ENDED 31 DECEMBER 2006

### DIRECTORS' EMOLUMENTS (continued)

	12 months 2006 £	15 months (restated) 2005 £
Emoluments	134,876	114,951
Amount of money and other net assets (excluding shares and share options) receivable under long-term incentive plans	5,307	7,840
	<u>140,183</u>	<u>122,791</u>

### Share Option Scheme

The share options of the directors are set out below:

The share options of J McManus, J Lillywhite, and A Bone are held under the Lo-Q plc Unapproved Share Option Scheme and the share options of S Drake are held under the Lo-Q plc EMI Share Option Scheme. The share options of the directors are set out below:

	1 October 2005 Number	Granted/ (exercised) in the Period Number	31 December 2006 Number	Exercise Price	Date from which exercisable	Expiry date
J McManus	418,000	(418,000)	-	3.5p	29/03/2006	28/03/2010
J Lillywhite	209,000	-	209,000	3.5p	27/09/2004	28/03/2010
A Bone	182,875	-	182,875	3.5p	27/09/2004	28/03/2010
S Drake	4,903	-	4,903	100.5p	22/10/2002	21/01/2011
	6,018	-	6,018	18p	08/10/2003	07/10/2012
	50,000	-	50,000	6p	06/04/2005	05/04/2014
	100,000	-	100,000	3.5p	29/03/2006	28/03/2015
	-	35,000	35,000	8.25p	09/05/2007	08/05/2016

### 7. EXCEPTIONAL ITEMS

	12 months 2006 £	15 months (restated) 2005 £
Litigation cost	(459,512)	-
Professional fees on litigation	(203,825)	-
	<u>(663,337)</u>	<u>-</u>

It was alleged that Lo-Q had been contravening a patent owned by Palmtop Productions Inc. ('Palmtop'). The Company's lawyers and specialist patent attorneys believe this is not to be the case. As a result, it had been the view of the Board that this claim could be successfully defended. After weighing the balance of risk present in any USA patent law case, the Company made the decision to pursue an out of court agreement to settle the case expediently. The Company recognises that this has the advantage of releasing a significant amount of management time and avoids the potential costs if any defence case were to become protracted.

# LO-Q PLC

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued) FOR THE YEAR ENDED 31 DECEMBER 2006

### 8. TAX

#### Components of tax expense

	12 months 2006 £	15 months (restated) 2005 £
Current tax (credit)	<u>(52,400)</u>	<u>(29,565)</u>

The UK deferred tax asset of £1,054,961 (2005 - £1,013,085) on losses carried forward has not been recognised in the balance sheet due to the uncertainty over the timing of its recovery. It will be recognised when sufficient trading history has been established.

#### Reconciliation of tax charge to accounting profit

	% age	2006 £	% age	(restated) 2005 £
Tax effect of research & development	-	<u>52,400</u>	-	<u>29,565</u>

### 9. EARNINGS PER SHARE

Basic Earnings per share are calculated by dividing net profit for the year attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year.

Diluted Earnings per share amounts are calculated by dividing the net profit attributable to ordinary shareholders after adjustments for instruments that dilute basic Earnings per share by the weighted average of ordinary shares outstanding during the year (adjusted for the effects of dilutive instruments).

The following reflects the income and share data used in the total operations basic and diluted Earnings per share computations:

	2006 £	(restated) 2005 £
Net loss attributable to ordinary shareholders for basic and diluted earnings per share	<u>(269,208)</u>	<u>(34,187)</u>

  

	2006 Units	(restated) 2005 Units
Weighted average number of shares: Basic	14,689,108	14,347,837
Effect of dilution:		
Share options	<u>865,113</u>	<u>365,638</u>
	<u>15,554,221</u>	<u>14,713,475</u>

# LO-Q PLC

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued) FOR THE YEAR ENDED 31 DECEMBER 2006

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### 10. PROPERTY, PLANT AND EQUIPMENT

	Plant and equipment £
<b>Cost</b>	
At 1 January 2006	187,686
Additions	14,132
Disposals	<u>(17,043)</u>
At 31 December 2006	<u>184,775</u>
<b>Depreciation</b>	
At 1 January 2006	(169,382)
Disposals	17,044
Charge for year	<u>(17,427)</u>
At 31 December 2006	<u>(169,765)</u>
<b>Net book value</b>	
At 1 January 2006	18,304
At 31 December 2006	<u>15,010</u>

### 11. INVENTORIES

	2006 £	(restated) 2005 £
Raw materials	<u>171,170</u>	<u>182,829</u>
Work in progress	<u>22,277</u>	<u>-</u>
Finished goods	<u>1,779</u>	<u>25,295</u>
	<u>195,226</u>	<u>208,124</u>

There is no material difference between the replacement cost of stocks and the amounts stated above.

### 12. TRADE AND OTHER RECEIVABLES

	2006 £	(restated) 2005 £
Receivable from trade customers	39,677	-
Other receivables	3,143	3,676
Tax receivables	55,952	32,832
Accrued income	46,378	17,498
	<u>145,150</u>	<u>54,006</u>

# LO-Q PLC

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued) FOR THE YEAR ENDED 31 DECEMBER 2006

### 13. FINANCIAL INSTRUMENTS

	Carrying amount		Fair value (restated)	
	2006 £	2005 £	2006 £	2005 £
<b>Financial assets</b>				
Cash and cash equivalents	643,967	637,429	643,967	637,429
Trade and other receivables	<u>89,468</u>	<u>21,174</u>	<u>89,468</u>	<u>21,174</u>
<b>Financial liabilities</b>				
Trade and other payables	<u>(62,529)</u>	<u>(12,861)</u>	<u>(62,529)</u>	<u>(12,861)</u>

Other than short-term debtors and creditors that arise directly from operations, the group's financial instruments comprise cash and bank balances. The fair values of these instruments are not materially different to their book values. The objective of holding financial instruments is to raise finance for the group's operations and manage related risks. The main risk arising from holding these instruments is currency risk.

#### Currency risk

The group's overseas operations are in the USA. The main operating currencies of its operations are therefore in sterling and US dollars. The group's currency exposure comprises the monetary assets and liabilities of the group that are not denominated in the operating or 'functional' currency of the operating unit involved. At the period end Lo-Q plc, which operates in sterling had bank balances of £568,608 (2005 - £160,741) denominated in US dollars.

### 14. RELATED PARTY TRANSACTIONS

#### Ultimate controlling party

There is no ultimate controlling party.

#### Subsidiaries

No transactions with subsidiary undertakings were undertaken such as are required to be disclosed under International Accounting Standard 24.

IXXI Limited, a company in which A Bone, a Lo-Q plc director, is a director invoiced the company in respect of directors fees £12,860 (2005 - £13,300) of which £2,512 (2005 - £nil) was outstanding at the period end.

Jeff McManus Limited, a company in which J McManus, a Lo-Q plc director, is a director invoiced the company in respect of directors fees £47,673 (2005 - £49,075) of which £5,644 (2005 - £nil) was outstanding at the period end.

Barnwell Limited, a company in which J Lillywhite, a Lo-Q plc director, is a director invoiced the company in respect of directors fees £13,000 (2005 - £8,000) of which £2,399 (2005 - £nil) was outstanding at the period end.

All of the above outstanding amounts are included within trade creditors.

# LO-Q PLC

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued) FOR THE YEAR ENDED 31 DECEMBER 2006

### RELATED PARTY TRANSACTIONS (continued)

#### Key management compensation

	2006	(restated) 2005
	£	£
Wages and salaries	318,296	278,649
Post employment benefits: Defined contribution	11,892	12,740
Share based payments	1,280	2,003
	<u>331,468</u>	<u>293,392</u>

### 15. PREPAYMENTS

	2006	(restated) 2005
	£	£
Prepayments	<u>20,375</u>	<u>22,310</u>

### 16. CASH AND CASH EQUIVALENTS

	2006	(restated) 2005
	£	£
Cash on hand	894	1,398
Cash at bank	643,073	636,031
	<u>643,967</u>	<u>637,429</u>

### 17. SHARE CAPITAL

#### Authorised share capital

	2006	(restated) 2005
	Ordinary shares £	Ordinary shares £
Ordinary share capital of £0.01 each	<u>1,100,000,000</u>	<u>1,100,000,000</u>

#### Issued share capital

	2006	(restated) 2005
	Ordinary shares £	Ordinary shares £
<b>Issued and fully paid</b>		
Ordinary share capital		
At 1 January	14,347,837	143,478
New issues of share capital	418,000	-
At 31 December	<u>14,765,837</u>	<u>143,478</u>

All issued share capital is classified as equity.

418,000 ordinary shares were issued during the period at a premium of £0.025 each.

# LO-Q PLC

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued) FOR THE YEAR ENDED 31 DECEMBER 2006

### Share Option Schemes

At 31 December 2006 the following share options were outstanding in respect of the ordinary shares:

Scheme	Number of shares	Period of option	Price per share
EMI Scheme	61,504	22 January 2002 to 21 January 2011	100.5p
	37,255	8 October 2003 to 7 October 2012	18p
	139,000	6 April 2005 to 5 April 2014	6p
	320,000	29 March 2006 to 28 March 2015	3.5p
	175,000	9 May 2007 to 8 May 2016	8.25p
Directors Non-approved share option scheme	391,875	27 September 2004 to 28 March 2010	3.5p
US Scheme	15,551	22 October 2002 to 21 October 2011	100.5p
	63,000	6 April 2005 to 5 April 2014	6p
	180,000	29 March 2006 to 28 March 2015	3.5p

### 18. RESERVES

	Capital redemption reserve £	(restated) Share based payment reserve £	(restated) Other Reserves Total £	Share premium account £
<b>At 1 October 2004</b>	12,473	-	12,473	4,971,617
Prior year adjustment: Change of accounting policy	-	2,225	2,225	-
Equity settled for share based payments	-	3,587	3,587	-
<b>At 31 December 2005</b>	12,473	5,812	18,285	4,971,617
Equity settled for share based payments	-	2,293	2,293	-
Premium on issue of shares	-	-	-	10,450
<b>At 31 December 2006</b>	<u>12,473</u>	<u>8,105</u>	<u>20,578</u>	<u>4,982,067</u>

### 19. TRADE AND OTHER PAYABLES

	2006 £	(restated) 2005 £
Payable to trade suppliers	62,529	12,861
Other payables	321,658	16,172
Accrued liabilities	89,645	87,372
	<u>473,832</u>	<u>116,405</u>

# LO-Q PLC

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued) FOR THE YEAR ENDED 31 DECEMBER 2006

### 20. COMMITMENTS UNDER OPERATING LEASES

At 31 December 2006 the group had annual commitments under non-cancellable operating leases as set out below

#### Group

	2006	(restated) 2005
Land and buildings:	£	£
Less than one year	46,876	64,705
Within 2 to 5 years	37,020	80,867
	<u>83,896</u>	<u>145,572</u>

Not included in the above note is the annual payment to a leasing company in respect of the installation sales in 2003 and 2004. This is explained further in note 22.

### 21. RETIREMENT BENEFITS

The group operates a defined contribution pension scheme. The assets of the scheme are held separately from those of the group in an independently administered fund. The pension charge represents contributions payable by the group to the fund and amounted to £26,647 (2005 - £30,643). Contributions amounting to £nil (2005 - £nil) were payable to the fund and are included in creditors.

### 22. OTHER COMMITMENTS AND CONTINGENCIES

As part of the sale agreement of the park installations during 2003 the Group guaranteed the lease payments to be made by the theme park group. In the event that the theme park group is unable to meet the instalments due, the Group would be liable for meeting the payments, up to a maximum of \$459,876 per annum until October 2008.

In a similar situation as part of the sale agreement of the park installations during 2004 the Group would be liable for meeting the payments, up to a maximum of \$83,612 per annum until November 2008, should the theme park group be unable to meet the instalments due.

### 23. SHARE BASED PAYMENTS

#### Equity settled share option schemes

For details of share option schemes in place during the year see note 17.

Details of the number of share options and the weighted average exercise price (WAEP) outstanding during the year are as follows:

	No.	2006 WAEP pence	No.	(restated) 2005 WAEP pence
Outstanding at the beginning of the year	1,626,185	8.74	1,126,185	69.67
Granted during the year	175,000	8.25	1,309,875	3.50
Transferred during the year	-	-	(809,875)	85.00
Exercised during the year	(418,000)	3.50	-	-
Outstanding at the end of the year	<u>1,383,185</u>	<u>10.26</u>	<u>1,626,185</u>	<u>8.74</u>
Exercisable at the end of the year	<u>1,208,185</u>	<u>10.55</u>	<u>708,185</u>	<u>15.53</u>

## LO-Q PLC

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued) FOR THE YEAR ENDED 31 DECEMBER 2006

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The weighted average share price at the date of exercise for share options exercised during the year was £0.054 (2005 - £0.032).

The fair values were calculated using the Black-Scholes valuation method. The inputs to the model were as follows:

	<b>2006</b>	<i>(restated)</i> 2005
Weighted average share price (pence)	<b>17.901</b>	5.07
Expected volatility	<b>75.00</b>	75.00
Expected life	<b>2.00</b>	2.00
Risk free rate (%)	<b>4.60</b>	4.60
Dividend yield (%)	<b>0</b>	0

Expected volatility was determined by calculating the historic volatility of the Groups share price over the period since flotation.

**LO-Q PLC**  
**COMPANY BALANCE SHEET**  
**AS AT 31 DECEMBER 2006**

	Notes	2006 £	(restated) 2005 £
<b>ASSETS</b>			
<b>NON CURRENT ASSETS</b>			
Property, plant and equipment	26	9,878	7,115
Investments in subsidiaries at cost	27	691	691
		<u>10,569</u>	<u>7,806</u>
<b>CURRENT ASSETS</b>			
Inventories	28	120,468	152,837
Trade and other receivables	29	457,915	381,167
Prepayments	32	20,375	22,310
Cash and cash equivalents	33	179,015	354,303
		<u>777,773</u>	<u>910,616</u>
<b>TOTAL ASSETS</b>		<u><b>788,342</b></u>	<u><b>918,422</b></u>
<b>EQUITY</b>			
<b>ISSUED CAPITAL AND RESERVES</b>			
Issued share capital	34	147,658	143,478
Share Premium account	35	4,982,067	4,971,617
Other Reserves	35	20,578	18,285
Retained profits	36	(4,483,077)	(4,324,776)
<b>TOTAL EQUITY</b>		<u><b>667,226</b></u>	<u><b>808,604</b></u>
<b>CURRENT LIABILITIES</b>			
Trade and other payables	37	88,622	94,652
Tax payables		32,494	15,166
		<u>121,116</u>	<u>109,818</u>
<b>TOTAL EQUITY AND LIABILITIES</b>		<u><b>788,342</b></u>	<u><b>918,422</b></u>

Approved by the Board on 23 April 2007 and authorised for issue by

Jeff McManus - Chairman, Chairman

**LO-Q PLC**  
**COMPANY CASH FLOW STATEMENT**  
**FOR THE YEAR ENDED 31 DECEMBER 2006**

	<b>2006</b>	<i>(restated)</i> <b>2005</b>
	<b>£</b>	<b>£</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Total operating Profit/(Loss)	<b>(210,731)</b>	<b>(47,734)</b>
<b>ADJUSTMENTS TO RECONCILE TO PROFIT/(LOSS) FROM OPERATIONS</b>		
Share based payment expense	<b>2,293</b>	<b>3,587</b>
<b>ADJUSTMENTS TO RECONCILE PROFIT/(LOSS) FROM OPERATIONS</b>	<b>(208,438)</b>	<b>(44,147)</b>
<b>NON-CASH ADJUSTMENTS</b>		
Depreciation	<b>7,013</b>	<b>19,117</b>
<b>(INCREASE)/DECREASE IN WORKING CAPITAL</b>		
Decrease/(Increase) in inventories	<b>32,369</b>	<b>(7,936)</b>
(Increase)/Decrease in trade and other receivables	<b>(53,255)</b>	<b>121,933</b>
Decrease in prepayments	<b>1,935</b>	<b>9,699</b>
(Decrease)/Increase in trade and other payables	<b>(6,030)</b>	<b>11,032</b>
Increase in tax payable	<b>46,264</b>	<b>38,615</b>
<b>(INCREASE)/DECREASE IN WORKING CAPITAL</b>	<b>21,283</b>	<b>73,343</b>
<b>CASH FLOWS (USED IN)/FROM OPERATING ACTIVITIES</b>	<b>(180,142)</b>	<b>148,313</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Payments to acquire property, plant and equipment	<b>(9,776)</b>	<b>(5,285)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Gross proceeds from issue of equity share capital	<b>14,630</b>	<b>-</b>
<b>NET CASH FLOWS FROM FINANCING ACTIVITIES</b>	<b>4,854</b>	<b>(5,285)</b>
<b>NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>(175,288)</b>	<b>143,028</b>
Cash and cash equivalents as at 1 January 2006	<b>354,303</b>	<b>211,275</b>
<b>CASH AND CASH EQUIVALENTS AS AT 31 DECEMBER 2006</b>	<b>179,015</b>	<b>354,303</b>

**24. STATEMENT OF COMPLIANCE WITH IFRS'S**

The company's financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 1985. The principal accounting policies adopted by the company are set out in note 2.

This is the first year in which the group and company have prepared their accounts under IFRS. The adoption of these standards has required a restatement on the comparative figures, as explained in the employee expenses policy in note 25 and in note 35.

**25. SIGNIFICANT ACCOUNTING POLICIES**

**Revenue recognition**

All turnover arises from the development and application of virtual queue technologies and represents sales to external customers less value added tax or local tax sales.

**Interest expense recognition**

Expense is recognised as interest accrues, using the effective interest method, to the net carrying amount of the financial liability.

**Foreign currency exchange**

Transactions in currencies other than the functional currency of the company are recorded at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary assets and liabilities carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined.

Gains and losses arising on retranslation are included in net profit or loss for the period, except for exchange differences arising on non-monetary assets and liabilities where the changes in fair value are recognised directly in equity.

In order to hedge its exposure to certain foreign exchange risks, the company enters into forward contracts and options.

**Employee expenses**

The Company has applied the requirements of IFRS 2 Share-Based Payment. In accordance with the transitional provisions, IFRS2 has been applied to all grants of equity instruments after 7 November 2002 that were unvested as of 1 January 2006.

The Company issues equity-settled share-based payments to all full time employees. Equity settled share-based payments are measured at the fair value at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Company's estimate of shares that will eventually vest.

Fair value is measured by use of a Black-Scholes model for all share options in issue. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations.

As a result of adopting IFRS 2, there has been a change of accounting policy requiring a restatement of the comparative figures. The effects of these restatements are shown in note 35.

**SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Deferred Tax**

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profits ("temporary differences") and is accounted for using the balance sheet liability method.

Deferred tax liabilities are generally recognised for all taxable temporary differences. Where there are taxable temporary differences arising on subsidiaries, deferred tax liabilities are recognised.

Deferred tax assets are generally recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Where there are deductible temporary differences arising on subsidiaries, deferred tax assets are recognised only where it is probable that they will reverse in the foreseeable future and taxable profits will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient tax profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised.

**Property, plant and equipment**

Items of property, plant and equipment are stated at cost of acquisition or production cost less accumulated depreciation and impairment losses.

Depreciation is charged so as to write off the cost or valuation of assets over their estimated useful lives, using the straight-line method, on the following bases:

Plant and equipment	20%
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**Inventories**

Stocks are valued at the lower of cost and net realisable value, after making due allowance for obsolete and slow moving items.

Raw materials costs are calculated on a weighted average basis.

Work in progress is valued on the basis of the cost of raw materials and labour plus attributable overheads.

Net realisable value is based on estimated selling price less additional costs to completion and disposal.

Leasing and hire purchase commitments leased assets

Annual rentals under operating leases are charged to the profit and loss account on a straight-line basis over the term of the lease.

**Trade and other receivables**

Trade and other receivables are recognised by the company and carried at original invoice amount less an allowance for any uncollectable or impaired amounts.

An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off when they are identified as being bad.

Other receivables are recognised at fair value.

**SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Cash and cash equivalents**

Cash and cash equivalents comprise cash at bank and in hand and short term deposits. Short-term deposits are defined as deposits with an initial maturity of three months or less.

Bank overdrafts that are repayable on demand and form an integral part of the company's cash management are included as a component of cash and cash equivalents for the purposes of the cash flow statement.

**Trade and other payables**

Trade and other payables are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method.

**Commitments under operating leases**

Operating leases payments are recognised as an expense in the income statement on a straight-line basis over the lease term.

**Pension Costs**

Contributions to the company's defined contribution pension scheme are charged to the profit and loss account in the year in which they became payable.

**Research and Development**

Development expenditure is charged to the profit and loss account in the year in which it is incurred.

**26. PROPERTY, PLANT AND EQUIPMENT**

	<b>Plant and equipment</b>
	<b>£</b>
<b>Cost</b>	
At 1 January 2006	126,795
Additions	9,776
Disposals	<u>(17,043)</u>
At 31 December 2006	<u>119,528</u>
<b>Depreciation</b>	
At 1 January 2006	(119,680)
Disposals	17,043
Charge for year	<u>(7,013)</u>
At 31 December 2006	<u>(109,650)</u>
<b>Net book value</b>	
At 1 January 2006	<u>7,115</u>
At 31 December 2006	<u>9,878</u>

**LO-Q PLC**  
**NOTES TO THE FINANCIAL STATEMENTS (continued)**  
**AS AT 31 DECEMBER 2006**

**27. INVESTMENTS IN SUBSIDIARIES**

	<b>Group undertaking £</b>
<b>Cost</b>	
At 1 January 2006 & 31 December 2006	<u>691</u>
<b>Net Book Value</b>	
At 31 December 2006	<u>691</u>
At 31 December 2005	<u>691</u>
<b>Name</b>	
	<b>% Ownership interest</b>
	<b>% Voting rights</b>
Country of incorporation	
Lo-Q Virtual Queuing Inc	United States of America
Lo-Q Trustees Limited	United Kingdom
	100
	100

Lo-Q Virtual Queuing Inc's trade is that of the application of virtual queue technologies.

Lo-Q Trustees Limited is dormant.

**28. INVENTORIES**

	<b>2006 £</b>	<i>(restated)</i> <b>2005 £</b>
Raw materials	<u>112,465</u>	<u>127,542</u>
Work in progress	<u>6,224</u>	<u>-</u>
Finished goods	<u>1,779</u>	<u>25,295</u>
	<u>120,468</u>	<u>152,837</u>

There is no material difference between the replacement cost of stocks and the amounts stated above.

**29. TRADE AND OTHER RECEIVABLES**

	<b>2006 £</b>	<i>(restated)</i> <b>2005 £</b>
Receivable from trade customers	<u>39,677</u>	<u>-</u>
Receivable from related parties	<u>361,258</u>	<u>347,173</u>
Other receivables	<u>783</u>	<u>1,290</u>
Tax receivables	<u>56,197</u>	<u>32,703</u>
	<u>457,915</u>	<u>381,166</u>

# LO-Q PLC

## NOTES TO THE FINANCIAL STATEMENTS (continued)

AS AT 31 DECEMBER 2006

### 30. FINANCIAL INSTRUMENTS

	Carrying amount		Fair value (restated)	
	2006 £	2005 £	2006 £	2005 £
<b>Financial assets</b>				
Cash and cash equivalents	179,015	354,303	179,015	354,303
Trade and other receivables	<u>40,460</u>	<u>1,290</u>	<u>40,460</u>	<u>1,290</u>
<b>Financial liabilities</b>				
Trade and other payables	<u>(35,143)</u>	<u>(7,770)</u>	<u>(35,143)</u>	<u>(7,770)</u>

### 31. RELATED PARTY TRANSACTIONS

#### Ultimate controlling party

There is no ultimate controlling party.

#### Receivable from related parties

	2006 £	(restated) 2005 £
Subsidiaries receivable	<u>361,258</u>	<u>347,173</u>

During the year the company charged Lo-Q Inc £844,990 (2005 - £849,787) for fees in accordance with the Service Level Agreement.

IXXI Limited, a company in which A Bone, a Lo-Q plc director, is a director invoiced the company in respect of directors fees £12,860 (2005 - £13,300) of which £2,512 (2005 - £nil) was outstanding at the period end.

Jeff McManus Limited, a company in which J McManus, a Lo-Q plc director, is a director invoiced the company in respect of directors fees £47,673 (2005 - £49,075) of which £5,644 (2005 - £nil) was outstanding at the period end.

Barnwell Limited, a company in which J Lillywhite, a Lo-Q plc director, is a director invoiced the company in respect of directors fees £13,000 (2005 - £8,000) of which £2,399 (2005 - £nil) was outstanding at the period end.

All of the above outstanding amounts are included within trade creditors.

#### Key management compensation

	2006 £	(restated) 2005 £
Wages and salaries	318,296	278,649
Post employment benefits: Defined contribution	11,892	12,740
Share based payments	<u>1,280</u>	<u>2,003</u>
	<u>331,468</u>	<u>293,392</u>

### 32. PREPAYMENTS

	2006 £	(restated) 2005 £
Prepayments	<u>20,375</u>	<u>22,310</u>

**LO-Q PLC**  
**NOTES TO THE FINANCIAL STATEMENTS (continued)**  
**AS AT 31 DECEMBER 2006**

**33. CASH AND CASH EQUIVALENTS**

	<b>2006</b>	<i>(restated)</i> 2005
	£	£
Cash on hand	<b>792</b>	1,082
Cash at bank	<b>178,223</b>	353,221
	<b>179,015</b>	354,303

**34. SHARE CAPITAL**

**Authorised share capital**

	<b>2006</b>	<i>(restated)</i> 2005
	Ordinary shares £	Ordinary shares £
Ordinary share capital of £0.01 each	<b>1,100,000,000</b>	1,100,000,000

**Issued share capital**

	<b>2006</b>	<i>(restated)</i> 2005
	Ordinary shares £	Ordinary shares £
<b>Issued and fully paid</b>		
Ordinary share capital class 1		
At 1 January	<b>14,347,837</b>	14,347,837
New issues of share capital	<b>418,000</b>	-
At 31 December	<b>14,765,837</b>	14,347,837

All issued share capital is classified as equity.

418,000 ordinary shares were issued during the period at a premium of £0.025 each.

**Share Option Schemes**

At 31 December 2006 the following share options were outstanding in respect of the ordinary shares:

<b>Scheme</b>	<b>Number of shares</b>	<b>Period of option</b>	<b>Price per share</b>
EMI Scheme	61,504	22 January 2002 to 21 January 2011	100.5p
	37,255	8 October 2003 to 7 October 2012	18p
	139,000	6 April 2005 to 5 April 2014	6p
	320,000	29 March 2006 to 28 March 2015	3.5p
	175,000	9 May 2007 to 8 May 2016	8.25p
Directors Non-approved share option scheme	391,875	27 September 2004 to 28 March 2010	3.5p

**LO-Q PLC**  
**NOTES TO THE FINANCIAL STATEMENTS (continued)**  
**AS AT 31 DECEMBER 2006**

**SHARE CAPITAL (continued)**

US Scheme	15,551	22 October 2002 to 21 October 2011	100.5p
	63,000	6 April 2005 to 5 April 2014	6p
	180,000	29 March 2006 to 28 March 2015	3.5p

**35. RESERVES**

	Capital redemption reserve £	(restated) Share based payment reserve £	(restated) Other Reserves Total £	Share premium account £
<b>At 1 October 2004</b>	12,473	-	12,473	4,971,617
Prior year adjustment: Change of accounting policy	-	2,225	2,225	-
Equity settled for share based payments	-	3,587	3,587	-
<b>At 31 December 2005</b>	12,473	5,812	18,285	4,971,617
Equity settled for share based payments	-	2,293	2,293	-
Premium on issue of shares	-	-	-	10,450
<b>At 31 December 2006</b>	<u>12,473</u>	<u>8,105</u>	<u>20,578</u>	<u>4,982,067</u>

**36. PROFIT & LOSS RESERVE**

At 1 January 2006	£ (4,318,964)
Prior year adjustment	(5,812)
At 1 January 2006 restated	(4,324,776)
Loss for year	(158,301)
At 31 December 2006	<u>(4,483,077)</u>

**37. TRADE AND OTHER PAYABLES**

	2006 £	(restated) 2005 £
Payable to trade suppliers	35,143	7,770
Other payables	-	16,172
Accrued liabilities	53,479	70,710
	<u>88,622</u>	<u>94,652</u>

**LO-Q PLC**  
**NOTES TO THE FINANCIAL STATEMENTS (continued)**  
**AS AT 31 DECEMBER 2006**

**38. COMMITMENTS UNDER OPERATING LEASES**

At 31 December 2006 the company had annual commitments under non-cancellable operating leases as set out below

Company

	<b>2006</b>	<i>(restated)</i> 2005
	£	£
Land and buildings:		
Less than one year	<b>45,454</b>	45,454
Within 2 to 5 years	<b>37,020</b>	74,977
	<b>82,474</b>	120,431

Not included in the above note is the annual payment to a leasing company in respect of the installation sales in 2003 and 2004. This is explained further in note 40.

**39. RETIREMENT BENEFITS**

The company operates a defined contribution pension scheme. The assets of the scheme are held separately from those of the company in an independently administered fund. The pension charge represents contributions payable by the company to the fund and amounted to £26,648 (2005 - £30,643). Contributions amounting to £nil (2005 - £nil) were payable to the fund and are included in creditors.

**40. OTHER COMMITMENTS AND CONTINGENCIES**

As part of the sale agreement of the park installations during 2003 the Company guaranteed the lease payments to be made by the theme park group. In the event that the theme park group is unable to meet the instalments due, the Company would be liable for meeting the payments, up to a maximum of \$459,876 per annum until October 2008.

In a similar situation as part of the sale agreement of the park installations during 2004 the Company would be liable for meeting the payments, up to a maximum of \$83,612 per annum until November 2008, should the theme park group be unable to meet the instalments due.

**41. SHARE BASED PAYMENTS**

**Equity settled share option schemes**

For details of share option schemes in place during the year see note 34.

Details of the number of share options and the weighted average exercise price (WAEP) outstanding during the year are as follows:

	<b>2006</b>		<i>(restated)</i> 2005
	No.	WAEP pence	No. WAEP pence
Outstanding at the beginning of the year	<b>1,626,185</b>	<b>8.74</b>	1,126,185 69.67
Granted during the year	<b>175,000</b>	<b>8.25</b>	1,309,875 3.50
Transferred during the year	-	-	(809,875) 85.00
Exercised during the year	<b>(418,000)</b>	<b>3.50</b>	- -
Outstanding at the end of the year	<b>1,383,185</b>	<b>10.26</b>	1,626,185 8.74
Exercisable at the end of the year	<b>1,208,185</b>	<b>10.55</b>	708,185 15.53

## LO-Q PLC

### NOTES TO THE FINANCIAL STATEMENTS (continued)

#### AS AT 31 DECEMBER 2006

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The weighted average share price at the date of exercise for share options exercised during the year was £0.054 (2005 - £0.032).

The fair values were calculated using the Black-Scholes valuation method. The inputs to the model were as follows:

	<b>2006</b>	<i>(restated)</i> 2005
Weighted average share price (pence)	<b>17.901</b>	5.07
Expected volatility	<b>75.00</b>	75.00
Expected life	<b>2.00</b>	2.00
Risk free rate (%)	<b>4.60</b>	4.60
Dividend yield (%)	<b>0</b>	0

Expected volatility was determined by calculating the historic volatility of the Company share price over the period since flotation.

