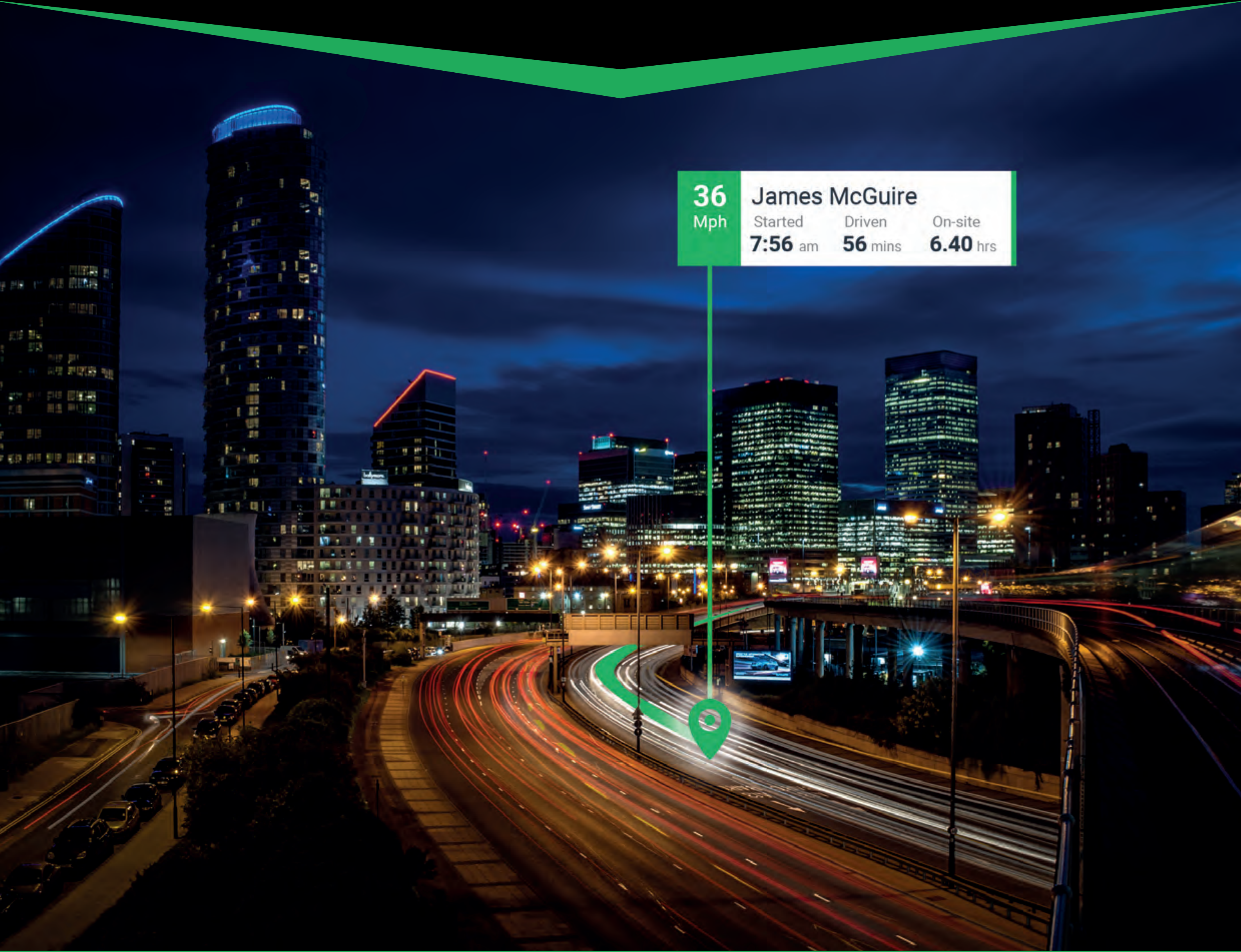
Real-Time Vehicle Tracking



Quartix Holdings plc
Annual Report 2017

Company No.06395159

Financial Statements
Quartix Holdings plc

For the year ended 31 December 2017

Contents

Company Information

Company registration number:	06395159
Registered office:	Wellington House East Road Cambridge CB1 1BH
Directors:	Paul Boughton Andrew Walters Daniel Mendis Edward Ralph Jim Warwick
Company secretary:	Daniel Mendis
Bankers:	Barclays Bank PLC Mortlock house, Station Road, Histon, Cambridgeshire CB24 9DE
Solicitors:	Hewitsons LLP Shakespeare House 42 Newmarket Road Cambridge CB5 8EP
Auditor:	Grant Thornton UK LLP 101 Cambridge Science Park Milton Road Cambridge CB4 0FY
Nominated advisor and joint broker:	finnCap 60 New Broad Street London EC2M 1JJ
Joint broker:	Cantor Fitzgerald One Churchill Place, Level 20, Canary Wharf, London E14 5RB

Highlights

Financial highlights

- Group revenue increased by 5% to £24.5m (2016: £23.3m)
  - Fleet revenue grew by 14% to £17.0m (2016: £14.9m)
  - Insurance revenue declined by 12% to £7.5m (2016: £8.4m)
- Operating profit increased by 1% to £6.6m (2016: £6.5m)
- Earnings before interest, tax, depreciation, amortisation and share based payment expense (Adjusted EBITDA) increased by 6% to £7.2m (2016: £6.8m)
- Profit before tax increased by 1% to £6.6m (2016: £6.5m)
- Diluted earnings per share fell by 4% to 12.21p (2016: 12.78p)
- Free cash flow increased by 5% to £6.3m (2016: £6.0m)
- Cash inflow before tax increased by 3% at £7.0m (2016: £6.8m)
- Net cash increased to £7.3m (2016 net cash: £6.2m)
- Final dividend payment of 11.1p per share proposed (2016: 9.0p) including 6.8p for supplementary dividend (2016: 4.7p) giving a total dividend for the year of 13.5p per share

Operational highlights

- Strong progress in the main fleet business:
  - 20% increase in subscription base to 105,314 units (2016: 87,889)
  - 20% increase in customer base to 10,961 (2016: 9,105)
  - Unit attrition was consistent at 10.1% (2016: 10.0%) and compares favourably with our estimate of the industry average of around 14-15 per cent
  - 23% growth in new fleet installations
  - Strong growth in France, ending the year with 1,776 customers (2016: 1,428) and 13,131 vehicles under subscription (2016: 9,986), an increase of 24% and 32% respectively
  - During its third full year of trading the USA grew its customer base to 1,460 (2016: 1,075), with 8,973 vehicles under subscription (2016: 6,191).
- Anticipated decline in the lower margin insurance telematics business:
  - 17% decline in insurance installations to 57,826 (2016: 69,300)

Chairman's Statement

Introduction

The past year has shown encouraging demand for the Group's vehicle telematics services in both the fleet and insurance sectors.

Sales in the Company's core fleet operations in the UK and Ireland grew by 9%, reaching £14.0m (2016: £12.8m). This growth more than compensated for the planned decline in UK insurance revenues, which decreased by approximately £1m to £7.5m (2016: £8.4m).

The Group made good progress in France, where revenue increased by 24% to €2.2m (2016: €1.8m).

2017 was our third full year of operations in the USA, having launched our service and opened an office there in 2014. We are pleased with progress and completed the year with 8,973 vehicles under subscription (2016: 6,191) across 1,460 fleet customers (2016: 1,075). Revenue increased by 66% to $1.5m in 2017 (2016: $0.9m) and the prospects for future business development remain encouraging.

Results

Group revenue for the year increased by 5% to £24.5m (2016: £23.3m).

Operating profit for the year increased by 1% to £6.6m (2016: £6.5m) and profit before tax was also £6.6m (2016: £6.5m).

Cash conversion was strong, resulting in free cash flow from operations after tax and investing activities of £6.3m (2016: £6.0m), enabling the Group to increase its net cash by £1.1m to £7.3m at 31 December 2017, following the payment of £5.4m in dividends.

Earnings per share

Basic earnings per share fell by 5% to 12.27p (2016: 12.87p), largely due to a higher tax charge than in 2016, which benefitted from prior year patent box claim refunds. Diluted earnings per share fell to 12.21p (2016: 12.78p) as a consequence.

Dividend policy

Our ordinary dividend policy is to pay a dividend set at approximately 50% of cash flow from operating activities, which is calculated after taxation paid but before capital expenditure.

In addition to this the Board will distribute the excess of gross cash balances over £2m on an annual basis by way of supplementary dividends, subject to a 2p per share de minimis level.

The surplus cash is calculated using the year end gross cash balance and after deduction of the proposed ordinary dividend, and is intended to be paid at the same time as the final dividend. The policy will be subject to periodic review.

Dividend

In the year ended 31 December 2017, the Board decided to pay an interim dividend of 2.4p per ordinary share. This totalled £1.14m and was paid on 14 September 2017 to shareholders on the register as at 18 August 2017.

The Board is recommending a final ordinary dividend of 4.3p per share, together with a supplementary dividend of 6.8p per share, giving a final pay out of 11.1p per share and a total dividend for the year of 13.5p per share.

The final and supplementary dividend amounts to approximately £5.3m in aggregate. Subject to the approval at the forthcoming AGM, this dividend will be paid on 4 May 2018 to shareholders on the register as at 6 April 2018.

Governance and the Board

The Board is comprised of two Non-Executive Directors, myself included, and three Executive Directors, Andrew Walters, Edward Ralph and Daniel Mendis. Andrew Walters was a co-founder of the main trading entity, Quartix Limited, and has been one of its directors since 5 July 2001; Edward Ralph joined the Company as Chief Operating Officer in January 2017 and was appointed to the Board in July; and Daniel Mendis was appointed as Chief Financial Officer on 1st January 2018 having joined the Company in December 2017. David Bridge retired from his position of Finance Director for the Company at the end of 2017, and stepped down from the Board in January. David indicated his intention to do so last year, and I would like to take the opportunity to thank him for the 10 years of outstanding service he has given to the Company, and for his cooperation and assistance to Daniel in both the transition and the preparation of these accounts.

I have over 30 years of experience in identifying, negotiating and completing acquisitions in the USA and Europe. Currently, I am Business Development Director of Aventics GmbH, the German industrial pneumatics manufacturer. I spent 13 years as Business Development Director for Spectris plc, and subsequently held similar positions at IMI plc, Consort Medical plc and Brammer plc. I am a Chartered Accountant (FCA).

Jim Warwick was Chief Operating Officer at Abcam plc until 31 December 2016, having originally joined as Technical Director in 2001. Abcam is a global leader in the supply of innovative protein research tools. Prior to that, he worked on IT, software and web development initiatives for the telecommunications consultancy group Analysys Limited.

For further details regarding Corporate Governance and the Board, please see the "Investors" section of our website (www.quartix.net/investors.php).

Outlook

The Group has made a good start to the year, in line with our expectations. The high levels of recurring revenue, a focus on growth in the core fleet markets in UK, France and the USA and targeting only those insurance opportunities which offer satisfactory margins, underpin our confidence for the rest of the year and beyond.

AGM

The Group's AGM will be held at 11.00 a.m. on 27 March 2018 at the Group's registered office at Wellington House, East Road, Cambridge CB1 1BH.

Paul Boughton
Chairman

Strategic Report: Operational Review

Principal activities

Since 2001 Quartix has become one of Europe's leading suppliers of vehicle telematics services. Whilst the origins of the Group's business are in the tracking of commercial vehicles in the UK, it has developed a significant market presence in the insurance telematics market. It set up a French branch in 2011 and in 2014 expanded its operations into the USA. The operations in both the USA and France are focused entirely on the fleet sector.

Strategy and business model

The Group's main strategic objective is to grow its fleet business and develop the associated recurring revenue by increasing the number of vehicles under subscription. The related insurance business helps to provide economies of scale in areas related to the provision of data services, including development, supply chain, production and installation.

Whilst the same technology is used for both commercial fleet tracking and insurance telematics, these markets exhibit different characteristics and the Group has established proven business models for each of them.

Fleet customers typically use the Group's vehicle telematics services for many years, resulting in low rates of attrition. Accordingly, the Group focuses its business model on the development of subscription revenue based on minimal initial commitment from the customer, providing the best return to the Group over the long term.

The value of recurring subscription revenue is the key measure of our performance in the fleet sector

Insurance telematics customers use the Group's technology to monitor the driving style and habits of higher-risk drivers, normally for a policy with a term of just 12 months. Quartix therefore treats this as an equipment sale, with the tracking system being sold, at policy inception, together with 12 months' service and data usage included. This is standard practice in the industry, as the level of attrition is relatively high.

Whilst the value of revenue has been the key measurement of our performance in the insurance sector, we restrict our operations to those opportunities which provide an adequate return.

People

Our business performance was recognised by several independent organisations in 2017: Recognised for the work we do to improve road and driver safety, we were finalists in two industry awards with What Van Magazine, firstly the 'Risk Management' Award and secondly, 'Safety' Award. Quartix was also included in the LSE Group '1000 Companies to Inspire' Britain 2017. We won Megabuyte's Accounting and Enterprise Software Award 2017, and finally we were awarded the Investor In Customer Silver Award status for providing an excellent customer experience.

Each of these awards and nominations is a reflection of the commitment, teamwork, creativity and dedication of our people. Our financial performance derives from the customer service we deliver, backed by the technology we develop. I would like to register my personal thanks to every one of our employees who made 2017 another great year for Quartix.

We are delighted to have been able to provide our employees with the ability to participate in the equity of the Company under our EMI share option scheme for the fifth year in a row. The newly appointed Directors of Quartix Holdings plc have received share option grants in 2017, as disclosed in the remuneration report.

Operational performance

All of our business operations continued to perform at a high level in 2017. Gross margin increased slightly to 60.6% (2016: 60.3%), despite increases in average unit costs following the devaluation of Sterling in 2016 and the funding of strong growth in new fleet installations in 2017. A slight increase in overheads led to return on sales decreasing by 1 percentage point to 27% (2016: 28%). Cash conversion was very strong with cash flow from operating activities after investing activities and tax (free cash flow) representing 95% of operating profit (2016: 92%). We expense all research and development investment, tracking system and installation costs as they are incurred unless development spend meets the criteria for capitalisation.

Following the capital investments made in the USA and France in 2016, there was little further need for capex in 2017 as new sales and marketing automation systems implemented during the year have been sourced externally on a subscription licence basis.

Our accounts and operations teams continued to manage working capital well: trade debtors at the year-end were 33 days of sales, and inventory levels remained comparable despite the sales growth.

Fleet

Our core fleet business, which accounted for 70% of Group revenue (2016: 64%), delivered considerable progress in a further year of investment. Continued growth in the UK was combined with excellent progress in France, where our business again made a positive contribution to the Group's results, and in the USA, where our third full year of trading saw us reach an installed base of 8,973 (2016: 6,191) vehicles under subscription.

During the course of the year we won 2,779 new fleet customers (2016: 2,336). Sales leads continued to be generated through a broad range of media and channels. The efficiency improvements resulted largely from investments made in technology, processes and training, adding automation wherever possible and providing our sales and marketing teams with better information on the performance of each campaign. This investment will continue in 2018, and the knowledge and experience gained will be used across each of our three target markets.

Fleet UK (including Ireland)

Demand for vehicle telematics services in the UK continues to grow. We are well-placed to expand our business, given the strengths of our data services and support capabilities. The economies of scale derived from the size of our combined fleet and insurance business also give us a considerable competitive advantage.

Vehicles under subscription increased by 16% to 83,210 during the year, and our fleet customer base reached 7,725. We won 1,700 new customers in 2017 (2016: 1,345), and the gains in customer and vehicle base were broadly spread between the channels we use. UK fleet revenue was £14.0m (2016: £12.8m). We added a number of new key accounts during the year and increased the number of fleet clients with 50 vehicles or more. The strength of our brand, service capability and reputation in the UK is leading to higher levels of enquiries from larger fleet prospects.

Our UK website continued to perform well in terms of search engine placement and enquiries, and we continued to add new content to it.

We will continue to focus on telephone based sales capacity to support our fleet marketing initiatives, and will look to find additional channels and partners to help us develop the market.

Fleet (continued)

Fleet France

The number of new installations in the French market was 30% higher than the previous year (3,819 versus 2,933), and there was a 32% increase in the unit base, ending the year with 13,131 vehicles (2016: 9,986) under subscription across 1,776 fleet customers (2016: 1,428). French fleet revenue increased by 24% to €2.2m (2016: €1.8m), making a profitable contribution to the Group. We saw strong growth in new customer acquisition towards the end of the year, and this was broadly spread across each of our channels. We will continue to invest in this market in 2018, as we now benefit from growing awareness of our brand and product.

Fleet USA

Our third full year of trading in the USA showed good progress: we concluded 2017 with 1,460 fleet customers (2016: 1,075) having a total of 8,973 vehicles under subscription (2016: 6,191). As in the UK and France, our fleet revenue derives from subscription income, which builds over time. Nonetheless USA fleet revenue increased by 66% to $1.5m (2016: $0.9m), and our subscription base value continues to increase each month. Losses incurred in the USA reduced by £0.5m to £0.3m (2016: £0.8m).

We see significant potential for growth in the USA in the next five years, and during 2017 we invested in further local recruitment, product development and a new sales and marketing automation platform. We are now able to build on these foundations with an enhanced level of marketing expenditure in 2018. At the end of the 2017 we had a total of 7 employees in our Chicago office.

Fleet revenues in France and the USA combined were £3.1m, representing 18% of total fleet revenue.

Insurance

We installed 57,826 new insurance tracking systems in 2017, a decrease of 17%. This trend was in keeping with the decision announced at the time of the Company's interim results in July 2016 to focus on its core fleet market and on only those insurance opportunities which offer satisfactory margins and which are closely aligned to its fleet business.

In line with this strategy, the Group developed and launched an insurance platform in 2016 which appeals to specialist insurance brokers. By the end of 2017 this proposition had been adopted and used by three insurance broker clients. These projects are relatively small in volume, but the development of this platform has offered an opportunity for Quartix to demonstrate the breadth of its capabilities in terms of technology, data analysis and management services. A key part of this is the SafeSpeed Database, which is the result of a 6-year development programme.

The SafeSpeed Database is a contextual speed scoring system which provides young drivers, insurers and fleet managers with risk assessment information and feedback based on a driver's speed in the context of the road being driven, rather than relying simply on the statutory speed limit as a risk indicator. More than 30 million vehicle data points are processed each day and mapped against over 2 million road segments. The database already holds more than 1 million speed distributions which are used in assessing driving behaviour and accident risk. A more detailed explanation of these capabilities is provided at www.quartix.net/insurance.

In addition to the business won so far with brokers, the new insurance platform appears to have significant appeal to some larger fleet customers in the UK, many of which underwrite their own vehicles for accident damage. We have seen an increased level of interest in the use of telematics as part of health, safety, and risk management policy. This also has a positive impact on the management of brand image for our customers, given that examples of poor driving behaviour are often posted on social media.

We feel that this insurance platform therefore offers us a further competitive advantage in our core fleet business in the UK.

Research and development

The Group is committed to continued investment in research to ensure that the functionality of its vehicle telematics services remain competitive across each of its three fleet markets as well as in the insurance sector. The principal areas of development focus in 2017 included:

1. Further development of the TCSV12 tracking system, which is believed to be one of the most compact on the market, allowing ease of user installation in approximately 90% of European vehicles. The product is being trialled by several key fleet prospects.
2. Electronic logging of driver hours for the US market. This application, which involves a direct connection to the vehicle's own bus and the use of an Android tablet device by the driver, was delivered in beta version to customers at the end of 2016. It was released in Q3 2017 and is now being enhanced to meet the full requirements of the US ELD specification. Further investment on this is expected in the first half of 2018.
3. Further development of the "powered by Quartix" insurance platform. This software platform includes software tools for both insurers and brokers and allows driver scoring based on a range of factors, but most significantly it makes use of our "SafeSpeed Database". The platform has been fully integrated with our fleet product offering and is now being promoted to larger fleet clients who are taking a much keener interest in the use of telematics in risk management.

All of our investment in research was fully expensed in the year. The total cost amounted to£1.1m, which represents a decrease of 24% compared to the prior year (2016: £1.4m).

Sales and marketing automation

The cost-effective acquisition and retention of fleet customers have always been of key strategic importance to the Company; it is these capabilities that set it apart from many of its peers and which drive the Company's financial success. During the second half of 2017 we enhanced this by implementing industry-leading proprietary sales and marketing automation platforms for our US operations. These are integrated directly with our existing, SQL-based, in-house systems and will enable the Company to continue to develop its competitive strength in these areas.

In December, we relaunched our US website (www.quartix.com) and integrated it fully with the marketing platform, thereby improving the effectiveness of our sales and marketing resources. We continue to receive significant numbers of new enquiries for our service in the USA, and the new platforms allow us to identify quickly the prospects which need immediate attention from our sales people, whilst at the same time providing a very effective automated response to all other enquiries. The marketing system tailors the approach taken depending on the nature of the prospect's fleet, in terms of size and sector, and over time it develops the customer's level of interest in Quartix to the point where the enquiry needs to be directed to a sales person. Although most new business is concluded with personal contact, a small but growing percentage of new orders are received directly via our website. These systems have had a positive impact on customer acquisition at the start of 2018. Further enhancement of the platform will be carried out throughout the year as we seek to maximise the benefit.

Strategic priorities

We believe that the Company has significant opportunity for growth in its fleet business, particularly in the USA. We ended the year with good growth in new customer acquisition and have taken the decision to make additional investments in marketing automation and business development in 2018.

Within the insurance sector, following the strategic decision to move away from low margin insurance sales, we will seek to target those opportunities which allow us to demonstrate and deliver the levels of service quality and value for which we have become known.

Andrew Walters
Chief Executive Officer

Strategic Report: Financial Review

Key Performance Indicators ("KPIs")

Year ended 31 December	2017	2016	% change
Fleet installations (units)	**27,227**	22,224	22.5
Fleet subscription base (units)	**105,314**	87,889	19.8
Fleet customer base	**10,961**	9,105	20.4
Fleet attrition (annualised) (%) [1]	**10.1**	10.0	-
Fleet invoiced recurring revenue[2] (£'000)	**15,605**	13,646	14.4
Fleet revenue (£'000)	**17,030**	14,909	14.2
Insurance installations (units)	**57,826**	69,300	(16.6)
Insurance revenue (£'000)	**7,458**	8,430	(11.5)

[1] Attrition in the year is the number of units installed (excluding upgrades), less the increase in subscription base, expressed as a percentage of the mean subscription base.
[2] Invoiced subscription charges before provision for deferred revenue

2017 was a year of good progress in our primary strategic objective of building our fleet subscription base.

We achieved over 27,000 fleet installations, an increase of 22.5% compared to 2016, with growth in all three of our geographical markets.

Our fleet installed base grew by 19.8% to 105,314 units.

Attrition during the period was consistent at 10.1%.

Group invoiced recurring revenue (before adjusting for deferred revenue) grew at 14.4% to £15.6m (2016: £13.6m).

The growth in fleet revenue at 14.2% was in line with the growth of our recurring revenue as our primary focus is on growing subscription revenue.

Insurance unit installations were down 16.6% at 57,826, in keeping with the decision announced in July 2016 to focus on only those insurance opportunities which offer satisfactory margins and which are aligned to our core fleet business.

Financial Overview

Year ended 31 December £'000 (except where stated)	2017	2016	% change
Revenue			
Fleet	**17,030**	14,909	14.2
Insurance	**7,458**	8,430	(11.5)
Total	**24,488**	23,339	4.9
Gross profit	**14,842**	14,063	5.5
Gross margin	**61%**	60%	
Operating profit	**6,593**	6,543	0.8
Operating margin	**27%**	28%	
Adjusted EBITDA	**7,199**	6,808	5.7
Profit for the year	**5,822**	6,087	(4.4)
Earnings per share	**12.27**	12.87	(4.7)
Cash generated from operations	**7,014**	6,812	3.0
Operating profit to operating cash conversion	**106%**	104%	
Free cash flow	**6,285**	6,005	4.7

Revenue

Revenue increased by 4.9% to £24.5m (2016: £23.3m). Fleet revenue, benefitting from past investment, was 14.2% up at £17.0m (2016: £14.9m). Sales to insurance customers decreased by 11.5% to £7.5m (2016: £8.4m).

Gross margin

Gross margin increased slightly to 60.6% (2016: 60.3%), despite increases in average unit costs following the devaluation of Sterling in 2016 and the funding of strong growth in new fleet installations in 2017.

Operating profit and Adjusted EBITDA

We continued to invest in our product offering, in our sales structure and in marketing which led to an increase in overheads of 9.7%. As a result, operating profit grew at 0.8% to £6.6m, a lower growth rate than gross profit. Adding back depreciation and share-based payment expense gives £7.2m of adjusted EBITDA (2016: £6.8m).

Part of this investment was in the USA where our customer base increased by 36% and revenue, as disclosed in note 3, increased to £1.2m ($1.5m) (2016: £0.7m). Losses in the USA were around £0.3m ($0.4m) (2016: losses of £0.8m).

Profit for the year

Our effective tax rate reflects the Group's investment in research. It increased from 6.9% in 2016 to 11.9% in 2017, the former benefitting from a corporation tax refund of £0.3m for patent box claims in respect of prior periods.

As a result, profit for the year fell by 4.4% to £5.8m (2016 £6.1m).

Financial Overview (continued)

Earnings per share

Earnings per share also fell as a result of the comparatively low tax charge in 2016. Earnings per share in 2017 were 12.27p (2016: 12.87p). Diluted earnings per share fell to 12.21p (2016: 12.78p).

Statement of financial position

Cash at the year-end was £7.3m (2016: £6.2m).

Cash flow

Cash generated from operations before tax at £7.0m (2016: 6.8m) was 106% of operating profit.

Tax paid in 2017 was £0.7m (2016: £0.6m), so cash flow from operating activity after taxation but before capital expenditure was £6.3m (2016: £6.2m including £0.3m refund for patent box claims in respect of prior periods).

Free cash flow, after £0.1m of capital expenditure, was £6.3m, a 4.7% increase (2016: £6.0m including patent box refunds).

The translation of cash flow into dividends is covered in the Chairman's Statement.

Risk management policies

The principal risks and uncertainties of the Group are as follows:

Attracting and retaining the right number of good quality staff

The Group believes that in order to safeguard the future of the business it needs to recruit, develop and retain the next generation of management. The impact of not mitigating this risk is that the Group ceases to be innovative and provide customers with the vehicle telematics services they require. Considerable focus has been given to recruitment, development and retention.

Particular attention has been given to the composition of the Operations Board over the last two years and in early 2017, Ed Ralph was appointed as Chief Operating Officer of Quartix Limited and Lynne Austin was appointed as a Director of Quartix Limited with responsibility for the company's UK fleet operations. In December, I joined as Chief Financial Officer.

The Group has a range of tailored incentive schemes which include the use of share options.

Reliance on M2M network

The Group's service delivery is dependent on a functioning M2M network covering both the internet and mobile data. The impact of not mitigating this risk is that the Group is exposed to an M2M outage. Quartix has dual site redundancy to cover a localised internet problem and we are constantly working on improving the reliability of our systems architecture.

Business disruption

Like any business the Group is subject to business disruption. This includes communications, physical disruption to our sites and problems with our key suppliers. The impact of not mitigating this risk is that the Group may not be able to service its customers. Quartix has a Business Continuity plan which is frequently updated and reviewed.

Financial Overview (continued)

Dependence on a key customer

As disclosed in note 3, during 2017 revenue of £7.0m was derived from one insurance customer, a specialist reseller for the insurance industry. Losing this key contract could have a significant negative impact on cash flow in the short term as the Group has a high level of fixed overheads. The Group has taken the strategic decision to move away from low margin insurance sales and widen its insurance customer base.

Cyber security

The Group needs to make sure its data is kept safe and that there is security of supply. The reputational and commercial impact of a security breach would be significant. To combat this, the Group has a security policy and prepares a monthly security report which is reviewed by the Operations Board. This process includes the use of outside consultants for penetration testing and security review.

Technology

Technology risks are perceived to arise from possible substitutes for the current Quartix product. Risks cited include everything from smart mobile phones to driverless cars.

The Group strategy is to review all new technical developments with the aim of adopting any which will provide a better channel for the information services which Quartix provides.

Daniel Mendis
Chief Financial Officer

The Strategic Report, comprising the Operational Review and Financial Review, was approved by the Board of Directors and signed on behalf of the Board on 23 February 2018.

Andrew Walters
Chief Executive Officer

Corporate Governance Report

Introduction

As the Company is listed on AIM, it is not required to, and does not, comply with the UK Corporate Governance Code (the "Code").

The Directors are committed to maintaining a high standard of corporate governance and the Directors refer to the 2013 Quoted Companies Alliance Governance Guidelines for Smaller Quoted Companies ("QCA Guidelines") to establish policies and procedures appropriate for a group of its size and nature.

Directors and the Board

Position	Director	Date of resignation	Date of appointment
Chairman	Paul Boughton		1 May 2014
Executive Directors	Andrew Walters		29 January 2008
	Daniel Mendis		1 January 2018
	Edward Ralph		25 July 2017
	David Bridge	11 January 2018	26 February 2008
Non-Executive Director	Jim Warwick		1 May 2014

Board committees

There are three Board committees: Audit, Nominations, and Remuneration. Each Committee is comprised of Non-Executive Directors.

The attendance of each Director to Board meetings is outlined below and can be compared with the number of meetings they were invited to attend.

Position	Director	**Board meeting attendance** (invitations)
Executive Directors	Andrew Walters	11 (11)
	Daniel Mendis (appointed 1 January 2018)	n/a
	Edward Ralph (appointed 25 July 2017)	5 (5)
	David Bridge	11 (11)
Non-Executive Directors	Paul Boughton	11 (11)
	Jim Warwick	11 (11)

Board committees (continued)

Audit Committee

Paul Boughton is Chairman of the Audit Committee which normally meets two times a year. The Committee exists to scrutinise and clarify any qualifications, recommendations and observations within the audited accounts and report of the Company's auditor. When satisfied, the Committee presents the audited accounts and report to the Company's Board and reviews the effectiveness of resultant corrective and preventative measures.

In performing this function, the key duties of the Committee are to:

- Monitor the integrity of the financial statements of the Group and any formal announcement relating to its financial performance
- With regards to financial reporting, review and challenge the consistency of accounting policies, the use of accounting methods over alternatives, whether the Group has followed appropriate accounting standards, the clarity of disclosure, and all material information relating to the audit and risk management
- Monitor the adequacy and effectiveness of the Group's internal financial controls, including the internal control and risk management systems. The Group's Risk Register is reviewed at least twice a year by the main board. A list of Matters Reserved for the Board was adopted in January 2016 including ensuring a sound system of internal control and risk management. All systems issues or unexpected outcomes are brought to the attention of the board.
- Ensure that the Group's arrangements for its employees and contractors to confidentially raise concerns about possible wrongdoing allow proportionate and independent investigation and appropriate follow up action
- Consider the need to implement an internal audit function
- Make recommendations to the Board and the Company's shareholders regarding the appointment, re-appointment, and removal of the Company's external auditor. It ensures that at least once every ten years the audit services contract is put out to tender to enable the Committee to compare the quality and effectiveness of the services provided by the incumbent auditor
- Oversee the Company's relationship with the external auditor

Nominations Committee

The Nominations Committee is chaired by Paul Boughton. The Committee reviews the structure, size and composition of the Board to ensure the leadership of the Group is the most proficient to facilitate the Group's ability to effectively compete in the marketplace. It makes recommendations to the Board regarding the continued suitability of any Director, the re-election by shareholders of any Director under the 'retirement by rotation' provisions in the Company's Articles of Association, and succession planning for Directors and other Senior Executives. If necessary, the Committee will identify and nominate candidates they believe suitable to fill Board vacancies.

Board committees (continued)

Remuneration Committee

Jim Warwick chairs the Remuneration Committee. It acts to ensure sound Corporate Governance with respect to director and senior management remuneration and meets at least twice a year. The Committee functions with the objective of attracting, retaining and motivating the executive management of the Company and ensuring they are rewarded in a fair and responsible manner for their contribution to the success of the Group.

The role of the Committee is to determine and agree with the Board the framework or broad policy for the remuneration of the Company's Chairman and Executive Directors, including pension rights and compensation payments. It also recommends and monitors the level and structure of remuneration for senior management. When setting the remuneration policy, the Committee reviews and considers the pay and employment conditions across the Group, especially when determining salary increases.

Relations with shareholders

The Group maintains regular dialogue with institutional investors who, along with City analysts, are invited to presentations immediately after the announcement of the Group's interim and full year results. Shareholders have the opportunity to meet and question the Board and its Committees at the AGM. A detailed explanation of each item of special business to be considered at the AGM is included with the Notice of Annual General Meeting which is usually sent to shareholders at least 21 working days before the meeting.

Internal financial control

The key three controls are:

- Segregation of duties
- Monitoring and reporting
- Requiring a high level of integrity for key roles

The Board recognises the importance of robust and reliable financial reporting procedures and reviews the procedures it operates on a regular basis.

There are Group wide minimum control standards for such issues as Health and Safety which are listed in around 30 policy documents. In addition, an extensive range of accounting systems and procedures are documented and maintained.

Going concern

The Board takes all reasonable steps to review and consider any factors that may affect the ability of the Group to continue as a going concern.

The Group's forecasts and projections, taking account of reasonably possible changes in trading performance, show that the Group is able to generate sufficient liquidity.

The Group enjoys a strong income stream from its fleet subscription base while current liabilities include a substantial provision for deferred revenue which is a non cash item.

After assessing the forecasts and liquidity of the business for the next two calendar years and the longer term strategic plans, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. The Group therefore continues to adopt the going concern basis in preparing consolidated financial statements.

Directors' Remuneration Report

Introduction

The Remuneration Committee is chaired by Jim Warwick and also includes Paul Boughton. Its creation was confirmed by the Board of Directors on 3 October 2016 in accordance with the Company's Articles of Association. The Committee's fundamental purpose is to ensure sound Corporate Governance with respect to director and senior management remuneration. In the year 2017 it will meet at least twice a year to ensure this is achieved.

Remuneration Committee

The Committee functions with the objective of attracting, retaining and motivating the executive management of the Company and ensuring they are rewarded in a fair and responsible manner for their contribution to the success of the Group. Their key duties are:

- Agree a remuneration framework for the Chairman and Executive Directors and agree this with the Board of Directors
- Determine the total individual remuneration package of the Chairman, Executive Directors, Company Secretary and other Senior Executives. This may include bonuses, incentive payments, and share options
- Recommend and monitor the level and structure of remuneration for senior management
- Oversee any major changes in employee benefits structures throughout the Group
- Assess and submit the design of all share incentive plans for approval by the Board and shareholders. This will comprise whether any awards will be made, if so how much, the individual awards to Executive Directors, Company Secretary & other Senior Executives, and the performance targets to be used
- Establish a policy for authorising expenses claims from the Directors
- Review the ongoing appropriateness and relevance of the remuneration policy

The Remuneration Committee may, in the course of its duties, obtain reliable, up-to-date information regarding remuneration in other companies of comparable scale, and appoint remuneration consultants to advise them if this is deemed necessary.

Remuneration of Executive Directors

The Directors' remuneration packages are comprised of a salary and the opportunity to enrol in the Governments' auto-enrolment pension scheme. At present the Remuneration Committee, at the Executive Directors' request, have concluded that no bonus, other benefits, with the exception of share option grants noted below, nor compensation for loss of office will be paid. See below for a breakdown of the Directors' remuneration packages.

Non-Executive Directors

A Non-Executive Director is typically expected to serve two three-year terms but may be invited by the Board to serve for an additional period. Any term renewal is subject to Board review and AGM re-election.

		Date of contract	Unexpired period at date of report
Paul Boughton	Chairman	1 May 2017	26 months
Jim Warwick		1 May 2017	26 months

Directors' detailed emoluments and compensation (audited)

		2017 (£)			2016 (£)
		Salary	**Pension**	**Total**	Total
Executive Directors	Andrew Walters[1]	85,056	-	85,056	83,388
	Edward Ralph[2]	47,231	500	47,731	-
	David Bridge	83,420	851	84,271	82,939
		215,707	1,351	217,058	166,327
Non-Executive Directors	Paul Boughton	50,000	-	50,000	50,000
	Jim Warwick	38,333	-	38,333	35,000
		88,333	-	88,333	85,000

[1] Highest paid director in 2017
[2] Salary paid from date of appointment on 25 July 2017

Directors and their interests in shares

Year ended 31 December		**Ordinary shares £0.01 each** 2017	2016
Executive Directors	Andrew Walters[1]	**17,855,986**	17,855,986
	Edward Ralph	**97,573**	-
	David Bridge[2]	**2,600,500**	2,663,000
		20,554,059	20,518,986
Non-Executive Directors	Paul Boughton	**53,889**	40,000
	Jim Warwick	**73,333**	40,000
		20,681,281	20,598,986

[1] Includes shares held as family interests or by virtue of position as beneficiary or potential beneficiary of certain trusts
[2] On 16 January 2018, 1,200,000 shares were sold reducing the holding to 1,400,500

Edward Ralph was granted options over ordinary shares of 586,956 in the year ending 31 December 2017 (see note 19). None were granted to Directors for the year ending 31 December 2016.

Daniel Mendis, appointed Chief Financial Officer on 1 January 2018, was granted options over ordinary shares of 280,000 on 1 December 2017.

Jim Warwick
Chairman, Remuneration Committee

Directors' Report

The Directors present their annual report and the financial statements of the Company for the year ended 31 December 2017.

Principal activity

The principal activity of the Group during the year was the design, development, marketing and delivery of vehicle telematics services. The Group has an overseas branch in France and an overseas subsidiary in the USA. The Parent Company is incorporated and domiciled in the UK. The registered office is Wellington House, East Road, Cambridge, CB1 1BH.

Research and development

Please see the Strategic Report on page 9 for further information about the Group's approach to research and development.

Future developments

The Company's intentions regarding investment and business development can be found under Strategic priorities on page 9.

Proposed dividend

In the year ending 31 December 2017, the Board decided to pay an interim dividend of 2.4p per ordinary share. This totalled £1.14m and was paid on 14 September 2017 to shareholders on the register as at 18 August 2017.

The Board is recommending a final dividend of 4.3p per share, together with a supplementary dividend of 6.8p per share, giving a final payment of 11.1p per share, amounting to approximately £5.3m in aggregate and giving a total dividend for the year equivalent to 13.5p per share. If this is approved at the forthcoming AGM on 27 March 2018, the final dividend will be paid on 4 May 2018 to shareholders on the register as at 6 April 2018.

Major interest in shares

On 23 February 2018, the Company had been notified that six parties had holdings of 3% or more in the ordinary share capital of the Company. The number of ordinary shares and the percentage of the total shares held by each party is outlined below.

	Number of £0.01 shares	% of total
Andrew Walters[1]	17,855,986	37.5
Andrew Kirk	4,009,853	8.4
Cat Rock Capital Master Fund LP	3,431,509	7.2
Liontrust Investment Partners LLP	2,956,117	6.2
William Hibbert	2,663,000	5.6
BlackRock	2,158,192	4.5
Kenneth Giles	1,871,800	3.9

[1] Includes shares held as family interests or by virtue of position as beneficiary or potential beneficiary of certain trusts

Directors
The Non-Executive Directors who held office during the year are listed below:

- Paul Boughton (Chairman)
- Jim Warwick

The Executive Directors who held office during the year are listed below:

- Andrew Walters
- Edward Ralph
- David Bridge

All Executive Directors have service agreements with the Company terminable by either party upon the minimum notice period being met. The minimum notice period is 12 months for Andrew Walters and 6 months for Edward Ralph. Daniel Mendis was appointed Chief Financial Officer on 1 January 2018 with a notice period of 6 months.

The Company's Articles of Association require all Directors to stand for re-election each year at the AGM. The next AGM will take place on 27 March 2018.

Directors' responsibilities statements
The Directors are responsible for preparing the Strategic Report, Remuneration Report, Directors' Report and the financial statements in accordance with applicable law and regulations.

Company Law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the consolidated financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and have elected to prepare the Parent Company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable laws including FRS 101 Reduced Disclosure Framework). Under Company Law the Directors must not approve the financial statements unless they give a true and fair view of the state of affairs and profit or loss of the Company and Group for that period. In preparing these financial statements, the Directors are required to:

- Select suitable accounting policies and apply them consistently
- Make judgements and estimates that are reasonable and prudent
- State whether applicable IFRSs have been followed, subject to any material departures disclosed and explained in the consolidated financial statements
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group will continue in business
- State whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the Company financial statements

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group's transactions and 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 2006. 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.

Directors' responsibilities statements (continued)

The directors confirm that:

- so far as each director is aware, there is no relevant audit information of which the company's auditor is unaware; and
- the directors have taken all the steps that they ought to have taken as directors in order to make themselves aware of any relevant audit information and to establish that the company's auditor is aware of that information.

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

Financial risk management policies and objectives

The Group manages its key financial risks as follows. Further details are provided in note 25.

Credit risk

The principal credit risk relates to trade receivables and is mitigated, where possible, by third party credit clearance for new customers and collection by direct debit, or similar. The Group seeks to manage credit risk associated with cash deposits by using banks with high credit ratings assigned by international credit rating agencies.

Currency risk

This is managed by seeking to match currency inflows and outflows.

Directors' and officers' liability insurance

The Company maintains insurance cover for the Directors and key personnel against liabilities which may be incurred by them while carrying out their duties.

Auditors

The Directors have individually pursued all steps that they ought to have taken in their roles as Directors to ensure they are aware of any relevant audit information and that such information has been relayed to the Company's auditors. The Directors each confirm that there is no relevant information of which the Company's Auditors are unaware.

The Auditor, Grant Thornton UK LLP, will be proposed for reappointment in accordance with section 485 of the Companies Act 2006.

Approved by the Board of Directors and signed on behalf of the Board on 23 February 2018.

Andrew Walters
Chief Executive Officer

Independent Auditor's Report to the Members of Quartix Holdings plc

Opinion

Our opinion on the financial statements is unmodified

We have audited the financial statements of Quartix Holdings Plc (the 'parent company') and its subsidiaries (the 'group') for the year ended 31 December 2017, which comprise the Consolidated Statement of Comprehensive Income, the Consolidated Statement of Financial Position, the Consolidated Statement of Changes in Equity, the Consolidated Statement of Cash Flows, the Parent Company Statement of Financial Position, the Parent Company Statement of Changes in Equity and notes to the Consolidated and Parent Company financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in the preparation of the group financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 101 'Reduced Disclosure Framework' (United Kingdom Generally Accepted Accounting Practice).

In our opinion:

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2017 and of the group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the group and the parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Who we are reporting to

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

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or

- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the group's or the parent company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Overview of our audit approach

- Overall group materiality: £264,000, which represents 4% of the Group's profit before taxation
- Key audit matters were identified as revenue occurrence and deferred revenue
- We performed full scope audit procedures on the financial statements of Quartix Holdings Plc and on the financial information of Quartix Limited. We performed targeted audit procedures on the financial information of Quartix Inc.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those that had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key Audit Matter – Group	How the matter was addressed in the audit – Group
Revenue occurrence	
Under International Standard on Auditing (UK) 240 'The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements', there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue. The Group's principal revenue stream relates to the provision of telematics vehicle tracking services to customers. Revenue is recognised over the period that services are provided and includes the provision of a telematics unit and the provision of a data service. The Group has two types of customers, Fleet and Insurance, and has adopted business models tailored to the respective customer type. The Group has a high volume of revenue transactions, which exposes the Group to the risk of invalid transactions within the revenue population if telematics units in use are not accurately captured and revenue recorded. Revenue is a material figure in the financial statements (2017 £24,488,000; 2016	Our audit work on revenue separately addressed the two types of customers, Fleet and Insurance, because Quartix provide a different business model to each type of customer and therefore billing terms and the revenue recognition process associated with each customer type is different. Our audit work included, but was not restricted to: • Evaluating the group's stated accounting policies in respect of revenue recognition, whether these were consistent with International Accounting Standard (IAS) 18 'Revenue' and whether they were applied accurately and consistently by the Group. **Fleet customer revenue** • Testing a sample of Fleet customer revenue transactions to the Quartix database which captures billing information and corroborating the occurrence of this revenue to cash receipts;

Key Audit Matter – Group	How the matter was addressed in the audit – Group
£23,339,000). Fleet customers account for 70% (2016 64%) of revenue and Insurance customers account for 30% (2016 36%) of revenue. We therefore identified revenue occurrence as a significant risk, which was one of the most significant assessed risks of material misstatement.	• Testing a sample of Fleet customer master file updates of the Quartix database and agreeing customer and billing information to the agreed contractual terms; • Completing analytical review procedures of revenue recognised in the year based on numbers of units captured in the database including variance review compared to the prior year. **Insurance customer revenue** • Performing substantive analytical procedures over the revenue from insurance customers, based on numbers of units and pricing per unit; • Testing a sample of recorded revenue transactions with insurance customers back to invoice and billing details. The group's accounting policy on revenue, including its recognition, is shown in note 1 to the financial statements and related disclosures are included in note 3. **Key observations** Our audit work did not identify any material misstatements in the occurrence of revenue recognised in the year or any material instances of revenue not being recognised in accordance with the stated accounting policy.
Deferred revenue	
As the company invoices in advance the deferred revenue balance is material (2017 £2,708,000; 2016 £2,591,000). The balance is driven by the contract terms and number of units and at risk of material misstatement if the data is not captured appropriately. Together with our work on revenue occurrence the deferred revenue element requires significant auditor attention. We therefore identified deferred revenue as a significant risk, which was one of the most significant assessed risks of material misstatement.	Our audit work on deferred revenue separately addressed the two types of customers, Fleet and Insurance, because Quartix provide a different business model to each type of customer and therefore billing terms and the revenue recognition process associated with each customer type is different. Our audit work included, but was not restricted to: • Testing a sample for Fleet customers back to contract information and agreeing to the deferred revenue calculation

Key Audit Matter – Group	How the matter was addressed in the audit – Group
	• Recalculating an estimate for the year end deferred revenue balance based on invoicing in the final quarter; and • Undertaking substantive analytical procedures on the total deferred revenue from insurance customers based on the date of installation of units invoiced to insurance customers. The group's accounting policy on revenue is shown in note 1 to the financial statements. **Key observations** Our audit work did not identify any material misstatement in the deferred revenue balance at the year-end.

Our application of materiality

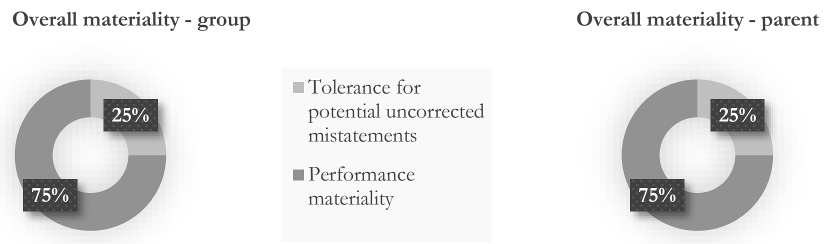
We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality in determining the nature, timing and extent of our audit work and in evaluating the results of that work.

Materiality was determined as follows:

Materiality measure	Group	Parent
Financial statements as a whole	£264,000, which represents 4% of the group's profit before taxation. This benchmark is considered the most appropriate because the group is a commercial organisation and profit before taxation is a key financial measure for the directors and the shareholders. Materiality for the current year is higher than the level that we determined for the year ended 31 December 2016 to reflect the increase in the group's profit before taxation.	£198,000, which is 1% of the parent company's total assets. This benchmark is considered the most appropriate because the entity is a non-trading holding company. Materiality for the current year is higher than the level that we determined for the year ended 31 December 2016 to reflect the increase in the company's total assets.
Performance materiality used to drive the extent of our testing	75% of financial statement materiality.	75% of financial statement materiality.
Specific materiality	We also determine a lower level of specific materiality for certain areas such as directors' remuneration and related party transactions.	We also determine a lower level of specific materiality for certain areas such as directors' remuneration and related party transactions.

Communication of misstatements to the audit committee	£13,000 and misstatements below that threshold that, in our view, warrant reporting on qualitative grounds.	£10,000 and misstatements below that threshold that, in our view, warrant reporting on qualitative grounds.

The graph below illustrates how performance materiality interacts with our overall materiality and the tolerance for potential uncorrected misstatements.



An overview of the scope of our audit

Our audit approach was a risk-based approach founded on a thorough understanding of the group's business, its environment and risk profile and in particular included:

- Assessing the risk of material misstatement to the Group financial statements. We considered the transactions undertaken by each entity and therefore where the focus of our work was required.
- Full scope audit procedures were completed for the main trading subsidiary, Quartix Limited, which provides services to customers based in the UK, France and the Republic of Ireland. Targeted audit procedures were performed for Quartix Inc which provides services to US based customers. All accounting is centralised and we completed our onsite audit work at the Group's main operating location with all audit work undertaken by the group audit team.
- The audit risks identified for each trading component are the same audit risks identified for the Group as a whole.
- Full scope audit procedures were performed for the parent Quartix Holdings Plc which is a non trading holding company.

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Our opinion on other matters prescribed by the Companies Act 2006 is unmodified

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report under the Companies Act 2006

In the light of the knowledge and understanding of the group and the parent company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the directors' report.

Matters on which we are required to report by exception

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

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

Responsibilities of directors for the financial statements

As explained more fully in the directors' responsibilities statement set out on page 20, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the group's and the parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Alison Seekings
Senior Statutory Auditor
for and on behalf of Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
Cambridge
23 February 2018

Consolidated Statement of Comprehensive Income

Year ended 31 December	Notes	**2017** **£'000**	2016 £'000
Revenue	3	**24,488**	23,339
Cost of sales		**(9,646)**	(9,276)
Gross profit		**14,842**	14,063
Administrative expenses		**(8,249)**	(7,520)
Operating profit		**6,593**	6,543
Finance income receivable	7	**17**	21
Finance costs payable	8	**-**	(24)
Profit for the year before taxation	4	**6,610**	6,540
Tax expense	9	**(788)**	(453)
Profit for the year		**5,822**	6,087
Other Comprehensive income:			
Items that may be reclassified subsequently to profit or loss:			
Exchange difference on translating foreign operations		**201**	(255)
Tax benefit (expense)		**-**	-
Other comprehensive income for the year, net of tax		**201**	(255)
Total comprehensive income attributable to the equity shareholders of Quartix Holdings plc		**6,023**	5,832
Earnings per ordinary share (pence)	10		
Basic		**12.27**	12.87
Diluted		**12.21**	12.78

Consolidated Statement of Financial Position

Company registration number: 06395159

	Notes	2017 £'000	2016 £'000
Assets			
Non-current assets			
Goodwill	11	**14,029**	14,029
Property, plant and equipment	12	**234**	360
Deferred tax assets	17	**149**	141
Total non-current assets		**14,412**	14,530
Current assets			
Inventories	13	**703**	680
Trade and other receivables	14	**3,009**	2,591
Cash and cash equivalents	15	**7,312**	6,249
Total current assets		**11,024**	9,520
Total assets		**25,436**	24,050
Current liabilities			
Trade and other payables	16	**2,853**	2,892
Deferred revenue		**2,708**	2,591
Current tax liabilities		**423**	238
		5,984	5,721
Total liabilities		**5,984**	5,721
Net assets		**19,452**	18,329
Equity			
Called up share capital	18	**476**	474
Share premium account	18	**4,869**	4,702
Equity reserve	19	**529**	281
Capital redemption reserve		**4,663**	4,663
Translation reserve		**(103)**	(304)
Retained earnings		**9,018**	8,513
Total equity attributable to equity shareholders of Quartix Holdings plc	27	**19,452**	18,329

Approved by the Board of Directors, authorised for issue and signed on behalf of the Board on 23 February 2018.

Andrew Walters
Chief Executive Officer

Consolidated Statement of Changes in Equity

	Share capital £'000	Share premium account £,000	Capital redemption reserve £'000	Equity reserve £'000	Translation reserve £'000	Retained earnings £'000	Total equity £'000
Balance at 31 December 2015	**472**	**4,631**	**4,663**	**177**	**(49)**	**5,303**	**15,197**
Shares issued	2	71	-	-	-	-	**73**
Increase in equity reserve in relation to options issued	-	-	-	113	-	-	**113**
Adjustment for exercised options	-	-	-	(56)	-	56	**-**
Deferred tax on share Options	-	-	-	47	-	-	**47**
Dividend paid	-	-	-	-	-	(2,933)	**(2,933)**
Transactions with owners	**2**	**71**	**-**	**104**	**-**	**(2,877)**	**(2,700)**
Foreign currency translation differences	-	-	-	-	(255)	-	**(255)**
Profit for the year	-	-	-	-	-	6,087	**6,087**
Total comprehensive income	**-**	**-**	**-**	**-**	**(255)**	**6,087**	**5,832**
Balance at 31 December 2016	**474**	**4,702**	**4,663**	**281**	**(304)**	**8,513**	**18,329**
Shares issued	2	167	-	-	-	-	**169**
Increase in equity reserve in relation to options issued	-	-	-	420	-	-	**420**
Adjustment for exercised options (note 19)	-	-	-	(104)	-	104	**-**
Deferred tax on share Options	-	-	-	(68)	-	-	**(68)**
Dividend paid	-	-	-	-	-	(5,421)	**(5,421)**
Transactions with owners	**2**	**167**	**-**	**248**	**-**	**(5,317)**	**(4,900)**
Foreign currency translation differences (note 25)	-	-	-	-	201	-	**201**
Profit for the year	-	-	-	-	-	5,822	**5,822**
Total comprehensive income	**-**	**-**	**-**	**-**	**201**	**5,822**	**6,023**
Balance at 31 December 2017	**476**	**4,869**	**4,663**	**529**	**(103)**	**9,018**	**19,452**

Consolidated Statement of Cash Flows

	Notes	**2017 £'000**	2016 £'000
Cash generated from operations	20	**7,014**	6,812
Taxes paid		**(679)**	(639)
Cash flow from operating activities		**6,335**	6,173
Investing activities			
Additions to property, plant and equipment	12	**(67)**	(189)
Interest received	7	**17**	21
Cash flow used in investing activities		**(50)**	(168)
Cash flow used in operating activities after investing activities (free cash flow)		**6,285**	6,005
Financing activities			
Repayment of long term borrowings		**-**	(1,000)
Interest paid		**-**	(29)
Proceeds from share issues		**169**	73
Dividend paid		**(5,421)**	(2,933)
Cash flow from financing activities		**(5,252)**	(3,889)
Net changes in cash and cash equivalents		**1,033**	2,116
Cash and cash equivalents, beginning of year		**6,249**	4,040
Exchange differences on cash and cash equivalents	25	**30**	93
Cash and cash equivalents, end of year	15	**7,312**	6,249

Notes to the Consolidated Financial Statements

1 Summary of significant accounting policies

Basis of accounting

These financial statements are consolidated financial statements for the Group consisting of Quartix Holdings plc, a company registered in the UK, and all its subsidiaries. These consolidated financial statements are for the year ended 31 December 2017 and are prepared in Sterling and are rounded to the nearest thousand pounds (£'000). They have been prepared in accordance with IFRS as adopted by the European Union (EU) ('IFRS') and in accordance with those parts of the Companies Act 2006 that are relevant to companies which report under IFRS.

These financial statements have been prepared under the historical cost convention.

The Group has not adopted any new standards or amendments that have a significant impact on the Group's results or financial position. The standards and interpretations in issue but not effective for accounting periods commencing on 1 January 2017 that may impact on Quartix Holdings plc going forward are listed below. Quartix Holdings plc has not adopted these early.

Outlook for adoptions of future standards (new and amended)

At the date of authorisation of the consolidated financial information, the following standards and interpretations which have not yet been applied in the consolidated financial information were in issue but not yet effective (and in some cases had not yet been adopted by the EU):

Number	Title	Effective
IFRS 9	Financial instruments	1 January 2018
IFRS 15	Revenue from contracts with customers	1 January 2018
IFRS 16	Leases	1 January 2019
Annual Improvements	2014-2016 Cycle	Not yet endorsed
Annual Improvements	2015-2017 Cycle	Not yet endorsed

IFRS 15 'Revenue from Contracts with Customers' replaces IAS18 'Revenue' for accounting periods beginning 1 January 2018.

Currently, revenue from hardware sales, including insurance telematics contracts, is recognised upon installation of the unit or despatch of the unit if the customer does their own installation. Revenue from installation is recognised upon installation and revenue from the provision of telematics-based fleet and vehicle management solutions is recognised over the period in which the service is provided.

Under IFRS 15, the Group must evaluate the separability of the promised goods or services based on whether they are 'distinct'. A promised good or service is 'distinct' if both:

- the customer benefits from the item either on its own or together with other readily available resources; and
- it is 'separately' identifiable (i.e. the Group does not provide a significant service integrating, modifying or customising it).

The Group is completing a detailed assessment of its sources of revenue and has assessed whether the components of hardware, installation and data services are distinct under the new definitions of IFRS 15. The preliminary conclusion is that the Group's activities of supplying telematics units and installing telematics units are activities the Group undertakes to provide its telematics services and are supplied as part of a contract with the customer.

1 Summary of significant accounting policies (continued)

Outlook for adoptions of future standards (new and amended) (continued)

This means that the Group will consider these goods and services as one single performance obligation. As a consequence, on adoption of IFRS 15, the Group will no longer recognise revenue separately for these goods and services; rather, it will recognise this revenue together as the provision of vehicle telematics services.

The principal impact of this change will relate to the timing of revenue for units purchased by insurance customers, with the total contractual revenue sum being recognised over the contractual period for the provision of data services, which is one year.

The preliminary conclusion in relation to costs is that the unit costs will be recognised when the Group relinquishes control of the unit, since the unit and its installation forms part of the entire performance obligation. It is anticipated that installation costs and distributor commissions will be expensed as incurred.

The financial impact of the adoption of IFRS 15 is very difficult to quantify since it is dependent on the volume of contracts sold during the year and is therefore subject to estimation uncertainty; however, current estimates indicate that the impact of this change on 2018 results will be a credit to profit or loss of £0.1m, with no material impact on 2017 results. The change in recognising the timing of revenue will increase the deferred revenue liability at 31 December 2018, driven by the deferral of insurance revenue, by an estimated £3.1m.

IFRS 16 will require the operating leases held by the Group to be reflected within the Statement of Financial Position. IFRS 9 is not expected to have a material impact on the Group's consolidated financial statements.

Basis of consolidation

The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. Control is achieved where the Company has the power over an investee entity, currently obtained through ownership of the share capital, so as to obtain benefits from its activities. The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate. Intra-group balances and any unrealised gains and losses or income and expenses arising from intra-group transactions are eliminated in preparing the consolidated financial statements. A list of subsidiaries is included note 28.

Going concern

The Group's forecasts and projections, taking account of reasonably possible changes in trading performance, show that the Group is able to generate sufficient liquidity.

The Group enjoys a strong income stream from its fleet subscription base while current liabilities include a substantial provision for deferred revenue which is a non cash item.

After assessing the forecasts and liquidity of the business for the next two calendar years and the longer term strategic plans, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. The Group therefore continues to adopt the going concern basis in preparing consolidated financial statements.

Segmental reporting

The Group has concluded that it operates only one segment as defined by IFRS 8. The information used by the Group's chief operating decision makers, who are considered to be the Operations Board, to make decisions about the allocation of resources and assessing performance is presented in a format consistent with that repeated in the financial statements. Assets are not directly attributable to any separate activity.

1 Summary of significant accounting policies (continued)

Revenue
Revenue is the amount receivable for goods and services, excluding VAT. It is measured at the fair value of consideration received or receivable, excluding sales taxes, rebates, and trade discounts. Revenue comprises the provision of telematics-based fleet and vehicle management solutions and is recognised over the period in which the service is provided. Amounts received in advance of the provision of services are included within deferred income.

Revenue from hardware sales, including insurance telematics contracts, is recognised upon installation of the unit or despatch of the unit if the customer does their own installation. Revenue from installation is recognised upon installation.

The associated cost including installation of hardware is recognised as incurred and not spread over the life of the contract: likewise, distributors' commissions are accounted for when incurred and not spread over the life of the contract.

Intangible assets
Goodwill arising on consolidation represents the excess of the consideration transferred and the amount of any non-controlling interest in the acquiree over the fair value of the identifiable assets and liabilities (including intangible assets) of the acquired entity at the date of the acquisition. Goodwill is recognised as an asset and assessed for impairment annually or as triggering events occur. Any impairment is recognised immediately in profit or loss.

Property, plant and equipment
Property, plant and equipment is stated at cost, net of depreciation and any provision for impairment.

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

- Tools and equipment 25% straight line
- Office equipment 25% straight line
- Leasehold improvements The life of the lease

Research and development
Expenditure on research activities is recognised as an expense in the period in which it is incurred. In the event that an internally generated intangible asset arises from the Group's development activities then it will be recognised only if all of the following conditions are met:

- Technical feasibility of completing the intangible asset
- The ability to use the asset.
- An asset is created that can be identified (such as software and new processes)
- It is probable that the asset created will generate future economic benefits
- The development cost of the asset can be measured reliably

Where no internally-generated intangible asset can be recognised, development expenditure is recognised as an expense in the period in which it is incurred.

1 Summary of significant accounting policies (continued)

Impairment testing of intangible assets and property, plant and equipment

An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount, which is the higher of fair value less costs of disposal and value-in-use. To determine the value-in-use, management estimates expected future cash flows and determines a suitable interest rate in order to calculate the present value of those cash flows. The data used for impairment testing procedures are directly linked to the Group's latest approved budget. Discount factors are determined individually for each cash-generating unit and reflect management's assessment of respective risk profiles, such as market and asset-specific risks factors. The cash-generating units are the separate legal entities within the Group as there is no segmentation in the subsidiaries.

Property, plant and equipment are tested for impairment if events or changes in circumstances (assessed at each reporting date) indicate that the carrying amount may not be recoverable.

If a cash-generating unit is impaired, provision is made to reduce the carrying amount of the related assets to their estimated recoverable amount. Impairment losses are allocated firstly against goodwill, and secondly on a pro rata basis against intangible and other assets.

Operating lease agreements

Payments made under operating leases are charged to profit or loss on a straight line basis over the lease term. Lease incentives are spread over the term of the lease.

Inventories

Components held for manufacture of vehicle tracking units and units not yet deployed to customers are classified as inventory. Inventories are stated at cost less provision for obsolete, slow moving or defective items. Cost is based on the cost of purchase on a first in first out basis. Provision against inventories is recognised as an expense in the period in which the write-down or loss occurs.

Taxation

Current tax is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted at the Statement of Financial Position date.

Deferred income taxes are calculated using the liability method on temporary differences. Deferred tax is generally provided on the difference between the carrying amounts of assets and liabilities and their tax bases. However, deferred tax is not provided on the initial recognition of goodwill, nor on the initial recognition of an asset or liability unless the related transaction is a business combination or affects tax or accounting profit. Tax losses available to be carried forward as well as other income tax credits to the Group are assessed for recognition as deferred tax assets and are recognised to the extent that it is regarded as more likely than not that they will be recovered from future trading profits.

Deferred tax liabilities are provided in full, with no discounting. Current and deferred tax assets and liabilities are calculated at tax rates that are expected to apply to their respective period of realisation, provided they are enacted or substantively enacted at the Statement of Financial Position date.

Changes in deferred tax assets or liabilities are recognised as a component of tax expense in profit or loss, other comprehensive income or equity as appropriate.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits, together with other short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value.

1 Summary of significant accounting policies (continued)

Financial assets

Trade and other receivables are classified as loans and receivables, and are initially recognised at fair value. Subsequently, loans and receivables are measured at amortised cost using the effective interest method, less provision for impairment. Any change in their value through impairment or reversal of impairment is recognised in profit and loss.

Provision against trade receivables is made when there is objective evidence that the Group will not be able to collect all amounts due to it in accordance with the original terms of those receivables. The amount of the write-down is determined as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted using the original effective interest rate.

Financial liabilities

Financial liabilities are obligations to pay cash or other financial assets and are recognised when the Group becomes a party to the contractual provisions of the instrument.

Financial liabilities are recorded initially at fair value and subsequently at amortised cost using the effective interest method, with interest-related charges recognised as an expense in finance cost in the profit and loss.

A financial liability is derecognised when the obligation is extinguished.

Equity

Equity comprises the following:

- "Called Up Share capital" represents the nominal value of equity shares
- "Share premium account" represents the excess over nominal value of the fair value of consideration received for equity shares, net of expenses of the share issue
- “Capital redemption reserve” represents the amount by which the Company's issued share capital is diminished when shares are redeemed or purchased wholly out of the Company's profits
- “Equity reserve” is used to reflect the expenses associated with granting share options to employees and the issue of warrants
- “Translation reserve” represents the exchange difference arising on the consolidation of foreign operations.
- "Retained earnings" represents retained profits

Foreign currencies

The Parent Company's functional currency is Sterling. The French branch’s is Euros, with its results translated for inclusion in Quartix Limited’s Sterling accounts. Quartix Inc has a functional currency of US Dollars.

The consolidated financial statements are presented in Sterling, which is the Group’s presentation currency. Transactions in foreign currencies are translated into the respective currencies of Group companies at the exchange rate ruling at the date of the transaction. Monetary assets and liabilities in foreign currencies are translated at the rates of exchange ruling at the Statement of Financial Position date. Foreign exchange differences arising on translation of monetary assets and liabilities are recognised in the Consolidated Statement of Comprehensive Income. Non-monetary assets and liabilities that are measured at historical costs in a foreign currency are translated using the exchange rates at the dates for the transactions.

1 Summary of significant accounting policies (continued)

Foreign currencies (continued)
Income and expenses for all the Group entities that have a functional currency other than Sterling are translated at the average rate prevailing in the month of the transaction. The assets and liabilities are retranslated at the closing exchange rate at the reporting date.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities are recognised in the translation reserve, as a separate component of equity.

Employee benefits
The only pension provision is participation in the UK Government's NEST pension scheme, which is a defined contribution scheme. Contributions to defined contribution pension schemes are recognised as an employee benefit expense within personnel expenses in the income statement, as incurred. Other employee benefits including holiday pay, company sick pay and a range of tailored incentive schemes, some of which include the grant of share options, are recognised in the period that related employee services are received.

Dividends
Dividends attributable to the equity holders of the Company approved for payment during the year are recognised directly in equity.

Employee benefits: share based payments
The Group operates a number of employee share schemes under which it makes equity-settled share-based payments to certain employees.

Where employees are rewarded using share-based payments, the fair values of employees' services are determined indirectly by reference to the fair value of the instrument granted to the employee. This fair value is assessed at the grant date, using the Black-Scholes method, and excludes the impact of non-market vesting conditions.

The expense is allocated over the vesting period, based on the best available estimate of the number of share options expected to vest. Estimates are subsequently revised if there is any indication that the number of share options expected to vest differs from previous estimates. Any cumulative adjustment prior to vesting is recognised in the current period. No adjustment is made to any expense recognised in prior periods if share options ultimately exercised are different to that estimated on vesting.

2 Key judgements and estimates
The Group make estimates and assumptions regarding the future. Actual results may differ from these estimates. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities within the next financial year are addressed below.

Key judgement: capitalisation of development costs
The point at which development costs meet the criteria for capitalisation is critically dependent on management's judgment of the probability and measurability of future economic benefits. No development expenditure was capitalised in the year ended 31 December 2017. The research and development expenditure primarily related to the on-going research work on the Group's existing vehicle telematics services to ensure that the functionality is maintained. The research work undertaken may successfully come to fruition in the development of a marketable service or technology but this development work cannot be identified or separated from the research work and therefore the entire expenditure has been expensed in the year. See the Strategic Report on page 9 for further information about the Group's approach to research and development

2 Key judgements and estimates (continued)

Key judgement: timing of revenue and cost recognition

The Group has set out its preliminary conclusions in respect of IFRS 15 in note 1. Such conclusions are the subject of key judgements impacting the timing of revenue and cost recognition resulting from the assessment that the Group has one single performance obligation under its contracts with customers. The preliminary conclusion is that the Group's activities of supplying telematics units and installing telematics units are activities the Group undertakes to provide its telematics services and are supplied as part of a contract with the customer.

The Group will be recognising unit costs when the Group relinquishes control of the units, as part of the satisfaction of the entire performance obligation. The Group does not view installation costs as assets under IFRS 15 and will continue to expense these as incurred. The Group will also continue to expense sales and distributor commissions as incurred. These assessments are judgements and, were these costs to be capitalised, the impact on profit or loss could be material and would likely be determined by the volume of contracts entered into in the year in question (with growth in the volume of contracts against the prior year being associated with a credit to profit or loss and vice versa).

Key estimate: impairment testing of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated (Quartix Limited). Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. Further details are given in note 11.

3 Segmental analysis

The Group has concluded that it operates only one operating segment as defined by IFRS 8, being the provision and marketing of vehicle telematics services. The information used by the Group's chief operating decision makers to make decisions about the allocation of resources and assessing performance is presented on a consolidated Group basis. All revenue, costs, assets and liabilities relate to the single activity; and accordingly no segmental analysis is presented.

An analysis of turnover by type of customer and geography is stated below:

	2017	2016
	£'000	£'000
By customer base		
Fleet	**17,030**	14,909
Insurance	**7,458**	8,430
	24,488	23,339

	2017	2016
	£'000	£'000
Geographical analysis by destination		
United Kingdom	**21,403**	21,249
France	**1,917**	1,408
Republic of Ireland	**10**	5
United States of America	**1,158**	677
	24,488	23,339

During 2017 revenue of £7.0m (2016: £8.4m) was derived from one insurance customer.

There are no material non-current assets based outside the UK.

4 Profit for the year before taxation

The profit for the year for the Group is stated after charging:

	2017	2016
	£'000	£'000
Research and development expenses	**1,099**	1,442
Rentals under operating leases:		
Other operating leases	**14**	14
Land and buildings	**175**	150
Depreciation on property, plant and equipment, owned	**186**	152
Share-based payment expense	**420**	113
Foreign exchange losses/(gains)	**200**	(265)
Audit services:		
Fees paid to Company auditor for the audit of the Company and consolidated financial statements	**21**	15
The audit of the Company's subsidiary pursuant to legislation	**24**	18
Other services	**3**	3

Earnings before interest, tax, depreciation and amortisation (EBITDA):

	2017	2016
	£'000	£'000
Operating profit	**6,593**	6,543
Depreciation	**186**	152
EBITDA	**6,779**	6,695
Share-based payment expense	**420**	113
Adjusted EBITDA	**7,199**	6,808

5 Employee remuneration

Expenses recognised for employee benefits is analysed below for the Group.

Staff costs, including Directors, during the year were as follows:

	2017	2016
	£'000	£'000
Wages and salaries	**4,060**	3,889
Social security costs	**413**	366
Contributions to defined contribution pension plan	**28**	26
Share-based payment	**420**	113
	4,921	4,394

The average number of employees, including all Directors, during the year was as follows:

	2017	2016
Administration	**19**	21
Operations	**31**	31
Sales	**36**	43
Customer service	**14**	15
Research and development	**28**	25
	128	135

6 Key management remuneration and directors' remuneration

Key management personnel are those persons having authority and responsibility for planning, directing, and controlling the activities of the entity, directly or indirectly, including any Directors (whether Executive or otherwise) of the entity. For 2017, the Group identified 12 such individuals: three Executive Directors, two Non-Executive Directors, and seven members of Senior Management, being managers on the Operations Board of Quartix Limited. In 2016, the Group identified nine such individuals: two Executive Directors, two Non-Executive Directors, and five members of Senior Management.

	2017	2016
	£'000	£'000
Wages and salaries	**765**	653
Social security costs	**91**	76
Contributions to defined contribution pension plan	**4**	2
Share-based payment	**279**	51
Total employee benefits	**1,139**	782

Key management had 1,179,311 share options outstanding at 31 December 2017 (2016: 402,662). Key management held 23,469,281 shares at 31 December 2017 (2016: 28,349,839) on which dividends were paid in the year.

Details of Directors' remuneration and the highest paid director is disclosed on page 18.

The Group introduced the NEST pension arrangements in 2015 for all employees. Two directors joined the scheme. No Director was a member of any other pension scheme or other post-employment benefit to which the Group contributed in either the current or the prior years. There were no termination payments and no bonuses for Directors. At 31 December 2017 the directors held 586,956 share options (2016: nil) and no share options were exercised in the year.

7 Finance income receivable

	2017	2016
	£'000	£'000
Bank interest	**17**	21

8 Finance costs payable

	2017	2016
	£'000	£'000
Interest on bank loans and overdrafts	**-**	24

9 Tax expense

Analysis of tax charge in the year	**2017 £'000**	2016 £'000
Current tax		
UK corporation tax charge on profit for the year	**823**	818
Adjustments in respect of prior periods	**41**	(348)
Total corporation tax	**864**	470
Deferred tax		
Origination and reversal of temporary differences	**(76)**	(17)
Adjustments in respect of prior periods	**-**	-
Total deferred tax	**(76)**	(17)
Tax on profit of ordinary activities	**788**	453

A tax credit was recognised in 2016 in respect of patent box claims submitted during 2016 relating to the two years ended 31 December 2014 and 31 December 2015. The current tax charge for the two years to 31 December 2017 includes the benefit of a patent box claim. The impact of the prior year patent box claim adjustments for the year ended 31 December 2016 was to reduce the effective rate of tax from 12.3% to 6.9%.

The relationship between the expected tax expense based on an effective tax rate of the Group of 19.25% (2016: 20.00%), being the UK rate of corporation tax for the year, and the tax expense actually recognised in profit or loss can be reconciled as follows:

	2017 £'000	2016 £'000
Result for the year before taxation	**6,610**	6,540
Tax rate (%)	**19.25**	20.00
Expected tax expense	**1,272**	1,308
Adjustments to tax charge in respect of prior periods	**41**	(348)
Expenses not deductible for tax purposes	**1**	1
Losses in the USA not provided	**62**	166
Research and development tax credit	**(255)**	(332)
Patent box credit	**(227)**	(244)
Remeasurement of deferred tax	**(59)**	(9)
Tax adjustment on exercise of options	**(47)**	(89)
Tax on profit on ordinary activities	**788**	453
Effective rate of tax	11.9%	6.9%
Effective rate of tax ignoring adjustments in respect of prior years'	11.3%	12.3%

10 Earnings per share and dividends

Earnings per share

The calculation of the basic earnings per share is based on the profits attributable to the shareholders of Quartix Holdings plc divided by the weighted average number of shares in issue during the year. All earnings per share calculations relate to continuing operations of the Group.

	Profits attributable to shareholders £'000	Weighted average number of shares	Basic profit per share amount in pence	Fully diluted weighted average number of shares	Diluted profit per share amount in pence
Earnings per ordinary share					
Year ended 31 December 2017	**5,822**	**47,459,712**	**12.27**	**47,667,194**	**12.21**
Year ended 31 December 2016	6,087	47,292,755	12.87	47,929,813	12.78

For diluted earnings per share, the weighted average number of ordinary shares is adjusted to assume the conversion of all dilutive potential ordinary shares. Dilutive potential ordinary shares are those share options where the exercise price is less than the average market price of the Company's ordinary shares during that year.

Dividends

During the year ended 31 December 2017, the Group paid interim dividends of £1.1m (2016: £1.0m), equivalent to 2.4p per ordinary share (2016: 2.2p).

The Board is recommending total dividends of £5.3m (2016: £4.3m) comprising a final ordinary dividend of 4.3p per share, together with a supplementary dividend of 6.8p per share, giving a final pay out of 11.1p per share and a total dividend for the year of 13.5p per share. As the distribution of dividends required approval at the Annual General Meeting, no liability in this respect is recognised in the 2017 Group consolidated financial statements.

11 Goodwill and other intangible assets

Goodwill

	Goodwill on consolidation £'000
Cost and net book value	
At 1 January and 31 December 2016 and 2017	**14,029**

Goodwill arose on the consolidation of the Group following the acquisition of Quartix Limited in 2008.

Goodwill is recognised as an asset and assessed for impairment annually or where there is indication of impairment. Any impairment is recognised immediately in profit or loss (see note 2).

The Group considers its subsidiary Quartix Limited to be the sole cash-generating unit (CGU) for the assessment of goodwill and as such, it is reviewed annually for impairment. The Group has determined its recoverable amount based on value in use calculations. The value in use was derived from discounted management cash flow forecasts for the business, using the budgets and strategic plans based on past performance and expectations for the market development of the CGU, incorporating an appropriate business risk. The key assumptions for the value in use calculations are those regarding the discount rates, growth rates and expected changes to selling prices and direct costs during the period based on industry sector forecasts.

11 Goodwill and other intangible assets (continued)

These budgets and strategic plans cover a four-year period. The growth rate in years one and two were based on detailed management expectations. The growth rate used for the third and fourth year is 2% which is in line with the long-term GDP forecasts. The discount rate used is 11.9% based on the Group's weighted average cost of capital. Sensitivity analysis is carried out on all budgets, strategic plans and discount rates used in the calculations.

Management's key assumptions are based on past experience and the current trading performance of Quartix Limited. These value in use calculations have not identified any requirement for impairment of the Goodwill stated above. Management is not aware of any probable changes that would necessitate changes in key estimates that indicate any impairment sensitivity.

12 Property, plant and equipment

	Leasehold improvements £'000	Tools and equipment £'000	Office equipment £'000	Total £'000
Cost:				
At 1 January 2016	17	12	658	687
Additions	-	-	189	189
Foreign exchange	-	-	10	10
At 31 December 2016	17	12	857	886
Additions	-	-	67	67
Foreign exchange	-	-	(12)	(12)
At 31 December 2017	17	12	912	941
Depreciation:				
At 1 January 2016	3	12	355	370
Provided in the year	3	-	149	152
Foreign exchange	-	-	4	4
At 31 December 2016	6	12	508	526
Provided in the year	3	-	183	186
Foreign exchange	-	-	(5)	(5)
At 31 December 2017	9	12	686	707
Net book amount:				
At 31 December 2017	**8**	**-**	**226**	**234**
At 31 December 2016	11	-	349	360
At 1 January 2016	14	-	303	317

13 Inventories

Components held for manufacture of vehicle tracking units and units not yet deployed to customers:

	2017	2016
	£'000	£'000
Raw materials	**406**	334
Work in progress	**60**	109
Finished goods and goods for resale	**237**	237
	703	680

Included in the analysis above are impairment provisions against inventory amounting to £77,000 (2016: £80,000). The cost of vehicle tracking units are recognised as an expense and included in "cost of sales" amounted to £3.1m (2016: £2.4m).

14 Trade and other receivables

	2017	2016
	£'000	£,000
Trade receivables	**2,647**	2,318
Other receivables	**27**	12
Prepayments and accrued income	**335**	261
	3,009	2,591

All the amounts are short term. The carrying value of trade receivables is considered a reasonable approximation of fair value. All of the receivables have been reviewed for indicators of impairment. Certain trade receivables were found to be impaired, due to the age of the debt, and a provision for doubtful debts has been recorded as follows.

	2017	2016
	£'000	£'000
Provision at 1 January	**47**	48
(Release of provision)/additional provision	**42**	(3)
Foreign exchange	**(1)**	2
Provision at 31 December	**88**	47

In addition, some of the unimpaired trade receivables are past due as at the reporting date. The age of financial assets past due but not impaired is as follows:

	2017	2016
	£'000	£'000
Not more than 1 month	**188**	122
More than one month but not more than 3 months	**54**	19
More than 3 months but not more than 6 months	**-**	-
	242	141

15 Cash and cash equivalents

Cash and cash equivalents include the following components:

	2017 £'000	2016 £'000
Cash at bank and in hand	**7,312**	6,249

Quartix Limited uses Barclay's Business Premium account to aggregate Sterling instant access balances and earn interest, which is currently at 0.4%. Since September 2017, the Group has placed deposits with Investec Bank plc on 95 day notices with interest currently at 0.6%. At 31 December 2017, Investec deposits were £1.5m.

16 Trade and other payables

Amounts falling due within one year:

	2017 £'000	2016 £'000
Trade payables	**1,385**	1,572
Social security and other taxes	**724**	626
Other payables	**153**	222
Accruals	**591**	472
	2,853	2,892

17 Deferred tax

Deferred tax assets recognised by the Group at 31 December 2017 and 31 December 2016 are as follows:

	2017	2016
Provision for deferred tax	**£'000**	£'000
Accelerated Capital Allowances	(25)	(42)
Short term temporary differences	7	7
Equity settled share options	167	176
	149	141
(Credit)/charge to profit and loss		
Accelerated Capital Allowances	**(17)**	(5)
Short term temporary differences	**-**	(1)
Equity settled share options	**(59)**	(11)
	(76)	(17)

There are unprovided tax losses related to the USA business of $1,093,000 (2016: $946,000).

18 Equity

	Number of ordinary shares of £0.01 each	Share capital £'000	Share premium £'000
Allotted, called up and fully paid			
At 1 January 2017	47,345,954	474	4,702
Shares issued	222,400	2	167
At 31 December 2017	**47,568,354**	**476**	**4,869**

With the exception of 1,000 shares issued to US employees on 15 March 2018, all the shares issued in the year to 31 December 2017 related to the exercise of share options.

19 Share-based payment

The Company has share option schemes for certain employees. Share options are exercisable at prices determined at the date of grant. The vesting periods for the share options range between 12 and 63 months. Options are forfeited if the employee leaves the Company before the options vest.

Movements in the number of share options outstanding and their related weighted average exercise prices are as follows:

		2017		2016
	Weighted average exercise price per share in pence	**Options number**	**Weighted average exercise price per share in pence**	**Options number**
Outstanding at 1 January	**170.2**	**916,812**	76.5	757,900
Granted	**308.6**	**1,024,251**	316.6	332,612
Lapsed	**199.5**	**(112,012)**	1.0	(3,450)
Exercised	**76.4**	**(221,400)**	42.7	(170,250)
Outstanding at 31 December	**269.3**	**1,607,651**	170.2	916,812
Exercisable at 31 December	**167.1**	**244,355**	110.6	207,000

The weighted average fair value of options issued during the year ended 31 December 2017 was 71.70p (2016: 78.73p). Included in the options granted in 2017 were 10,355 (2016: 3,662) granted to senior managers with performance conditions relating to the Group for the year ended 31 December 2017 and subsequent service conditions. The remaining options granted during the year have only service conditions.

The weighted average share price at the date of exercise of options during the year ended 31 December 2017 was 375.16p (2016: 371.84p).

At 31 December 2017 Quartix Holdings plc had the following outstanding options, warrants and exercise prices:

2017

Period when exercisable	**Expiry dates**	**Average exercise price per share in pence**	**Options number**	**Weighted average remaining contractual life in months**
Starting from November 2014	1 November 2019	44.0	260,000	23
Starting from October 2017	28 October 2023	337.5	312,000	70
March 2018	06 December 2021	1.0	11,400	47
March 2018	31 December 2018	1.0	10,355	12
Starting from March 2018	31 March 2024	287.5	586,956	75
Starting from April 2018	13 April 2024	357.5	100,000	75
Starting from July 2018	27 July 2024	360.0	30,000	79
Starting from March 2019	31 March 2025	360.0	280,000	87
March 2019	06 December 2022	1.0	16,940	59
		269.3	**1,607,651**	**67**

19 Share based payments (continued)

2016

Period when exercisable	Expiry dates	Average exercise price per share in pence	Options number	Weighted average remaining contractual life in months
Starting from November 2014	1 November 2019	44.0	420,000	35
Starting from July 2017	29 July 2021	219.0	147,000	55
March 2017	16 December 2020	1.0	17,200	48
January 2019	01 January 2019	1.0	3,662	24
Starting from October 2017	28 October 2023	337.5	312,000	82
March 2018	06 December 2021	1.0	16,950	59
		170.2	**916,812**	**55**

The fair value of share based payments have been calculated using the Black-Scholes option pricing model. Expected volatility was determined based on the historic volatility of the Group's share price. The expected life is the expected period from grant to exercise based on management's best estimate. The risk free return is the rate offered for building society deposits at the time of the grant.

The following assumptions were used in the model for options granted during the year ended 31 December 2017:

				2017			
Number granted	**5,200**	**5,155**	**586,956**	**100,000**	**30,000**	**280,000**	**16,940**
Grant date	**1 Jan**	**2 Feb**	**19 Jan**	**13 Apr**	**27 Jul**	**1 Dec**	**6 Dec**
Share price at grant date (pence)	**340.0**	**293.0**	**287.5**	**357.5**	**360.0**	**360.0**	**360.0**
Exercise price (pence)	**1.0**	**1.0**	**287.5**	**357.5**	**360.0**	**360.0**	**1.0**
Fair value per option (pence)	**329.3**	**283.1**	**65.9**	**67.7**	**64.2**	**61.0**	**343.6**
Expected life in years	**1.0**	**1.0**	**5.17**	**3.0**	**3.0**	**5.25**	**1.25**
Expected volatility (%)	**34.3**	**34.3**	**34.5**	**34.8**	**34.3**	**28.5**	**28.5**
Risk-free interest rate (%)	**0.19**	**0.19**	**0.67**	**0.19**	**0.31**	**0.70**	**0.44**
Dividend yield (%)	**2.9**	**2.9**	**2.9**	**2.9**	**3.5**	**3.5**	**3.5**

		2016	
Number granted	3,662	312,000	16,950
Grant date	1 Jan	28 Oct	6 Dec
Share price at grant date (pence)	252.5	337.5	330.0
Exercise price (pence)	1.0	337.5	1.0
Fair value per option (pence)	230.5	64.9	301.5
Expected life in years	3.0	3.0	1.25
Expected volatility (%)	49.4	35.1	36.0
Risk-free interest rate (%)	0.87	0.25	0.25
Dividend yield (%)	2.9	2.9	2.9

20 Notes to the cash flow statement

Cash flow adjustments and changes in working capital

	Notes	**2017 £'000**	2016 £'000
Profit before tax		**6,610**	6,540
Foreign exchange		**151**	(326)
Depreciation	12	**186**	152
Interest income	7	**(17)**	(21)
Interest expense	8	**-**	24
Share based payment expense	4	**420**	113
Operating cash flow before movement in working capital		**7,350**	6,482
Decrease/(increase) in trade and other receivables		**(424)**	5
(Increase) in inventories		**(24)**	(39)
Increase in trade and other payables		**112**	364
Cash generated from operations		**7,014**	6,812

21 Leases

The Group's future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	Land & buildings		**Other**	
	2017 £'000	2016 £'000	**2017 £'000**	2016 £'000
No later than one year	**154**	156	**12**	10
Later than one year and no later than four years	**154**	218	**12**	11
Later than five years	**-**	12	**-**	-
	308	386	**24**	21

Lease payments recognised as an expense during the year amount to £189,000 (2016: £164,000).

22 Related party transactions and controlling related party

The Group's related parties comprise its Board of Directors and its key management (see note 6). There were no related party transactions with Directors to disclose other than dividends received based on shareholdings disclosed in the Directors' Remuneration Report on page 18 and note 6.

The Directors consider the Board and shareholding structure to mean there is no directly identifiable controlling party.

23 Purchase commitments

Quartix Limited has signed agreements with suppliers which commit the Group to purchase inventory to the value of £455,000 (2016: £324,000). In August 2017, the Group entered into an agreement for the provision of vehicle telematics services which included a contractual obligation to pay a minimum of £40,000 per month, until 31 March 2019. There were no other financial commitments or contingent liabilities as at 31 December 2017 or 31 December 2016.

24 Capital commitments

The Group had capital commitments of £42,000 at 31 December 2017 (2016: £nil).

25 Risk management objectives and policies

Financial instruments

The Group uses various financial instruments; these include cash deposits and bank loans and various items such as trade receivables and trade payables that arise directly from its operations. The main purpose of these financial instruments is to raise finance for the Group's operations and manage working capital.

The main risks arising from the Group's financial instruments are credit risk and currency risk. The Board reviews and agrees policies for managing each of these risks and they are summarised below.

Credit risk

The Group's exposure to credit risk is limited to the carrying amount of financial assets recognised at the Statement of Financial Position date, as summarised below:

	2017	2016
	£'000	£'000
Loans and receivables		
Cash and cash equivalents	**7,312**	6,249
Trade and other receivables	**2,674**	2,330
	9,986	8,579

The Group's management considers that all the above financial assets that are not impaired for each of the Statement of Financial Position dates under review are of good credit quality, including those that are past due. See note 14 for additional information on trade receivables that are past due.

The Group's principal financial assets are cash deposits and trade receivables. Risks associated with cash deposits are limited as the banks used have high credit ratings assigned by international credit rating agencies.

The principal credit risk relates to trade receivables and is mitigated, where possible, by third party credit clearance for new customers and collection by direct debit, or similar. The Group has one large customer whose debts have been as much as £1.2m and the credit risk on this balance is carefully monitored.

Currency risk

The Group is exposed to transaction foreign exchange risk as a consequence of procuring tracking unit components in both euros and dollars. The risk with the Euro has been mitigated by trading in France which generates marginally more Euros than the Group currently needs. Whilst the Group also trades in the US, in 2017, the Group purchased about $3.5m, primarily to purchase components for the vehicle tracking units (2016: $3.7m).

Transaction exposures, including those associated with forecast transactions, are managed through the use of bank accounts held in foreign currencies.

It is estimated that a 5% strengthening of Pound Sterling to the US dollar would have reduced purchase costs £126,000 and vice versa (2016: £140,000). (This is assuming that Dollar denominated prices do not adjust for currency movements.)

It is estimated that a 5% strengthening of Pound Sterling to the Euro would have reduced net profit by £54,000 and vice versa (2016: £34,000).

25 Risk management objectives and policies (continued)

Currency risk (continued)

The Group's financial instruments dominated in currencies were:

	2017		2016	
	£'000	**£'000**	£'000	£'000
	US$	**€**	US$	€
Cash and cash equivalents	**260**	**207**	279	172
Trade receivables	**-**	**224**	-	166
Trade payables	**(189)**	**(141)**	(459)	(181)
	71	**290**	(180)	157

As set out in the accounting policies (note 1), the assets and liabilities of Group entities that have a functional currency other than Sterling are translated at the closing exchange rate at the reporting date. The US dollar exchange rate rose by 9% from 31 December 2016 to 31 December 2017 (2016: fell by 16%). The total translation reserve movement for the year reported in the Consolidated Statement of Changes in Equity was £201,000. The majority of this movement related to the retranslation of Quartix Inc's opening net liabilities as at 1 January 2017.

Quartix Inc's net liabilities mainly relate to amounts owed to other Group entities. The foreign exchange differences arising on translation of these monetary liabilities are recognised in the Consolidated Income Statement and was the main reason for the foreign exchange loss in 2017 (see note 4). The retranslation of the amounts owed to Group entities by Quartix Inc at 31 December 2016 amounted to £175,000 (2016: £(198,000)).

It is estimated that a 5% weakening of Pound Sterling to the US dollar would give an exchange gain of around £122,000 from the retranslation of amounts owed by Quartix Inc and vice versa (2016: £115,000).

Interest rate risk

The Group has no debt so it is not exposed to fluctuations in interest rates.

Liquidity risk

The Group seeks to manage financial risk by ensuring sufficient liquidity is available to meet foreseeable needs. Cash flow is forecast and monitored as are working capital requirements. The Group generates funds from operational activities in excess of its operational requirements and has substantial cash balances available for its current investment activities. Consequently, liquidity is not seen as a key risk.

26 Summary of financial assets and liabilities by category

The carrying amounts of the assets and liabilities as recognised at the Statement of Financial Position date of the years under review may also be categorised as follows:

	2017	2016
	£'000	£'000
Loans and receivables		
Trade and other receivables	**2,674**	2,330
Cash and cash equivalents	**7,312**	6,249
	9,986	8,579
Financial liabilities measured at amortised cost		
Trade and other payables	**1,976**	2,044

27 Capital management policies and procedures

The Group's capital management objectives are to ensure the Group's ability to continue as a going concern and to provide an adequate return to shareholders, by balancing its trading performance with continuing investment in research and development.

The Group monitors capital on the basis of the carrying amount of equity less cash and cash equivalents as presented on the face of the Statement of Financial Position.

The Group makes adjustments to its capital in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets. Capital for the reporting years under review is summarised as follows:

	2017	2016
	£'000	£'000
Capital		
Total equity	**19,452**	18,329
Less cash and cash equivalents	**(7,312)**	(6,249)
	12,140	12,080
Overall financing		
Total equity	**19,452**	18,329
Capital-to-overall financing ratio (%)	**62**	66

28 Subsidiaries

As at the 31 December 2017 the subsidiaries of the Group were:

Subsidiary	Country of registration	Class of share capital held	Proportion held by the Company	Nature of business
Quartix Limited	England & Wales	Ordinary shares	100%	Vehicle Tracking
Quartix Inc	USA	Common shares	100%	Vehicle Tracking

Parent Company Statement of Financial Position

Company registration number 06395159

	Notes	2017 £'000	2016 £'000
Fixed assets			
Investments	3	**19,155**	18,735
Current assets			
Debtors	4	**3,985**	3,428
Current tax asset		**54**	11
Cash at bank and in hand		**426**	37
Total current assets		**4,465**	3,476
Creditors – amounts falling due within one year	5	**(38)**	(35)
Net current assets		**4,427**	3,441
Total assets less current liabilities		**23,582**	22,176
Net assets		**23,582**	22,176
Capital and reserves			
Called up share capital	6	**476**	474
Share premium account		**4,869**	4,702
Equity reserve		**451**	135
Capital redemption reserve		**4,663**	4,663
Retained earnings		**13,123**	12,202
Total equity attributable to equity shareholders of Quartix Holdings plc		**23,582**	22,176

Profit for the year and total comprehensive income attributable to the equity shareholders of Quartix Holdings plc was £6,238,000 (2016: £6,926,000)

Approved by the Board of Directors, authorised for issue and signed on behalf of the Board on 23 February 2018.

Andrew Walters
Chief Executive Officer

Parent Company Statement of Changes in Equity

	Share capital £'000	Share premium account £,000	Capital redemption reserve £'000	Equity reserve £'000	Retained earnings £'000	Total equity £'000
Balance at 31 December 2015	472	4,631	4,663	78	8,153	**17,997**
Shares issued	2	71	-	-	-	**73**
Increase in equity reserve in relation to options issued	-	-	-	113	-	**113**
Adjustment for exercised options	-	-	-	(56)	56	**-**
Dividend paid	-	-	-	-	(2,933)	**(2,933)**
Transactions with owners	**2**	**71**	**-**	**57**	**(2,877)**	**(2,747)**
Profit for the year and total comprehensive income	-	-	-	-	6,926	**6,926**
Balance at 31 December 2016	474	4,702	4,663	135	12,202	**22,176**
Shares issued	2	167	-	-	-	**169**
Increase in equity reserve in relation to options issued	-	-	-	420	-	**420**
Adjustment for exercised options (see note 19 of Group accounts)	-	-	-	(104)	104	**-**
Dividend paid	-	-	-	-	(5,421)	**(5,421)**
Transactions with owners	**2**	**167**	**-**	**316**	**(5,317)**	**(4,832)**
Profit for the year and total comprehensive income	-	-	-	-	6,238	**6,238**
Balance at 31 December 2017	476	4,869	4,663	451	13,123	**23,582**

Notes to the Parent Company Financial Statements

1 Summary of significant accounting policies

Accounting convention
These financial statements were prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework (FRS 101). The financial statements are prepared under the historical cost convention.

No profit and loss account is presented by the Company as permitted by Section 408 of the Companies Act 2006.

The financial statements are prepared in Sterling and are rounded to the nearest thousand pounds (£000).

Basis of preparation
The Company transitioned to FRS 101 in 2016. The accounting policies which follow were those applied in preparing the financial statements for the year ended 31 December 2017 and the year ended 31 December 2016. The Company has taken advantage of the following disclosure exemptions under FRS 101:

a) Share-based Payment disclosure, as Quartix Holdings plc is the ultimate parent, the share-based payment arrangement concerns its own equity instruments and its separate financial statements are presented alongside the consolidated financial statements of the Group.
b) Financial Instruments disclosures, given that equivalent disclosures are included in the consolidated financial statements of the Group in which the entity is consolidated.
c) Fair Value Measurement disclosures.
d) Certain disclosures required by IAS 1 Presentation of Financial Statements, including certain comparative information in respect of share capital movements.
e) Statement of Cash Flows and related notes.
f) Related Party Disclosures relating to key management personnel compensation.
g) Disclosure of related party transactions entered into between two or more members of a group, given that any subsidiary which is a party to the transaction is wholly owned by such a member.
h) Capital management disclosures.

Going concern
As a holding company, its main source of income is dividends receivable from its trading subsidiaries and in particular Quartix Limited. After assessing the forecasts and liquidity of the Group for the next two calendar years and the longer term strategic plans, the Directors have a reasonable expectation that the Company will continue to receive dividends for the foreseeable further. The Company therefore continues to adopt the going concern basis in preparing its individual entity accounts.

Investment in subsidiaries
The Company's interests in investments presently comprise only interest in wholly owned subsidiary undertakings. Investments are recognised initially at cost. Subsequent to initial recognition the financial statements include the adjustments in respect of Share Based Payments or provision for impairment.

1 Summary of significant accounting policies (continued)

Impairment of assets

The Company assesses at each reporting date whether there is any indication that an asset may be impaired. If any such indication exists, the Company estimates the recoverable amount of the asset, being the higher of an asset's or cash generating unit's fair value less costs to sell and its value in use. To determine the value-in-use, management estimates expected future cash flows and determines a suitable interest rate in order to calculate the present value of those cash flows. The data used for impairment testing procedures are directly linked to the Group's latest approved budget. Discount factors are determined individually for each cash-generating unit and reflect management's assessment of respective risk profiles, such as market and asset-specific risks factors.

A reversal of an impairment loss for an asset shall be recognised immediately in profit or loss, unless the asset is carried at revalued amount. Any reversal of an impairment loss of a revalued asset shall be treated as a revaluation increase.

Taxation

Current tax is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the Statement of Financial Position date.

Deferred income taxes are calculated using the liability method on temporary differences. Deferred tax is generally provided on the difference between the carrying amounts of assets and liabilities and their tax bases. However, deferred tax is not provided on the initial recognition of goodwill, nor on the initial recognition of an asset or liability unless the related transaction is a business combination or affects tax or accounting profit. Tax losses available to be carried forward as well as other income tax credits to the Group are assessed for recognition as deferred tax assets and are recognised to the extent that it is regarded as more likely than not that they will be recovered from future trading profits.

Deferred tax liabilities are provided in full, with no discounting. Current and deferred tax assets and liabilities are calculated at tax rates that are expected to apply to their respective period of realisation, provided they are enacted or substantively enacted at the Statement of Financial Position date.

Changes in deferred tax assets or liabilities are recognised as a component of tax expense in profit or loss, other comprehensive income or equity as appropriate.

Dividends

Dividends attributable to the equity holders of the Company approved for payment during the year are recognised directly in equity.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits, together with other short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value.

Financial assets

Trade and other receivables are classified as loans and receivables, these are initially recognised at fair value. Loans and receivables are subsequently measured at amortised cost using the effective interest method, less provision for impairment. Any change in their value through impairment or reversal of impairment is recognised in the profit and loss.

Provision against receivables is made when there is objective evidence that the Company will not be able to collect all amounts due to it in accordance with the original terms of those receivables. The amount of the write-down is determined as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted using the original effective interest rate.

1 Summary of significant accounting policies (continued)

Financial liabilities
Financial liabilities are obligations to pay cash or other financial assets and are recognised when the Company becomes a party to the contractual provisions of the instrument.

Financial liabilities are recorded initially at fair value and subsequently at amortised cost using the effective interest method, with interest-related charges recognised as an expense in finance cost in the profit and loss.

A financial liability is derecognised only when the obligation is extinguished. The Company does not enter into derivative contracts for hedging or speculative purposes.

Foreign currencies
Transactions in foreign currencies are translated into Sterling at the exchange rate ruling at the date of the transaction. Monetary assets and liabilities in foreign currencies are translated at the rates of exchange ruling at the Statement of Financial Position date.

Any exchange differences arising on the settlement of monetary items or on translating monetary items at rates different from those at which they were initially recorded are recognised in profit or loss in the period in which they arise.

Employee benefits: Share-based payments
The Company operates a number of employee share schemes under which it makes equity-settled share based payments to employees of its UK trading subsidiary. The fair value of the employee services received in exchange for the grant of the options is recognised as an increase in the investment in the subsidiary, with a corresponding increase in equity, over the period that the employees unconditionally become entitled to the awards.

The fair values of employees' services are determined indirectly by reference to the fair value of the instrument granted to the employee. This fair value is assessed at the grant date, using the Black-Scholes method, and excludes the impact of non-market vesting conditions.

The expense is allocated over the vesting period, based on the best available estimate of the number of share options expected to vest. Estimates are subsequently revised if there is any indication that the number of share options expected to vest differs from previous estimates. Any cumulative adjustment prior to vesting is recognised in the current period. No adjustment is made to any expense recognised in prior periods if share options ultimately exercised are different to that estimated on vesting.

Upon exercise of the share options the proceeds received are allocated to share capital and share premium.

Share capital and reserves
Share capital and reserves comprises the following:

- "Called up share capital" represents the nominal value of equity shares
- "Share premium account" represents the excess over nominal value of the fair value of consideration received for equity shares, net of expenses of the share issue
- “Capital redemption reserve” represents the amount by which the Company's issued share capital is diminished when shares are redeemed or purchased wholly out of the Company's profits
- “Equity reserve” is used to reflect the expenses associated with granting share options to employees and the issue of warrants
- "Retained earnings" represents retained profits

2 Profit and loss account

No Statement of profit and loss is presented for Quartix Holdings plc as provided by section 408 of the Companies Act 2006. The Company's profit for the financial year was £6.24m (2016: £6.93m).

Auditors' remuneration attributable to the Company is as follows:

	2017 £'000	2016 £'000
Audit fees – statutory audit	**21**	15
Other services	**1**	1
	22	16

Details of Directors' emoluments are set out on page 18.

3 Investments – non current

The amounts recognised in the Company's Statement of Financial Position relate to the following:

	Subsidiary undertakings £'000
Cost:	
At 1 January 2016	**18,622**
Increase due to granting of share options to subsidiary employees:	
New investments	**113**
At 1 January 2017	**18,735**
Increase due to granting of share options to subsidiary employees:	
New investments	**420**
Net book amount at 31 December 2017	**19,155**

There is no provision for impairment for the investment in subsidiaries.

Subsidiary	**Country of registration**	**Class of share capital held**	**Proportion held by the Company**	**Nature of business**
Quartix Limited	England & Wales	Ordinary shares	100%	Vehicle Tracking
Quartix Inc	USA	Common shares	100%	Vehicle Tracking

4 Debtors

	2017 £'000	2016 £'000
Social security and other taxes	**4**	6
Prepayments	**6**	5
Amounts owed by subsidiary undertakings	**3,975**	3,417
	3,985	3,428

All receivables fall due within one year of the Statement of Financial Position date.

The amount owed by subsidiary undertakings includes a US dollar loan to Quartix Inc of £1.2m (2016: £1.2m) which is repayable on or before 31 December 2018 but can be extended by mutual agreement. Interest is charge quarterly at 1% per quarter on the quarter end balance. The remainder relates to a current account to Quartix Limited

5 Creditors: amounts falling due within one year

	2017 £'000	2016 £'000
Social security and other taxes	**4**	4
Accruals and deferred income	**34**	31
	38	35

6 Called up share capital

	2017 £'000	2016 £'000
Allotted, called up and fully paid		
47,568,354 (2016: 47,345,954) ordinary shares of £0.01 each	**476**	474

Details of movements in share options and those outstanding at 31 December 2017 are disclosed in note 19 of the Group accounts.

7 Related party transactions and ultimate controlling party

The Company has taken advantage of the exemption not to disclose transactions with wholly owned subsidiaries. Details of Directors' remuneration and interests in shares are disclosed in the Directors' Remuneration Report (see page 18) and key management remuneration in note 6 of the Group accounts.

8 Contingent liabilities

There are no material contingent liabilities subsisting at 31 December 2017 or 31 December 2016.

9 Financial commitments

The Company had no financial commitments at 31 December 2017 or 31 December 2016.

10 Risk management objectives and policies

Financial Instruments

The Company uses various financial instruments; these include cash deposits and bank loans and various items such as group receivables and group payables that arise directly from its operations. The main purpose of these financial instruments is to manage working capital.

The main risks arising from the Company's financial instruments are credit risk and currency risk. The Board reviews and agrees policies for managing each of these risks and they are summarised below.

Credit risk

The Company's exposure to credit risk is limited to the carrying amount of financial assets recognised at the Statement of Financial Position date, as summarised below:

	2017 £'000	2016 £'000
Loans and receivables		
Cash and cash equivalents	**426**	37
Amounts owed by subsidiary undertakings	**3,975**	3,417
	4,401	3,454

Risks associated with cash deposits are limited as the banks used have high credit ratings assigned by international credit rating agencies. The amount owed by subsidiary undertakings includes a US dollar loan to Quartix Inc of £1.2m (2016: £1.2m) which is repayable on or before 31 December 2018 but can be extended by mutual agreement. Interest is charge quarterly at 1% per quarter on the quarter end balance. The remainder relates to a current account to Quartix Limited. (see below and note 4).

Currency risk

The Company is exposed to transaction foreign exchange risk. The Group mitigates its risk to the US Dollar by trading in the USA; however the Company is exposed to exchange movements on its US Dollar loan to Quartix Inc to fund its start-up losses and working capital requirements.

The Company's financial assets denominated in currencies (all US dollars) were:

	2017	2016
	£'000	£'000
Loan and receivables		
Cash at bank	38	1
Amounts owed by subsidiary undertakings	1,233	1,215
	1,271	1,216

The Company's net profit would not be materially impacted by 5% strengthening of Pound Sterling to the US dollar or Euro.

Notice of Annual General Meeting

Notice is hereby given that the third Annual General Meeting (the "Meeting") of Quartix Holdings plc will be held at **Wellington House, East Road, Cambridge CB1 1BH** on **Tuesday 27 March 2018** at **11.00 am** for the following purposes:

To consider, and if deemed fit, to pass the following as ordinary resolutions:

1. To receive and adopt the audited annual accounts for the year ended 31 December 2017.
2. To approve and declare a final dividend for the year ended 31 December 2017 of 4.3p per ordinary share and supplementary dividend of 6.8p per ordinary share, a total of 11.1p per share. This will be paid on 4 May 2018 to shareholders on the register as at the close of business on 6 April 2018.
3. To re-elect Andrew Walters as a Director who, in accordance with the Company's Articles of Association, retires as a Director and is eligible for re-election.
4. To re-elect Daniel Mendis as a Director who, in accordance with the Company's Articles of Association, retires as a Director and is eligible for re-election.
5. To re-elect Edward Ralph as a Director who, in accordance with the Company's Articles of Association, retires as a Director and is eligible for re-election.
6. To re-elect Paul Boughton as a Director who, in accordance with the Company's Articles of Association, retires as a Director and is eligible for re-election.
7. To re-elect Jim Warwick as a Director who, in accordance with the Company's Articles of Association, retires as a Director and is eligible for re-election.
8. To re-appoint Grant Thornton UK LLP as the auditors of the Company until the end of the next Annual General Meeting.
9. To authorise the Directors to determine the remuneration of the auditors.
10. To give the Directors general and unconditional authorisation for the purposes of section 551 of the Companies Act 2006 (the "Act") to exercise all powers of the Company to allot shares in the Company or to grant rights to subscribe for or to convert any security into shares in the Company up to a maximum nominal value of £158,561 (representing approximately 33% of the issued share capital of the Company as at 23 February 2018) to such persons at such times and on such terms they deem proper provided that this authority shall expire at the conclusion of the next Annual General Meeting of the Company or 30 June 2019, whichever is earlier, save that the Company may, before such expiry, make an offer or agreement which would or might require equity securities (as defined in section 560 of the Act) to be allotted after such expiry and the Directors may allot such securities in pursuance of such offer or agreement as if the authority conferred hereby had not expired; and all prior authorities to allot securities (to the extent unutilised) be revoked, but without prejudice to the allotment of any shares or securities already made or to be made pursuant to such prior authorisation.

To consider, and if deemed fit, to pass the following as special resolutions:

11. That the Directors be and are empowered, pursuant to section 570 of the Companies Act 2006 (the "Act"), to allot equity securities (as defined in section 560 of the Act) for cash pursuant to the authority conferred upon them by resolution 10 above and to allot equity securities (as defined in section 560(3) of the Act (*sale of treasury shares*)) for cash in each case as if section 561 of the Act did not apply to any such allotment provided, however, that the power conferred by this resolution shall be limited to:

    a. The allotment of equity securities in connection with a rights issue, open offer or any other offer of, or invitation to apply for, equity securities in favour of holders of ordinary shares in the Company on the register of members at such record dates as the Directors may determine and other persons entitled to participate therein where the equity securities respectively attributable to the interests of the ordinary shareholders are proportionate (as nearly as may be) to the respective number of ordinary shares in the Company held or deemed to be held by them on any such record dates, subject to such exclusions or other arrangements as the Directors may consider necessary or expedient to deal with fractional entitlements, treasury shares, record dates, or legal or practical problems arising or resulting from the application of the laws of any overseas territory or the requirements of any other recognised regulatory body or stock exchange in any territory or by virtue of shares being represented by depository receipts or any other matter whatever; and

b. The allotment, other than pursuant to sub-paragraph 'a' above, to any person or persons of equity securities up to an aggregate nominal value not exceeding £23,784, representing approximately 5% of the ordinary share capital in issue as at 23 February 2018.

This power shall expire at the conclusion of the next Annual General Meeting of the Company or 30 June 2019, whichever is the earlier, unless previously varied, revoked or renewed by the Company in general meeting provided that the Company may, before such expiry, make any offer or agreement which would or might require securities to be allotted, or treasury shares sold, after such expiry and the Directors may allot securities or sell treasury shares pursuant to any such offer or agreement as if the power conferred had not expired; and all prior powers granted under section 570 of the Act shall be revoked provided that such revocation shall not have retrospective effect.

12. That the Directors be generally and unconditionally authorised, for the purposes of section 701 of the Companies Act 2006 (the "Act"), to make market purchases, as defined in section 693(4) of the Act, of ordinary shares of £0.01 each in the Company on such terms and in such manner as the Directors shall determine, provided that:

a. The maximum aggregate number of ordinary shares which may be purchased is 2,379,000 (representing approximately 5% of the ordinary share capital in issue as at 23 February 2018);
b. The minimum price that may be paid for an ordinary share is its nominal value (£0.01);
c. The maximum price that may be paid for an ordinary share shall be an amount equal to 105% of the average middle market quotations for the ordinary shares of the Company as derived from the AIM appendix to the London Stock Exchange Daily Official List for the five business days immediately preceding the day on which the ordinary share is purchased; and
d. This authority shall expire, unless previously renewed, revoked or varied, on the date of the next Annual General Meeting or 30 June 2019, whichever is earlier, save that the Company may enter into a contract for the purchase of ordinary shares under this authority which would or might be completed, wholly or partly, after this authority expires.

By order of the Board on 23 February 2018.

Daniel Mendis
Company Secretary

Notes to the Notice of Annual General Meeting

1 **Entitlement to attend and vote**

Pursuant to regulation 41 of the Uncertificated Securities Regulations 2001, the Company specifies that in order to have the right to attend and vote at the meeting (and also for the purpose of calculating how many votes a person entitled to attend and vote may cast), a person must be entered on the register of members of the Company by no later than close of business on 23 March 2018, or, in the event that the meeting is adjourned, at close of business on the date which is two days prior to the date of any such adjourned meeting.. Changes to entries on the register after this time shall be disregarded in determining the rights of any person to attend or vote at the meeting.

2 **Information regarding the meeting**

A copy of this Notice of Annual General Meeting and other information required by section 311A of the Companies Act 2006 is available online at www.quartix.net.

3 **Appointment of proxy**

Members of the Company are entitled to appoint one or more proxies to exercise all or any of their rights to attend, speak and vote at the Meeting instead of him or her. The person appointed does not need to be a member of the Company but they must attend the Meeting to represent the member. If you wish your proxy to speak on your behalf at the Meeting you will need to appoint your own choice of proxy (not the Chairman) and give your instructions directly to your appointee.

If you appoint more than one proxy, each proxy must only be appointed to exercise the rights attaching to different shares.

A proxy can be appointed using the form accompanying this Notice. Instructions for use are shown on the form. Please complete and return this form to the Company's registrars, Link Asset Services, at PXS 1, 34 Beckenham Road, Beckenham, Kent BR3 4ZF not later than **11.00 am** on Friday **23 March 2018**.

You can only appoint a proxy using the procedures set out in these notes and the notes to the proxy form. The notes to the proxy form give details of how to appoint a proxy via the CREST system.

4 **Changing appointment of proxy**

A member may change the person they have appointed as proxy using the same process as outlined above. The appointment received last before the latest time for receipt of proxies will take precedence over any previous appointments (see note 3). Any amended proxy appointments received after the relevant cut-off time will be disregarded.

5 **Revoking proxy appointment**

A member may revoke the appointment of a proxy by sending a signed note to the Company’s registrars,1 Link Asset Services, at PXS 1, 34 Beckenham Road, Beckenham, Kent BR3 4ZF. If the member is a company, such a note must be executed under common seal or signed on the company’s behalf by an officer of the company or an attorney for the company. Any power of attorney or other authority under which the proxy form is signed must be included with the proxy form. If a revocation is received after the specified time (see note 3), the proxy appointment will remain valid. Alternatively, if a member appoints a proxy but attends the Meeting in person, the proxy appointment will be automatically terminated.

6 **Issued shares and total voting rights**

At close of business on 23 February 2018 the Company’s issued share capital comprised 47,568,354 ordinary shares of £0.01 each. Each ordinary share entitles the holder to one vote at a general meeting of the Company. Consequently, the aggregate number of voting rights in the Company at that time was 47,568,354.

7 Documents on display

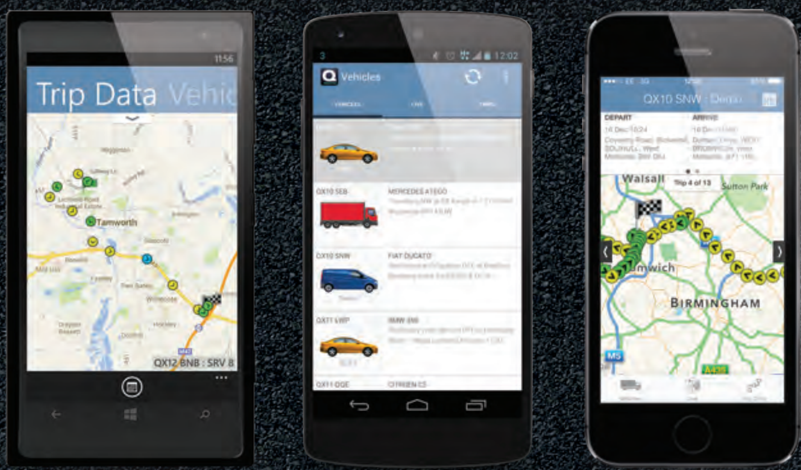
Copies of the Directors' service contracts with the Company will be available for inspection at the registered office of the Company at least 15 minutes prior to and until the termination of the Annual General Meeting.

8 Communication

Any general queries by members about the Annual General Meeting should be addressed to the Company Secretary by letter or email at Quartix Holdings plc, Wellington House, East Road, Cambridge CB1 1BH or dan.mendis@quartix.net

Quartix

Real-Time Vehicle Tracking



Quartix Holdings plc
Wellington House
East Road
Cambridge
CB1 1BH

www.quartix.net www.quartix.fr www.quartix.com