Quartix

Real-Time Vehicle Tracking

Quartix Holdings plc

Annual Report 2020

Company No.06395159

Financial Statements
Quartix Holdings plc

For the year ended 31 December 2020

Contents

Company Information

Company registration number:	06395159
Registered office:	9 Dukes Court, 54~62 Newmarket Rd, Cambridge CB5 8DZ
Directors:	Paul Boughton Andrew Walters Daniel Mendis David Warwick Laura Seffino
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 broker:	FinnCap One Bartholomew Close, London, EC1A 7BL

Highlights

Financial highlights

- Group revenue increased by 0.8% to £25.8m (2019: £25.6m)
  - Fleet revenue grew[1] by 6.0% to £22.0m (2019: £20.8m)
  - Fleet revenue represented 85.4% of total revenue (2019: 81.2%)
  - Insurance revenue[2] decreased by 21.5% to £3.8m (2019: £4.8m)
- Adjusted EBITDA[3] increased by 11.5% to £7.9m (2019: £7.1m)
  - Fleet telematics services profits[4] increased by 6.0% to £17.5m (2019: £16.5m) (note 4)
  - Fleet customer acquisition investment[5] increased by 14.1% to £6.9m (2019: £6.1m)
  - Insurance segment profit[6] increased by 32.5% to £2.1m (2019: £1.6m)
- A provision of £1.6m in respect of the swap out of 3G fleet units in the US (see Strategic Report: Financial Review)
- Operating profit therefore decreased by 11.8% to £5.7m (2019: £6.4m)
- Profit before tax decreased by 12.3% to £5.7m (2019: £6.5m)
- Adjusted diluted earnings per share[7] of 13.16p, diluted earnings per share of 9.82p (2019: 11.25p)
- Free cash flow[8] decreased by 11.1% to £5.5m (2019: £6.2m)
- Final dividend payment of 17.70p per share proposed (2019: 10.0p) including 15.30p for supplementary dividend (2019: 5.8p) giving a total dividend for the year of 21.07p per share

---

[1] Total Fleet segmental revenue (see note 4)
[2] Insurance segmental revenue (see note 4)
[3] Earnings before interest, tax, depreciation, amortisation, share based payment expense and the 3G replacement provision (see Strategic Report: Financial Review)
[4] Profit for the Fleet segment before customer acquisition costs and central fleet costs (see note 4)
[5] Sales, marketing, net equipment, net installation and carriage cost for new fleet customers (see note 4 for full explanation)
[6] Insurance segmental profit increased as a result of a reduction in equipment and installation costs (see note 4)
[7] Diluted earnings per share before the 3G replacement provision (see Strategic Report: Financial Review)
[8] Cash flow from operations after tax and investing activities

Principal activities and performance measures

Quartix is one of Europe's leading suppliers of vehicle telematics services. The Group's main strategic objective is to grow its fleet subscription base and develop the associated annualised recurring revenue. The Key Performance Indicators used by the Board to assess the performance of the business are listed below and discussed in the Chairman's Statement and Strategic Report.

Key Performance Indicators ("KPIs")

Year ended 31 December	2020	2019	% change
Fleet subscriptions[1] (new units)	**42,898**	43,837	(2.1)
Fleet subscription base[2] (units)	**173,793**	150,640	15.4
Fleet customer base[3]	**19,039**	16,394	16.1
Fleet attrition (annualised)[4] (%)	**12.2**	11.9	
Annualised recurring revenue[5] (£'000)	**22,245**	20,534	8.3
Fleet invoiced recurring revenue[6] (£'000)	**20,801**	19,297	7.8
Fleet revenue[7] (£'000)	**22,059**	20,808	6.0
Price erosion[8] (%)	**6.6**	9.4	
Insurance installations[9] (new units)	**17,074**	36,386	(53.1)
Insurance revenue[10] (£'000)	**3,776**	4,813	(21.5)

[1] New vehicle tracking unit subscriptions added to the subscription base before any attrition
[2] The number of vehicle tracking units subscribed to the Group's fleet tracking services, including units waiting to be installed for which subscription payments have started or are committed
[3] The number of customers associated with the fleet subscription base
[4] The number of new vehicle tracking unit subscriptions, less the increase in subscription base, expressed as a percentage of the mean subscription base
[5] Annualised data services revenue for the subscription base at the year end, before deferred revenue, including revenue for units waiting to be installed for which subscription payments have started or are committed
[6] Invoiced subscription charges before provision for deferred revenue
[7] Total Fleet segment revenue (see note 4)
[8] The annual decrease in average subscription price of the base expressed as a percentage of the average subscription price at the start of the year, all measured in constant currency
[9] The number of new vehicle tracking unit installations in the Insurance segment
[10] Insurance segment revenue (see note 4)

Chairman's Statement

Introduction

Our key focus for the past year was investing in the growth of our core Fleet operations, both in the UK and overseas to drive an increase in recurring revenues. This was achieved with the Group experiencing strong growth in its Fleet tracking subscription platform. Performance in the second half of the year was particularly encouraging; new subscriptions were 9.9% ahead of the prior year and roughly 60% of the year's growth in the size and value of the base were achieved in that period. Fleet revenue grew by 6.0% during the year; this lagged growth in the value of the subscription base as the latter grew more rapidly towards the end of the year.

This improved performance in the second half has brought new subscriptions for the year to within 2.1% of those for 2019 (which in turn was 39% ahead of 2018), notwithstanding the 13.6% decrease in new subscriptions experienced in the first half of the year as a result of the coronavirus pandemic. It was also pleasing to see Group attrition remain steady at 12.2% (2019: 11.9%) and price erosion reduced to 6.6% (2019: 9.4%) in the midst of a coronavirus pandemic.

Each geographical market, except the UK, registered increases in new subscriptions for the year as a whole. In the UK, the sales team held fewer face-to-face sales meetings (due to the pandemic), which impacted its field sales and distribution channels; however, the second half of the year saw a return to the new subscription levels achieved in the second half of 2019, despite these limitations. Sales in the UK fleet operations grew by 0.8%, reaching £15.6m (2019: £15.5m) whilst UK insurance revenues decreased to £3.8m (2019: £4.8m), due to availability of driving tests and installation capacity during the year.

The Group made excellent progress in France, where revenue increased by 16.7% to €4.3m (2019: €3.7m), ending the year with 31,345 vehicles under subscription (2019: 25,643) across 4,299 fleet customers (2019: 3,528).

2020 was the Group's sixth full year of operations in the USA. We are pleased with progress and completed the year with 23,479 vehicles under subscription (2019: 18,050) across 3,247 fleet customers (2019: 2,621). Revenue increased by 20.2% to $3.1m in 2020 (2019: $2.5m) and the prospects for future business development remain encouraging.

The Group continued to make progress in its new European territories, ending the period with a subscription base of 3,904 vehicles (2019: 1,316) across 920 fleet customers (2019: 337).

Results

Group revenue for the year increased marginally to £25.8m (2019: £25.6m); the Group continues to replace insurance revenue with higher quality fleet revenue. Total fleet revenue increased by £1.2m and now represents 85.4% of total revenue (2019: 81.2%). Insurance revenue decreased by £1.0m.

Operating profit for the year decreased by 11.8% to £5.7m (2019: £6.4m) and profit before tax was £5.7m (2019: £6.5m). This reduction was after charging £1.6m for the swap out of 3G units in the USA. Management expect the sunsetting of the 3G mobile network in the US to be finalised in 2022. This necessitates the replacement of a large proportion of the US installed base of tracking systems during 2021 and the Board has taken the decision to provide this service free of charge to customers in order to minimise the chances of incremental attrition and to further enhance the Group's reputation in the US market. This exceptional charge was partially offset by the improvement in the Insurance segment, whose 2020 segmental profit was £2.1m (2019: £1.6m), as a result of a reduction in equipment and installation costs.

Results (continued)

Total Fleet Segment profit, before central overheads, remained comparable to the prior year, at £9.7m (2019: £9.7m). The profitability of the Group's fleet telematics services, which represents the core part of the business associated with recurring revenues, grew by £1.0m to £17.5m (2019: £16.5m). This gain was then invested in acquiring additional fleet customers for the future.

Further details for segmental profit are given in the Financial Review and note 4.

Cash conversion remained strong, resulting in free cash flow, cash flow from operations after tax and investing activities, of £5.5m (2019: £6.2m). Net cash increased to £10.6m at 31 December 2020 (2019: £6.8m), following the cancellation of the final and supplementary dividend for 2019, but after an interim dividend payment for 2020 of £1.6m.

Earnings per share

Basic earnings per share decreased by 12.7% to 9.86p (2019: 11.29p). Diluted earnings per share decreased to 9.82p (2019: 11.25p). The adjusted diluted earnings per share, which is calculated by adding back the cost of the replacement of 3G units is 13.16p.

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 2020, the Board decided to pay an interim dividend of 2.5p per ordinary share plus a supplementary dividend of 0.87p per share. This totalled £1.6m and was paid on 11 September 2020 to shareholders on the register as at 14 August 2020.

The Board is recommending a final ordinary dividend of 2.40p per share, together with a supplementary dividend of 15.30p per share, giving a final pay out of 17.70p per share and a total dividend for the year of 21.07p per share.

The final and supplementary dividend amounts to approximately £8.6m in aggregate. Subject to the approval at the forthcoming AGM, this aggregate dividend of 17.7p per share will be paid on 30 April 2021 to shareholders on the register as at 1 April 2021.

Outlook

The Group has made a strong start to the year, in line with our expectations. Given the success that Quartix has achieved in its core fleet markets, and considering the broader market opportunity available to it, the Group intends to invest a larger proportion of its profits on sales and marketing during 2021 to capitalise further on the profitable subscription platform it has created by accelerating growth in its fleet subscription base. Whilst the majority of this investment will take place in the second half of the year, some additional investment is already underway with the recruitment of additional telephone sales staff, a substantial increase in UK field sales capacity and the Group's first field sales agent to be based in France.

AGM

The Group's AGM will be a closed meeting held at 11.00 a.m. on 23 March 2021 at the Group's registered office at 9 Dukes Court, 54~62 Newmarket Road, Cambridge CB5 8DZ.

Paul Boughton
Chairman

Strategic Report: Operational Review

Principal activities

Quartix is one of Europe's leading suppliers of vehicle telematics services. We made excellent progress in the core fleet sector in 2020, which now has a subscription platform connecting more than 170,000 fleet vehicles. Whilst the origins of the Group's business are in the UK, it has developed a significant market presence in the fleet sector in France and the USA. It built on this success and experience with continued expansion in Spain, Italy and Germany during the course of 2020.

Strategy and business model

The Group's main strategic objective is to grow its fleet subscription platform and develop the associated recurring revenue. This strategy is based on 5 key elements, which were first highlighted in the 2018 annual report. We are pleased to be able to report significant progress in each area, as summarised below:

1. *Market development:* despite new fleet subscriptions decreasing by 2.1%, the second half of the year saw an increase in new fleet subscriptions of 9.9% against the equivalent period in 2019. The subscription base increased by 15.4% and strong growth was achieved in each of our existing territories.
2. *Cost leadership:* we have recently signed a long-term supply agreement with a telematics device manufacturer, which we expect to result in cost and simplicity improvements. Improvements in the efficiency of the sales cycle are also being rolled out. We continue to review product and overhead costs in order to identify further operational efficiencies.
3. *Continuous enhancement of the Group's core software and telematics services:* further improvements have been made to the Group's software platform, which have increased its functionality and ease of use, as well as allowing the integration of camera systems. A new self-install fleet unit has been launched for the UK and Europe, a 4G unit has been developed for the US and a new self-install insurance product has been launched.
4. *Outstanding service:* Quartix maintained its excellent reputation with its fleet customers throughout the year, consistently being rated as "excellent" by TrustPilot users. Changes to the support and service processes during the year have realised benefits that have kept attrition at a steady level in the midst of the global coronavirus pandemic.
5. *Standardisation and centralisation:* the expansion into European markets has thus far been achieved entirely from the Group's principal operational office in Newtown. This structure is being reviewed following the expiry of the Brexit transition agreement, though material changes are not expected. The office in Chicago is now exclusively a sales office, with US support and service functions being performed from the UK.

Our 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 number of vehicles connected to our subscription platform and the value of recurring subscription revenue derived from it are the key measures of our performance in the fleet sector.

We also provide our telematics technology and services to insurers, who 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. The level of attrition, in this industry for young driver policies, is relatively high.

The Group has focused over the past four years on growth in its fleet operations. In 2020 85.4% of Group revenue (£22.0m of £25.8m) derived from fleet applications, which compares with 63.9% in 2016 (£14.9m of £23.3m).

People

We take pride in the level of service we provide, and it is gratifying to see that fleet customers consistently provide us with excellent reviews – both in person and on third-party sites such as TrustPilot. The changes in support and service processes which we have made during 2020 have kept attrition levels stable during the year and we are delighted to have been able to support our customers during this extremely difficult period for them.

These service achievements are a reflection of the teamwork, creativity and dedication of our people and a testament to how seriously we take our commitment to providing the best experience for our customers. Our financial performance derives from the customer service we deliver, backed by the technology we develop. We would like to register our personal thanks to every one of our employees who made 2020 another great year for Quartix.

We are pleased 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 eighth year in a row. Under this scheme each UK employee (barring Directors) receives shares in the company at an exercisable price of 1 penny per share, which are exercisable approximately 18 months from grant. Employees with 5 years' service at the first grant in 2013 would now hold 4,260 shares in the company, less any disposals. During the year several staff members were issued share options to thank them for their personal contribution to the progress of Quartix throughout the coronavirus pandemic. In addition, Laura Seffino, a Director of Quartix Holdings plc, received share option grants in 2020, as disclosed in the remuneration report.

Operational performance

All of our business operations continued to perform at a high level in 2020. Gross margin increased to 66.0% (2019: 64.9%), mainly due to the increase in deferred revenue release in insurance, with the reduction in new policies, particularly from the coronavirus impact. With additional investment in fleet, administrative expenses increased by 11.6%. Cash conversion remained strong with cash flow from operations after tax and investing activities (free cash flow) representing 117.0% of profit for the year (2019: 115.0%). We expense all research and development investment, tracking system and installation costs as they are incurred unless development spend meets the criteria for capitalisation.

Our accounts and operations teams continued to manage working capital well: trade debtors at the year-end were 31 days (2019: 34) days of sales, and inventory levels decreased by 20.9% compared to prior year levels.

Fleet

Our core fleet business, which accounted for 85.4% of Group revenue (2019: 81.2%), delivered excellent progress in a further year of investment. Strong subscription base growth in each of the UK, France and the USA, coupled with our second year in four new European markets, took the total subscription base to more than 170,000 vehicles.

During the course of the year we won 4,844 new fleet customers (2019: 4,471). Sales leads continued to be generated through a broad range of media and channels and investments have been made in marketing, technology, processes and training, adding automation wherever possible.

Total investment in fleet customer acquisition increased by £0.8m to £6.9m in 2020 (2019: £6.1m). This investment will increase further in 2021 as we continue to develop our business across each of our markets, thereby increasing recurring revenues.

Fleet UK

New subscriptions to our fleet tracking services decreased by 13.2% to 22,294, though the second half of the year (12,300 new subscriptions) showed recovery in the market against the first half of the year (9,994 new subscriptions). We increased our vehicle subscription base by 8.9% to 115,065 as a consequence, and our fleet customer base rose to 10,573 (2019: 9,908). In total we won 1,801 new customers in the UK (2019: 2,033) and we increased the number of fleet clients with 50 vehicles or more. UK fleet revenue was £15.6m (2019: £15.5m). 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 enquiries, and we continued to add new content to it.

We will continue to focus on telephone sales staff and we have increased UK field sales capacity, to support our fleet marketing initiatives; we will look to find additional channels and partners to help us develop the market.

Fleet France

The number of new subscriptions in the French market was 0.9% higher than the previous year (9,135 versus 9,054), and there was a 22.2% increase in the unit base, ending the year with 31,345 vehicles (2019: 25,643) under subscription across 4,299 fleet customers (2019: 3,528). French fleet revenue increased by 16.7% to €4.3m (2019: €3.7m), making a profitable contribution to the Group. We saw continued growth in new customer acquisition throughout the year, and this was broadly spread across each of our channels. The Group has recruited its first French field sales agent to help facilitate growth with customers who have larger fleets, with 50 or more vehicles.

New European territories

Having launched in various European markets during 2019, the Group has developed its operations successfully and achieved a total of 2,922 new subscriptions (2019: 1,353), taking its subscription base to 3,904 vehicles (2019: 1,316). Revenue increased to £0.2m (2019: £0.1m). Sales results in the Spanish, Italian and German markets have been very encouraging so far and the Company will increase investment in these.

Fleet USA

Our sixth full year of trading in the USA showed good progress: we concluded 2020 with 3,247 fleet customers (2019: 2,621) achieving growth of 30.1% in vehicles under subscription to a total of 23,479 (2019: 18,050). USA fleet revenue increased by 20.2% to $3.1m (2019: $2.5m). Losses incurred in the USA remained similar at £0.4m (2019: £0.4m).

We see significant potential for growth in the USA in the next five years.

Combined fleet revenues in non-UK territories, were £6.4m, representing 29.1% of total fleet revenue.

In the four years since the decision to focus on our fleet operations they have grown to represent 85.4% of Group revenues (£22.1m) in 2020 from 63.9% (£14.9m) in 2016. This trend is expected to continue as the Company invests in the development of each of its fleet markets.

Insurance

Reductions in the availability of driving tests and installation capacity during the year contributed to the 53.1% decrease in insurance installations to 17,074 units. This trend was in keeping with the decision announced in July 2016 to focus on the core fleet market and on only those insurance opportunities which are closely aligned to the fleet business. The profitability of this segment increased from £1.6m in 2019 to £2.1m, with a £1.0m reduction in revenue more than compensated by a £1.5m reduction in equipment and installation costs from the decline in volume - see segmental note 4.

Research and development

The Group is committed to the continuous enhancement of its core software and telematics services, and we aim to offer a market-leading platform which addresses the most common needs of SME customers in the service sector of each of our target markets. We achieved some notable successes in 2020:

1. Towards the end of the year, we completed trials of a new self-install product for the UK and Europe, having applied additional functionality to the unit. We subsequently signed a long-term supply agreement with the manufacturer. We have also developed a new 4G unit for the US, which is expected to be in production in 2021.
2. Throughout the year, new software releases for all territories and languages were issued for our customer base regularly throughout the year. These updates provided enhancements to usability and self-service, and were focused on features which we felt would be of benefit to the large majority of our client base.
3. We launched a new insurance self-install unit, which has successfully been rolled out with one insurance customer and we believe has the potential to be rolled out more widely.

All of our investment in research was fully expensed in the year. The total cost amounted to £0.8m, which represents an increase of 13.2% compared to the prior year (2019: £0.7m).

Capacity for future growth

We believe that the Company has significant opportunity for growth in its fleet business in both new and existing markets. We achieved excellent growth in our subscription platform in 2020 and established encouraging positions in a range of new markets.

Given the success that Quartix has achieved in its core fleet markets, and considering the broader market opportunity available to it, the Company intends to invest a larger proportion of its profits on sales and marketing during 2021 to capitalise further on the profitable subscription platform it has created by accelerating growth in its fleet subscription base. Whilst the majority of this investment will take place in the second half of the year, some additional investment is already underway with the recruitment of additional telephone sales staff, a substantial increase in UK field sales capacity and the Company's first field sales agent to be based in France.

The Board estimates that total incremental investment in 2021, including the incremental costs of manufacture and installation, will be up to £1m, with the majority taking place in the second half of the year. The Board will monitor this investment to measure its success and will invest in such a way as to be able to moderate it if it is deemed to be generating an unsatisfactory return.

Andrew Walters	**Daniel Mendis**
Chief Executive Officer	Chief Operating and Financial Officer

Strategic Report: Financial Review

Key Performance Indicators ("KPIs")

Year ended 31 December	2020	2019	% change
Fleet subscriptions[1] (new units)	**42,898**	43,837	(2.1)
Fleet subscription base[2] (units)	**173,793**	150,640	15.4
Fleet customer base[3]	**19,039**	16,394	16.1
Fleet attrition (annualised)[4] (%)	**12.2**	11.9	
Annualised recurring revenue[5] (£'000)	**22,245**	20,534	8.3
Fleet invoiced recurring revenue[6] (£'000)	**20,801**	19,297	7.8
Fleet revenue[7] (£'000)	**22,059**	20,808	6.0
Price erosion[8] (%)	**6.6**	9.4	
Insurance installations[9] (new units)	**17,074**	36,386	(53.1)
Insurance revenue[10] (£'000)	**3,776**	4,813	(21.5)

[1] New vehicle tracking unit subscriptions added to the subscription base before any attrition
[2] The number of vehicle tracking units subscribed to the Group's fleet tracking services, including units waiting to be installed for which subscription payments have started or are committed
[3] The number of customers associated with the fleet subscription base
[4] The number of new vehicle tracking unit subscriptions, less the increase in subscription base, expressed as a percentage of the mean subscription base
[5] Annualised data services revenue for the subscription base at the year end, before deferred revenue, including revenue for units waiting to be installed for which subscription payments have started or are committed
[6] Invoiced subscription charges before provision for deferred revenue
[7] Total Fleet segment revenue (see note 4)
[8] The annual decrease in average subscription price of the base expressed as a percentage of the average subscription price at the start of the year, all measured in constant currency
[9] The number of new vehicle tracking unit installations in the Insurance segment
[10] Insurance segment revenue (see note 4)

The Group made excellent progress in its core fleet business during 2020 in its primary strategic objective of building our fleet subscription base.

We achieved 42,898 new fleet subscriptions (2019: 43,837), a decrease of 2.1% however this represents significant recovery from the half-year position with new fleet subscriptions in the second half of the year increasing by 9.9% against the equivalent period in 2019.

During the year, our fleet subscription base grew by 15.4% to 173,793 units (2019: 150,640) with growth in all of our geographical markets.

Attrition during the period increased marginally to 12.2% (2019: 11.9%). The Group made various changes to its support and service processes during 2020 and it is pleasing to see attrition remaining stable amongst the global pandemic.

Annualised recurring revenue increased by 8.3% to £22.2m (2019: £20.5m) and fleet invoiced recurring revenue grew by 7.8% to £20.8m (2019: £19.3m). The growth in fleet revenue of 6.0% was similar to the growth of our recurring revenue, as our primary focus is on growing subscription revenue.

Insurance unit installations decreased by 53.1% to 17,074 (2019: 36,386); these were adversely impacted by the coronavirus pandemic, with reductions in the availability of driving tests and installation capacity hindering demand and supply respectively.

Financial Overview

Year ended 31 December **£'000 (except where stated)**	**2020**	2019	% change
Revenue			
Fleet	**22,059**	20,808	6.0
Insurance	**3,776**	4,813	(21.5)
Total	**25,835**	25,621	0.8
Gross profit before 3G swap out provision	**18,657**	16,626	12.2
Gross margin before 3G swap out provision	**72.2%**	64.9%	
Gross profit	**17,047**	16,626	2.5
Gross margin	**66.0%**	64.9%	
Operating profit	**5,680**	6,438	(11.8)
Operating margin	**22.0%**	25.1%	
Adjusted EBITDA (note 5)	**7,871**	7,062	11.5
Profit for the year	**4,728**	5,410	(12.6)
Earnings per share	**9.86**	11.29	(12.7)
Adjusted diluted earnings per share	**13.16**	11.25	17.0
Cash generated from operations	**6,698**	7,263	(7.8)
Operating profit to operating cash flow conversion	**117.9%**	112.8%	
Free cash flow	**5,534**	6,223	(11.1)

Revenue

Revenue increased marginally to £25.8m (2019: £25.6m); the Group continues to replace insurance with higher quality fleet revenue. Insurance revenue represented 14.6% (2019: 18.8%) and is expected to represent approximately 10.0% of revenue in 2021. Fleet revenue, benefitting from past investment and expansion into new European territories, increased by £1.2m to £22.1m (2019: £20.8m). Sales to insurance customers decreased by £1.0m to £3.8m (2019: £4.8m).

Gross margin

Gross margin increased marginally to 66.0% in the year (2019: 64.9%). The primary cost saving was achieved through the reduction in equipment, installation and carriage costs, partly due to the large reduction in insurance installations and partly due to a higher proportion of self-install fleet units. This cost saving was somewhat offset by a £1.6m provision relating to the swap out of 3G units in the US. Management expect the sunsetting of the 3G mobile network in the US to be finalised in 2022 and this necessitates the replacement of a large proportion of the US installed base of tracking systems during 2021. The Board has taken the decision to provide this service free of charge to customers in order to minimise the chances of any incremental attrition.

Adjusted EBITDA and Segmental Analysis

Adjusted EBITDA, which excludes the £1.6m provision for the replacement of the 3G units, increased to £7.9m (2019: £7.1m), driven by the increase in insurance profitability, which increased to £2.1m (2019: £1.6m).

A summary of the Group's segmental analysis is set out below (see note 4 for an explanation of categorisations and assumptions).

Financial Overview (continued)

Adjusted EBITDA and Segmental Analysis (continued)

Total Fleet Segment profit remained similar to the prior year, at £9.7m (2019: £9.7m), following targeted investment in growing the subscription base. The profitability of the Group's fleet telematics services, which represents the core part of the business associated with recurring revenues, grew by £1.0m to £17.5m (2019: £16.5m). This growth was then reinvested, with an additional £0.9m being invested in acquiring additional fleet customers for the future.

Segmental analysis 2020	Customer Acquisition £'000	Fleet Telematics Services £'000	**Total Fleet £'000**	Insurance £'000	**Total Business £,000**
Revenue	223	21,836	**22,059**	3,776	**25,835**
Segmental costs	(7,138)	(4,352)	**(11,490)**	(1,655)	**(13,145)**
Profit before central fleet costs	**(6,915)**	**17,484**	**10,569**	**2,121**	**12,690**
Central fleet costs			**(829)**	-	**(829)**
Segmental profit			**9,740**	**2,121**	**11,861**
Central costs					**(3,990)**
Adjusted EBITDA (see note 5)					**7,871**

Segmental analysis 2019	Customer Acquisition £'000	Fleet Telematics Services £'000	Total Fleet £'000	Insurance £'000	Total Business £,000
Revenue	338	20,470	20,808	4,813	25,621
Segmental costs	(6,398)	(3,973)	(10,371)	(3,212)	(13,583)
Profit before central fleet costs	(6,060)	16,497	10,437	1,601	12,038
Central fleet costs			(747)	-	(747)
Segmental profit			9,690	1,601	11,291
Central costs					(4,229)
Adjusted EBITDA (see note 5)					7,062

Overheads

We continued to invest in our product offering, in our sales structure and in marketing, which led to an increase in overheads of 11.6%.

Part of the aforementioned investment was in the USA where our subscription unit base has increased by 30.1% to 23,479 (2019: 18,050) and revenue, as disclosed in note 3, increased to £2.4m ($3.1m) (2019: £2.0m ($2.5m)). Additionally, the expansion into the new European territories contributed £0.2m toward revenue in the year (2019: £0.1m), with a fleet base at the year end of 3,904 units (2019: 1,316).

Financial Overview (continued)

Taxation

Our effective tax rate benefits from the Group's investment in research and patents in the UK business. The effective rate increased from 16.1% in 2019 to 16.4% in 2020, due to the increased profitability of the French branch, which is subject to a higher rate of tax offset by a higher R&D tax credit.

Earnings per share

Earnings per share decreased to 9.86p (2019: 11.29p), diluted earnings per share decreased to 9.82p (2019: 11.25p) due to the US 3G swap out provision. As a result, adjusted diluted earnings per share, which excludes the £1.6m 3G units replacement provision, was 13.16p.

Statement of financial position

Property, plant and equipment, at £1.3m (2019: £0.8m), increased by £0.5m largely due to the right of use leasehold property in Newtown, Powys. These are the main operational premises, which were redeveloped for Quartix and were completed in March 2020.

Inventories decreased to £0.7m (2019: £0.9m). Cash at the year-end was £10.6m (2019: £6.8m), since the final and supplementary dividends which would ordinarily have been paid during the year, were held back, as a precautionary measure as a result of the uncertainty surrounding the coronavirus pandemic. Trade and other receivables decreased slightly to £3.8m in the year (2019: £3.9m). Trade and other payables decreased to £2.8m (2019: £3.1m), whilst provisions increased from £0.2m to £1.8m due to the US 3G swap out provision of £1.6m.

Contract liabilities represent customer payments received in advance of satisfying performance obligations, which are expected to be recognised as revenue in future years (both fleet and insurance). These unwound to £3.7m in 2020 (2019: £4.8m) and are described further in note 19.

Cash flow

Cash generated from operations before tax at £6.7m was 117.9% of operating profit (2019: £7.3m, 112.8% of operating profit).

Tax paid in 2020 was £1.1m (2019: £0.9m), so cash flow from operating activities after taxation but before capital expenditure was £5.6m (2019: £6.4m).

Free cash flow, after £0.1m of capital expenditure and interest received, was £5.5m, a decrease of 11.1% (2019: £6.2m).

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 staff. 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. The Group has a range of tailored incentive schemes to help recruit, motivate and retain top quality staff, which include the use of share options.

Reliance on Mobile To Mobile ("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.

Financial Overview (continued)

Risk Management policies (continued)

Reliance on Mobile To Mobile ("M2M") network (continued)

Management believe that, at some point between 2025 and 2030, most UK and European network operators will finalise the sunsetting of their 2G networks. Depending on the actual timetable and the commercial climate, there may be a cost at that time associated with the upgrading of customers' technology, which the Group is seeking to minimise through various technological and commercial means.

As described in the 2019 Financial Statements, Management expect the sunsetting of the 3G mobile network in the US to be finalised in 2022. This necessitates the replacement of a large proportion of the US installed base of tracking systems during 2021 and the Board has taken the decision to provide this service free of charge to customers in order to minimise the chances of incremental attrition and to further enhance the Company's reputation in the US market. The estimated cost of this replacement programme is approximately £1.7m, of which the Company has provided for £1.6m in its 2020 accounts.

Business disruption

Like any business the Group is subject to the risk of 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 and Business Interruption Insurance to cover certain events in order to help mitigate these risks.

The full extent of the impact to the Group's business as a result of the UK leaving the EU remains uncertain. The Group acquires, manages and supports its customers in the EU centrally, from its offices in the UK. The resulting trading and data adequacy arrangements has not made it necessary for a relocation of some of its operations to within the EU. The existing French branch is instrumental in the logistics of moving the goods between the France and the customers in the EU territories. Quartix is currently facing some limited delays at the border between France and the UK, though it expects this to ease in the coming months. In addition, any impact on the wider economic landscape could impact the Group's trading indirectly through the demand for its services.

There is also a risk that the coronavirus pandemic will further impact the growth of the global economy and therefore the Group's subscription base and its ability to collect cash from its customers. The rollout of the vaccination programme currently appears to be mitigating this risk. As with other industries, there is also a risk of some short-term disruption to component supply as the global economy recovers and suppliers increase production to meet demand. The Group is actively working with suppliers to manage this and has signed a supply agreement with a device manufacturer, which further helps to mitigate this risk.

Dependence on a key customer

During 2020 insurance revenue of £3.4m (2019: £4.2m) was derived via one insurance customer, a specialist reseller for the insurance industry. Losing this key contract could have an impact on cash flow in the short term. Total insurance revenue, including that generated from other customers, was £3.8m (2019: 4.8m) and total insurance segment profit was £2.1m (2019: £1.6m).

Cyber security

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

Financial Overview (continued)

Risk Management policies (continued)

Technology

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

Section 172 (1) Statement

In accordance with the Companies Act 2006 (Act), as amended by the Companies (Miscellaneous Reporting) Regulations 2018, the Directors provide this statement to describe how they have engaged with and had regard to the interest of our key stakeholders when performing their duty to promote the success of the Group, under Section 172 of the Act. The Directors consider, both individually and together, that they have acted in the way they consider, in good faith, would be most likely to promote the success of the Group for the benefit of its members as a whole (having regard to the stakeholders and matters set out in Section 172 of the Act) in the decisions taken during the year ended 31 December 2020.

Given the importance of our stakeholders and the impact they have on our strategy, reputation and the Group's long-term success, consideration has been given to them throughout the 2020 Annual Report and the table below identifies where they are discussed:

Section 172 responsibility	Where you can read more
The likely consequence of any decision in the long-term	Outlook on page 7, Strategic Report: Operational review: Strategy and business model page 8, Capacity for future growth page 11 Corporate Governance Report: section 1 page 23 and section 9 on page 31~33
The interests of the Group's employees	Strategic Report: Operational review: Strategy and business model page 8 Corporate Governance Report: Section 3 Page 25-26
The need to foster the Group's business relationships with suppliers, customers and others	Strategic Report: Operational review: Strategy and business model page 8 Financial Overview: Risk Management (M2M network and business disruption from coronavirus for example of working with suppliers and fostering customers) page 15~16 Corporate Governance Report: Section 3 Page 25-26
The impact of the Group's operations on the community and the environment	Our commitment to our stakeholders: page 20
The desirability of the Group maintaining a reputation for high standards of business conduct	Corporate Governance Report: Section 8 Page 30
The need to act fairly as between members of the Group	Corporate Governance Report: Shareholder engagement page 23

The Corporate Governance Code also highlights the importance of effective engagement with shareholders and other stakeholders. Engaging with our stakeholders and the issues that matter to them allows us to take more informed decisions and better identify the consequences of our actions on our stakeholders, whilst recognising that each decision will not always result in a positive outcome for each of our stakeholders. By having good governance procedures in place, the Board aims to make sure that its decisions maintain a high standard of business conduct.

Our commitment to our stakeholders

The following table sets out how we engage with our key stakeholders.

Our stakeholders	What has mattered to them this year?	Our response
Customers		The Board's main strategic objective is to grow its fleet subscription platform and develop the associated recurring revenue. This was supported by each of the following decisions/actions:
	Consistent quality service and support, despite potential disruption to Quartix and customers' operations during coronavirus restrictions.	Providing data services consistently throughout the year, having invested in robust infrastructure. (see also employees).
	Innovation to support their business.	Prompt development response to product innovation for self install hardware for the insurance sector, to overcome coronavirus restrictions on installation engineers, to support and retain established customers.
	Concerns about impact of network upgrades on services.	Timely development of new generation hardware to meet changing network requirements. Clear communication, to each US customer impacted from 3G sunset, of the Board's swap out plans, in 2021~22.
	Support during difficult trading conditions.	Contract variations to give financial flexibility to assist cashflows.
Employees	Great career in a positive and motivating work environment underpinned by a supportive culture.	Continuing to focus on developing culture that inspires and motivates staff.
		Encouraging and offering staff opportunities to progress within the business in new roles/departments, to seek to retain them for the long term benefit of the business.
	Focus this year on working at home environment, health & safety and mental health/wellbeing.	Coronavirus actions to retain and support staff included: • Quartix took very early action to move to remote working to protect its employees and is pleased to note that this is working efficiently. • Risk assessment for office when some staff returned to work to ensure it complied with government guidelines and safety for staff.

		• A small number of staff were furloughed during the 1st lockdown (see community). • Share options awarded to managers in May 2020 to retain top quality staff for the longer term. • Providing regular communications to employees and regular contact with their line manager or team. • Utilisation of surveys to monitor staff wellbeing. • Specific support for staff with childcare responsibilities during lockdown
Suppliers: component suppliers, network providers, installation engineers, distributors, marketing support	Our Suppliers want us to be trustworthy and building long-term mutually beneficial relationships. Maintain our product and ethical standards across our supply chain.	The Group actively looks to create long-term collaborative relationships with key suppliers. It is actively working with suppliers to manage the risk of some short-term disruption to component supply as the global economy recovers from the pandemic and has signed a supply agreement with a device manufacturer, which further helps to mitigate this risk. The Group expects its suppliers and distributors to demonstrate a culture that reinforces ethical and lawful behaviours and periodically conducts inspection audits at the key assembler in China.
Communities and the environment	Communities want us to act responsibly, to create employment locally to help their communicates thrive and reduce environmental impact.	The more successful we can be as a business, the greater difference we can make to our communities. We encourage staff to engage with local charities and as a business gifted PPE to front line services in local communities. Vehicle tracking services generally impact driver behaviour and should have a positive impact on the environment. 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, including adapting to environmentally driven changes to vehicles.
Shareholders	The major areas raised include: Communication, including the impact of the coronavirus on the business.	 The Board is committed to maintaining an appropriate level of communication with shareholders (see section 2 of the

		Corporate Governance Report) and has issued regular trading updates to address the coronavirus impact and held investor presentations and meetings throughout the year.
	Corporate governance topics, such as succession planning.	Changes in the Board are planned for 2021 in the light of planned investment in its core markets with Daniel Mendis becoming the Group Commercial and Operations Director and appointment of Emily Rees as Group Financial Director (see section 7 of the Corporate Governance Report).
	The composition of the shareholder base, and transferability of shares, the dividend policy.	The Company now has more shares in public ownership than it did a year ago, which could help liquidity. Shareholder base composition communicated on the website. Clear communication of the dividend policy in the Annual Report and a consistency of approach other than in exceptional circumstances.

We believe we have the right strategy and service in place to deliver strong growth in sales over the medium to long term and to deliver sustainable shareholder value.

Daniel Mendis
Chief Operating and 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 28 February 2021.

Andrew Walters
Chief Executive Officer

Corporate Governance Report

Chairman's Corporate Governance Statement

All members of the Board believe strongly in the value and importance of good corporate governance and in our accountability to all of Quartix's stakeholders, including shareholders, staff, customers and suppliers. In the statement below, we explain our approach to governance, and how the Board and its committees operate.

The corporate governance framework which the Group operates, including board leadership and effectiveness, board remuneration, and internal control is based upon practices which the Board believes are appropriate for the size, risks, complexity and operations of the business and is reflective of the Group's values. Of the two widely recognised formal codes, we have therefore decided to adhere to the Quoted Companies Alliance's (QCA) Corporate Governance Code for small and mid-size quoted companies (revised in April 2018 to meet the new requirements of AIM Rule 26).

The QCA Code is constructed around ten broad principles and a set of disclosures. The QCA has stated what it considers to be appropriate arrangements for growing companies and asks companies to provide an explanation about how they are meeting the principles through the prescribed disclosures. We have considered how we apply each principle to the extent that the Board judges these to be appropriate in the circumstances, and below we provide an explanation of the approach taken in relation to each. The Board considers that it has complied with the principles of the QCA Code.

Roles and responsibilities of Chairman

Paul Boughton, the Non-Executive Chairman since November 2014, is responsible for running the Board and ultimately for all corporate governance matters affecting the Group. He is a chartered accountant and also chairs the Audit Committee. He is an experienced Executive and Non-Executive Director, having been on the Boards of 5 public listed companies, including Quartix.

The Chairman is responsible for leadership of the Board, setting its agenda and monitoring its effectiveness. He ensures effective communication with shareholders and that the Board is aware of the views of major shareholders. He ensures that the Executive Directors develop a strategy which is supported by the Board as a whole. The Executive Directors, through the Chief Executive Officer, are responsible for executing the strategy once agreed by the Board.

Board composition and compliance

The QCA Code requires that the boards of AIM companies have an appropriate balance between Executive and Non-Executive Directors of which at least two should be independent. During 2020 we satisfied this requirement.

The Non-Executive Chairman and Independent Non-Executive Director bring wide and varied commercial experience to the Board and Committee deliberations. They are appointed for an initial three-year term, subject to election by shareholders at the first AGM after their appointment, after which their appointment may be extended subject to mutual agreement and shareholder approval. 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. The Company remains committed to a Board which has a balanced representation of Executives and Non-Executives.

Board evaluation

We support the QCA Code's principle to review regularly the effectiveness of the Board's performance as a unit, as well as that of its committees and individual Directors, and completed the first review during 2019. We may consider the use of external facilitators in future board evaluations.

Shareholder engagement

We have made significant efforts to ensure effective engagement with both institutional and private shareholders. In addition to the usual roadshows following the release of full year and interim results, we have opened our AGM as a forum to present to and meet with shareholders.

The Board is aware that following the introduction of the Markets in Financial Instruments Directive II (MiFID II) regulations at the start of 2018, private investor access to research on public companies has been restricted. We have not yet commissioned any "paid for" research from third party analysts and have no current intention of doing so.

The Board has ultimate responsibility for reviewing and approving the Annual Report and Accounts and it has considered and endorsed the arrangements for their preparation, under the guidance of its audit committee. The Directors confirm that the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy.

10 Principles of the QCA Code

1 Establish a strategy and business model which promote long-term value for shareholders

Since 2001 Quartix has become one of Europe's leading suppliers of vehicle telematics services operating in the UK, Europe and the USA. 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 of both hardware and software, 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 receives the cash in advance from insurance customers. This is standard practice in the industry, as the level of attrition is relatively high. Insurance revenue is recognised on a straight-line basis over the contract term, since the customer benefits from the Group's services evenly throughout the contract term and receives the benefit of the services as they are made available.

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.

The key risks and uncertainties we face are included under the Strategic Report: Financial Review.

2 Seek to understand and meet shareholder needs and expectations

Responsibility for investor relations rests with the CEO, supported by the COFO. During 2020 the following activities were pursued to develop a good understanding of the needs and expectations of all constituents of the Group's shareholder base:

Date	Description	Participants	Comments
Jan 20	Quartix Holdings plc trading statement	Board	
Feb 20	Preliminary results meeting	CEO	
Feb 20	Presentations to institutional investors and analysts	CEO, COFO	The CEO and COFO prepare and review with the Board detailed presentations covering the Group's activities over the relevant period and take guidance from the brokers.
Feb 20	Annual results video	CEO, COFO	Presentations disseminated via website at 7.00 a.m. on morning of results release so all information available publicly available to all shareholders and potential investors.
Mar 20	AGM	Board	All shareholders invited to attend
Mar 20	Quartix Holdings plc trading statement	Board	
Apr 20	Quartix Holdings plc trading statement	Board	
Jun 20	Quartix Holdings plc trading statement	Board	
Jul 20	Interim results presentations to institutional investors and analysts	CEO, COFO	
Jul 20	Interim results video	CEO, COFO	Presentations disseminated via website (see above)
Oct 20	Quartix Holdings plc trading statement	Board	
various	Potential investor meetings	CEO, COFO	Presentation to potential investors

Key: CEO: Chief Executive Officer Andrew Walters, COFO: Chief Operating & Financial Officer Daniel Mendis

The Group is committed to communicating openly with its shareholders to ensure that its strategy and performance are clearly understood. We communicate with shareholders through the Annual Report and Accounts, full-year and half-year announcements, trading updates and the annual general meeting (AGM), and we encourage shareholders' participation in face-to-face meetings. A range of corporate information (including all Quartix announcements) is also available to shareholders, investors and the public on our website.

Private shareholders: The AGM is the principal forum for dialogue with private shareholders, and (other than in exceptional years) we invite all shareholders to attend and participate. The Notice of Meeting is sent to shareholders at least 21 days before the meeting. The chairs of the Board and all committees, together with all other Directors, attend the AGM and are available to answer questions raised by shareholders. Shareholders vote on each resolution and subsequently publish the outcomes on our website.

Institutional shareholders: The Directors actively seek to build a mutual understanding of objectives with institutional shareholders. Our CEO and COFO make presentations to institutional shareholders and analysts immediately following the release of the full-year and half-year results. We communicate with institutional investors frequently through formal meetings. The majority of meetings with shareholders and potential investors are arranged by the broking team within the Group's nominated advisor. Following meetings, the broker provides anonymised feedback to the Board from all fund managers met, from which sentiments, expectations and intentions may be gleaned.

In addition, we review analysts' notes to achieve a wide understanding of investors' views. This information is considered by the Board.

3 Take into account wider stakeholder and social responsibilities and their implications for long-term success

Staff – our ability to fulfil customer requirements and execute our strategy relies on having talented and motivated staff.

Reason for engagement: Good two-way communication with staff is a key requirement for high levels of engagement.

How we engage:

- Weekly update communication.
- Regular staff briefings via video presentation during 2020.
- Annual engagement survey.

These have provided insights that have led to enhancement of management practices and staff incentives.

Customers – our success and competitive advantage are dependent upon fulfilling customer requirements, particularly in relation to quality of service and report reliability.

Reason for engagement: Longevity of customer relationships is a key part of our strategy.
Understanding current and emerging requirements of customers enables us to develop new and enhanced services, together with software to support the fulfilment of those services.

How we engage:

- Seek feedback on services and software systems.
- Develop tools and reports to enable our customers to analyse driver behaviour.
- Obtain feedback to use in the development of future service.

Suppliers – We have a range of suppliers including those who provide us with hardware, communication services, installation services and marketing support.

Reason for engagement: Good services from our suppliers are critical to us delivering the data services to our customers.

How we engage:

- Co-ordinate and manage our network of installers to ensure on-time activation of tracking devices.
- Operate systems to ensure that supplier invoices are processed and paid on time.

Shareholders – as a public company we must provide transparent, easy-to-understand and balanced information to ensure support and confidence.

Reason for engagement: Meeting regulatory requirements and understanding shareholder sentiments on the business, its prospects and performance of management.

How we engage:

- Regulatory news releases.
- Keeping the investor relations section of the website up to date.
- Publish videos of investor presentations and interviews.
- Annual and half-year reports and presentations.
- AGM.

We believe we successfully engaged with our shareholders over the past 12 months.

4 Embed effective risk management, considering both opportunities and threats, throughout the organisation

The Group has a risk register that identifies key risks and all members of the Board are provided with a copy of the register. The register, including control mechanisms to mitigate risks, is reviewed bi-annually by the Board and is updated following each such review.

The key risks and uncertainties are included in the Strategic Report: Financial Review.

Staff are reminded on appointment and bi-annual basis that they should seek approval from the COFO if they, or their families, plan to trade in the Group's equities.

The key risks and uncertainties are included in the Strategic Report: Financial Review.

5 Maintain the Board as a well-functioning, balanced team led by the chair

The members of the Board have a collective responsibility and legal obligation to promote the interests of the Group and are collectively responsible for defining corporate governance arrangements. Ultimate responsibility for the quality of, and approach to, corporate governance lies with the chair of the Board.

The Board consists of five directors of which three are executive and two are independent non-executives. The Board is supported by three committees: audit, remuneration and nominations. The Board will consider appointing additional non-executive directors as its business expands.

Non-Executive Directors are required to attend 10-12 Board meetings per year (in Cambridge, Newtown and London or remote via telephone call) and to be available at other times as required for face-to-face and telephone meetings with the executive team and investors. In addition, they attend Board committee meetings as required.

5 Maintain the Board as a well-functioning, balanced team led by the chair (continued)

Meetings held during 2020 and the attendance of Directors is summarised below:

	Board meetings		Audit Committee		Remuneration Committee	
	Possible	Attended	Possible	Attended	Possible	Attended
Executive Directors						
Andrew Walters	11	11	0	0	2	2
Daniel Mendis	11	11	1	1	0	0
Laura Seffino	11	11	0	0	0	0
Non-Executive Directors						
Paul Boughton	11	11	1	1	2	2
David Warwick	11	10	0	0	2	2

The Nominations Committee meets when required in relation to Board appointments.

The Board has a schedule of regular business, financial and operational matters, and each Board committee has compiled a schedule of work to ensure that all areas for which the Board has responsibility are addressed and reviewed during the course of the year. The Chairman is responsible for ensuring that, to inform decision-making, Directors receive accurate, sufficient and timely information. The Company Secretary, who is also the COFO, compiles the Board and committee papers which are circulated to Directors prior to meetings. The Company Secretary provides minutes of each meeting and every Director is aware of the right to have any concerns minuted and to seek independent advice at the Group's expense where appropriate.

6 Ensure that between them the Directors have the necessary up-to-date experience, skills and capabilities

All five members of the Board bring relevant sector experience in software and business services. They have an aggregate 56 years of public company directorship experience, and two members are chartered accountants. The Board believes that its blend of relevant experience, skills and personal qualities and capabilities is sufficient to enable it to successfully execute its strategy. Where relevant, Directors research relevant information, including on line material, and occasionally attend seminars and trade events, to ensure that their knowledge remains current.

Key to committees/roles: E: Executive, N: Nomination, A: Audit, R: Remuneration, C Chair

Paul Boughton, Independent Chairman (CN, CA, R)
<u>Background:</u>
Paul is a chartered accountant who has worked at senior level in industry since 1981. His work was primarily in business development and acquisitions, and involved extensive projects in the USA and mainland Europe, which are the primary growth territories for Quartix. Sectors he was involved in were industrial controls, instrumentation and analysers, mainly using a combination of hardware and software. As an executive he served on the Boards of two fully listed companies.

With his only financial or commercial involvement with Quartix being his annual salary as Chairman, and his publicly disclosed shareholding, he is considered independent and with no conflicts of interest with Quartix employees or shareholders.

6 Ensure that between them the Directors have the necessary up-to-date experience, skills and capabilities (continued)

Current external appointments:
He is a Trustee and Treasurer of two charities, and for each he chairs their Finance and Resources Committee. For one of the charities he also chairs three of their commercial subsidiaries

Skills and experience:
In previous Non-Executive roles he was a Board member of a fintech software and a navigation electronics public company. For both entities he also served as chair of the audit committee, and for one he was also the Senior Independent Director. He therefore brings a wide range of relevant skills, commercial experience and governance knowledge to Quartix. He has a BSc degree in Business Economics and is a Chartered Accountant
Time commitment: 1-3 days per month.

David Warwick, Independent Director (N, CR)
Background:
David was Technical Director of Analysys Ltd – a telecoms consultancy, involved primarily in financial modelling of telecoms operators. In 2000 he joined Abcam plc as an Executive Director when it had around 7 staff, eventually becoming its COO during his 16 years there. At Abcam he initially headed the development of its online ecommerce systems, and then oversaw its overall operations including international expansion to be a world-wide leader in life-science reagents employing over 1000 staff. Through this he was involved in Abcam's IPO in 2005, as well as several acquisitions.

His only financial involvement with Quartix is his annual non-exec salary and his publicly declared shareholding. He is considered independent with no conflicts of interest with Quartix employees or shareholders.

Current external appointments:
He is currently a non-exec Director of two start-up companies around the Cambridge area, as well as chairing an educational trust.
Skills and experience:
David has a MA in Computer Science from the University of Cambridge and has worked in hi-tech industries since graduation in 1986. David brings considerable skills relating to IT and e-commerce systems as well as overall experience with international expansion and organisational growth issues very relevant to Quartix.
Time commitment: 1-2 days a month

Andrew Walters, Chief Executive Officer (E, N)
Background:
Andrew Walters founded Quartix in 2001 with three colleagues. Prior to that he was Managing Director of a subsidiary of Spectris plc for 6 years and had spent 15 years with Schlumberger in the UK and France, where he was Marketing Director of the payphones and smart cards division.
Current external appointments:
Some voluntary business mentoring for The Prince's Trust.
Skills and experience:
Andrew holds an MA in electrical sciences from the University of Cambridge and developed the Company's UK patent, granted under the Patents Act 1977. He has many years' experience of the vehicle tracking market, having started the company in 2001 with three colleagues, and has been fully engaged in all aspects of the business throughout this time.
Time commitment: 3 days a week

6 Ensure that between them the Directors have the necessary up-to-date experience, skills and capabilities (continued)

Daniel Mendis, Chief Operating and Financial Officer (E, A)
Background:
Daniel Mendis joined Quartix in 2017. He was previously Head of Finance (Ruminant) at AB Agri Ltd, a subsidiary of Associated British Foods plc, before which he spent four years with Domino Printing Sciences plc in two different Group roles. He has several years experience of senior management positions and has worked in financial and business roles for fourteen years. He holds an MEng in Engineering Science from the University of Oxford and is a member of the Institute of Chartered Accountants.
Current external appointments:
None
Skills and experience:
Dan has a broad range of financial and business experience, covering areas such as corporate finance, treasury, tax, process review and strategy development.
Time commitment: Full time

Laura Seffino, Chief Technical Officer (E)
Background:
Laura Seffino joined Quartix in June 2018 as Head of Software, and was promoted to Chief Technical Officer in October 2019. Laura holds responsibility for Group technology, strategy, development and implementation. Prior to joining Quartix Laura spent 17 years in software development, project management and delivery roles at 1Spatial plc, Cambridge.
Current external appointments:
None
Skills and experience:
Laura has a Bachelor's and Master's degrees in Computer Science from the Universidad Nacional del Sur in Argentina the State University of Campinas in Brazil, respectively.
Time commitment: Full time

7 Evaluate board performance based on clear and relevant objectives, seeking continuous improvement

A board evaluation process led by the Chairman was completed in 2020. This evaluation was accompanied by a wider review of the levels of investment in the business, as well the senior management posts required to deliver on its strategy.

In order to maximise the effectiveness of incremental investment outlined on page 11, Daniel Mendis, currently Chief Operating and Financial Officer, is expected to take up the new role of Group Commercial and Operations Director. This role will focus specifically on development of the fleet business and will include responsibility for all sales channels worldwide. This change is in line with Daniel Mendis's personal plans for career development. The Group has therefore appointed a Group Financial Director (non-plc-Board), Emily Rees, who is expected to join the business in April and will initially report to Daniel Mendis. Subject to satisfactory progress, Board approval and regulatory due diligence by the Company's Nominated Adviser, Emily Rees will shortly thereafter be promoted to Chief Financial Officer and join the board of Quartix Holdings plc as an Executive Director, replacing Daniel Mendis on the Board, who will then take up his new role.

Emily Rees has spent the past three years in senior financial positions within KRM (Great Britain) Limited (trading as Ecco Shoes), most recently as Regional Head of Finance and HR for Western Europe. Prior to this she worked for Pizza Express (Restaurants) Limited and Tesco Stores Limited. Emily Rees is a member of the Chartered Institute of Management Accountants and holds a BSc (Hons) in Government and Economics from the London School of Economics and Political Science. Emily Rees is currently working through her notice period and will be based at the Newtown Office on appointment.

8 Promote a corporate culture that is based on ethical values and behaviours

At Quartix we believe the prosperity of our business and of the communities within which we operate requires a commitment to ethical values and behaviours. We have therefore developed policies that enhance all areas of our business in this regard.

Quartix cares about providing a customer experience that is remarkable. We want to keep our customers happy, impressed and reassured. We want to create the positivity that leads to great reviews, repeat purchases and customer referrals. To achieve that, our employees strive to make every interaction a great one. We follow these principles:

Build meaningful connections.
Whilst dealing with any of our stakeholders, be they customers, partners, investors or employees, foremost in our minds is building great, meaningful relationships. We are not a provider of arms-length transactional services; we are here to listen, understand, support and deliver tangible benefits as best we can.

Keep things simple.
Whether it is our processes, communication, hardware or software, we strive to keep things simple. Fewer moving parts make for clearer, more efficient and reliable operations. We don't make our customers jump through hoops to speak to us, nor do we make them study an article to understand its meaning. We get straight to the incoming call, to the email in our inbox, to the point, and provide a fast, helpful and clear response.

Treat everybody the same.
Whoever you talk to, whether internally or externally, their impression of the Quartix service should be the same. We treat everyone equally, with respect, and remain transparent as a business.

Do the right thing
Quartix cares about doing what's best for our customers and for each other. We own problems and solve them, regardless of whether it's our designated responsibility. With or without a corporate process, we will strive to provide a satisfactory solution in every case.

Share your knowledge
Knowledge is valuable. Our customers, prospects and colleagues can all benefit from the knowledge that we have to offer. Quartix and its staff have a whole host of skills, expertise and experience to share with others and we are proud to do so.

The culture of the Group is characterised by these values which are communicated to staff through a number of mechanisms.

The Board believes that a culture that is based on the five core values is a competitive advantage and consistent with fulfilment of the Group's execution of its strategy.

The culture is monitored through the use of a widely-used satisfaction and engagement survey that is operated on an annual basis and to which all permanent staff are invited to contribute. The Operations Board reviews the findings of the survey and determines whether any action is required.

9 Maintain governance structures and processes that are fit for purpose and support good decision-making by the Board

The Board provides strategic leadership for the Group and operates within the scope of a robust corporate governance framework. Its purpose is to ensure the delivery of long-term shareholder value, which involves setting the culture, values and practices that operate throughout the business, and defining the strategic goals that the Group implements in its business plans. The Board defines a series of matters reserved for its decision and has delegated some of its responsibilities to Audit, Remuneration and Nominations Committees. The chair of each committee reports to the Board on the activities of that committee.

The **Audit Committee** monitors the integrity of financial statements, oversees risk management and control, monitors the effectiveness of internal controls and reviews external auditor independence.

Paul Boughton is Chairman of the Audit Committee which meets once or twice a year, as appropriate. 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
- Reviewing the basis for the going concern statement in light of the financial plans and reasonably possible scenarios especially considering the potential continued impacts on the business of the coronavirus pandemic
- 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
- Considering if the Annual Report and Accounts, when taken as a whole, is fair, balanced and understandable.

9 Maintain governance structures and processes that are fit for purpose and support good decision-making by the Board (continued)

The **Remuneration Committee** sets and reviews the compensation of Executive Directors including the setting of targets and performance frameworks for cash and share-based awards.

David Warwick chairs the Remuneration Committee. It acts to ensure sound Corporate Governance with respect to Director and senior management remuneration and meets once or twice in the year, as appropriate. 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.

The **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.

Daniel Mendis, currently Chief Operating and Financial Officer, is expected to take up a new role of Group Commercial and Operations Director. This role will focus specifically on development of the fleet business and will include responsibility for all sales channels worldwide. This change is in line with Daniel Mendis's personal plans for career development. The Company has therefore appointed a Group Financial Director (non-plc-Board), Emily Rees, who is expected to join the business in April and will initially report to Daniel Mendis. Subject to satisfactory progress, Board approval and regulatory due diligence by the Company's

Nominated Adviser, Emily Rees will shortly thereafter be promoted to Chief Financial Officer and join the board of Quartix Holdings plc as an Executive Director, replacing Daniel Mendis on the Board, who will then take up his new role

If necessary, the Committee will identify and nominate candidates they believe suitable to fill Board vacancies.

The **Chairman** has overall responsibility for corporate governance and in promoting high standards throughout the Group. He leads and chairs the Board, ensuring that committees are properly structured and operate with appropriate terms of reference, ensures that performance of individual Directors, the Board and its committees are reviewed on a regular basis, leads in the development of strategy and setting objectives, and oversees communication between the Group and its shareholders.

The **CEO** provides coherent leadership and management of the Group and leads the development of objectives, strategies and performance standards as agreed by the Board. He also monitors, reviews and manages key risks and strategies with the Board, ensures that the assets of the Group are maintained and safeguarded, leads on investor relations activities to ensure communications and the Group's standing with shareholders and financial institutions is maintained, and ensures that the Board is aware of the views and opinions of employees on relevant matters.

9 Maintain governance structures and processes that are fit for purpose and support good decision-making by the Board (continued)

The **Executive Directors** are responsible for implementing and delivering the strategy and operational decisions agreed by the Board, making operational and financial decisions required in the day-to-day operation of the Group, providing executive leadership to managers, championing the Group's core values and promoting talent management.

The **Independent Non-Executive Directors** contribute independent thinking and judgement through the application of their external experience and knowledge, scrutinise the performance of management, provide constructive challenge to the Executive Directors and ensure that the Group is operating within the governance and risk framework approved by the Board.

The **Company Secretary** is responsible for providing clear and timely information flow to the Board and its committees and supports the Board on matters of corporate governance and risk.

The key matters reserved for the Board are:
- Setting long-term objectives and commercial strategy.
- Approving annual budgets.
- Changing the share capital or corporate structure of the Group.
- Approving half-year and full-year results and reports.
- Approving dividend policy and the declaration of dividends.
- Ensuring a satisfactory dialogue with shareholders
- Approving major investments, disposals, capital projects or contracts.
- Approving resolutions to be put to general meetings of shareholders and the associated documents or circulars.
- Approving changes to the Board structure.

The Board has approved the adoption of the QCA Code as its governance framework against which this statement has been prepared and will monitor the suitability of this code on an annual basis and revise its governance framework as appropriate as the Group evolves.

The Board will continue to monitor its governance structures as the Group grows and will take action as appropriate to develop and enhance its governance functions.

10 Communicate how the Company is governed and is performing by maintaining a dialogue with shareholders and other relevant stakeholders

In addition to the investor relations activities described previously, the following audit, remuneration and nominations committee reports were provided during 2020:

Audit Committee Report

During 2020, the Audit Committee continued to focus on the effectiveness of the controls throughout the Group. The Audit Committee is chaired by Paul Boughton. The committee met formally once, and had other discussions (including with the auditors) as required, and the external auditor and COFO were invited to attend the formal meeting.

Consideration was given to the auditor's pre- and post-audit reports and these provide opportunities to review the accounting policies, internal control and the financial information contained in the annual report.

10 Communicate how the Company is governed and is performing by maintaining a dialogue with shareholders and other relevant stakeholders (continued)

Remuneration Committee Report

The remit of the Remuneration Committee is to determine the framework, policy and level of remuneration, and to make recommendations to the Board on the remuneration of Executive Directors. In addition, the committee oversees the creation and implementation of all-employee share plans. The Remuneration Committee consists of Paul Boughton and David Warwick. The committee met once.

In setting remuneration packages the committee ensured that individual compensation levels, and total board compensation, were comparable with those of other AIM-listed companies.

During 2020 the Remuneration Committee granted options over ordinary shares in the Company to employees of the Company and cash settled share options to an Executive Director.

In granting these options, the Remuneration Committee's objective was to attract, motivate and retain key staff over the long term, designed to incentivise delivery of the Company's growth objectives.

Nomination Committee Report

The remit of the Nomination committee is to evaluate potential Board appointments against the skills and experience which the Board requires. It meets as required for this purpose.

The Nomination committee is chaired by Paul Boughton and also includes David Warwick and Andrew Walters.

Directors' Remuneration Report

During the year ended 31 December 2020 the Remuneration Committee consisted of both Non-Executive Directors and the CEO and was chaired by David Warwick.

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.

Remuneration of Executive Directors
In 2020, the Directors' remuneration packages comprised of a salary and the opportunity to enrol in the Governments' auto-enrolment pension scheme. See below for a breakdown of the Directors' remuneration packages during the year.

Directors' detailed emoluments and compensation (audited)

				2020 (£)		2019 (£)
		Salary	**Bonus**	**Pension**	**Total**	Total
Executive Directors	Andrew Walters	65,302	-	-	65,302	91,080
	Daniel Mendis[1]	102,305	(3,881)	3,075	101,499	122,207
	Laura Seffino[2]	99,463	-	3,041	102,505	21,249
		267,071	(3,881)	6,116	269,306	234,536
Non-Executive Directors	Paul Boughton	52,500	-	-	52,500	50,000
	David Warwick	42,000	-	-	42,000	40,000
		94,500	-	-	94,500	90,000

[1] Highest paid Director in 2020. Bonus credit due to release of prior year provision.
[2] Appointed on 22 October 2019

Directors share options

		2020 Number	2019 Number
Equity-settled	Daniel Mendis	**280,000**	280,000
	Laura Seffino	**92,592**	92,592
Cash-settled	Daniel Mendis	**170,000**	170,000
	Laura Seffino	**68,000**	-

No options were exercised by the Directors in the year, therefore no gain/loss on exercised options. See below for details for the new awards issued in the year to Directors and note 23 for further details on share options.

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. The current non-executive directors have entered into service contracts for a third three year term as this was considered to be in the best interest of the Company. 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 2020	28 months
David Warwick		1 May 2020	28 months

Directors and their interests in shares

		Ordinary shares £0.01 each	
Year ended 31 December		**2020**	2019
	Andrew Walters	**17,855,986**	17,855,986
Executive Directors	Daniel Mendis	**-**	-
	Laura Seffino	**-**	-
		17,855,986	17,855,986
Non-Executive Directors	Paul Boughton	**53,889**	53,889
	David Warwick	**73,333**	73,333
		17,983,208	17,983,208

Directors and employees share options

During the period under review the Remuneration Committee granted options over ordinary shares in the company to employees of the company. In granting these options, the Remuneration Committee's objective was to attract, motivate and retain key staff over the long term, designed to incentivise delivery of the company's growth objectives.

The Remuneration Committee agreed to an award of cash settled share options to Laura Seffino, an incentive programme linked to the share price, with the aim to reward and promote the creation of sustainable growth in shareholder value by allowing Laura to exercise some or all of her existing share options without any cash outlay on her part. The scheme allows Laura to draw cash to the value of a maximum of 100,000 options by 6 April 2025 equal to the gain in the share price above £3.20. The net cash value after tax must be used to exercise Laura's existing share options, and the resulting shares must subsequently be held for a minimum of 12 months. These new options are exercisable in four annual tranches, the first of which will follow the AGM due to be held in March 2021 and is subject to share price targets on the market, with a minimum required to exercise of £3.20.

David 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 2020.

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 9 Dukes Court, 54~62 Newmarket Rd, Cambridge CB5 8DZ.

Research and development

Please see the Strategic Report on page 11 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 11.

Proposed dividend

In the year ending 31 December 2020, the Board decided to pay an interim dividend of 2.5p (2019: 2.40p) and a supplementary interim dividend of 0.87p (2019: nil) per ordinary share. This totalled £1.6m and was paid on 11 September 2020 to shareholders on the register as at 14 August 2020.

The Board is recommending a final dividend of 2.4p per share, together with a supplementary dividend of 15.3p per share, giving a final payment of 17.7p per share, amounting to approximately £8.6m in aggregate and giving a total dividend for the year equivalent to 21.07p per share. If this is approved at the forthcoming AGM on 23 March 2021, the final dividend will be paid on 30 April 2021 to shareholders on the register as at 1 April 2021.

Major interest in shares

On 26 February 2021, 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[1]	% of total
Andrew Walters[2]	10,661,609	22.2
Conbrio Fund Partners Ltd	8,620,428	18.0
Liontrust Investment Partners LLP	5,337,602	11.2
Andrew Kirk	4,009,853	8.4
BlackRock, Inc.	2,741,669	5.7
William Hibbert	2,663,000	5.6
Charles Stanley & Co. Ltd Rock (Nominees) Ltd	2,427,045	5.1
Kenneth Giles	1,871,800	3.9

[1] Based on the most recent available data to the Company
[2] 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)
- David Warwick

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

- Andrew Walters
- Daniel Mendis
- Laura Seffino

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, 6 months for Daniel Mendis and 6 months for Laure Seffino.

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 23 March 2021.

Going concern

The consequences of the coronavirus pandemic have materially and adversely disrupted the global economic situation. The Company is taking appropriate action to monitor, address and mitigate the uncertainties and increased risks facing the Company as a result and have taken these additional uncertainties into account in assessing the going concern position.

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.

In addition to the base case scenario, the Board reviewed two further scenarios as part of its going concern assessment. The first scenario took an assumption that the national lockdown, as a result of the coronavirus pandemic, would have a significantly detrimental impact to the Group's trading performance for the first quarter of 2021, whilst the second scenario considered the impact of a more severe turn of events which would continue throughout 2021. Neither scenario was considered likely, but was included in the assessment.

After assessing the forecasts and liquidity of the business, including the two going concern scenarios, 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' 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 accounting standards in conformity with the requirements of the Companies Act 2006 (IFRSs) 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.

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. Principal risks and uncertainties are considered in the strategic report on page 15-16.

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.

Post balance sheet events

In January 2021 Quartix Limited gave notice on its lease at Dukes Court, Cambridge and this results in a reduction in the lease liability and right of use asset of £135k as at 31 January 2021; for further details see note 33.

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 28 February 2021.

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 2020, 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 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 accounting standards in conformity with the requirements of the Companies Act 2006 (IFRSs). 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 Disclosures 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 2020 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with International accounting standards in conformity with the requirements of the Companies Act 2006;
- 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.

Conclusions relating to going concern

We are responsible for concluding on the appropriateness of the Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's and the Parent Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify the auditor's opinion. Our conclusions are based on the audit evidence obtained up to the date of our report. However, future events or conditions may cause the Group or the Parent Company to cease to continue as a going concern.

Our evaluation of the Directors' assessment of the Group's and the Parent Company's ability to continue to adopt the going concern basis of accounting included discussions with management of their assessment of the Group's ability to continue as going concern, assessing the reasonableness of projected cashflow and working capital assumptions and critically evaluating the revenue and cost projections underlying the cashflow model. A description of our evaluation of management's assessment of the ability to continue to adopt the going concern basis of accounting, and the key observations arising with respect to that evaluation is included in the Key Audit Matters section of our report.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Group's and the Parent Company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In auditing the financial statements, we have concluded that the Directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

The responsibilities of the Directors with respect to going concern are described in the 'Responsibilities of Directors for the financial statements' section of this report.

Our approach to the audit

<table>
<tr><td rowspan="4">Grant Thornton

</td><td>Overview of our audit approach</td></tr>
<tr><td>Overall materiality:

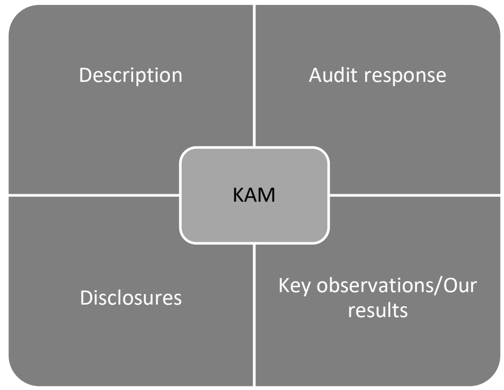
Group: £363,000 which represents 5% of the Group's pre-audit profit before taxation, adjusted for a one off provision relating to sunsetting of the 3G mobile network in the US amounting to £1.6m.

Parent company: £242,000, which represents 1% of the Parent Company's total assets.</td></tr>
<tr><td>Key audit matters were identified as:
• Revenue recognition: Same as previous year;
• Deferred revenue: Same as previous year; and
• Going concern: New this year

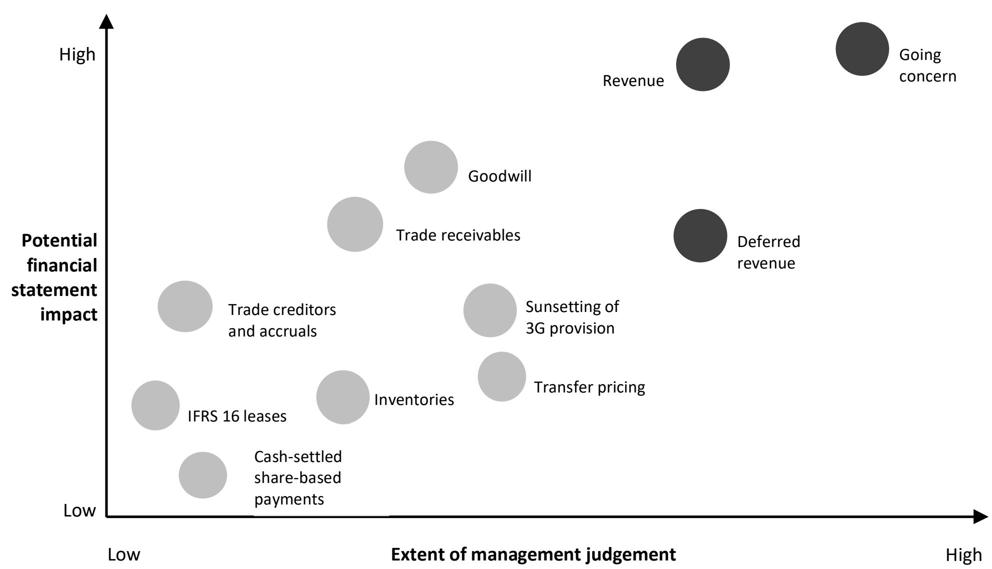
Our auditor's report for the year ended 31 December 2019 included 2 key audit matters that have also been reported as key audit matters in our current year's report. Going concern is included as a new key audit matter in the current year due to a requirement to report more robustly any uncertainties and to explain the effect of current restrictions on the business and the sensitivities of different short term scenarios.</td></tr>
<tr><td>We performed an audit of the financial information of the component using component materiality (full scope audit procedures) on the financial information of Quartix Holdings plc and of Quartix Limited. We performed the audit of one or more classes of transactions, account balances or disclosures relating to significant risks of material misstatement of the Group financial statements (specific audit procedures) on Quartix Inc. Based on this scope, we obtained 100% coverage on revenue, 100% coverage on profit before tax and 96% coverage on total assets. There were no changes in scope from the prior year.</td></tr>
</table>

Key audit matters

Key audit matters are those matters that, in our professional judgement, 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.



In the graph below, we have presented the key audit matters, significant risks and other risks relevant to the audit.



	Key audit matter		**Significant risk**		**Other risk**

Key Audit Matter – Group	How the matter was addressed in the audit – Group
Revenue recognition We identified revenue recognition as one of the most significant assessed risks of material misstatement due to fraud. The Group's principal revenue stream relates to the provision of telematics vehicle tracking services, including data services, to customers. The Group's activities of supplying telematics units and providing telematics services are considered to be a single performance obligation which is satisfied over a period of time. The Group also performs support services. These are considered to be a separate performance obligation for which a separate charge and invoice is raised. The Group has two types of customers, Fleet and Insurance and revenue is recognised over the period that services are provided. Revenue of £25,835,000 (2019: £25,621,000) was recorded in the period. Fleet customers account for 85% (2019: 81%) of revenue and Insurance 15% (2019: 19%) of revenue. Given the nature of the Group's revenue being a relatively high volume of low value transactions we identified that the risk of fraud in revenue recognition was in the occurrence assertion, for example through the posting of a fraudulent journal.	In responding to the key audit matter, we performed the following audit procedures: • We tested the two types of customers separately i.e. Fleet and Insurance revenue by performing a combination of data analytics and substantive testing was performed on each class of customers revenue; • Assessed selected revenue trial balance codes to identify if any of them included journals meeting our fraud risk criteria. From this audit procedure we did not identify any journals that would be indicative of fraud; • Performing data analytics to identify transactions that do not follow the expected revenue relationships. All transactions identified were tested by agreeing them to the corroborative evidence to ensure revenue had occurred; and • Assessing whether revenue recorded in the period was consistent with the Group's accounting policy and whether that was compliant with IFRS 15. **Fleet customer revenue** • For a sample of sales invoices raised for telematics services, we confirmed that the telematics service was provided to the customer by tracing a tracking unit to the live vehicle tracking system, thus evidencing occurrence of revenue. The same selected invoices were also traced to contracts with respective customers and subsequent cash receipts; • For a sample of support services revenue transactions, we inspected third party supplier invoices evidencing that the service was provided to the customer. • We tested credit notes raised post year-end to determine if they related to revenue recognised pre year end. This ensured revenue recognised during the year was not subsequently being reversed.

Key Audit Matter – Group	How the matter was addressed in the audit – Group
Relevant disclosures in the Annual Report and Accounts The Group's accounting policy on revenue recognition is set out in note 1 to the financial statements and related disclosures are included in notes 3 and 4.	**Insurance customer revenue** • We performed a substantive analytic on insurance revenue by multiplying the number of units by contract price to give an expected sales value which we compared to actual sales. We verified the inputs to our calculation including obtaining third party confirmations directly from insurance customers to confirm the number of units installed. **Our results** Based on our audit work, we did not identify any material misstatement in the revenue recognised in the year to 31 December 2020. We consider the Group's disclosure to be in accordance with IFRS 15.
Deferred revenue We identified deferred revenue as one of the most significant assessed risks of material misstatement due to fraud. The Group raises invoices in advance and classifies deferred revenue as contract liabilities. For the year ended 31 December 2020, the balance amounts to £3,650,000 (2019 : £4,843,000). Under IFRS 15, the Group’s activities of supplying telematics units and providing telematics services are considered to be a single performance obligation which is satisfied over a period of time. The deferred revenue balance is driven by the contract terms and number of units, and as a significant balance presents a risk of material misstatement. **Relevant disclosures in the Annual Report and Accounts** The Group's accounting policy on deferred revenue is set out in note 1 to the financial statements and related disclosures are included in note 19.	In responding to the key audit matter, we performed the following audit procedures for both types of customers: **Fleet deferred revenue** • For a sample of sales invoices, we recalculated the appropriate portion of revenue to defer based on the contractual billing terms agreed with the customer and compared this to the actual amount deferred. • Deferred income is adjusted for rent-free periods, spreading the income over the contract. For a sample of items we checked the rent-free periods to customer contracts, or communication with the customer when non-contractual. We then performed a recalculation of the adjustment. **Insurance deferred revenue** • As insurance revenue is deferred over the length of the insurance policies (a year), we have recalculated the deferred revenue balance in aggregate based on audited monthly sales figures for the year. **Our results** Based on our audit work, we did not identify any material misstatement in the deferred revenue as at 31 December 2020. We consider the Group's disclosure to be in accordance with IFRS 15.

<table>
<tr><th>Key Audit Matter – Group</th><th>How the matter was addressed in the audit – Group</th></tr>
<tr><td>Going concern basis of accounting
We identified a key audit matter related to going concern as one of the most significant assessed risks of material misstatement due to fraud and error as a result of the judgement required to conclude whether there is a material uncertainty related to going concern.

The Group's ability to continue as a going concern has been subject to increased audit scrutiny in line with the anticipated financial impact of COVID-19 and Brexit and their potential impact on the markets as a whole and the Group specifically. The Directors have considered the impact of COVID-19 and Brexit and have sensitised their forecasts accordingly.

As the full economic effect on the Group and the overall economic environment are still uncertain, there is a significant level of judgement involved in anticipating results. Due to the high level of judgement involved in these assessments there exists a risk, that inappropriate assumptions might be utilised in the determination of the Group's ability to continue as a going concern.

Relevant disclosures in the Annual Report and Accounts
The financial statements explain in note 1 how the Directors have formed a judgement that it is appropriate to adopt the going concern basis of preparation for the Group financial statements.</td><td>In responding to the key audit matter, we performed the following audit procedures:
• Tested management's assessment of going concern assumptions and supporting information, including budgets and cash flow forecasts to historic projections to assess the reliability of their forecasting methods;
• Critically evaluated the revenue and cost projections underlying the model with reference to market information, past performance of the Group, as well as any known post balance sheet events;
• Tested management's assessment of the impact of COVID-19 and Brexit on the cash-flow projections as well as the assumptions and sensitivities relating to this; and
• We assessed the appropriateness of the Directors' statement in note 1 of the financial statements as to whether it discloses all the relevant events and assumptions made to adopt the going concern basis of accounting in preparation of the financial statements.

Our results
Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Group's and the Parent Company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.</td></tr>
</table>

Our application of materiality

We apply the concept of materiality both in planning and performing the audit, and in evaluating the effect of identified misstatements on the audit and of uncorrected misstatements, if any, on the financial statements and in forming the opinion in the auditor's report.

Materiality was determined as follows:

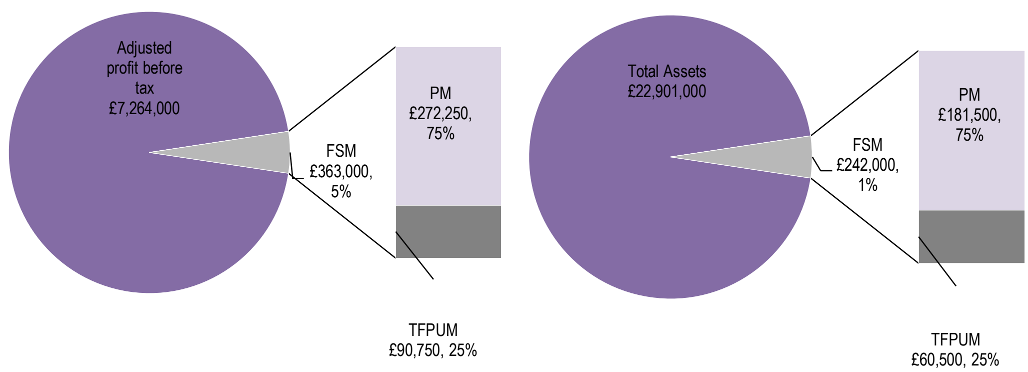
Materiality measure	**Group**	**Parent Company**
Materiality for financial statements as a whole	We define materiality as the magnitude of misstatement in the financial statements that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of these financial statements. We use materiality in determining the nature, timing and extent of our audit work.	
Materiality threshold	£363,000, which represents 5% of the Group's pre-audit profit before taxation, adjusted for a one off provision relating to the sunsetting of the 3G mobile network in the US amounting to £1.6m.	£242,000, which is 1% of the Parent Company's total assets.
Significant judgements made by auditor in determining the materiality	In determining materiality, we made the following significant judgements: • Profit before taxation is considered the most appropriate benchmark because the Group is a commercially focused organisation and profit before taxation is a key financial measure for the Directors and the shareholders; and • We have adjusted the profit before tax amount by eliminating the impact of a non-recurring 3G sunset provision amounting to £1.6m as this provision is one off in nature and does not reflect the commercial performance of the business. Materiality for the current year is higher than the level that we determined for the year ended 31 December 2019 to reflect the increase in the Group's adjusted profit before taxation.	In determining materiality, we made the following significant judgement: • Total assets is considered the most appropriate benchmark 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 2019 reflecting the increase in the company's total assets.

Materiality measure	**Group**	**Parent Company**
Significant revision of materiality threshold that was made as the audit progressed	We calculated materiality during the planning stage of the audit and then during the course of our audit, we re-assessed initial materiality based on actual results for the year ended 31 December 2020 and adjusted our audit procedures accordingly.	We calculated materiality during the planning stage of the audit and then during the course of our audit, we re-assessed initial materiality based on actual results for the year ended 31 December 2020 and adjusted our audit procedures accordingly.
Performance materiality used to drive the extent of our testing	We set performance materiality at an amount less than materiality for the financial statements as a whole to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality for the financial statements as a whole.	
Performance materiality threshold	£272,250 which is 75% of financial statement materiality.	£181,500 which is 75% of financial statement materiality.
Significant judgments made by auditor in determining the performance materiality	We selected 75% because of a low history of errors and a good control environment.	We selected 75% because of a low history of errors and a good control environment.
Significant revision of performance materiality threshold that was made as the audit progressed	We calculated performance materiality during the planning stage of the audit and then during the course of our audit, we re-assessed initial materiality based on actual results and adjusted our audit procedures accordingly.	We calculated performance materiality during the planning stage of the audit and then during the course of our audit, we re-assessed initial materiality based on actual results and adjusted our audit procedures accordingly.
Specific materiality	We determine specific materiality for one or more particular classes of transactions, account balances or disclosures for which misstatements of lesser amounts than materiality for the financial statements as a whole could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements. No specific materialities have been determined.	
Specific materiality threshold	No specific materialities have been determined.	No specific materialities have been determined.
Communication of misstatements to the audit committee	We determine a threshold for reporting unadjusted differences to the audit committee.	
Threshold for communication	£18,200 and misstatements below that threshold that, in our view, warrant reporting on qualitative grounds.	£12,100 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.

Overall materiality – Group

Overall materiality – Parent Company



FSM: Financial statements materiality, PM: Performance materiality, TFPUM: Tolerance for potential uncorrected misstatements

An overview of the scope of our audit

We performed a risk-based audit that requires an understanding of the Group's and the Parent Company's business and in particular matters related to:

Understanding the Group, its components, and their environments, including Group-wide controls

- the engagement team obtained an understanding of the Group and its environment, including Group-wide controls, and assessed the risks of material misstatement at the Group level;
- the effect of the Group organisational structure on the scope of the audit. The Group financial reporting system is centralised and UK based. All audit work is undertaken by the Cambridge based Group audit team.

Identifying significant components

- we considered the size and risk profile of each entity, any changes in the business and other factors when determining the level of work to be performed on the financial information of each entity. The significance of each component was determined as a percentage of the Group's total assets, revenues and profit before taxation.

Type of work to be performed on financial information of parent and other components (including how it addressed the key audit matters)

- full scope audit procedures were completed for the main trading subsidiary, Quartix Limited, which provides services to customers based in the UK, France, Republic of Ireland and other European territories. Full scope audit procedures were performed for the parent, Quartix Holdings plc, which is a non-trading holding company. The audit of one or more classes of transactions, account balances or disclosures relating to significant risks of material misstatement of the Group financial statements were performed on Quartix Inc which provides services to US based customers; and
- as the Group audit team, based in Cambridge performed all audit work, a consistent audit approach to key audit matters was followed. The audit procedures and our findings relating to component audits are detailed in key audit matters section above.

Performance of our audit

- In performing our audit procedures on components stated above, we have 100% coverage over Group revenue and 100% coverage over the deferred revenue balance. The going concern assumption was tested on a Group wide basis;
- the total percentage coverage of full scope procedures over the Group's total assets was 96% and profit before tax was 100%; and
- In performing our audit we have performed an evaluation of the Group's internal control environment including its IT systems and controls. We have not tested the operating effectiveness of the Group's IT systems and internal controls as our reliance is mainly from substantive audit procedures.

Communications with component auditors

- As the finance function is centralised and UK based, all audit work is undertaken by the Cambridge based Group audit team.

Changes in approach from previous period

There have been no changes in our assessment of scoping the Group audit from prior year.

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 statements, 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.

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. Owing to the inherent limitations of an audit, there is an unavoidable risk that material misstatements in the financial statements may not be detected, even though the audit is properly planned and performed in accordance with the ISAs (UK).

The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below:

- We obtained an understanding of the legal and regulatory frameworks applicable to the Parent Company and the Group and industry in which they operate. We determined that the following laws and regulations were most significant: IFRS, Companies Act 2006, AIM Rules, QCA Corporate governance code and the relevant tax compliance regulations in the jurisdictions in which the Group operates. In addition, we concluded that there are certain significant laws and regulations that may have an effect on the determination of the amounts and disclosures in the financial statements and those laws and regulations relating to employee matters;

- The Group provides vehicle telematics services with a strategy to grow its subscription base to have annualised recurring revenue streams and operates mainly in UK, USA and Europe. We obtained an understanding of the effectiveness of the Group's control environment to identify and prevent any irregularities and fraud. From our understanding of Group's overall control environment and policies to monitor these controls, it appears that the controls are designed appropriately to identify these irregularities;
- We reviewed all the Group's press releases and performed a search of any related information in the public domain;
- In addition, we completed audit procedures to conclude on the compliance of disclosures in the annual report and financial statements with applicable financial reporting requirements.
- We communicated relevant laws and regulations and potential fraud risks to all engagement team members and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.
- These audit procedures were designed to provide reasonable assurance that the financial statements were free from fraud or error. However, detecting irregularities that result from fraud is inherently more difficult than detecting those that result from error, as those irregularities that result from fraud may involve collusion, deliberate concealment, forgery or intentional misrepresentations.
- It is the audit partner's assessment that the audit team collectively had the appropriate competence and capabilities to identify or recognise non-compliance with laws and regulations.

Use of our report

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.

Andrew Hodgekins
Senior Statutory Auditor
for and on behalf of Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
Cambridge
28 February 2021

Consolidated Statement of Comprehensive Income

Year ended 31 December	Notes	2020 Before Provision £'000	2020 Provision (note 18) £'000	2020 Total £'000	2019 Total £'000
Revenue	3,4	25,835	-	25,835	25,621
Cost of sales		(7,178)	(1,610)	(8,788)	(8,995)
Gross profit		18,657	(1,610)	17,047	16,626
Administrative expenses		(11,367)	-	(11,367)	(10,188)
Operating profit		7,290	(1,610)	5,680	6,438
Finance income receivable	8	19	-	19	34
Finance costs payable	9	(40)	-	(40)	(21)
Profit for the year before taxation	5	7,269	(1,610)	5,659	6,451
Tax expense	10	(931)	-	(931)	(1,041)
Profit for the year		6,338	(1,610)	4,728	5,410
Other Comprehensive income:					
Items that may be reclassified subsequently to profit or loss:					
Exchange difference on translating foreign operations		99	-	99	93
Other comprehensive income for the year, net of tax		99	-	99	93
Total comprehensive income attributable to the equity shareholders of Quartix Holdings plc		6,437	(1,610)	4,827	5,503
Earnings per ordinary share (pence)	11				
Basic		-	-	9.86	11.29
Diluted		-	-	9.82	11.25

Consolidated Statement of Financial Position

Company registration number: 06395159

	Notes	31 December 2020 £'000	31 December 2019 £'000
Assets			
Non-current assets			
Goodwill	12	**14,029**	14,029
Property, plant and equipment	13	**1,278**	845
Deferred tax assets	21	**135**	2
Contract cost assets	15	**297**	304
Total non-current assets		**15,739**	15,180
Current assets			
Inventories	14	**694**	877
Trade and other receivables	15	**3,811**	3,907
Cash and cash equivalents	16	**10,570**	6,789
Total current assets		**15,075**	11,573
Total assets		**30,814**	26,753
Current liabilities			
Trade and other payables	17	**2,823**	3,064
Provisions	18	**1,785**	247
Contract liabilities	19	**3,650**	4,843
Current tax liabilities		**301**	377
		8,559	8,531
Non-current liabilities			
Lease liabilities	20	**822**	241
		822	241
Total liabilities		**9,381**	8,772
Net assets		**21,433**	17,981
Equity			
Called up share capital	22	**479**	479
Share premium account	22	**5,252**	5,230
Equity reserve		**792**	616
Capital redemption reserve		**4,663**	4,663
Translation reserve		**(69)**	(168)
Retained earnings		**10,316**	7,161
Total equity attributable to equity shareholders of Quartix Holdings plc		**21,433**	17,981

Approved by the Board of Directors, authorised for issue and signed on behalf of the Board on 28 February 2021.

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 2018	**478**	**5,196**	**4,663**	**390**	**(261)**	**7,637**	**18,103**
Shares issued	1	34	-	-	-	-	**35**
Increase in equity reserve in relation to options issued	-	-	-	249	-	-	**249**
Adjustment for exercised options	-	-	-	(58)	-	58	**-**
Deferred tax on share Options	-	-	-	35	-	-	**35**
Dividend paid	-	-	-	-	-	(5,944)	**(5,944)**
Transactions with owners	**1**	**34**	**-**	**226**	**-**	**(5,886)**	**(5,625)**
Foreign currency translation differences	-	-	-	-	93	-	**93**
Profit for the year	-	-	-	-	-	5,410	**5,410**
Total comprehensive income	**-**	**-**	**-**	**-**	**93**	**5,410**	**5,503**
Balance at 31 December 2019	**479**	**5,230**	**4,663**	**616**	**(168)**	**7,161**	**17,981**
Shares issued	-	22	-	-	-	-	**22**
Increase in equity reserve in relation to options issued	-	-	-	189	-	-	**189**
Adjustment for exercised options	-	-	-	(43)	-	43	**-**
Deferred tax on share Options	-	-	-	30	-	-	**30**
Dividend paid	-	-	-	-	-	(1,616)	**(1,616)**
Transactions with owners	**-**	**22**	**-**	**176**	**-**	**(1,573)**	**(1,375)**
Foreign currency translation differences (note 28)	-	-	-	-	99	-	**99**
Profit for the year	-	-	-	-	-	4,728	**4,728**
Total comprehensive income	**-**	**-**	**-**	**-**	**99**	**4,728**	**4,827**
Balance at 31 December 2020	**479**	**5,252**	**4,663**	**792**	**(69)**	**10,316**	**21,433**

Consolidated Statement of Cash Flows

	Notes	**2020 £'000**	2019 £'000
Cash generated from operations	24	**6,698**	7,263
Taxes paid		**(1,106)**	(880)
Cash flow from operating activities		**5,592**	6,383
Investing activities			
Additions to property, plant and equipment		**(72)**	(194)
Interest received	8	**14**	34
Cash flow used in investing activities		**(58)**	(160)
Cash flow from operating activities after investing activities (free cash flow)		**5,534**	6,223
Financing activities			
Repayment of lease liabilities	25	**(185)**	(257)
Proceeds from share issues		**22**	35
Dividend paid		**(1,616)**	(5,944)
Cash flow used in financing activities		**(1,779)**	(6,166)
Net changes in cash and cash equivalents		**3,755**	57
Cash and cash equivalents, beginning of year		**6,789**	6,779
Exchange differences on cash and cash equivalents		**26**	(47)
Cash and cash equivalents, end of year	16	**10,570**	6,789

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 2020 and are prepared in Sterling and are rounded to the nearest thousand pounds (£'000). They have been prepared in accordance with International accounting standards in conformity with the requirements of the Companies Act 2006 ('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.

There were several amendments to existing Standards and interpretation published by the IASB, effective for accounting periods commencing 1 January 2020, but none of these amendments were considered to be relevant to these financial statements. New Standards, Amendments and Interpretations not adopted in the current year have not been disclosed as they are not expected to have a material impact on the Group's 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, exposure or rights to variable returns from the involvement in the investee and the ability to use its power over the investee to affect the amount of the investors returns. 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 31.

Going concern

The consequences of the coronavirus pandemic have materially and adversely disrupted the global economic situation. The Company is taking appropriate action to monitor, address and mitigate the uncertainties and increased risks facing the Company as a result and have taken these additional uncertainties into account in assessing the going concern position.

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.

In addition to the base case scenario, the Board reviewed two further scenarios as part of its going concern assessment. The first scenario took an assumption that the national lockdown, as a result of the coronavirus pandemic, would have a significantly detrimental impact to the Group's trading performance for the first quarter of 2021, whilst the second scenario considered the impact of a more severe turn of events which would continue throughout 2021. Neither scenario was considered likely, but was included in the assessment.

After assessing the forecasts and liquidity of the business, including the two going concern scenarios, 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.

1 Summary of significant accounting policies (continued)

Revenue recognition

Revenue is the amount receivable for goods and services, excluding sales taxes, rebates, and trade discounts.

Revenue comprises the provision of telematics-based fleet and vehicle management solutions. Revenue is recognised either at a point in time or over time, when (or as) the Group satisfies performance obligations by transferring the promised goods or services to its customers.

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).

For the adoption of IFRS 15 the Group completed a detailed assessment of its sources of revenue and, assessed whether the components of hardware, installation and set-up of units and data services are distinct under the definitions of IFRS 15. The tracker hardware can't be utilised by a competitor and neither can it be sourced from an alternative supplier. The tracking services can't be delivered until a unit is successfully installed and set up.

The Group concluded that the Group's activities of supplying telematics units and installing telematics units are not distinct and are activities the Group undertakes to provide its telematics services and are supplied as part of a contract with the customer. This means that the Group considers these goods and services as one single performance obligation. Consequently, the Group does not recognise revenue separately for these goods and services; rather, it recognises this revenue together as the provision of vehicle telematics services.

The Group recognises contract liabilities for consideration received in respect of unsatisfied performance obligations and reports these amounts as contract liabilities in the statement of financial position (see note 19).

If the Group satisfies a performance obligation before it received the consideration, the Group recognises a receivable in its statement of financial position.

In relation to costs, the hard-wired unit and associated installation costs are recognised when the Group relinquishes control of the unit since, once installed, the unit relates to both unsatisfied performance obligations and to satisfied performance obligations (or partially satisfied performance obligations). The Group outsources the installation of hard-wired units to its large base of skilled engineers. In the case of 'self-install' units, which customers are able to physically install into their vehicles themselves, the Group's judgement is that it still has obligations in relation to the technical set-up of these units (including connectivity); however, the Group will keep this judgement under review.

In line with IFRS 15 'Revenue from Contracts with Customers', the commissions incurred in winning customer contracts are capitalised and are amortised through profit and loss, over the period it is expected that the revenue will be realised from that customer. These are described as contract cost assets and disclosed in note 15 with trade and other receivables.

1 Summary of significant accounting policies (continued)

Revenue recognition (continued)

Insurance telematic services
For insurance telematic services, the customer commits to purchase data services for 12 months. Quartix raises a single invoice upon installation of the unit, payable in the following month, with revenue recognised over the 12 month period on a straight line basis, since the customer benefits from the Group's services evenly throughout the contract term and receives the benefit of the services as they are made available. The contract price, which is subject to periodic review, is set for each insurance customer, depending on the level of services provided.

If the driver's policy is extended, then Quartix will raise further charges, these are invoiced either as a one-off annual fee or as monthly fees, depending upon the contractual arrangements, which are payable within 30 days.

Fleet telematic services
Fleet customers enter into contracts typically with a commitment to purchase data services for 12 months. The price is fixed for the contract term. Generally, invoices are raised quarterly in advance, with payment due within 30 days. Quartix satisfies its performance obligations over time as services are rendered.

If promotional offers include any free months, then total revenue is allocated on a straight line basis over the whole period (including the free period) of data services in accordance with the performance obligations, since the customer benefits from the Group's services evenly throughout the contract term and receives the benefit of the services as they are made available.

Support Services
Quartix performs additional services, such as removing, upgrading or transferring units to alternative vehicles, and theft tracking. These are considered to be separate performance obligations for which a separate charge and invoice is raised. Revenue is recognised once the additional service obligation has been delivered to the customer, at a point in time.

Segmental reporting

The Directors have included segmental financial information for its insurance and fleet operations. These two segments have been identified as they are managed separately, with different marketing approaches for the discrete market sectors and for which the Group has difference strategies. Their reported revenue each meet the quantitative thresholds of IFRS 8.

The Group has aggregated fleet operations for all geographical markets. However, to increase transparency, the Group has decided to include an additional voluntary disclosure, separating the fleet segment into two sub-categories in order to highlight the different costs structures within the business:

- Customer acquisition, for new customer contracts; and
- Fleet telematics services for recurring revenue and repeat contracts with existing customers.

There are no inter segment transfers between the insurance and fleet segments. The Group uses the same measurement policies as those used in its financial statements, except for certain items not included in determining the segmental profit of the operating segments, since these relate to both the fleet and insurance segments. These include Central overhead costs such as Director salaries, development, audit and legal fees, property costs and infrastructure costs. Detailed segmental information, including a reconciliation to the financial statements, are included in note 4.

The Group's chief operating decision maker has been provided with only consolidated information on the Group's financial position as it is not possible to provide segmentation of total assets or total liabilities. With the exception of insurance trade receivables and contract obligations, where the customer base is clearly identifiable, it is not possible to segregate the other assets or liabilities. For example, tangible assets for IT servers and cash can't be allocated since they are shared between the segments.

1 Summary of significant accounting policies (continued)

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. The goodwill arose in 2008 from the acquisition of Quartix Limited, the main trading entity in the Group, which at the time only had commercial fleet operations, therefore the entirety of the goodwill has been allocated to the fleet segment for the impairment review. 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:

• Leasehold properties	The life of the lease
• Tools and equipment	25% straight line
• Office equipment	25% straight line
• Motor Vehicles	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. Costs that are directly attributable to a projects development phase are recognised as internally generated intangible assets, provided they meet all of the following recognition requirements:

- The development costs can be measured reliably
- The project is technically and commercially feasibly
- The Group intends to and has sufficient resources to complete the project
- The Group has the ability to use or sell the software/hardware
- The software/hardware will generate probable future economic benefits.

Development costs not meeting these criteria for capitalisation are expensed as incurred.

Directly attributable costs include employee costs incurred on research and development along with an appropriate portion of relevant costs. Where no internally generated intangible asset can be recognised, development expenditure is recognised as an expense in the period in which it is incurred.

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 discount 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 unit used for the impairment test of goodwill is the fleet segment as explained in the Intangible Assets policy above. Goodwill is assessed for impairment at least annually (assessed at each reporting date).

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.

1 Summary of significant accounting policies (continued)

Impairment testing of intangible assets and property, plant and equipment (continued)
If a cash-generating unit is impaired, provision is made to reduce the carrying amount of the related assets to their estimated recoverable amount, charged to profit & loss. Impairment losses are allocated firstly against goodwill, and secondly on a pro rata basis against intangible and other assets.

Leases
For any new lease contract entered into, the Group considers whether a contract is, or contains a lease. A lease is defined as 'a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration'.

At lease commencement date, the Group recognises a right-of-use asset and a lease liability on the balance sheet. The right-of-use asset is measured at cost, which is made up of the initial measurement of the lease liability, any initial direct costs incurred by the Group, an estimate of any costs to dismantle and remove the asset, or restore a property at the end of the lease, and any lease payments made in advance of the lease commencement date (net of any incentives received).

The Group depreciates the right-of-use assets on a straight-line basis from the lease commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The Group also assesses the right-of-use asset for impairment when such indicators exist.

At the commencement date, the Group measures the lease liability at the present value of the lease payments unpaid at that date, discounted using the interest rate implicit in the lease if that rate is readily available or the Group's incremental borrowing rate.

Lease payments included in the measurement of the lease liability are made up of fixed payments (including in substance fixed), variable payments based on an index or rate, amounts expected to be payable under a residual value guarantee and payments arising from options reasonably certain to be exercised.

Subsequent to initial measurement, the liability will be reduced for payments made and increased for interest. It will also be remeasured to reflect any reassessment or modification, or if there are changes in the in-substance fixed payments.

When the lease liability is remeasured, the corresponding adjustment is reflected in the right-of-use asset, or profit and loss if the right-of-use asset is already reduced to zero.

The Group has elected to account for short-term leases and leases of low-value assets using the practical expedients. Instead of recognising a right-of-use asset and lease liability, the payments in relation to these are recognised as an expense in profit or loss on a straight-line basis over the lease term.

Inventories
Components held for manufacture of vehicle tracking units and units not yet deployed to customers are classified as inventory. Inventories are stated at the lower of cost and net realisable value 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.

1 Summary of significant accounting policies (continued)

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.

Financial assets
The Group has reviewed its business model for its financial assets, which comprise only basic loans and receivables, and concluded that they are held for collecting contractual associated cash flows. Under IFRS 9 loans and receivables, are initially recognised at fair value and will subsequently be measured at amortised cost.

The Group makes use of a simplified approach in accounting for trade and other receivables and record the loss allowance as lifetime expected credits. These are the expected shortfalls in contractual cashflows, considering the potential for default at any point during the life of the financial instrument. In calculating, the Group uses its historical experience, external indicators and forward-looking information to calculate the expected credit losses using a provision matrix.

The Group assess impairment of trade receivables on a collective basis as they possess shared credit risk characteristics they have been grouped based on days past due. Refer to note 16 for an analysis of how the impairment requirements of IFRS 9 are applied.

The Group will recognise in profit or loss, as an impairment gain or loss, the amount of expected credit losses (or reversal) that is required to adjust the loss allowance at the reporting date to the amount that is required to be recognised in accordance with IFRS 9.

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.

1 Summary of significant accounting policies (continued)

Provisions, contingent assets and contingent liabilities

Provisions for product warranties and replacement of units are recognised when the Group has a present legal or constructive obligation as a result of a past event, it is probably that an outflow of economic resources will be required from the Group and amounts can be estimated reliably. The timing or amount of the outflow might be uncertain.

In line with IAS 37, provisions are measured at the estimated expenditure required to settle the present obligation, based on the most reliable evidence available at the reporting date.

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

Dividends

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

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.

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.

1 Summary of significant accounting policies (continued)

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.

Employee benefits: share based payments

The Group operates several employee share schemes for employees of its UK trading subsidiary under which it makes equity-settled and cash-settled share-based payments.

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, for the schemes where there are no market performance conditions using the Black-Scholes model, which excludes the impact of non-market vesting conditions. Under a share scheme where there are market performance conditions, the binomial option pricing model has been used which includes the impact of market vesting conditions (such as the growth in the share price).

All equity-settled share-based remuneration is ultimately recognised as an expense in profit or loss with a corresponding credit to retained earnings. If vesting periods or other vesting conditions apply, 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.

All cash-settled share-based remuneration is ultimately recognised as an expense in profit or loss with a corresponding credit to a share-based payment liability. The fair value is re-measured at each reporting date and at the date of settlement, with any changes in fair value recognised in profit or loss for the period.

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 point at which development projects become technically and commercially feasible. No development expenditure was capitalised in the year ended 31 December 2020. 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 11 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 adoption of IFRS 15, see note 1, required the Group to identify its performance obligations, determine the transaction price and allocate this to the performance obligations and to recognise revenue when/as performance obligations are satisfied, which are the subject of key judgements. The Group's judgement is that supplying telematics units, installing telematics units and the provision of data services are a single performance obligation, under contracts with customers.

The performance obligation is satisfied over time, since the Group has the obligation to deliver the data services for the contract term. Customers simultaneously receive and consume the benefits of the tracking services as Quartix delivers its performance obligation.

Key judgement: timing of revenue and cost recognition
Where customer contracts are structured so that tracking units and installations are separately identified, the Group recognises this revenue as part of the single performance obligation of delivering tracking services.

As described in note 1, it is the Group's judgement that, once installed, the hard-wired units relate to both unsatisfied performance obligations and to satisfied performance obligations (or partially satisfied performance obligations). In the case of 'self-install' units, which customers can physically install into their vehicles themselves, the Group's judgement is that it still has obligations in relation to the technical set-up of these units (including connectivity); however, the Group will keep this judgement under review.

Key judgement: recognition of 3G units replacement provision
The Group considers the communication to all US customers of the replacement of their units, free of charge, in response to the 3G mobile network sunsetting to be sufficient action as a past event, which has created a constructive obligation at the year end to incur costs for all US customers that accept the offer of the free of charge replacement of their existing 3G unit to an upgraded 4G unit. Management consider this to be a constructive obligation as an expectation in the market has been created. This is based on our estimate of the costs, based on our judgement of the take up of the offer of the replacement units to our existing customer base.

3 Revenue

The Group's revenue disaggregated by primary geographical markets is as follows:

	Fleet £'000	**Insurance £'000**
For the period ended 31 December 2020		
United Kingdom	**15,633**	**3,776**
France	**3,826**	**-**
New European Territories	**202**	**-**
United States of America	**2,398**	**-**
	22,059	**3,776**

	Fleet £'000	Insurance £'000
For the period ended 31 December 2019		
United Kingdom	15,504	4,813
France	3,236	-
Other European territories	53	-
United States of America	2,015	-
	20,808	4,813

3 Revenue (continued)

During 2020 revenue of £3.4m (2019: £4.2m) was derived from one insurance customer, as a proportion of total revenue this one customer makes up 13.2% of the Group's revenue (2019: 16.4%).

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

The Group's revenue disaggregated by pattern of revenue recognition is as follows:

	2020	2019
	£'000	£'000
Goods and services transferred over time	**24,955**	24,461
Revenue recognised at a point in time	**880**	1,160
	25,835	25,621

Goods and services transferred over time represent 96.6% of total revenue (2019: 95.5%).

For 2020, revenue includes £4.8m (2019: £4.6m) included in the contract liability balance at the beginning of the period (see note 19). Changes to the Group's contract liabilities (i.e. deferred revenue) are attributable solely to the satisfaction of performance obligations.

4 Segmental analysis

As highlighted in note 1, Significant accounting policies (Segmental reporting), the Group has identified two operating segments (see below) which are now monitored by the Group's chief operating decision maker and strategic decisions are made on the basis of adjusted segment operating results. The main sources of revenue for all segments is from the provision of vehicle telematics services.

The information used by the Group's chief operating decision maker with regard to the Group's assets and liabilities is presented on a consolidated Group basis and accordingly no segmental analysis is presented for these.

The Group has two reportable segments: Total Fleet and Insurance. The Total Fleet segment has been sub-divided into two further categories. This has been done to give clarity as to the level of upfront investment the Group is making in acquiring new customers, as well as the associated impact on recurring revenue. The two sub-categories are:

- **Customer Acquisition**: This is the sales and marketing cost of acquiring new fleet customers and the cost associated with units installed for those customers. Recurring subscription revenue is not recognised in this sub-category, only equipment and installation income attributed to new fleet customers.
- **Fleet Telematics Services**: This is the recurring revenue associated with the Group's active subscription base and the cost of servicing that subscription base. The costs in this sub-category include the cost of installing additional units for existing customers, as well as the associated marketing costs.

These two elements, together with central fleet costs, make up the Total Fleet segment.

Estimated allocations of cost have been made between the segments and within the Total Fleet segment, particularly in relation to equipment and installations. These allocations have been performed by reviewing the products sold to each segment, their associated cost of manufacture or installation and whether those products were installed by the customer. These costs are then applied to each segment as appropriate.

4 Segmental analysis (continued)

Segmental analysis **Year ended 31 December 2020**	Customer Acquisition £'000	Fleet Telematics Services £'000	**Total Fleet £'000**	Insurance £'000	**Total Business £,000**
Recurring revenue	-	20,801	**20,801**	-	**20,801**
Other sales	223	1,035	**1,258**	3,776	**5,034**
Total revenue	223	21,836	**22,059**	3,776	**25,835**
Segmental costs:					
Sales and marketing costs	(5,546)	(941)	**(6,487)**	-	**(6,487)**
Equipment, installation, carriage	(1,592)	**(1,158)	**(2,750)**	(1,365)	**(4,115)**
Cost of service	-	(2,253)	**(2,253)**	(290)	**(2,543)**
(Loss)/Profit before central fleet costs	**(6,915)**	**17,484**	**10,569**	**2,121**	**12,690**
Central fleet costs			**(829)**	-	**(829)**
Segmental profit			**9,740**	**2,121**	**11,861**
Central costs					**(3,990)**
Adjusted EBITDA (see note 5)					**7,871**

** The figures above do not include the £1.6m provision for replacing the 3G units in the US market. As the replacement units relate to existing customers, the total cost would be allocated to the Fleet Telematics Services sub-segment costs.

Reconciliation of the total Segmental costs to the cost of sales on the income statement is as below:

	2020 £'000	2019 £'000
Total Segmental costs	**13,145**	13,583
Less elements included in administrative expenses:		
Cost of service: employees	**(657)**	(600)
Selling and marketing costs (excluding direct commissions)	**(4,967)**	(3,839)
Bad Debts	**(343)**	(149)
Add:		
3G replacement provision not included in Segmental costs	**1,610**	-
Cost of sales	**8,788**	8,995

4 Segmental analysis (continued)

Segmental analysis **Year ended 31 December 2019**	Customer Acquisition £'000	Fleet Telematics Services £'000	Total Fleet £'000	Insurance £'000	Total Business £,000
Recurring revenue	-	19,297	**19,297**	-	**19,297**
Other sales	338	1,173	**1,511**	4,813	**6,324**
Total revenue	338	20,470	**20,808**	4,813	**25,621**
Segmental costs:					
Sales and marketing costs	(4,429)	(740)	**(5,169)**	-	**(5,169)**
Equipment, installation, carriage	(1,969)	(1,194)	**(3,163)**	(2,837)	**(6,000)**
Cost of service	-	(2,039)	**(2,039)**	(375)	**(2,414)**
(Loss)/Profit before central fleet costs	**(6,060)**	**16,497**	**10,437**	**1,601**	**12,038**
Central fleet costs			**(747)**	-	**(747)**
Segmental profit			**9,690**	**1,601**	**11,291**
Central costs					**(4,229)**
Adjusted EBITDA (see note 5)					**7,062**

Revenue note 3 discloses the geographical analysis by destination and revenue generated from our major customer.

5 Profit for the year before taxation

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

	2020 £'000	2019 £'000
Research and development expenses	**806**	712
3G replacement unit provision	**1,610**	-
Rentals under short term lease agreements:		
Other leases	**6**	-
Land and buildings	**76**	62
Depreciation on property, plant and equipment, owned	**175**	171
Depreciation on property, plant and equipment, right of use	**182**	199
Share-based payment expense	**224**	254
Foreign exchange losses	**21**	108
Expected credit loss charge	**120**	19
Audit services:		
Fees paid to Company auditor for the audit of the Company and consolidated financial statements	**31**	30
The audit of the Company's subsidiary pursuant to legislation	**33**	35
Other services	**3**	3

5 Profit for the year before taxation (continued)

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

	2020	2019
	£'000	£'000
Operating profit	**5,680**	6,438
Depreciation on property, plant and equipment, owned	**175**	171
Depreciation on property, plant and equipment, right of use	**182**	199
EBITDA	**6,037**	6,808
Share-based payment expense (incl. cash-settled)	**224**	254
Provision for replacement of 3G units	**1,610**	-
Adjusted EBITDA	**7,871**	7,062

6 Employee remuneration

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

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

	2020	2019
	£'000	£'000
Wages and salaries	**5,077**	4,754
Social security costs	**496**	453
Contributions to defined contribution pension plan	**115**	94
Share-based payment	**224**	254
	5,912	5,555

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

	2020	2019
Administration	**21**	20
Operations	**26**	25
Sales	**65**	57
Customer service	**22**	20
Research and development	**24**	25
	158	147

7 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 2020, the Group identified six such individuals: three Executive Directors, two Non-Executive Directors, and one member of Senior Management, a Director on the Operations Board of Quartix Limited. In 2019, the Group identified eight such individuals: three Executive Directors, two Non-Executive Directors, and three members of Senior Management.

	2020	2019
	£'000	£'000
Wages and salaries	**451**	639
Social security costs	**56**	81
Contributions to defined contribution pension plan	**9**	10
Share-based payment	**87**	100
Total employee benefits	**603**	830

7 Key management remuneration and Directors' remuneration (continued)

Details of Directors' remuneration and the highest paid Director is disclosed on page 35.

The Group introduced the NEST pension arrangements in 2015 for all employees. During 2020, three members of the key management personnel team were members of the NEST 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.

The following relates to key management, including Directors:

	2020	2019
Share based payment charge: equity options (£'000)	**52**	97
Share based payment charge: cash options (£'000)	**35**	5
	87	102
Equity settled share options	**465,184**	465,184
Cash settled options	**238,000**	170,000
Options exercised	**nil**	nil
Shares held	**18,199,642**	18,199,642

Included in above relating only to Directors of Quartix Holdings plc are:

	2020	2019
Share based payment charge: equity options (£'000)	**44**	52
Share based payment charge: cash options (£'000)	**35**	5
	79	57
Equity settled share options	**372,592**	372,592
Cash settled options	**238,000**	170,000
Options exercised	**nil**	nil
Shares held	**17,983,208**	17,983,208

The only change in key management options, including Directors, during the year was the issue of new cash settled options to a Director as outlined on page 35. Key management did not exercise any options.

8 Finance income receivable

	2020	2019
	£'000	£'000
Bank interest	**19**	34

9 Finance costs payable

	2020	2019
	£'000	£'000
Lease interest expense	**40**	21

10 Tax expense

	2020	2019
Analysis of tax charge in the year	**£'000**	£'000
Current tax		
UK corporation tax charge on profit for the year	**1,013**	1,098
Adjustments in respect of prior periods	**21**	60
Total corporation tax	**1,034**	1,158
Deferred tax		
Origination and reversal of temporary differences	**(105)**	(115)
Adjustments in respect of prior periods	**2**	(2)
Total deferred tax	**(103)**	(117)
Tax on profit of ordinary activities	**931**	1,041

The relationship between the expected tax expense based on an effective tax rate of the Group of 19.00% (2019: 19.00%), 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:

	2020	2019
	£'000	£'000
Result for the year before taxation	**5,659**	6,451
Tax rate (%)	**19.00**	19.00
Expected tax expense	**1,075**	1,226
Adjustments to tax charge in respect of prior periods*	**23**	58
Adjustments for tax rate differences in France**	**55**	-
Expenses not deductible for tax purposes	**8**	9
Losses in the USA not provided	**85**	70
Research and development tax credit	**(155)**	(123)
Patent box credit	**(140)**	(205)
Remeasurement of deferred tax	**5**	(5)
Tax adjustment on exercise of options	**(25)**	11
Tax on profit on ordinary activities	**931**	1,041

Effective rate of tax	**16.4%**	16.1%
*Effective rate of tax ignoring adjustments in respect of prior years'	**16.0%**	15.2%

**The French branch, which has utilised its trading losses, is now subject to local tax and there is a differential rate between the UK and France.

11 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 2020	**4,728**	**47,953,023**	**9.86**	**48,170,860**	**9.82**
Year ended 31 December 2019	5,410	47,916,951	11.29	48,095,333	11.25
Adjusted earnings per ordinary share					
Year ended 31 December 2020	**6,338**	**47,953,023**	**13.22**	**48,170,860**	**13.16**

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.

Adjusted earnings per ordinary share excludes the exceptional 3G replacement unit provision of £1.6m, in order to illustrate the underlying earnings for the year.

Dividends

During the year ended 31 December 2020, the Group paid interim dividends of £1.6m (2019: £1.1m), equivalent to 2.50p per share, plus a supplementary dividend of 0.87p, totalling 3.37p per ordinary share (2019: 2.40p).

The Board is recommending dividends of £8.6m (2019: £4.8m) comprising a final ordinary dividend of 2.4p per share, together with a supplementary dividend of 15.3p per share, giving a final pay out of 17.7p per share and a total dividend for the year of 21.07p per share. As the distribution of dividends require approval at the Annual General Meeting, no liability in this respect is recognised in the 2020 Group consolidated financial statements.

12 Goodwill

	Goodwill on consolidation £'000
Cost and net book value	
At 1 January and 31 December 2019 and 2020	**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 1).

12 Goodwill (continued)

The Group considers the fleet segment of Quartix Limited to be the sole cash-generating unit (CGU) for the assessment of goodwill (see Intangible Assets policy included in note 1) 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.

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 2.0% which is in line with the long-term GDP forecasts. The discount rate used is 8.68% 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. The estimate of the recoverable amount for the cash generating unit is not particularly sensitive to the discount rate.

Management's key assumptions are based on past experience and the current trading performance of Quartix Limited. These value in use calculations, including sensitivity analysis, 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.

13 Property, plant and equipment

	Leasehold properties £'000	Tools and equipment £'000	Office equipment £'000	Motor vehicles £'000	Total £'000
Cost:					
At 1 January 2019	531	12	1,278	12	1,833
Additions	72	-	191	18	281
Disposals	(60)	(12)	(55)	(5)	(132)
Foreign exchange	(1)	-	(2)	-	(3)
At 31 December 2019	542	-	1,412	25	1,979
Additions	808	-	80	19	907
Disposals	(200)	-	(7)	(8)	(215)
Foreign exchange	(2)	-	(4)	-	(6)
At 31 December 2020	1,148	-	1,481	36	2,665

13 Property, plant and equipment (continued)

	Leasehold properties £'000	Tools and equipment £'000	Office equipment £'000	Motor vehicles £'000	Total £'000
Depreciation:					
At 1 January 2019	13	12	873	-	898
Provided in the year	194	-	165	11	370
Disposals	(60)	(12)	(55)	(5)	(132)
Foreign exchange	-	-	(2)		(2)
At 31 December 2019	147	-	981	6	1,134
Provided in the year	178	-	170	9	357
Disposals	(89)	-	(1)	(8)	(98)
Foreign exchange	(3)	-	(4)	1	(6)
At 31 December 2020	233	-	1,146	8	1,387
Net book amount:					
At 31 December 2020	**915**	**-**	**335**	**28**	**1,278**
At 31 December 2019	395	-	431	19	845
At 1 January 2019	518	-	405	12	935

14 Inventories

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

	2020 £'000	2019 £'000
Raw materials	**489**	346
Work in progress	**79**	350
Finished goods and goods for resale	**126**	181
	694	877

Included in the analysis above are impairment provisions against inventory amounting to £88,000 (2019: £194,500). The cost of vehicle tracking units are recognised as an expense and included in "cost of sales" amounted to £2.3m (2019: £3.0m).

15 Trade and other receivables

	2020 £'000	2019 £,000
Trade receivables	**2,620**	2,784
Contract cost assets	**896**	832
Other receivables	**5**	13
Prepayments and accrued income	**290**	278
	3,811	3,907

All the amounts are due within in year. Trade receivables are measured initially at fair value and subsequently at amortised cost. At each period end, there is an assessment of the expected credit loss in accordance with IFRS 9 with any increase or reduction in the credit loss provision charged or released to administration costs in the statement of comprehensive income.

15 Trade and other receivables (continued)

The loss allowance for expected credit losses has been recorded as follows.

	2020 £'000	2019 £'000
Loss allowance at 1 January	**134**	118
Increase in loss allowance	**120**	19
Foreign exchange	**3**	(3)
Loss allowance at 31 December	**257**	134

As explained in note 29, the Group's trade receivables arise from transactions that do not contain a significant financing component, therefore the loss allowance is always measured at an amount equal to lifetime expected credit losses.

The expected credit loss for trade receivables at 31 December was determined as follows:

	2020 £'000	2019 £'000
Not more than 1 month	**258**	313
More than one month but not more than 3 months	**28**	100
More than 3 months but not more than 6 months	**-**	-
	286	413

Contract cost assets are analysed as follows:

	2020 £'000	2019 £'000
Not more than 12 months	**896**	832
More than 12 months	**297**	304
	1,193	1,136

16 Cash and cash equivalents

Cash and cash equivalents include the following components:

	2020 £'000	2019 £'000
Cash at bank and in hand	**10,570**	6,789

Quartix Limited uses Barclay's Business Premium account to aggregate Sterling instant access balances and earn interest, which up until March 2020 was at 0.65% and since then is at 0.01%. Since August 2020, the Group has placed deposits in HSBC UK Bank plc money market deposit accounts earning interest ranging from 0.01%-0.09%. At 31 December 2020, HSBC deposits were £2.2m.

17 Trade and other payables

Amounts falling due within one year:

	2020 £'000	2019 £'000
Trade payables	**1,612**	1,750
Social security and other taxes	**575**	619
Other payables	**137**	85
Accruals	**364**	454
Lease liabilities (see note 20)	**135**	156
	2,823	3,064

18 Provisions

All provisions are considered current. The carrying amounts and the movements in the provision account are as follows:

	3G Replacement £'000	Other £'000	Total £'000
Carrying amount at 1 January	-	247	247
Additional Provision	1,610	-	1,610
Amount utilised	-	(54)	(54)
Foreign exchange	(18)	-	(18)
Carrying amount at 31 December	**1,592**	**193**	**1,785**

The additional provision recognised in the period relates to the estimated cost of replacing active 3G units that are with US customers at the year end.

The majority of the other provision relates to standard or extended warranties for which customers are covered for the cost of repairs or replacement units as appropriate.

19 Contract liabilities

	2020 £'000	2019 £'000
Deferred insurance tracking data services income	**932**	2,108
Deferred fleet tracking data services income	**2,718**	2,735
	3,650	4,843

Deferred tracking data services income represents customer payments received in advance of performance (contract liabilities) that are expected to be recognised as revenue in future years, as described in note 1

- Under insurance contracts, the customer commits to purchase data services for 12 months. Quartix raises a single invoice upon installation and recognises revenue over 12 months on a straight-line basis, since the customer benefits from the Group's services evenly throughout the contract term and receives the benefit of the services as they are made available.
- Fleet customers enter into contracts typically with a commitment to purchase data services for 12-36 months and are generally invoiced quarterly in advance and recognises revenue over the period covered by the invoice, as the performance obligations are satisfied.

The amounts recognised as a contract liability will generally be utilised within the next reporting period.

Changes to the Group's contract liabilities (i.e. deferred revenue) are attributable solely to the satisfaction of performance obligations. The reduction in contract liabilities was due to the release of deferred contract revenue in the year arising from the reduction in the number of new insurance installations.

	2020 £'000	2019 £'000
Contract liabilities at 1 January	**4,843**	4,655
Contract liabilities released to revenue in the period	**(4,773)**	(4,578)
Contract revenue deferred in the period, net of releases in the period	**3,580**	4,766
Contract liabilities at 31 December	**3,650**	4,843

20 Lease liabilities

The Group has leases for the property it occupies and motor vehicles. With the exception of short-term leases, each lease is reflected on the balance sheet as a right of use asset and a lease liability. The Group classifies its right-of-use assets in a consistent manner to its property, plant and equipment for presentation purposes.

Included in the net carrying amount and depreciation provided for in the year of property, plant and equipment (note 13) are right-of-use assets as follows:

	2020	2019
Right-of-use asset carrying amounts	**£'000**	£'000
Property	**899**	373
Equipment	**28**	18
Total	**927**	391
Depreciation		
Property	**173**	188
Equipment	**9**	11
Total	**182**	199

Each lease imposes a restriction that the right-of-use asset can only be used by the Group. Some leases have a break clause; however, the majority are either non-cancellable or may only be cancelled by incurring a substantial termination fee.

Notice was served in January 2021 for the Dukes Court lease in Cambridge, which expires on 31 August 2021. The impact of this is a reduction in the lease liability of £135k. There are no penalty payments for early termination.

The Group is prohibited from selling or pledging the underlying leased assets as security. For the property leases, the Group must keep the property in a good state of repair and return the properties in their original state at the end of the lease. Furthermore, the Group must insure items of property, plant and equipment and incur maintenance fees on such items in accordance with the lease contracts.

Lease liabilities are presented in the statement of financial position as follows:

	2020	2019
	£'000	£'000
Current lease liability	**135**	156
Non-current lease liability	**822**	241
Total lease liability	**957**	**397**

The increase in lease liabilities in the year relates to new lease premises for the main office in Newtown Powys in March 2020.

20 Lease liabilities (continued)

Future minimum lease payments at 31 December 2020 were as follows:

	Minimum lease payments due			
	Within 1 year	1 to 5 years	After 5 years	Total
31 December 2020	£000	£000	£000	£000
Lease payments	174	537	420	1,131
Finance charges	(39)	(101)	(35)	(175)
Net present value	**135**	**436**	**385**	**956**
31 December 2019				
Lease payments	170	255	-	425
Finance charges	(14)	(14)	-	(28)
Net present value	156	241	-	397

Total cash outflow for the year ended 31 December 2020 was £185k (2019: £257k).

Lease payments not recognised as a liability:
The Group has elected not to recognise a lease liability for short term leases (leases with an expected term of 12 months or less). Payments made under such leases are expensed on a straight-line basis.

The expense relating to payments not included in the measurement of the lease liability at 31 December 2020 was £82,000 (2019: £62,000). At the year end the Group was committed to short-term leases and the total commitment at that date was £12,000 (2019: £18,000).

21 Deferred tax

Deferred tax assets/(liabilities) recognised by the Group at 31 December 2020 and 31 December 2019 are as follows:

Deferred tax asset/(liability)	**2020 £'000**	2019 £'000
Accelerated Capital Allowances	**(45)**	(52)
Short term temporary differences	**33**	55
Equity settled share options	**147**	(1)
	135	2

	2020 £'000	2019 £'000
(Credit)/charge to profit and loss		
Accelerated Capital Allowances	**(7)**	14
Short term temporary differences	**(38)**	(133)
Equity settled share options	**(58)**	2
	(103)	(117)

There are unprovided tax losses related to the USA business of $731,000 (2019: $973,000). Included within net profit for the year is a non-deductible provision of £1.6m.

22 Equity

	Number of ordinary shares of £0.01 each	Share capital £'000	Share premium £'000
Allotted, called up and fully paid			
At 1 January 2020	47,938,320	479	5,230
Shares issued	24,196	-	22
At 31 December 2020	**47,962,516**	**479**	**5,252**

All the shares issued in the year to 31 December 2020 related to the exercise of share options.

23 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.

In June 2020 cash-settled options were issued to Laura Seffino, an incentive programme linked to the share price, to facilitate the exercise of existing equity-settled share options. These cash-settled share options are linked to both service and market performance conditions. The options have a contractual term commencing on the grant date 1 June 2020 and maturing on 6 April 2025, there are four vesting dates commencing on 6 April 2021, where a number of shares depending on the performance of the share price will be eligible for exercise at the share price less the exercise price of 320 pence. The net cash value after tax must be used to exercise Laura's existing share options, and the resulting shares must subsequently be held for a minimum of 12 months.

The fair value at grant date of the cash-settled options has been calculated using a binomial option pricing model. The average share price of 326 pence, exercise price of 320 pence, a risk free rate of -0.04%, a volatility rate of 49% and a time to maturity of 4 years has generated a fair value of 419 pence per share option with the estimated number of shares to ultimately vest being 68,000 cash-settled share options. The volatility of the share price over the previous 12 months from the grant date and the risk-free rate on the market were used to build in probabilities of the share price performance over the duration of the vesting period.

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

		2020		**2019**
	Weighted average exercise price per share in pence	**Options number**	**Weighted average exercise price per share in pence**	**Options number**
Outstanding at 1 January	**276.9**	**1,193,469**	267.6	1,365,554
Granted	**255.2**	**167,700**	180.2	46,600
Lapsed	**257.4**	**(104,905)**	313.8	(126,925)
Exercised	**89.0**	**(24,196)**	38.5	(91,760)
Outstanding at 31 December	**279.3**	**1,232,068**	276.9	1,193,469
Exercisable at 31 December	**290.5**	**356,974**	360	37,482

The weighted average fair value of equity-settled options issued during the year ended 31 December 2020 was 118.37p (2019: 175.49p). Included in the equity-settled options granted in 2020 none (2019: none) were granted to staff with performance conditions.
The weighted average share price at the date of exercise of options during the year ended 31 December 2020 was 265.75p (2019: 265.0p).

23 Share based payments (continued)

At 31 December Quartix Holdings plc had the following outstanding equity-settled options and exercise prices:

2020

Period when exercisable	Expiry dates	Average exercise price per share in pence	Options number	Weighted average remaining contractual life in months
Starting from March 2019	31 March 2025	360.0	187,408	51
Starting from March 2020	31 March 2024	270.0	742,268	39
Starting from March 2020	31 March 2026	270.0	92,592	63
Starting October 2020	30 September 2025	335.0	25,000	57
March 2021	2 December 2024	1.0	17,100	47
Starting from May 2021	1 May 2026	291.0	147,000	64
March 2022	1 December 2025	1.0	20,700	59
		279.3	**1,232,068**	**46**

2019

Period when exercisable	Expiry dates	Average exercise price per share in pence	Options number	Weighted average remaining contractual life in months
Starting from March 2019	31 March 2025	360.0	187,408	63
Starting from March 2020	31 March 2024	270.0	850,184	51
Starting from March 2020	31 March 2026	270.0	92,592	75
March 2020	06 December 2023	1.0	16,835	47
Starting October 2020	30 September 2025	335.0	25,000	69
March 2021	2 December 2024	1.0	21,450	59
		276.9	1,193,469	55

The fair value of equity-settled 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 based on UK Government gilt yields at the time of the grant.

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

2020:

Number granted	**147,000**	**20,700**
Grant date	**04-May**	**01-Dec**
Share price at grant date (pence)	**291.0**	**363.0**
Exercise price (pence)	**291.0**	**1.0**
Fair value per option (pence)	**85.5**	**352.0**
Expected life in years	**3.00**	**1.3**
Expected volatility (%)	**49.6**	**112.3**
Risk-free interest rate (%)	**0.1**	**0.0**
Dividend yield (%)	**2.1**	**2.1**

23 Share based payments (continued)

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

2019:

Number granted	25,000	21,600
Grant date	26-Sep	02-Dec
Share price at grant date (pence)	335.0	334.0
Exercise price (pence)	335.0	334.0
Fair value per option (pence)	55.1	314.8
Expected life in years	3.0	1.3
Expected volatility (%)	33.6	31.7
Risk-free interest rate (%)	0.37	0.63
Dividend yield (%)	4.2	4.2

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

	2020		2019	
	Weighted average exercise price per share in pence	**Options number**	**Weighted average exercise price per share in pence**	**Options number**
Outstanding at 1 January	**322.0**	**170,000**	n/a	n/a
Granted	**320.0**	**68,000**	322.0	170,000
Outstanding at 31 December	**321.4**	**238,000**	322.0	170,000
Exercisable at 31 December	**n/a**	**n/a**	n/a	n/a

At 31 December Quartix Holdings plc had the following outstanding cash-settled options and exercise prices:

2020

Period when exercisable	**Expiry dates**	**Average exercise price per share in pence**	**Options number**	**Weighted average remaining contractual life in months**
Starting from August 2020	5 April 2024	322.0	170,000	39
Starting from March 2020	5 April 2025	320.0	68,000	51
		321.4	**238,000**	**42**

2019

Period when exercisable	**Expiry dates**	**Average exercise price per share in pence**	**Options number**	**Weighted average remaining contractual life in months**
Starting from August 2020	5 April 2024	322.0	170,000	51
		322.0	170,000	51

24 Notes to the cash flow statement

Cash flow adjustments and changes in working capital

	Notes	2020 £'000	2019 £'000
Profit before tax		**5,659**	6,451
Foreign exchange		**183**	156
Depreciation	13	**357**	370
Loss on disposal of fixed asset		**3**	-
Interest income	8	**(19)**	(34)
Lease interest expense	9	**40**	21
Share based payment expense		**224**	250
Operating cash flow before movement in working capital		**6,447**	7,214
(Increase)/decrease in trade and other receivables		**69**	(453)
(Increase)/decrease in inventories		**181**	(106)
Increase in trade and other payables		**1,189**	410
Increase/(decrease) in contract liabilities		**(1,188)**	198
Cash generated from operations		**6,698**	7,263

25 Reconciliation of liabilities arising from financing activities

The changes in the Group's liabilities arising from financing activities, is entirely as a result of lease liabilities which is as follows:

	2020 £'000	2019 £'000
1 January	**397**	654
Non-cash: Addition	**745**	-
Cash-flows: Repayment	**(185)**	(257)
31 December (see note 20)	**957**	397

26 Related party transactions and controlling related party

The Group's related parties comprise its Board of Directors and its key management (see note 7). 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 35 and note 7.

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

27 Purchase commitments and contingent liabilities

Quartix Limited has signed agreements with suppliers which commit the Group to purchase inventory to the value of £570,000 (2019: £407,000).

Short term lease commitment at year end is £12k rental on a property (2019: £18k).

There were no other financial commitments or contingent liabilities at 31 December 2020 or 31 December 2019.

28 Capital commitments

The Group had no capital commitments as at 31 December 2020 (2019: £57,000).

29 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:

	2020	2019
	£'000	£'000
Loans and receivables		
Trade receivables and other receivables	**2,625**	2,797
Cash and cash equivalents	**10,570**	6,789
	13,195	9,586

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 £0.5m and the credit risk on this balance is carefully monitored. The Group has established credit control procedures to undertake various tasks at different stages as invoices move further from their issue date. At 45 days past due date, the credit risk is believed to have increased substantially and customers are included in the loss allowance assessment.

The Group uses the practical expedient in the calculation of the expected credit losses on all its trade receivables using a provision matrix, to estimate the lifetime expected credit losses, with fixed provision rates, based on its historical credit loss experience adjusted where possible for current observable data. The Group uses such data to make reasonable forward-looking estimates of recoverability.

The Group continues to work with customers to recover trade receivables and may take legal action or use third-party collection specialists where necessary. Only after these steps have been completed and there is no reasonable expectation of recovery, would the receivable be written off.

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 enough Euros to cover the Group's needs. Whilst the Group also trades in the US, in 2020, the Group purchased about $1.1m, primarily to purchase components for the vehicle tracking units (2019: $2.4m).

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

29 Risk management objectives and policies (continued)

Currency risk (continued)

It is estimated that a 5.0% strengthening of Pound Sterling to the US dollar would have reduced purchase costs by £35,000 and vice versa (2019: £90,000). (This is assuming that Dollar denominated prices do not adjust for currency movements.)

It is estimated that a 5.0% strengthening of Pound Sterling to the Euro would have reduced net profit by £75,000 and vice versa (2019: £55,000).

The Group's financial instruments denominated in foreign currencies were:

	2020			2019		
	£'000	**£'000**	**£'000**	£'000	£'000	£'000
	US$	**€**	**zl**	US$	€	zl
Cash and cash equivalents	**261**	**1,119**	**0**	87	792	0
Trade receivables	**-**	**465**	**5**	-	385	2
Trade payables	**(354)**	**(385)**	**0**	(407)	(303)	0
	(93)	**1,199**	**5**	(320)	874	2

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 increased by 3.3% from 31 December 2019 to 31 December 2020 (2019: increased by 3.5%). The total translation reserve movement for the year reported in the Consolidated Statement of Changes in Equity was a credit of £99,000 (2019: credit £93,000). The majority of this movement related to the retranslation of Quartix Inc's opening net liabilities as at 1 January 2020.

Quartix Inc's net liabilities in the previous year mainly related to amounts owed to other Group entities, but this year net liabilities include the 3G units swap out provision. The foreign exchange differences arising on translation of these monetary liabilities are recognised in the Consolidated Income Statement.

It is estimated that a 5.0% weakening of Pound Sterling to the US dollar would give an exchange gain of around £192,000 from the retranslation Quartix Inc. net liabilities, the exchange gain that relates to the retranslation of amounts owed by Quartix Inc is around £107,000 (2019: £172,000).

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. As at 31 December 2020, the Group's non-derivative financial liabilities that have contractual maturities of more than 12 months are lease liabilities; see note 20 for the maturity analysis of lease liabilities.

30 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:

	2020 £'000	2019 £'000
Loans and receivables		
Trade and other receivables	**2,625**	2,797
Cash and cash equivalents	**10,570**	6,789
	13,195	9,586

	2020 £'000	2019 £'000
Financial liabilities measured at amortised cost		
Trade and other payables	**3,761**	2,451
Lease liabilities	**957**	397
	4,718	2,848

31 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:

	2020 £'000	2019 £'000
Capital		
Total equity	**21,433**	17,981
Less cash and cash equivalents	**(10,570)**	(6,789)
	10,863	11,192
Overall financing		
Total equity	**21,433**	17,981
Lease liabilities	**957**	397
Capital-to-overall financing ratio (%)	**48.5**	60.9

32 Subsidiaries

As at the 31 December 2020 the subsidiaries of the Group were:

Subsidiary	Quartix Ltd	Quartix Inc
Country of registration	England & Wales	USA
Registered office	New Church Street, Newtown, Powys SY16 1AF	901 2nd Street, Springfield, Sangamon IL 62704-7909
Class of share capital held	Ordinary shares	Common shares
Proportion held by the Company	100%	100%
Nature of the business	Vehicle Tracking	Vehicle Tracking

33 Post balance sheet events

Since the year end the Board have agreed to give notice on the property in Cambridge, which at 31 December 2020 contributed £165k to the Group lease liabilities and £146k to the Group's right of use assets. As a result of the remainder of the lease term being reassessed, the lease liability and right of use asset has been remeasured with an expiry date of 31 August 2021, resulting in a reduction in the lease liability and right of use asset of £135k as at 31 January 2021.

Parent Company Statement of Financial Position

Company registration number 06395159

	Notes	2020 £'000	2019 £'000
Fixed assets			
Investments	4	**19,741**	19,518
Current assets			
Debtors	5	**2,306**	1,460
Current tax asset		**46**	53
Cash at bank and in hand		**2,102**	55
Total current assets		**4,454**	1,568
Creditors – amounts falling due within one year	6	**(77)**	(3,447)
Net current assets		**4,377**	(1,879)
Total assets less current liabilities		**24,118**	17,639
Net assets		**24,118**	17,639
Capital and reserves			
Called up share capital	7	**479**	479
Share premium account		**5,252**	5,230
Equity reserve		**763**	617
Capital redemption reserve		**4,663**	4,663
Retained earnings		**12,961**	6,650
Total equity attributable to equity shareholders of Quartix Holdings plc		**24,118**	17,639

Profit for the year and total comprehensive income attributable to the equity shareholders of Quartix Holdings plc was £7,884,000 (2019: £5,832,000)

Approved by the Board of Directors, authorised for issue and signed on behalf of the Board on 28 February 2021.

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 2018	478	5,196	4,663	426	6,704	**17,467**
Shares issued	1	34	-	-	-	**35**
Increase in equity reserve in relation to options issued	-	-	-	249	-	**249**
Adjustment for exercised options	-	-	-	(58)	58	**-**
Dividend paid	-	-	-	-	(5,944)	**(5,944)**
Transactions with owners	**1**	**34**	**-**	**191**	**(5,886)**	**(5,660)**
Profit for the year and total comprehensive income	-	-	-	-	5,832	**5,832**
Balance at 31 December 2019	479	5,230	4,663	617	6,650	**17,639**
Shares issued	-	22	-	-	-	**22**
Increase in equity reserve in relation to options issued	-	-	-	189	-	**189**
Adjustment for exercised options	-	-	-	(43)	43	**-**
Dividend paid	-	-	-	-	(1,616)	**(1,616)**
Transactions with owners	**-**	**22**	**-**	**146**	**(1,573)**	**(1,405)**
Profit for the year and total comprehensive income	-	-	-	-	7,884	**7,884**
Balance at 31 December 2020	**479**	**5,252**	**4,663**	**763**	**12,961**	**24,118**

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 2020 and the year ended 31 December 2019. 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. For further details, refer to the accounting policy note on Going Concern for the Group on page 57.

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

As required by IFRS 9, the Company will apply the impairment requirements and recognise a loss allowance for expected credit losses on its financial assets. At each reporting date, it will measure the loss allowance at an amount equal to the lifetime expected credit losses, if the credit risk on financial instruments has increased significantly since initial recognition.

1 Summary of significant accounting policies (continued)

Financial assets (continued)
The Company will recognise in profit or loss, as an impairment gain or loss, the amount of expected credit losses (or reversal) that is required to adjust the loss allowance at the reporting date to the amount that is required to be recognised in accordance with IFRS 9.

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 Group operates several employee share schemes for employees of its UK trading subsidiary under which it makes equity-settled and cash-settled share-based payments. 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.

All cash-settled share-based remuneration is ultimately recognised as an expense in profit or loss with a corresponding credit to a share-based payment liability. The fair value is re-measured at each reporting date and at the date of settlement, with any changes in fair value recognised in profit or loss for the period.

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

1 Summary of significant accounting policies (continued)

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 £7.8m (2019: £5.8m).

Auditors' remuneration attributable to the Company is as follows:

	2020 £'000	2019 £'000
Audit fees – statutory audit	**31**	30
Other services	**2**	1
	33	31

Details of Directors' emoluments are set out on page 35.

3 Directors and employees

Staff costs, including Directors, comprised the following:

	2020 £'000	2019 £'000
Wages and salaries	**95**	90
Social security costs	**11**	10
	106	100

The average number of employees for the company, being the Non-Executive Directors only, during the year was 2 (2019: 2).

4 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 2019	**19,263**
Increase due to granting of share options to subsidiary employees:	
New investments	**255**
At 1 January 2020	**19,518**
Increase due to granting of share options to subsidiary employees:	
New investments	**223**
Net book amount at 31 December 2020	**19,741**

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

5 Debtors

	2020 £'000	2019 £'000
Social security and other taxes	**11**	7
Prepayments	**11**	7
Amounts owed by subsidiary undertakings	**2,284**	1,446
	2,306	1,460

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 £1.0m (2019: £1.4m) which is repayable on or before 31 December 2021 but can be extended by mutual agreement. Interest is charged quarterly at 1% per quarter on the quarter end balance. The balance relates to the current account with Quartix Limited.

6 Creditors: amounts falling due within one year

	2020 £'000	2019 £'000
Social security and other taxes	**-**	4
Accruals and deferred income	**77**	55
Amounts owed to subsidiary undertakings	**-**	3,388
	77	3,447

The amount owed to subsidiary undertakings in 2019 related to the current account with Quartix Limited. Which is changed to a debtor position in 2020, following a dividend declaration in December 2020, however the dividend has not been received yet, it is owed by Quartix Limited to Quartix Holdings plc at 31 December 2020.

7 Called up share capital

	2020	2019
	£'000	£'000
Allotted, called up and fully paid		
47,962,516 (2019: 47,938,320) ordinary shares of £0.01 each	**479**	479

Details of movements in share options and those outstanding at 31 December 2020 are disclosed in note 23 of the Group accounts.

8 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 35) and key management remuneration in note 7 of the Group accounts.

9 Contingent liabilities

There are no material contingent liabilities subsisting at 31 December 2020 or 31 December 2019.

10 Financial commitments

The Company had no financial commitments at 31 December 2020 or 31 December 2019.

11 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:

	2020	2019
	£'000	£'000
Loans and receivables		
Cash and cash equivalents	**2,102**	**55**
Amounts owed by subsidiary undertakings	**2,284**	**1,446**
	4,386	**1,501**

Credit risk

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 £1.0m (2019: £1.4m) which is repayable on or before 31 December 2021 but can be extended by mutual agreement. Interest is charged quarterly at 1% per quarter on the quarter end balance.

11 Risk management objectives and policies (continued)

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 foreign currencies (all US dollars) were:

	2020	2019
	£'000	£'000
Loan and receivables		
Cash at bank	**123**	8
Amounts owed by subsidiary undertakings	**1,046**	1,446
	1,169	1,454

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 sixth Annual General Meeting (the "Meeting") of Quartix Holdings plc will be held virtually on **Tuesday 23 March 2021** at **11.00 am** at 9 Dukes Court, 54-62 Newmarket Road, Cambridge, CB5 8DZ for the purpose of considering the resolutions below.

This year's Meeting will be a closed meeting in light of the UK Government's restrictions on public gatherings and non-essential travel which are in place at the time of issue of this Notice of Meeting. Shareholders will not be permitted entry to the Meeting.

In order to ensure that their votes are registered, shareholders are strongly encouraged to submit their proxy votes in advance of the Meeting by appointing the Chairman of the Meeting as their proxy, and the Chairman will then vote on a poll in accordance with those proxy instructions. All votes on the resolutions contained in this Notice will be held by poll, so that all proxy votes are counted.

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 2020.
2. To approve and declare a final dividend for the year ended 31 December 2020 of 2.40p per ordinary share and supplementary dividend of 15.30p per ordinary share, a total final dividend of 17.70p per share. This will be paid on 30 April 2021 to shareholders on the register as at the close of business on 1 April 2021.
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 Laura Seffino 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 David 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 £159,875 (representing approximately 33% of the issued share capital of the Company as at 26 February 2021) 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 2022, 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 £23,981, representing approximately 5% of the ordinary share capital in issue as at 26 February 2021.

This power shall expire at the conclusion of the next Annual General Meeting of the Company or 30 June 2022, 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 2,397,000 (representing approximately 5% of the ordinary share capital in issue as at 26 February 2021);
b. The minimum price that may be paid for an ordinary share is its nominal value (£0.01);
c. The maximum price, exclusive of any expenses, which may be paid for an ordinary share shall be the higher of:
    i. 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
    ii. an amount equal to the higher of the price quoted for the last independent trade of an ordinary share and the highest current independent bid for an ordinary share on the trading venue where the purchase is carried out.
d. This authority shall expire, unless previously renewed, revoked or varied, on the date of the next Annual General Meeting or 30 June 2022, 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.

13. That the name of the Company be change to "Quartix Technologies plc" effective from the issue of the certificate of incorporation on change of name.

By order of the Board on 28 February 2021.

Daniel Mendis
Company Secretary

Notes to the Notice of Annual General Meeting

The following notes explain your general rights as a shareholder and your right to vote at this Meeting or to appoint someone else to vote on your behalf.

1 Arrangements for the meeting under coronavirus restrictions

This year's Meeting will be a closed meeting in light of the UK Government's restrictions on public gatherings and non-essential travel which are in place at the time of issue of this Notice of Meeting. Shareholders will not be permitted entry to the Meeting.

The Board:

- encourages shareholders to submit their votes via proxy as early as possible, and shareholders should appoint the Chairman of the meeting as their proxy. If a shareholder appoints someone else as their proxy, that proxy will not be able to attend the General Meeting in person or cast the shareholder's vote.
- strongly recommends CREST members to vote electronically through the CREST electronic proxy appointment service as your vote will automatically be counted.

All proxy appointments should be received by no later than 11.00 a.m. on 19 March 2021.

2 To be entitled to vote at the Meeting (and for the purpose of the determination by the Company of the number of votes they may cast), shareholders must be registered in the Register of Members of the Company at 6.00pm on 19 March 2021. Changes to the Register of Members after the relevant deadline shall be disregarded in determining the rights of any person to vote at the Meeting.

3 A vote withheld is not a vote in law, which means that the vote will not be counted in the calculation of votes for or against the resolution.

4 In order for a proxy appointment to be valid, a form of proxy must be completed. You can appoint a proxy and indicate how you would like your proxy to vote at the Meeting or any adjournment by using any of the following methods:

- by logging on to www.signalshares.com and following the instructions, ensuring that your submission is completed before 11.00 am on 19 March 2021;
- by completing and returning a hard copy proxy form to Link Group at 34 Beckenham Road, Beckenham, Kent, BR3 4ZF to be received by 11.00 am on 19 March 2021; or
- in the case of CREST members, by utilising the CREST electronic proxy appointment service in accordance with the procedures set out below, transmitting the instructions so as to be received by 11.00 am on 19 March 2021.

You may request a hard copy form of proxy directly from the registrars, Link Group (previously called Capita), on Tel: 0371 664 0391. Calls are charged at the standard geographic rate and will vary by provider. Calls outside the United Kingdom will be charged at the applicable international rate. Lines are open between 09:00 – 17:30, Monday to Friday, excluding public holidays in England and Wales.

5 If you return more than one proxy appointment, either by paper or electronic communication, the appointment received last by the Registrar before the latest time for the receipt of proxies will take precedence. You are advised to read the terms and conditions of use carefully. Electronic communication facilities are open to all shareholders and those who use them will not be disadvantaged.

6 CREST members who wish to appoint a proxy or proxies through the CREST electronic proxy appointment service may do so for the Meeting (and any adjournment of the Meeting) by using the procedures described in the CREST Manual (available from www.euroclear.com/site/public/EUI). CREST Personal Members or other CREST sponsored members, and those CREST members who have appointed a service provider(s), should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf.

7 In order for a proxy appointment or instruction made by means of CREST to be valid, the appropriate CREST message (a 'CREST Proxy Instruction') must be properly authenticated in accordance with Euroclear UK & Ireland Limited's specifications and must contain the information required for such instructions, as described in the CREST Manual. The message must be transmitted so as to be received by the issuer's agent (ID RA10) by 11.00 am on 19 March 2021. For this purpose, the time of receipt will be taken to mean the time (as determined by the timestamp applied to the message by the CREST application host) from which the issuer's agent is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. After this time, any change of instructions to proxies appointed through CREST should be communicated to the appointee through other means.

8 CREST members and, where applicable, their CREST sponsors or voting service providers should note that Euroclear UK & Ireland Limited does not make available special procedures in CREST for any particular message. Normal system timings and limitations will, therefore, apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member, or sponsored member, or has appointed a voting service provider(s), to procure that his CREST sponsor or voting service provider(s) take(s)) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members and, where applicable, their CREST sponsors or voting system providers are referred, in particular, to those sections of the CREST Manual concerning practical limitations of the CREST system and timings. The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001.

9 Any corporation which is a shareholder can appoint one or more corporate representatives who may exercise on its behalf all of its powers as a shareholder provided that no more than one corporate representative exercises powers in relation to the same shares.

10 As at 26 February 2021 (being the latest practicable business day prior to the publication of this Notice), the Company's ordinary issued share capital consists of 47,962,516 ordinary shares, carrying one vote each. Therefore, the total voting rights in the Company as at 26 February 2021 are 47,962,516.

11 You may not use any electronic address (within the meaning of Section 333(4) of the Companies Act 2006) which is provided in either this Notice or any related documents (including the form of proxy) to communicate with the Company for any purposes other than those expressly stated.

A copy of this Notice, and other information required by Section 311A of the Companies Act 2006, can be found on the Company's website at www.quartix.com/en-gb/company/investors/

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, 9 Dukes Court, 54~62 Newmarket Rd, Cambridge CB5 8DZ or investors@quartix.net

Quartix

Real-Time Vehicle Tracking

Download from Windows Phone Store

GET IT ON Google play

Download on the App Store

Quartix Holdings plc
9 Dukes Court
54-62 Newmarket Road
Cambridge
CB5 8DZ

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