Quartix

Real-Time Vehicle Tracking

Quartix Holdings plc
Annual Report 2019

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 Jim Warwick Laura Seffino (appointed 22 October 2019)
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 60 New Broad Street London EC2M 1JJ

Highlights

Restatement of comparatives

All comparative monetary amounts for 2018 have been restated in line with a change in policy in the recognition of commission costs associated with contracts with customers under IFRS 15: 'Revenue from Contracts with Customers' (See note 1: Summary of significant accounting policies). There has been no restatement related to IFRS 16 'Leases'.

Financial highlights

- Group revenue decreased by 0.3% to £25.6m (2018: £25.7m)
    - Fleet revenue grew by 11.0% to £20.8m (2018: £18.8m)
    - Fleet revenue represented 81% of total revenue (2018: 73%)
    - Insurance revenue decreased by 30.8% to £4.8m (2018: £7.0m)
- Adjusted EBITDA[1] decreased by 17.1% to £7.1m (2018: £8.5m)
    - Fleet telematics services profits[2] increased by 12.8% to £16.5m (2018: £14.6m) (note 4)
    - Fleet customer acquisition investment increased by 42.5% to £6.1m (2018: £4.3m)
    - Insurance segment profit decreased by 50.5% to £1.6m (2018: £3.2m)
- Operating profit decreased by 21.7% to £6.4m (2018: £8.2m)
- Profit before tax decreased by 21.8% to £6.5m (2018: £8.3m)
- Diluted earnings per share decreased by 22.4% to 11.25p (2018: 14.50p)
- Free cash flow[3] increased by 11.5% to £6.2m (2018: £5.6m)
- Cash generated from operations[4] increased by 6.4% at £7.3m (2018: £6.8m)
- Net cash remained constant at £6.8m (2018: £6.8m)
- Final dividend payment of 10.0p per share proposed (2018: 10.0p) including 5.8p for supplementary dividend (2018: 6.2p) giving a total dividend for the year of 12.4p per share

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[1] Earnings before interest, tax, depreciation, amortisation and share based payment expense
[2] Profit for the Fleet segment before customer acquisition costs and central fleet costs (see note 4).
[3] Cash flow from operations after tax and investing activities
[4] Cash inflow before tax

Operational highlights

- Strong progress in the core fleet business:
    - 22.3% increase in subscription base to 150,640 units (2018: 123,157)
    - Annualised recurring revenue[1] increased to £20.5m (2018: £18.8m)
    - Growth in annualised recurring revenue (on a constant currency basis) of £2.0m (2018: £1.7m)
    - 24.4% increase in customer base to 16,394 (2018: 13,176)
    - Unit attrition has remained constant at 11.9% (2018: 11.9%)
    - 39.4% growth in new fleet subscriptions
    - Strong growth in France, ending the year with 3,528 customers (2018: 2,474) and 25,643 vehicles under subscription (2018: 18,803), an increase of 42.6% and 36.4% respectively.
    - During its fifth full year of trading the USA grew its customer base to 2,621 (2018: 2,007), with 18,050 vehicles under subscription (2018: 13,133) an increase of 30.6% and 37.4% respectively
    - The European expansion in 2019 has seen the customer base grow to 337 with 1,316 vehicles under subscription at the year end.
- As anticipated further decline in the lower margin insurance telematics business:
    - 11.8% decline in insurance installations to 36,386 (2018: 41,255)

[1] 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.

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.

Sales in the Group's core fleet operations in the UK grew by 5.0%, reaching £15.5m (2018: £14.8m). This growth partially compensated for the planned decline in UK insurance revenues, which decreased to £4.8m (2018: £7.0m).

The Group made excellent progress in France, where revenue increased by 32.4% to €3.7m (2018: €2.8m), ending the year with 25,643 vehicles under subscription (2018: 18,803) across 3,528 fleet customers (2018: 2,474).

2019 was the Group's fifth full year of operations in the USA, having launched its service and opened an office there during 2014. We are pleased with progress and completed the year with 18,050 vehicles under subscription (2018: 13,133) across 2,621 fleet customers (2018: 2,007). Revenue increased by 27.9% to $2.6m in 2019 (2018: $2.0m) and the prospects for future business development remain encouraging.

The Group made a very good start in a number of new markets in Europe during the course of the year, ending the period with a subscription base of 1,316 vehicles across 337 fleet customers.

Results

Group revenue for the year decreased marginally to £25.6m (2018: £25.7m); however, the Group continues to replace insurance revenue with higher quality fleet revenue. Total fleet revenue increased by £2.0m and now represents 81% of total revenue (2018: 73%). Insurance revenue decreased by £2.1m.

Operating profit for the year decreased by 21.7% to £6.4m (2018: £8.2m) and profit before tax was £6.5m (2018: £8.3m). This reduction was almost entirely due to the £1.6m decrease in profits from the Insurance segment, whose 2019 segmental profit was £1.6m (2018: £3.2m).

Total Fleet Segment profit remained deliberately similar to the prior year, at £9.7m (2018: £9.8m). The profitability of the Group's fleet telematics services, which represents the core part of the business associated with recurring revenues, grew by £1.9m to £16.5m (2018: £14.6m). This growth was then entirely reinvested, with an additional £2.0m being 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 increased, resulting in free cash flow, cash flow from operations after tax and investing activities, of £6.2m (2018: £5.6m). Net cash remained constant at £6.8m at 31 December 2019, following the payment of £5.9m in dividends.

Earnings per share

Basic earnings per share decreased by 23.2% to 11.29p (2018: 14.69p). Diluted earnings per share decreased to 11.25p (2018: 14.50p).

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 2019, the Board decided to pay an interim dividend of 2.4p per ordinary share. This totalled £1.15m and was paid on 14 September 2019 to shareholders on the register as at 16 August 2019.

The Board is recommending a final ordinary dividend of 4.2p per share, together with a supplementary dividend of 5.8p per share, giving a final pay out of 10.0p per share and a total dividend for the year of 12.4p per share.

The final and supplementary dividend amounts to approximately £4.8m in aggregate. Subject to the approval at the forthcoming AGM, this aggregate dividend of 10.0p per share will be paid on 1 May 2020 to shareholders on the register as at 3 April 2020.

Outlook

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

AGM

The Group's AGM will be held at 11.00 a.m. on 24 March 2020 at the Group's registered office at 9 Dukes Court, 54~62 Newmarket Rd, 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 achieved extremely strong growth in the fleet sector in 2019, which now has a subscription platform connecting more than 150,000 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. The Company built on this success and experience in establishing new business in Poland, Spain, Italy and Germany during the course of 2019.

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 last year's annual report. We are pleased to be able to report significant progress in each area, as summarised below:

1. *Market development*: new fleet subscriptions increased by 39% and the subscription base by 22%, strong growth was achieved in each of our existing territories as well as a presence in four new European markets
2. *Cost leadership*: improvements in back office efficiency have been achieved and we have recently introduced improved sales processes, training and measurement. 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*: new versions of the Group's telematics subscription platform were released in Polish, Spanish, Italian and German. Dedicated versions of the application were also released for Eire and the Hispanic market of the USA. New variants of the Group's telematics systems were launched during the year
4. *Outstanding service*: Quartix maintained its excellent reputation with its fleet customers throughout the year, consistently being rated as "excellent" by TrustPilot users. We were also delighted to achieve Gold Status in our latest "Investors in Customers" audit.
5. *Standardisation and centralisation:* over the past 18 months we have reduced management costs by more than £0.5m on an annualised basis. These savings have been reinvested in additional direct sales resource backed by standardised marketing strategies delivered from a single, centralised team.

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.

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 Group has focused over the past three years on growth in its fleet operations and on restricting the amount of insurance revenue derived from lower-margin applications. In 2019 81% of Group revenue (£20.8m of £25.6m) derived from fleet applications, which compares with 64% 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. We were also delighted in 2019 to have achieved the Gold Award from Investors in Customers, an independent accreditation body for customer service and satisfaction levels.

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 2019 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 seventh year in a row. Under this scheme each UK employee (barring Directors) receives shares in the company at zero cost, which are exercisable approximately 18 months from grant. Employees with 5 years' service at the first grant in 2013 would now hold 4,075 shares in the company, less any disposals. Daniel Mendis, a Director of Quartix Holdings plc, received share option grants in 2019, as disclosed in the remuneration report.

Operational performance

All of our business operations continued to perform at a high level in 2019. Gross margin decreased marginally to 65% (2018: 67%), mainly due to the increase in new fleet units (resulting in higher equipment, installation and carriage costs) and a reduction in deferred revenue in insurance as existing policies reduce. With investment in fleet increasing, overheads increased by 12% and the return on sales before tax decreased by 7 percentage points to 25% (2018: 32%). Cash conversion was very strong with cash flow from operations after tax and investing activities (free cash flow) representing 115% of profit for the year (2018: 80%). The increase is due to a lower level of released deferred insurance revenue in the current year (which is not cash generative) and the impact that IFRS 16 'Leases' has on the cashflow in increasing the operating cash flows by £0.3m in 2019 with a corresponding decrease in financing activities. 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 34 days of sales, and inventory levels increased by 14% compared to prior year levels which is as a result of preparations to accommodate for a no deal Brexit and an increase in the tracker unit model options available.

Fleet

Our core fleet business, which accounted for 81% of Group revenue (2018: 73%), 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 entry into four new European markets, took the total subscription base to more than 150,000 vehicles.

During the course of the year we won 4,471 new fleet customers (2018: 3,532). 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 £1.8m to £6.1m in 2019 (2018: £4.3m). This investment will increase further in 2020 as we continue to develop our business across each of our markets, thereby increasing recurring revenues.

Fleet UK

Demand for vehicle telematics services in the UK continues to grow. New subscriptions to our fleet tracking services increased by 38% to 25,687. We believe this to be significantly faster than the general growth in the market. We increased our vehicle subscription base by 15.8% to 105,631 as a consequence, and our fleet customer base rose to 9,908. In total we won 2,033 new customers in the UK (2018: 1,654) and we increased the number of fleet clients with 50 vehicles or more. UK fleet revenue was £15.5m (2018: £14.8m). 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 based sales capacity to support our fleet marketing initiatives, and will look to find additional channels and partners to help us develop the market.

Fleet France

The number of new subscriptions in the French market was 35% higher than the previous year (9,054 versus 6,725), and there was a 36% increase in the unit base, ending the year with 25,643 vehicles (2018: 18,803) under subscription across 3,528 fleet customers (2018: 2,474). French fleet revenue increased by 32% to €3.7m (2018: €2.8m), 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. Towards the end of the year we significantly increased the size of our French telephone sales team; this investment has been offset by reduced management costs, referred to earlier. Initial performance of the expanded team has been encouraging.

New European territories

We are delighted to report that our Polish website, application and payment systems went live at the start of February 2019 and that these were followed by launches in the Spanish, Italian and German markets. A dedicated, Euro-based English-language version of the platform was also released for the Republic of Ireland.

We achieved a total of 1,353 new subscriptions in the new territories in 2019 and ended the year with 1,316 vehicles under subscription. The revenue generated from the new European territories was £0.05m, with the majority of these revenues falling into the second half of the year.

Fleet USA

Our fifth full year of trading in the USA showed good progress: we concluded 2019 with 2,621 fleet customers (2018: 2,007) having a total of 18,050 vehicles under subscription (2018: 13,133). USA fleet revenue increased by 28% to $2.5m (2018: $2.0m). Losses incurred in the USA decreased by £0.2m to £0.4m (2018: £0.6m) due to a reduction in management and administrative costs in our Chicago office.

We see significant potential for growth in the USA in the next five years and recruited additional sales staff in 2019 to accommodate this growth. The largest part of this growth came from our direct telephone sales channel. This channel has significant potential for future growth but we also intend to invest more in our price comparison and distribution teams.

Combined fleet revenues in non-UK territories, were £5.3m, representing 25% of total fleet revenue.

Insurance

We installed 36,386 new insurance tracking systems in 2019, a decrease of 11.8% on the prior period. This trend, which we expect to continue, was in keeping with the decision announced in July 2016 to focus on the core fleet market and on only those insurance opportunities which offer satisfactory margins and which are closely aligned to the fleet business. The profitability of this segment therefore fell from £3.2m in 2018 to £1.6m as a consequence of this trend - see segmental note 4.

In the three years since this decision to focus on our fleet operations they have grown to represent 81% of Group revenues (£20.8m) in 2019 from 64% (£14.9m) in 2016. This trend is expected to continue as the Company invests in the development of each of its fleet markets.

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 2019:

1. In February we launched the first of 4 new language versions of our application platform. This followed on from the significant update of our user application in October the prior year. This first launch, for Poland, was followed by Spain, Italy and Germany. We also launched an optional Spanish-language site for our Hispanic customers in the USA and a Euro-based English-language site for the Republic of Ireland.
2. 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. Further development of our telematics hardware and firmware platforms was carried out during the year, with new user-install options released for all markets. A particular success was the introduction of a battery-mounted tracking system which can be installed by the customer directly on top of the vehicle battery. By the end of the year self-install options were accounting for approximately 40% of new subscriptions; we expect this trend to continue, particularly as a result of the new market initiatives described earlier.

All of our investment in research was fully expensed in the year. The total cost amounted to £0.7m, which represents a decrease of 37% compared to the prior year (2018: £1.1m).

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 2019 and established encouraging positions in a range of new markets. Our future growth will be based on our strategy of investing in direct sales and marketing initiatives whilst restricting the need to increase central overheads through improved efficiency in all of our back-office and other operations. This strategy served the Company well in 2019.

Newtown remains the focus of our business operations and we are delighted to have plans in place to occupy larger leased, open-plan single-storey premises in the centre of the town, adjacent to our existing offices, with capacity for expansion of the workforce by a further 30%, with minimal additional cost to the business. All employees will move into the office in early March 2020.

We will make additional investments in the development of our fleet business and in market expansion in 2020.

Andrew Walters
Chief Executive Officer

Daniel Mendis
Chief Operating and Financial Officer

Strategic Report: Financial Review

Key Performance Indicators ("KPIs")

Year ended 31 December	2019	2018	% change
Fleet subscriptions (units)	**43,837**	31,456	39.4
Fleet subscription base (units) [1]	**150,640**	123,157	22.3
Fleet customer base	**16,394**	13,176	24.4
Fleet attrition (annualised) (%) [2]	**11.9**	11.9	-
Annualised recurring revenue[3] (£'000)	**20,534**	18,795	9.3
Fleet invoiced recurring revenue[4] (£'000)	**19,297**	17,246	11.9
Fleet revenue (£'000)	**20,808**	18,751	11.0
Insurance installations (units)	**36,386**	41,255	(11.8)
Insurance revenue (£'000)	**4,813**	6,955	(30.8)

[1] Includes units waiting to be installed, for which subscription payments have started or are committed
[2] Attrition in the year is the number of units installed (excluding upgrades), less the increase in subscription base, expressed as a percentage of the mean subscription base
[3] 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
[4] Invoiced subscription charges before provision for deferred revenue

2019 was a year of good progress in our primary strategic objective of building our fleet subscription base.

We achieved over 43,000 new fleet subscriptions, an increase of 39.4% compared to 2018, and our fleet subscription base grew by 22.3% to 150,640 units, with growth in all four of our geographical markets.

Attrition during the period remained at 11.9%.

Annualised recurring revenue increased by 9.3% to £20.5m. Group invoiced recurring revenue (before adjusting for deferred revenue) grew by 11.9% to £19.3m (2018: £17.2m). The growth in fleet revenue at 11.0% was similar to the growth of our recurring revenue as our primary focus is on growing subscription revenue.

Insurance unit installations were down 11.8% at 36,386, in keeping with the decision announced in July 2016 to focus on only those insurance opportunities which offer satisfactory margins and which are aligned to our core fleet business.

Financial Overview

Year ended 31 December **£'000 (except where stated)**	**2019**	Restated 2018	% change
Revenue			
Fleet	**20,808**	18,751	11.0
Insurance	**4,813**	6,955	(30.8)
Total	**25,621**	25,706	(0.3)
Gross profit	**16,626**	17,312	(4.0)
Gross margin	**65%**	67%	
Operating profit	**6,438**	8,223	(21.7)
Operating margin	**25%**	32%	
Adjusted EBITDA (note 5)	**7,062**	8,516	(17.1)
Profit for the year	**5,410**	7,010	(22.8)
Earnings per share	**11.29**	14.69	(23.1)
Cash generated from operations	**7,263**	6,825	6.4
Operating profit to operating cash flow conversion	**113%**	83%	
Free cash flow	**6,223**	5,583	11.5

Revenue
Revenue decreased marginally to £25.6m (2018: £25.7m); however, the Group continues to replace insurance with higher quality fleet revenue. Fleet revenue, benefitting from past investment and expansion into new European territories, increased by £2.0m to £20.8m (2018: £18.8m). Sales to insurance customers decreased by £2.1m and now represents less than 20% of Group revenue (2018: 27%). This is in-keeping with the Group's stated strategy of focussing on those areas of the market which adequately reward the technology and service which it provides.

Gross margin
Gross margin decreased marginally to 65% in the year (2018: 67%), primarily as a result of the increase in new fleet units (resulting in higher equipment, installation and carriage costs) and a reduction in releases of insurance deferred revenue as existing policies reduce.

Adjusted EBITDA and Segmental Analysis
Adjusted EBITDA has reduced in the year to £7.1m (2018: £8.5m), entirely due to the reduction in insurance profitability, which has decreased to £1.6m (2018: £3.2m). The £1.4m reduction is net of £0.2m right of use asset depreciation arising from the adoption of IFRS 16 'Leases' (see note 5).

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

Total Fleet Segment profit remained deliberately similar to the prior year, at £9.7m (2018: £9.8m). The profitability of the Group's fleet telematics services, which represents the core part of the business associated with recurring revenues, grew by £1.9m to £16.5m (2018: £14.6m). This growth was then entirely reinvested, with an additional £2.0m being invested in acquiring additional fleet customers for the future.

Financial Overview (continued)

Segmental analysis 2019	Customer Acquisition	Fleet Telematics Services	**Total Fleet**	Insurance	**Total Business**
	£'000	£'000	**£'000**	£'000	**£,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**

Segmental analysis 2018	Customer Acquisition	Fleet Telematics Services	Total Fleet	Insurance	Total Business
	£'000	£'000	£'000	£'000	£,000
Revenue	335	18,416	18,751	6,955	25,706
Segmental Costs	(4,587)	(3,786)	(8,373)	(3,722)	(12,095)
Profit before central fleet costs	(4,252)	14,630	10,378	3,233	13,611
Central fleet costs			(575)	-	(575)
Segmental profit			9,803	3,233	13,036
Central Costs					(4,520)
Adjusted EBITDA (see note 5)					8,516

Overheads
We continued to invest in our product offering, in our sales structure and in marketing, which led to an increase in overheads of 12%.

Part of the aforementioned investment was in the USA where our subscription unit base has increased by 37.4% and revenue, as disclosed in note 3, increased to £2.0m ($2.6m) (2018: £1.5m). Losses in the USA were around £0.4m ($0.5m) (2018: losses of £0.6m). Additionally, the expansion into the new European territories contributed £0.05m toward revenue in the year, with a fleet base at the year end of 1,316 units.

Taxation
Our effective tax rate benefits from the Group's investment in research and patents in the UK business. The effective rate increased from 15.1% in 2018 to 16.1% in 2019, as a result of prior year adjustments and lower research and development tax credits.

Earnings per share
Earnings per share decreased to 11.29p (2018: 14.69p) and diluted earnings per share decreased to 11.25p (2018: 14.50p).

Financial Overview (continued)

Statement of financial position

Property, plant and equipment, at £0.8m (2018: £0.4m), increased by £0.4m due to the adoption of IFRS 16 retrospectively from 1 January 2019, but the Group has not restated comparatives for the 2018 reporting period, as permitted under the specific transitional provisions in the standard. The reclassification and the adjustments introducing a 'right of use' asset on the balance sheet is therefore recognised in the opening balance sheet at 1 January 2019 (see note 32). There is a corresponding lease liability equivalent to £0.4m at 31 December 2019, of which £0.2m is falling due within one year (see note 19).

Inventories increased to £0.9m (2018: £0.8m). Cash at the year-end was £6.8m (2018: £6.8m). Trade and other receivables increased to £3.9m in the year (2018: £3.6m). This includes £0.8m (2018: £0.6m) of commissions incurred in winning contracts with customers, which the Group now capitalises and amortises under IFRS 15 'Revenue from Contracts with Customers', following previously cited reviews of its accounting policy and commission structures (see notes 2 and 31 for further details, and note 15 for the split between non-current and current assets). The impact on profits in the year was a credit of £0.3m (2018: £0.2m). Trade and other payables increased to £3.3m (2018: £2.8m).

Contract liabilities represent customer payments received in advance of satisfying performance obligations, which are expected to be recognised as revenue in 2020 (both fleet and insurance). These unwound to £4.8m in 2019 (2018: £4.7m) and are described further in note 18.

Cash flow

Cash generated from operations before tax at £7.3m was 113% of operating profit (2018: £6.8m, 83% of operating profit). As previously stated, the year on year improvement in cash conversion is due to a lower level of released insurance revenue in the current year, which is not cash generative, in addition to the impact of IFRS 16 'Leases', which increased the operating cash flows by £0.3m in 2019 with a corresponding decrease in financing activities.

Tax paid in 2019 was £0.9m (2018: £0.9m), so cash flow from operating activities after taxation but before capital expenditure was £6.4m (2018: £5.9m).

Free cash flow, after £0.2m of capital expenditure and interest received, was £6.2m, an increase of 11.5% (2018: £5.6m).

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)

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. A similar sunsetting process will occur for the 3G network in the US and management believe this will likely be finalised in 2022.

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 potential damage to the Group's business as a result of the UK leaving the EU is uncertain. The Group acquires, manages and supports its customers in the EU centrally, from its offices in the UK. Depending on the resulting trading and data adequacy arrangements, it is possible that the Group would need to relocate some of its operations to within the EU. In addition, any impact on the wider economic landscape would impact the Group's trading indirectly through the demand for its services.

Our manufacturing partner in China has resumed limited operations following the New Year celebrations due to the difficulties caused by the Coronavirus outbreak. At the time of writing, management does not expect any material disruption to supply, but it is monitoring the situation closely.

Dependence on a key customer

During 2019 insurance revenue of £4.2m (2018: £5.5m) 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 £4.8m (2018: 7.0m) and total insurance segment profit was £1.6m (2018: £3.2m).

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.

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.

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 21 February 2020.

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 2019 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 2019 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
Feb 19	Preliminary results meeting	CEO	The CEO and COFO prepare and review with the board detailed presentations covering the Group's activities over the relevant period and takes guidance from each of the joint brokers.
Feb 19	Presentations to institutional investors and analysts	CEO, COFO	
Feb 19	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. These have been accredited as rating highly for openness and transparency.
Mar 19	AGM	Board	All shareholders invited to attend
Jul 19	Interim results presentations to institutional investors and analysts	CEO, COFO	
Jul 19	Interim results video	CEO, COFO	Presentations disseminated via website (see above)
various	Potential investor meetings	CEO, COFO	Presentation to potential investors

Key: CEO: Chief Executive officer Andy Walters, COFO: Chief Operating & Financial Officer Dan 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 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.
- Annual staff briefings, with opportunity for staff to ask questions.
- 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) 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.

Meetings held during 2019 and the attendance of Directors is summarised below:

	Board meetings		Audit Committee		Remuneration Committee	
	Possible	Attended	Possible	Attended	Possible	Attended
Executive Directors						
Andy Walters	11	11	0	0	2	2
Dan Mendis	11	11	1	1	0	0
Laura Seffino (appointed 22 October 2019)	3	3	0	0	0	0
Non-Executive Directors						
Paul Boughton	11	11	1	1	2	2
Jim Warwick	11	11	0	0	2	2

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

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

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 51 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)
Background:
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.

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.

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

Jim Warwick, Independent Director (N, CR)
Background:
Jim 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:
Jim has a MA in Computer Science from the University of Cambridge and has worked in hi-tech industries since graduation in 1986. Jim 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

Andy Walters, Chief Executive Officer (E, N)
Background:
Andy 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:
Andy 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

Dan Mendis, Chief Operating and Financial Officer (E, A)
Background:
Dan 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

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

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. In her new role Laura now 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 2019. Directors completed questionnaires about the effectiveness of the Board and a self-assessment of their own contributions. The Chairman reviewed this information, undertook individual discussions with each Director, followed by a collective discussion with the Board.

The review considered the effectiveness in a number of areas including general supervision and oversight, business risks and trends, succession and related matters, communications, ethics and compliance, corporate governance and individual contribution.

We will consider the use of external facilitators in future board evaluations.

As noted in the 2018 Corporate Governance report, the Executive Directors were challenged to identify potential internal candidates who could potentially occupy Board positions and set out development plans for these individuals. This has resulted in the appointment of Laura Seffino to the Board as Chief Technical Officer in October 2019.

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.

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

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.

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

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

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

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.

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

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

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.

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 2019:

Audit Committee Report

During 2019, 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.

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 Jim 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 2019 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 Jim Warwick and Andy Walters.

Directors' Remuneration Report

During the year ended 31 December 2019 the Remuneration Committee consisted of both Non-Executive Directors and CEO and was chaired by Jim 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 2019, the Directors' remuneration packages comprised of a salary and the opportunity to enrol in the Governments' auto-enrolment pension scheme. The Remuneration Committee awarded the COFO a performance bonus in respect of the 2019 financial year, up to a maximum equivalent to 20% of his gross pay. This scheme was replaced from November 2019 with a cash settled share option agreement, as outlined below. Otherwise, and at the Executive Directors' request, no other benefits, with the exception of share option grants, would be paid in 2019. See below for a breakdown of the Directors' remuneration packages during the year.

Directors' detailed emoluments and compensation (audited)

		2019 (£)				2018 (£)
		Salary	**Bonus**	**Pension**	**Total**	Total
Executive Directors	Andrew Walters	91,080	-	-	91,080	87,182
	Edward Ralph[1]	-	-	-	-	156,009
	Daniel Mendis[2]	102,695	16,694	2,819	122,207	99,442
	David Bridge[3]	-	-	-	-	5,995
	Laura Seffino[4]	20,686	-	563	21,249	-
		231,155	16,694	3,895	234,536	348,628
Non-Executive Directors	Paul Boughton	50,000	-	-	50,000	50,000
	Jim Warwick	40,000	-	-	40,000	40,000
		90,000	-	-	90,000	90,000

[1] Resigned on 31 October 2018
[2] Appointed on 1 January 2018, and highest paid Director in 2019
[3] Resigned on 22 February 2018
[4] Appointed on 22 October 2019

Directors share options

		2019	2018
Equity-settled	Daniel Mendis[1]	**280,000**	280,000
	Laura Seffino[2]	**92,592**	-
Cash-settled	Daniel Mendis	**170,000**	-

See below for details for the new awards issued in the year to Directors and note 22 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. Any term renewal is subject to Board review and AGM re-election.

		Date of contract	Unexpired period at date of report
Paul Boughton	Chairman	1 May 2017	2 months
Jim Warwick		1 May 2017	2 months

Subject to re-election at the forthcoming AGM, it is the Board's intention to renew the Non-Executive Directors' contracts for another three year from 1 May 2020.

Directors and their interests in shares

Year ended 31 December		Ordinary shares £0.01 each 2019	2018
Executive Directors	Andrew Walters[3]	**17,855,986**	17,855,986
	Daniel Mendis	**-**	-
	Laura Seffino	**-**	-
		17,855,986	17,855,986
Non-Executive Directors	Paul Boughton	**53,889**	53,889
	Jim Warwick	**73,333**	73,333
		17,983,208	17,983,208

[1] Appointed on 1 January 2018, and highest paid Director in 2019
[2] Appointed on 22 October 2019
[3] Includes shares held as family interests or by virtue of position as beneficiary or potential beneficiary of certain trusts

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.

Following the management changes announced by the Company on 23 October 2019, Daniel Mendis, Chief Operating and Financial Officer, assumed additional responsibilities and in lieu of receiving a bonus, to reflect these additional responsibilities, the Remuneration Committee agreed to an award of cash settled share options, with the aim to reward and promote the creation of sustainable growth in shareholder value by allowing Daniel to exercise some or all of his existing share options without any cash outlay on his part. The scheme allows Daniel to draw cash to the value of a maximum of 260,000 options by 5 April 2024 equal to the gain in the share price above £3.22. These new options are exercisable in four annual tranches, the first of which will follow the announcement of the Company's 2020 interim results (expected to be in late July 2020), and are subject to share price targets on the market, with a minimum required to exercise of £3.35.

Jim Warwick
Chairman, Remuneration Committee

Directors' Report

The Directors present their annual report and the financial statements of the Company for the year ended 31 December 2019.

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 10 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 10.

Proposed dividend

In the year ending 31 December 2019, the Board decided to pay an interim dividend of 2.4p per ordinary share. This totalled £1.15m and was paid on 13 September 2019 to shareholders on the register as at 16 August 2019.

The Board is recommending a final dividend of 4.2p per share, together with a supplementary dividend of 5.8p per share, giving a final payment of 10.0p per share, amounting to approximately £4.8m in aggregate and giving a total dividend for the year equivalent to 12.4p per share. If this is approved at the forthcoming AGM on 24 March 2020, the final dividend will be paid on 1 May 2020 to shareholders on the register as at 3 April 2020.

Major interest in shares

On 21 February 2020, the Company had been notified that six parties had holdings of 3% or more in the ordinary share capital of the Company. The number of ordinary shares and the percentage of the total shares held by each party is outlined below.

	Number of £0.01 shares	% of total
Andrew Walters[1]	17,855,986	37.3
Liontrust Investment Partners LLP	5,534,178	11.5
Andrew Kirk	4,009,853	8.4
William Hibbert	2,663,000	5.6
BlackRock, Inc.	2,513,357	5.2
Kenneth Giles	1,871,800	3.9

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

Directors

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

- Paul Boughton (Chairman)
- Jim Warwick

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

- Andrew Walters
- Daniel Mendis
- Laura Seffino (appointed 22 October 2019)

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 24 March 2020.

Going concern

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

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

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

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

Directors' responsibilities statements

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

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

Directors' responsibilities statements (continued)

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. Further details are provided in note 27.

Credit risk

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

Currency risk

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

Directors' and officers' liability insurance

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

Auditors

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

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

Approved by the Board of Directors and signed on behalf of the Board on 21 February 2020.

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 2019, 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 Financial Reporting Standards (IFRSs) as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 101 'Reduced 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 2019 and of the Group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

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

Conclusions relating to going concern

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

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

Overview of our audit approach

- Overall Group materiality: £322,000, which represents 5% of the Group's pre-audit profit before taxation
- Key audit matters were identified as revenue recognition and deferred revenue
- We performed full scope audit procedures on the financial statements of Quartix Holdings Plc and on the financial information of Quartix Limited. We performed targeted audit procedures on the financial information of Quartix Inc. There were no changes in scope from the prior year.

Key audit matters

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

Key Audit Matter – Group	**How the matter was addressed in the audit – Group**
Revenue recognition	
Under International Standard on Auditing (ISA 240) 'The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements', there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue. The Group's principal revenue stream relates to the provision of telematics vehicle tracking services, 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 has two types of customers, Fleet and Insurance and revenue is recognised over the period that services are provided. Revenue of £25,620,630 (2018: £25,705,678) was recorded in the period. Fleet customers account for 81% (2018: 73%) of revenue and Insurance 19% (2018: 27%) 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	Our audit work on revenue separately addresses the two types of customers, Fleet and Insurance. A combination of analytical procedures and substantive testing was performed on each class of customers revenue documented below: • Identifying revenue journals then classifying them by type and testing them as appropriate depending on their nature and associated risk; • Performing analytical review looking at year-on-year movements in revenue streams; 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** We performed the following tests on fleet customer revenues: • For a sample of sale invoices raised we checked subsequent receipts of cash to ensure that customers continued to pay their subscription (typically via direct

Key Audit Matter – Group	How the matter was addressed in the audit – Group
occurrence assertion for example through the posting of a fraudulent journal. This significant risk was one of the most significant assessed risks of material misstatement. The Group also changed its accounting policy in relation to distributor commissions and disapplied the practical expedient to expense commissions in relation to contracts of less than 12 months duration. The group's accounting policy on revenue recognition is set out in note 1 to the financial statements and related disclosures are included in note 3 and 4.	debit) thus evidencing occurrence of revenue; and • We reviewed credit notes raised post year-end to ensure revenue recognised during the year was not then subsequently being reversed. **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. **Change in accounting policy** • We assessed management's change in accounting policy for distributor commissions including recalculating the prior year adjustment and auditing the inputs to management's calculations. **Key observations** We found no errors or indications of fraud in our work on revenue recognised in the period.
Deferred revenue	
The Group raises invoices in advance and classifies deferred revenue as contract liabilities (2019 £4,843,253; 2018 £4,654,833). 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. Given the magnitude of the deferred revenue balance the requirement for management calculations and potential for manipulation we identified deferred revenue as a significant risk.	Our audit work on deferred revenue addressed the Group's two types of customers, Fleet and Insurance. Our audit work included, but was not restricted to: **Fleet deferred revenue** • For a sample of paid sales invoices, 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; and • We recalculated the year end deferred revenue balance based on invoicing in the final quarter.

Key Audit Matter – Group	How the matter was addressed in the audit – Group
The group's accounting policy on revenue recognition is set out in note 1 to the financial statements.	**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. **Key observations** We found no errors or other deviations in our work on deferred revenue.

Our application of materiality

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

Materiality was determined as follows:

Materiality measure	Group	Parent
Financial statements as a whole	£322,000, which represents 5% of the Group's expected profit before taxation. This benchmark is considered the most appropriate because the Group is a commercially focused organisation and profit before taxation is a key financial measure for the directors and the shareholders. Materiality for the current year is lower than the level that we determined for the year ended 31 December 2018 to reflect the decline in the Group's profit before taxation.	£210,000, which is 1% of the parent company's total assets. This benchmark is considered the most appropriate because the entity is a non-trading holding company. Materiality for the current year is higher than the level that we determined for the year ended 31 December 2018 reflecting the increase in the company's total assets.
Performance materiality used to drive the extent of our testing	75% of financial statement materiality.	75% of financial statement materiality.
Communication of misstatements to the audit committee	£16,100 and misstatements below that threshold that, in our view, warrant reporting on qualitative grounds.	£10,500 and misstatements below that threshold that, in our view, warrant reporting on qualitative grounds.

An overview of the scope of our audit

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

- Assessing the risk of material misstatement to the Group financial statements. We considered the transactions undertaken by each entity and therefore where the focus of our work was required.
- Full scope audit procedures were completed for the main trading subsidiary, Quartix Limited, which provides services to customers based in the UK, France and other European territories. Full scope audit procedures were performed for the parent, Quartix Holdings Plc, which is a non-trading holding company. Targeted audit procedures were performed for Quartix Inc which provides services to US based customers.
- The total percentage coverage of full scope procedures over the Group's total revenues was 100% and total assets was 99%.
- All accounting is centralised, and we completed our onsite audit work at the Group's main operating location in Newtown, Wales. Group level work is performed at the Cambridge head office. All audit work is undertaken by the Cambridge based group audit team.
- The audit risks identified for each trading component are the same audit risks identified for the Group as a whole.

Other information

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

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

We have nothing to report in this regard.

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

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

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

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

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

Matters on which we are required to report by exception

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

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

Responsibilities of directors for the financial statements

As explained more fully in the directors' responsibilities statement set out on page 31, 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.

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

Adrian Bennett
Senior Statutory Auditor
for and on behalf of Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
Cambridge
21 February 2020

Consolidated Statement of Comprehensive Income

Year ended 31 December	Notes	2019 £'000	Restated 2018 £'000
Revenue	3,4	**25,621**	25,706
Cost of sales		**(8,995)**	(8,394)
Gross profit		**16,626**	17,312
Administrative expenses		**(10,188)**	(9,089)
Operating profit		**6,438**	8,223
Finance income receivable	8	**34**	29
Finance costs payable	9	**(21)**	-
Profit for the year before taxation	5	**6,451**	8,252
Tax expense	10	**(1,041)**	(1,242)
Profit for the year		**5,410**	7,010
Other Comprehensive income/(expense):			
Items that may be reclassified subsequently to profit or loss:			
Exchange difference on translating foreign operations		**93**	(158)
Other comprehensive income/(expense) for the year, net of tax		**93**	(158)
Total comprehensive income attributable to the equity shareholders of Quartix Holdings plc		**5,503**	6,852
Earnings per ordinary share (pence)	11		
Basic		**11.29**	14.69
Diluted		**11.25**	14.50

Consolidated Statement of Financial Position

Company registration number: 06395159

	Notes	**31 December 2019 £'000**	31 December 2018 Restated £'000	1 January 2018 Restated £'000
Assets				
Non-current assets				
Goodwill	12	**14,029**	14,029	14,029
Property, plant and equipment	13	**845**	433	234
Deferred tax assets	20	**2**	-	641
Contract cost assets	15	**304**	228	186
Total non-current assets		**15,180**	14,690	15,090
Current assets				
Inventories	14	**877**	771	703
Trade and other receivables	15	**3,907**	3,581	3,513
Cash and cash equivalents	16	**6,789**	6,779	7,312
Total current assets		**11,573**	11,131	11,528
Total assets		**26,753**	25,821	26,618
Current liabilities				
Trade and other payables	17	**3,311**	2,814	2,853
Contract liabilities	18	**4,843**	4,655	5,972
Current tax liabilities		**377**	99	423
		8,531	7,568	9,248
Non-current liabilities				
Lease liabilities	19	**241**	-	-
Deferred tax liabilities		**-**	150	-
		241	150	-
Total liabilities		**8,772**	7,718	9,248
Net assets		**17,981**	18,103	17,370
Equity				
Called up share capital	21	**479**	478	476
Share premium account	21	**5,230**	5,196	4,869
Equity reserve		**616**	390	529
Capital redemption reserve		**4,663**	4,663	4,663
Translation reserve		**(168)**	(261)	(103)
Retained earnings		**7,161**	7,637	6,936
Total equity attributable to equity shareholders of Quartix Holdings plc	29	**17,981**	18,103	17,370

Approved by the Board of Directors, authorised for issue and signed on behalf of the Board on 21 February 2020.

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 2017	476	4,869	4,663	529	(103)	6,373	**16,807**
Change in accounting policy (note 31)	-	-	-	-	-	563	**563**
Restated balance at 31 December 2017	**476**	**4,869**	**4,663**	**529**	**(103)**	**6,936**	**17,370**
Shares issued	2	327	-	-	-	-	**329**
Increase in equity reserve in relation to options issued	-	-	-	108	-	-	**108**
Adjustment for exercised options	-	-	-	(133)	-	133	**-**
Deferred tax on share Options	-	-	-	(114)	-	-	**(114)**
Dividend paid	-	-	-	-	-	(6,442)	**(6,442)**
Transactions with owners	**2**	**327**	**-**	**(139)**	**-**	**(6,309)**	**(6,119)**
Foreign currency translation differences	-	-	-	-	(158)	-	**(158)**
Restated profit for the year	-	-	-	-	-	7,010	**7,010**
Total comprehensive income	**-**	**-**	**-**	**-**	**(158)**	**7,010**	**6,852**
Restated 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 (note 27)	-	-	-	-	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**

Consolidated Statement of Cash Flows

	Notes	**2019** **£'000**	Restated 2018 £'000
Cash generated from operations	23	**7,263**	6,825
Taxes paid		**(880)**	(889)
Cash flow from operating activities		**6,383**	5,936
Investing activities			
Additions to property, plant and equipment		**(194)**	(382)
Interest received	8	**34**	29
Cash flow used in investing activities		**(160)**	(353)
Cash flow from operating activities after investing activities (free cash flow)		**6,223**	5,583
Financing activities			
Lease interest paid	9	**(21)**	-
Repayment of lease liabilities		**(236)**	-
Proceeds from share issues		**35**	329
Dividend paid		**(5,944)**	(6,442)
Cash flow used in financing activities		**(6,166)**	(6,113)
Net changes in cash and cash equivalents		**57**	(530)
Cash and cash equivalents, beginning of year		**6,779**	7,312
Exchange differences on cash and cash equivalents		**(47)**	(3)
Cash and cash equivalents, end of year	16	**6,789**	6,779

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 2019 and are prepared in Sterling and are rounded to the nearest thousand pounds (£'000). They have been prepared in accordance with IFRS as adopted by the European Union (EU) ('IFRS') and in accordance with those parts of the Companies Act 2006 that are relevant to companies which report under IFRS.

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

The Group has adopted IFRS 16 'Leases' (hereinafter referred to as 'IFRS 16') with effect from 1 January 2019, the adoption of this new Standard has resulted in the Group recognising a right of use asset and related lease liability in connection with all former operating leases except for those identified as low-value or having a short life of less than 12 months from the date of initial application.

The new Standard has been applied using the modified retrospective approach, with the cumulative effect of adopting IFRS 16 being recognised in equity as an adjustment to the opening balance of retained earnings for the current period. Prior periods are not required to be restated. Further information on the impact of the new policy is disclosed in note 32.

The Group has also decided to change its accounting policy in relation to costs in obtaining customer contracts. Previously under IFRS 15 the Group adopted the practical expedient option to expense incremental costs in obtaining customer contracts for contracts with a duration of 12 months or less. The Group will no longer apply this expedient. As a consequence of this policy change, the financial statements have been restated to 1 January 2018. Further information on the impact of the change in policy is disclosed in note 31.

At the date of authorisation of these financial statements, several amendments to existing Standards and interpretations have been published by the IASB, but are not effective until financial periods commencing 1 January 2020. None of these Standards or amendments to existing Standards have been adopted early by the Group.

Management anticipates that all relevant pronouncements will be adopted for the first period beginning on the effective date of the pronouncement. 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, currently obtained through ownership of the share capital, so as to obtain benefits from its activities. The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate. Intra-group balances and any unrealised gains and losses or income and expenses arising from intra-group transactions are eliminated in preparing the consolidated financial statements. A list of subsidiaries is included note 30.

1 Summary of significant accounting policies (continued)

Going concern

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

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

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

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 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 18).

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.

1 Summary of significant accounting policies (continued)

Revenue recognition (continued)

For the adoption of IFRS 15 in 2018, the Group chose to use the practical expedient under IFRS 15 to expense these commissions as an expense when incurred and to keep the policy under review. Following a more detailed analysis of customer contracts, particularly those won through distributors, the Group has chosen to change its accounting policy for the treatment of incremental costs of obtaining a contract with a duration of 12 months or less, by disapplying the practical expedient in IFRS 15 'Revenue from Contracts with Customers'. Commissions incurred in winning customer contracts are therefore now capitalised and amortised through profit and loss, with an amortisation period of the contract length. The impact of the change in policy is included in note 31.

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 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.

Segmental reporting

Following a change in the way the Group monitors and assesses the business it has adopted, segmental reporting in these financial statements. Historically, the information used by the Group's chief operating decision maker was presented on a consolidated Group basis. All revenue, costs, assets and liabilities related to a single activity, being the design, development and marketing of vehicle tracking devices and the provision of related data services, and the Group concluded that it operated only one operating segment as defined by IFRS 8.

Whilst information is still largely presented on a consolidated basis, and the telematics services are very similar, the Group's chief operating decision maker has been provided with additional information to make decisions about the allocation of resources and assessing performance. The main drivers for this have been the impact assessment of the Group's strategy to reduce its involvement in lower-margin insurance tracking operations in order to focus on growth in its fleet telematics business and the Group's commitment to providing investors with clear and timely information regarding its performance against both financial and strategic objectives.

1 Summary of significant accounting policies (continued)

Segmental reporting (continued)

The Group has therefore 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, for which the Group has different 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.

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 from a business combination in 2008, at which time the trading subsidiary 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

1 Summary of significant accounting policies (continued)

Research and development

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

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

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

Impairment testing of intangible assets and property, plant and equipment

An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount, which is the higher of fair value less costs of disposal and value-in-use. To determine the value-in-use, management estimates expected future cash flows and determines a suitable interest rate in order to calculate the present value of those cash flows. The data used for impairment testing procedures are directly linked to the Group's latest approved budget. Discount factors are determined individually for each cash-generating unit and reflect management's assessment of respective risk profiles, such as market and asset-specific risks factors. The cash-generating unit used for the impairment test of goodwill is the fleet segment as explained in the Intangible Assets policy above.

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

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

Leases

The Group has adopted IFRS 16 'Leases' (hereinafter referred to as 'IFRS 16') with effect from 1 January 2019. The adoption of this new Standard has resulted in the Group recognising a right of use asset and related lease liability in connection with all former operating leases except for those identified as low-value or having a short life of less than 12 months from the date of initial application.

The new Standard has been applied using the modified retrospective approach, with the cumulative effect of adopting IFRS 16 being recognised as an adjustment to the opening balance of property, plant and equipment and lease liabilities for the current period. Prior periods are not required to be restated.

Further information on the impact of the new policy is disclosed in note 32.

For any new contracts entered into on or after 1 January 2019, 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).

1 Summary of significant accounting policies (continued)

Leases (continued)
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 cost less provision for obsolete, slow moving or defective items. Cost is based on the cost of purchase on a first in first out basis. Provision against inventories is recognised as an expense in the period in which the write-down or loss occurs.

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

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

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

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

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

1 Summary of significant accounting policies (continued)

Financial assets
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.

As required by IFRS 9, the Group will apply the impairment requirements and recognise a loss allowance for expected credit losses on its financial assets. At each reporting date, it will always measure the loss allowance at an amount equal to the lifetime expected credit losses.

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.

Equity
Equity comprises the following:

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

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

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

1 Summary of significant accounting policies (continued)

Foreign currencies (continued)

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

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

Employee benefits

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

Dividends

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

Employee benefits: share based payments

The Group operates 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 2019. 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 10 for further information about the Group's approach to research and development

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.

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.

Following a detailed review of customer contract, particularly relating to those won through distributors, the Group has chosen to change its accounting policy by disapplying the practical expedient to expense the distributor commissions. Regardless of the length of the contract term, these costs are now capitalised and amortised over the contract term. Note 31 sets out the impact of this change on the financial statements.

Key estimate: impairment testing of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated (Quartix Limited). Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. Further details are given in note 12.

3 Revenue

The Group's revenue disaggregated by customer base is as follows:

	2019	2018
	£'000	£'000
By customer base		
Fleet	**20,808**	18,751
Insurance	**4,813**	6,955
	25,621	25,706

During 2019 revenue of £4.2m (2018: £5.5m) was derived from one insurance customer.

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

	2019	2018
	£'000	£'000
Geographical analysis by destination		
United Kingdom	**20,317**	21,709
France	**3,236**	2,471
Other European territories	**53**	13
United States of America	**2,015**	1,513
	25,621	25,706

Other European territories revenue for the year ended 31 December 2018 related entirely to Ireland to which the new territories Poland, Spain, Italy and Germany have been added for the year ended 31 December 2019.

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

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

		Restated
	2019	2018
	£'000	£'000
Goods and services transferred over time	**24,461**	24,630
One off revenue	**1,160**	1,076
	25,621	25,706

Goods and services transferred over time represent 95% of total revenue (2018: 96%).

For 2019, revenue includes £4,578,000 (2018: £5,871,000) included in the contract liability balance at the beginning of the period (see note 18). 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 adopted segmental analysis. 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.

4 Segmental analysis (continued)

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.

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**
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)**
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**

4 Segmental analysis (continued)

Segmental analysis

Year ended 31 December 2018 restated	Customer Acquisition	Fleet Telematics Services	Total Fleet	Insurance	Total Business
	£'000	£'000	£'000	£'000	£,000
Recurring revenue	-	17,246	17,246	-	17,246
Other sales	335	1,170	1,505	6,955	8,460
Total Revenue	335	18,416	18,751	6,955	25,706
Sales and Marketing Costs	(3,214)	(711)	(3,925)	-	(3,925)
Equipment, Installation, Carriage	(1,373)	(1,092)	(2,465)	(3,154)	(5,619)
Cost of service	-	(1,983)	(1,983)	(568)	(2,551)
Profit before central fleet costs	(4,252)	14,630	10,378	3,233	13,611
Central fleet costs			(575)	-	(575)
Segmental profit			9,803	3,233	13,036
Central Costs					(4,520)
Adjusted EBITDA (see note 5)					8,516

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:

	2019	Restated 2018
	£'000	£'000
Research and development expenses	**712**	1,131
Rentals under operating leases:		
Other operating leases	**-**	12
Land and buildings	**62**	266
Depreciation on property, plant and equipment, owned	**171**	185
Depreciation on property, plant and equipment, right of use	**199**	-
Share-based payment expense	**254**	108
Foreign exchange (gains)/losses	**108**	(121)
Expected credit loss charge	**19**	28
Audit services:		
Fees paid to Company auditor for the audit of the Company and consolidated financial statements	**30**	22
The audit of the Company's subsidiary pursuant to legislation	**35**	24
Other services	**3**	3

5 Profit for the year before taxation (continued)

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

	2019 £'000	Restated 2018 £'000
Operating profit	**6,438**	8,223
Depreciation on property, plant and equipment, owned	**171**	185
Depreciation on property, plant and equipment, right of use	**199**	-
EBITDA	**6,808**	8,408
Share-based payment expense (incl. cash-settled)	**254**	108
Adjusted EBITDA	**7,062**	8,516

6 Employee remuneration

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

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

	2019 £'000	Restated 2018 £'000
Wages and salaries	**4,754**	4,370
Social security costs	**453**	454
Contributions to defined contribution pension plan	**94**	57
Share-based payment	**254**	108
	5,555	4,989

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

	2019	2018
Administration	**20**	19
Operations	**25**	30
Sales	**57**	38
Customer service	**20**	18
Research and development	**25**	31
	147	136

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 2019, the Group identified eight such individuals: three Executive Directors, two Non-Executive Directors, and three members of Senior Management, being managers on the Operations Board of Quartix Limited. In 2018, the Group identified ten such individuals: three Executive Directors, two Non-Executive Directors, and five members of Senior Management.

	2019 £'000	2018 £'000
Wages and salaries	**639**	811
Social security costs	**81**	100
Contributions to defined contribution pension plan	**10**	9
Share-based payment	**100**	(13)
Total employee benefits	**830**	907

7 Key management remuneration and directors' remuneration (continued)

In the year there were termination payments of £60,000 paid to a Director of Quartix Limited (2018: nil).

Details of Directors' remuneration and the highest paid Director is disclosed on page 28 and included a performance related bonus of £17,000.

The Group introduced the NEST pension arrangements in 2015 for all employees. During 2019, four 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.

Included in the share based payment expense above was £60,700 (2018: credit of £31,000) for the Directors of Quartix Holdings plc.

Key management, including Directors, had 465,184 share options outstanding at 31 December 2019 (2018: 576,184) and 18,199,642 shares in issue at 31 December 2019 (2018: 20,861,208) on which dividends were paid in the year. At 31 December 2019 the Directors held 372,592 equity-settled share options (2018: 280,000) and 170,000 cash-settled share options (2018: nil); no share options were exercised in the year. See page 29 for analysis by Director.

8 Finance income receivable

	2019	2018
	£'000	£'000
Bank interest	**34**	29

9 Finance costs payable

	2019	2018
	£'000	£'000
Lease interest expense	**21**	-

10 Tax expense

		Restated
	2019	2018
Analysis of tax charge in the year	**£'000**	£'000
Current tax		
UK corporation tax charge on profit for the year	**1,098**	556
Adjustments in respect of prior periods	**60**	9
Total corporation tax	**1,158**	565
Deferred tax		
Origination and reversal of temporary differences	**(115)**	684
Adjustments in respect of prior periods	**(2)**	(7)
Total deferred tax	**(117)**	677
Tax on profit of ordinary activities	**1,041**	1,242

The relationship between the expected tax expense based on an effective tax rate of the Group of 19.00% (2018: 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:

10 Tax expense (continued)

	2019 **£'000**	Restated 2018 £'000
Result for the year before taxation	**6,451**	8,252
Tax rate (%)	**19.00**	19.00
Expected tax expense	**1,226**	1,568
Adjustments to tax charge in respect of prior periods*	**58**	2
Expenses not deductible for tax purposes	**9**	5
Losses in the USA not provided	**70**	105
Research and development tax credit	**(123)**	(225)
Patent box credit	**(205)**	(173)
Remeasurement of deferred tax	**(5)**	56
Tax adjustment on exercise of options	**11**	(96)
Tax on profit on ordinary activities	**1,041**	1,242
Effective rate of tax	**16.1%**	15.1%
*Effective rate of tax ignoring adjustments in respect of prior years'	**15.2%**	15.0%

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 2019	**5,410**	**47,916,951**	**11.29**	**48,095,333**	**11.25**
Year ended 31 December 2018 restated	7,010	47,713,566	14.69	48,354,756	14.50

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

Dividends

During the year ended 31 December 2019, the Group paid interim dividends of £1.1m (2018: £1.1m), equivalent to 2.4p per ordinary share (2018: 2.4p).

The Board is recommending dividends of £4.8m (2018: £4.8m) comprising a final ordinary dividend of 4.2p per share, together with a supplementary dividend of 5.8p per share, giving a final pay out of 10.0p per share and a total dividend for the year of 12.4p per share. As the distribution of dividends required approval at the Annual General Meeting, no liability in this respect is recognised in the 2019 Group consolidated financial statements.

12 Goodwill and other intangible assets

Goodwill

	Goodwill on consolidation £'000
Cost and net book value	
At 1 January and 31 December 2018 and 2019	**14,029**

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

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

The Group considers 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% which is in line with the long-term GDP forecasts. The discount rate used is 7.15% based on the Group's weighted average cost of capital. Sensitivity analysis is carried out on all budgets, strategic plans and discount rates used in the calculations.

Management's key assumptions are based on past experience and the current trading performance of Quartix Limited. These value in use calculations, 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 2018	17	12	912	-	941
Additions	24	-	358	-	382
Foreign exchange	-	-	8	-	8
At 31 December 2018	41	12	1,278	-	1,331
Adjustments on transition to IFRS 16	490	-	-	12	502
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

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 2018	9	12	686	-	707
Provided in the year	3	-	182	-	185
Foreign exchange	1	-	5	-	6
At 31 December 2018	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
Net book amount:					
At 31 December 2019	**395**	**-**	**431**	**19**	**845**
At 31 December 2018	28	-	405	-	433
At 1 January 2018	8	-	226	-	234

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

	Carrying amount	Depreciation charge 2019
Property	**373**	**188**
Equipment	**18**	**11**
Total right-of-use assets	**391**	**199**

14 Inventories

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

	2019 £'000	2018 £'000
Raw materials	**346**	476
Work in progress	**350**	103
Finished goods and goods for resale	**181**	192
	877	771

Included in the analysis above are impairment provisions against inventory amounting to £194,500 (2018: £61,000). The cost of vehicle tracking units are recognised as an expense and included in "cost of sales" amounted to £3.0m (2018: £3.0m).

15 Trade and other receivables

	2019 £'000	Restated 2018 £,000
Trade receivables	**2,784**	2,583
Contract cost assets	**832**	644
Other receivables	**13**	38
Prepayments and accrued income	**278**	316
	3,907	3,581

15 Trade and other receivables (continued)

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.

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

	2019	2018
	£'000	£'000
Loss allowance at 1 January	**118**	88
Increase in loss allowance	**19**	28
Foreign exchange	**(3)**	2
Loss allowance at 31 December	**134**	118

As explained in note 27, 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.

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

	2019	2018
	£'000	£'000
Not more than 1 month	**313**	300
More than one month but not more than 3 months	**100**	28
More than 3 months but not more than 6 months	**-**	-
	413	328

Contract cost assets have arisen as a result of a change in policy (refer to note 31 for more details), the assets are analysed as follows:

		Restated
	2019	2018
	£'000	£'000
Not more than 12 months	**832**	644
More than 12 months	**304**	228
	1,136	872

16 Cash and cash equivalents

Cash and cash equivalents include the following components:

	2019	2018
	£'000	£'000
Cash at bank and in hand	**6,789**	6,779

Quartix Limited uses Barclay's Business Premium account to aggregate Sterling instant access balances and earn interest, which is currently at 0.65%. Since September 2016, the Group has placed deposits with Investec Bank plc on 95 day or 32-day notices with interest currently at 0.85% and 0.55% respectively. At 31 December 2019, Investec deposits were £1.5m.

17 Trade and other payables

Amounts falling due within one year:

	2019	2018
	£'000	£'000
Trade payables	**1,750**	1,252
Social security and other taxes	**619**	594
Other payables	**85**	101
Accruals	**701**	867
Lease liabilities	**156**	-
	3,311	2,814

18 Contract liabilities

	2019	2018
	£'000	£'000
Deferred insurance tracking data services income	**2,108**	2,038
Deferred fleet tracking data services income	**2,735**	2,617
	4,843	4,655

Deferred tracking data services income represents customer payments received in advance of performance (contract liabilities) that are expected to be recognised as revenue in 2019, 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 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.

	2019	2018
	£'000	£'000
Contract liabilities at 1 January	**4,655**	5,972
Contract liabilities released to revenue in the period	**(4,578)**	(5,871)
Contract revenue deferred in the period, net of releases in the period	**4,766**	4,554
Contract liabilities at 31 December	**4,843**	4,655

19 Lease liabilities

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

	31 Dec 2019
Current lease liability	156
Non-current lease liability	241
Total lease liability	**397**

19 Lease liabilities (continued)

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 (see note 13).

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. 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.

Future minimum lease payments at 31 December 2019 were as follows:

	Minimum lease payments due			
	Within 1 year	**1 to 5 years**	**After 5 years**	**Total**
31 December 2019	£000	£000	£000	£000
Lease payments	170	255	-	425
Finance charges	(14)	(14)	-	(28)
Net present value	**156**	**241**	**-**	**397**

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 2019 was £62,000. At the year end the Group was committed to short-term leases and the total commitment at that date was £18,000.

In June 2019 the Group entered into a number of agreements concerning properties in Powys, with the intention of entering into a new ten-year lease for new premises, subject to completion of a refurbishment project, and to surrender and assign two existing leases. On completion and execution of the lease, there will be a reduction in the existing lease liabilities and corresponding reduction in the right of use asset of around £115,000 and additional lease liabilities and right-of use asset of around £827,000.

20 Deferred tax

Deferred tax assets/(liabilities) recognised by the Group at 31 December 2019 and 31 December 2018 are as follows:

		Restated
	2019	2018
Deferred tax asset/(liability)	**£'000**	£'000
Accelerated Capital Allowances	**(52)**	(38)
Short term temporary differences	**55**	(138)
Equity settled share options	**(1)**	26
	2	(150)

20 Deferred tax (continued)

	2019 £'000	2018 £'000
(Credit)/charge to profit and loss		
Accelerated Capital Allowances	**(14)**	13
Short term temporary differences	**133**	637
Equity settled share options	**(2)**	27
	117	677

There are unprovided tax losses related to the USA business of $973,000 (2018: $917,000).

21 Equity

	Number of ordinary shares of £0.01 each	Share capital £'000	Share premium £'000
Allotted, called up and fully paid			
At 1 January 2019	47,846,560	478	5,196
Shares issued	91,760	1	34
At 31 December 2019	**47,938,320**	**479**	**5,230**

All the shares issued in the year to 31 December 2019 related to the exercise of share options.

22 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 December 2019 cash-settled options were issued to Daniel Mendis 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 10 December 2019 and maturing on 5 April 2024, there are four vesting dates commencing on 1 August 2020, 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 322 pence.

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 322 pence, a risk free rate of 0.49%, a volatility rate of 27% and a time to maturity of 4 years has generated a fair value of 71 pence per share option with the estimated number of shares to ultimately vest being 170,000 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 contractual term.

22 Share based payments (continued)

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

	2019		2018	
	Weighted average exercise price per share in pence	**Options number**	**Weighted average exercise price per share in pence**	**Options number**
Outstanding at 1 January	**267.6**	**1,365,554**	269.3	1,607,651
Granted	**180.2**	**46,600**	287.6	1,270,534
Cancelled	**0.0**	**0**	355.6	(620,000)
Lapsed	**313.8**	**(126,925)**	292.2	(614,425)
Exercised	**38.5**	**(91,760)**	118.4	(278,206)
Outstanding at 31 December	**276.9**	**1,193,469**	267.6	1,365,554
Exercisable at 31 December	**360**	**37,482**	178.9	148,000

The weighted average fair value of options issued during the year ended 31 December 2019 was 175.49p (2018: 38.25p). Included in the equity-settled options granted in 2019 none (2018: 1,062,776) 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 2019 was 265.00p (2018: 338.16p).

At 31 December 2019 Quartix Holdings plc had the following outstanding equity-settled options and exercise prices:

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**

22 Share based payments (continued)

2018

Period when exercisable	**Expiry dates**	**Average exercise price per share in pence**	**Options number**	**Weighted average remaining contractual life in months**
Starting from November 2014	1 November 2019	44.0	80,000	11
Starting from October 2017	28 October 2023	337.5	102,000	58
March 2019	06 December 2022	1.0	13,020	47
Starting from March 2019	31 March 2025	360.0	187,408	75
Starting from March 2020	31 March 2024	270.0	870,184	63
Starting from March 2020	31 March 2026	270.0	92,592	87
March 2020	06 December 2023	1.0	20,350	59
		267.6	1,365,554	58

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

2019:

	2019	
Number granted	**25,000**	**21,450**
Grant date	**26 Sep**	**2 Dec**
Share price at grant date (pence)	**335.0**	**334.0**
Exercise price (pence)	**335.0**	**1.0**
Fair value per option (pence)	**55.1**	**314.8**
Expected life in years	**3.00**	**1.33**
Expected volatility (%)	**33.6**	**31.7**
Risk-free interest rate (%)	**0.37**	**0.63**
Dividend yield (%)	**4.2**	**4.2**

22 Share based payments (continued)

2018:

	2018					
Number granted	100,000	187,408	277,776	280,000	405,000	20,350
Grant date	22-Jun	05-Dec	05-Dec	06-Dec	07-Dec	06-Dec
Share price at grant date (pence)	380.0	360.0	270.0	270.0	270.0	270.0
Exercise price (pence)	380.0	360.0	270.0	270.0	270.0	1.0
Fair value per option (pence)	34.4	61.0	29.7	29.7	29.7	250.1
Expected life in years	3.00	5.25	3.25	3.25	3.25	1.25
Expected volatility (%)	18.0	28.5	27.1	27.1	27.1	27.1
Risk-free interest rate (%)	0.76	0.70	0.77	0.77	0.77	0.74
Dividend yield (%)	2.8	3.5	5.8	5.8	5.8	5.8

23 Notes to the cash flow statement

Cash flow adjustments and changes in working capital

	Notes	**2019 £'000**	Restated 2018 £'000
Profit before tax		**6,451**	8,252
Foreign exchange		**156**	(153)
Depreciation	13	**370**	185
Interest income	8	**(34)**	(29)
Lease interest expense	9	**21**	-
Share based payment expense (excl. cash-settled)		**250**	108
Operating cash flow before movement in working capital		**7,214**	8,363
(Increase) in trade and other receivables		**(453)**	(99)
(Increase) in inventories		**(106)**	(67)
Increase/(decrease) in trade and other payables		**410**	(42)
Increase/(decrease) in contract liabilities		**198**	(1,330)
Cash generated from operations		**7,263**	6,825

24 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 29 and note 7.

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

25 Purchase commitments and contingent liabilities

Quartix Limited has signed agreements with suppliers which commit the Group to purchase inventory to the value of £407,000 (2018: £521,000).

As disclosed in note 19 Lease liabilities, the Company has entered into a number of agreements regarding leasehold properties in Newtown, Powys. The impact on completion, anticipated to be March 2020, will be to increase lease liabilities by a net £712,000.

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. A similar sunsetting process will occur for the 3G network in the US and management believe this will likely be finalised in 2022. In each case, a present obligation does not exist at 31 December 2019 and therefore the Group has not recognised a provision in its financial statements.

There were no other financial commitments or contingent liabilities as at 31 December 2019 or 31 December 2018.

26 Capital commitments

The Group had capital commitments of £57,000 at 31 December 2019 (2018: nil).

27 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:

	2019 £'000	Restated 2018 £'000
Loans and receivables		
Trade receivables and other receivables	**2,797**	2,621
Cash and cash equivalents	**6,789**	6,779
	9,586	9,400

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.

27 Risk management objectives and policies (continued)

Credit risk (continued)

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 £0.8m 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 2019, the Group purchased about $2.4m, primarily to purchase components for the vehicle tracking units (2018: $2.8m).

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

It is estimated that a 5% strengthening of Pound Sterling to the US dollar would have reduced purchase costs by £90,000 and vice versa (2018: £100,000). (This is assuming that Dollar denominated prices do not adjust for currency movements.)

It is estimated that a 5% strengthening of Pound Sterling to the Euro would have reduced net profit by £55,000 and vice versa (2018: £58,000).

The Group's financial instruments dominated in currencies were:

	2019			2018	
	£'000	**£'000**	**£'000**	£'000	£'000
	US$	**€**	**zl**	US$	€
Cash and cash equivalents	**87**	**792**	**0**	291	314
Trade receivables	**-**	**385**	**2**	-	314
Trade payables	**(407)**	**(303)**	**0**	(207)	(216)
	(320)	**874**	**2**	84	412

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 3.5% from 31 December 2018 to 31 December 2019 (2018: fell by 5.5%). The total translation reserve movement for the year reported in the Consolidated Statement of Changes in Equity was a credit of £93,000 (2018: charge £158,000). The majority of this movement related to the retranslation of Quartix Inc's opening net liabilities as at 1 January 2019.

27 Risk management objectives and policies (continued)

Currency risk (continued)

Quartix Inc's net liabilities mainly relate to amounts owed to other Group entities. The foreign exchange differences arising on translation of these monetary liabilities are recognised in the Consolidated Income Statement and was the main reason for the foreign exchange gain in 2019 (see note 5). The retranslation of the amounts owed at 1 January 2019 to Group entities by Quartix Inc at the exchange rate on 31 December 2019 amounts to £101,000 (2018: £136,000).

It is estimated that a 5% weakening of Pound Sterling to the US dollar would give an exchange gain of around £172,000 from the retranslation of amounts owed by Quartix Inc and vice versa (2018: £160,000).

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.

28 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:

	2019	Restated 2018
	£'000	£'000
Loans and receivables		
Trade and other receivables	**2,797**	2,621
Cash and cash equivalents	**6,789**	6,779
	9,586	9,400

28 Summary of financial assets and liabilities by category (continued)

	2019	2018
	£'000	£'000
Financial liabilities measured at amortised cost		
Trade and other payables	**2,451**	2,119
Lease liabilities	**397**	-
	2,848	2,119

29 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.

29 Capital management policies and procedures (continued)

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:

	2019	Restated 2018
	£'000	£'000
Capital		
Total equity	**17,981**	18,103
Less cash and cash equivalents	**(6,789)**	(6,779)
	11,192	11,324
Overall financing		
Total equity	**17,981**	18,103
Capital-to-overall financing ratio (%)	**62**	63

30 Subsidiaries

As at the 31 December 2019 the subsidiaries of the Group were:

Subsidiary	**Quartix Ltd**	**Quartix Inc**
Country of registration	England & Wales	USA
Registered office	Chapel Offices, Park Street, Newtown Powys SY16 1EE	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

31 Explanation of change in accounting policy relating to IFRS 15

As highlighted in note 1, significant accounting policies under revenue, the Group has chosen to change its accounting policy for the treatment of incremental costs of obtaining a contract with a duration of 12 months or less, by disapplying the practical expedient in IFRS 15 'Revenue from Contracts with Customers'. The Group now capitalises and amortises incremental commission costs of obtaining a contract regardless of length.

The principal impact of this change relates to the timing of commissions incurred being released into the income statement, with the total commissions incurred at the inception of the customer contract being capitalised and only being recognised in the income statement over the contractual period.

As at 1 January 2018, the restatement of the Group's net assets was an increase of £563,000 to £17,370,000 from the inclusion of a contract cost asset of £690,000 under IFRS 15, being previously recognised as commissions incurred at the inception of the customer contract and now being recognised over the contractual period, net of a deferred tax liability of £127,000.

31 Explanation of change in accounting policy relating to IFRS 15 (continued)

The impact of capitalising incremental costs as per IFRS 15 on the financial statements:

A Consolidated Statement of Financial Position

1 January 2018	As previously reported £'000	Adjustments £000	As Restated £'000
Deferred tax assets	768	(127)	641
Contract cost assets	-	690	690
Other	25,287	-	25,287
Total assets	26,055	563	26,618
Total liabilities	(9,248)	-	(9,248)
Retained earnings	6,373	563	6,936
Other	10,434	-	10,434
Total Equity	16,807	563	17,370

31 December 2018	As previously reported £'000	Adjustments £000	As Restated £'000
Deferred tax assets	9	(9)	-
Contract cost assets	-	872	872
Other	24,949	-	24,949
Total assets	24,958	863	25,821
Deferred tax liabilities	-	(150)	(150)
Other	(7,568)	-	(7,568)
Total liabilities	(7,568)	(150)	(7,718)
Retained earnings	6,924	713	7,637
Other	10,466	-	10,466
Total Equity	17,390	713	18,103

The split of the contract cost assets between current assets and non-current assets has been disclosed in note 15.

31 Explanation of change in accounting policy relating to IFRS 15 (continued)

The impact of capitalising incremental costs as per IFRS 15 on the financial statements (continued):

B Consolidated Statement of Comprehensive Income

For the year ended 31 December 2018	As previously reported £'000	Adjustments £000	As Restated £'000
Revenue	25,706	-	25,706
Cost of sales	(8,543)	149	(8,394)
Administrative expenses	(9,122)	33	(9,089)
Other	29	-	29
Income tax expense	(1,210)	(32)	(1,242)
Net profit	6,860	150	7,010
Total Comprehensive income	6,702	150	6,852
Earnings per ordinary share (pence)	14.38	0.31	14.69
Diluted earnings per ordinary share (pence)	14.19	0.31	14.50

C Consolidated Statement of Cash Flows

For the year ended 31 December 2018	As previously reported £'000	Adjustments £000	As Restated £'000
Profit	6,860	150	7,010
Adjusted for:			
- Tax expense	1,210	32	1,242
Profit before tax	8,070	182	8,252
Changes in trade and other receivables	83	(182)	(99)
Other	(1,328)	-	(1,328)
Cash generated from operations	6,825	-	6,825

32 Impact of adopting IFRS 16 "Leases"

On adoption of IFRS 16, the Group recognised a lease liability at the date of initial application, for leases previously classified as an operating lease under IAS17, at the present value of the remaining lease payments, discounted using the Group's estimated incremental borrowing rate as of 1 January 2019. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 January 2019 was 4.3%.

As permitted under the Standard, the Group has adopted the practical expedients of applying a single discount rate to its property leases and elected not to apply the requirements of IFRS 16 to leases for which the lease term ends within 12 months. The Group will recognise the lease payments associated with those leases as an expense on a straight-line basis.

32 Impact of adopting IFRS 16 "Leases" (continued)

The following is a reconciliation of total operating lease commitments at 31 December 2018 to the lease liabilities recognised at 1 January 2019:

	£'000	£'000
Total operating lease commitments disclosed at 31 December 2018		518
Recognition exemptions:		
Leases with remaining lease term of less than 12 months	(29)	
Variance lease payments not recognised	93	
Other minor adjustments relating to commitment disclosures	39	
		103
Operating lease liabilities before discounting		621
Discounting using incremental borrowing rate		(48)
Total lease liabilities recognised under IFRS 16 at 1 January 2019		573

The Group has elected not to include initial direct costs in the measurement of the right-of-use asset for operating leases in existence at the date of initial application of IFRS 16, being 1 January 2019. At this date, the Group has also elected to measure the right of use asset, for leases previously classified as an operating lease under IAS17, at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the statement of financial position immediately before the date of initial application.

There were no onerous lease contracts that would have required an adjustment to the right-of-use assets at the date of initial application.

The recognised right-of-use assets relate to the following types of assets:

	1 January 2019 £'000
Properties	490
Motor vehicles	12
Total right-of-use assets	502

The change in accounting policy affected the following items in the balance sheet on 1 January 2019:

	£'000
Right-of use assets – increase	502
Prepayments – decrease	(23)
Accruals – decrease	94
Lease liability - increase	(573)

There was no impact on retained earnings on 1 January 2019.

Parent Company Statement of Financial Position

Company registration number 06395159

	Notes	2019 £'000	2018 £'000
Fixed assets			
Investments	4	**19,518**	19,263
Current assets			
Debtors	5	**1,460**	1,450
Current tax asset		**53**	26
Cash at bank and in hand		**55**	165
Total current assets		**1,568**	1,641
Creditors – amounts falling due within one year	6	**(3,447)**	(3,437)
Net current assets		**(1,879)**	(1,796)
Total assets less current liabilities		**17,639**	17,467
Net assets		**17,639**	17,467
Capital and reserves			
Called up share capital	7	**479**	478
Share premium account		**5,230**	5,196
Equity reserve		**617**	426
Capital redemption reserve		**4,663**	4,663
Retained earnings		**6,650**	6,704
Total equity attributable to equity shareholders of Quartix Holdings plc		**17,639**	17,467

Profit for the year and total comprehensive income attributable to the equity shareholders of Quartix Holdings plc was £5,832,000 (2018: loss of £110,000)

Approved by the Board of Directors, authorised for issue and signed on behalf of the Board on 21 February 2020.

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 2017	476	4,869	4,663	451	13,123	**23,582**
Shares issued	2	327	-	-	-	**329**
Increase in equity reserve in relation to options issued	-	-	-	108	-	**108**
Adjustment for exercised options	-	-	-	(133)	133	**-**
Dividend paid	-	-	-	-	(6,442)	**(6,442)**
Transactions with owners	**2**	**327**	**-**	**(25)**	**(6,309)**	**(6,005)**
Profit for the year and total comprehensive income	-	-	-	-	(110)	**(110)**
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**

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 2019 and the year ended 31 December 2018. 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.
i) The requirement to produce a balance sheet at the beginning of the earliest comparative period.

The Company is not impacted by IFRS 16: Leases since it does not have any leasing commitments.

Going concern

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

Investment in subsidiaries

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

1 Summary of significant accounting policies (continued)

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

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

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

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

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

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

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

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

Financial assets
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 £5.8m (2018: £0.10m).

Auditors' remuneration attributable to the Company is as follows:

	2019	2018
	£'000	£'000
Audit fees – statutory audit	**30**	22
Other services	**1**	1
	31	23

Details of Directors' emoluments are set out on page 28.

3 Directors and employees

Staff costs, including Directors, comprised the following:

	2019	2018
	£'000	£'000
Wages and salaries	**90**	90
Social security costs	**10**	10
	100	100

The average number of employees for the company, being the Non-Executive Directors only, during the year was 2 (2018: 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 2018	**19,155**
Increase due to granting of share options to subsidiary employees:	
New investments	**108**
At 1 January 2019	**19,263**
Increase due to granting of share options to subsidiary employees:	**255**
New investments	
Net book amount at 31 December 2019	**19,518**

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

	2019 £'000	2018 £'000
Social security and other taxes	**7**	6
Prepayments	**7**	6
Amounts owed by subsidiary undertakings	**1,446**	1,438
	1,460	1,450

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 £1.4m (2018: £1.4m) which is repayable on or before 31 December 2020 but can be extended by mutual agreement. Interest is charged quarterly at 1% per quarter on the quarter end balance.

6 Creditors: amounts falling due within one year

	2019 £'000	2018 £'000
Social security and other taxes	**4**	4
Accruals and deferred income	**55**	38
Amounts owed to subsidiary undertakings	**3,388**	3,395
	3,447	3,437

The amount owed to subsidiary undertakings relates to the current account with Quartix Limited. It is a current account that will be cleared by dividends payable in 2020.

7 Called up share capital

	2019	2018
	£'000	£'000
Allotted, called up and fully paid		
47,938,320 (2018: 47,846,560) ordinary shares of £0.01 each	**479**	478

Details of movements in share options and those outstanding at 31 December 2019 are disclosed in note 22 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 28) and key management remuneration in note 7 of the Group accounts.

9 Contingent liabilities

There are no material contingent liabilities subsisting at 31 December 2019 or 31 December 2018.

10 Financial commitments

The Company had no financial commitments at 31 December 2019 or 31 December 2018.

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:

	2019	2018
	£'000	£'000
Loans and receivables		
Cash and cash equivalents	**55**	**165**
Amounts owed by subsidiary undertakings	**1,446**	**1,438**
	1,501	**1,603**

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 £1.4m (2018: £1.4m) which is repayable on or before 31 December 2020 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 currencies (all US dollars) were:

	2019	2018
	£'000	£'000
Loan and receivables		
Cash at bank	**8**	40
Amounts owed by subsidiary undertakings	**1,446**	1,438
	1,454	1,478

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 at **9 Dukes Court, 54~62 Newmarket Rd, Cambridge CB5 8DZ** on **Tuesday 24 March 2020** at **11.00 am** for the following purposes:

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

1. To receive and adopt the audited annual accounts for the year ended 31 December 2019.
2. To approve and declare a final dividend for the year ended 31 December 2019 of 4.2p per ordinary share and supplementary dividend of 5.8p per ordinary share, a total final dividend of 10.0p per share. This will be paid on 1 May 2020 to shareholders on the register as at the close of business on 3 April 2020.
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 Jim Warwick as a Director who, in accordance with the Company's Articles of Association, retires as a Director and is eligible for re-election.
8. To re-appoint Grant Thornton UK LLP as the auditors of the Company until the end of the next Annual General Meeting.
9. To authorise the Directors to determine the remuneration of the auditors.
10. To give the Directors general and unconditional authorisation for the purposes of section 551 of the Companies Act 2006 (the "Act") to exercise all powers of the Company to allot shares in the Company or to grant rights to subscribe for or to convert any security into shares in the Company up to a maximum nominal value of £159,794 (representing approximately 33% of the issued share capital of the Company as at 21 February 2020) 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 2021, 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 £23,969, representing approximately 5% of the ordinary share capital in issue as at 21 February 2020.

This power shall expire at the conclusion of the next Annual General Meeting of the Company or 30 June 2021, 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 21 February 2020);
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 2021, whichever is earlier, save that the Company may enter into a contract for the purchase of ordinary shares under this authority which would or might be completed, wholly or partly, after this authority expires.

By order of the Board on 21 February 2020.

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 attend and vote at this Meeting or to appoint someone else to vote on your behalf.

1 To be entitled to attend and 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 close of trading on 20 March 2020. Changes to the Register of Members after the relevant deadline shall be disregarded in determining the rights of any person to attend and vote at the Meeting.

2 Shareholders, or their proxies, intending to attend the Meeting in person are requested, if possible, to arrive at the Meeting venue at least 20 minutes prior to the commencement of the Meeting at 11.00 am (UK time) on 24 March 2020 so that their shareholding may be checked against the Company's Register of Members and attendances recorded.

3 Shareholders are entitled to appoint another person as a proxy to exercise all or part of their rights to attend and to speak and vote on their behalf at the Meeting. A shareholder may appoint more than one proxy in relation to the Meeting provided that each proxy is appointed to exercise the rights attached to a different ordinary share or ordinary shares held by that shareholder. A proxy need not be a shareholder of the Company.

4 In the case of joint holders, where more than one of the joint holders' purports to appoint a proxy, only the appointment submitted by the most senior holder will be accepted. Seniority is determined by the order in which the names of the joint holders appear in the Company's Register of Members in respect of the joint holding (the first named being the most senior).

5 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. If no voting indication is given, your proxy will vote or abstain from voting at his or her discretion. Your proxy will vote (or abstain from voting) as he or she thinks fit in relation to any other matter which is put before the Meeting.

6 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 20 March 2020;
- by completing and returning a hard copy proxy form to Link Asset Services at 34 Beckenham Road, Beckenham, Kent, BR3 4ZF to be received by 11.00 am on 20 March 2020; 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 20 March 2020.

You may request a hard copy form of proxy directly from the registrars, Link Asset Services (previously called Capita), on Tel: 0371 664 0391. Calls cost 12p per minute plus your phone company's access charge. 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.

7 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.

8 The return of a completed form of proxy, electronic filing or any CREST Proxy Instruction (as described in note 10 below) will not prevent a shareholder from attending the Meeting and voting in person if he/she wishes to do so.

9 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.

10 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 20 March 2020. 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.

11 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.

12 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.

13 As at 21 February 2020 (being the latest practicable business day prior to the publication of this Notice), the Company's ordinary issued share capital consists of 47,938,320 ordinary shares, carrying one vote each. Therefore, the total voting rights in the Company as at 21 February 2020 are 47,938,320.

14 Any shareholder attending the Meeting has the right to ask questions. The Company must cause to be answered any such question relating to the business being dealt with at the Meeting but no such answer need be given if: (a) to do so would interfere unduly with the preparation for the Meeting or involve the disclosure of confidential information; (b) the answer has already been given on a website in the form of an answer to a question; or (c) it is undesirable in the interests of the Company or the good order of the Meeting that the question be answered.

15 The following documents are available for inspection during normal business hours at the registered office of the Company on any business day from the date of this Notice until the time of the Meeting and may also be inspected at the Meeting venue, as specified in this Notice, from 10.45 am on the day of the Meeting until the conclusion of the Meeting:

- copies of the Directors' letters of appointment or service contracts.

16 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.net

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 dan.mendis@quartix.net

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Quartix

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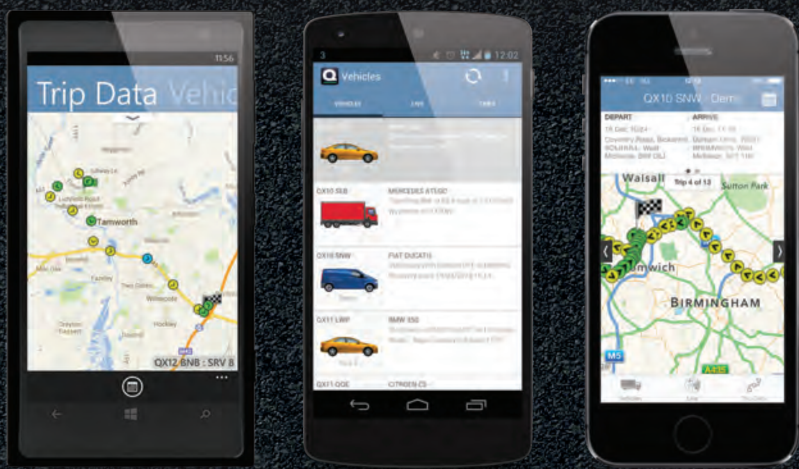

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