

Financial Statements Quartix Limited

For the year ended 31 December 2016

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Company Information

Company registration number:	04159907
Registered office:	Chapel Offices Park Street Newtown Powys SY16 1EE
Directors:	Andrew Walters Andrew Kirk William Hibbert David Bridge Peter Brown Donato Quagliariello Edward Ralph Lynne Austin
Company secretary:	David Bridge
Bankers:	Barclays Bank plc HSBC France Investec Bank plc
Auditors:	Grant Thornton UK LLP 101 Cambridge Science Park Milton Road Cambridge CB4 0FY

Directors' Report

The Directors present their Report and the financial statements for the year ended 31 December 2016.

Results

The profit for the year, after taxation, amounted to £7.0m (2015: £5.8m).

Directors

The Directors who served through-out the year, except as noted, were:

- Andrew Walters
- Andrew Kirk
- William Hibbert
- David Bridge
- Peter Brown
- Claire Devney Resigned 31 January 2017
- Donato Quagliariello Appointed 21 July 2016
- Edward Ralph Appointed 1 February 2017
- Lynn Austin Appointed 1 February 2017

Directors' responsibilities statement

The Directors are responsible for preparing the Strategic Report, the 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 financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law) including FRS 101 'Reduced Disclosure Framework'. Under Company Law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the Directors are required to:

- Select suitable accounting policies and then apply them consistently
- Make judgments and accounting estimates that are reasonable and prudent
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company 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 Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Disclosure of information to auditor

Each of the persons who are Directors at the time when this Directors' Report is approved has confirmed that:

- So far as that Director is aware, there is no relevant audit information of which the Company's auditor is unaware
- That Director has taken all the steps that ought to have been taken as a Director in order to be aware of any relevant audit information and to establish that the Company's auditor is aware of that information

Directors' insurance

The Company has purchased and maintains appropriate insurance cover in respect of Directors' and Officers' liabilities.

Auditor

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

This Report was approved by the Board on 24 February 2017 and signed on its behalf.



Andrew Walters
Managing Director

Strategic Report

Principal activities

The principal activity of the Company during the year was the design development and marketing of vehicle tracking systems and the provision of related data services. The Company has an overseas branch in France.

Financial key performance indicators

Key performance indicators focused on by the Company are:

	2016	2015
Fleet customer base	8,030	7,156
Fleet customer base in units	81,698	70,565
Fleet turnover (£'000)	14,232	12,701
Insurance unit installations	69,300	57,024

Results and dividends

Fleet sales were £14.2m a rise of 12.1% compared with 2015 which were £12.7m. The main driver of growth was the recurring revenue from unit rentals. France contributed €1.8m of sales, equivalent to £1.4m, a 25% increase on 2015.

Insurance unit installations were up 21.5% at 69,300; but the second half were 13.1% lower than the first half, in keeping with the decision announced in July, to focus more on its fleet market.

Gross margin fell by 1.4 percentage points to 61% due to an increase in unit costs with the devaluation of Sterling and the increase in the lower margin insurance operations which accounted for 37% of turnover compared to 35% in 2015. Profit before tax rose from £6.8m to £7.4m, an increase of 8.7%.

A dividend of 14.5p per share (£2.9m) was paid to Quartix Holdings on 22 July 2016 and a further dividend of 20.0p per share (£4.1m) was paid to Quartix Holdings on 19 December 2016.

Risk management policies

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

Attracting and retaining the right number of good quality staff

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

Reliance on M2M network

The Company'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 Company is exposed to an M2M outage. Quartix has dual site redundancy to cover a localised internet problem and we are constantly working on improving the reliability of our systems architecture.

Business disruption

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

Risk management policies (continued)

Dependence on a key customer

Turnover of £8.4m was derived from one insurance customer. Losing this key contract could have a significant negative impact on cash flow in the short term as we have a high level of fixed overheads. The Company has taken the strategic decision to move away from low margin insurance sales and widen its insurance customer base.

Cyber Security

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

Technology

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

The Company's 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.

Research and development

The Company is committed to continued investment in research in order to ensure that the functionality of its fleet tracking systems and software remains competitive across each of its fleet markets as well as in the insurance sector. The principal areas of development focus in 2016 were:

1. An enhanced version of the TCSV11 product. This product is fitted with backup battery and fast GPS and accelerometer capabilities
2. The TCSV12 tracking system. This product is believed to be one of the most compact on the market, allowing ease of user installation in approximately 90% of European vehicles. The initial target for this is the fleet sector in Europe, but it has also been launched in the insurance sector and the UK export market, following product approvals.
3. Electronic logging of driver hours for the US export market. This application, which involves a direct connection to the vehicle's own bus and the use of an Android tablet device by the driver, was delivered in beta version to customers during the second half of the year, and has so far received good reviews.
4. The "powered by Quartix" insurance platform. This software platform includes software tools for both insurers and brokers and allows driver scoring based on a range of factors, but most significantly it makes use of our "SafeSpeed Database", which we believe offers a significant improvement in risk assessment of young drivers.
5. Configurable real-time dashboard for fleet managers. These were fully released at the mid-year point.
6. Enhancements to our API (QWS 2.0). These were completed towards the end of the year, and were also used as the basis of further developments to our mobile apps (point 7 below).
7. Enhance mobile apps including driving style monitoring. These apps, which are available for both iOS and Android operating systems, have been adapted to make use of our own API, and to include driving style monitoring as part of the functionality available in this environment.

All of our investment in research and development was fully expensed in the year. The total cost amounted to £1.4m, which represents an increase of 34% compared to the prior year (2015: £1.1m).

Future developments

We believe that the Company has significant opportunity for growth in its fleet business. By carefully coordinated management of our future growth we will strive to maintain the very high levels of customer satisfaction and financial performance for which Quartix is known.

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



Andrew Walters
Managing Director

Independent Auditor's Report to the Members of Quartix Limited

We have audited the financial statements of Quartix Limited for the year ended 31 December 2016, which comprise the Statement of Comprehensive Income, the Balance Sheet, the Statement of Changes in Equity and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including FRS 101 'Reduced Disclosure Framework'.

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.

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 3, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2016 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

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

- the information given in the Strategic Report and Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.
- the Strategic Report and 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 company and its environment obtained in the course of the audit, we have not identified any material misstatements in the Strategic Report and Directors' Report.

Independent Auditor's Report to the Members of Quartix Limited

Matters on which we are required to report by exception

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

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the 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.

Grant Thornton UK LLP

Alison Seekings
Senior Statutory Auditor
for and on behalf of Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
Cambridge
24 February 2017

Statement of Comprehensive Income

	Notes	2016 £'000	2015 £'000
Turnover	2	22,662	19,419
Cost of sales		(8,903)	(7,361)
Gross profit		13,759	12,058
Administrative expenses		(6,384)	(5,256)
Profit from operations		7,375	6,802
Income receivable and similar income	7	48	30
Profit on ordinary activities before taxation	4	7,423	6,832
Tax on profit on ordinary activities	8	(463)	(1,031)
Profit for the financial year		6,960	5,801

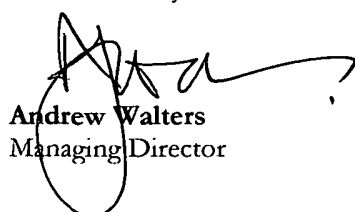
The notes on pages 13 to 24 form part of these financial statements.

Balance Sheet

	Notes	2016 £'000	2015 £'000
Fixed assets			
Tangible assets	9	262	301
Current assets			
Stocks	10	674	616
Debtors	11	3,309	3,447
Deferred tax assets	14	141	77
Cash at bank and in hand	12	6,139	3,818
Total current assets		10,263	7,958
Creditors: amounts falling due within one year	13	(7,477)	(5,362)
Net current assets		2,786	2,596
Total assets less current liabilities		3,048	2,897
Net assets		3,048	2,897
Capital and reserves			
Called up share capital	15	202	202
Share premium account		24	24
Equity reserves		281	177
Profit and loss account		2,541	2,494
Shareholders' funds		3,048	2,897

The notes of pages 13 to 24 form part of these financial statements.

The financial statements were approved and authorised for issue by the Board and were signed on its behalf on 24 February 2017.


Andrew Walters
 Managing Director

Statement of Changes in Equity

	Share capital £'000	Share premium account £,000	Equity reserve £'000	Profit and loss account £'000	Total Shareh olders' funds £'000
Balance at 31 December 2014	202	24	77	3,692	3,995
Shares issued	-	-	-	-	-
Increase in equity reserve in relation to options issued	-	-	71	-	71
Adjustment for exercised options	-	-	(71)	71	-
Deferred tax	-	-	100	-	100
Dividend paid	-	-	-	(7,070)	(7,070)
Transactions with owners	-	-	100	(6,999)	(6,899)
Profit for the year	-	-	-	5,801	5,801
Balance at 31 December 2015	202	24	177	2,494	2,897
Shares issued	-	-	-	-	-
Increase in equity reserve in relation to options issued	-	-	113	-	113
Adjustment for exercised options	-	-	(56)	56	-
Deferred tax	-	-	47	-	47
Dividend paid	-	-	-	(6,969)	(6,969)
Transaction with owners	-	-	104	(6,913)	(6,809)
Profit for the year	-	-	-	6,960	6,960
Balance at 31 December 2016	202	24	281	2,541	3,048

Notes to the Financial Statements

1 Summary of significant accounting policies

Accounting convention

These financial statements have been prepared in accordance with applicable accounting standards and in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework (FRS 101). The principle accounting policies adopted in the preparation of these financial statements are set out below. These policies have all been applied consistently throughout the year unless otherwise stated. The financial statements are prepared under the historical cost convention.

The results of Quartix Limited are included in the consolidated financial statements of Quartix Holdings plc which are available from the Company's website or registered office Wellington House, Cambridge, CB1 1BH.

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

Basis of preparation

From 31 December 2015, the Financial Statements have been prepared in accordance with FRS 101, having previously used extant UK Generally Accepted Accounting Practice. The accounting policies which follow set out those policies which apply in preparing the financial statements for the year ended 31 December 2016 and 31 December 2015. The Company has taken advantage of the following disclosure exemptions under FRS 101:

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

Going concern

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

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

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

1 Summary of significant accounting policies (continued)

Turnover

Turnover is the amount receivable for goods and services, excluding VAT. It is measured at the fair value of consideration received or receivable, excluding sales taxes, rebates, and trade discounts. Turnover comprises the provision of telematics-based fleet and vehicle management solutions

- the provision and installation of hardware, and
- the maintenance of software and provision of communications

Amounts received in advance of the provision of services are included within deferred income.

Turnover from hardware sales, including insurance telematics contracts, is recognised upon transfer of economic benefit which is normally upon installation of the unit or despatch of the unit if the customer does their own installation. Turnover from installation is recognised upon installation.

Turnover from other services, including the provision of communications, are recognised over the period in which services are provided.

Turnover from a fixed term contract is spread on a straight line basis over the life of the contract. The associated cost including installation of hardware is recognised as incurred and not spread over the life of the contract: likewise, distributors' commissions are accounted for when incurred and not spread over the life of the contract.

Property, plant and equipment

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

Depreciation

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

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

Research and development

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

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

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

1 Summary of significant accounting policies (continued)

Impairment testing

Tangible assets are tested for impairment if events or changes in circumstances (assessed at each reporting date) indicate that the carrying amount may not be recoverable. When an impairment test is conducted, the recoverable amount is assessed by reference to the higher of the value in use (net present value of expected future cash flows of the relevant cash-generating unit), or the fair value less cost to sell.

Operating lease agreements

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

Stocks

Stocks are stated at the lower of cost and net realisable value. Cost is based on the cost of purchase on a first in first out basis. Net realisable value is based on estimated selling price less additional cost to completion or disposal. Provision is made for obsolete, slow moving or defective items where appropriate and 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 balance sheet 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 Company 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 balance sheet date.

Changes in deferred tax assets or liabilities are recognised as a component of tax expense in profit or loss 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, maturities of 95 days or less from inception, and which are subject to an insignificant risk of changes in value.

Financial assets

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

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

1 Summary of significant accounting policies (continued)

Financial liabilities

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

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

A financial liability is derecognised when the obligation is extinguished.

Shareholders' funds

Shareholders' funds comprise 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
- "Equity reserve" is used to reflect the expenses associated with granting share options to employees
- "Retained earnings" represents retained profits

Foreign currencies

The Company's functional currency is Sterling. Whilst, the French branch invoices in Euros, it also has a functional currency of Sterling, since its results are included in Quartix Limited's Sterling accounts.

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 balance sheet 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. 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

Employee benefits: Pension provision

The only pension provision and Employee benefit 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.

Employee benefits: Share-based payments

The Company's parent company, Quartix Holdings plc, operates a number of employee share schemes under which it makes equity-settled share-based payments to certain employees.

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

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

1 Summary of significant accounting policies (continued)

Dividends

Dividends attributable to the equity holders of the Company paid during the year are recognised directly in equity.

2 Turnover

The Company has concluded that it operates only one operating segment as defined by IFRS 8, being the design, development and marketing of vehicle tracking devices and the provision of related data services. The information used by the Company's directors to make decisions about the allocation of resources and assessing performance is presented in aggregate. All income, costs, assets and liabilities relate to the single activity; and accordingly no segmental analysis is presented.

The turnover from sales in France was £1,408,000 (2015: £1,025,000), representing 6% of the Company's turnover (2015: 5%). There is no other significant turnover attributable to geographical markets outside the United Kingdom.

3 Key judgements and estimates: capitalisation of development costs

The Company makes estimates and assumptions regarding the future. Actual results may differ from these estimates. The estimates and assumptions regarding development costs have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities within the next financial year.

The point at which development costs meet the criteria for capitalisation is critically dependant on management's judgment of the probability and measurability of future economic benefits. No development expenditure was capitalised in the year ended 31 December 2016. The research and development expenditure primarily related to the on-going research work on the Group's existing fleet tracking unit to ensure that the functionality of the unit is maintained. The research work undertaken may successfully come to fruition in the development of a marketable product 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.

4 Profit on ordinary activities before taxation

The profit for the year before taxation is stated after charging:

	2016 £'000	2015 £'000
Research and development expense	1,442	1,079
Rentals under operating leases:		
Other operating leases	13	12
Land and buildings	119	53
Depreciation on property, plant and equipment, owned	128	128
Share based payments expense	113	71
Difference on foreign exchange	(111)	-
Auditor services:		
Fees paid to Company auditor for the audit of the financial statements	18	16
Other services	1	1

4 Profit on ordinary activities before taxation (continued)

Quartix Holding plc, the Company's parent 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 vesting on issue and starting to vest after 14 months. Options are forfeited if the employee leaves the Company before the options vest.

The number of options outstanding at the end of the year in respect of company employees were 916,812 (2015: 757,900)

5 Employee remuneration

Staff costs, including Directors' remuneration, were as follows:

	2016 £'000	2015 £'000
Wages and salaries	3,508	2,942
Social security costs	330	270
Contributions to defined contribution pension plan	26	8
Share-based payments	113	71
	<u>3,977</u>	<u>3,291</u>

The average monthly number of employees including the Directors, during the year were as follows:

2016	2015
<u>124</u>	<u>93</u>

6 Directors' remuneration

	2016 £'000	2015 £'000
Remuneration	<u>568</u>	<u>425</u>

The highest paid Director received remuneration of £95,000 (2015: £81,000).

Three directors were members of the NEST pension arrangements in 2016 (2015: 2). No Director was a member of any other pension scheme or other post-employment benefit to which the Company contributed in either the current or the prior years. There were no termination payments but two bonus schemes for two newly appointed Directors. Two Directors exercised share options in the year (2015: one).

7 Interest receivable and similar income

	2016 £'000	2015 £'000
Bank interest receivable	21	13
Interest from Group undertakings	27	17
	<u>48</u>	<u>30</u>

The Company has a loan with a fellow subsidiary undertaking, Quartix Inc, on which interest is charged at 1% per quarter.

8 Tax on profit on ordinary activities

	2016 £'000	2015 £'000
Analysis of tax charge in the year		
Current tax		
UK corporation tax charge on profit for the year	828	1,012
Adjustments in respect of prior periods	(348)	-
	<u>480</u>	<u>1,012</u>
Deferred tax (see note 14)		
Origination and reversal of timing differences	(17)	24
Adjustments in respect of prior periods	-	(5)
Total deferred tax	<u>(17)</u>	<u>19</u>
	<u>463</u>	<u>1,031</u>

The current tax credit in respect of prior periods relates to patent box claims submitted during 2016 in respect of the two years ended 31 December 2014 and 31 December 2015. The current tax charge for the year to 31 December 2016 also includes the benefit of a Patent box credit of £244,000 as highlighted below. The impact of the patent box claim for the year ended 31 December 2016, ignoring the adjustments in respect of prior periods, is to reduce the effective rate of tax from 14.2%, broadly in line with the year ended 31 December 2015, to 10.9%. The impact of the prior year adjustments is to reduce the effective rate of tax from 10.9% to 6.2%.

The relationship between the expected tax expense based on the effective tax rate of the Company at 20.00% (2015: 20.25%) 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:

	2016 £'000	2015 £'000
Profit on ordinary activities before tax	<u>7,423</u>	<u>6,832</u>
Tax rate (%)	20.00	20.25
Expected tax expense	1,485	1,383
Adjustments to tax charge in respect of prior periods	(348)	(5)
Expenses not deductible for tax purposes	1	3
Research and development tax credit	(332)	(262)
Patent box credit	(244)	-
Re-measurement of deferred tax	(10)	(3)
Tax adjustment on exercise of options	(89)	(85)
Tax on profit on ordinary activities	<u>463</u>	<u>1,031</u>
Effective rate of tax	6.2%	15.1%
Effective rate of tax ignoring adjustments in respect of prior years'	10.9%	15.2%

9 Tangible assets

	Leasehold improvement £'000	Tools & equipment £'000	Office equipment £'000	Total £'000
Cost				
At 1 January 2016	17	12	638	667
Additions	-	-	89	89
At 31 December 2016	17	12	727	756
Depreciation				
At 1 January 2016	3	12	351	366
Charge for year	4	-	124	128
At 31 December 2016	7	12	475	494
Net book value				
At 31 December 2016	10	-	252	262
At 31 December 2015	14	-	287	301

10 Stocks

	2016 £'000	2015 £'000
Raw materials	334	335
Work in progress	109	161
Finished goods	231	120
	674	616

Included in the analysis above are impairment provisions against stocks amounting to £80,000 (2015: £80,000). The cost of stocks recognised as an expense and included in "cost of sales" amounted to £2.7m (2015: £2.2m).

11 Debtors

	2016 £'000	2015 £'000
Trade debtors	2,225	2,281
Amounts owed by Group undertakings	837	898
Other debtors	11	126
Prepayments and accrued income	236	142
	3,309	3,447

All the amounts are short term. The carrying value of trade debtors is considered a reasonable approximation of fair value.

All of the debtors have been reviewed for indicators of impairment. Certain trade debtors were found to be impaired, due to the age of the debt, and a provision for doubtful debts has been recorded as follows.

	2016 £'000	2015 £'000
Provision at 1 January	45	15
(Release of provision)/additional provision	(6)	30
Provision at 31 December	39	45

11 Debtors (continued)

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

	2016 £'000	2015 £'000
Not more than 1 month	114	144
More than one month but not more than 3 months	18	55
More than 3 months but not more than 6 months	-	-

12 Cash at bank and in hand

Cash and cash equivalents included the following components:

	2016 £'000	2015 £'000
Cash at bank and in hand	6,139	3,818

Quartix Limited uses Barclay's Business Premium account to aggregate Sterling instant access balances and earn interest, which is -0.15% below the Base Rate. Since September 2016, the Group has placed deposits with Investec Bank plc on 95 day notices with interest currently at 0.7%. At 31 December 2016, Investec deposit was £2.0m.

13 Creditors: amounts falling due within one year

	2016 £'000	2015 £'000
Trade creditors	1,529	1,612
Amounts owed to Group undertakings	2,201	-
Deferred income	2,444	2,185
Social security and other taxes	614	773
Current tax liabilities	249	462
Other creditors	222	151
Accruals	218	179
	7,477	5,362

The amounts owed to Group undertakings relates to the dividends declared on 19th December 2016 and will be paid in the first quarter of 2017.

14 Deferred taxation

Deferred taxation is made up as follows:

	2016 £'000	2015 £'000
Accelerated capital allowances	42	47
Short term temporary differences	(7)	(7)
Equity settled share options	(176)	(117)
Deferred tax asset	(141)	(77)

14 Deferred taxation (continued)

	2016 £'000	2015 £'000
At 1 January (asset)/liability	(77)	4
(Credit)/charge for year (profit and loss)	(17)	19
Credit to equity	(47)	(100)
At 31 December (asset)/liability	(141)	(77)

At 31 December 2016, the deferred tax asset for equity settled share options includes £47,000 (2015: £100,000) credited to equity in the period, being the amount by which the expected future tax deduction exceeds the cumulative share-based payment expense recognised.

15 Share capital

	2016 £'000	2015 £'000
Authorised		
21,000,000 ordinary shares of £0.01 each	210	210
Allotted, called up and fully paid		
20,200,000 ordinary shares of £0.01 each	202	202

16 Commitments under operating leases

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

	Land and buildings		Other	
	2016 £'000	2015 £'000	2016 £'000	2015 £'000
Within 1 year	111	58	10	10
Between 2 and 5 years	137	4	12	3
Over 5 years	12	-	-	-
	260	62	22	13

Lease payments recognised as an expense during the year amount to £132,000 (2015: £65,000).

17 Related party disclosures

The Company has taken advantage of the FRS 101 exemption not to disclose transactions with its Parent Company, Quartix Holdings plc and its fellow subsidiary company, Quartix Inc. There were no other related party transactions during the year ended 31 December 2016 or 31 December 2015.

18 Purchase commitments

Quartix Limited has signed agreements with suppliers which commits it to purchase stock to the value of £324,000 (2015: £186,000). In December 2016, the Company entered into an agreement for the provision of data services which included a contractual obligation to pay a minimum of £40,000 per month, over a two-year term. There were no other contingent liabilities as at 31 December 2016 or 31 December 2015.

19 Capital commitments

The Company had no capital commitment at 31 December 2016 (2015: nil).

20 Security

The assets of the Company have been pledged as security for bank loans entered into by the Parent Company, Quartix Holdings plc. These bank loans were repaid in full during 2016 (2015: £1.0m) but they were secured by a fixed and floating charge over all the assets of the Company. Bank loans in the Parent Company were £nil at 31 December 2016 (2015: £1.0m) but the fixed and floating charges remained in place at 31 December 2016.

21 Risk management objective and policies

Financial instruments

The Company uses various financial instruments; these include cash deposits and various items such as trade debtors and trade creditors that arise directly from its operations. The main purpose of these financial instruments is to finance the Company's operations and manage working capital.

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

Liquidity risk

The Company seeks to manage financial risk by ensuring sufficient liquidity is available to meet foreseeable needs. It has strong cash flows and consequently its liquidity risk is low. Liquidity needs are monitored on a weekly and monthly basis. The Company has no un-drawn committed overdraft facilities. Trade and other creditors of £1.7m at 31 December 2016 (2015: £1.8m) will be settled through cash generated by the Company in its normal course of business, both through the collection of debtors and from cash generated from post year-end sales.

As at 31 December the Company's financial liabilities have contractual maturities as summarised below:

	2016 £'000	2015 £'000
Trade creditors, amounts owed to Group undertakings and accruals		
Within six months	3,948	1,791

Credit risk

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

	2016 £'000	2015 £'000
Loans and debtors		
Cash at bank and in hand	6,139	3,818
Trade and other debtors	3,073	3,305
	9,212	7,123

The Company's management considers that all the above financial assets that are not impaired for each of the balance sheet dates under review are of good credit quality, including those that are past due. See note 11 for additional information on trade debtors that are past due.

21 Risk management objective and policies (continued)

Credit risk (continued)

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

The principal credit risk lies with trade debtors and is mitigated by third party credit clearance for those customers benefitting from free installation and, for most contracts, collection by direct debit. The Company has one large customer whose debts can at times exceed £0.9m and the credit risk on this balance is carefully monitored.

Currency risk

The Company is exposed to transaction foreign exchange risk. The risk with the Euro has been mitigated by trading in France which generates marginally more Euros than the Company currently needs.

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

The Company's financial instruments dominated in currencies were:

	2016		2015	
	£'000	£'000	£'000	£'000
	US\$	€	US\$	€
Cash in hand and at bank	279	172	410	109
Trade debtors	-	166	-	127
Trade creditors	(459)	(181)	(463)	(126)
	(180)	157	(53)	110

It is estimated that a 5% strengthening of Pound Sterling to the US dollar would have increased net profit by £112,000 and vice versa (2015: £85,000). (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 £34,000 and vice versa (2015: £23,000).

22 Ultimate parent company and control

The Directors consider that the ultimate parent undertaking of this Company is Quartix Holdings plc. The Directors consider the Board and shareholding structure of Quartix Holdings plc mean there is no directly identifiable controlling party.

Detailed Statement of Comprehensive Income

	2016	2015
	£	£
Turnover	22,662,047	19,419,166
Cost of sales	(8,902,464)	(7,360,994)
Gross profit	13,759,583	12,058,172
Gross profit (%)	60.7	62.1
Less: overheads		
Administrative expenses	(6,384,121)	(5,256,961)
Operating profit	7,375,462	6,801,211
Interest receivable and similar income	48,166	30,204
Profit for the year	7,423,628	6,831,415

Schedule to the Detailed Accounts

	2016 £	2015 £
Turnover		
Sales	22,662,047	19,419,166
Cost of sales		
Opening stocks	616,381	423,249
Purchases	8,960,012	7,554,126
Closing stocks	(673,929)	(616,381)
	8,902,464	7,360,994
Administration expenses		
Advertising	871,208	710,104
Directors' salaries	567,865	427,161
Directors' national insurance	68,817	53,785
Staff salaries	3,071,871	2,490,996
Staff national insurance	287,725	230,167
Holiday pay	10,725	66,310
Share based payments	113,368	71,159
Rent and rates	233,773	179,105
Insurance	36,357	40,775
Travel expenses	70,806	57,727
Telephone	102,924	114,663
Office expenses	41,107	59,611
Postage and stationary	69,966	57,420
Sundry expenses	310	809
Computer consumables	95,876	142,272
Entertainment	54,115	16,785
Development costs	455,895	218,523
Other professional fees	71,347	36,548
Accountancy fees	49,258	59,714
Auditor's remuneration	17,600	16,000
Depreciation		
- Plant and machinery	-	-
- Office equipment	124,493	124,970
- Leasehold improvements	3,240	2,926
Bad debts written off	57,284	65,267
Bank charges	25,415	25,369
Difference on foreign exchange	(111,228)	241
Management charges	(5,996)	(11,446)
	6,384,121	5,256,961
Interest receivable		
Bank interest receivable	21,339	13,445
Inter group interest	26,827	16,759
	48,166	30,204