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Financial Statements Quartix Limited

For the year ended 31 December 2014

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Company No. 04159907

Contents

	Page
Company information	2
Directors' report	3
Strategic report	5
Independent auditor's report	7
Profit and loss account	9
Statement of total recognised gains and losses	10
Balance sheet	11
Notes to the financial statements	12

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

Company secretary: David Bridge

Bankers: Barclays Bank plc
HSBC France

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 2014.

Results

The profit for the year, after taxation, amounted to £4,597,054 (2013 - £4,085,232).

Directors

The Directors who served during the year were:

- Andrew Walters
- Kenneth Giles (resigned 1 September 2014)
- Andrew Kirk
- William Hibbert
- David Bridge
- Peter Brown (appointed 1 September 2014)

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). 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

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 2 March 2015 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.

Business review

Details of the Company's performance are given in the Profit and Loss Account on page 9. The position of the Company at the end of the year is set out in the Balance Sheet on page 11.

Principal risks and uncertainties

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 good communication with employees and on providing opportunities for promotion.

Retaining a key customer

Revenues of £4.0m were derived from one insurance customer. Losing this key contract could mean have a significant negative impact on the business' cash flows. Considerable resources are devoted to maintaining our relationship with this customer while at the same time the Company continues to build up relationships with indirect insurance customers.

Increased competition

The Company is exposed to the risk of new competition entering the market place. The impact of a new entrant in the market place could put increased pressure on margins and limit the businesses ability to generate cash. To combat this, the Company is continuously investing in research to improve its offering to customers.

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 potential risks and embrace them if they will provide a better channel for the information services which Quartix provides. At present we perceive security and other problems in using smart phones.

Every major motor manufacturer is currently working on autonomous driving but while there is competition in this field there should still be a need for telematics which works with different brands and different models. We will continue to ensure that Quartix has an excellent product which works well with all current vehicle types.

Financial key performance indicators

Key performance indicators focused on by the Company are:

	2014	2013
Fleet customer base	6,217	5,367
Fleet customer base in units	59,267	48,501
Fleet turnover (£'000)	11,015	9,186
Insurance unit installations	32,842	29,108

Results and dividends

Fleet units installed showed a 9.36% annual growth being 15,899 units before upgrades compared to 14,538 in 2013. Fleet sales were just over £11.0m a rise of 20% compared with 2013 which was just over £9.0m. The main driver of growth was the recurring revenues from unit rentals.

France contributed £771,000 of sales a 28.5% increase on 2013.

Insurance unit installations were up 12.8% at 32,842 units compared to 29,108 in 2013. This led to a rise in insurance sales from £4.0m to £4.3m. The percentage rise in value being less than the rise in units as insurance income per unit installed dropped.

Gross margin remained at 65%. Profit before tax rose from £4.8m to £5.5m, an increase of 14.6%.

An interim dividend of 15p per share (£3,030,000) was paid to Quartix Holdings on 30 June 2014.

A final dividend of 5p per share (£3,030,000) was paid to Quartix Holdings on 31 December 2014.

Research and development

The Company is committed to research and development. During 2014 the Company improved the functionality of the TCSV10 by adding 3G and worked on the development of the TCSV11. It continued researching various methods and algorithms for determining the difference between the shock levels generated in a vehicle during a crash, as compared with other events which occur normally in the course of journeys. The Company also continued the enhancement of its software systems. The costs relating to this and other research and development all of which has been written off in the year amounted to £993,000 (2013: £1,085,000).

Future developments

The Company plans to export to its sister company in the USA and further develop its existing businesses.

This Report was approved by the Board on 2 March 2015 and signed on its behalf.


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 2014, which comprise the Profit and Loss Account, the Statement of Total Recognised Gains and Losses, the Balance Sheet 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).

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, 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 (APB'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 2014 and of its profit for the year then ended
- Have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice
- Have been prepared in accordance with the requirements of the Companies Act 2006

Opinion on other matter prescribed by the Companies Act 2006

In our opinion 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.

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
- The financial statements are not in agreement with the accounting records and returns
- Certain disclosures of Directors' remuneration specified by law are not made
- 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

2 MARCH 2015

Profit and Loss Account

	Notes	2014 £	2013 £
Turnover	2	15,308,166	13,180,172
Cost of sales		(5,341,377)	(4,589,439)
Gross profit		9,966,789	8,590,733
Administrative expenses		(4,456,667)	(3,776,628)
Operating profit	3	5,510,122	4,814,105
Interest receivable and similar income		14,591	11,940
Profit on ordinary activities before taxation		5,524,713	4,826,045
Tax on profit on ordinary activities	6	(927,659)	(740,813)
Profit for the financial year	15	4,597,054	4,085,232

All amounts relate to continuing operations.

The notes on pages 12 to 18 form part of these financial statements.

Statement of Total Recognised Gains and Losses

	2014	2013
	£	£
Profit for the financial year	4,597,054	4,085,232
Total recognised gains and losses relating to the year	4,597,054	4,085,232
Prior year adjustment	-	51,310
Total gains and losses recognised since last financial statements	4,597,054	4,136,542

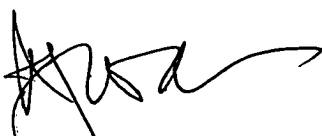
The notes on pages 12 to 18 form part of these financial statements.

Company Balance Sheet

	Notes	2014 £	2013 £
Fixed assets			
Tangible assets	8	178,184	187,819
Current assets			
Stocks		423,249	219,643
Debtors	10	5,723,274	7,446,065
Cash at bank and in hand		1,758,918	732,184
		<u>7,905,441</u>	<u>8,397,892</u>
Creditors			
Amount falling due within one year	11	(4,084,005)	(3,204,505)
Net current assets		<u>3,821,436</u>	<u>5,193,387</u>
Total assets less current liabilities		3,999,620	5,381,206
Provisions for liabilities			
Deferred tax	12	(22,190)	(24,155)
Net assets		<u>3,977,430</u>	<u>5,357,051</u>
Capital and reserves			
Called up share capital	13	202,000	202,000
Share premium account	15	24,000	24,000
Other services	15	77,258	6,261
Profit and loss accounts	15	3,674,172	5,124,790
Shareholders' funds	14	<u>3,977,430</u>	<u>5,357,051</u>

The notes of pages 12 to 18 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 2 March 2015.



Andrew Walters
Managing Director

Notes to the Financial Statements

1 Accounting policies

Basis of preparation of financial statements

The financial statements have been prepared under the historical cost convention and in accordance with applicable accounting standards.

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.

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.

Cash flow

The Company, being a subsidiary undertaking where 90% or more of the voting rights are controlled within the Group whose consolidated financial statements are publicly available, is exempt from the requirement to draw up a cash flow statement in accordance with FRS 1.

Revenue

Revenue is the amount receivable for goods and services, excluding VAT. Revenue comprises the provision of telematics-based fleet and vehicle management solutions, and is recognised in line with the provision and installation of hardware, and the maintenance of software and provision of communications over the period of the customer contract. Amounts received in advance of the provision of services are included within deferred income.

Revenue from a 12 month contract is spread over the life of a contract. In the case of 12 month contracts the cost of provision and 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.

In the case of long-term contracts, revenue reflects the contract activity during the period and represents the proportion of total contract value delivered. Revenue and profit is measured at the fair value of the consideration received or receivable.

Tangible fixed assets and depreciation

Tangible fixed assets are stated at cost less depreciation. Depreciation is provided at rates calculated to write off the cost of fixed assets, less their estimated residual value, over their expected useful lives on the following bases:

- | | |
|--------------------------|----------------------------------|
| • Plant and machinery | 25% straight line |
| • Equipment | 25% straight line |
| • Leasehold improvements | straight line basis over 5 years |

Operating leases

Rentals under operating leases are charged to the Profit and Loss Account on a straight line basis over the lease term.

Benefits received and receivable as an incentive to sign an operating lease are recognised on a straight line basis over the period until the date the rent is expected to be adjusted to the prevailing market rate.

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Accounting policies (continued)

Stocks

Stocks are valued at the lower of cost and net realisable value after making due allowance for obsolete and slow-moving stocks. Cost includes all direct costs and an appropriate proportion of fixed and variable overheads.

Deferred taxation

Full provision is made for deferred tax assets and liabilities arising from all timing differences between the recognition of gains and losses in the financial statements and recognition in the tax computation.

A net deferred tax asset is recognised only if it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax assets and liabilities are calculated at the tax rates expected to be effective at the time the timing differences are expected to reverse.

Deferred tax assets and liabilities are discounted.

Foreign currencies

Monetary assets and liabilities denominated in foreign currencies are translated into Sterling at rates of exchange ruling at the Balance Sheet date.

Transactions in foreign currencies are translated into Sterling at the rate ruling on the date of the transaction.

Exchange gains and losses are recognised in the Profit and Loss Account.

Research and development

Research and development expenditure is written off in the year in which it is incurred.

Financial instruments

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the entity after deducting all of its financial liabilities.

Where the contractual obligations of financial instruments (including share capital) are equivalent to a similar debt instrument, those financial instruments are classed as financial liabilities. Financial liabilities are presented as such in the Balance Sheet. Finance costs and gains or losses relating to financial liabilities are included in the Profit and Loss Account. Finance costs are calculated so as to produce a constant rate of return on the outstanding liability.

Where the contractual terms of share capital do not have any terms meeting the definition of a financial liability then this is classed as an equity instrument. Dividends and distributions relating to equity instruments are debited direct to equity.

Warranties

The Company sells vehicle tracking systems, some of which are sold with warranty periods extending beyond 12 months. The cost of providing warranty cover within the first 12 months is charged to the Profit and Loss Account as it occurs. The future anticipated cost of providing warranty cover for that portion of the warranty period over 12 months is charged through a provision based on the known likelihood of product unit failures.

Rental tracker units

Rental tracker units are written off at the point of installation.

2 Turnover

5% of the Company's turnover (2013: 4.5%) is attributable to sales in France. There is no other significant turnover attributable to geographical markets outside the United Kingdom. The whole of the turnover is attributable to vehicle tracking systems.

3 Operating profit

The operating profit is stated after charging:

	2014	2013
	£	£
Depreciation of tangible fixed assets owned by the Company	82,144	59,343
Auditor's remuneration	16,000	15,000
Auditor's remuneration for non-audit work	1,000	-
Difference on foreign exchange	9,702	2,303
Research and development costs	993,496	1,084,645

4 Staff costs

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

	2014	2013
	£	£
Wages and salaries	2,424,190	1,847,630
Social security costs	241,911	177,707
Share based payments	83,325	6,261
	2,749,426	2,031,598

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

2014	2013
80	60

5 Directors' remuneration

	2014	2013
	£	£
Remuneration	372,086	351,308

The highest paid Director received remuneration of £80,104 (2013: £77,461).

6 Taxation

	2014 £	2013 £
Analysis of tax charge in the year		
Current tax (see note below)		
UK corporation tax charge on profit for the year	931,650	825,828
Adjustments in respect of prior periods	(2,026)	(96,484)
	<u>929,624</u>	<u>729,344</u>
Deferred tax (see note 12)		
Origination and reversal of timing differences	(1,965)	11,469
	<u>927,659</u>	<u>740,813</u>

Factors affecting tax charge for the year

The tax assessed for the year is lower than the standard rate of corporation tax in the UK of 21.5% (2013: 23.25%). The differences are explained below:

	2014 £	2013 £
Profit on ordinary activities before tax	5,524,713	4,826,045
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 21.5% (2013: 23.25%)	1,187,813	1,121,891
Effects of:		
Expenses not deductible for tax purposes other than goodwill, amortisation and impairment	1,430	-
Adjustments to tax charge in respect of prior periods	(2,026)	(96,484)
Adjustments in research and development tax credit leading to a decrease in the tax charge	(236,951)	(253,167)
FRS 19 items	22,030	(14,753)
Other differences leading to an increase in the tax charge	(354)	1,508
Group relief	-	(29,651)
Tax adjustment on exercise of options	(42,318)	-
Current tax charge for the year (see note above)	<u>929,624</u>	<u>729,344</u>

7 Dividends

	2014 £	2013 £
Equity dividends on ordinary shares	6,060,000	3,636,000

8 Tangible fixed assets

	Leasehold improvement £	Plant & machinery £	Office equipment £	Total £
Cost				
At 1 January 2014	-	12,435	330,950	343,385
Additions	12,389	-	60,120	72,509
Disposals	-	-	-	-
At 31 December 2014	12,389	12,435	391,070	415,894
Depreciation				
At 1 January 2014	-	12,292	143,274	155,566
Charge for year	414	143	81,587	82,144
On disposals	-	-	-	-
At 31 December 2014	414	12,435	224,861	237,710
Net book value				
At 31 December 2014	11,975	-	166,209	178,184
At 31 December 2013	-	143	187,676	187,819

9 Stocks

	2014 £	2013 £
Raw materials	163,463	115,098
Work in progress	141,600	76,215
Finished goods	118,186	28,330
	423,249	219,643

10 Debtors

	2014 £	2013 £
Trade debtors	1,789,614	1,723,316
Amounts owed by Group undertakings	3,798,914	5,657,488
Other debtors	14,736	1,804
Prepayments and accrued income	120,010	63,457
	5,723,274	7,446,065

11 Creditors: amounts falling due within one year

	2014 £	2013 £
Trade creditors	1,080,849	732,557
Corporation tax	440,425	440,868
Other taxation and social security	618,397	573,337
Warrants accrual	78,988	90,000
Deferred income	1,693,841	1,210,554
Accruals	71,773	97,283
Other creditors	99,732	59,906
	4,084,005	3,204,505

12 Deferred taxation

	2014 £	2013 £
At 1 January 2014	24,155	12,686
Charge/(credit) for year (profit and loss)	(1,965)	11,469
At 31 December 2014	22,190	24,155

The provision for deferred taxation is made up as follows:

	2014 £	2013 £
Accelerated capital allowances	25,738	25,204
Short term timing differences	(3,548)	(1,049)
	22,190	24,155

13 Share capital

	2014 £	2013 £
Authorised		
21,000,000 ordinary shares of £0.01 each	210,000	210,000
Allotted, called up and fully paid		
20,200,000 ordinary shares of £0.01 each	202,000	202,000

14 Reconciliation of movement in shareholders' funds

	2014 £	2013 £
Opening shareholders' funds (as restated)	5,357,051	4,901,558
Profit for the financial year	4,597,054	4,085,232
Dividends (see note 7)	(6,060,000)	(3,636,000)
Share option charge	83,325	6,261
Closing shareholders' funds	3,977,430	5,357,051

15 Reserves

	Share premium accounts £	Share option reserve £	Profit and loss account £
At 1 January 2014	24,000	6,261	5,124,790
Profit for the financial year	-	-	4,597,054
Equity dividends	-	-	(6,060,000)
Share options taken up	-	(12,328)	12,328
Share option charge	-	83,325	-
At 31 December 2014	24,000	77,258	3,674,172

16 Capital commitments

The Company had a short term capital commitment of £39,000 at 31 December 2014 (2013: nil). This commitment was for the installation of telephonic equipment during the next financial year.

17 Operating lease commitments

At 31 December 2014, the Company had annual commitments under non-cancellable operating leases as follows:

	Land and buildings		Other	
	2014	2013	2014	2013
	£	£	£	£
Expiry date:				
Within 1 year	9,620	9,620	-	-
Between 2 and 5 years	40,712	29,200	12,117	6,313
	50,332	38,820	12,117	6,313

18 Purchase commitments

Quartix Limited has signed agreements with suppliers which commits it to purchase stock to the value of £154,367 (2013: £209,712) if ever the agreement is terminated. There were no other contingent liabilities as at 31 December 2014 or 31 December 2013.

19 Related party transactions

The Company has taken advantage of the FRS 8 exemption not to disclose transactions with its Parent Company, Quartix Holdings plc and its fellow subsidiary company, Quartix Incorporated. There were no other related party transactions during the year ended 31 December or 31 December 2013.

20 Security

The assets of the Company have been pledged as security for the bank loans entered into by the Parent Company, Quartix Holdings plc. The bank loans are secured by a fixed and floating charge over all the assets of the Company. Bank loans in the Parent Company totalled £1,986,481 at 31 December 2014 (2013: £2,975,737).

21 Ultimate controlling party

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.