Strix

INNOVATIVE TECHNOLOGY

The world leader in kettle controls

Annual report
and accounts 2017

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A positive set of results with strong cash flow.

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To develop and supply best in class products.

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Involvement across the chain helps secure market position.

Key history and development

Our history

Strix was established in 1982 on the Isle of Man and was initially focused on designing and manufacturing thermostatic controls for small domestic appliances. Strix developed and patented what would become key kettle safety control products, which led to it gaining significant market share and becoming the leading global manufacturer of safety controls for kettles.

A brief history of Strix

During the Second World War, Eric Taylor, the company's founder, developed heated flight suits for the Royal Air Force which were electrically powered. In order to manage the risk of temperature regulation, Eric invented a bi-metal thermostat which was incorporated into the flight suit – the foundation of the modern kettle control.

In 1981, Eric's son, Dr John C Taylor, renamed the company, previously Castletown Thermostats, to 'Strix'. Strix reached out to new markets outside of the UK and increased its presence on the Isle of Man by building its engineering and development centre on the island, as well as part of its key manufacturing facilities, which remain on the Island to this day.

The Group reached a significant milestone by selling its 2 billionth control in November 2017 which is a demonstration of the quality of our products and our service.

1951

Castletown Thermostats founded by Eric Taylor, the inventor of a revolutionary thermostat used during the 2nd World War to control heated flying suits worn by bomber crews at high altitudes

1982

Castletown Thermostats becomes Strix under John Taylor, the son of Eric Taylor

Strix INNOVATIVE TECHNOLOGY

1985/6

The R-series control, using an immersed heating element and P-series cordless connector are launched

1988

Becomes market leader as the 10 millionth control is produced

1989

The first overseas office is opened in Hong Kong

1995

The 100 millionth control is produced

Receives the Queen's Award for Export achievement

1995

1996

The U-series family of controls and P72 connectors are launched, a revolutionary underfloor heating system with 360-degree rotation

1997/8

Opening of new manufacturing facility in Guanzhou, China

Receives the Queen's Award for Export achievement

1998

2000

THE QUEEN'S AWARDS FOR ENTERPRISE 2000

Receives the third Queen's Award for Enterprise: Innovation for the U-series control

2003

The 500 millionth control is produced

2005

Aqua Optima launches water filters globally

2007

The EK controls and connectors are launched which offer user functionality never seen before

2009

Celebration in July as the 1 billionth control is produced

2010

Wins patent infringement law suits against two kettle control manufacturers in China

2011

Aqua Optima launches the 'Evolve' range of water filters

2013

Launch of baby formula maker, an innovation that addresses previously un-met consumer needs

2016

Aqua Optima sells 25 millionth filter

2017

The U9 family of controls and connectors are launched

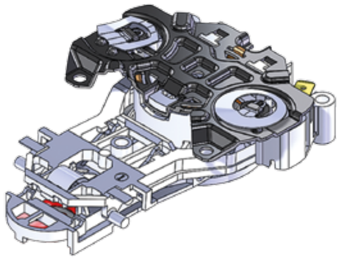
Floats on the London Stock Exchange

The 2 billionth product celebration in November

Continued development for the Future

Who we are

Strix Group Plc is the global leader in the design, manufacture and supply of kettle safety controls and other components and devices involving water heating and temperature control, steam management and water filtration.



Financial summary

Revenue
+2.9%
2017: £91.3m
2016: £88.7m

Adjusted profit before tax[1]
+5.6%
2017: £28.3m
2016: £26.8m

Adjusted profit after tax[1]
+11.3%
2017: £27.5m
2016: £24.7m

Adjusted EBITDA[1,2]
+4.8%
2017: £35.1m
2016: £33.5m

Adjusted earnings per share
14.5p

Proposed dividend per share
2.9p

For further information **pg22**

Operational highlights

- Strong performance delivered in first period as a quoted company, with results in line with market expectations
- Net cash generated from operating activities £33.8m (2016: £32.0m), an increase of £1.8m or 5.6%
- Net debt at year end of £45.9m, a significantly improved position resulting in a net debt/adjusted EBITDA ratio of 1.3x
- Launch of U9 series controls providing cost-competitive, best-in-class safety controls
- Installation of automated production line for U9 series allowing a 15% increase in throughput
- Successful admission to trading on AIM on 8 August 2017
- Proposed final dividend of 1.9p, with total dividends of 2.9p for the five month period from IPO to 31 December 2017
- Secured major contract with UK retailers, including Tesco and Boots, for Aqua Optima

1. Adjusted results exclude royalty charges and exceptional items, which include share-based payment transactions. Adjusted results are non-GAAP metrics used by management and are not an IFRS disclosure.
2. EBITDA, which is defined as profit before finance costs, tax, royalty charges, depreciation and amortisation, is a non-GAAP metric used by management and is not an IFRS disclosure.

Company overview

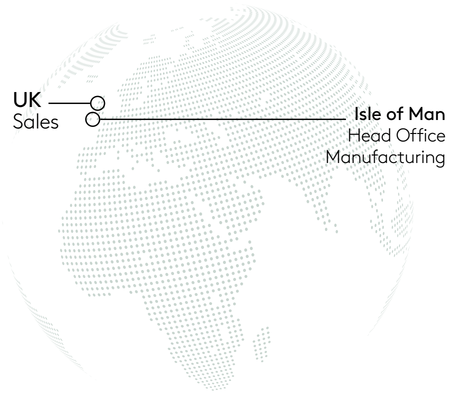
Strix has become the largest group in the world in the design, manufacture and supply of kettle safety components and related products in adjacent industries.

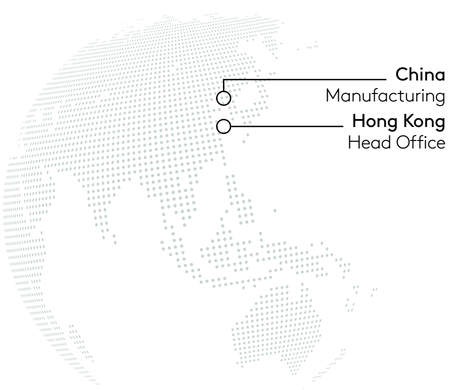
We estimate that our products are used over 1 billion times daily, in more than 100 countries, and by over 10% of the world's population.

Locations
Strix has six operational sites globally, of which two are in the Isle of Man, one is in the UK, two are in Hong Kong and one is in China.

Corporate
The Group's corporate offices are located in the Isle of Man (Ronaldsway), which serves as the head office, and Hong Kong.

Manufacturing
Strix has manufacturing operations in two locations – Ramsey, Isle of Man and Guangzhou, China.





Kettle controls

Strix's core products are safety controls for small domestic appliances, primarily kettles, which are responsible for disconnecting the power to the heating element when the water has boiled.

The control is also designed to act as a safety device, disconnecting the power during abnormal operations such as when the appliance is operated with no water present, or in some products when the kettle is lifted off its base, to prevent the element from overheating and minimising the risk of harm to the consumer.

Total sales volumes (000s)

+3.5%

2017: 73,990
2016: 71,483

For further information pg08

Aqua Optima

Aqua Optima is Strix's range of domestic water filtration products, including jugs, water filters and other related appliances.

Aqua Optima is the second largest and fastest growing point-of-use water filter brand in the UK and has a strong customer base.

Strix's expertise in water filtration originally grew from an internal project to develop a filter kettle, due to none of the products in the market achieving a fast enough flow rate to avoid a kettle dry-boiling and switching off. Strix developed a faster-flowing filter in-house and subsequently launched a range of products based on this technology into the retail market for domestic use.

UK volume share

+150%

2017: 20%
2016: 8%

Value-added services

Our customers buy Strix products with confidence, safe in the knowledge that the product will meet all of the relevant safety requirements and will achieve the highest level of performance.

Our continual analysis of the global kettle market and industrial design services help our key customers – OEMs (Original Equipment Manufacturers), brands and retailers – to optimise the relevance of their appliance offerings to the end consumer, which significantly increases the chances of a successful product launch.

We also help to protect the end consumer by investigating unsafe products, commonly produced by lower-priced competitors, and by taking measures to have these products removed from sale where consumer safety is at risk.

Appliances recalled 2017

c.20

Other technologies

Strix has developed a portfolio of water, temperature and steam-management technologies which have been commercialised in adjacent products and markets.

Examples of these technologies and products are:
- Steam boiler
- Instant flow heater
- Turbo toaster

There are a number of other technologies which Strix already owns, or is in the process of exploring, to develop future commercial products.

Total R&D expenditure (£000s)

+7.0%

2017: 3,549
2016: 3,318

Chairman's statement

It is my pleasure to present the first annual results of Strix Group Plc as a listed company. I am delighted to have joined the Company as Chairman at such an exciting stage in its continued development, with the transition of the Company from private to public ownership.

Gary Lamb
Non-Executive Chairman

The Group has produced another strong year, with record revenues and a growth rate that is a result of the hard work and dedication of all of our people.

The Group, subsequent to its admission to trading on AIM on 8 August 2017, will continue to pursue its passion for innovation, as well as continuing to develop and manufacture the high-quality, safe and reliable products for which it is renowned across the world.

The Group has produced another strong year, with record revenues and a growth rate that is a result of the hard work and dedication of all of our people. These results are testament to our business model, which has been designed to maintain our position as a global leader in our core markets, whilst positioning Strix for continued growth into the future.

Results

The Group has delivered positive results, showing growth in our key metrics, which demonstrates the strength of our underlying business. This performance was achieved on top of an extremely busy year, in which the management team also successfully completed a £190m capital raising and admission to trading on AIM, which delivered an exit for our previous shareholders.

Revenue for the year reached £91.3m, 2.9% growth on 2016, whilst gross margin increased by 1.2% to 40.7%. Adjusted EBITDA was £35.1m, an increase of 4.8% on 2016. Cash generation remains strong, with £33.8m net cash generated from operating activities, compared with £32.0m in 2016.

Revenue

+2.9%

2017: £91.3m
2016: £88.7m

Adjusted EBITDA

+4.8%

2017: £35.1m
2016: £33.5m

Dividend

The board of directors of the Company ('Board') is proposing a final dividend of 1.9 pence per share following the 1 pence maiden interim dividend paid in November 2017. The final dividend will be paid on 1 June 2018 to shareholders on the register at 4 May 2018 and the shares will trade ex-dividend from 3 May 2018. This will bring the full year dividend to 2.9p, equating approximately to a 7.0p dividend for the year on a pro-rata basis, based on the Company having been trading on AIM for approximately five months of our financial year. The Board intends to maintain a progressive dividend policy.

Our people

It was an honour to join the Board as Interim Chairman ahead of the IPO and to then be appointed on a permanent basis on 6 March 2018. I also perform the roles of Remuneration and Nominations Committee Chairman. Working alongside me is Non-Executive Director Mark Kirkland, who also acts as Chairman of the Board's Audit Committee.

I am privileged to be working with our two Executive Directors, Mark Bartlett, Chief Executive Officer and Raudres Wong, Chief Financial Officer, who I would like to thank for their dedication and hard work in leading the Company through our recent IPO and positioning us for ongoing success.

The Company's performance in 2017 is testament to the dedication and professionalism of our people. We have a healthy combination of long-serving and new employees who have responded well to life as an AIM-listed company and are looking forward to contributing to the ongoing success of the Company under public ownership.

I would like to take this opportunity to thank all of our people for their significant contribution to the Group's success.

Future outlook

Strix has made an encouraging start to life as a public company. The Group's prospects are encouraging and we have experienced a positive start to 2018, which gives me confidence that the outlook for the Group remains positive. The Board will continue to work with the executive and management teams in 2018 to deliver on our strategy to create value for our shareholders.

The Group will host its first Annual General Meeting since its admission to trading on AIM on 24 May 2018 at our registered office at Forrest House on the Isle of Man, to which I welcome all of our shareholders.

Gary Lamb
Chairman

Our year in review

During August 2017, the Group took a historic step in its growth and development by being admitted to trading on AIM, with a £190m IPO. This step was taken to provide an exit for our previous shareholders, and to allow the Group to further invest in the R&D capabilities that have provided the platform for our success.

This will help us to defend our market share and provide opportunities for future growth to allow us to maximise the value of the business for our investors.

In addition, our admission to trading on AIM allows us to set longer-term objectives for our people and to have the ability to incentivise them with share option awards, contingent on achieving certain Group performance goals that will deliver success for our investors. This will help us to deliver on our strategy which is detailed further on pages 12 to 13.

During November 2017, the Group celebrated the production of the 2 billionth product in a ceremony attended by His Excellency Sir Richard Gozney, the Lieutenant Governor, at our head office at Forrest House on the Isle of Man. This achievement demonstrates the consistent level of growth the Group has achieved, having previously celebrated the production of the 1 billionth control in 2009 and the 500 millionth control in 2003.

Our admission to trading on AIM will allow us to make longer-term investment decisions to continue to achieve these significant milestones into the future.

Chief Executive Officer's review

I am delighted to present Strix Group Plc's first annual results to shareholders following its admission to trading on AIM in August 2017. The Group has delivered a positive set of results, in line with market expectations and with a particularly strong cash flow performance which supports our progressive dividend policy.

Mark Bartlett
Chief Executive Officer

Performance during the second half of 2017, following our admission to trading on AIM, was strong and I am pleased to report that we have seen a healthy start to the current year.

Strix has continued to enhance its market position by continuing to implement its strategy, with the successful launch of a new range of 'best in class' controls designed to deliver competitive, high-quality products across all market segments. In November 2017, Strix celebrated the sale of its 2 billionth product, a significant milestone which highlights our global market position.

Financial performance

Our financial performance continues to demonstrate positive results with increases against prior year in revenues (up 2.9%) and adjusted EBITDA (up 4.8%), with gross margins also increasing by 1.2% to 40.7% due to positive changes in product mix. Adjusted profit before tax showed an increase of £1.5m, up 5.6% (2016: £26.8m).

Cash conversion remains particularly strong with net cash generated from operating activities increasing by 5.6% to £33.8m (2016: £32.0m). Our continued ability to generate significant cash inflows will support our progressive dividend policy and has allowed us to reduce our net debt since the drawdown of the new revolving credit facility in August 2017, which has decreased by £4.8m to £56.0m.

Market review

The Group continues to hold a strong global market share of c.38% with all segments showing a stable position. It is estimated that the global market grew c.5% to c.182m appliances with global penetration of c.35% allowing for continued growth. The overall Regulated market volume growth was estimated at c.5% to c.50m appliances with Strix securing c.6% growth and maintaining a market share of c.61%. The c.5% Regulated market volume growth is particularly strong given a historic 5 year compound annual growth rate ('CAGR') of c.1% and was driven by particularly strong performance in Western Europe which posted c.9% growth versus a c.4% CAGR. In North America, Strix has gained c.12% share during the last two years to hold c.75% market share with the overall household penetration increasing to just c.13%.

The China market for core kettle controls is estimated to have declined slightly over the prior year (by c.6%) to c.44m appliances. This decline in China is set against a backdrop of experiencing exceptional growth in 2016, with Strix maintaining a share of c.50%. The China domestic market has seen an increase in electronic multi-cooker appliances and Strix will launch a revised control in H2 2018 to secure a share of this growth opportunity whilst continuing to defend its existing patented technology. The Less Regulated markets are estimated to have grown by c.12% during the year to c.88m appliances compared to the historic CAGR of c.8% with Strix securing c.16% growth following a strong performance in South America and the Commonwealth of Independent States ('CIS'), increasing its share in this segment to c.19%. The electronic control segment, an area where Strix holds patents on its EK3 control, continued to show significant importance with growth at c.54% over prior year and Strix holds c.67% share.

Aqua Optima has also seen some significant growth with the UK share growing by over 100% from c.6% to c.12% with significant incremental contracts secured with major retailers including Tesco and Boots.

Operations review

Lean and continuous improvement initiatives have been a key focus both within operations and throughout the organisation. This focus led to a further 7% improvement in production efficiency and secured significant reductions to our customer defect PPM (parts per million) rate, achieving a record low level for the Group. We continued to execute on our

Net cash generated from operations	Adjusted profit before tax
+5.6%	+5.6%
2017: £33.8m	**2017: £28.3m**
2016: £32.0m	2016: £26.8m

strategy for production automation, with the first truly automated line for the new U9 series installed and commissioned during H2 2017.

We will continue to execute on this strategy going forward to further increase our capacity, quality control and reliability whilst continuing to optimise costs.

With the continued volume growth in both our core business and Aqua Optima, coupled with some exciting opportunities being explored with our mature technologies, we will consider accelerating investment to further expand our operations facility in China, in order to maximise these opportunities for the future.

Product review

The key product focus during 2017 within our core segment has been the development and launch of the new range of U9 series controls, designed to provide 'best in class' products to compete across all market segments. The full range of controls was launched during 2017 and provided a complete portfolio of products to address market needs across all segments. This received a very positive response from our customers globally with c.50 new appliances currently specified for launch during 2018 representing an estimated annualised volume of c.3m appliances.

In addition to our core kettle controls, we also launched a number of new products which included the Turbo toaster which uses Strix patented technology, two new single dispense Hot Cup appliances and the Aqua Optima filter kettle. More recently, 2018 has also seen the launch of the new baby formula system from Tommee Tippee in the UK with further expansion planned within this segment from additional geographies.

Following our admission to trading on AIM there has been renewed focus and investment into our patented, mature technologies within the hot water on-demand category and we continue to use our strong relationships with key OEMs, brands and retailers, coupled with consumer research, to increase the focus on innovative products for the future.

Safety

Safety awareness and associated actions within the market continue to be a key focus, protecting the market from unsafe or poor-quality products.

During 2017, we have maintained active relationships with market surveillance authorities which led to the formal recall of two competing products in Germany, fitted with competitor controls and the removal from shelves of c.20 appliances globally.

We have also secured amendments to enhance the international safety standards for cordless connectors, further raising the bar for competitor products within regulated markets.

The electronic control segment received significant focus given its growth and the expansion of multi-cookers within China.

Legal actions have been initiated in relation to c.20 appliances within China that infringe our intellectual property rights. We will continue to defend our intellectual property rights, following on from the success of our previous legal actions.

Board composition

I am delighted that, as of 6 March 2018, Gary Lamb was appointed as Chairman of Strix Group Plc following his position as Interim Chairman at the time of our admission to trading on AIM. Gary has brought a wealth of experience to the Board based on his current position as CEO of Manx Telecom Plc, in addition to his knowledge of AIM and his relationships on the Isle of Man. His history with Strix has allowed him to be an excellent sounding board on current and future initiatives, and I look forward to working closely with him and the Board to realise the full potential of Strix going forward.

Strategy

Our strategy is centred on a culture of achievement, developing and empowering our employees to deliver our corporate objectives. The overall strategy is based on 'four Ps':

- People;
- Process re-engineering;
- Products; and
- Performance.

We have developed a fully-integrated HR strategy that will drive employee engagement and development. We have a very experienced and dedicated workforce within Strix and I am confident we can successfully grow the value of the Company with their continued support and commitment.

Our people strategy is linked to our strategic pillars which are detailed on page 12.

Trading and outlook

Trading during the second half of 2017, following our admission to trading on AIM, was strong and I am pleased to report that we have seen a healthy start to the current year. We remain focused on delivering another year of growth in line with market expectations.

I would like to take this opportunity to thank all our employees across the globe for their commitment and hard work during what was an exceptionally busy year with the transition to AIM and for the support from the new Board as we work to realise the full potential of the Company as a listed group.

Mark Bartlett
Chief Executive Officer

Market review

The global market for kettle safety controls is estimated to have been c.182 million sets in 2017, with Strix having a global market share of c.38% of this by volume.

Overview
Globally, Strix estimates that in 2017 the kettle market grew c.5% to c.182 million sets sold, growing in line with the annual c.5% per annum growth rate the market has experienced since 2013. Kettle penetration rates provide an indicator of potential growth, and in 2017 Strix estimates global kettle penetration has increased slightly to around c.35% of all households.

Kettle safety controls require precision engineering and intricate knowledge of material properties in order to continue to function exactly as designed for many thousands of cycles. The products in Strix's core product range have been developed over a number of years and utilise intellectual property and know-how generated by Strix in over three decades in the kettle market. Strix products focus on the highest standards of quality and routinely exceed 12,000 cycles in life endurance tests.

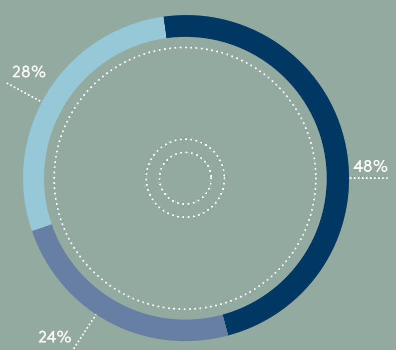
Global demand for point-of-use water filtration devices is lucrative and growing. We believe there is still significant room for further growth in developed Aqua Optima markets in Europe, as well as in China where Strix and Aqua Optima have already developed strong local partnerships and expertise.

Aqua Optima is positioned in a global market which is growing rapidly due to consumer demands changing to place greater importance on lifestyle, health and nutrition.

Other technologies focus on technologies which are adjacent to the core kettle controls where we are able to use our skills and expertise to develop commercial solutions to solve existing problems, or make life easier for our customers.

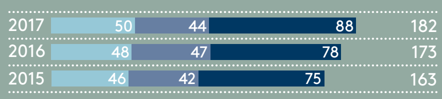
Regulated kettle market
Regulated markets are those where high safety and intellectual property protection standards are in place and where those standards are rigorously monitored and enforced. Examples of Regulated markets include the UK, Western Europe, North America, Australasia, Turkey and Japan. In 2017 Strix estimates the Regulated kettle market grew strongly by c.5% to c.50 million units, compared to only experiencing c.1% annual growth since 2013. The key driver behind Regulated market growth was Western Europe, which experienced c.9% growth, up from an annualised c.4% growth since 2013.

Sales volume split by market 2017



- Regulated
- China
- Less Regulated

Market development: Kettle controls



- Regulated
- China
- Less Regulated

Market share
Strix retained its market leading c.38% global market share of kettle safety controls (2016: 38%).

Kettle controls

Market share

c.61%

Regulated markets: Strix is the key supplier to the Regulated market, where customers favour high-quality controls to meet tighter regulations. In this mature market, we successfully retained our market share at c.61%.

Market share

c.19%

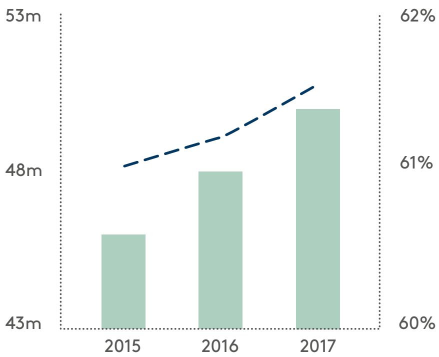
Less Regulated markets: In Less Regulated markets, we grew our market share during 2017 by c.1% to c.19%. This was achieved in a growing market through increased penetration of lower-cost products into markets where Strix has also focused on safety initiatives, as enforcement of regulation is generally less stringent in these markets.

Market share

c.50%

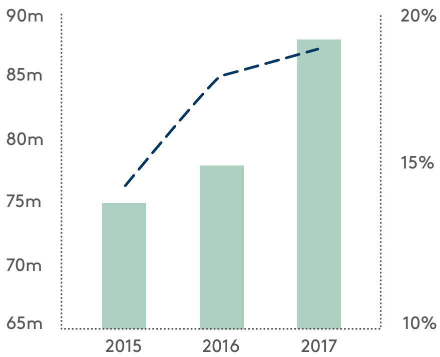
China: In 2016, Strix experienced strong growth in its market share as there was a shift in purchasing behaviour following a health scare caused by poor-quality competitor products in this period. In 2017, the market fell back following the strong 2016 growth, and Strix's share of this market ended the year at c.50%, which is in line with 2016.

Market development:
Regulated



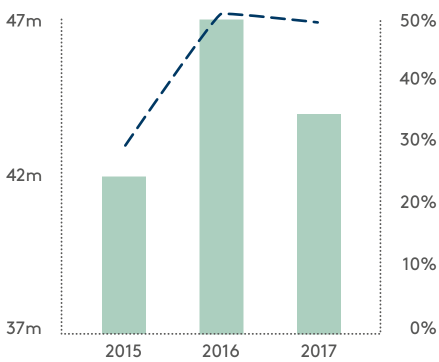
● Market share %
● Total volume sold (Strix and competitors)

Market development:
Less Regulated



● Market share %
● Total volume sold (Strix and competitors)

Market development:
China



● Market share %
● Total volume sold (Strix and competitors)

Market review
continued

Less Regulated kettle market
Less Regulated markets are those where either high safety and/or intellectual property standards are not in place, or where they are in place but less rigorously enforced. Examples of Less Regulated markets include the CIS, Middle East, South East Asia, Africa and South America. In 2017, Strix estimates the Less Regulated kettle market grew strongly by c.12% to c.88 million units, compared to only c.8% annual growth since 2013. The key drivers behind Less Regulated market growth were the CIS, which showed c.17% growth, up from an annualised c.7% growth since 2013, and South East Asia which exhibited continued strong growth of c.10%.

China domestic market
China is generally considered to be a Less Regulated market, but is developing quickly with improving safety standards and enforcement. Overall, the China domestic traditional kettle market is estimated to have declined by c.6% to c.44 million units, following the dramatic increase in sales in 2016 partially attributable to the health scare with poor Stainless Steel kettles. The China domestic market has seen an increase in higher-priced multi-cooker devices. Strix is responding to this opportunity by launching a revised control family in H2 2018 to address this demand, together with ongoing robust defence of Strix's intellectual property in the market.

Aqua Optima
The current Aqua Optima product range includes water filter jugs, and a range of other filters and appliances.

Aqua Optima aims to provide exceptionally high quality water filter products which turn tap water into great-tasting filtered water, improving the taste of hot and cold drinks and providing a healthier and more sustainable option to disposable bottled water.

Aqua Optima also has a long term contract to supply bespoke filters for the Tommee Tippee Perfect Prep baby formula appliance, which sterilises baby formula powder and prepares a bottle of the correct volume and temperature in under two minutes. During 2017, Aqua Optima has worked with Tommee Tippee to make several improvements to this product and a new and improved Perfect Prep appliance has been launched during Q1 2018, building on the success of the original, to make life easier for new parents.

Other technologies
Examples of these technologies include:

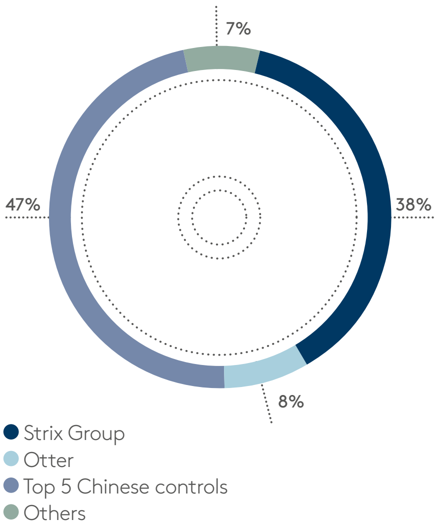
Steam boiler: Strix's patented steam boiler produces large amounts of steam quickly (in comparison to other available devices) and reaches full temperature in seconds. Practical applications of this technology include food steamers and water dispensers.

Instant flow heater: Strix's patented instant flow heater has adjustable temperature (up to true boiling) and volume dispense settings, which starts quickly – taking under five seconds to reach full temperature. Practical applications of this technology include baby formula systems, water dispensers and other hot water applications.

Turbo toaster: Patent-protected design enabling bread to be toasted in under 60 seconds.

We remain committed to exploring commercial opportunities where these other technologies can be utilised to either improve an existing product, or create a whole new product to provide additional features, functionality and benefits to consumers.

Global market volume share



Aqua Optima

Significant growth in Aqua Optima distribution was achieved during 2017.

The core water filtration business grew sales by c.17% as Aqua Optima increased its presence in multiple UK retailers. Aqua Optima also secured major contracts with Tesco and Boots during Q4 2017. As a result, Aqua Optima grew its combined brand and private label volume share by over c.150% to just under c.20%.

Volume share[1]

2017	20%
2016	8%

+150%

Other technologies

Strix is investing in its R&D capabilities to continue to deliver new products to the market.

Several new products have been developed during 2017 to leverage on relationships across our value chain and launch further appliances utilising our mature and proven technologies. This will allow Strix to develop a full portfolio of products within the 'hot water on demand' and 'mother and baby' segments.

Total R&D expenditure

	(£000s)
2017	3,549
2016	3,318

+7.0%

1. Combined brand and private label volume share.

Our strategy

Strix has a divisional strategy, with the overriding principle being to develop and supply best-in-class products across all of its markets and product lines. The key areas of our strategy are:

Strategic pillars	What it is
1 Build and maintain market share	Strix has a 'good, better, best' strategy for addressing each of its key markets, with products available at differing price points and levels of functionality to satisfy customer needs, whilst enhancing safety standards and complying with relevant regulations. This breadth of product range allows us to compete in a number of different markets across the globe, which in turn enables us to build and maintain our market share in the markets in which we operate. Our aim is to be able to satisfy the needs of our customers, wherever they are located in the world, and with whatever features and price point they demand from their product specification.
2 Focus on safety	Strix products are tested and then certified by independent organisations to demonstrate compliance with relevant national and international control safety standards so that Strix customers can obtain accreditation for their appliances. Adoption of these safety standards is voluntary but they are often referenced in national laws and regulations. As a result, in well-regulated markets, unsafe competitor products are occasionally recalled from sale. An understanding of the relevant standards and the direction these are taking is important, which is why Strix is represented on a number of key technical committees. Strix's major customers also set performance and safety standards in excess of national standards to protect their brand equity from adverse quality issues. Strix's products are designed and engineered to exceed these requirements based on years of experience, which provides a barrier to entry for competitors.
3 Explore new technologies	Strix's research and development, industrial design and appliance knowledge enables Strix to develop new technologies. Strix seeks to form partnerships with OEMs, brands and retailers to use these technologies to develop new kettles or other domestic appliances, in a similar manner to the Tommee Tippee appliance.

Progress in 2017

We have grown our market share in all of our key markets in 2017 with the exception of China, which has remained stable. We believe this is primarily due to a particularly buoyant 2016 due to the change in customer behaviour which experienced a shift toward higher quality kettles as a result of a health scare.

Due to growth in other markets, our overall market share has been maintained at c.38%, which remains the market leading position in the world.

Active relationships with market surveillance authorities have been consolidated in some major European kettle markets, leading directly to the recall of two unsafe appliances in Germany during 2017.

In addition, similar initiatives have commenced in South America and Africa. Amendments to the international safety standard for cordless connectors proposed by Strix were adopted by the relevant IEC technical committee. Strix continues to enhance the design and safety of its products with the launch of its new U9 control.

The 'best-in-class' range of U9 kettle control products was launched across all market segments, using new automated manufacturing techniques to ensure the highest degrees of manufacturing tolerance and efficiency. 2017 also saw the launch of several new products into key adjacent markets, including:

- the Turbo toaster, which received a 'Best Buy' award from Which?;
- two versions of the Breville Hot Cup (part of the 'hot water-on-demand' segment); and
- the Aqua Optima filter kettle.

Actions for 2018

In H2 2018, a new control family will be released to meet the consumer demand, particularly in the China market, for multi-cookers which will help to protect and grow our share of this important market.

In addition, the recent launch of the U9 series of controls will allow us to continue to offer high-quality products at competitive prices which will begin to take effect in 2018 as our customers switch to this new product line.

To continue the pressure on low-grade appliances and promote consumer safety, Strix will continue to make submissions to market surveillance authorities in major European markets, with the aim of stimulating market recalls. Initiatives started in 2017 in Africa and South America will be concluded and Strix will continue to promote, with a view to getting published, an amendment to the international safety standard for appliances that would further improve safety.

Strix is in the process of expanding its dedicated R&D group to focus this highly skilled engineering resource to develop new patented products around its core competencies for the 'hot water on demand' segment and the 'mother and baby' formula appliance market, whilst further enhancing its core products such as the U9 series and EK (electronic kettle) features.

Working across the value chain

Strategy in action

Strix, as a service provider across the value chain, provides components and value-added services to OEMs, brands and retailers, who utilise these and other components to produce kettles for consumers across the world.

Product design and appliance integration

- Full industrial design capability
- Support throughout the product lifecycle
- Extensive market intelligence to determine market trends and consumer requirements

Strategic pillars: 1 3

Designs for the future

Strix provides components to OEMs, who utilise these and other components to assemble a kettle to a desired specification for a brand or retailer. Strix also acts as a solutions provider to the entire value chain by developing products and technologies which ensures successful integration into the appliance, thereby benefiting both the OEM and the brand.

In addition, Strix's sales team have detailed market knowledge and extensive contacts with all of the major brands and retailers.

This allows Strix to advise OEMs as to the style and specification of a product needed to access a particular market. This ability to leverage our strong relationships with key brands and retailers is a significant attraction for OEMs.

Strix also develops new product concepts which are focussed on adding additional consumer features that allow OEMs and brands to offer improved endurance, extra features, improved design and improved energy efficiency.

Testing, approval and safety

- Involvement in standard-setting bodies
- Facilitate recall of unsafe products
- Streamlining of control testing accreditation

Strategic pillar: 2

Protecting consumers

Strix enhances its value proposition through a relentless focus on product performance testing and regulatory compliance. During design and development, each product undergoes rigorous performance testing on proprietary equipment to ensure it will exceed market life expectations.

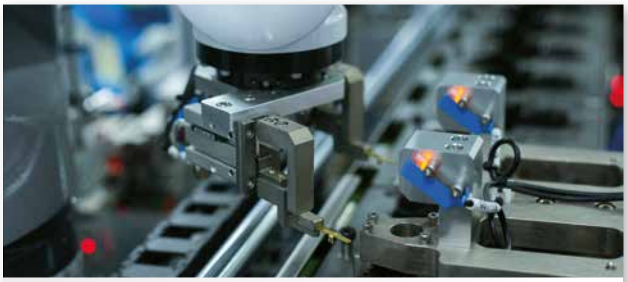
Before market launch, Strix products are tested and certified by independent organisations to demonstrate compliance with the relevant national and international control safety standards. This certification allows customers that incorporate a Strix product to in turn obtain accreditation for their appliances without having to conduct repeat control testing.

Under European legislation, adoption of international safety standards is voluntary; hence it is possible to place an appliance on the market containing a low-grade control that could be unsafe. In these circumstances, Strix will purchase such products, test them and, if appropriate, complain to the relevant market surveillance authorities which can lead to the unsafe appliances being recalled by processes such as RAPEX in the EU.

Strix is unusual in that it has direct relationships with brands and retailers, who regularly seek advice from Strix on product design and specification, including selection of an appropriate OEM. This position in the value chain helps Strix to secure its market position and acts as a barrier to entry by ensuring that Strix controls are specified, whilst assisting the brand/retailer in achieving their desired appliance quality and price point.

For further strategy information **pg12-13**

Manufacture and process control



- Significant increase in automation
- Continual focus on efficiency
- Strong focus on quality throughout the organisation

Strategic pillars: 1 2

Efficient and cost effective

Strix has an automation plan in place for the Guangzhou site which is seeing a phased introduction of new automated lines over the next few years to generate additional manufacturing capacity from the same floor space, which will enable us to cope with increased production volumes, and to further improve production efficiency and quality. This will also help to mitigate the challenge presented by year-on-year labour cost increases.

Continuous improvement initiatives in our manufacturing process are a key focus to improving the stability of the manufacturing process, enhancing product performance to help our customers improve their product quality, and reduce costs.

Strix also undertakes both Lean and 6 Sigma projects to focus on cost reduction and process improvement. These initiatives will continue in 2018 to deliver better products to customers and manage and reduce costs to improve profitability for our investors.

Retail

- Strong market analysis capabilities
- Global coverage
- Protection of brand reputation

Strategic pillars: 1 3

Working in partnership

Industrial design is a key service offered to our OEM, brand and retail customers. Strix uses its market knowledge and trend analysis to design appliances that will appeal to a particular market and consumer. The design can be used royalty-free for life, on condition that the appliance is only fitted with Strix controls.

The cost of a market return is significant and can have a major impact for a brand. OEMs and brands buy Strix products because they understand how much investment of time and engineering expertise we have made in our products to make them perform time after time, as well as ensuring they meet (or exceed) all of the relevant safety regulations in the chosen countries.

During 2017, we have also established the Strix online 'kettle catalogue' to help brands and retailers quickly and easily locate the right product to meet their needs – at http://kettlecatalogue.strix.com

Key performance indicators

Financial KPIs | Definition | 2017 performance

Sales volume

	(000s)
2017	73,990
2016	71,483

+3.5%

Definition: Sales volume is the number of items sold during the year.

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2017 performance: The global market for kettle safety controls is estimated to have been c.182 million sets (2016: c.173 million sets) in 2017, with Strix having maintained a global market share of c.38% (2016: c.38%) of this by volume.

Adjusted EBITDA

	(£000s)
2017	35,117
2016	33,473

+4.8%

Definition: Adjusted EBITDA highlights the underlying operational performance of the Group after adjusting for exceptional costs, the impact of financing decisions, and depreciation and amortisation.

2017 performance: Adjusted EBITDA increased to £35.1m from £33.5m, representing a 4.8% increase, which was in line with market expectations.

Gross profit

	(£000s)
2017	37,169
2016	35,037

+6.1%

Definition: Gross profit is the profit generated from our sales, after deducting the costs associated with making and selling our products.

2017 performance: Due to improvements in automation and other measures undertaken to reduce manufacturing costs, gross profit increased by £2.1m (6.1%). The increase in gross profit margin from 39.5% in 2016 to 40.7% in 2017 was due to a shift in sales towards some of our higher-margin products.

Net cash generated from operating activities

	(£000s)
2017	33,821
2016	31,981

+5.8%

Definition: Cash flows from operating activities is a measure of the cash generated by our operating activities, excluding the cash impacts of longer term financing and investing activities.

For further information **pg49**

2017 performance: Cash conversion remains particularly strong with net cash generated from operating activities increasing by 5.6% to £33.8m (2016: £32.0m). Our continued ability to generate significant cash inflows will support our progressive dividend policy and has allowed us to reduce our net debt since the drawdown of the new revolving credit facility in August 2017, which has decreased by £4.8m to £56.0m.

Total R&D expenditure

	(£000s)
2017	3,549
2016	3,318

+7.0%

Definition: Total R&D expenditure (including capitalised costs) as a % of reported revenue, which supports our investment in future technologies and products.

2017 performance: Total R&D spend as a percentage of revenue has grown in 2017, which demonstrates our continued commitment to exploring new technologies.

Non-financial KPIs	Definition	2017 performance

Gender diversity

2017	17.0%
2016	14.9%

+2.1%

Definition: This refers to the number of women in management roles expressed as a percentage of all management-level employees.

2017 performance: Our percentage of women in management roles was 17.0%, an increase from 2016. This compares favourably with the 2017 UK statistic[1] indicating that 11% of the overall engineering workforce was female, and women in management roles across all science, engineering and technology roles was 15%.

1. https://www.wisecampaign.org.uk/resources/2017/10/women-in-stem-workforce-2017

Energy usage per head

Oil

2017	411
2016	452

-9.1%

Electricity

2017	5,849
2016	6,134

-4.6%

Definition: Electricity and oil usage[2] expressed in units used per head per year. We monitor our energy usage on a monthly basis in order to ensure the environmental impact of our usage is minimised.

2. Figures for our head office site in the Isle of Man only.

2017 performance: Energy usage per head has decreased at our Head Office during the year which reflects a higher headcount being based here as a result of our admission to trading on AIM. Headcount based at our Head Office increased by 15.9% between December 2016 and December 2017.

Employee engagement

Employee completion rate

86.5%

Engagement index score

57.0%

Definition: Strix undertook an employee engagement survey across all our employees around the world using the 'Say-Stay-Strive' model.

The engagement survey was the first engagement survey undertaken and the rate of completion demonstrates that our employees care and have provided management with the constructive feedback to enable us to succeed in achieving our strategy.

2017 performance: Highlights from the survey as a percentage of responses which were positive are:

- I believe the Group will change for the better over the next 12 months: 80.4%
- Strix prides itself on delivering quality products and services: 78.5%
- My work challenges me to use my knowledge and skills fully: 71.9%

As part of the HR strategy the management team are committed to making positive changes in the Group which will increase our engagement index score.

Risk management and principal risks

The Group operates a structured risk management process, which identifies and evaluates risks and uncertainties and reviews mitigation activity. Risks are categorised as strategic, financial, operational, reputational or compliance in nature. Mitigating actions are in place, which are monitored regularly by the Board.

The Board recognises that there are risks and uncertainties that could have a material effect on the Group. Risks have been assessed on a residual basis according to the Board's current view of their potential severity (being the combination of likelihood and impact), assuming that existing controls in place are effective.

The list below is not an exhaustive list of all of the risks that the Group faces. Our operating environment is subject to change, and new risks may arise, the potential impact of known risks may increase or decrease and/or our assessment of these risks may change. Included below is an explanation of how each risk is being mitigated.

Identify risk

The risks identified in the heat map to the right highlight those which could have the greatest impact on the Group's operations and viability. The risks in the shaded green area and in bold in the list below are the ones which we consider to present the greatest impact to the Group.

1. **The Group relies on key customers**
2. Reliance on key suppliers
3. **Competitors and market pressures**
4. **Raw material and commodity prices and general cost inflation**
5. Foreign exchange risk
6. **Business taxation**
7. External factors
8. Manufacturing facilities
9. Reputational risks
10. Contractual arrangements
11. **Intellectual Property**

Increase

No change

Decrease

Risk	Impact	Mitigation	Change
Strategic risks			
The Group relies on key customers	The Group has a number of key customer relationships, being some of the largest OEMs in the global market. The top 10 customers contributed c.57% of the Group's revenues in the financial year ended 31 December 2017 (2016: c.66%), with the largest customer making up c.19% (2016: c.19%) of the Group's revenues. The loss of any of these key customer relationships could have a material adverse effect on the Group's business, financial condition and results of operations.	Strix undertakes regular dialogue with its key customers, building strong commercial and engineering relationships. Strix is fully integrated in the entire value chain for our key products and provides a number of value-added services to our customers to protect these key customer relationships. Strix regularly reviews and manages key customer credit exposures.	
Reliance on key suppliers	The Group relies upon certain key suppliers, although dual source arrangements are in place across the supplier base. As a result, if alternative supply sources could not fulfil the required demand, the Group is exposed to a number of risks, including the risk of supply disruption, the risk of key suppliers increasing prices and the risk of a key supplier suffering a quality issue which impacts upon the quality of the Group's products. All of these risks, which apply across the marketplace, could have a negative impact on the Group's business and, if required, the engagement of alternative suppliers may increase the Group's cost base.	Monitoring of the financial and operational viability of key suppliers. Ongoing monitoring of inventory levels to ensure availability in times of production volatility. Dual sourcing where appropriate to reduce dependence on single suppliers.	
Competitors and market pressures	The Group operates in competitive and price-sensitive markets, and a number of low cost competitors exist that may attempt to increase their market share by undercutting Strix on pricing or launching new brands, amongst other tactics. If a significant shift in market pricing occurs and the Group is not able to mitigate this by reducing costs accordingly, the Group's revenues and profitability may be negatively affected. The markets in which the Group operates in may become more price sensitive.	We constantly monitor our competitors and market trends to understand the dynamic forces which shape our competitive landscape. We have undertaken a number of automation projects to mitigate the risk of labour cost inflation and reduce the costs of production wherever possible, particularly in China where the majority of our manufacturing employees are located. We are active in a wide variety of markets across the world, which provides some protection from targeted competitive activity in particular markets. We also undertake careful management of our variable and fixed cost bases. Targeted investment in engineering, and a commitment to Lean manufacturing, quality and customer relationships.	

Risk manangement and principal risks
continued

Risk	Impact	Mitigation	Change
Financial risks			
Raw material and commodity prices and general cost inflation	We are also exposed to fluctuations in the prices of some raw materials, in particular copper and silver. The Board monitors this closely and has put in place appropriate steps to mitigate the impact of this. However, a significant change in the cost of certain raw materials, particularly silver and copper, if sustained for a prolonged period may increase our material costs without necessarily allowing a corresponding increase in the sales price of our products, which could affect the Group's margins and ultimate profitability. Any change in the costs of operating the Group could impact on the Group's profitability. Such cost increases could be incurred from increments in supplier costs (including, amongst other things, raw materials and energy costs, particularly electricity costs), employment costs or wage inflation, or increases in costs to be incurred due to regulatory change. Although such costs are accounted for, where these can be estimated in future budgets for the Group, not all cost increases are capable of being estimated adequately in advance.	We have undertaken a number of automation projects to mitigate the risk of labour cost inflation and reduce the costs of production wherever possible, particularly in China where the majority of our manufacturing employees are located. Careful management of our variable and fixed cost bases.	↑
Foreign exchange risk	The Group has to a large degree a natural hedge in place as our sales and costs are largely balanced, but we have some currency exposures which we monitor closely, and can take steps to reduce this risk should this be required. The Group's payments and receipts are predominantly in Sterling and US Dollars and a depreciation in the dollar against Sterling would adversely impact margins earned. In addition, under the current regulations on foreign exchange control in China, foreign investment enterprises are allowed to distribute their profits or dividends in foreign currencies to foreign investors through designated foreign exchange banks without the prior approval of the State Administration for Foreign Exchange of China. However, the exchange of the Yuan Renminbi ('RMB') into foreign currencies for capital items such as direct investment, loans and security investment, is subject to strict controls and requires the approval of the State Administration for Foreign Exchange of China. The distribution of the Group's profits and dividends may be adversely affected if the Chinese Government imposes greater restriction on the ability of the RMB to be exchanged into foreign currencies. If there are any changes to the current regulations, there can be no assurance that the Group will be able to obtain sufficient foreign exchange to pay dividends or satisfy other foreign exchange requirements in the future.	Our natural hedge by virtue of generating income and incurring costs in broadly balanced currencies is monitored by the finance function to detect any changes in this balance and make appropriate adjustments if required. If risks are outside of tolerance, derivative foreign currency contracts can be undertaken in order to mitigate the risk to an acceptable level.	↓
Business taxation	The Group currently operates across a number of jurisdictions in the world, with different tax regimes. If any of the tax regimes in these countries undergoes significant change, there may be an impact on the amount of business taxation that the Group is required to pay. In particular, in China, taxation laws are complex and subject to change, which may reduce the returns available to investors in the future.	We actively monitor changes in the direction of legislation and regulation in China, where the highest risk of change exists. A formal taxation review is planned during 2018 in order to deepen our understanding of potential future changes and to put in place mitigating actions where appropriate.	↑
External factors	We also keep a close eye on the possible implications of the UK leaving the EU. The potential trade implications of Brexit are still to a large degree unknown, especially for the Isle of Man, until the final position is agreed upon.	The geographical spread of our business across the world limits our exposure to this risk.	↓

Increase

No change

Decrease

Risk	Impact	Mitigation	Change
Operational risks			
Manufacturing facilities	The Group currently manufactures the majority of its products at its main manufacturing facility in Guangzhou, China. If, for any reason, including product mix changes, a capacity constraint is created, or should the operations at this site become disrupted for whatever reason (or reasons), and/or the Group is unable to find a suitable manufacturing site, the Group's ability to meet the demands of its customers could be affected. Any of the above could negatively impact the Group's relationships with its customers.	We are actively reviewing the sites we currently have access to and reviewing contingency plans in the event of a serious issue which might constrain capacity over a longer period.	No change
Reputational risks			
Reputation	The Group's reputation for high-quality products with high standards of safety is key to a number of direct and indirect customers in choosing to specify Strix products. Should Strix suffer product quality or safety issues, leading to a negative impact on its reputation with customers, future performance could be significantly affected.	Robust engineering design and validation processes from initial design and development through production and into service. High levels of quality assurance are embedded in robust manufacturing systems. Engagement with external certification bodies in order to ensure our products have already passed certification with key standard-setting bodies.	No change
Compliance risks			
Contractual arrangements	The arrangements that the Group has entered into with certain of its customers, distributors and sales partners, as well as certain of its service providers have been, on occasion, potentially inadequately documented. There can be no assurance that the Group will not in the future face challenges or disputes in relation to the contractual or other arrangements with third parties with whom limited written contractual arrangements have been entered into.	We are actively engaged in updating our legacy contractual arrangements to ensure that these are all adequately documented, and all future written contracts are robust and legally compliant.	No change
Intellectual Property	The Group relies on a combination of patents, design registrations, design rights, trademarks, trade secrets, copyright, and other contractual agreements and technical measures to protect its proprietary intellectual property rights. The Group's success will, in part, depend on its ability to establish, protect and enforce proprietary rights relating to the development, manufacture, use or sale of its existing and proposed products.	We vigorously defend our key Intellectual Property, including a number of recent successful cases in China, in order to derive the maximum economic benefit from our portfolio of Intellectual Property assets. We actively monitor new products introduced in markets where Intellectual Property protection is in place to ensure our designs and trademarks are not being infringed and where they are, restitution is sought.	Decrease

Chief Financial Officer's review

I am pleased to report the Group has achieved a positive year, reporting continued growth in revenue, profit, EBITDA and net cash generated from operations. Looking forward, we will focus on continuing to generate cash, maintaining our margin, and investing in future growth.

Raudres Wong
Chief Financial Officer

We expect net debt and leverage to progressively reduce during 2018 driven by the Group's strong underlying cash generation, including utilising our surplus funds to make debt repayments.

Capex

+£1.2m

2017: £3.9m
2016: £2.7m

Net cash generated

+£1.8m

2017: £33.8m
2016: £32.0m

Financial performance

Revenue for 2017 has risen by 2.9% to £91.3m, reflecting Strix's global market share. Due to improvements in automation and other measures undertaken to reduce manufacturing costs, gross profit increased by £2.1m (6.1%). The increase in gross profit margin from 39.5% in 2016 to 40.7% in 2017 was due to a shift in sales towards some of our higher-margin products.

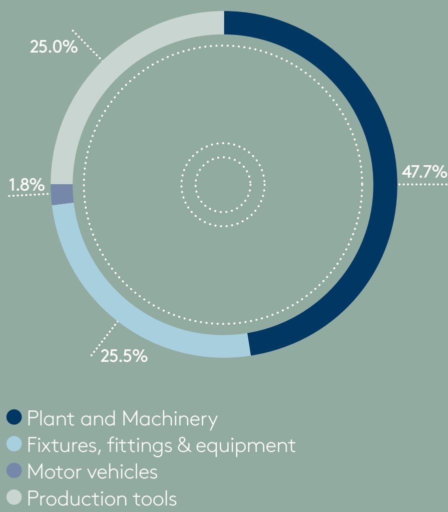
Adjusted EBITDA increased to £35.1m from £33.5m, representing a 4.8% increase, which was in line with market expectations. Adjusted EBITDA is defined as profit before depreciation, amortisation, net finance expense, taxation, royalty charges, and exceptional items that included the share-based payment transactions.

Administration costs (excluding exceptional costs) were £2.7m in 2017 against £2.5m in 2016. The increase resulted from additional costs incurred in expanding certain Group support functions following Strix's admission to trading on AIM.

Adjusted operating profit showed an increase of £2.2m to £29.1m (2016: £26.9m), representing an 8.2% increase due to lower depreciation and amortisation of capitalised development costs being reported (2017: £6.1m; 2016: £6.6m). The Group's reported operating profit was £26.2m (2016: £24.3m) which represents an increase of 7.8%.

Adjusted profit before tax increased to £28.3m (2016: £26.8m). Interest was not reported in the comparison to 2016 as a result of the reorganisation of the Group that took place in August 2017 prior to the Company's admission to trading on AIM. Interest of £0.6m was reported in 2017 for the five months period post IPO. The Group's profit before tax was £25.4m (2016: £24.3m).

Capex additions by asset class*



* Excluding assets under construction.

Adjusted profit after tax increased to £27.5m (2016: £24.7m), an increase of 11.3%. The Group's profit after tax was £24.6m (2016: £22.2m).

Adjusted diluted earnings were 14.2p. Reported diluted earnings per share were 12.7p. Basic earnings per share were reported at 13.0p, and adjusted for exceptional costs were 14.5p.

Capital expenditure and capitalised development costs

Tangible assets have additions to net book value of £3.9m (excluding assets under construction) in 2017, compared to £2.7m in 2016. This includes £1.9m (2016: £1.4m) of plant and machinery, £0.9m (2016: £0.3m) of fixtures and fittings, and £1.0m (2016: £1.0m) of production tools. This investment demonstrates Strix's continued investment in its manufacturing and development assets.

Financial summary	Adjusted results[1]			Reported results		
	2017 £m	2016 £m	Change %	**2017 £m**	2016 £m	Change %
Revenue	**91.3**	88.7	+2.9	**91.3**	88.7	+2.9
EBITDA[2]	**35.1**	33.5	+4.8	**32.2**	30.9	+4.2
Operating profit	**29.1**	26.9	+8.2	**26.2**	24.3	+7.8
Profit before tax	**28.3**	26.8	+5.6	**25.4**	24.3	+4.5
Profit after tax	**27.5**	24.7	+11.3	**24.6**	22.2	+10.8
Net debt[3]	**45.9**	n/a	–	**45.9**	n/a	–
Basic earnings per share[3]	**14.5p**	n/a	–	**13.0p**	n/a	–
Final dividend per share	**1.9p**	–	–	**1.9p**	–	–

1. Adjusted results exclude royalty charges and exceptional items, which include share-based payment transactions. Adjusted results are non-GAAP metrics used by management and are not an IFRS disclosure.
2. EBITDA, which is defined as profit before finance costs, tax, royalty charges, depreciation and amortisation, is a non-GAAP metric used by management and is not an IFRS disclosure.
3. 2016 net debt and earnings per share are not comparable, being pre-IPO when a different capital structure was in place.

The net book value of intangible assets decreased by £1.2m to £5.2m (2016: £6.4m). This primarily related to amortisation of existing assets, although £0.1m of impairment charges were also recorded in the year (2016: nil). New development costs of £1.7m were capitalised in 2017 (2016: £1.4m) primarily due to more new products qualifying for capitalisation, and a further £0.3m (2016: £0.1m) was spent on software.

Share-based payments

The Group awarded a number of one off share options as part of the admission to trading on AIM to incentivise and reward a number of our employees. For more senior employees, these awards are subject to certain performance conditions. The total charge incurred in the consolidated income statement in 2017 for share-based payments was £2.0m (2016: nil). This charge was applied on a pro-rata basis from the grant date in 2017, therefore will be higher in 2018 and 2019. The charge will be normalised from 2020 once the IPO share options have fully vested.

Foreign exchange

The Group is broadly naturally hedged against movements in the USD and RMB as it both generates revenues and incurs costs in these currencies. The impact of foreign exchange in 2017 is a loss of £0.2m (2016: gain of £0.1m) despite significant currency fluctuations in 2017, which is equivalent to only 0.2% of revenue.

Taxation

During 2016, the Group's Chinese subsidiary paid additional tax of £1.1m following a benchmarking assessment by the Chinese tax authorities relating to contract processing businesses in the years 2009 to 2014. To be prudent, potential additional liabilities for 2015 to 2017 of £0.8m (calculated on the same basis as the tax enquiry) were accrued in 2016 and 2017. The effective tax rate is equivalent to 3.1% of the Group's profit before tax.

Balance sheet

Property, plant and equipment increased to £9.4m (2016: £7.9m). Capital additions (excluding assets under construction) were £3.9m (2016: £2.7m) with increased emphasis on automation and initial investment in new product lines in 2017. Depreciation of £3.0m was in line with expectations (2016: £3.6m). Net intangible assets (comprising capitalised development costs and software) decreased in line with expectations to £5.2m (2016: £6.4m) as a result of some major capitalised costs reaching the end of their amortisation periods.

Current assets increased to £26.5m as compared to 2016 of £25.2m after excluding former group company related party balances. Inventories held at the end of the period increased to £9.2m (2016: £8.6m) as a result of increased holding of some longer lead time raw materials. Trade and other receivables increased to £7.2m (2016: £5.7m) due to a mix of customers' payment terms and higher trading results.

Current liabilities increased to £17.3m from 2016 of £15.2m after excluding former group company related party balances as a result of higher trading activities.

Whilst the consolidated accounts show a retained deficit, significant reserves exist on the balance sheet of the dividend paying entity, Strix Group Plc.

Cash flow and net debt

The decrease in cash and cash equivalents over the year was £0.8m. This was primarily a result of additional cash outflows incurred as part of the admission to trading on AIM and the payments made to the former group company related parties as part of the exit by the Group's previous ownership. Net cash generated from operating activities were up £1.8m in 2017 to £33.8m (2016: £32.0m) with net cash used in investing activities up £1.3m to £6.0m due to increased investment in both tangible and intangible assets.

We expect net debt and leverage to progressively reduce during 2018 driven by the Group's strong underlying cash generation, including utilising surplus funds to make debt repayments.

The Group has in place a revolving credit facility of £70.0m of which £56.0m (2016: nil) remains drawn on the facility as at 31 December 2017. The net debt to adjusted EBITDA ratio at 31 December 2017 was 1.3x.

Dividend

The Directors propose a final dividend of 1.9p per ordinary share to give a total for the year of 2.9p. No dividend was paid in 2016.

The final dividend will be paid on 1 June 2018 to shareholders on the register on 4 May 2018. The total dividend payment for 2017 equates to £5.5m, including the £1.9m interim payment made in November 2017.

Raudres Wong
Chief Financial Officer

Corporate and social responsibility

At Strix we have a responsibility towards our employees and partners. We are proud to provide opportunities for the next generation and we are passionate about supporting social causes, both on the Isle of Man and beyond.

Employees

During the year, the HR strategy was developed in order to deliver the achievement of the Group's corporate objectives. The strategy is built around the foundations of recruitment and retention, performance management and development, reward and recognition, and people policies. The strategy aims to ensure that Strix is able to develop and retain the best talent and provides an environment whereby continuous learning is encouraged alongside an appetite to achieve more.

Strix aims to attract a diverse workforce and provide equal opportunities throughout the Group, regardless of gender or any other attribute. As a minimum, we comply with each country's employment laws and beyond this we aim to offer a competitive package of benefits that support and protect our people, are valued by our employees and are appropriate to the markets in which our employees are based.

Human rights and modern slavery

The Group has a defined policy in place for anti-slavery and anti-human trafficking, which is reviewed at least annually. Strix respects the dignity, rights and aspirations of all people, and is committed to supporting and promoting the international and local laws which prohibit modern-day slavery and human trafficking.

Strix has zero tolerance of violations of this policy, which applies equally to all of our directors, officers, employees, apprentices, volunteers, agents, consultants and other representatives.

Ethical conduct

Strix also has in place policies for anti-corruption and anti-bribery, in order to detect and prevent any instances of corruption or fraud. This includes a whistleblowing facility to report any suspected instances of corruption or bribery to one of the Directors.

Social contribution

At Strix, we are also passionate about supporting a number of social causes, both on the Isle of Man and further afield. This includes sponsorship and fundraising, apprenticeships, internships and educational support, and involvement in Isle of Man business networks.

Engineering and education

As a Group which is proud of its innovators and engineers, Strix is committed to help develop the next generation of engineers and innovators. During 2017, we took part in the following activities:

- We operate internships, providing an opportunity to experience the world of work at a busy office in a vibrant part of the world. In the Isle of Man, this is the King William's College Barrovian Alumni Internship, which allows an alumni of the College aged 18 to 25 to spend three months during the summer working for Strix in Hong Kong. This includes working on business critical projects to support the business.
- We also work with the AMTC (Advanced Manufacturing Training Centre) at the UCM (University College, Isle of Man) in providing a number of work experience opportunities for apprentices.
- We sponsored a student entry to the Isle of Man STEP scheme, which places undergraduates into industrial placements to undertake practical work projects to further their studies. We are proud that our sponsored student won the competition in 2017, the third time we have achieved this feat.
- We support the ACE (Awareness of Careers in Engineering) programme on the Isle of Man, which provides a number of local events throughout the year to encourage students to consider future careers in engineering. The highlight of 2017 was the arrival of the Bloodhound SSC show car, education team and the pilot of the car, Andy Green OBE, on the Isle of Man which brought over 600 Year 7 students to the Isle of Man Motor Museum in Jurby to participate in activities such as building rocket K-NEX cars and designing, making and racing aerodynamic rocket cars.

Charitable donations and sponsorship

In 2017, we made the following contributions:

- Donations to a number of Isle of Man charitable causes.
- Sponsorship of a local triathlete currently competing at international level.

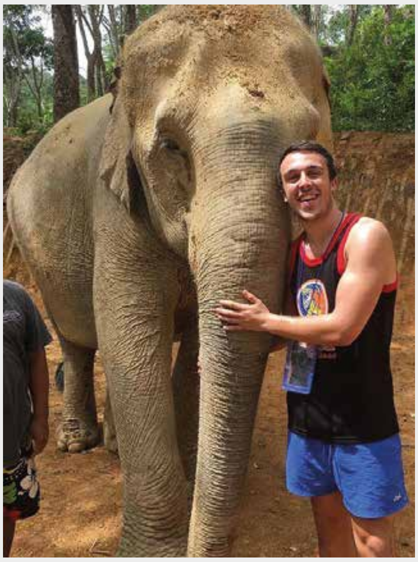
We continue to look for further opportunities to contribute toward charities which align with our values, particularly those with an engineering focus.

Involvement in Isle of Man business life

Strix employees are also actively involved in wider Isle of Man business life, primarily through participation in and membership of a number of Isle of Man Chamber of Commerce Committees. Strix is currently represented on the following committees:

- Engineering and Manufacturing: The Committee supports Chamber members and the sustainability of engineering and manufacturing businesses on the Isle of Man by providing the voice of industry into Government and associated bodies.
- Fuel: Fuel is a group of individuals from various industries with a shared vision to create a bright future for the Isle of Man. Fuel shares ideas within the Isle of Man Chamber of Commerce to provide a younger perspective to plan ahead for the island's future.
- ICT & eBusiness: The Committee works closely with the Isle of Man Government and other industry associations to actively promote the Information and Communications Technology (ICT)/eBusiness sector whose importance as a key contributor to economic development and employment continues to grow.

Barrovian Alumni Internship



The first recipient of the Barrovian Alumni Internship was Oliver Mealin (20). Manx born Oliver, who is studying International Business at the University of Kent, spent June to September 2017 working in our Hong Kong office alongside Senior Business Analyst Catherine Tam. It was not all work as the internship meant that Oliver could also travel around the Far East.

It was an experience that will stay with me for the rest of my life. I have worked on and contributed to various projects, both within teams and on my own. These projects have been presented to Strix and are used within the Company today. I have been a part of international conference calls between Strix employees and external parties and even had the opportunity to be involved and experience a company flotation on the London Stock Market. Coupled with visiting the Strix factory in China, it has allowed me to obtain a much wider perspective of how an international company operates.

Everything I did contributed to a truly captivating working environment where Strix values its interns and entrusts them with important tasks which contribute to the running of the Company, as opposed to simply creating work to keep an intern busy.

Oliver Mealin
King William's College, Barrovian Alumni Internship recipient 2017

Board of Directors

Gary Lamb
Non-Executive Chairman of the Board, aged 51

Gary Lamb is a qualified accountant (CIMA) who has gained extensive business experience over the past 25 years in numerous senior roles. Gary is currently Chief Executive Officer of Manx Telecom Plc and previously was a founder Director of Bladon Jets Limited, and a Non-Executive Director until July 2017. For 11 years, prior to Bladon Jets, Gary was the Finance & IT Director of Strix Limited, leaving in 2007.

Mark Bartlett
Chief Executive Officer, aged 53

Mark joined Strix in 2006. He leads the Group, setting the strategic direction and policy and works closely with his leadership team to translate Strix's strategy into tangible results. His experience includes various positions ranging from Engineering Director through to Managing Director for multinationals in Europe and the Americas, with his most recent positions being Managing Director of a company within the Ametek Inc. Group and latterly ABS Waste Water Limited.

Raudres Wong
Chief Financial Officer, aged 55

Raudres joined Strix in 2011 and is responsible for financial management. She has over 25 years of international experience in corporate finance, business management and mergers and acquisitions. She has worked in Toronto, Japan, Beijing and Hong Kong for multinationals such as IDT International Ltd, Nortel Networks Inc., Level 3 Communications Inc., Nike International Ltd and ASSA ABLOY Ltd, holding senior finance and strategic planning positions. Raudres has a BComm and MBA from McMaster University and qualified as a Chartered Accountant in Canada.

Mark Kirkland
Non-Executive Director, aged 50

Mark qualified as an accountant (ACA) with Price Waterhouse in London and has extensive corporate experience gained over the last 25 years having held numerous senior roles in public and private companies. Mark's initial career was in corporate finance, predominantly spent at UBS Limited. However, in 2003, as part of the founding team, he became Chief Financial Officer of Raven Mount Plc (now part of Raven Russia Limited). Latterly, Mark has been Chief Financial Officer of Marwyn Management Partners Plc.

Senior management

Frank Gao
Chief Operating Officer

Frank joined Strix in 2012. He directs and leads the global operations team which spans Strix's Guangzhou and Ramsey facilities, and oversees the Group's overall manufacturing, supply chain and technology footprint.

Nick Gibbs
Engineering Director

Nick joined Strix in 1992 and directs the global engineering team, which includes the research and development facility in the Isle of Man and the Engineering Department at Guangzhou.

Simon Charlesworth
Sales Director

Simon joined Strix in 2007 and directs an international sales force and support staff team comprising 25 personnel.

David Trustrum
Commercial Director

David joined Strix in 1991 and directs the Commercial Operations department, optimising commercial activities through IPR and product safety, market intelligence and pricing management.

Nigel Wheeler
Director, Aqua Optima

Nigel joined Strix in 2004. In December 2015 Nigel was appointed Director of Aqua Optima and is now responsible for strategic direction and global business development.

Pauline McGee
Director of Group HR

Pauline joined Strix in February 2016 and was appointed Director of Group HR in August 2017. Pauline is responsible for Human Resources across the Group.

Keith Hadley
Director of Group Finance

Keith joined Strix in 2005 as Group Chief Accountant and has been responsible for applying financial controls to the Group, ensuring the accuracy of financial reporting and compliance to accounting standards since that time. He was promoted to Director of Group Reporting in 2017, reporting directly to the Chief Financial Officer.

Matt Thomas
Director of Group Manufacturing Engineering and Customer Quality

Matt originally joined Strix in 2003. Based in Guangzhou, he leads the global manufacturing engineering teams looking for innovative methods of manufacture, including automation, and customer quality teams. Matt reports to the Chief Operating Officer.

Corporate governance

The Board is committed to effective corporate governance as the basis for delivering long-term value growth and for meeting shareholder expectations for proper leadership and oversight of the business.

There is no corporate governance regime in the Isle of Man that applies to the Company. Directors of companies incorporated in the Isle of Man are required to comply with certain duties that are contained in the Isle of Man Companies Act, and the Directors comply with those duties.

The Directors acknowledge the importance of the principles set out in the Corporate Governance Code. The Directors intend to apply the QCA Guidelines contained therein, as far as they consider appropriate for a company of its size and nature.

Board composition and operation

The Board is made up of two Non-Executive and two Executive Directors. Since the IPO on 8 August 2017, the Board has met monthly to consider strategy, performance and the framework of internal controls and will continue to do so. To enable the Board to discharge its duties, all Directors receive appropriate and timely information. Briefing papers are distributed to all Directors in advance of Board meetings.

All Directors have access to the advice and services of the Chief Financial Officer, who is responsible for ensuring that the Board procedures are followed, and that applicable rules and regulations are complied with. In addition, procedures are in place to enable the Directors to obtain independent professional advice in the furtherance of their duties, if necessary, at the Company's expense.

The Board will conduct an appraisal of its own performance and that of each Director during the 2018 financial year. This is expected to include the use of prescribed questionnaires that are completed by all Directors. The results will be reviewed, and individual feedback will be given by an independent Non-Executive Director in respect of assessments of the Chairman, and by the Chairman in respect of assessments of each of the other Directors and the Board as a whole.

Attendance at meetings

The number of scheduled meetings of the Board (excluding such ad hoc meetings as were necessary during the year to address specific matters arising) and the Audit Committee during the year ended 31 December 2017, together with a record of the attendance of the current Directors who are their respective members, is detailed on page 29 opposite.

Internal control

The Board has overall responsibility for ensuring that the Group maintains a system of internal control, to provide it with reasonable assurance regarding the reliability of financial information that is used within the business and for publication and the safeguarding of assets. There are inherent limitations in any system of internal control and accordingly even the most effective system can provide only reasonable, and not absolute, assurance against material misstatement or loss. Some examples of internal controls operated by the Group are given below and elsewhere in this statement.

The Group's organisational structure has clear lines of responsibility. Operating and financial responsibility for subsidiary companies is delegated to functional management.

The Board has an ongoing process for identifying, evaluating and managing the Group's significant risks which was in place prior to IPO and has continued throughout the year ended 31 December 2017 and up to the date of the Annual report and accounts. The process includes:

- preparation and approval of budgets and regular monitoring of actual performance against budget;
- preparation of monthly management accounts for each subsidiary and for the Group, including investigation of significant variances from budget; these are summarised and reviewed at Board level;
- preparation of updated profitability and cash flow forecasts to reflect actual performance and revised outlook as the year progresses, including an assessment of the adequacy of funds for the foreseeable future; and
- investment policy acquisition proposals and major capital expenditure projects are authorised and monitored by the Board.

	Board		Audit Committee	
	Number of meetings eligible to attend	Number of meetings attended	Number of meetings eligible to attend	Number of meetings attended
Gary Lamb	5	5	2	2
Mark Bartlett	5	5	2	2
Raudres Wong	5	5	2	2
Mark Kirkland	5	5	2	2

The Remuneration and Nominations Committees did not hold any meetings during 2017.

Throughout the year, the Board has carried out assessments of internal control by considering documentation from the Executive Directors and the Audit Committee as well as taking into consideration events since the year-end. The internal controls extend to the financial reporting process and the preparation of the consolidated accounts.

The Group continues to take steps to embed internal control and risk management further into the operations of the business and to deal with areas for improvement which come to the attention of management and the Board. The Group has ethical guidelines and a defined fraud reporting and whistleblowing process which are issued to all employees within the Group.

The Group's risk management programme, which assesses key risks and the required internal controls that are delegated to Functional Directors is reviewed regularly in order to ensure that it continues to meet the Board's requirements.

Shareholders

The Chairman and the Non-Executive Directors will always make themselves available to meet with shareholders. Each AGM is a particular opportunity for this. Normal relationships with shareholders are maintained by the Executive Directors who brief the Board on shareholder issues and who relate the views of the Group's advisors to the Board. The Board believes that the disclosures set out in this annual report provide the information necessary for shareholders to assess the Group's performance, business model and strategy.

Share capital structure

Details of the Company's share capital can be found in note 22 of the Group financial statements.

Going concern basis

The Group's business activities, together with the factors likely to affect its future development, performance and position, are set out in the Chief Financial Officer's review, together with the financial position of the Group, its cash flows, liquidity position and borrowing facilities. In addition, note 20 of the Group financial statements includes: the Group's objectives, policies and processes for managing its capital; its financial risk management objectives; details of financial instruments and hedging activities; and its exposure to price, interest rate, credit and liquidity risk. Accordingly, the Directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future based on the following factors:

- on 27 July 2017, members of the Group entered into a revolving credit facilities agreement with certain banks in respect of a revolving credit facility of £70,000,000. Interest is payable on amounts drawn down at the rate of 2.20 per cent above LIBOR. The term of the agreement is five years from the date of the agreement. As at 31 December 2017 the amount drawn down was £56,000,000, leaving headroom of £14,000,000;
- financial projections have been prepared to December 2019 which show positive earnings and cash flow generation, and project covenant compliance at each testing date; and
- sensitivities have been calculated to confirm that sufficient and reasonable headroom exists in both financial resources and covenants.

On the basis of the above, the Directors continue to adopt the going concern basis of accounting in preparing the annual Group financial statements.

Forward-looking statements

This Annual report and accounts contains forward-looking statements that involve risk and uncertainties. The Group's actual results could differ materially from those estimated or anticipated in the forward-looking statements as a result of many factors. Information contained in this Annual report and accounts relating to the Group should not be relied upon as a guide to future performance.

Corporate governance
continued

Annual General Meeting – voluntary disclosure
The business to be conducted at the Annual General Meeting of the Company is set out in the separate Notice of Annual General Meeting which accompanies the Annual report and accounts. Resolutions put before Shareholders at the Annual General Meeting will usually include resolutions for the appointment of Directors, approval of the Report on Directors' Remuneration, declaration of the final dividend and authorisation for the Board to allot and repurchase shares. At each Annual General Meeting there is an update on the progress of the business over the last year and also on current trading conditions.

Nominations Committee
The Nominations Committee is responsible for leading the process for all potential appointments to the Board and making recommendations to the Board in relation to potential appointments.

It will evaluate the balance of skills, experience, independence and knowledge on the Board and, in the light of this evaluation, prepare a description of the role and capabilities required for a particular appointment.

The members of the Nominations Committee, all of whom held office since listing and to the date of this report, are:
- Gary Lamb (Chairman);
- Mark Kirkland; and
- Mark Bartlett.

Given the listing process in 2017 and there being no senior vacancies, the Nominations Committee did not meet during 2017. The first meeting of the Nominations Committee took place in January 2018.

Substantial shareholdings
As at 14 March 2018, the Company has been advised, in accordance with the Disclosure and Transparency Rules of the Financial Conduct Authority, of the following notifiable interests in 3% or more of its voting rights:

Number of securities in issue: 190,000,000
AIM securities not in public hands: 0.6%

Identity of significant shareholders (over 3%) as follows:

Registered shareholder	% holding
Woodford Investment Management Limited	9.76%
Premier Fund Managers Limited	8.83%
Kames Capital Plc	6.29%
Schroders Plc	6.27%
River and Mercantile Asset Management LLP	6.01%
Polar Capital LLP	5.78%
Artemis Investment Management Plc	5.61%
Miton Group Plc	5.30%
Chelverton Asset Management Limited	4.12%
Hargreave Hale Limited	3.56%

Audit Committee report

The role of the Audit Committee is set out in a terms of reference document and is to:

- monitor the integrity of the financial statements of the Group and any formal announcements relating to the Group's financial performance, reviewing significant financial reporting judgements contained in them;
- review the Group's internal financial controls and, unless expressly addressed by a separate Board risk committee composed of independent directors, or by the Board itself to review the Group's internal control and risk management systems;
- make recommendations to the Board, for it to put to the shareholders for their approval in general meetings, in relation to the appointment, re-appointment and removal of the external auditor and to approve the remuneration and terms of engagement of the external auditor;
- review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process, taking into consideration relevant UK professional and regulatory requirements;
- develop and implement policy on the engagement of the external auditor to supply non-audit services, taking into account relevant ethical guidance regarding the provision of non-audit services by the external audit firm; and
- to report to the Board, identifying any matters in respect of which it considers that action or improvement is needed and making recommendations as to the steps to be taken.

The members of the Audit Committee, all of whom held office since listing and to the date of this report, are:

- Mark Kirkland (Chairman)
- Gary Lamb

The CFO and other senior finance staff will attend meetings of the Audit Committee by invitation. The external auditor attends the meetings to discuss the planning and conclusions of its work and have the option to meet with the members of the Committee without any members of the executive team present after each meeting.

The Committee is able to call for information from management and consults with the external auditor directly if required. The objectivity and independence of the external auditor is safeguarded by reviewing the auditor's formal declarations of independence, assessing the level of non-audit fees payable to the auditor, and monitoring relationships between key audit staff and the Group.

The Committee held two formal meetings during the year.

Significant issues considered in relation to the financial statements

At the request of the Board, the Audit Committee considered whether the 2017 Annual report and accounts were fair, balanced and understandable and whether they provided the necessary information for shareholders to assess the Group's performance, business model and strategy. The Committee were satisfied that, taken as a whole, the 2017 Annual report and accounts are fair, balanced and understandable.

The Audit Committee assess whether suitable accounting policies have been adopted and whether appropriate estimates and judgements have been made by management. The Committee also reviews accounting papers prepared by management, and reviews reports by the external auditor. The specific areas reviewed by the Committee during the year were:

- appropriateness of the group reorganisation accounting principles in the preparation of the Group financial statements;
- accounting for share-based payments;
- the future impact of several new IFRS standards (IFRS 9, IFRS 15, IFRS 16);
- consideration of the going concern basis of preparation adopted in the financial statements; and
- appropriateness of the disclosures in the financial statements, given the first year as a listed Group.

Mark Kirkland
Chairman of the Audit Committee

Remuneration Committee report

On behalf of the Board I am delighted to present Strix's first Directors' Remuneration Report. This report sets out the Directors' remuneration policy, the basis for the remuneration paid to Directors in respect of 2017 and explains how we intend to implement the policy for 2018. The key elements of our approach are summarised below.

Duties

The main duties of the Remuneration Committee are set out in its Terms of Reference and include:

- determining the remuneration policy for the Chairman and all Executive Directors, having regard to the risk appetite of the Group and alignment to the Group's long-term strategic goals;
- reviewing the ongoing appropriateness and relevance of the remuneration policy, having regard to pay and employment conditions across the wider Group;
- approving the design of, and determining targets for any performance-related pay schemes operated by the Company and approving the total annual payments made under such schemes;
- reviewing the design of all share incentive plans for approval by the Board and shareholders;
- determining the policy for, and scope of, pension arrangements for each Executive Director and other senior executives;
- approving the terms of the service contracts for Executive Directors and other senior executives, and determining the policy for and scope of termination payments;
- determining the total individual remuneration package of each Executive Director and other designated senior executives including bonuses, incentive payments and share awards; and
- establishing the selection criteria, selecting, appointing and setting the terms of reference for any remuneration consultants who advise the Committee.

Remuneration policy

Prior to Admission, the Remuneration Committee reviewed the Group's remuneration policy for the Executive Directors and senior management, to ensure that it remained appropriate for Strix as a listed company. In undertaking this review, we sought independent, specialist advice.

Our objective is to ensure that remuneration incentivises and rewards the growth of shareholder value through full alignment with the Group's strategy and with the interests of shareholders. We have been guided by a number of fundamental principles:

- remuneration should be set by taking into account pay levels in the various jurisdictions in which the company operates, whilst complying with UK PLC structural norms and good practice;
- the policy should attract, retain and motivate high calibre Executive Directors and senior management through a significant weighting on performance-related pay;
- incentive plans should be robust and include metrics and targets which are directly relevant to Strix;
- pay should be simple and understandable, both externally and to colleagues;
- good practice features such as clawback and malus arrangements should be included;
- share ownership should be encouraged across the executive team to ensure a long-term focus and alignment of interest with shareholders; and
- pay structures should not reward behaviour that inappropriately increases the Group's exposure to risks outside of the Group's risk appetite.

The Remuneration Committee

The members of the Remuneration Committee and Gary Lamb (Chairman) and Mark Kirkland, both of whom are independent Non-Executive Directors. Gary Lamb is also Chairman of the Board.

No formal Committee meetings took place between 8 August 2017 (the date of IPO) and 31 December 2017. Remuneration Committee meetings were held in both January 2018 and March 2018.

The remuneration policy set out in this report is consistent with the details disclosed in our Admission Document.

We will keep the remuneration policy under review and will make changes as required to ensure continued alignment with the principles set out above. In doing so, we will consult with our major shareholders where necessary.

Application of the remuneration policy in 2017 after Admission

2017 was a transitional year for Strix. The Committee's focus during the year was on putting in place appropriate remuneration arrangements to apply following Admission.

The basic salaries of the CEO and CFO were set at £300,000 and £261,182 respectively. Other elements of fixed pay, principally benefits and pension arrangements, were determined based on a review of standard practice for listed companies of a similar size to Strix.

Following Admission, the Executive Directors participated in an annual bonus scheme based on the achievement of challenging EBITDA and cash flow targets. Following the assessment of performance over the period following Admission, the Executive Directors received a bonus equivalent to 39% of the maximum possible payout. We believe that this outcome demonstrates a strong link between performance and reward.

We established a Long-Term Incentive Plan ('LTIP') for Group employees prior to Admission. In line with the intentions set out in the Admission Document, the first grants under the LTIP were made in August 2017 to the Executive Directors and other senior employees. These awards were specifically designed to provide a focus on profit, share price and dividend performance over each of the first three years following Admission and, subject to achieving the stretching performance targets, promote a significant interest in Strix shares and establish an immediate alignment of interests with shareholders. The Committee considers this to be appropriate for the first LTIP award so that there is a focus on sustained performance over each of Strix's first three years as a listed company. Subsequent LTIP awards will be based on more conventional performance periods for the entire award.

The LTIP awards made to the CEO and the CFO in August 2017 were over shares equivalent to 2% and 1% of the Company's issued share capital respectively. Full details of these awards are set out on page 37.

Proposed application of the remuneration policy for 2018

For 2018, the first full financial year as a listed company, we plan to make minimal changes to the remuneration policy and will continue with the current mix of fixed pay, annual bonus scheme and LTIP. One change we are making is to the annual bonus scheme, where we intend to set targets based on profit before tax ('PBT') instead of EBITDA. PBT is a key measure of profitability for Strix and this change aligns with a metric which is closely followed by our shareholders. In addition, if a separate free cash flow target is not met, then the maximum award payable will be reduced by 50%.

The LTIP grant to be made in 2018 will also be structured differently to the grant made following Admission. The 2018 grant will be based on the achievement of EPS targets and will involve the measurement of performance over a conventional three-year period. Full details of how we intend to operate the policy for 2018 are set out on page 38.

Engagement with shareholders

The Remuneration Committee would welcome any feedback from shareholders on any matter to do with Directors' remuneration; please contact me if you have any comments. I will also be available at the AGM to answer any questions you may have.

Gary Lamb
Chairman of the Remuneration Committee

Remuneration Committee report
continued

Directors' remuneration policy

The objective of the remuneration policy for Executive Directors is to ensure remuneration incentivises and rewards the growth of shareholder value through full alignment with the Group's strategy and with the interests of shareholders.

The total remuneration package is structured so that a significant proportion is linked to performance conditions measured over both the short and long term. A high proportion of the potential remuneration is paid in shares, thereby ensuring that executives have a strong ongoing alignment with shareholders through the Company's share price performance.

When setting the levels of short-term and long-term variable remuneration and the balance of cash and share-based elements, consideration is given to obtaining the appropriate balance so as not to encourage unnecessary risk-taking, whilst ensuring that performance hurdles are suitably challenging.

In addition to the elements of remuneration set out in the table below, Executive Directors are required to work towards meeting share ownership guidelines. Further details are provided on page 37.

Element	Purpose and link to strategy	Operation	Maximum opportunity
Base salary	To recruit and reward high-calibre executives for the role required.	Reviewed annually by the Committee, taking account of Group performance, individual performance, changes in responsibility and levels of increase for the workforce generally. Reference is also made to comparator benchmarks from time to time. The Committee considers the impact of any basic salary increase on the total remuneration package.	There is no prescribed maximum annual increase. The Committee is guided by movements in market rates, the performance of the business and the general salary increase for the broader employee population, but on occasions may need to take into account factors such as development in role, change in responsibility, and/or specific retention issues.
Benefits	To provide market-competitive benefits and to help ensure the overall wellbeing of employees.	The Group typically provides: • car allowance; • medical insurance; • health insurance; • cost-of-living allowance; and • other ancillary benefits, including relocation expenses (as required). Executive Directors are also entitled to 25 days' leave per annum.	Benefits provision is set at a level considered appropriate taking into account a variety of factors, including market practice elsewhere.
Pension	To provide market-competitive benefits and to assist post-retirement financial planning.	A Group contribution to a defined contribution pension scheme or provision of cash allowance in lieu of pension.	Up to 20% of basic salary.

Element	Purpose and link to strategy	Operation	Maximum opportunity
Annual bonus scheme	To encourage and reward excellent performance over the course of the financial year.	Annual bonus payments are based on performance against challenging targets linked to the Group's strategic objectives. Bonuses are currently paid in cash. The Remuneration Committee will review on an ongoing basis whether a proportion of the bonuses should be deferred into shares. A recovery and withholding mechanism applies in the event of a material misstatement of the Group's accounts and also for other defined reasons.	Maximum annual opportunity of 100% of basic salary.
Long-Term Incentive Plan ('LTIP')	To encourage and reward delivery of the Group's long-term strategic objectives and provide alignment with shareholders through the use of share-based remuneration.	The Company makes annual awards of nil-cost options. Awards are released subject to continued employment and satisfaction of challenging performance conditions measured over three years. A recovery and withholding mechanism applies in the event of a material misstatement of the Group's accounts and also for other defined reasons.	There is no formal individual limit within the LTIP rules. With effect from 2018, the Remuneration Committee's intention is to apply a limit of 100% of basic salary to grants made under the LTIP. With effect from 2018, 25% of the award is payable for threshold performance. In line with the LTIP rules, the Committee may decide to allow participants to receive dividend-equivalent payments.
Non-Executive Director fees	To attract and retain a high-calibre Chairman and Non-Executive Directors.	Fee levels are set as appropriate for the role and responsibility for each Non-Executive Director position and with reference to market levels in comparably-sized public companies. Fees are paid in cash. The Chairman is paid a single fee for all his responsibilities. Other Non-Executive Directors are also paid a single fee.	There is no prescribed maximum annual increase. Any increases to fee levels are guided by movements in market rates and the general salary increase for the broader employee population. On occasion, however, fee increases may need to recognise, for example, change in responsibility, and/or time commitments.

Remuneration Committee report
continued

Service contracts and payments for loss of office

The Remuneration Committee is responsible for approving the terms of the service contracts for Executive Directors and other senior executives. Directors' service contracts are available for inspection at the Company's registered office.

Mark Bartlett has entered into two service agreements with the Company, one governed by the law of the Isle of Man and the other governed by the law of Hong Kong. This reflects the fact that he spends one twelfth of the year in the Isle of Man and the other eleven twelfths in Hong Kong. Raudres Wong has also entered into two service agreements with the Company, one governed by the law of the Isle of Man and the other governed by the law of Hong Kong.

The service agreements for Mark Bartlett and Raudres Wong are terminable on 12 months' notice from either side. Other than payment of salary and benefits in lieu of notice, the Executive Directors' service agreements do not provide for benefits upon termination of employment.

The Non-Executive Directors have entered into letters of appointment with the Company for an initial term of three years, unless terminated earlier by either party providing three months' prior written notice.

Directors' remuneration for 2017

The table below sets out the remuneration payable to the Directors in relation to the period from 8 August 2017 (the date of Admission) to 31 December 2017.

	Salary and fees[1] £000s	Benefits[2] £000s	Pension £000s	Annual bonus £000s	Long-term incentives[3] £000s	Total £000s
Executive Directors						
Mark Bartlett	124	25	26	49	–	224
Raudres Wong	102	8	16	45	–	171
Non-Executive Directors						
Gary Lamb	32	–	–	–	–	32
Mark Kirkland	21	–	–	–	–	21

1. Executive Directors' basic salaries following Admission were agreed at £300,000 for Mark Bartlett and £261,182 for Raudres Wong. The salary for Raudres Wong is set and paid in Hong Kong dollars. For 2017, her salary was HKD 2,938,104. The remuneration in the table above has been translated into sterling using the year-end exchange rate of GBP 1: HKD 10.6. For 2017, Gary Lamb received a fee of £70,000 per annum for serving as Acting Chairman of the Board and Non-Executive Director. Mark Kirkland receives a fee of £45,000 per annum for serving as Non-Executive Director.
2. Mark Bartlett's benefits include participation in the Company's private medical insurance scheme, a car allowance and a cost-of-living allowance reflecting his residence in Hong Kong. Raudres Wong's benefits include participation in the Company's medical insurance and permanent health insurance schemes plus additional allowances (including car allowance).
3. No LTIPs vested in respect of performance in 2017. The EPS performance conditions were met based on performance during 2017, but vesting of the award remains subject to the satisfaction of a Total Shareholder Return ('TSR') underpin which is assessed at the end of the three-year vesting period in 2019 and performance in 2018 and 2019.

Annual bonus scheme outcome for 2017

Executive Directors had an entitlement to an annual bonus up to a maximum opportunity of 100% of basic salary (pro-rated) for the period from Admission to 31 December 2017. Achievement of the bonus was based on performance conditions linked to achievement of challenging EBITDA and cash flow targets. Payment of the bonus required achievement of minimum EBITDA for 2017 of £35.1m, after which bonuses were payable on a graduated scale subject to EBITDA performance above this level.

The cash flow element of the bonus was also subject to a condition that no bonus was payable if the minimum EBITDA target was not met.

The bonus payable to the Executive Directors for the year under review was equivalent to 39% of their pro-rated salaries and is set out in the table above. The bonuses are payable in cash.

The bonus payments are subject to clawback and malus provisions.

LTIP award granted in 2017

Executive Directors and other senior employees were granted an award of shares under the LTIP shortly after Admission in August 2017. These awards will vest subject to the Company's performance over the three financial years ending 31 December 2017, 31 December 2018 and 31 December 2019.

The EPS targets which apply to the awards are set out below. Performance will be assessed individually in each of the three financial years. Awards cannot be exercised until 1 January 2020 and the CEO and CFO will (after payment of taxes) be restricted from selling more than 50% of vested awards if their minimum shareholding requirement has not been met (see below). Below-maximum performance in any individual year can be caught up on a cumulative basis over the three-year performance period.

Financial year ending	EPS to be achieved
31 December 2017	13.58p
31 December 2018	14.86p
31 December 2019	16.13p

In addition to the EPS condition, a TSR underpin must be met in order for the awards to vest. The TSR underpin requires (a) the average share price over the final four weeks of the three-year performance period to be at least as high as the Admission price of 100p, and (b) actual dividends to be paid over the three-year performance period to be at least as high as those set out in the table below.

Financial year ending	Dividend paid
31 December 2017	2.9p
31 December 2018	7.0p
31 December 2019	7.7p

Dividend equivalents are payable on vested awards. Malus and clawback provisions apply to the awards.

The awards granted to the Executive Directors are set out in the table below.

Name	Scheme	Grant date	Exercise price	Number of LTIP shares at Admission	Granted during year	Vested during the year	Lapsed during the year	Number of shares at 31 December 2017	End of performance period	Vesting date
Mark Bartlett	LTIP	08 August 2017	Nil	–	3,800,000	–	–	3,800,000	31 Dec 2019	1 Jan 2020
Raudres Wong	LTIP	08 August 2017	Nil	–	1,900,000	–	–	1,900,000	31 Dec 2019	1 Jan 2020

Directors’ shareholding guidelines and share interests

To align their interests with shareholders, Executive Directors are required to work towards meeting specific shareholding guidelines. These guidelines require the Directors to retain at least 50% of the net of taxes gain arising from any shares vesting or acquired under the LTIP until such time as the share ownership target has been met. The guidelines require the CEO to build a holding equivalent in value to 200% of basic salary, and the CFO to build a holding equivalent in value to 150% of basic salary.

The Chairman and Non-Executive Directors are encouraged to hold shares in the Company but are not subject to a formal shareholding guideline. Details of the Directors’ interests in shares are shown in the table below:

Directors	Beneficially owned immediately following Admission	Beneficially owned at 31 December 2017	% shareholding guideline achieved at 31 December 2017 as a % of basic salary[1]
Mark Bartlett	300,000	300,000	147%
Raudres Wong[2]	300,000	300,000	169%
Gary Lamb	500,000	500,000	n/a
Mark Kirkland	–	–	n/a

1. Based on the year-end share price of £1.4675.
2. Shares held in the name of her husband, Wing Yip Fong.

Remuneration Committee report
continued

Application of the remuneration policy for 2018

Basic salaries

The Remuneration Committee has reviewed the basic salaries of the Executive Directors and has determined that a 1.8% increase will apply from 1 January 2018, in line with the average level of increase for the wider employee population. The new salary levels are set out in the table below.

	Salary with effect from Admission	Salary with effect from 1 January 2018	% increase
Mark Bartlett	£300,000	£305,400	1.8%
Raudres Wong[1]	HKD 2,938,104	HKD 2,990,988	1.8%

1. Salary set and paid in Hong Kong dollars.

Annual bonus scheme

The annual bonus scheme will continue to operate in a broadly similar fashion to the scheme in place for 2017, although the Remuneration Committee has decided to use PBT rather than EBITDA targets. PBT is a key measure of profitability for Strix and this change aligns with a metric which is closely followed by our investors. In addition, if a separate free cash flow target is not met, then the maximum award payable will be reduced by 50%.

The specific bonus targets are considered commercially confidential at this stage but will be disclosed in the 2018 Directors' remuneration report, alongside details of performance against the targets.

The maximum annual bonus opportunity for 2018 will be 100% of basic salary, payable in cash.

LTIP

The Committee intends to grant LTIP awards over shares with a value equivalent to 100% of basic salary for the Executive Directors. The awards will be subject to the achievement of performance conditions based on the Group's EPS performance over the three financial years ending 31 December 2020, and the awards will only vest at the end of this period. The performance targets to be used are set out below.

Annual EPS growth to be achieved in the period ending 31 December 2020	Level of vesting
Below 3%	0%
3%	25%
Between 3% and 7%	Vesting on a straight-line basis between 25% and 100%
7% or above	100%

The awards will be subject to malus and clawback provisions, as set out in the remuneration policy on page 32.

Chairman and Non-Executive Directors

The fees for the Chairman and the Non-Executive Directors have not changed for 2018. Gary Lamb will continue to receive a fee of £70,000 per annum for serving as Chairman of the Board and Non-Executive Director. Mark Kirkland will continue to receive a fee of £45,000 for serving as a Non-Executive Director.

This report was approved by the Board of Directors and signed on its behalf by:

Gary Lamb
Chairman of the Remuneration Committee

Directors' report

The Directors present their report together with the audited financial statements of the Group for the year ended 31 December 2017.

Principal activities of the Group

The principal activities of Strix Group Plc and its subsidiaries (together 'the Group') are the design, manufacture and supply of kettle safety controls and other components and devices involving water heating and temperature control, steam management and water filtration.

Business review and future developments

The Group has delivered a positive set of results, in line with market expectations and with a particularly strong cash flow performance which supports its progressive dividend policy. Strix has continued to enhance its market position by continuing to implement its strategy, with the successful launch of a new range of 'best in class' controls designed to deliver competitive, high quality products across all market segments. In November 2017, Strix celebrated the sale of its 2 billionth product, a significant milestone which highlights its global market position.

Group reorganisation

The Group financial statements have been prepared under the capital reorganisation accounting principles because the transaction under which the Company became the holding company of Sula Limited ('Sula' and the 'Sula Group') was a group reorganisation with no change in the ultimate ownership of the Sula Group. All the shareholdings in Sula were exchanged via a share-for-share transfer on 8 August 2017. The Company did not actively trade at that time.

The result of the application of the group reorganisation is to present the financial statements as if the Company had always owned the Sula Group. The group reorganisation is more fully described in note 28.

Results and dividends

The Group recorded revenue in the year of £91.3m (2016: £88.7m) and a profit after tax of £24.6m (2016: £22.2m).

The Directors recommend a final dividend for the year of 1.9p per share which, if approved at the Annual General Meeting ('AGM') on 24 May 2018, will be payable on 1 June 2018 to shareholders who are on the register at 4 May 2018 and the shares will trade ex-dividend from 3 May 2018. Together with the interim dividend paid during the year of 1p per share, this will result in a total dividend of 2.9p per share amounting to £5.5m.

Financial risk management

Information relating to the financial risks of the Group have been included within note 20, 'Financial risk management'.

Directors and their interests

The Directors of the Company who were in office during the year and up to the date of signing the Group financial statements were:

- Mark Bartlett (appointed 12 July 2017)
- Mark Kirkland (appointed 14 July 2017)
- Gary Lamb (appointed 14 July 2017)
- Raudres Wong (appointed 12 July 2017)

All the Directors are subject to election by the shareholders at the forthcoming AGM following their appointment during the year. The Directors who held office during the year and as at 31 December 2017 had the following interests in the ordinary shares of the Company, see the table on the next page.

Directors' report
continued

Name of Director	Number
Mark Bartlett	300,000
Mark Kirkland	–
Gary Lamb	500,000
Raudres Wong	300,000

In addition to the interests in ordinary shares shown above, the Group operates a performance share plan ('the LTIP') for senior executives, under which certain Directors have been granted conditional share awards. Subject to achieving performance targets, the maximum number of ordinary shares which could be issued to Directors in the future under such awards at 31 December 2017 (see note 21) is shown below:

	Number
Mark Bartlett	3,800,000
Raudres Wong	1,900,000

The market price of the Company's shares at the end of the financial year was 146.8p (issue price on 8 August 2017: 100.0p) and the range of market prices between 8 August 2017 and year end was between 127.0p and 145.8p.

No changes took place in the interests of Directors between 31 December 2017 and the date of signing the Group financial statements.

Directors' indemnities and insurance
The Articles permit the Board to grant the Directors indemnities in relation to their duties as Directors, including third party indemnity provisions (within the meaning of the Isle of Man Companies Act 2006) in respect of any liabilities incurred by them in connection with any negligence, default, breach of duty or breach of trust in relation to the Company. Deeds of indemnity have been granted to each Director, but do not cover criminal acts. Directors' and Officers' liability insurance cover is in place at the date of this report. The Board remains satisfied that an appropriate level of cover is in place and a review of the levels of cover takes place on an annual basis.

Going concern
After making appropriate enquiries, the Directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future and for at least one year from the date of issue of these Group financial statements. As a result the Directors continue to adopt the going concern basis in preparing the Group financial statements. Further details are provided in note 2 of the financial statements.

Independent auditor
The auditor, PricewaterhouseCoopers LLC, has indicated its willingness to continue in office and a resolution concerning reappointment will be proposed at the AGM.

Raudres Wong
Director

Statement of Directors' responsibilities

For the year ended 31 December 2017

The Directors are responsible for preparing the Annual report and the financial statements in accordance with applicable law and regulations. The Directors have elected to prepare the Group financial statements in accordance with International Financial Reporting Standards ('IFRSs') as adopted by the European Union.

In preparing the financial statements, the Directors are responsible for:

- selecting suitable accounting policies and applying them consistently;
- stating whether IFRSs as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the financial statements;
- making judgements and estimates that are reasonable and prudent;
- preparing the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business; and
- preparing financial statements which give a true and fair view of the state of affairs of the Group and of the profit or loss of the Group for that period.

The Directors are responsible for keeping proper 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. 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 are responsible for the maintenance and integrity of the Company's website. Legislation in the Isle of Man governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Raudres Wong
Director
13 April 2018

Independent auditor's report

To the members of Strix Group Plc

Our opinion

In our opinion the consolidated financial statements give a true and fair view of the consolidated financial position of Strix Group Plc (the 'Company') and its subsidiaries (together the 'Group') as at 31 December 2017 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

What we have audited

Strix Group Plc's consolidated financial statements (the 'financial statements') comprise:

- the consolidated balance sheet as at 31 December 2017;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated cash flow statement for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing ('ISAs'). 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 believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants ('IESBA Code'). We have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

Our audit approach

Overview

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we considered where the Directors made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period. 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	How our audit addressed the key audit matter
Going concern Going concern is considered to be a key area of focus as the Group was in a net liability position at the year end, having entered into a revolving credit facility ('RCF') as part of the Group restructuring at the time of its admission to trading on AIM.	Our audit of management's going concern assessment focused on the assessment of the current financial position and performance, their financial projections and sensitivities, and their ability to meet covenants pertaining to the RCF that was entered into during the year. We obtained the Group working capital memo, which includes a projection up to 31 December 2019. We reviewed the document and challenged the key assumptions. We compared the data for the year ended 2017 to the actual results and noted that the estimates have proven to be reasonable. We have recalculated the loan covenants at year end to ensure that the Group has not exceeded the thresholds, and noted that there is significant headroom. Based on our work we have concluded that the Director's use of the going concern basis in preparing the financial statements is appropriate.
Share based payments During the year, the Group established share-based incentive plans for the Directors and certain employees. The selection and application of accounting policies in accordance with IFRS 2 'Share-based payments' is complex due to the bespoke nature of the arrangements in place. Further, they can require significant judgement regarding the assumptions which are applied in calculating the fair value of the options, particularly the value of the awards at the grant date.	To assess the appropriateness of the application of accounting standards and the assumptions and judgements made by the Directors, we performed the following procedures: • examined documentation setting out the terms of the schemes to determine the appropriateness of accounting policies made by management; • assessed the inputs included in the fair value calculations, considering the reasonableness of the model used, assumptions made and the methodology followed; • performed recalculations and sample testing to check accuracy of the calculations provided; and • considered the disclosures in the financial statements regarding the scheme. Based on our work we have concluded that the assumptions and judgements made by the Directors in determining the share-based payment charge and disclosures in the financial statements are appropriate.

Independent auditor's report

To the members of Strix Group Plc (continued)

Key audit matter	How our audit addressed the key audit matter
Revenue recognition Under 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 fraud or error. The Group's principal revenue stream relates to the sale of kettle safety controls and other components and devices involving water heating and temperature control, steam management and water filtration to external customers. Revenue is recognised at the point of dispatch. The Group has a high volume of revenue transactions which exposes the Group to the risk of invalid transactions within the revenue population.	Our audit work included, but was not restricted to: • considering the stated accounting policy in respect of revenue recognition and whether it is compliant with International Accounting Standard ('IAS') 18 'Revenue'; • testing significant controls around the sales process, including the automated generation of invoices and packing lists, and approval of changes to standing data; • completing a test over a sample of revenue transactions to confirm the occurrence of revenue by agreeing each selection to internal invoices and subsequent external receipt of cash; • testing cut-off by selecting a sample of transactions immediately pre- and post year end to ensure appropriate recognition of transactions near the year end, and testing credit notes issued after the period end; and • testing a sample of rebates issued during the year by agreeing the amounts back to external invoices and relevant contracts. Our audit work did not identify any material errors in the occurrence of revenue recognised in the year or any material instances of revenue not being recognised in accordance with the Group's stated accounting policies.

Other information

The Directors are responsible for the other information. The other information comprises the Annual report (but does not include the financial statements and our auditor's report thereon).

Our opinion on the financial statements does not cover the other information and 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 identified above 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, 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.

Responsibilities of the Directors for the financial statements

The Directors are responsible for the preparation of the financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union and Isle of Man law, 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 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 to cease operations, or have no realistic alternative but to do so.

The Directors are responsible for overseeing the Group's financial reporting process.

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 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.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.
- Conclude on the appropriateness of the Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Directors, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with our engagement letter dated 13 December 2017 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Nicholas Halsall
For and on behalf of PricewaterhouseCoopers LLC
Chartered Accountants
Isle of Man
13 April 2018

Consolidated statement of comprehensive income

For the year ended 31 December 2017

	Note	2017 £000s	2016 £000s
Revenue		**91,263**	88,653
Cost of sales – before exceptional items		**(54,071)**	(53,581)
Cost of sales – exceptional items	6	**(23)**	(35)
Cost of sales		**(54,094)**	(53,616)
Gross profit		**37,169**	35,037
Distribution costs		**(5,790)**	(5,994)
Administrative expenses – before exceptional items		**(2,682)**	(2,522)
Administrative expenses – exceptional items	6	**(2,862)**	(2,508)
Administrative expenses		**(5,544)**	(5,030)
Other operating income		**342**	313
Operating profit		**26,177**	24,326
Analysed as:			
Adjusted EBITDA[1]		**35,117**	33,473
Amortisation	10	**(3,032)**	(2,966)
Depreciation	11	**(3,023)**	(3,638)
Royalties to former group company related parties	6	**–**	(1,838)
Other exceptional items	6	**(2,885)**	(705)
Operating profit		**26,177**	24,326
Net finance costs	7	**(758)**	(48)
Profit before taxation		**25,419**	24,278
Income tax expense	8	**(787)**	(2,103)
Profit for the year		**24,632**	22,175
Other comprehensive income			
Items that will never be reclassified to profit or loss:			
Re-measurement of pension scheme obligations	5(c)	**(8)**	(100)
Total comprehensive income for the year		**24,624**	22,075
Earnings per share (pence)			
Basic	9	**13.0**	n/a
Diluted	9	**12.7**	n/a

1. Adjusted EBITDA, which is defined as profit before finance costs, tax, royalty charges, depreciation, amortisation, and exceptional items, is a non-GAAP metric used by management and is not an IFRS disclosure.

The notes on pages 50 to 76 form part of these Group financial statements.

Consolidated balance sheet

As at 31 December 2017

	Note	2017 £000s	2016 £000s
Non-current assets			
Intangible assets	10	**5,179**	6,380
Property, plant and equipment	11	**9,378**	7,919
Total non-current assets		**14,557**	14,299
Current assets			
Inventories	13	**9,165**	8,560
Trade and other receivables	14	**7,195**	5,650
Receivables due from former group company related parties	14	**–**	370,835
Cash and cash equivalents	15	**10,111**	10,959
Total current assets		**26,471**	396,004
Total assets		**41,028**	410,303
Equity and Liabilities			
Equity			
Share-capital	22	**1,900**	2
Share based payment reserve	21	**2,042**	–
Other reserves	23	**–**	1,793
Retained (deficit)/earnings		**(36,406)**	248,499
Total (deficit)/equity		**(32,464)**	250,294
Current liabilities			
Trade and other payables	16	**16,164**	14,289
Current income tax liabilities	16	**1,103**	843
Payables due to former group company related parties	16	**–**	144,586
Derivative financial instruments		**–**	42
Total current liabilities		**17,267**	159,760
Non-current liabilities			
Borrowings	17	**56,000**	–
Post-employment benefits	5(c)	**225**	249
Total non-current liabilities		**56,225**	249
Total liabilities		**73,492**	160,009
Total equity and liabilities		**41,028**	410,303

The Group financial statements on pages 46 to 76 were approved and authorised for issue by the Board of Directors on 13 April 2018 and were signed on its behalf by:

Mark Bartlett
Director

Raudres Wong
Director

Consolidated statement of changes in equity

For the year ended 31 December 2017

	Share capital £000s	Share based payment reserve £000s	Other reserves £000s	Retained (deficit)/earnings £000s	Total (deficit)/equity £000s
Balance at 1 January 2016	2	–	1,793	226,424	228,219
Profit for the year	–	–	–	22,175	22,175
Other comprehensive expense	–	–	–	(100)	(100)
Total comprehensive income for the year	–	–	–	22,075	22,075
Balance at 31 December 2016	2	–	1,793	248,499	250,294
Balance at 1 January 2017	**2**	**–**	**1,793**	**248,499**	**250,294**
Profit for the year	**–**	**–**	**–**	**24,632**	**24,632**
Other comprehensive expense	**–**	**–**	**–**	**(8)**	**(8)**
Total comprehensive income for the year	**–**	**–**	**–**	**24,624**	**24,624**
Transactions with owners recognised directly in equity:					
Dividends paid (note 24)	**–**	**–**	**–**	**(1,900)**	**(1,900)**
Share-based payment transactions (note 21)	**–**	**2,042**	**–**	**–**	**2,042**
Group reorganisation (note 28)	**–**	**–**	**190,000**	**(673,707)**	**(483,707)**
Issue of shares (note 22)	**1,900**	**–**	**188,100**	**(13,817)**	**176,183**
Capital reduction (note 28)	**(2)**	**–**	**(379,893)**	**379,895**	**–**
Total transactions with owners recognised directly in equity	**1,898**	**2,042**	**(1,793)**	**(309,529)**	**(307,382)**
Balance at 31 December 2017	**1,900**	**2,042**	**–**	**(36,406)**	**(32,464)**

The notes on pages 50 to 76 form part of these Group financial statements.

Consolidated cash flow statement

For the year ended 31 December 2017

	Note	2017 £000s	2016 £000s
Cash flows from operating activities			
Cash generated from operations	25	**34,348**	33,447
Tax paid		**(527)**	(1,466)
Net cash generated from operating activities		**33,821**	31,981
Cash flows from investing activities			
Purchase of property, plant and equipment		**(4,013)**	(3,148)
Capitalised development costs	10	**(1,688)**	(1,445)
Purchase of software	10	**(291)**	(146)
Proceeds on sale of property, plant and equipment		**10**	3
Net cash used in investing activities		**(5,982)**	(4,736)
Cash flows from financing activities			
Transactions with former group company related parties	27, 28	**(257,457)**	–
Proceeds of borrowings	17	**60,774**	–
Repayments of borrowings	17	**(4,774)**	(27,194)
Net proceeds from issuance of shares	28	**176,183**	–
Transaction costs related to borrowings	17	**(822)**	–
Dividends paid	24	**(1,900)**	–
Finance costs paid		**(464)**	(56)
Finance income		**6**	8
Net cash used in financing activities		**(28,454)**	(27,242)
Net (decrease)/increase in cash and cash equivalents		**(615)**	3
Cash and cash equivalents at the beginning of the year		**10,959**	10,175
Effects of foreign exchange on cash and cash equivalents		**(233)**	781
Cash and cash equivalents at the end of the year	25	**10,111**	10,959

The notes on pages 50 to 76 form part of these Group financial statements.

Notes to the consolidated financial statements

For the year ended 31 December 2017

1. General information

Strix Group Plc ('the Company') was incorporated and registered in the Isle of Man on 12 July 2017 as a company limited by shares under the Isle of Man Companies Act 2006 with the name Steam Plc and with the registered number 014963V. The Company changed its name to Strix Group Plc on 24 July 2017. The address of its registered office is Forrest House, Ronaldsway, Isle of Man, IM9 2RG.

The principal activities of Strix Group Plc and its subsidiaries (together 'the Group') are the design, manufacture and supply of kettle safety controls and other components and devices involving water heating and temperature control, steam management and water filtration.

Initial public offering ('IPO')

The Company's shares were admitted to trading on AIM, a market operated by the London Stock Exchange on 8 August 2017. These Group financial statements are the Company's first subsequent to its admission to AIM and followed a Group reorganisation to facilitate the IPO.

Group reorganisation

The Group financial statements have been prepared under the capital reorganisation accounting principles because the transaction under which the Company became the holding company of Sula Limited ('Sula' and the 'Sula Group') was a group reorganisation with no change in the ultimate ownership of the Sula Group. All the shareholdings in Sula were exchanged via a share-for-share transfer on 8 August 2017. The Company did not actively trade at that time.

The result of the application of the group reorganisation is to present the financial statements as if the Company had always owned the Sula Group, and the comparatives have been presented on the same basis. The group reorganisation is more fully described in note 28.

2. Principal accounting policies

The Group's principal accounting policies, all of which have been applied consistently to all of the years presented, are set out below.

Basis of preparation

The Group financial statements have been prepared in accordance with International Financial Reporting Standards ('IFRS') and International Financial Reporting Standards Interpretation Committee ('IFRS IC') interpretations as adopted by the European Union. The Group financial statements have been prepared on the going concern basis and on the historical cost convention, as modified for the revaluation of certain financial instruments.

The preparation of Group financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in note 3.

The Group was formed after the Company, prior to its IPO and listing on AIM, completed a share-for-share transaction of the Sula Group which was owned by the same shareholders at the date of the transaction. The Directors have taken the view that the most appropriate way to account for this in line with IFRS is to deem the share-for-share exchange with Sula Group as a group reorganisation. This has been accounted for by applying capital reorganisation accounting principles given that the ultimate ownership before and after the transaction remained the same. There is currently no specific guidance on accounting for group reorganisations such as the transaction described in note 28 under IFRSs. In the absence of specific guidance, entities should select an appropriate accounting policy and IFRS permits the consideration of pronouncements of other standard-setting bodies.

The group reorganisation, which is scoped out of IFRS 3, has therefore been accounted for using capital reorganisation accounting principles resulting in the following practical effects:
(a) the net assets were combined using existing book values, with adjustments made as necessary to ensure that the same accounting policies are applied to the calculation of the net assets of the entities which are part of the group reorganisation;
(b) no amount is recognised as consideration for goodwill or negative goodwill;
(c) the consolidated statement of comprehensive income includes the profits or losses of each company for the entire period, regardless of the date of the reorganisation, and the comparative amounts in the consolidated financial statements are restated to the figures presented by the 'Operating Group' (being Sula Group and Strix Far East); and
(d) the retained earnings reserve includes the cumulative results of each company, regardless of the date of the reorganisation, and the comparative amounts in the consolidated balance sheet are restated to that presented by the Operating Group.

First time adoption
This is the first year that the Group has presented its results under IFRS. The Group was formed during 2017, and therefore did not present financial statements in previous periods. As a result, the reconciliation ordinarily required by IFRS has not been presented. A reconciliation between the Operating Group under UK GAAP and IFRS was included in the Admission document, on a pro-forma basis, which is available on the Group's website at www.strixplc.com.

Basis of consolidation
The consolidated financial statements incorporate the financial statements of the Group and all of its subsidiary undertakings. The financial statements of all Group companies are adjusted, where necessary, to ensure the use of consistent accounting policies. Acquisitions are accounted for under the acquisition method from the date control passed to the Group. On acquisition, the assets and liabilities of a subsidiary are measured at their fair values. Any excess of the cost of acquisition over the fair values of the identifiable net assets acquired is recognised as goodwill.

Subsidiary undertakings which were part of the group reorganisation are treated as if they have always been a member of the Group. Any difference between the nominal value of the shares acquired by the Company and those issued by the Company to acquire them is taken to retained earnings.

Subsidiaries
Subsidiaries are entities controlled by the Group. Control exists when the Group is exposed to or has the rights to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

Transactions eliminated on consolidation
Intra-Group balances, and any gains and losses or income and expenses arising from intra-Group transactions, are eliminated in preparing the Group financial statements.

Going concern
These Group financial statements have been prepared on the going concern basis.

The Directors acknowledge that the Group is in a net liability position, as a consequence of the group reorganisation and admission to AIM which occurred during 2017, and the distribution made to the former shareholders. As a consequence, the Directors have made additional enquiries to assess the appropriateness of continuing to adopt the going concern basis. In making this assessment they have considered:
- the strong historic trading performance of the Company and the Group;
- budgets and cash flow forecasts for the period to December 2019;
- the current financial position of the Group, including its cash and cash equivalents balances of £10.1m;
- the availability of further funding should this be required (including the headroom of £14.0m on the revolving credit facility and the access to the AIM market afforded by the admission to AIM);
- the low liquidity risk the Group is exposed to; and
- the fact the Group operates within a sector that is experiencing relatively stable demand for its products.

Based on these considerations, the Directors have concluded that there is a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. As a result, the Directors continue to adopt the going concern basis of accounting in preparing the annual financial statements.

Notes to the consolidated financial statements

For the year ended 31 December 2017 (continued)

2. Principal accounting policies continued

New standards, amendments and interpretations

No new standards, amendments or interpretations, effective for the first time for the financial year beginning on or after 1 January 2017, have had a material impact on the Group.

Standards, amendments and interpretations which are not effective or early adopted:

At the date of approval of the Group financial statements, the following new standards and interpretations which are relevant to the Group but have not been applied in this financial information were in issue but not yet effective:

- IFRS 9 – Financial instruments (effective 1 January 2018);
- IFRS 15 – Revenue from Contracts with Customers (effective 1 January 2018); and
- IFRS 16 – Leases (effective 1 January 2019).

IFRS 9 'Financial instruments'

IFRS 9 is effective for Strix Group Plc from 1 January 2018. It is applicable to financial assets and financial liabilities and covers the classification, measurement, impairment and de-recognition of financial assets and liabilities together with a new hedge accounting model. The standard is not expected to have a material impact on the Group's results. Providing for loss allowances on existing financial assets is not expected to have a material impact.

IFRS 15 'Revenue from Contracts with Customers'

In May 2014, IFRS 15 'Revenue from Contracts with Customers' was issued. It was subsequently amended in September 2015 and April 2016. It will be effective for periods beginning on or after 1 January 2018. Transition to IFRS 15 for Strix Group Plc took place on 1 January 2018. The first Annual report published in accordance with IFRS 15 will be the year ended 31 December 2018. IFRS 15 sets out the requirements for recognising revenue and costs from contracts with customers and includes extensive disclosure requirements. The standard requires entities to apportion revenue earned from contracts to individual promises, or performance obligations, on a relative stand-alone selling price basis, based on a five-step model.

The Group has undertaken a preliminary analysis of the implications of this standard and the vast majority of revenue transactions will be unaffected by IFRS 15. Certain types of revenue, which are estimated at being less than 1% of the total, are in the process of being assessed in more detail to quantify the impact of IFRS 15. The indicative impact of this is that some costs which are currently incurred in securing revenue may need to be recognised over a different time period, which may be longer or shorter than the current accounting treatment. The impact of this is not expected to be significant.

IFRS 15 will also impact other areas, but these are not expected to have a material impact on the financial statements of the Group.

IFRS 16 'Leases'

IFRS 16 was published in January 2016 and will be effective for Strix Group Plc from 1 January 2019, replacing IAS 17 'Leases'. The Group does not expect to early-adopt the standard and so transition to IFRS 16 will take place on 1 January 2019. Results in the 2019 financial year will be IFRS 16 compliant, with the first Annual report published in accordance with IFRS 16 being the 31 December 2019 report. The standard requires lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less, or the underlying asset is of low value. The Group is still in the process of quantifying the implications of this standard.

However, the following indicative impacts are expected:

- There is expected to be an increase in total assets, as leased assets which are currently accounted for off balance sheet (i.e. classified as operating leases under IAS 17) will be recognised on balance sheet as the Group will be required to recognise a right-of-use asset representing the right to use the underlying leased asset. The biggest asset category impacted for the Group is expected to be land and buildings in relation to the sites at Ronaldsway (Isle of Man), Ramsey (Isle of Man), Chester (UK), Causeway Bay (Hong Kong) and Guangzhou (China).
- There is expected to be an increase in debt, as liabilities relating to existing operating leases are recognised which represents the obligation to make future lease payments. The increase in total debt is likely to have an impact on the Group's gearing ratios.
- Operating lease expenditure will be reclassified and split between depreciation and finance costs. As a consequence of this, reported EBITDA will increase. Future depreciation and finance costs for historic leases are also affected by the choice of transition method, which is still under review.
- There may be a corresponding effect on tax balances in relation to all of the above impacts, particularly in relation to tax expenditure incurred in China.

Foreign currency translation

Functional and presentational currency

Items included in the financial information of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The functional currency of the Company, and all entities within the Group with the exception of Strix Hong Kong, is Sterling. This is also the Group's presentational currency. The functional currency of Strix Hong Kong is the Hong Kong Dollar.

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated statement of comprehensive income within cost of sales.

Group companies

The results and financial position of Strix Hong Kong are translated into the presentation currency as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet, or at historic rates for certain line items;
- income and expenses for each statement of comprehensive income presented are translated at average exchange rates (unless this is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- all resulting exchange differences are recognised in the consolidated statement of comprehensive income.

Property, plant and equipment

Initial recognition and measurement

Items of property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. Cost includes the original purchase price of the asset and the costs attributable to bringing the asset to its working condition for its intended use. When parts of an item of property, plant and equipment have different useful lives, the components are accounted for as separate items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying value of the replaced part is derecognised. All other repairs and maintenance are charged to profit or loss during the reporting period in which they are incurred.

Subsequent measurement

Depreciation is calculated using the straight-line method to allocate the cost of the assets, net of any residual values, over their estimated useful lives as follows:

- plant & machinery 3–10 years
- fixtures, fittings and equipment 3 years
- motor vehicles 3–5 years
- production tools 1–5 years

The Group manufactures some of its production tools and equipment. The costs of construction are included within a separate category within property, plant and equipment ('assets under construction') until the tools and equipment are ready for use at which point the costs are transferred to the relevant asset category and depreciated. Any items that are scrapped are written off to the consolidated statement of comprehensive income within cost of sales.

The assets' residual values and useful lives are reviewed at the end of each reporting period.

Derecognition

Property, plant and equipment assets are derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of property, plant and equipment, measured as the difference between net disposal proceeds and the carrying amount of the asset, are recognised in the consolidated statement of comprehensive income on derecognition.

Impairment

Tangible assets that are subject to depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

Notes to the consolidated financial statements

For the year ended 31 December 2017 (continued)

2. Principal accounting policies continued

Intangible assets

Initial recognition and measurement

The Group's intangible assets relate to capitalised development costs and computer software. Capitalised development costs are recorded as intangible assets and amortised from the point at which the asset is ready for use. Internal costs that are incurred during the development of significant and separately identifiable new products and manufacturing techniques for use in the business are capitalised when the following criteria are met:

- it is technically feasible to complete the project so that it will be available for use;
- management intends to complete the project and use or sell it;
- it can be demonstrated how the project will develop probable future economic benefits;
- adequate technical, financial, and other resources to complete the project and to use or sell the project output are available; and
- expenditure attributable to the project during its development can be reliably measured.

Capitalised development costs include employee, travel and patent application costs. Internal costs that are capitalised are limited to incremental costs specific to the project.

Computer software is only capitalised when it is probable that future economic benefits associated with the software will flow to the Group, and the cost of the software can be measured reliably. Computer software that is integral to an item of property, plant and equipment is included as part of the cost of the asset recognised in property, plant and equipment.

The costs of renewing and maintaining patents are expensed in the consolidated statement of comprehensive income as they are incurred, unless they qualify for capitalisation as development costs. Other development expenditures that do not meet these criteria are recognised as an expense as incurred.

Subsequent measurement

The Group amortises intangible assets with a limited useful life using the straight-line method over the following periods:

- capitalised development costs 2–5 years
- computer software 1–5 years

Amortisation is charged to the consolidated statement of comprehensive income within cost of sales on a straight-line basis over the estimated useful lives above.

Derecognition

Intangible assets are derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of intangible assets, measured as the difference between the net disposal proceeds and the carrying amount of the asset, and are recognised in the consolidated statement of comprehensive income when the asset is derecognised.

Impairment

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

Intangible assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

Leases

Leases in which a significant portion of the risks and rewards of ownership are not transferred to the Group as lessee are classified as operating leases. Payments made under operating leases are charged to the consolidated statement of comprehensive income on a straight-line basis over the life of the lease. Costs incurred relating to operating leases are disclosed in note 6.

Leases under which the Group assumes substantially all the risks and rewards of ownership of an asset are classified as finance leases. The Group does not have any finance leases.

Financial assets

Classification
The Group classifies its financial assets as loans and receivables. Management determines the classification of its financial assets at initial recognition.

Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that arise principally through the provision of services to customers. They are initially recognised at fair value, and are subsequently stated at amortised cost using the effective interest method. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period. Loans and receivables comprise cash and cash equivalents and trade and other receivables (excluding prepayments), including amounts owed by related entities. Trade and other receivables relate mainly to the sale of products to trade customers.

Impairment of financial assets
Impairment provisions are recognised when there is objective evidence (such as significant financial difficulties on the part of the counterparty or default or significant delay in payment) that the Group will be unable to collect all of the amounts due under the terms receivable. The amount of any such provision is the difference between the net carrying amount and the present value of the future expected cash flows (excluding future credit losses that have not been incurred) associated with the impaired receivable, discounted at the financial asset's original effective interest rate.

For trade receivables, which are reported net, such provisions are recorded in a separate provision account with the loss being recognised within cost of sales in the consolidated statement of comprehensive income. On confirmation that the trade receivable will not be collectable, the gross carrying value of the asset is written off against the associated provision.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the credit rating of a debtor), the reversal of the previous impairment loss is recognised in the consolidated statement of comprehensive income.

Financial liabilities
The Group initially recognises its financial liabilities at fair value net of transaction costs where applicable and subsequently they are measured at amortised cost using the effective interest method. Financial liabilities comprise trade payables, amounts owed to former group company related parties, and other liabilities. They are initially recognised at transaction price, unless the arrangement constitutes a financing transaction, where the debt instrument is measured at the present value of the future payments discounted at a market rate of interest.

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade payables are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities. Other liabilities include payments in advance from customers and rebates.

Borrowings, including option-type arrangements, are recognised initially at fair value. Option-type borrowing arrangements are subsequently measured at amortised cost. Fees paid on the establishment of such option-type arrangements are recognised as a 'right to borrow' asset, and are capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which the fees relate.

Cash and cash equivalents
Cash and cash equivalents comprise cash balances and call deposits with a maturity of three months or less.

Derivative financial instruments
The Group enters into forward commodity contracts to minimise the market price exposure that arises at the point the commodity purchase is transacted. The Group does not apply hedge accounting. The use of financial derivatives is governed by the Group's treasury policies, as approved by the Directors. The Group does not use derivative financial instruments for speculative purposes.

Derivatives are classified as held for trading and accounted for at fair value through profit or loss and they are presented as current assets or current liabilities if they are expected to be settled within 12 months after the end of the reporting period.

All derivative financial instruments are initially measured at fair value on the contract date and are re-measured at fair value at subsequent reporting dates. Changes in the fair value of a derivative instrument are recognised immediately in profit or loss and are included in other operating income in the consolidated statement of comprehensive income.

Notes to the consolidated financial statements

For the year ended 31 December 2017 (continued)

2. Principal accounting policies continued

Employee benefits

The Group provides a range of benefits to employees, including annual bonus arrangements, paid holiday entitlements and defined benefit and contribution pension plans.

Short-term benefits

Short-term benefits, including holiday pay and similar non-monetary benefits, are recognised as an expense in the period in which the service is rendered. The Group recognises a liability and an expense for bonuses where contractually obliged or where there is a past practice that has created a constructive obligation.

Pensions

A subsidiary company operates both a defined contribution scheme and a defined benefit scheme for the benefit of its employees. A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due. A defined benefit plan is a pension plan that is not a defined contribution plan. Typically, defined benefit plans define an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors, such as age, years of service or compensation.

The liability recognised in the consolidated balance sheet in respect of the defined benefit scheme is the present value of the defined benefit obligation at the balance sheet date less the fair value of the scheme assets, together with adjustments for unrecognised actuarial gains or losses and past service costs. The defined benefit obligation is calculated annually by qualified independent actuaries using the projected unit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension liability.

The net pension finance cost is determined by applying the discount rate, used to measure the defined benefit pension obligation at the beginning of the accounting period, to the net pension obligation at the beginning of the accounting period taking into account any changes in the net pension obligation during the period as a result of cash contributions and benefit payments. Pension scheme expenses are charged to the consolidated statement of comprehensive income within administrative expenses. Actuarial gains and losses are recognised immediately in the consolidated statement of comprehensive income. Net defined benefit pension scheme deficits before tax relief are presented separately on the face of the consolidated balance sheet within non-current liabilities.

Share-based payments

The Group has issued conditional equity settled share-based options under a Long Term Incentive Plan ('LTIP') in the parent company to certain employees. Under the LTIP, the Group receives services from employees as consideration for equity instruments (options) of the Group. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense.

The total amount to be expensed is determined by reference to the fair value of the options granted:

- including any market performance conditions such as the requirement for the Group's shares to be above a certain price for a pre-determined period;
- excluding the impact of any service and non-market performance vesting conditions, including earnings per share targets, dividend targets, and remaining an employee of the Group over a specified period of time; and
- including the impact of any non-vesting conditions, where relevant.

These awards are measured at fair value on the date of the grant using an option pricing model and expensed in the consolidated statement of comprehensive income on a straight-line basis over the vesting period, after making an allowance for the estimated number of shares that are estimated will not vest. The level of vesting is reviewed and adjusted annually in the consolidated statement of comprehensive income, with a corresponding adjustment to equity.

If the terms of an equity settled award are modified, at a minimum, an expense is recognised as if the terms had not been modified. An additional expense is recognised for any modification that increases the total fair value of the share-based payment, or is otherwise beneficial to the employee, as measured at the date of modification.

If an equity award is cancelled by forfeiture, where the vesting conditions (other than market conditions) have not been met, any expense not yet recognised for that award as at the date of forfeiture is treated as if it had never been recognised. At the same time, any expense previously recognised on such cancelled equity awards is reversed, effective as at the date of forfeiture.

The dilutive effect, if any, of outstanding options is included in the calculation of diluted earnings per share.

Further details on the awards is included in note 21.

Inventories
Inventories consist of raw materials and finished goods which are valued at the lower of cost and net realisable value. Cost is determined using the first in, first out ('FIFO') method. Cost comprises expenditure which has been incurred in the normal course of business in bringing the products to their present location and condition, and include all related production and engineering overheads at cost. Net realisable value is the estimated selling price in the ordinary course of business, less applicable selling expenses. At the end of each reporting period, inventories are assessed for impairment. If inventory is impaired, the identified inventory is reduced to its selling price less costs to complete and an impairment charge is recognised in the consolidated statement of comprehensive income.

Revenue
Revenue is measured at the fair value of the consideration received or receivable, and represents amounts receivable for goods supplied, stated net of discounts (including volume discounts), returns and rebates allowed by the Group, and value added taxes. The Group recognises revenue when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the entity; which is generally on despatch.

The revenue recognised is based on the price specified in the sales contracts, net of the estimated volume discounts and returns at the time of sale. The Group bases its estimate of returns and volume rebates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement. No element of financing is deemed present because the sales are made under normal credit terms, which is consistent with market practice.

All revenue is derived from the principal activities of the Group. Revenue also includes royalty and licensing income which is recognised in the period it becomes due.

Cost of sales
Cost of sales comprise costs arising in connection with the manufacture of thermostatic controls, cordless interfaces, and other products such as water jugs and filters. Cost is based on the cost of purchases on a first in first out basis and includes all direct costs and an appropriate portion of fixed and variable overheads where they are directly attributable to bringing the inventories into their present location and condition. This also includes an allocation of non-production overheads, costs of designing products for specific customers and amortisation of capitalised development costs.

Exceptional items
Items that are material in size, unusual or infrequent in nature are included within operating profit and disclosed separately as exceptional items in the consolidated statement of comprehensive income. The separate reporting of exceptional items helps provide an indication of the Group's underlying performance, and includes restructuring costs, exit costs, royalties and share-based payment transaction costs.

Research and development
Research expenditure is written off to the consolidated statement of comprehensive income within cost of sales in the year in which it is incurred. Development expenditure is written off in the same way unless the Directors are satisfied as to the technical, commercial and financial viability of the individual projects. In this situation, the expenditure is classified on the consolidated balance sheet as a capitalised development cost.

Net finance costs
Finance costs comprise interest charges on pension liabilities, interest on non-current borrowings, and finance charges relating to letters of credit. Finance income comprises bank interest receivable on funds invested. Finance costs and finance income are recognised when the right to make or receive payment is established.

Income tax
Income tax for the years presented comprises current tax. Income tax is recognised in profit or loss except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the balance sheet date in the countries where the Company and its subsidiaries operate and generate taxable income, and any adjustment to tax payable in respect of previous years.

Notes to the consolidated financial statements

For the year ended 31 December 2017 (continued)

2. Principal accounting policies continued

Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new ordinary shares are shown in equity as a deduction from the proceeds.

Dividends

Dividends are recognised when they become legally payable. In the case of interim dividends to equity shareholders, this is when declared by the Directors. In the case of final dividends, this is when approved by the shareholders at the AGM.

Provisions

Provisions are only recognised when:

- the Group has a present legal or constructive obligation as a result of past events;
- it is probable that an outflow of resources will be required to settle the obligation; and
- the amount can be reliably estimated.

Provisions are not recognised for future operating losses. Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a discount rate that reflects current market assessments of the time value of money and the risks specific to the obligation. Any increase in provisions due to discounting, only recorded where material, is recognised within net finance costs.

Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker, who is responsible for allocating resources and assessing the performance of the operating segments, has been identified as the Board of Directors. The Board of Directors consists of the Executive Directors and the Non-Executive Directors.

Government grants

Subsidiary companies receive grants from the Isle of Man and Chinese governments towards revenue expenditure. Government grants are recognised at their fair value where there is a reasonable assurance that the grant will be received and all attached conditions complied with.

The grants are recognised as income over the period necessary to match the grant on a systematic basis to the costs that it is intended to compensate. The grant income is presented within other operating income in the consolidated statement of comprehensive income.

The grants are dependent on the subsidiary company having fulfilled certain operating, investment and profitability criteria in the financial year, primarily relating to employment.

EBITDA and adjusted EBITDA – non-GAAP performance measures

Earnings before Interest, Taxation, Depreciation and Amortisation ('EBITDA') and adjusted EBITDA are non-GAAP measures used by management to assess the operating performance of the Group. EBITDA is defined as profit before finance costs, tax, depreciation and amortisation. Exceptional items and royalty charges are excluded from EBITDA to calculate adjusted EBITDA.

The Directors primarily use the adjusted EBITDA measure when making decisions about the Group's activities. As these are non-GAAP measures, EBITDA and adjusted EBITDA measures used by other entities may not be calculated in the same way and hence are not directly comparable.

3. Critical accounting judgements and estimates

The preparation of the Group's financial statements under IFRS requires the Directors to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities. Estimates and judgements are continually evaluated and are based on historical experience and other factors including expectations of future events that are believed to be reasonable under the circumstances.

Critical judgements in applying the entity's accounting policies

Going concern

The Directors have prepared the Group financial statements on a going concern basis. In making this judgment the Directors have considered the Company's and the Group's financial position, current intentions, profitability of operations and access to financial resources and analysed the impact of the situation in the financial markets on the operations of the Group, as set out in the paragraphs entitled 'Going concern' in note 2.

Functional currency

The Directors consider the factors set out in paragraphs 9, 10 and 11 of IAS 21, 'The effects of changes in foreign currency' to determine the appropriate functional currency of its overseas operations. These factors include the currency that mainly influences sales prices, labour, material and other costs, the competitive market serviced, financing cash flows and the degree of autonomy granted to the subsidiaries. The Directors have applied judgement in determining the most appropriate functional currency for all entities to be Sterling, with the exception of Strix Hong Kong which has a Hong Kong Dollar functional currency. This may change as the Group's operations and markets change in the future.

Capitalisation of development costs

The Directors consider the factors set out in the paragraphs entitled 'Intangible assets – initial recognition and measurement' on page 54 with regard to the timing the capitalisation of the development costs incurred. This requires judgement in determining when the different stages of development have been met.

Impact of Group reorganisation and IPO

There is no formal accounting guidance in relation to the group reorganisation transaction that took place prior to the admission to trading on AIM in 2017. Management have therefore made a number of critical accounting judgements in how to recognise the transactions that took place, which is explained more fully in note 28.

Critical accounting estimates and assumptions

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are disclosed below.

Impairment of capitalised development costs

The Group considers whether capitalised development costs are impaired. Where an indication of impairment is identified the estimation or recoverable value requires estimation of the future cash flows and the continued commercial viability of the capitalised project. Development cost balances and any impairments thereon are disclosed in note 10.

Rebates

Allowances for rebates are recognised based on recent historical experience and management's best estimates. Actual cash outflows may differ from these estimates, for example, if volumes sold in order to claim a volume rebate are not met. Rebates during the year were approximately 3.8% of gross turnover (2016: 3.6%).

Notes to the consolidated financial statements

For the year ended 31 December 2017 (continued)

4. Segmental reporting

Management has determined the operating segments based on the operating reports reviewed by the Board of Directors that are used to assess both performance and strategic decisions. Management has identified that the Board of Directors is the chief operating decision maker in accordance with the requirements of IFRS 8 'Operating segments'. The Group's activities consist of the design, manufacture and sale of thermostatic controls, cordless interfaces, and other products such as water jugs and filters, primarily to OEMs based in China. It is managed as one entity and management have consequently determined that there is only one operating segment.

Products and services

Revenue is generated by the Group on the sale of thermostatic controls, cordless interfaces, and other products such as water jugs and filters. The information used to prepare the consolidated financial statements is not disaggregated into distinct products or services.

Geographical

A geographical analysis of revenue from external customers has not been presented, as the OEMs to whom sales are made are primarily based in China.

In accordance with IFRS 8, the following table discloses the non-current assets located in both the Company's country of domicile (the Isle of Man) and foreign countries, primarily China, where one of the Group's principal subsidiaries is domiciled.

	2017 £000s	2016 £000s
Country of domicile		
Intangible assets	**4,877**	6,258
Property, plant and equipment	**1,796**	2,065
Total country of domicile non-current assets	**6,673**	8,323
Foreign countries		
Intangible assets	**302**	122
Property, plant and equipment	**7,582**	5,854
Total foreign non-current assets	**7,884**	5,976
Total non-current assets	**14,557**	14,299

Of the 'foreign countries' balance above, £20,000 (2016: £40,000) of property, plant and equipment relates to non-current assets located in a foreign country other than China. The remaining 'foreign countries' non-current assets are located in China.

Major customers

In 2017 there were two major customers that individually accounted for at least 10 per cent of total revenues (2016: two customers). The revenues relating to these customers in 2017 were £16,223,000 and £10,907,000 (2016: £16,061,000 and £11,434,000).

5. Employees and directors

(a) Employee benefit expenses

	2017 £000s	2016 £000s
Wages and salaries	**14,999**	14,946
Defined contribution pension cost (note 5(c))	**398**	104
Defined benefit pension cost (note 5(c))	**38**	38
Non-exceptional employee benefit expenses	**15,435**	15,088
Share-based payment transactions (note 21)	**2,042**	–
Total employee benefit expenses	**17,477**	15,088

(b) Key management compensation

The following table details the aggregate compensation paid in respect of the key management, which includes the Directors and the members of the Trading Board, representing members of the senior management team from all key departments of the Group, from the date of admission to trading on AIM. Prior to admission to trading on AIM (including the whole of 2016), key management was considered to be the Executive Committee, including the Directors.

	2017 £000s	2016 £000s
Salaries and other short-term employee benefits	**4,319**	1,540
Post-employment benefits	**164**	90
Share-based payment transactions	**1,647**	–
	6,130	1,630

There are no defined benefit schemes for key management. Pension costs under defined contribution schemes are included in the post-employment benefits disclosed above.

(c) Retirement benefits

(i) The Strix Limited Retirement Fund

The Strix Limited Retirement Fund is a defined contribution scheme under which the assets of the scheme are held separately from those of the Group in an independently administered fund. The pension cost charge represents costs payable by the Group to the fund and amounted to £398,000 (2016: £104,000).

(ii) The Strix Limited (1978) Retirement Fund

The Strix Limited (1978) Retirement Fund is a defined benefit scheme providing benefits based on final pensionable pay. The assets of the scheme are held separately from those of the Group. The trustees of the pension fund are required by law to act in the interest of the fund and of all relevant stakeholders in the scheme. The trustees are responsible for the investment policy with regard to the assets of the fund.

The scheme is closed to new members and future accrual.

A full actuarial valuation of this scheme was completed as at 6 April 2016, which has been updated to 31 December 2017 by a qualified independent actuary. The valuation of the scheme used the projected unit method.

At 31 December 2017 the market value of the scheme assets was £181,000 (2016: £132,000) and the present value of the scheme liabilities were £406,000 (2016: £381,000). The net post-employment obligation at 31 December 2017 is £225,000 (2016: £249,000). The total charge recognised in the consolidated statement of comprehensive income was £6,000 (2016: £7,000).

The actuarial loss recognised in the consolidated statement of comprehensive income was £8,000 (2016: £100,000). The Group expects to make total contributions of £40,000 in the year ending 31 December 2018 (including £2,000 of costs paid in order to administer the scheme).

The remainder of the disclosures required by IAS 19 have not been included in these financial statements as the scheme is not material to the Group.

Notes to the consolidated financial statements

For the year ended 31 December 2017 (continued)

6. Expenses

(a) Expenses by nature

		2017 £000s	2016 £000s
Employee benefit expense		**15,435**	15,088
Depreciation charges		**3,023**	3,638
Amortisation and impairment charges		**3,180**	2,991
Operating lease payments		**1,152**	1,079
Exceptional items	– reorganisation costs	**23**	35
	– exit costs	**820**	670
	– royalties to former group company related parties	**–**	1,838
	– share-based payment transactions	**2,042**	–
Foreign exchange losses/(gains)		**201**	(55)

Research and development expenditure totalled £3,549,000 (2016: £3,318,000), with £1,688,000 (2016: £1,445,000) of these costs being capitalised during the year.

(b) Exceptional items

The reorganisation costs are in relation to the transfer of operations to China and Hong Kong, and the expansion of the senior management unit within China and Hong Kong.

The exit costs were incurred by the Group relating to a potential sale of the Group under the previous ownership structure.

Royalties to former group company related parties represent amounts payable to sister group companies under the old group structure, which did not continue as part of the group restructuring and IPO transactions. These costs were included within administrative expenses in the comparative period.

The share-based payment transactions relate to conditional share options issued to certain employees during the IPO process. Further details are provided in note 21.

A further £13,817,000 of costs incurred in relation to the IPO have been debited to equity in accordance with IAS 32. Further details are provided in note 22.

(c) Auditor's remuneration

During the year the Group (including its subsidiaries) obtained the following services from the Company's auditor as detailed below:

	2017 £000s	2016 £000s
Fees payable to Company's auditor and its associates for the audit of consolidated financial statements	**125**	–
Fees payable to Company's auditor and its associates for other services:		
– the audit of Company's subsidiaries	**2**	27
– audit assurance services	**205**	2
– non-audit services	**205**	16
– tax compliance	**9**	2
	546	47

The auditor's remuneration disclosed above for 2016 excludes an amount of £39,000 which was paid by former group companies on behalf of current group companies for audit and other services, as those costs were not borne by Strix Group Plc. As a result, these costs are not reflected in the consolidated statement of comprehensive income.

The audit assurance services in 2017 relate wholly to work performed by PwC LLP UK as reporting accountants in connection with the admission of the Group's ordinary shares to AIM in August 2017. These costs were included within the Group's transaction costs associated with the listing, which have been debited to equity.

The non-audit services in 2017 include work performed by PwC LLP UK in connection with the admission of the Group's ordinary shares to AIM in August 2017. These costs were included within the Group's transaction costs associated with the listing, which have been debited to equity.

7. Net finance costs

	2017 £000s	2016 £000s
Letter of credit charges	**66**	49
Pension scheme interest	**6**	7
Borrowing costs	**692**	–
Finance expense	**764**	56
Interest income	**(6)**	(8)
Net finance costs	**758**	48

8. Taxation

Analysis of charge in year

	2017 £000s	2016 £000s
Current tax (overseas)		
Current tax on overseas profits for the year	**793**	803
Adjustments in respect of prior years – overseas	**(6)**	1,300
Total tax charge	**787**	2,103

Overseas tax relates primarily to tax payable by the Group's subsidiary in China. During 2016, the Group's Chinese subsidiary paid additional tax of £1.1m following a benchmarking assessment by the Chinese tax authorities relating to contract processing businesses in the years 2009 to 2014. The potential additional liabilities for 2015 to 2017 calculated on the same basis of £0.8m were accrued in 2016 and 2017, in line with the basis of the tax enquiry.

As the most significant subsidiary in the Group is based on the Isle of Man, this is considered to represent the most relevant standard rate for the Group. The tax assessed for the year is higher than the standard rate of income tax in the Isle of Man of 0% (2016: 0%). The differences are explained below.

	2017 £000s	2016 £000s
Profit on ordinary activities before tax	**25,419**	**24,278**
Profit on ordinary activities multiplied by the rate of corporation tax in the Isle of Man of 0% (2016: 0%)	**–**	**–**
Impact of higher overseas tax rate	**793**	**803**
Adjustments in respect of prior years – overseas	**(6)**	**1,300**
Total taxation charge	**787**	**2,103**

The Company is subject to Isle of Man income tax on profits at the rate of 0% (2016: 0%). Based on the Company's current activities, the Company is not expected to have any future Isle of Man tax liability.

Notes to the consolidated financial statements

For the year ended 31 December 2017 (continued)

9. Earnings per share

The calculation of basic and diluted earnings per share is based on the following data. No earnings per share figure can be calculated for 2016, when a different capital structure was in place.

	2017
Earnings (£000s)	
Earnings for the purposes of basic and diluted earnings per share	**24,632**
Number of shares (000s)	
Weighted average number of shares for the purposes of basic earnings per share	**190,000**
Weighted average dilutive effect of conditional share awards	**3,587**
Weighted average number of shares for the purposes of diluted earnings per share	**193,587**
Earnings per ordinary share (pence)	
Basic earnings per ordinary share	**13.0**
Diluted earnings per ordinary share	**12.7**
Adjusted earnings per ordinary share (pence)[1]	
Basic adjusted earnings per ordinary share[1]	**14.5**
Diluted adjusted earnings per ordinary share[1]	**14.2**

The calculation of basic and diluted adjusted earnings per share is based on the following data:

	2017 £000s
Profit for the year	**24,632**
Add back:	
Reorganisation costs	**23**
Exit costs	**820**
Share based payment transactions	**2,042**
Adjusted earnings[1]	**27,517**

1. Adjusted results exclude royalty charges and exceptional items, which include share-based payment transactions. Adjusted results are non-GAAP metrics used by management and are not an IFRS disclosure.

The denominators used to calculate both basic and adjusted earnings per share are the same as those shown above for both basic and diluted earnings per share.

10. Intangible assets

	2017			2016		
	Development costs £000s	**Software £000s**	**Total**	Development costs £000s	Software £000s	Total
At 1 January						
Cost	**13,254**	**220**	**13,474**	11,833	75	11,908
Accumulated amortisation and impairment	**(7,030)**	**(64)**	**(7,094)**	(4,109)	(19)	(4,128)
Net book value	**6,224**	**156**	**6,380**	7,724	56	7,780
Year ended 31 December						
Additions	**1,688**	**291**	**1,979**	1,445	146	1,591
Amortisation charges	**(2,925)**	**(107)**	**(3,032)**	(2,920)	(46)	(2,966)
Impairment charges	**(148)**	**–**	**(148)**	(25)	–	(25)
Closing net book value	**4,839**	**340**	**5,179**	6,224	156	6,380
At 31 December						
Cost	**12,716**	**511**	**13,227**	13,254	220	13,474
Accumulated amortisation and impairment	**(7,877)**	**(171)**	**(8,048)**	(7,030)	(64)	(7,094)
Net book value	**4,839**	**340**	**5,179**	6,224	156	6,380

All amortisation charges have been treated as an expense, and charged to cost of sales in the consolidated statement of comprehensive income. There were no reversals of prior year impairments during the year (2016: same). The impairments recognised relate to development cost assets from which the Directors do not expect to generate sufficient future economic benefits to match the full value of the asset (2016: same). During the year, £2,078,000 of assets with a net book value of zero were derecognised in line with the derecognition policy disclosed in note 2.

11. Property, plant and equipment

2017	Plant & machinery £000s	Fixtures, fittings & equipment £000s	Motor vehicles £000s	Production tools £000s	Assets under construction £000s	Total £000s
At 1 January						
Cost	**18,056**	**4,209**	**60**	**14,333**	**1,074**	**37,732**
Accumulated depreciation	**(14,023)**	**(3,802)**	**(45)**	**(11,943)**	**–**	**(29,813)**
Net book value	**4,033**	**407**	**15**	**2,390**	**1,074**	**7,919**
Year ended 31 December						
Additions	**–**	**993**	**72**	**–**	**3,423**	**4,488**
Transfers	**1,856**	**–**	**–**	**973**	**(2,829)**	**–**
Disposals	**–**	**–**	**(6)**	**–**	**–**	**(6)**
Depreciation charge	**(1,001)**	**(441)**	**(12)**	**(1,569)**	**–**	**(3,023)**
Closing net book value	**4,888**	**959**	**69**	**1,794**	**1,668**	**9,378**
At 31 December						
Cost	**19,440**	**5,037**	**104**	**13,678**	**1,668**	**39,927**
Accumulated depreciation	**(14,552)**	**(4,078)**	**(35)**	**(11,884)**	**–**	**(30,549)**
Net book value	**4,888**	**959**	**69**	**1,794**	**1,668**	**9,378**

Depreciation charges are allocated to cost of sales (£1,662,000), distribution costs (£1,179,000), and administrative expenses (£182,000) in the consolidated statement of comprehensive income. During the year, £2,287,000 of assets with a net book value of zero were derecognised in line with the derecognition policy disclosed in note 2.

2016	Plant & machinery £000s	Fixtures, fittings & equipment £000s	Motor vehicles £000s	Production tools £000s	Assets under construction £000s	Total £000s
At 1 January						
Cost	16,640	3,945	50	13,328	608	34,571
Accumulated depreciation	(12,913)	(3,456)	(42)	(9,764)	–	(26,175)
Net book value	3,727	489	8	3,564	608	8,396
Year ended 31 December						
Additions	–	264	10	–	2,887	3,161
Transfers	1,416	–	–	1,005	(2,421)	–
Depreciation charge	(1,110)	(346)	(3)	(2,179)	–	(3,638)
Closing net book value	4,033	407	15	2,390	1,074	7,919
At 31 December						
Cost	18,056	4,209	60	14,333	1,074	37,732
Accumulated depreciation	(14,023)	(3,802)	(45)	(11,943)	–	(29,813)
Net book value	4,033	407	15	2,390	1,074	7,919

Depreciation charges are allocated to cost of sales (£1,787,000), distribution costs (£1,730,000), and administrative expenses (£121,000) in the consolidated statement of comprehensive income.

Notes to the consolidated financial statements

For the year ended 31 December 2017 (continued)

12. Investments

Principal subsidiary undertakings of the Group

A list of all subsidiary undertakings controlled by the Group, which are all included in the consolidated financial statements, is set out below.

Subsidiary	Nature of business	Country of incorporation	Proportion of ordinary shares held by parent %	Proportion of ordinary shares held by the Group %
Sula Limited	Holding company	IOM	100	100
Strix Limited	Manufacture and sale of products	IOM	–	100
Strix Guangzhou Ltd	Manufacture and sale of products	China	–	100
Strix Far East Ltd	Sale of certain of the Group's appliances	Bermuda	–	100
Strix (U.K.) Limited	Group's sale and distribution centre	UK	–	100
Strix Hong Kong Ltd	Sale and distribution of products	Hong Kong	–	100
Strix Finance (U.K.) Ltd	Financing Group activities	UK	–	100

Cash and cash equivalents held in China are subject to local exchange control regulations. These regulations provide for restrictions on exporting capital from those countries, other than through normal dividends. The carrying amount of the assets included within the consolidated financial statements to which these restrictions apply is £932,000 (2016: £2,874,000).

There are no other restrictions on the Group's ability to access or use the assets and settle the liabilities of the Group's subsidiaries.

13. Inventories

	2017 £000s	2016 £000s
Raw materials and consumables	**4,791**	3,048
Finished goods and goods in transit	**4,374**	5,512
	9,165	8,560

The cost of inventories recognised as an expense and included in cost of sales amounted to £32,545,000 (2016: £33,475,000). The charge for impaired inventories was £198,000 (2016: £345,000). There were no reversals of previous inventory write-downs.

14. Trade and other receivables

	2017 £000s	2016 £000s
Amounts falling due within one year:		
Trade receivables not past due	**3,774**	4,288
Trade receivables past due	**84**	72
Trade receivables past due and impaired	**–**	–
Trade receivables – net	**3,858**	4,360
Receivables from former group company related parties	**–**	370,835
Prepayments	**1,192**	410
Advance purchase of commodities	**1,340**	–
Other receivables	**805**	880
	7,195	376,485

Trade and other receivables are all current and any fair value difference is not material. Trade receivables are considered past due once they have passed their contractual due date. Trade receivables are reviewed for impairment if they are beyond 30 days past due.

The amount of trade receivables past due is not material, therefore an aging analysis has not been presented (2016: same). The amount of trade receivables impaired at 31 December 2017 is equal to the provision (2016: same). The amount of the provision for trade receivables as at 31 December 2017 was £17,000 (2016: £39,000).

Receivables due from former group company related parties were unsecured, repayable on demand, bore no interest and were settled and/or extinguished as part of the group reorganisation.

The advance purchase of commodities relates to a payment in advance to secure the purchase of certain key commodities at an agreed price to mitigate the commodity price risk. At 31 December 2016, this risk was mitigated by the purchase of a derivative contract.

The increase in prepayments relates primarily to capitalised transaction costs of £822,000 relating to new non-current borrowings put in place as part of the group reorganisation and admission to trading on AIM. At 31 December 2017, £751,000 (2016: nil) of these transaction costs are included within prepayments.

Other receivables includes government grants due of £338,000 (2016: £310,000). There were no unfulfilled conditions in relation to these grants at the year end, although if the Group ceases to operate or leaves the Isle of Man within 10 years from the date of the last grant payment, funds may be reclaimed.

The carrying amounts of the Group's trade and other receivables are denominated in the following currencies:

	2017 £000s	2016 £000s
British Pound	**4,560**	374,164
Chinese Yuan	**1,536**	287
United States Dollar	**811**	1,605
Hong Kong Dollar	**109**	132
Euro	**157**	275
Other	**22**	22
	7,195	376,485

Movements on the Group's provision for impairment of trade receivables are as follows:

	2017 £000s	2016 £000s
At 1 January	**(39)**	(42)
Provision for receivables impairment	**(17)**	(34)
Receivables written off during the year as uncollectable	**31**	–
Unused amounts reversed	**8**	37
At 31 December	**(17)**	(39)

The creation and release of a provision for impaired receivables are allocated to cost of sales in the consolidated statement of comprehensive income. Amounts charged to the allowance account are written off when there is no expectation of recovering additional cash.

The other classes within trade and other receivables do not contain impaired assets.

15. Cash and cash equivalents

	2017 £000s	2016 £000s
Cash and cash equivalents		
Cash at bank and in hand	**10,111**	10,959

The carrying amounts of the Group's cash and cash equivalents are denominated in the following currencies:

	2017 £000s	2016 £000s
British Pound	**6,127**	6,974
Chinese Yuan	**732**	1,010
United States Dollar	**2,954**	2,514
Hong Kong Dollar	**200**	157
Euro	**98**	304
	10,111	10,959

Notes to the consolidated financial statements

For the year ended 31 December 2017 (continued)

16. Trade and other payables

	2017 £000s	2016 £000s
Trade payables	**5,026**	4,932
Amounts due to former group company related parties	**–**	144,586
Current income tax liabilities	**1,103**	843
Social security and other taxes	**191**	102
Other liabilities	**6,717**	4,863
Accrued expenses	**4,230**	4,392
	17,267	159,718

Amounts due to former group company related parties were unsecured, repayable on demand, bore no interest and were settled and/or extinguished as part of the group reorganisation.

The fair value of financial liabilities approximates their carrying value due to short maturities.

The carrying amounts of the Group's trade and other payables are denominated in the following currencies:

	2017 £000s	2016 £000s
British Pound	**5,622**	151,003
Chinese Yuan	**7,726**	5,197
United States Dollar	**3,133**	2,314
Hong Kong Dollar	**434**	1,007
Euro	**352**	197
	17,267	159,718

17. Borrowings

	2017 £000s	2016 £000s
Non-current bank loans	**56,000**	–

Term and debt repayment schedule

	Currency	Interest rate	Maturity date	2017 carrying value (£000s)
Revolving credit facility	GBP	LIBOR + 1.50% – 2.50%	27 July 2022	**56,000**

On 27 July 2017, the Company entered into an agreement with The Royal Bank of Scotland Plc (as agent), and the Royal Bank of Scotland International Limited and HSBC Bank Plc (as original lenders) in respect of a revolving credit facility of £70,000,000.

The proceeds of the first drawdown of £60,774,000 were used to (among other things) repay previously existing banking facilities prior to the group reorganisation and admission to trading on AIM, to pay fees, costs and expenses in relation to the process and to fund the distribution paid to former group company related parties. Additional amounts may be drawn under the agreement for financing working capital and for general corporate purposes of the Group.

All amounts become immediately repayable and undrawn amounts cease to be available for drawdown in the event of a third party gaining control of the Company. The Company and its subsidiaries, Strix Limited and Sula Limited, have entered into the agreement as guarantors, guaranteeing the obligations of the borrowers under the agreement.

Transaction costs incurred as part of the debt financing amounting to £822,000 have been capitalised in 2017 and are being amortised over the period of the facility.

The agreement contains representations and warranties which are usual for an agreement of this nature. The agreement also provides for the payment of a commitment fee, agency fee and arrangement fee, contains certain undertakings, guarantees and covenants (including financial covenants) and provides for certain events of default. During 2017, the Group has not breached any of the financial covenants contained within the agreement.

On 30 June 2018, the total facility available will reduce by £5,000,000, and by a further £2,000,000 every 6 months thereafter.

Interest applied to the loan is calculated as the sum of the margin and LIBOR (or EURIBOR for any loan denominated in Euros). The margin is a calculated based on the Group's leverage as follows:

Leverage	Annualised margin %
Greater than or equal to 2.0x	**2.5%**
Less than 2.0x but greater than or equal to 1.5x	**2.2%**
Less than 1.5x but greater than or equal to 1.0x	**2.0%**
Less than 1.0x	**1.5%**

The Group's only other interest-bearing borrowing is a finance lease liability which is not considered material for separate disclosure.

18. Commitments

(a) Capital commitments

	2017 £000s	2016 £000s
Contracted for but not provided in the consolidated financial statements – Property, plant and equipment	**1,010**	760

(b) Operating lease commitments

The Group leases various offices, warehouses and factories under non-cancellable operating lease agreements. The lease terms are between 1 and 10 years and have varying terms, escalation clauses and renewal rights. On renewal, the terms of the leases are generally renegotiated at the prevailing market rate.

The lease expenditure charged to the consolidated statement of comprehensive income during the year is disclosed in note 6. Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:

	2017 £000s	2016 £000s
Within 1 year	**1,037**	1,028
Later than 1 year and less than 5 years	**1,870**	1,863
After 5 years	**1,031**	–
	3,938	2,891

19. Contingent assets and contingent liabilities

The Group has a number of ongoing legal intellectual property cases, including legal actions initiated by the Group, as well as invalidation challenges brought by the defendants. The invalidation actions have all been successfully survived to date. The Directors believe that a favourable outcome on these cases is probable, having made appropriate legal consultations. However, a number of these cases are still in the process of going through the due legal process in the countries in which the matters have been raised. As a result, no contingent assets have been recognised as receivable at 31 December 2017, as any receipts are dependent on the final outcome of the ongoing legal processes in each case. There are no contingent liabilities at 31 December 2017 (2016: same).

Notes to the consolidated financial statements

For the year ended 31 December 2017 (continued)

20. Financial risk management

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, interest rate risk and commodity price risk), credit risk and liquidity risk.

Risk management is carried out by the Directors. The Group uses financial instruments where required to provide flexibility regarding its working capital requirements and to enable it to manage specific financial risks to which it is exposed. Transactions are only undertaken if they relate to actual underlying exposures and hence cannot be viewed as speculative.

(a) Market risk

(i) Foreign exchange risk

The Group operates predominantly in the UK and China and is therefore exposed to foreign exchange risk. Foreign exchange risk arises on sales and purchases made in foreign currencies and on recognised assets and liabilities and net investments in foreign operations.

The Group monitors its exposure to currency fluctuations on an ongoing basis. The Group uses foreign currency bank accounts to reduce its exposure to foreign currency translation risk, and the Group is naturally hedged against foreign exchange risk as it both generates revenues and incurs costs in the major currencies with which it deals.

The major currencies the Group deals with are:

- British Pounds Sterling (£GBP);
- United States Dollar ($USD);
- Chinese Yuan Renminbi (¥RMB);
- Hong Kong Dollar ($HKD); and
- Euro (€EUR).

(ii) Interest rate risk

The Group is exposed to interest rate risk on its long term borrowings, being the revolving credit facility disclosed in note 17. The interest rate on the borrowings is variable, based on LIBOR and certain other conditions dependent on the financial condition of the Group, which exposes the Group to cash flow interest rate risk which is partially offset by cash held at variable rates. This exposure is not considered by the Directors to be significant.

(iii) Price risk

The Group is exposed to price risk, principally in relation to commodity prices of raw materials. The Group enters into forward commodity contracts or makes payments in advance in order to mitigate the impact of price movements on its gross margin. The Group has not designated any of these contracts as hedging instruments in either 2016 or 2017.

At 31 December 2016, the Group had a forward commodity contract to buy silver in order to hedge commodity price risk. The disclosures required by IFRS 7 have not been included in these financial statements as they are not material to the Group.

At 31 December 2017, payments were made in advance to buy certain commodities at fixed prices, as disclosed in note 14. As a result, no forward commodity contracts were in place at 31 December 2017.

(iv) Sensitivity analysis

A sensitivity analysis of each category of market risk is shown below, together with the method and assumptions used:

Foreign exchange risk:
The Group is primarily exposed to exchange rate fluctuations between GBP and USD, RMB, HKD, and EUR. Assuming a reasonably possible change in FX rates of +10% (2016: +10%), the impact on profit would be an increase of £117,000 (2016: decrease of £46,000), and the impact on equity would be a decrease of £342,000 (2016: decrease of £267,000). A -10% change (2016: -10%) in FX rates would cause a decrease in profit of £143,000 (2016: an increase of £56,000) and a £418,000 increase in equity (2016: increase of £326,000). This has been calculated by taking the profit generated by each currency and recalculating a comparable figure on a constant currency basis, and by retranslating the amounts in the consolidated balance sheet to calculate the effect on equity.

Interest rate risk:
The Group is exposed to interest rate fluctuations on its non-current borrowings, as disclosed in note 17. Assuming a reasonably possible change in the LIBOR rate of ±0.5%, the impact on profit would be an increase/decrease of £115,000 (2016: nil), and the impact on equity would be an increase/decrease of £73,000 (2016: nil). This has been calculated by recalculating the loan interest using the revised rate to calculate the impact on profit, and recalculating the year end loan interest balance payable using the same rate.

Commodity price risk:
The Group is exposed to commodity price fluctuations, primarily in relation to copper and silver. Assuming a reasonably possible change in commodity prices of ±5.2% for silver (2016: ±12.2%) and ±7.8% for copper (2016: ±7.5%) based on volatility analysis for the past year, the impact on profit would be an increase/decrease of £497,000 (2016: increase/decrease of £592,000). The Group does not hold significant quantities of copper and silver inventory, therefore the impact on equity would be the same as the profit or loss impact disclosed (2016: same). This has been calculated by taking the average purchase price of these commodities during the year in purchase currency and recalculating the cost of the purchases with the price sensitivity applied.

(b) Credit risk

The Group has no external concentrations of credit risk. The Group has policies in place to ensure that sales of goods are made to clients with an appropriate credit history. The Group uses letters of credit and advance payments to minimise credit risk. Management believes there is no further credit risk provision required in excess of normal provision for doubtful receivables, as disclosed in note 14. The amount of trade and other receivables written off during the year amounted to less than 0.05% of revenue (2016: nil).

Cash and cash equivalents are held with reputable institutions. All material cash amounts are deposited with financial institutions whose credit rating is at least BBB based on credit ratings according to Standard & Poor's. The following table shows the external credit ratings of the institutions with whom the Group has cash deposits:

	2017 £000s	2016 £000s
AA	**131**	152
A	**1,001**	3,560
BBB	**8,882**	7,184
B	**77**	44
n/a	**20**	19
At 31 December	**10,111**	10,959

(c) Liquidity risk

The Group had significant cash balances throughout the period and hence suffers minimal liquidity risk. Cash flow forecasting is performed for the Group by the finance function, which monitors rolling forecasts of the Group's liquidity requirements to ensure it has sufficient cash to meet operational needs and so that the Group minimises the risk of breaching borrowing limits or covenants on any of its borrowing facilities. The Group has put into place a revolving credit facility to provide access to cash for various purposes, and headroom of £14,000,000 (2016: n/a) remains available on this facility at 31 December 2017.

The Group's non-derivative financial liabilities (represented by trade and other payables) all have a contractual maturity date of either less than 3 months, or 3 to 6 months. The Group's borrowings are represented by a revolving credit facility which has no contractual maturity other than the maturity date of the entire facility, which is 27 July 2022 and hence between 2 and 5 years.

(d) Capital risk management

The Group manages its capital to ensure its ability to continue as a going concern and to maintain an optimal capital structure to the reduce cost of capital. The aim of the Group is to maintain sufficient funds to enable it to make suitable capital investments whilst minimising recourse to bankers and/or shareholders. In order to maintain or adjust capital, the Group may adjust the amount of cash distributed to shareholders, return capital to shareholders, issue new shares or raise debt through its access to the AIM market.

Capital is monitored by the Group on a monthly basis by the finance function. This includes the monitoring of the Group's gearing ratios and monitoring the terms of the financial covenants related to the revolving credit facility as disclosed in note 17. These ratios are formally reported on a quarterly basis. At 31 December 2017 these ratios were as follows:

- Interest cover ratio: 42.5x; and
- Leverage ratio: 1.3x.

Notes to the consolidated financial statements

For the year ended 31 December 2017 (continued)

21. Share-based payments

Long term incentive plan terms

As part of the admission to trading on AIM in August 2017, the Group granted a total of 9,131,505 share options to employees of the Group, including 5,700,000 options granted to the Executive Directors (the CEO and CFO), with a further 510,000 options granted to the COO. All of the options granted are subject to service conditions, being continued employment with the Group until the end of the vesting period. The share options granted to the Executive Directors and senior staff also include certain performance conditions which must be met, based on predetermined earnings per share, dividend pay-out, and share price targets for the three financial years 2017 to 2019.

Participation in the plan is at the discretion of the Board and no individual has a contractual right to participate in the plan or to receive any guaranteed benefits. Once vested, the options remain exercisable until the 10 year anniversary of the award date.

The dividends that would be paid on a share in the period between grant and vesting reduce the fair value of the award if, in not owning the underlying shares, a participant does not receive the dividend income on these shares during the vesting period.

All of the options are granted under the plan for nil consideration and carry no voting rights. A summary of options granted is shown in the table below:

	1 January share options outstanding	Granted during the year	Forfeited during the year	31 December share options outstanding	Exercise period
2017 LTIP scheme	–	9,131,505	(21,324)	9,110,181	1 January 2020 to 15 August 2027

The Group has recognised a total expense of £2,042,000 (2016: nil) in respect of equity-settled share-based payment transactions in the year ended 31 December 2017. No options were exercised during the year (2016: none) as none of the options can be exercised before 1 January 2020. There is no exercise price attached to any of the options granted.

Valuation model inputs

The key inputs to the Black-Scholes-Merton model for the purposes of estimating the fair values of the share options granted in the year are as follows:

	Grant date	Share price on grant date (p)	Expiry date	Expectation of meeting performance criteria
2017 LTIP scheme – directors	8 August 2017	130.00	8 August 2027	100%
2017 LTIP scheme – others	15 August 2017	133.38	15 August 2027	100%

The reduction in the fair value of the awards as a consequence of not being entitled to dividends reduced the charge for the options granted during the year by £32,000 (2016: nil) and the expected charge over the life of the options by a total of £169,000.

The other factors in the Black-Scholes-Merton model do not affect the calculation and have not been disclosed, as the share options were issued for nil consideration and do not have an exercise price. The weighted average fair value of the options granted during the year was £1.2927 (2016: nil).

22. Share capital

	Number of shares '000s	Total £000s
Allocated and fully paid: ordinary shares of 1p each		
Issue of shares (see below)	190,000	1,900
Balance at 31 December 2017	**190,000**	**1,900**

Under the Isle of Man Companies Act 2006, the Company is not required to have an authorised share capital. The issued capital of the Company on incorporation was one A ordinary share of £1, issued to Darbara Limited. This share was transferred to Strix Group Limited prior to admission to trading on AIM, and was repurchased and cancelled by the Company as part of the pre-admission group reorganisation (as disclosed in note 28).

On 8 August 2017, the Company issued 190,000,000 ordinary shares of £0.01 each, for consideration of £190,000,000, with the balance recorded as share premium. Issue costs of £13,817,000 were incurred and debited to equity in accordance with IAS 32.

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All shares rank pari passu in all respects including voting rights and dividend entitlement.

The share capital balance shown in the consolidated balance sheet at 31 December 2016 relates to the share capital of Sula Limited, which was the most senior company in the Group structure before the formation and insertion of Strix Group Plc during 2017.

See note 21 for further information regarding share-based payments which may impact the share capital in future periods.

23. Other reserves

The Group has an historic 'other reserves' balance, which was made up of the following amounts:

	Share premium reserve £000s	Capital contribution reserve	Total
At 1 January 2016	–	1,793	1,793
At 31 December 2016	–	1,793	1,793
At 1 January 2017	–	1,793	1,793
Group reorganisation	190,000	–	190,000
Issue of shares	188,100	–	188,100
Capital reduction	(378,100)	(1,793)	(379,893)
At 31 December 2017	–	–	–

- **Capital contribution reserve:** This balance existed historically in the Sula Group, being contributions made by Sula's parent entities as capital. This balance was eliminated during the process of the group reorganisation and capital reduction described in note 28.
- **Share premium account:** As a result of the Group reorganisation which occurred prior to admission to trading on AIM, the Group issued shares at a premium, which was then eliminated via a capital reduction as described in note 28.

24. Dividends

The following amounts were recognised as distributions in the year:

	2017 £000s	2016 £000s
Interim 2017 dividend of 1.0p per share (2016: nil)	**1,900**	–
Total dividends recognised in the year	**1,900**	–

Notes to the consolidated financial statements

For the year ended 31 December 2017 (continued)

24. Dividends continued

In addition to the above dividends, since year end the Directors have proposed the payment of a final dividend of 1.9p per share (2016: nil). The aggregate amount of the proposed final dividend expected to be paid on 1 June 2018 out of retained earnings at 31 December 2017, but not recognised as a liability at year end, is shown in the table below. The payment of this dividend will not have any tax consequences for the Group.

	2017 £000s	2016 £000s
Final 2017 dividend of 1.9p per share (2016: nil)	**3,610**	–
Total dividends proposed but not recognised in the year	**3,610**	–

25. Cash flow statement notes

(a) Cash generated from operations

	Notes	**2017 £000s**	2016 £000s
Cash flows from operating activities			
Operating profit		**26,177**	24,326
Adjustments for:			
Depreciation of property, plant and equipment	11	**3,023**	3,638
Amortisation of intangible assets	10	**3,032**	2,966
Impairment of intangible assets	10	**148**	25
Profit on disposal of property, plant and equipment		**(4)**	(3)
Pension contributions made	5(c)	**(38)**	(38)
Movement in derivative financial instruments		**(42)**	36
Share-based payment transactions	21	**2,042**	–
Net exchange differences		**201**	(55)
		34,539	30,895
Changes in working capital:			
(Increase)/decrease in inventories		**(595)**	1,731
(Increase)/decrease in trade and other receivables		**(532)**	1,718
Increase/(decrease) in trade and other payables		**936**	(897)
Cash generated from operations		**34,348**	33,447

(b) Movement in net funds/(debt)

		Non-cash movements		
Related party	At 1 January 2017	Cash flows	Currency movements	**At 31 December 2017**
Non-current borrowings	–	(56,000)	–	**(56,000)**
Total liabilities from financing activities	–	(56,000)	–	**(56,000)**
Cash and cash equivalents	10,959	(615)	(233)	**10,111**
Net funds/(debt)	10,959	(56,615)	(233)	**(45,889)**

26. Ultimate beneficial owner and intermediate parent company

In 2017, Strix Group Plc was admitted to trading on AIM. Subsequent to the admission to trading on AIM, there is not considered to be any ultimate beneficial owner. Prior to admission to trading on AIM, the ultimate controlling party of the Group was considered to be AAC Capital Partners as majority shareholder.

27. Related party transactions

(a) Identity of related parties

Related parties include all of the companies within the Group, however, these transactions and balances are eliminated on consolidation within the Group financial statements and are not disclosed.

Up until the group reorganisation in August 2017, related parties include representatives of a former major shareholder, AAC Capital Partners, and parent and intermediate parent entities ultimately owned by the same shareholders. Subsequent to the admission to trading on AIM, these are no longer related parties.

Manx Telecom Plc is also considered to be a related party of the Group, as Gary Lamb is both Chairman of the Group and Chief Executive Officer of Manx Telecom Plc.

The Group also operates a defined benefit pension scheme, The Strix Limited (1978) Retirement Fund, and a defined contribution pension scheme, The Strix Limited Retirement Fund, which are both considered to be related parties.

(b) Related party balances

Trading balances

	Balance due from		Balance due to	
Related party	**2017 £000s**	2016 £000s	**2017 £000s**	2016 £000s
Strix Investments Limited	**–**	8,143	**–**	–
George Mezz Limited	**–**	276,466	**–**	–
George Bond Limited	**–**	3,264	**–**	–
Sterna Group Limited	**–**	82,962	**–**	–
Strix Group Limited	**–**	–	**–**	(144,586)
Manx Telecom Plc	**–**	–	**(14)**	(13)
The Strix Limited Retirement Fund	**–**	–	**(14)**	(26)
	–	370,835	**(28)**	(144,625)

Strix Investments Limited, George Mezz Limited, George Bond Limited, Sterna Group Limited, and Strix Group Limited were all liquidated following the IPO and group reorganisation explained in note 28.

(c) Related party transactions

The following transactions with related parties occurring during the year:

Name of related party	**2017 £000s**	2016 £000s
Group reorganisation		
Distribution to Strix Group Limited	**(283,911)**	–
Repurchase of A shares in Strix Group Limited	**(199,795)**	–
Release of former group company related party receivables	**370,835**	–
Forgiveness of former group company related party payables	**(144,586)**	–
	(257,457)	–
Other former group company related party transactions		
Repayment of borrowings	**–**	(27,194)
Other transactions	**–**	(3,659)
	–	30,853
Transactions with other related parties		
Post-employment benefit schemes	**(436)**	(144)
Manx Telecom Plc	**(86)**	(73)

Notes to the consolidated financial statements

For the year ended 31 December 2017 (continued)

27. Related party transactions continued

Further information is given on the related party balances and transactions below:

- The distribution to Strix Group Limited was made as part of the group reorganisation prior to the Group's admission to trading on AIM, as described in note 28. The other transactions with former group company related parties relate to borrowings and financing transactions and include royalty charges to Strix Group Limited of nil (2016: £1,838,000).
- Key management compensation is disclosed in note 5(b).
- Information about the pension schemes operated by the Group is disclosed in note 5(c), and transactions with the pension schemes operated by the Group relate to contributions made to those schemes on behalf of Group employees.
- Information on dividends paid to shareholders is given in note 24.
- The transactions with Manx Telecom Plc relate to telecommunications and related services.

28. Group reorganisation

The principal steps of the Group reorganisation were as follows:

- The Group was reorganised prior to admission to trading on AIM by releasing receivables from former group company related parties totalling £370,835,000, and forgiving payables to former group company related parties totalling £144,586,000, resulting in the net release of £226,249,000 of debtors in the consolidated balance sheet.
- The Company was incorporated on 12 July 2017 as a public company limited by shares in the Isle of Man, with share capital of one A ordinary share of £1.
- The Company became the ultimate holding Company of the Group with Sula becoming the Company's direct subsidiary on 8 August 2017 by the issue of one further A ordinary share to Strix Group Limited in return for the entire issued share capital of Sula Limited. The A ordinary share of £1 nominal value was issued with a premium of £190,000,000. The insertion of the Company as a new holding company by way of a share-for-share exchange constitutes a group reorganisation.
- The shares issued in this transaction were recorded in the consolidated balance sheet at the nominal value of the shares issued plus the fair value of any additional consideration. The assets and liabilities of the subsidiaries are consolidated at book value in the Group financial statements and the consolidated reserves of the Group are adjusted to reflect the statutory share capital, share premium and impact of the group reorganisation recognised in retained earnings of the Company as if it had always existed.
- On 8 August 2017, the Company undertook a capital reduction in accordance with Part III of the Isle of Man Companies Act 2006, which had the effect of reducing the share premium on acquisition of the Sula Group and share premium arising on admission to trading on AIM to nil, with the balance credited to retained earnings.
- On 8 August 2017, the Company repurchased and cancelled all the A ordinary shares in the capital of the Company held by Strix Group Limited for a payment of £199,795,000, being an amount equal to the net proceeds of the IPO and an agreed level of surplus cash in the Group. The difference between the nominal value of £2 and the consideration of £199,795,000 was charged to retained earnings.
- Distributions to former group company related parties totalling £283,911,000 were made from Sula Group to Strix Group Limited, using funds from the IPO proceeds and the new borrowings drawn down.

Admission to trading on AIM

- On 8 August 2017 the Company issued 190,000,000 ordinary shares of £0.01 each, for consideration of £190,000,000 in an IPO, with the balance recorded as share premium.
- A total of £13,817,000 of costs were paid using the proceeds, which were debited to equity in accordance with IAS 32.

The impact of the group reorganisation transaction recognised in the consolidated statement of changes in equity is made up of the issue of a £1 share with a premium of £190,000,000 relating to Strix Group Limited, the purchase of Sula Group shares totalling £199,795,000, and the distributions to former group company related parties totalling £283,911,000.

29. Post balance sheet events

New operating leases

Subsequent to the year end, new operating leases were agreed in principle and/or signed for the Group's sites located at Ronaldsway (Isle of Man), Ramsey (Isle of Man), and Chester (UK) which all expired during 2017. The terms of these leases and the future minimum lease payments are included within note 18(b) as the leases had effective dates occurring during 2017.

Liquidation of Strix Finance (UK) Limited

On 20 March 2018, Strix Finance (UK) Limited was liquidated. This has no material impact on the financial statements.

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Financial calendar

Financial year end	31 December 2017
Preliminary announcement of full-year results	22 March 2018
Publication of Annual report and accounts	30 April 2018
Annual General Meeting	24 May 2018
Dividend:	
• ex-dividend date	3 May 2018
• record date	4 May 2018
• payment date	1 June 2018
Publication of Interim report	Late September 2018

Notes

Notes

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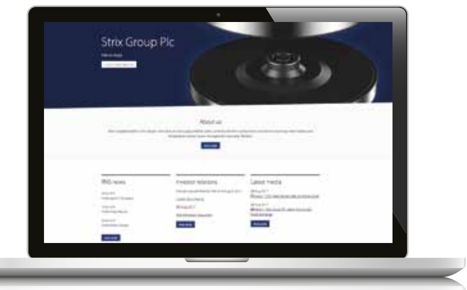

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