Strix
INNOVATIVE TECHNOLOGY

Innovative technology
Unrivalled quality

Annual report and accounts 2018

Our mission is to shape a safer future in the **design and supply** of innovative **hot water and filtration systems** which provide enhanced convenience and functionality to the global consumer.

During 2018, Strix sold **over 218,000** products every single day of the year on average

508 million items produced during 2018 in Ramsey by only 37 staff

In total, almost **2.3 billion** Strix products had been produced by the end of 2018

2018 highlights

Financial highlights

Revenue £m[3] (constant currency basis)

+4.5%

2018	95.3m
2017	91.3m
2016	88.7m

Reported revenue was £93.8m.

Adjusted profit before tax[1] £m

+3.2%

2018	29.2m
2017	28.3m
2016	26.8m

Adjusted profit after tax[1] £m

+2.7%

2018	28.3m
2017	27.5m
2016	24.7m

Adjusted EBITDA[1,2] £m

+3.5%

2018	36.4m
2017	35.1m
2016	33.5m

Adjusted earnings per share[1] p

+2.8%

2018	14.9p
2017	14.5p
2016	N/A

Final dividend per share p

+147.4%

2018	4.7p
2017	1.9p
2016	N/A

Strategic highlights

- Maintained market share of c.38% of the global kettle controls market despite geo-political events.
- After the period end, completed acquisition of specified assets from HaloSource Corporation for consideration of US$1.33m in March 2019 to expand the water filtration business.
- Appointment of a Chief Commercial Officer from 1 April 2019 and further strengthening of the R&D and senior management teams.
- Investment agreement signed with the local government for the relocation of our manufacturing operation in China to support future growth.

Operational highlights

- Continued focus on manufacturing and production quality led to an 11% improvement in ppm (parts per million).
- A further eight successful intellectual property protection initiatives undertaken, the highest number of cases concluded in any one year.
- Further growth in Aqua Optima has led to a volume share of c.25% of the UK market for own-brand and trade-brand combined.
- 2.7m U9 series products sold to date following the successful launch in 2017.

Strategic Report

Governance report

Financial statements

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. Revenue – constant currency basis, which is defined as 2018 revenue restated at the exchange rates prevailing in 2017, is a non-GAAP metric used by management and is not an IFRS disclosure.

2018: Our year in review

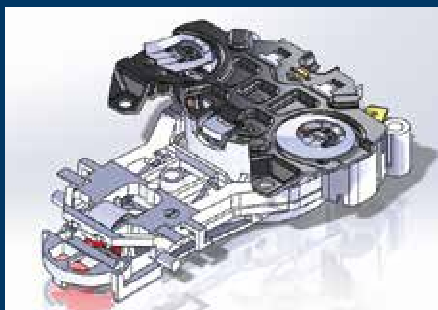
February – May

1 February. Aqua Optima in refreshing partnership with parkrun.

'parkrun', organiser of free weekly timed 5K events and one of the UK's leading water filtration experts, Aqua Optima, have partnered together in a bid to help more people stay hydrated with cleaner, purer water throughout the UK.

parkrun currently organises over 500 events across the country, with over 130,000 people walking, jogging, running and volunteering every week. Aqua Optima hopes its support will help to continue to grow the number of parkrunners enjoying these free events throughout the UK and educate them on the health and vitality benefits of filtered water.

A recent YouGov survey commissioned by the Royal National Lifeboat Institution ('RNLI'), revealed that 89% of the UK population is not drinking enough water to maintain healthy hydration levels. Aqua Optima is launching its first ever national campaign aimed at increasing the amount of water we drink. Its new partnership with parkrun is the first of several awareness projects to help spearhead an increase in the nation's hydration levels.



23 May. Multiple patent infringement claims successfully settled in China and in Europe.

Strix has a portfolio of intellectual property protecting a variety of product features across its product range. The portfolio includes over 150 patents and Strix relies on these and, where they have expired, other IP and unfair competition law to take legal action, both to defend the Company's commercial position and ensure consumer safety. Actions were settled in China, the Netherlands and across Europe which resulted in undisclosed sums being paid to Strix and in a number of cases, to fit Strix controls into the products going forward.

Mark Bartlett, CEO, commented:
"We take protecting our innovative technology and superior products very seriously, ensuring that customers can continue to trust and rely on products using Strix technology."

August

30 August. Collaboration announced with a leading global consumer product company based in the USA.

Strix has identified the USA as a key market for future growth opportunities, given the very low penetration rate of kettles in this country.

The USA is a regulated market, where Strix generally enjoys high market share due to the fact consumers' safety expectations are higher.

This collaboration is to develop a new range of coffee machines for a leading global consumer product company in order to produce a single cup of high-quality coffee, using Strix's proprietary technology.

October


Credit: Macro Metal Services Limited, Brian Mitchell

5 October. Strix Ronaldsway welcomes the Strix Owl.

Our Head Office in Ronaldsway welcomed the Strix Owl. The bespoke sculpture incorporates a large number of Strix components, including earth rings inside the eyes and bi-metal discs as feathers.

The owl is our symbol, which symbolises the engineering wisdom applied to each of our products as well as the courage to spread our wings, which has led us to our dominant market position.

November – December

19 November. Appointment of R&D Manager at Strix Ronaldsway to lead the R&D function.

As set out in our Annual report and accounts last year, further investment in our R&D capabilities is required in order to design the products which will further grow our market share, net sales and profitability. To achieve this, Marc Collinson was appointed as R&D Manager to lead the innovation function within Engineering in order to identify and develop technology for new, innovative products around our core technical competencies. Marc previously worked for Strix from 2007 to 2012 in an R&D role and reports directly to Nick Gibbs, Engineering Director.

17 December. Launch of Aqua Optima Water Filter Recycling Initiative in partnership with TerraCycle Inc.

This initiative allows consumers of Aqua Optima filtration systems to recycle their products from home or at hundreds of TerraCycle collecting locations across the UK. These filters are repurposed into raw materials to be used in new products such as children's playground equipment, cutlery and furniture.

TerraCycle, Inc., is the world's leader in the collection and repurposing of hard to recycle post-consumer waste, ranging from used chip bags to coffee capsules to cigarette butts. The collected waste is reused, upcycled or recycled into a variety of affordable, sustainable consumer products and industrial applications.

Mark Bartlett, CEO, commented:

"We are delighted to be working alongside TerraCycle on this recycling initiative, an important offering for our customers. Along with consumers becoming more aware of sustainable living and their reduction of waste, we feel it is important for our products to support changing lifestyles and, most importantly, be environmentally friendly."

Shaping a safer future

Strix has become the largest group in the world 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. Strix is listed on the Alternative Investment Market of the London Stock Exchange (AIM: KETL).

For further strategy information pg18

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.

Kettle controls make up the majority of our business, and we have established a strong presence as the largest manufacturer of kettle controls.

For further information pg12

Total sales volumes (000s)

+7.9%

2018: 79,821
2017: 73,990
2016: 71,483

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 fastest growing area of our business, given the consumer focus on health-conscious choices.

For further information pg14

UK volume share

+25%

2018: 25%
2017: 20%
2016: 8%

Other technologies

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

Other technologies is where much of our R&D effort is focused, and these innovations drive improvements in kettle controls and Aqua Optima products as well as their own specific products.

For further information pg15

R&D expenditure (£000s)

+7.6%

2018: 3,820
2017: 3,549
2016: 3,318

Working across the value chain

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 water heating appliances and filtration technologies for consumers across the world.

For further strategy information pg18

Product design and appliance integration

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

Strategic Pillars: 1 2 3

Testing, approval and safety

- Involvement in standard-setting bodies to enhance consumer safety
- Facilitate recall of unsafe products and appliances
- Streamlining of control testing accreditation for Strix and Strix customers via independently accredited in-house stage 3 Customer Test Facility ('CTF')

Strategic Pillars: 2

Manufacture and process control

- Ongoing focus on process improvement and lean manufacturing to drive continual improvements in production efficiency
- Continual increase in automation of production to control production costs and mitigate the risk of rising wage costs
- Strong focus on quality and quality management throughout the product design, testing and manufacturing lifecycles

Strategic Pillars: 1 2

Retail

- Well-developed market analysis capabilities with experience of markets all over the world
- 'Kettlelogue' to support brand and OEMs in finalising their product designs efficiently and reduce time to market
- Active monitoring of intellectual property infringement and brand reputation to reach swift settlement of cases

Strategic Pillars: 1 3

A year of growth and profitability

'It is my pleasure to report another year of strong performance, particularly in light of challenging global market conditions.'

Gary Lamb
Non-Executive Chairman

Introduction

The Group has continued to innovate, as well as continuing to develop and manufacture safe, reliable and high-quality products for which it is renowned across the world.

The Group has delivered another year of growth and profitability as a result of its global presence and stable business model, despite the effects of Brexit, US/China trade tensions and other geo-political factors. In addition, net debt since IPO has decreased to £27.5m (2017: £45.9m) due to strong cash generation. We also took business and Intellectual Property actions in 2018 to maintain our position as the global leader in our core markets, whilst positioning Strix for continued growth into the future.

In September 2018, we sadly experienced the death of Edwin (Eddie) Davies CBE, who joined Strix in 1984 and later became the majority owner and Chairman of Strix. Much of what the Group has achieved today was built upon the contributions made by Eddie during his time at Strix and many of our colleagues have fond memories of working with Eddie during his time here.

Revenue (constant currency basis)

+4.5%

2018: £95.3m
2017: £91.3m
2016: £88.7m

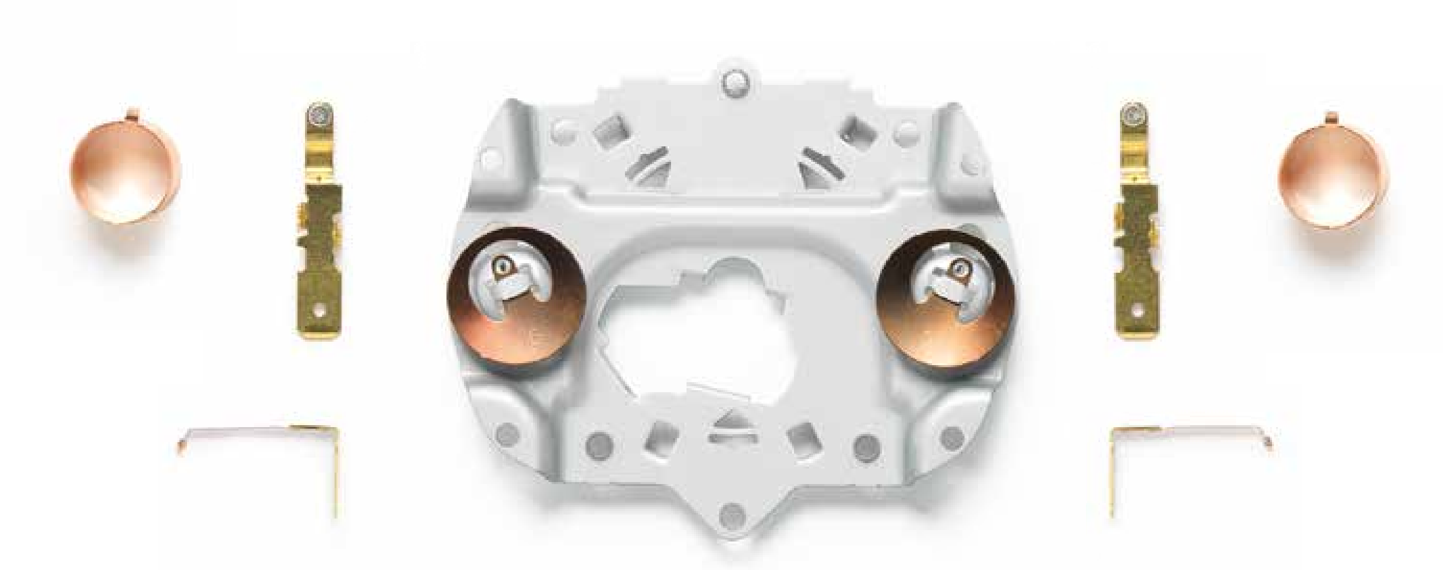
Adjusted EBITDA

+3.5%

2018: £36.4m
2017: £35.1m
2016: £33.5m

Market performance

The Group has once again demonstrated growth in our key metrics despite a very turbulent year in the global economic market. Although the impact of currency rates caused by Brexit and other global challenges has softened our reported growth in net sales, underlying volume growth has been consistent with our expectations.



Our share of the global kettle safety control market has been maintained at c.38%. This is the effect of growth in the less regulated market and no change in the regulated market, offset by a slight softening of share in China.

Financial performance

Revenue for the year reached £93.8m, a 2.7% growth on 2017 (4.5% growth on a constant currency basis) and I am pleased to report a growth in reported gross profit to £38.9m (2017: £37.2m). Our gross profit margin increased 0.8% to 41.5%, as a result of the continued focus on efficiency, process improvement and cost management. Adjusted EBITDA was £36.4m, an increase of 3.5% on 2017. Cash generation remains strong, with £35.0m net cash generated from operating activities, compared with £33.8m in 2017.

Dividend policy

The Board is proposing a final dividend of 4.7p per share following the 2.3p interim dividend paid in October 2018. This will bring the full year dividend to 7.0p, as projected at the time of admission to trading on AIM. The final dividend will be paid on 3 June 2019 to shareholders on the register at 10 May 2019 and the shares will trade ex-dividend from 9 May 2019. The Board has previously communicated its dividend policy, which is to increase the dividend in line with future underlying earnings, from a base of 7.7p for the 2019 financial year.

Annual General Meeting

The Group will host its Annual General Meeting on 23 May 2019 at 09:00 at our registered office at Forrest House on the Isle of Man, to which I welcome all of our shareholders.

Gary Lamb
Chairman

Governance code

In March 2018, the AIM Rules for Companies were updated to acknowledge a change in investor expectations toward corporate governance for companies admitted to trading on AIM. It is the role of the Board, led by myself as Chairman, to ensure that Strix is managed in a way that nurtures and protects the medium to long-term benefit of all shareholders, supported by effective and efficient decision-making.

As part of this process, Strix assessed itself against the principles which make up the Quoted Companies Alliance Corporate Governance Code ('the QCA code') as the Board believes that adherence to the QCA Code provides a strong foundation for delivering shareholder value.

Our QCA Corporate Governance Code Compliance statement was published on our investor relations website on 25 September 2018 and sets out in detail how we have applied each part of the QCA Code's principles and application guidance, together with links to where further information can be found on each of the topics.

This demonstrates the Group's commitment to undertaking effective corporate governance which is consistent with the enhanced expectations of investors for companies admitted to trading on AIM.

Delivering on our strategic objectives and building a platform for the future

'We are pleased to report a solid year of trading for Strix in 2018.'

Mark Bartlett
Chief Executive Officer

Introduction
The Group has made further progress on its strategic plans during the year, whilst maintaining its market-leading share of c.38% of the global kettle controls market. Sales volumes increased by 7.9% which demonstrates the continued demand for our products across the world.

Positive financial performance
The Group has delivered another year of revenue growth and a reduction in net debt ahead of market expectations. The Group's cash flow performance remains strong, with increasing cash generated from operating activities of 3.4% which both supports our dividend policy and provides us with the financial resources to undertake strategic projects to drive future growth and profitability.

Our financial performance remains positive with revenue increasing by 2.7% (4.5% on a constant currency basis) and reported gross profit by 4.7%, which delivered an improved gross profit margin of 41.5% (2017: 40.7%). Adjusted EBITDA increased by 3.5% and adjusted profit before tax by 3.2%.

Reported metrics (including exceptional costs) were lower primarily due to the share-based payment charges of £4.9m incurred for a full year compared to 2017 where the charges were £2.0m as they were pro-rated from the date of IPO.

Adjusted gross profit

+4.6%

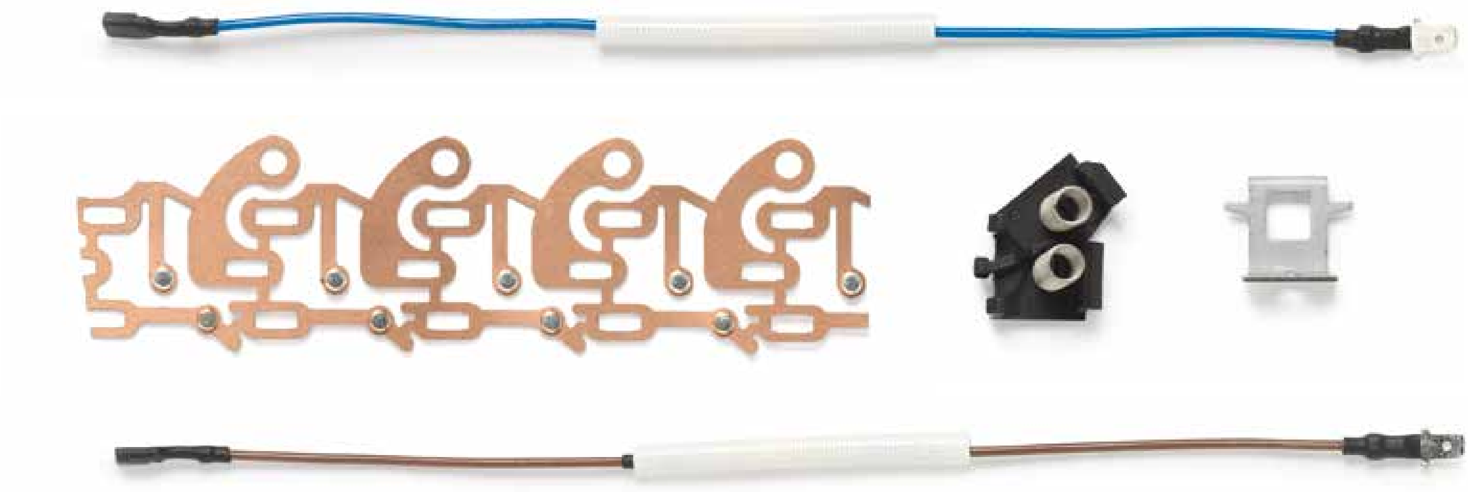
2018: £38.9m
2017: £37.2m
2016: £35.0m

Net debt

+40.1%

2018: £27.5m
2017: £45.9m
2016: n/a

Global market share maintained
The Group continues to hold a strong global market share of c.38% with all segments showing a relatively stable position. It is estimated that the global market grew c.7% to c.196m appliances with global penetration of c.37% allowing for continued growth. The overall regulated market volume growth was estimated at c.4% to c.53m appliances. The key driver behind regulated market growth was North America, which posted growth in excess of 10%, and the UK market which experienced a strong Q4 performance in preparation for disruption expected due to Brexit. Strix maintained its market share at c.61% in the regulated market.



In the less regulated market, growth in 2018 is estimated to have been c.10% to c.97m appliances compared to a CAGR of only 7% since 2014. The key geographies where growth was experienced were South East Asia and Africa, which both experienced growth in excess of 15%. Strix's share increased to c.20% during 2018, and in 2019 Strix will launch a new lower-cost control to further increase market penetration.

In China, following the c.6% decline experienced in 2017, this market is estimated to have recovered in 2018 and grown by c.5% to 46m appliances. The Chinese domestic market continues to see an increase in higher-priced electronic multi-cooker appliances to which Strix has responded by initiating a number of successful IP actions. In 2018, Strix's share reduced slightly as a result of reduced share at one of China's leading brands. Sales initiatives have been undertaken in H2 2018, including a new lower-cost range which has seen specifications regained. As a result of these initiatives, Strix sales in the China market are expected to recover in 2019.

HaloSource acquisition

The acquisition of the Astrea product from HaloSource in March 2019 will provide us with access to world-class R&D knowledge and skills within the water filtration sector. This advanced technology is the result of several years of dedicated R&D work and we are excited by the prospect of delivering this technology to market to deliver safe drinking water to consumers across the globe. We have also acquired office space in Seattle which will support our growth aspirations in the USA which, together with China, is a key market for this technology.

The acquisition of certain assets of HaloSource's HaloPure division will also complement our existing Aqua Optima product range and assist us in expanding the distribution of water filtration products into China, which represents a large market to support further growth in the Aqua Optima brand outside of the UK. We believe that operational synergies will be achieved in China, particularly through effective utilisation of the new manufacturing facility which is scheduled to complete in the summer of 2021.

This is anticipated to result in a net profit and loss investment of approximately £2.0m for 2019, with the acquisition expected to be earnings enhancing in the financial year to 31 December 2021. Further guidance will be provided after a suitable period of ownership by the Group.

Aqua Optima

Aqua Optima continued its progress from the strong H1 results delivered to the market in September. For the full year, revenues grew from £7.4m to £9.3m, an increase of 25.9% on 2017 driven by 30.6% volume growth. Aqua Optima's overall UK market share (including trade-brand products) is now c.25%, which is in line with management expectations. Further product launches are due to occur in 2019, particularly in China, which, together with the complementary technology acquired in the HaloSource and Astrea acquisition, will position Aqua Optima to take advantage of future growth both in the UK and in new markets.

New manufacturing facility in China

The senior management team has undertaken a project for the relocation of our manufacturing facility in China. As a consequence of this strategic review, in February 2019 we signed a contract to purchase a plot of land in the Zengcheng District of Guangzhou, China, close to our existing facility. We believe this new facility will provide the platform for us to deliver our strategy and allow us to provide profitable, sustainable growth and value to our shareholders in a cost-effective way, funded from the Group's existing borrowing facilities and free cash.

The acquisition of the plot of land is underway and is expected to take a further two to three months before this process can be completed in order to comply with local regulations. The design of the facility is being developed by our appointed design institute, with the design due to be finalised in summer 2019. Construction is expected to start at the end of 2019 and to be completed by January 2021, with the move to the new facility in summer 2021. The plot can support a maximum facility size of 34,000m^2 compared to our current facility of 13,200m^2.

Having completed the strategic review, the Board has concluded that the optimal strategic and financial outcome is to purchase both the land and the factory, rather than renting. As a result, based on the current design proposal and material prices, the total cash outflow for the relocation is expected to be c.£20m.

Product development
Having launched the successful U9 series of controls in 2017, our focus in the current year has been on products that will support our market share aspirations, which are to achieve market share in the less regulated markets of greater than 35%, maintain our regulated market share in excess of 60% and re-build our China market share to greater than 50%.

To achieve this we have developed a new low-cost control under our sub-brand VnQ to support our market share growth in the less regulated market, which we estimate at c.97m appliances per year. A new electronic kettle control has also been developed to grow our share in multi-cookers in the China market. In addition, we have also developed the Aqua Optima Chiller which is primarily aimed at regulated markets.

To support our growth aspirations we are working on a number of products within the emerging 'Hot water on demand' category. This includes opportunities in coffee machines as well as innovative themes on water dispensing and kettle appliances utilising our Duality and Instant Flow technologies.

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.

Automation and product efficiency
Lean and continuous improvement initiatives have continued to be a key focus for Strix and, as a result, we have secured a further 11% reduction to our quality ppm (parts per million) rate, achieving another record low level for the Group. During 2018, 508 million parts were manufactured at our factory in Ramsey by a team of only 37 people. The ISO certifications for our Isle of Man sites were also renewed recently based on the work performed in 2018, where we achieved the highest possible ranking of 'Benchmark'.

We have continued to invest in production automation with further automated lines being specified and installed during 2018, with investment planned for 2019 to automate an additional three lines (out of 18 in total). This will allow us to increase our production volume, quality control and reliability whilst managing to control costs, in particular rising wage costs in China. The relocation of our manufacturing facilities in China will assist us in maximising the economic benefit of our investment in automation.

Defence of intellectual property
We remain focused on promoting safety awareness and undertaking associated actions to protect the markets in which we operate from unsafe and poor quality products. Actions have been undertaken in 2018 including product recalls, intellectual property enforcement raids, unfair competition claims, patent infringement claims and copyright claims in countries including China, the Netherlands, the United Kingdom, Germany and France. This has resulted in the cessation of sale of these products, agreements to fit Strix controls and connectors in the future, and a number of undisclosed sums being paid to Strix as part of the agreed settlements. We expect to continue this activity in 2019 as we continue to defend our intellectual property rights.

Senior management team
We have also appointed a Chief Commercial Officer who started at Strix on 1 April 2019. This appointment will further strengthen the senior management team and this addition will bring significant experience of commercialising and marketing new products as we embark on this next phase of growth, particularly with our water filtration and temperature management products.

Trading and outlook
The Board continues to work with the executive and management teams to deliver on our strategy to create value for our shareholders. The Group's performance in 2018, in spite of turbulent economic events, demonstrates the strength of the core business model which underpins Strix.

In 2019 we will continue to focus on our strategic objectives. A number of key strategic projects are being undertaken in 2019, including the relocation of our

manufacturing facilities in China and the recent acquisition of HaloSource's HaloPure division and its Astrea product. We believe that these key strategic projects will position us for longer-term growth and will be funded from existing resources. The HaloSource acquisition which was completed on 7 March 2019 will provide us with key technology and research and development skills in the water filtration market. We will use this to support growth in Aqua Optima and this also provides us with an important foothold in the key USA market, where we see significant potential for future growth both in kettle safety controls and water filtration.

The supply of key commodities have been secured into 2019 through the continuation of our forward-buying policies or by negotiation of fixed price contracts. This reduces our exposure to commodity price fluctuations and provides us with certainty on the price of key commodities.

As the majority of transactions are conducted between our corporate office in the Isle of Man and our OEM customers in China, any potential impact from Brexit initiatives is limited. In addition, our consumer base is geographically diverse and we remain confident that our position in the global market limits any dependency on a specific territory. We also trade in a number of different currencies and, as a result, our exposure in any one single currency is monitored and managed. Whilst there are a number of headwinds which could make 2019 challenging, including continued US/China trade tensions and the impact of Brexit, the Board believe they have taken appropriate preparatory steps to mitigate the risk presented by these challenges and, as such, we remain confident about the Group's future outlook.

We will continue to maintain our market-leading share of kettle safety controls, and to grow our revenue streams in Aqua Optima and Other technologies to diversify our revenue base. Whilst this will require continued investment in automation, infrastructure, people and facilities, we believe that the benefits of these investments will drive the creation of increased value for our shareholders. As a consequence, we remain confident about our full year outlook for 2019.

I would like to take this opportunity to thank all our employees across the globe for their commitment and hard work during another busy year for the Group and I look forward to their support and encouragement for the year ahead.

Mark Bartlett
Chief Executive Officer

Business strategy

The business strategy detailed on page 18 is delivered by focusing on four key facets:

People – Our people strategy is focused on recruiting, rewarding and retaining the best staff. This includes strategic recruitment to broaden the senior management team and aligning objectives and career development with the creation and delivery of shareholder value.

Process – Process involves re-engineering to align to global needs, systems and legislation and to deliver cost synergies. In addition, process involves the constant evaluation of existing and new legal and financial regulations to ensure full compliance.

Products – Products are how we build and maintain our market share by the creation of competitive products, and the research and development of new products to meet market needs.

Performance – This includes our quality certification and product approvals, as well as our continued drive for automation to maximise efficiency and quality. We also constantly search for cost reductions whilst maintaining 'Best in class' products through new technologies and materials.

This will assist us in building a culture of achievement, drive employee engagement and development, and deliver shareholder value.

Market review: kettle safety controls

Overview

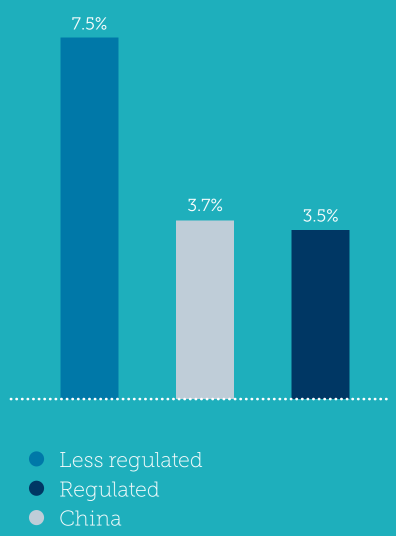
Globally, Strix estimates that in 2018 the kettle market grew c.7% to c.196m sets sold, growing ahead of the annual c.5% per annum growth rate the market has experienced since 2013. Kettle penetration rates provide an indicator of potential growth, and in 2018 Strix estimates global kettle penetration has increased slightly to around c.37% 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 knowhow 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.

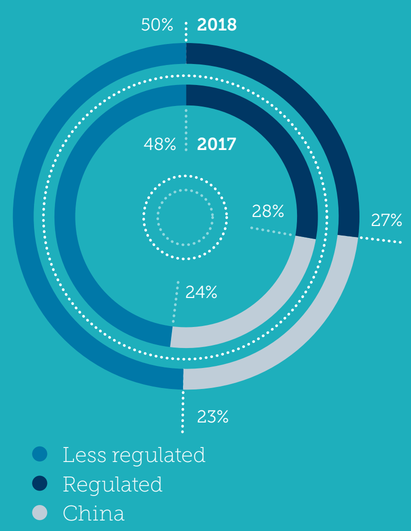
Regulated kettle market

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 2018 Strix estimates the regulated kettle market grew by c.4% to c.53m units, a slight reduction from the c.5% growth experienced in 2017. The key driver behind regulated market growth was North America, where growth was in excess of 10%, and the United Kingdom, which experienced a strong Q4 performance due to the expected disruption relating to Brexit.

Compound annual volume growth rates 2014 to 2018



Sales volume split by market 2017 to 2018



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 2018, Strix estimates the less regulated kettle market grew by a solid c.10% to c.97m units, compared to annual growth of c.12% in 2017. The key drivers behind less regulated market growth were South East Asia and Africa, which both experienced growth of over 15%.

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 grown by c.5% to 46m units, which has largely reversed the c.6% decline experienced in 2017. The China domestic market continued to see an increase in higher priced multi-cooker devices, and Strix has responded to this opportunity through the launch of a revised control family in H2 2018.

Strix's place in the market

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%.

c.61%

2018	61%
2017	61%
2016	61%

Less regulated markets

In less regulated markets, we grew our market share during 2018 by a further c.1% to c.20%, supporting the c.1% share gain achieved in 2017. 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.

c.20%

2018	20%
2017	19%
2016	18%

China

Our share in China softened to c.46% in 2018 due to reduced share at one of China's leading brands. Sales initiatives and a new lower-cost range have been launched in H2 2018 to regain our c.50% share. In addition, a number of successful intellectual property initiatives were closed out in 2018 as part of the robust defence of Strix's intellectual property in this market.

c.46%

2018	46%
2017	50%
2016	50%

Market review: water filtration devices

Overview

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.

Strix's place in the market

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

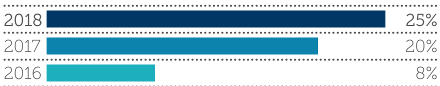
Aqua Optima aims to provide exceptionally high-quality water filter products which turn tap water into great-tasting filtered water, improving the taste of hot and cold drinks and providing a healthier and more sustainable option to disposable bottled water.

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. A new version of the Perfect Prep machine was launched in Q1 2018 which has built on the success of the original, achieving high praise and feedback from customers.

Significant growth in Aqua Optima distribution was achieved during 2018:
Building on c.17% sales growth achieved in 2017, Aqua Optima achieved a further 25.9% sales growth during 2018 to achieve full year sales of £9.3m and UK volume market share of c.25%.

UK volume share

+25%



Market review: other technologies

Overview
Other technologies focus on products which are adjacent to 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.

Strix's place in the market
Other technologies include the development of Strix's 'Duality' technology, 'mother and baby' innovations, including the steriliser-dryer, and a new high-quality coffee machine for the US market. Looking further forward, Strix is exploring new ideas including a digital food steamer, connected appliances and other disruptive technologies.

These products will complement the existing steam boiler, instant flow heater and turbo toaster technologies which have already been commercialised.

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.

Strix is investing in its R&D capabilities to continue to deliver new products to the market:
Engineering headcount has been increased by more than 10% at our Isle of Man Head Office and Design Centre, including the appointment of an R&D and innovation Manager, to further develop these new technologies. This will position us to drive future growth into new segments, including hot water on demand and mother and baby.

Total R&D expenditure

+7.6%

2018	3,820
2017	3,549
2016	3,318

How we deliver for our stakeholders

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.

Our platform

Market-leading position

Established partnerships with brands, OEMs and retailers

Global manufacturing and distribution

Trusted technical expertise

Dedicated employees

Core products – Strix's kettle safety controls

Strix is unusual in that it has direct relationships with OEMs, brands and retailers within the kettle safety control supply chain. These stakeholders regularly seek advice on product design, specification and manufacturing solutions. This position helps us to build and maintain market share and acts as a buffer against competitors by creating a barrier to entry by ensuring that Strix controls are specified.

Emerging products – Aqua Optima, other technologies

Brand recognition
A number of partnerships are in place, including those with parkrun and TerraCycle, to further increase brand recognition, together with an active social media campaign.

Tradebrand agreements
Existing tradebrand agreements with multiple large UK retailers demonstrate the quality of the product and the strength of consumer demand.

Multiple markets
Aqua Optima is moving into new markets with product launches scheduled for 2019 in China and by leveraging our experience of gaining 25% market share by volume in the UK.

Distribution channels
Aqua Optima has a number of existing distribution channels and retail relationships established through which to sell new products.

Acquisitions

Strix is actively seeking heating technologies or connectivity opportunities that will add value across any and all parts of the Group.

Acquisitions

Strix is actively seeking opportunities that will add value across any and all parts of the Group through niche acquisitions or technologies in heating or filtration within the SDA (small domestic appliance) market. The maximum value of any acquisition would be c.£20m and the purchase consideration would be funded from existing resources.

Outcomes

Strix
Our market-leading position allows us to make long-term, strategic decisions due to the strength of our core business and its ability to generate predictable cash flows. The strength of our customer relationships allows us to pursue our passion for research and innovation to deliver high-quality, safe products to our customers.

Investors
Our business model helps us to achieve strong cash inflows together with sustainable profits, allowing us to use the cash to pay dividends to our investors and deliver an attractive return. Our global market coverage and number of product lines also provides a buffer against geo-political events, such as those experienced in 2018.

Customers
We share our knowledge and understanding of the kettle and water filtration markets to help our customers achieve faster product releases and to design products which are in line with market trends. The value in these customer relationships is demonstrated by our high customer retention, with a number of customers having traded with us for ten years or more.

Employees
We treat our employees with respect and provide them with an environment in which considered risk-taking is encouraged, in order to drive product innovation. We reward our employees appropriately, no matter where they work in the world, and ensure they are acknowledged for their contribution to the Group's success. In turn, this encourages our employees to strive to give their best every day.

Suppliers
We work closely with our suppliers to ensure we treat them fairly, to make doing business with us a long-term goal which benefits both parties. We listen carefully to feedback from our suppliers and work with them to devise solutions to any problem. We also support our suppliers in achieving compliance with their own requirements, such as supplier audits.

Our strategy for growth

Strix has a divisional strategy, which is supported by our 'four P's' of People, Process, Product and Performance. The key areas of our strategy are:

Strategic pillars	2018 progress
1 Build and maintain market share	**Product:** We maintained our market-leading share at c.38% by volume, including a stable c.61% market share in regulated, a 1% growth to c.20% in less regulated, and a slight softening in China to c.46%. For Aqua Optima, we have achieved our highest ever UK volume share at c.25% as a result of a strong performance.
2 Focus on safety and quality	**Performance:** 2018 saw us complete the largest number of actions we have ever completed, with a total of eight cases settled during the year. These included product recalls, intellectual property enforcement raids, unfair competition claims, patent infringement claims and copyright claims across a number of different geographies, including China, the Netherlands, the United Kingdom, Germany and France. Our ISO certifications were maintained and automation of operations continued in order to continue to protect customer safety by manufacturing and delivering high-quality products. **Process:** Further investment was made in automation and refinement of existing processes delivered a +11% quality ppm improvement.
3 Explore new technologies	**Product:** We have explored innovative technologies to develop new products to serve a variety of price points and refine and improve existing products. In 2018 this included the development of a new control for the less regulated market under the VnQ sub-brand, the launch of the Tommee Tippee 'Perfect Prep Day and Night' product, the announcement of a collaboration to develop a new range of coffee machines using Strix's proprietary technology and investigation of disruptive future technologies. **Performance:** Customer research was also undertaken to understand market needs and develop the technologies which will drive growth over the next few years.

Risks	2019 outlook:
The risk of not building and maintaining market share is lower sales revenues and cash flows for the Group, which could lead to reduced future capital expenditure. The relevant principal risks are: • Reliance on key customers • Reliance on key suppliers • Competitors and market pressures • Reputation with customer base For further risk information pg26	**Product:** Sales initiatives undertaken in 2018 are expected to lead to a recovery of share in China in 2019, together with the launch of a low-cost control to gain further share in the less regulated market. We expect to maintain share with Aqua Optima in the UK and we look to expand Aqua Optima into other key markets, including China and the US following the acquisition of certain assets from HaloSource Corporation which completed in March 2019.
The risk of not focusing on safety and quality is a loss of reputation caused by product failures, leading to a consequent loss of sales revenue and/or profitability. The relevant principal risks are: • Reliance on key customers • Reputation with customer base • Intellectual property For further risk information pg26	**Performance:** This activity will continue in 2019 as we continue to defend our intellectual property rights. **Process:** Automation of a further three lines is planned for 2019, helping to deliver our quality and efficiency targets as well as our planned future capacity.
The risk of not exploring new technologies is that our competitors may overtake us and/or consumer tastes may change, which could mean we no longer have a product portfolio to meet those needs. The relevant principal risks are: • New factory project • Reputation with customer base • Intellectual property For further risk information pg26	**Product:** The acquisition of certain assets from HaloSource Corporation in March 2019 will support Aqua Optima in delivering best-in-class products to the market, including some of the products acquired in the transaction which we can market within our existing global sales channels and the R&D facility based in Seattle, USA. This will include the launch of the U68 next generation electronic kettle control and our VnQ sub-brand offering for the less regulated market. For Aqua Optima, this includes the 'Lumi' Chiller and a new version of the Evolve water filter for Aqua Optima. **People:** On 1 April 2019, we appointed Harry Kyriacou as Chief Commercial Officer to strengthen the senior management team and to provide proven experience in developing and commercialising product ideas to market.

Measuring our progress against strategy

Financial KPIs	Definition	2018 performance

Sales volume

+7.9%

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

For further strategy information pg18

Globally the kettle safety controls market was estimated to have grown in volume by c.7% to c.196m sets (2017: c.182m sets). Strix achieved 7.9% volume growth to maintain share at c.38%.

Adjusted EBITDA

+3.5%

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

Adjusted EBITDA increased by 3.5% (2017: 4.8%) to £36.4m which was in line with management's growth projections.

Gross profit

+4.7%

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

Gross profit increased by 4.7% (2017: 6.1%) as a result of further efficiencies and cost savings.

Net cash generated from operating activities

+3.4%

Net cash generated 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.

Cash conversion continues to be strong as a result of our business model, showing an increase of 3.4% (2017: 5.6%). This supports our ability to pay a dividend, reduce our net debt and pay for capital projects.

Total R&D expenditure

+7.6%

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

Total R&D expenditure has continued to grow in 2018, demonstrating our commitment to investing in new technologies to deliver future growth.

For further strategy information pg18

Non-financial KPIs | Definition | 2018 performance

Gender diversity

2018		18.2%
2017		17.0%

+1.2%

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

Our percentage of women in management roles was 18.2% (2017: 17.0%), a further increase from 2017. This compares favourably with the 2018 UK statistic indicating that women in management roles across all science, engineering and technology roles reduced to 13% (2017: 15%)[1].

1. https://www.wisecampaign.org.uk/statistics/2018-workforce-statistics/.

Energy usage per head

Oil

2018		363
2017		411

-11.6%

Electricity

2018		4,871
2017		5,849

-16.7%

Electricity and oil usage[2] is 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.

Energy usage per head has further decreased at our Head Office during the year. Headcount increased by 12.2% (2017: 15.9%). During 2018, as part of our efforts to conserve energy, we were shortlisted in the top three at the UNESCO Biosphere Isle of Man awards for our installation of an Energy Recovery System.

Employee engagement

Employee completion rate

78.4%

Engagement index score

58.9%

Our employee engagement survey was completed for the second time in 2018 across all our employees around the world, using the 'Say-Stay-Strive' model.

Whilst the rate of completion has reduced versus last year, the index score has increased as a result of actions taken during 2018 to improve employee engagement. Our result was similar to the average for Europe according to Aon's '2018 Trends in Global Employee Engagement' report, which reported an engagement index score of 60% using the same model.

The management team remain committed to making positive changes in the Group which will further increase our engagement index score.

Efficient and cost-effective

Strix sold a total of 79.8m products in 2018, an increase of 7.9% on 2017, and achieved a gross profit margin of 41.5% (2017: 40.7%).

Operational improvements

Rise of the robots

Due to improvements in automation and other measures undertaken to reduce manufacturing costs, reported gross profit increased by £1.7m (4.7%).

We have an automation plan in place for the Guangzhou site which is seeing a phased introduction of new automated lines to generate additional manufacturing capacity from the same floor space. This will enable us to cope with increased production volumes until our new manufacturing facility is complete in summer 2021, and to further improve production efficiency and quality. In addition, this will help mitigate the challenges presented by year-on-year labour cost increases.

An additional three lines are expected to be automated in 2019 (out of 18 in total) which would take the total to half of the current lines. We continue to examine the operational and financial benefits of automating further lines. Continuous improvement initiatives in our manufacturing process are a key focus to improve the stability of the manufacturing process, enhancing product performance to help our customers improve their product quality and reduce costs. We are pleased to report a further +11% improvement in quality ppm for 2018 as a result of this.

Strategic Pillars: 1 2

Gross profit

+4.7%

2018: £38.9m
2017: £37.2m
2016: £35.0m

For further information pg16

Clearly better

Following years of extensive research into the properties of water, our unique filtration systems significantly reduce unwanted substances from tap water such as limescale, chlorine, heavy metals, herbicides and pesticides.

Aqua Optima

Achieving optimum flow

Aqua Optima achieved significant distribution growth in 2018 by reaching a further 2,500 stores as a result of key contracts signed at the end of 2017.

This saw Aqua Optima reach a c.25% volume share of the UK market for total output, making Aqua Optima second-largest and fastest-growing point-of-use water filter brand in the UK.

The result of this was significant revenue growth of 25.9% to £9.3m, with volumes increasing by 30.6%. 2018 also saw Aqua Optima establish collaborations with parkrun and TerraCycle to promote and encourage both healthy, active lifestyles and sustainable consumption through recycling.

2019 will see Aqua Optima launch in China together with the launch of the 'Lumi' Chiller in regulated markets to drive further growth. The HaloSource asset acquisition will also support Aqua Optima in delivering on its growth ambitions.

Strategic Pillars: 1

UK volume share

+25%

2018: 25%
2017: 20%
2016: 8%

For further information pg16

Our approach to risk management

The main focus of the Board is on ensuring that the response to the key risks is appropriate and ensuring that the Group's residual risk position is within its risk appetite.

Risk management & principal risks

Our risk management process aims to support the delivery of the Board's strategy by managing the risk of failing to achieve our business objectives. By focusing our risk management system on the early identification of key risks, we are able to consider the existing level of mitigation and the management actions required to avoid, reduce, tolerate or share the risk.

Risk assessment

Risks are categorised as strategic, financial, operational, reputational or compliance in nature and are assessed on a residual basis according to the Board's current view of their potential severity (being the combination of likelihood and consequence), assuming that existing controls in place are effective.

The Board recognises that there are risks and uncertainties that could have a material effect on the Group. Where the reduction or removal of the risk is not possible, the Group formulates a management action plan to respond to the risk should the risk materialise as part of the Business Continuity Plan. The Board agrees the appetite for risk and endorses that of the senior management team.

Ongoing monitoring

The risks identified are added to our Risk Register, which is reviewed periodically by the senior management team, and at least annually by the Board, to update our assessment of each risk as circumstances change. The review includes a re-appraisal of the residual risk and the effectiveness of the mitigating actions taken to date.

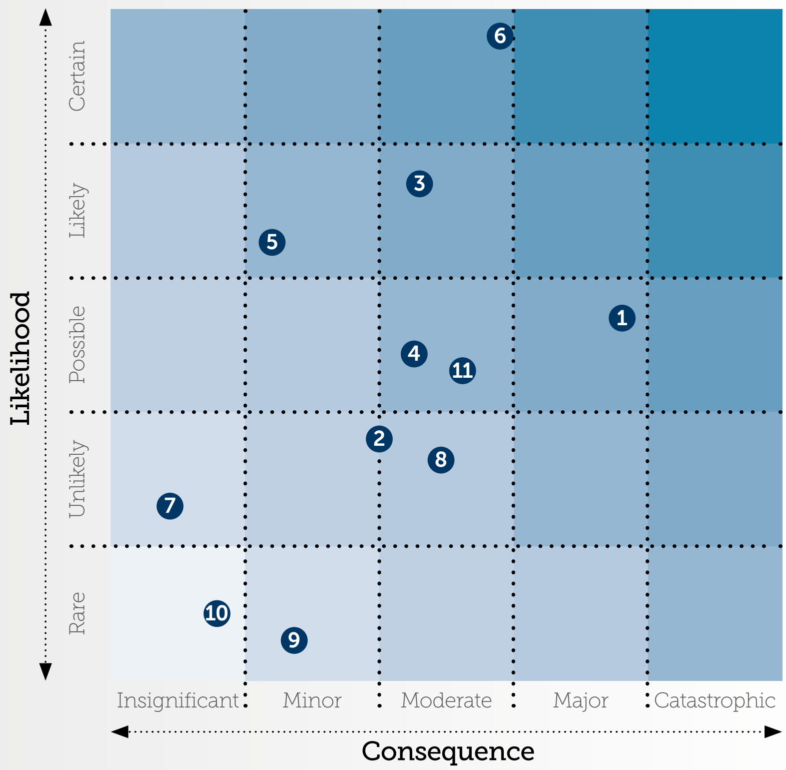
New risks are added to the register on identification, via a number of processes which seek to capture risks not already included on the Risk Register.

Identified risks

The list below is not an exhaustive list of all of the risks that the Group faces. Our operating environment is subject to change, new risks may arise and 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.

The most critical risks are highlighted by a **bold typeface**.

Risk heat map



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 area and in bold in the list opposite 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. New factory project
9. Existing manufacturing facilities
10. Reputational risks
11. **Intellectual property**

Our principal risks

Increase Decrease No change

Risk	Impact	Mitigation	Movement
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 ten customers contributed c.57% of the Group's revenues in the financial year ended 31 December 2018 (2017: c.57%), with the largest customer making up c.18% (2017: 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.	No change
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.	No change
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 operate 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. • Careful management of our variable and fixed cost bases. • Targeted investment in engineering and a commitment to lean manufacturing, quality and customer relationships.	No change

Risk	Impact	Mitigation	Movement
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 have 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. • As market leader we have the ability to undertake a price increase if the inflation of costs is prolonged and significant. • Raw material purchasing policy of buying up to twelve months in advance for silver and copper, with 2019 prices already secured. In addition, the price of plastics has been fixed for two years to protect us from price fluctuations.	
Foreign exchange risk	The Group is broadly naturally hedged as our sales and costs are generally balanced, but we have some currency exposures which we monitor closely. The Group's payments and receipts are predominantly in Sterling, US dollars and Renminbi, and changes in the rates of foreign exchange against Sterling could adversely impact margins earned. In addition, under the current regulations on foreign exchange control in the PRC, 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 Renminbi 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 Renminbi 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. • The amount of the Group's cash in China is minimised in order to reduce the risk of any future inability to distribute profits or dividends.	
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. Any adverse changes in taxation laws 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 was undertaken in 2018 in order to understand potential future changes and to put in place mitigating actions where appropriate.	
External factors	We have maintained 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. There may be some disruption to our supply chain in the event of a disorderly Brexit. Given the Group's primary customers are kettle OEMs located in China, the disruption is expected to be relatively muted.	• The geographical spread of our business across the world limits our exposure to this risk. • Where required, we have increased stock levels to mitigate the risk of increased raw material and customer shipment lead times.	

Risk	Impact	Mitigation	Movement
Operational risks			
New factory project	During 2018, the Group has undertaken a review of its existing manufacturing facilities. The outcome of this review was to purchase land on which a new manufacturing facility will be constructed. There is a risk of disruption to the Group if the project is not effectively managed, or is not completed in the planned timescale. Any significant disruption could negatively impact the Group's relationships with its customers and/or its workforce, and could also impact the Group's profitability if costs exceed the planned budget.	• A project team has been appointed (supported by external project management resources) to manage the construction project and ensure it is delivered on time and within budget. Incentives have been provided to key employees to motivate them to achieve a positive outcome for the Group and its shareholders. • Detailed due diligence will be completed on potential suppliers in order to ensure that a cost-effective outcome will be delivered within the specified timescales.	▲
Existing 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.	• The manufacturing facilities project referred to above will mitigate this risk by providing a purpose-built factory. Our intention is to construct the factory in a modular way in order to be able to reduce the risk posed by any potential disruptions. • As part of the new factory project we have assessed the ability, should it be required, of undertaking a short-term rental of manufacturing facilities. We believe this could be undertaken in order to mitigate the risk of significant disruption to our operations.	▼
Reputational risks			
Reputation with customer base	The Group's reputation for and delivery of 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 impaired.	• 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.	II
Compliance risks			
Intellectual property	The Group uses 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 during 2018 in different parts of the world, 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.	▼

Increased profits due to growth and efficiencies

'Financial performance in 2018 was solid in light of challenging market conditions, delivering growth in all of our key metrics on an adjusted basis.'

Raudres Wong
Chief Financial Officer

Financial performance
Revenue for 2018 has risen by 2.7% to £93.8m as a result of strong volume growth of 7.9%, partly offset by the strengthening of Sterling against the Dollar. As a consequence, revenue growth on a constant currency basis was higher at 4.5%. The lower Sterling value of Dollar-denominated sales has been offset within gross profit by the lower Sterling value of Dollar costs and as a consequence, together with continued measures to reduce manufacturing costs, gross profit increased by £1.7m (4.7%). Gross profit margin also increased from 40.7% to 41.5%, as a result of efficiencies and cost savings.

Adjusted EBITDA increased to £36.4m from £35.1m, representing a 3.5% or £1.3m increase, in line with market expectations. Adjusted EBITDA is defined as profit before depreciation, amortisation, finance costs, finance income, taxation and exceptional items, including share-based payments.

Administration costs (excluding exceptional costs) were £3.1m in 2018 against £2.7m in 2017. The increase is primarily due to the expansion of certain Group support functions following Strix's admission to trading on AIM which has resulted in higher staff and legal and professional costs.

Capital expenditure on tangible assets

+23.6%

2018: £4.8m
2017: £3.9m
2016: £2.7m

Net cash generated from operating activities

+3.4%

2018: £35.0m
2017: £33.8m
2016: £32.0m

Adjusted operating profit showed an increase of 6.2% to £30.9m (2017: £29.1m) due to lower amortisation being reported (2018: £2.3m; 2017: £3.0m) and lower distribution costs. The decrease in distribution costs is mainly related to depreciation of customer tooling assets which ended during 2017, which has reduced the cost in 2018 by £0.6m. The Group's reported operating profit was £25.8m (2017: £26.2m) which represents a decrease of 1.5%, primarily due to incurring a full year of share-based payment charges in 2018 (2018: £4.9m; 2017: £2.0m) and higher administration costs, offset by an improved gross profit and lower distribution costs.

Financial summary

	Adjusted results[1]			Reported results		
	2018 £m	2017 £m	Change %[4]	**2018 £m**	2017 £m	Change %[4]
Revenue	**93.8**	91.3	+2.7%	**93.8**	91.3	+2.7%
Revenue – constant currency basis[2]	**95.3**	91.3	+4.5%	**95.3**	91.3	+4.5%
EBITDA[3]	**36.4**	35.1	+3.5%	**31.3**	32.2	-3.0%
Gross profit	**38.9**	37.2	+4.6%	**38.9**	37.2	+4.7%
Operating profit	**30.9**	29.1	+6.2%	**25.8**	26.2	-1.5%
Profit before tax	**29.2**	28.3	+3.2%	**24.1**	25.4	-5.1%
Profit after tax	**28.3**	27.5	+2.7%	**23.2**	24.6	-5.9%
Net debt	**27.5**	45.9	+40.1%	**27.5**	45.9	+40.1%
Net cash generated from operating activities	**35.0**	33.8	+3.4%	**35.0**	33.8	+3.4%
Basic earnings per share	**14.9p**	14.5p	+2.8%	**12.2p**	13.0p	-6.2%
Final dividend per share	**4.7p**	1.9p	+147.4%	**4.7p**	1.9p	+147.4%

1. Adjusted results exclude exceptional items, which include share-based payment transactions. Adjusted results are non-GAAP metrics used by management and are not an IFRS disclosure.
2. Revenue – constant currency basis, which is defined as 2018 revenue restated at the exchange rates prevailing in 2017, is a non-GAAP metric used by management and is not an IFRS disclosure.
3. EBITDA, which is defined as earnings before finance costs, tax, depreciation and amortisation, is a non-GAAP metric used by management and is not an IFRS disclosure.
4. Figures are calculated from the full numbers as presented in the consolidated financial statements.

Adjusted profit before tax increased to £29.2m (2017: £28.3m). Interest of £0.6m was reported in 2017 for the five month period post-IPO, whereas in 2018 a full year of interest has been reported, totalling £1.3m. On a like-for-like basis, including a full year's interest charge in 2017, adjusted profit before tax growth would have been 7.4%. Other loan-related fees and charges have been incurred of £0.3m in 2018 (2017: £0.1m). The Group's reported profit before tax was £24.1m (2017: £25.4m).

Adjusted profit after tax increased to £28.3m (2017: £27.5m), an increase of 2.7%, as a result of a slightly increased tax charge representing an effective tax rate of 3.9% (2017: 3.1%). This higher rate is likely to increase further in 2019 where we expect it to be between 4% and 5%. The Group's reported profit after tax was £23.2m (2017: £24.6m).

Adjusted diluted earnings per share and reported diluted earnings per share were 14.2p (2017: 14.2p) and 11.6p (2017: 12.7p), respectively. This is a result of the weighted average number of diluted shares increasing as the 2017 denominator was pro-rated from the date of admission to trading on AIM. Basic earnings per share were reported at 12.2p (2017: 13.0p) and adjusted for exceptional costs were 14.9p (2017: 14.5p).

Capital expenditure and capitalised development costs

Tangible assets have additions to net book value of £4.8m (excluding assets under construction) in 2018, compared to £3.9m in 2017. This includes £2.7m (2017: £1.9m) of plant and machinery, £0.6m (2017: £1.0m) of fixtures and fittings, and £1.4m (2017: £1.0m) of production tools. This demonstrates Strix's continued investment in its manufacturing and development assets to support our strategic growth objectives.

The net book value of intangible assets decreased by £0.4m to £4.8m (2017: £5.2m) as amortisation of existing assets exceeded new additions. No impairment charges were recognised in 2018 (2017: £0.1m). New development costs of £1.8m were capitalised in 2018 (2017: £1.7m) to maintain our R&D investment, and a further £0.1m (2017: £0.3m) was spent on software.

Share-based payments

The total charge incurred in the consolidated income statement in 2018 for share-based payments was £4.9m (2017: £2.0m). The 2017 charge was applied on a pro-rata basis from the date of admission to trading on AIM. The charge will reduce to a normal level from 2020, once the tranche of IPO share options have vested. Some additional share awards were also granted during 2018 to incentivise and retain the Directors and other employees whom the Board consider critical to the achievement of the Group's strategic objectives.

Foreign exchange

The Group is broadly naturally hedged against movements in US Dollar and Renminbi as it both generates revenues and incurs costs in these currencies. The impact of foreign exchange in 2018 is a gain of £0.1m (2017: loss of £0.2m) despite significant currency fluctuations in 2018, which is equivalent to only 0.1% (2017: 0.2%) of revenue.

Taxation

The effective tax rate for the year is equivalent to 3.9% (2017: 3.1%) of the Group's profit before tax. In order to mitigate the risk of higher tax charges in the future, the contract processing basis has ceased from 1 January 2019 and the Group now applies a different basis of taxation which is expected to incur an effective tax rate of between 4% and 5% in 2019. In the medium term we do not expect the rate of tax to exceed 6%, and in the near term we expect the effective tax rate to stay within the 4% to 5% range.

Balance sheet

Property, plant and equipment increased to £11.1m (2017: £9.4m). Capital additions (excluding assets under construction) were £4.8m (2017: £3.9m), primarily in relation to plant and machinery and production tools to support our sales growth objectives. Depreciation of £3.2m was consistent with prior year (2017: £3.0m) and expectations as the majority of the new additions were added during H2. Net intangible assets (comprising capitalised development costs and software) decreased by £0.4m (2017: £1.2m) which was in line with management expectations as some larger intangible assets reached the end of their useful lives.

Current assets increased to £31.3m compared to £26.5m in 2017, primarily due to a £3.4m increase in cash and cash equivalents to fund future projects. In addition, inventory increased by £1.4m both to meet future demand and to mitigate the potential impact of Brexit, by increasing our buffer stock held particularly of longer lead time items. Trade and other receivables were broadly unchanged at £7.3m (2017: £7.2m).

Current liabilities increased to £18.4m (2017: £17.3m) due to a £0.5m higher income tax liability as the future potential liabilities are accrued but unpaid, and a higher other liabilities amount. This primarily relates to a higher rebate payable due to the timing of payments and a higher capital creditors balance as a result of the property, plant and equipment additions in H2 2018. 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 increase in cash and cash equivalents over the year was £3.4m (2017: decrease of £0.8m). This was primarily a result of the additional cash outflows incurred in 2017 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 which did not recur in 2018. This was partially offset by higher interest payments (as a result of having the revolving credit facility in place for the full year), higher dividend payments of £8.0m versus £1.9m in 2017, and repayments of the revolving credit facility totalling £15.0m (2017: £4.8m). Net cash generated from operating activities were up £1.1m in 2018 to £35.0m (2017: £33.8m) with net cash used in investing activities up £1.5m to £7.5m (2017: £6.0m) due to increased investment in both tangible and intangible assets.

Net debt has decreased from £45.9m in 2017 to £27.5m as a result of the repayments made during the year. We expect net debt and leverage to continue to reduce, driven by the Group's strong underlying cash generation. The speed of reduction may reduce in 2019 due to the factory move project which will be funded from existing resources.

The Group still has in place a revolving credit facility of £53.0m (2017: £70.0m) of which £41.0m (2017: £56.0m) remains drawn on the facility as at 31 December 2018. The net debt to adjusted EBITDA ratio at 31 December 2018 was 0.8x (2017: 1.3x).

Raudres Wong
Chief Financial Officer

Adjusted Operating Profit

+6.2%

2018: £30.9m
2017: £29.1m
2016: £26.9m

Adjusted basic earnings per share

+2.8%

2018: 14.9p
2017: 14.5p
2016: n/a

A responsible business with plans for the future

With people being a key element in our business strategy (see page 18) we have a clear responsibility towards our employees and partners. We aim to provide opportunities for current and future Strix employees and continue to support social causes in the Isle of Man and beyond.

Employees

Our HR strategy supports us in delivering 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. This ensures 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. Since our admission to trading on AIM in August 2017, this has become even more important in order to ensure the continued growth and success of the Group.

Strix aims to attract a diverse workforce and provide equal opportunities throughout the Group, regardless of gender or any other attribute. As an absolute 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.

The Group has in place an organisation-wide succession planning and development programme for all key roles to help our employees develop the capabilities required to deliver our strategy and safeguard value for the Group's shareholders.

We have also undertaken work during the year to assess the range of skills our employees possess in order to understand if there are any key skills which are either missing, or are possessed by too few employees to provide adequate support. Key strategic hires have been made in the year to support this work.

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 a 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.

All of these policies are reviewed and updated periodically to ensure our policies remain fit for purpose, take into account how risks change and evolve over time, and are specific to the locations in which the Group operates.

Social contribution

At Strix we support 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 2018, 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 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. In 2018 this included the School Ambassador Sessions, Employability and Skills Fair at the Villa Marina on the Isle of Man, and the Design & Technology Awards.
- We took part in the UNESCO Biosphere Isle of Man Awards, an award ceremony to commend work

being performed on the Isle of Man in supporting the environment and saving energy. We achieved a top three finish out of 60 entrants for the Energy Recovery System installed at our Head Office in Ronaldsway, Isle of Man, which reuses heat generated from the electrical testing performed on-site.

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.
- **Digital:** The Committee works closely with the Isle of Man Government and other industry associations to actively promote the Digital sector whose importance as a key contributor to economic development and employment continues to grow.

Barrovian Alumni Internship

"Working for Strix has opened up my eyes. So far in my life I have only experienced business operations through textbooks and teachers but it has been fantastic to put all my past studying from King William's College and The University of Manchester into practical situations.

Catherine Tam (Senior Business Analyst) has been amazing and explains the reasons behind all the projects I work on and why they are important to the business. This has allowed me to feel like a part of the Company.

Hong Kong has been amazing. I have always wanted a chance to experience Eastern Asia and its culture and it is safe to say Hong Kong has exceeded my expectations. I find it amazing that one minute you can find yourself battling your way through the crowded streets and then the next in a secluded, forgotten temple."

Thomas Dutnall
King William's College
Barrovian Alumni Internship recipient 2018

Board of Directors

1 Gary Lamb
Non-Executive Chairman (52)

Gary is a qualified accountant ('CIMA') who has gained extensive business experience over the past 25 years in numerous senior roles. As well as acting as Chairman of Strix, Gary is the 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. Prior to Bladon Jets, Gary was the Finance and IT Director of Strix, leaving in 2007.

2 Mark Bartlett
Chief Executive Officer (54)

Mark joined Strix in 2006. He leads the organisation, 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.

3 Raudres Wong
Chief Financial Officer (56)

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.

4 Mark Kirkland
Non-Executive Director (51)

Mark qualified as a Chartered Accountant with PricewaterhouseCoopers 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. In 2003, as part of the founding team, he became CFO of Raven Mount plc (now part of Raven Russia Limited) and later became CFO of Marwyn Management Partners plc. Mark is currently CEO of Delin Capital Asset Management.

Senior management team

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.

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.

Simon Charlesworth
Sales Director
Simon joined Strix in 2007 and was appointed as Sales Director in 2015, responsible for the development and delivery of the global kettle sales strategy through an international team comprising 15 personnel.

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.

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.

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.

Peter Taylor
Director of Group Finance
Peter joined Strix in April 2018, having worked at a number of multinational companies in the UK, the US, and elsewhere. Peter directs the Finance team, responsible for the accuracy of financial reporting and financial controls. He reports directly to the Chief Financial Officer.

"During 2018, we have made further progress with our automation strategy for the Guangzhou site and undertaken a significant project to plan for our future manufacturing footprint in China. In addition, our Ramsey site produced 508 million items with only 37 staff across two shifts. We also focused on quality and efficiency and delivered another year of strong operational performance in this respect."

Frank Gao
Chief Operating Officer

Corporate governance statement

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.

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.

In March 2018, the AIM Rules for Companies were updated to acknowledge a change in investor expectations toward corporate governance for companies admitted to trading on AIM. It is the role of the Board, led by myself as Chairman, to ensure that Strix is managed in a way that nurtures and protects the medium to long-term benefit of all shareholders, supported by effective and efficient decision-making.

As part of this process, Strix assessed itself against the principles which make up the Quoted Companies Alliance Corporate Governance Code ('the QCA Code') as the Board believes that adherence to the QCA Code provides a strong foundation for delivering shareholder value.

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 Executive Officer and Chief Financial Officer's statements, together with the financial position of the Group, its cash flows, liquidity position and borrowing facilities. In addition, note 21 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:

- the strong historic trading performance of the Company and the Group;
- budgets and cash flow forecasts for the period to December 2021;
- the current financial position of the Group, including its cash and cash equivalents balances of £13.5m;
- the availability of further funding should this be required (including the headroom of £12.0m on the revolving credit facility and the access to the AIM market afforded by the Company's admission to AIM);
- the low liquidity risk the Group is exposed to; and
- the fact that the Group operates within a sector that is experiencing relatively stable demand for its products.

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 Company should not be relied upon as a guide to future performance.

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.

How we govern

Board composition and operation

The Board is made up of two Non-Executive and two Executive Directors. The Board meets frequently throughout the year to consider strategy, performance and the framework of internal controls. 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 Group's expense.

The Board has conducted an appraisal of its own performance and that of each of the Director for the 2018 financial year. This was completed by the use of questionnaires completed by all Directors. The results of this exercise were reviewed and individual feedback was provided for each of the Directors, and the Board as a whole. Feedback was given by an independent Non-Executive Director in respect of the Chairman, and by the Chairman in respect of assessments of each of the other Directors and the Board as a whole. The outcome of the appraisal is that the Board has been effective in discharging its duties during 2018.

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

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), the Audit Committee, the Remuneration Committee and the Nominations Committee during the year ended 31 December 2018, together with a record of the attendance of the current Directors who are their respective members, is detailed below:

	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	16	15	2	2
Mark Bartlett	16	16	-	-
Raudres Wong	16	14	-	-
Mark Kirkland	16	13	2	2

	Remuneration Committee		Nominations Committee	
	Number of meetings eligible to attend	Number of meetings attended	Number of meetings eligible to attend	Number of meetings attended
Gary Lamb	4	4	1	1
Mark Bartlett	-	-	-	-
Raudres Wong	-	-	-	-
Mark Kirkland	4	4	1	1

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, which is in most cases the members of the senior management team (internally referred to as the 'Trading Board').

The Board has an ongoing process for identifying, evaluating and managing the Group's significant risks. 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.
- Investment policy acquisition proposals and major capital expenditure projects are authorised and monitored by the Group Board.

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 Annual report and 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.

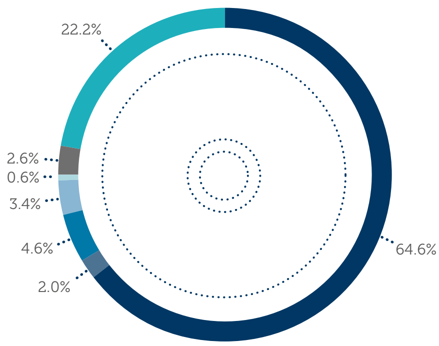
The Group's risk management programme, which assesses key risks and the required internal controls that are delegated to Functional Directors is reviewed regularly in order to ensure that it continues to meet the Board's requirements.

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 the Strategic Report on pages 2 to 35 of the Annual report and accounts provide the information necessary for Shareholders to assess the Group's performance, business model and strategy.

Share capital structure

The Board is aiming to achieve a mix of institutional, retail and management Shareholders which is appropriate for Strix. As at 14 March 2019, the Group has the following breakdown of Shareholders:



Details of the Company's share capital can be found in note 23 of the Group financial statements.

Substantial shareholdings

As at 14 March 2019, 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
Number of securities in issue:	190,000,000
AIM securities not in public hands:	0.6%

Identity of significant shareholders as follows:

Registered shareholder	Shares held	% holding
Woodford Investment Management Limited	16,871,447	8.9%
Miton Group Plc	13,538,620	7.1%
Premier Fund Managers Limited	12,667,582	6.7%
River and Mercantile Asset Management LLP	11,749,268	6.2%
Polar Capital LLP	10,789,726	5.7%
Kames Capital Plc	9,697,732	5.1%
Artemis Investment Management Plc	9,544,335	5.0%
Chelverton Asset Management Limited	9,445,000	5.0%
Canaccord Genuity Wealth Limited	8,477,988	4.5%
Close Asset Management Limited	6,643,276	3.5%

Remuneration policy

The Remuneration Committee reviews the Group's remuneration policy for the Executive Directors and other designated senior executives on an annual basis to ensure continued alignment with the principles set out below. Where required, independent, specialist advice is sought. 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 executives 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.

Application of the remuneration policy in 2018

For 2018, as the first full financial year as a listed company, minimal changes were made to the remuneration policy set out at the time of admission to trading on AIM, being a mix of fixed pay, annual bonus scheme and LTIP.

In respect of the annual bonus scheme, targets are now 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 2018 LTIP grant is based on the achievement of EPS targets and will involve the measurement of performance over a conventional three-year period, consistent with industry practice.

Full details of how we intend to operate the policy for 2019 are set out on page 43.

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 to the date of this report, are:

- Gary Lamb (Chairman)
- Mark Kirkland

The Committee held one formal meeting during the year.

Gary Lamb
Chairman of the Nominations Committee

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;
- monitor and review the effectiveness of the Group's internal audit function or, if such a function does not exist, evaluate the need to establish one;
- make recommendations to the Board, for it to put to the shareholders for their approval in general meeting, 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 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 to the date of this report, are:

- Mark Kirkland (Chairman)
- Gary Lamb

The CEO, CFO and other senior finance staff will attend meetings of the Audit Committee by invitation. The external auditors attend the meetings to discuss the planning and conclusions of their work and have the option to meet with the members of the Committee without any of the Executive Directors present after each meeting.

The Committee is able to call for information from management and consults with the external auditors directly if required. The objectivity and independence of the external auditors is safeguarded by reviewing the auditors' formal declarations of independence, assessing the level of non-audit fees payable to the auditors 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 2018 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 2018 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 reports by the external auditors. The specific areas reviewed by the Committee during the year were:

- the impact of two new IFRS standards, IFRS 9 'Financial Instruments' and IFRS 15 'Revenue from Contracts with Customers';
- the future impact of IFRS 16 'Leases' on the Group;
- consideration of the going concern basis of preparation adopted in the financial statements; and
- appropriateness of the disclosures in the financial statements.

Mark Kirkland
Chairman of the Audit Committee

Remuneration Committee report

This report sets out the Directors' remuneration policy, the basis for the remuneration paid to Directors in respect of 2018 and explains how we intend to implement the policy for 2019. The key elements of our approach are summarised below.

The Remuneration Committee

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

The Committee held four meetings during 2018. Both Committee members attended all meetings.

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 Company and alignment to the Company'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

The Committee's objective is to ensure that remuneration incentivises and rewards the growth of shareholder value through full alignment with the Company's strategy and with the interests of Shareholders. We are 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 Company's exposure to risks outside of the Company's risk appetite.

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 2018

We applied the remuneration policy during 2018 in line with our stated intentions in last year's Directors' Remuneration Report.

The annual bonus scheme for the Executive Directors was based on the achievement of performance conditions linked to challenging PBT and free cash flow targets. Notwithstanding the specific objectives being met, it was agreed that no bonus payments would be made to the Executive Directors in favour of a bonus payout to staff in the organisation more broadly.

We made a further grant under the Long-Term Incentive Plan ('LTIP') for the Executive Directors and other Group employees. The award involves the achievement of targets linked to growth in EPS to be achieved over the three-year period ending in 2020, and provides a challenging incentive for management to continue to grow the business.

We also assessed EPS performance over the 2018 financial year for the purposes of the 2017 LTIP award, as the award involves measuring EPS in the three individual financial years of 2017, 2018 and 2019. The specific target for the 2018 financial year was met. Full vesting of the 2017 award will now depend upon EPS performance in 2019 and the satisfaction of a TSR underpin linked to share price growth and dividend payments. In next year's report we will confirm the level of vesting for the award as a whole.

Proposed application of the remuneration policy for 2019

For 2019 we intend to operate the remuneration policy in a similar manner to 2018. The basic salaries of the Executive Directors have been increased by 2%. The annual bonus scheme will again operate with targets based on PBT and free cash flow. For the LTIP, the grant to be made in 2019 will be based on the same range of EPS targets as applied to the 2018 grant. We believe that these targets remain appropriately challenging when taking into account expectations of the Company's performance over the three-year performance period.

Later in 2019 it will be two years since the listing on AIM. Now that Strix is established as a listed company, the Remuneration Committee intends to review the remuneration policy during the year. The conclusions of this review will be set out in next year's Directors' remuneration report.

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.

In addition, in line with best practice we will present Shareholders with the opportunity to vote on this Directors' remuneration report by way of a separate resolution at the forthcoming AGM. I hope that you will support the resolution. I will also be available at the AGM to answer any questions you may have.

Gary Lamb
Chairman of the Remuneration Committee

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 and on the next page, Executive Directors are required to work towards meeting share ownership guidelines. Further details are provided on page 46.

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.

Element	Purpose and link to strategy	Operation	Maximum opportunity
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 • 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 in 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.
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 may 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. However, with effect from 2018 the Remuneration Committee applies a limit of 100% of basic salary to grants made under the LTIP to Executive Directors. 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.

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 and Raudres Wong have both 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 2018

	Date	Salary and fees[1] £	Benefits[2] £	Pension £	Annual bonus £	Long-term incentives[3] £	Total £
Executive Directors							
Mark Bartlett	2018	305	61	61	–	–	427
	2017	124	25	26	49	–	224
Raudres Wong	2018	302	2	30	–	–	334
	2017	102	8	16	45	–	171
Non-Executive Directors							
Gary Lamb	2018	70	–	–	–	–	70
	2017	32	–	–	–	–	32
Mark Kirkland	2018	45	–	–	–	–	45
	2017	21	–	–	–	–	21

1. As disclosed in last year's report, the 2018 basic salaries for the Executive Directors were £305,400 for Mark Bartlett and HKD 2,990,988 for Raudres Wong. For Raudres Wong, the 2018 remuneration in the table above has been translated into Sterling using the year end exchange rate of GBP 1:HKD 9.9 (2017: GBP 1:HKD 10.6). For 2018, Gary Lamb received a fee of £70,000 for serving as Chairman of the Board and Non-Executive Director. Mark Kirkland received a fee of £45,000 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 private medical insurance and permanent health insurance schemes.
3. No LTIPs vested in respect of performance in 2017 or 2018. For the LTIP award granted in 2017, the EPS performance conditions were met based on performance during 2017 and 2018, 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 (as well as EPS performance in 2019).
4. Remuneration for 2017 is disclosed in relation to the period from 8 August 2017 (the date of Admission) to 31 December 2017.

Annual bonus scheme outcome for 2018

Executive Directors had an entitlement to an annual bonus up to a maximum opportunity of 100% of basic salary for 2018. Achievement of the bonus was based on performance conditions linked to achievement of challenging adjusted PBT and cash flow targets. Payment of the bonus required achievement of minimum adjusted PBT for 2018 of £29.1m, with the potential for the maximum award payable to be reduced by 50% if a separate free cash flow target of £23.2m was not met.

Although these targets were met, it was agreed that no bonus payments would be made to the Executive Directors in favour of a bonus payout to staff in the Group.

LTIP award granted in 2018

Executive Directors and other senior employees were granted an award of shares under the LTIP in November 2018. For the Executive Directors, the award was granted at a level of 100% of basic salary. The award will be subject to the achievement of performance conditions based on the Company's EPS performance over the three financial years ending 31 December 2020, as 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 are subject to malus and clawback provisions.

Performance under the LTIP award granted in 2017

As previously disclosed, the LTIP award granted shortly after Admission in August 2017 involves the assessment of EPS performance over the three financial years ending 31 December 2017, 31 December 2018 and 31 December 2019, with performance assessed individually in each of the three years. The specific EPS targets are set out below, and will be adjusted to exclude the impact of any acquisitions made since the date of the award. Awards cannot be exercised until 1 January 2020. 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

The EPS targets for the financial years ended 31 December 2017 and 31 December 2018 have been met.

In addition to the EPS condition, a total shareholder return ('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.

Directors' participation in the LTIP

Details of the numbers of shares held by the Executive Directors under the LTIP are set out in the table below.

Name	Scheme	Grant date	Exercise price	Number of shares at 31 December 2017	Granted during year	Vested during the year	Lapsed during the year	Number of shares at 31 December 2018	End of performance period	Vesting date[1]
Mark Bartlett	LTIP	08 Aug 2017	Nil	3,800,000	–	–	–	3,800,000	31 Dec 2019	1 Jan 2020
	LTIP	01 Nov 2018	Nil	–	208,417	–	–	208,417	31 Dec 2020	1 Jan 2021
Raudres Wong	LTIP	08 Aug 2017	Nil	1,900,000	–	–	–	1,900,000	31 Dec 2019	1 Jan 2020
	LTIP	01 Nov 2018	Nil	–	191,870	–	–	191,870	31 Dec 2020	1 Jan 2021

1. These LTIP options cannot be exercised until the Remuneration Committee determines the performance conditions have been met, which is likely to be later than the vesting date.

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 at 31 December 2018	% shareholding guideline achieved at 31 December 2018 as a % of basic salary[1]
Mark Bartlett	300,000	140%
Raudres Wong[2]	300,000	141%
Gary Lamb	500,000	n/a
Mark Kirkland	–	n/a

1. Based on the year end share price of £1.420.
2. Shares held in the name of her husband, Wing Yip Fong.

Application of the remuneration policy for 2019

Basic salaries

The Remuneration Committee has reviewed the basic salaries of the Executive Directors and has determined that a 2% increase will apply from 1 January 2019, in line with the average level of increase for the wider employee population. The new salary levels are set out in the table below.

Director	Salary with effect from 1 January 2018	Salary with effect from 1 January 2019	% increase
Mark Bartlett	£305,400	£311,508	2%
Raudres Wong[1]	HKD2,990,988	HKD3,050,808	2%

1. Salary set and paid in Hong Kong Dollars.

Annual bonus scheme

The annual bonus scheme will continue to operate in a similar fashion to the scheme in place for 2018 and will involve the assessment of performance against a PBT target. PBT remains a key measure of profitability for Strix. 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 2019 Directors' remuneration report, alongside details of performance against the targets.

The maximum annual bonus opportunity for 2019 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 Company's EPS performance over the three financial years ending 31 December 2021, 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 above growth targets are the same as were applied to the LTIP award granted in 2018. The Committee believes that the targets remain appropriately stretching when taking into account expectations of the Company's performance over the three-year period.

A payment equivalent to the value of the dividend paid over the vesting period will also be payable at the time of vesting.

Chairman and Non-Executive Directors

The fees for the Chairman and the Non-Executive Directors have not been increased for 2019. 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 2018.

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 another year of growth and profitability as a result of its global presence and stable business model, despite the effects of Brexit, US/China trade tensions and other geo-political factors. In addition, net debt since IPO has decreased to £27.5m (2017: £45.9m) due to the quality of our revenue generation. We also took actions in 2018 to maintain our position as the global leader in our core markets, whilst positioning Strix for continued growth into the future.

2017 Group reorganisation

The prior year Group financial statements were 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 results of the application of the Group reorganisation was 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 £93.8m (2017: £91.3m) and a profit after tax of £23.2m (2017: £24.6m).

The Directors recommend a final dividend for the year of 4.7p per share which, if approved at the Annual General Meeting ('AGM') on 23 May 2019, will be payable on 3 June 2019 to Shareholders who are on the register at 10 May 2019 and the shares will trade ex-dividend from 9 May 2019. Together with the interim dividend paid during the year of 2.3p per share, this will result in a total dividend of 7.0p per share amounting to £13.3m.

Financial risk management

Information relating to the financial risks of the Group have been included within note 21, '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
- Mark Kirkland
- Gary Lamb
- Raudres Wong

Mark Bartlett will retire by rotation in accordance with the Company's Memorandum and Articles of Association and will be proposed for re-election at the AGM on 23 May 2019. The Directors who held office during the year and as at 31 December 2018 had the following interests in the number of ordinary shares of the Company:

Name of Director	2018	2017
Mark Bartlett	300,000	300,000
Mark Kirkland	–	–
Gary Lamb	500,000	500,000
Raudres Wong	300,000	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 2018 (see note 22) is shown below:

	2018	2017
Mark Bartlett	4,008,417	3,800,000
Raudres Wong	2,091,870	1,900,000

The market price of the Company's shares at the end of the financial year was 142.0p (2017: 146.8p) and the range of market prices in the year was between 123.2p and 174.6p (2017: between 127.0p and 146.8p).

No changes took place in the interests of Directors between 31 December 2018 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.

On behalf of the Board

Raudres Wong
Director
20 March 2019

Statement of Directors' responsibilities in respect of the financial statements

For the year ended 31 December 2018

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.

Raudres Wong
Director
20 March 2019

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 2018 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 2018;
- 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

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 Refer to the Directors' report, note 2 and note 3 to the financial statements. Going concern is considered to be a key area of focus as the Group continues to be in a net liability position having entered into a rolling credit facility ('RCF') in 2017 as part of the Group's restructuring and the Company's listing on AIM in 2017. The Group has continued to generate profits and cash inflows in 2018 which it has used in part to make debt repayments.	In this area our procedures included: • reviewing management's going concern assessment including budget and cash flow forecasts through to 31 December 2021; • obtaining support for the management assumption used in the budget and cash flow forecasts, and comparing actual results to prior estimates for reasonableness; • recalculation of the loan covenants at year end to ensure that the Group had not exceeded the thresholds; • reviewing the Group's ability to meet its loan covenants pertaining to the RCF; and • reviewing Board minutes during the year and post-year end to identify any issues that may indicate the inability of the Group to continue as a going concern. Based on our work we have concluded that the Directors' use of the going concern basis in preparing the financial statements is appropriate.

Revenue recognition

Refer to note 2, note 3 and note 7 to the financial statements. Fraud risk – Revenue recognition through inappropriate manual journal entries.

The Directors and management participate in reward and incentive schemes, including share-based payment programmes that may place pressure on the Directors and management to manipulate revenue recognition.

There is a risk that management may override controls to intentionally misstate revenue transactions by recording fictitious revenue transactions through inappropriate manual journal entries.

Our audit work included, but was not restricted to:

- obtaining a detailed understanding of the standard flows of transactions for each revenue stream;
- employing data analytics tools to trace revenue transactions to cash receipts; and to identify transactions which did not follow the standard flows, which were verified to originating documentation to confirm that the entries were valid;
- considering the stated accounting policy in respect of revenue recognition and whether it is compliant with International Financial Reporting Standard ('IFRS') 15 'Revenue from contracts with customers';
- testing significant controls around sales process, including the automated generation of invoices and packing lists, and approval of changes to standing data; and
- testing revenue cut-off around the year end by selecting a sample of transactions from either side of the year end to supporting documentation, as well as reviewing post-year end credit notes issued for indications of revenue manipulation.

Based on our work we did not identify any evidence of inappropriate management override in respect of the amount of revenue recorded through inappropriate journal entries.

Other information

The other information comprises all of the information in the Annual report and accounts other than the financial statements and our auditor's report thereon. The Directors are responsible for the other information.

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. For example, the terms on which the United Kingdom may withdraw from the European Union, which is currently due to occur on 29 March 2019, are not clear, and it is difficult to evaluate all of the potential implications on the Group and the wider economy.
- 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 16 August 2018 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
Douglas, Isle of Man
20 March 2019

Consolidated statement of comprehensive income

For the year ended 31 December 2018

	Note	2018 £000s	2017 £000s
Revenue	7	**93,769**	91,263
Cost of sales – before exceptional items		**(54,851)**	(54,071)
Cost of sales – exceptional items	6	**–**	(23)
Cost of sales		**(54,851)**	(54,094)
Gross profit		**38,918**	37,169
Distribution costs		**(5,344)**	(5,790)
Administrative expenses – before exceptional items		**(3,083)**	(2,682)
Administrative expenses – exceptional items	6	**(5,072)**	(2,862)
Administrative expenses		**(8,155)**	(5,544)
Other operating income		**370**	342
Operating profit		**25,789**	26,177
Analysed as:			
Adjusted EBITDA[1]		**36,351**	35,117
Amortisation	11	**(2,292)**	(3,032)
Depreciation	12	**(3,198)**	(3,023)
Other exceptional items	6	**(5,072)**	(2,885)
Operating profit		**25,789**	26,177
Finance costs	8	**(1,672)**	(764)
Finance income		**17**	6
Profit before taxation		**24,134**	25,419
Income tax expense	9	**(947)**	(787)
Profit for the year		**23,187**	24,632
Other comprehensive income/(expense)			
Items that will never be reclassified to profit or loss:			
Re-measurement of pension scheme obligations	5(c)	**19**	(8)
Total comprehensive income for the year		**23,206**	24,624
Earnings per share (pence)			
Basic	10	**12.2**	13.0
Diluted	10	**11.6**	12.7

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

The notes on pages 58 to 81 form part of these Group financial statements.

Consolidated balance sheet

As at 31 December 2018

	Note	2018 £000s	2017 £000s
ASSETS			
Non-current assets			
Intangible assets	11	**4,804**	5,179
Property, plant and equipment	12	**11,093**	9,378
Total non-current assets		**15,897**	14,557
Current assets			
Inventories	14	**10,518**	9,165
Trade and other receivables	15	**7,254**	7,195
Cash and cash equivalents	16	**13,521**	10,111
Total current assets		**31,293**	26,471
Total assets		**47,190**	41,028
EQUITY AND LIABILITIES			
Equity			
Share capital	23	**1,900**	1,900
Share based payment reserve	22	**6,904**	2,042
Retained deficit		**(21,180)**	(36,406)
Total deficit		**(12,376)**	(32,464)
Current liabilities			
Trade and other payables	17	**16,824**	16,164
Current income tax liabilities	17	**1,575**	1,103
Total current liabilities		**18,399**	17,267
Non-current liabilities			
Borrowings	18	**41,000**	56,000
Post-employment benefits	5(c)	**167**	225
Total non-current liabilities		**41,167**	56,225
Total liabilities		**59,566**	73,492
Total equity and liabilities		**47,190**	41,028

The Group financial statements on pages 54 to 81 were approved and authorised for issue by the Board of Directors on 20 March 2019 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 2018

	Share capital £000s	Share-based payment reserve £000s	Other reserves £000s	Retained (deficit)/ earnings £000s	Total (deficit)/equity £000s
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 22)	–	2,042	–	–	2,042
Group reorganisation (note 28)	–	–	190,000	(673,707)	(483,707)
Issue of shares (note 23)	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)
Balance at 1 January 2018	**1,900**	**2,042**	**–**	**(36,406)**	**(32,464)**
Profit for the year	**–**	**–**	**–**	**23,187**	**23,187**
Other comprehensive income	**–**	**–**	**–**	**19**	**19**
Total comprehensive income for the year	**–**	**–**	**–**	**23,206**	**23,206**
Transactions with owners recognised directly in equity:					
Dividends paid (note 24)	**–**	**–**	**–**	**(7,980)**	**(7,980)**
Share-based payment transactions (note 22)	**–**	**4,862**	**–**	**–**	**4,862**
Total transactions with owners recognised directly in equity	**–**	**4,862**	**–**	**(7,980)**	**(3,118)**
Balance at 31 December 2018	**1,900**	**6,904**	**–**	**(21,180)**	**(12,376)**

The notes on pages 58 to 81 form part of these Group financial statements.

Consolidated cash flow statement

For the year ended 31 December 2018

	Note	2018 £000s	2017 £000s
Cash flows from operating activities			
Cash generated from operations	25	**35,431**	34,348
Tax paid		**(475)**	(527)
Net cash generated from operating activities		**34,956**	33,821
Cash flows from investing activities			
Purchase of property, plant and equipment		**(5,703)**	(4,013)
Capitalised development costs	11	**(1,849)**	(1,688)
Purchase of software	11	**(68)**	(291)
Proceeds on sale of property, plant and equipment		**135**	10
Finance income		**17**	6
Net cash used in investing activities		**(7,468)**	(5,976)
Cash flows from financing activities			
Transactions with former group company related parties	27, 28	**–**	(257,457)
Proceeds of borrowings	18	**–**	60,774
Repayments of borrowings	18	**(15,000)**	(4,774)
Net proceeds from issuance of shares	28	**–**	176,183
Transaction costs related to borrowings	18	**–**	(822)
Dividends paid	24	**(7,980)**	(1,900)
Finance costs paid		**(1,305)**	(464)
Net cash used in financing activities		**(24,285)**	(28,460)
Net increase/(decrease) in cash and cash equivalents		**3,203**	(615)
Cash and cash equivalents at the beginning of the year		**10,111**	10,959
Effects of foreign exchange on cash and cash equivalents		**207**	(233)
Cash and cash equivalents at the end of the year	25	**13,521**	10,111

The notes on pages 58 to 81 form part of these Group financial statements.

Notes to the consolidated financial statements

For the year ended 31 December 2018

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 Company's shares were admitted to trading on AIM, a market operated by the London Stock Exchange on 8 August 2017.

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.

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.

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.

Group reorganisation

The Group financial statements for the comparative year were 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.

There is currently no specific guidance on accounting for group reorganisations such as the transaction which took place in 2017 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 Directors took the view that the most appropriate way to account for this in line with IFRS was to deem the share-for-share exchange with Sula Group as a Group reorganisation for 2017. The result of the application of the Group reorganisation was to present the comparative financial statements as if the Company had always owned the Sula Group. The Group reorganisation is explained in more detail in note 28.

The Group reorganisation, which was scoped out of IFRS 3, was therefore accounted for using capital reorganisation accounting principles resulting in the following effects:

(a) the net assets were combined using existing book values, with adjustments made as necessary to ensure that the same accounting policies were applied to the calculation of the net assets of the entities which were part of the Group reorganisation;
(b) no amount was recognised as consideration for goodwill or negative goodwill;
(c) the consolidated statement of comprehensive income included the profits or losses of each company for the entire period, regardless of the date of the reorganisation; and
(d) the retained earnings reserve included the cumulative results of each company, regardless of the date of the reorganisation.

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 2021;
- the current financial position of the Group, including its cash and cash equivalents balances of £13.5m;
- the availability of further funding should this be required (including the headroom of £12.0m on the revolving credit facility and the access to the AIM market afforded by the Company's admission to AIM);
- the low liquidity risk the Group is exposed to; and
- the fact that 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.

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 2018, have had a material impact on the Group.

IFRS 9 'Financial instruments'

IFRS 9 was 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. Given the nature of the Group's operations, IFRS 9 has not had a material impact.

IFRS 15 'Revenue from Contracts with Customers'

IFRS 15 was effective for Strix Group Plc from 1 January 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 relatively stand-alone selling price basis, based on a five-step model.

Having completed a review, a small portion of contracts, making up less than 1% of Group revenue, were re-documented and re-issued in order to continue to apply our historic accounting treatment under IFRS 15. There were no material impacts of applying IFRS 15.

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

At the date of approval of the Group financial statements, the only new standard and interpretations which is relevant to the Group but has not been applied in these financial statements is IFRS 16 – Leases.

IFRS 16 'Leases'

IFRS 16 was published in January 2016 and is effective for Strix Group Plc from 1 January 2019, replacing IAS 17 'Leases'. The Group has not early-adopted the standard and so transition to IFRS 16 has taken 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.

2. Principal accounting policies continued

The Group has chosen to adopt the modified retrospective approach on transition. The impact on the Group's financial results as at 1 January 2019 is:

- Total assets have increased by £3.4m, as leased assets which are currently accounted for off balance sheet (i.e. classified as operating leases under IAS 17) will be recognised as a 'right-of-use' asset on the balance sheet, which represents the right to use the underlying leased asset. The Group only has leases which are above the low value threshold relating to land and buildings in relation to the sites in the Isle of Man, United Kingdom, Hong Kong and China.
- Debt has increased by £3.7m, as liabilities relating to existing operating leases have been recognised which represents the obligation to make future lease payments. The increase in total debt has impacted on the Group's gearing ratios, although for the purposes of the revolving credit facility disclosed in note 18, the ratio is not affected as the agreement specifies that changes in accounting standards should be ignored.
- An adjustment to equity of £0.3m on transition has been recognised, decreasing the opening retained earnings balance on 1 January 2019.
- Operating lease expenditure has been reclassified and split between depreciation and finance costs. As a consequence of this, reported EBITDA will increase in 2019 versus the IAS 17 equivalent result by c.£1.0m. To offset this, depreciation will increase by c.£0.9m and finance costs will increase by c.£0.1m to leave a neutral profit after tax result.

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 and machinery	3 – 10 years
• Fixtures, fittings and equipment	2 – 5 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.

Fixtures, fittings and other equipment includes computer hardware.

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.

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 a re 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
- Technology and software 2 – 10 years

Amortisation is charged to the consolidated statement of comprehensive income 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.

2. Principal accounting policies continued

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 material finance leases. From 1 January 2019, the Group will apply IFRS 16.

Financial assets and financial liabilities

The Group has elected not to restate comparative information as a consequence of the application of IFRS 9 as the amounts involved are immaterial. As a result, the comparative information provided continues to be accounted for in accordance with the Group's previous accounting policy, which is set out below, together with the accounting policies applied from 1 January 2018.

Financial assets – applied until 31 December 2017

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). 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 assets – applied from 1 January 2018

Classification

The Group classifies its financial assets as financial assets held at amortised cost. Management determines the classification of its financial assets at initial recognition.

The Group classifies its financial assets as at amortised cost only if both of the following criteria are met:

- the asset is held within a business model whose objective is to collect the contractual cash flows; and
- the contractual terms give rise to cash flows that are solely payments of principal and interest.

Financial assets held at amortised cost are initially recognised at fair value, and are subsequently stated at amortised cost using the effective interest method. Financial assets at amortised cost comprise cash and cash equivalents and trade and other receivables (excluding prepayments and the advance purchase of commodities). Trade receivables are amounts due from customers for products sold performed in the ordinary course of business. They are due for settlement either on a cash in advance basis, or generally within 45 days, and are therefore all classified as current. Other receivables generally arise from transactions outside the usual operating activities of the Group.

Impairment of financial assets
From 1 January 2018, the Group assesses on a forward-looking basis the expected credit losses associated with its debt instruments carried at amortised cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

The Group applies the expected credit loss model to financial assets at amortised cost. For trade receivables, the Group applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables. Given the nature of the Group's receivables, expected lifetime losses are not material.

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, payments in advance from customers 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 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. While cash and cash equivalents are also subject to the impairment requirements of IFRS 9, impairment losses are not material.

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.

2. Principal accounting policies continued

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 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 22.

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

The Group primarily recognises revenue from the sales of goods to its customers. The amount of revenue relating to the provision of services is minimal and the Group does not undertake any significant long-term contracts with its customers where revenue is recognised over time.

The transaction price is based on the sales agreement with the customer. Revenue is reported net of estimated sales rebates, which are based on a certain volume of purchases by a customer within a given period. Other than sales rebates, there is no variable consideration. Accumulated experience is used to estimate and provide for discounts and rebates using the expected value method, 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.

The performance obligation is the delivery of goods to customers, and revenue is recognised on despatch for most revenue transactions. Otherwise, revenue is recognised when the products have been shipped to a specific location, or when the risks of obsolescence and loss have been transferred to the OEM or wholesaler. There are a very small number of revenue transactions where different performance obligations and/or recognition patterns occur. All of the amounts recognised as revenue are based on contracts with customers.

The Group does not create any contract assets or contract liabilities and all amounts are recognised as trade receivables as there are no performance conditions other than the passage of time. Payment terms for the majority of customers are to pay cash in advance of the goods being delivered. The Group recognises these balances within trade and other payables on the consolidated balance sheet as 'Payments in advance from customers'. At the point the revenue is recognised, these balances are transferred from 'Payments in advance from customers' to revenue. For other customers payment is normally due at most 45 days from the date of sale.

Some assets are recognised from the costs to obtain contracts with customers, but the total costs in the year are less than 0.25% of revenue (2017: 0.25%) therefore further disclosures have not been made.

Due to the simple nature of the Group's revenue no significant judgements have been made in the application of IFRS 15, aside from the amount of sales rebates the Group expects to incur. These judgements are explained in note 3.

All revenue is derived from the principal activities of the Group.

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 FIFO 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, share-based payment transaction costs and costs relating to certain strategic projects.

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.

Finance costs
Finance costs comprise interest charges on pension liabilities, interest on non-current borrowings and finance charges relating to letters of credit. Finance costs are recognised when the right to make a payment is established.

Finance income
Finance income comprises bank interest receivable on funds invested. Finance income is recognised when the right to receive a 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.

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.

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.

2. Principal accounting policies continued

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 earnings before finance costs, tax, depreciation and amortisation. Exceptional items 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 judgement 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' in note 2 with regard to the timing of the capitalisation of the development costs incurred. This requires judgement in determining when the different stages of development have been met.

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.

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 4.2% of gross turnover (2017: 3.8%).

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 Original Equipment Manufacturers ('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. Whilst under IFRS 8 there is only one segment, the information used to prepare the consolidated financial statements is disaggregated into three product families, being 'Kettle controls', 'Aqua Optima' and 'Other'. 'Other' relates to new technology products and other appliances which do not fit in either 'Kettle controls' or 'Aqua Optima'. An analysis of revenue by product family is provided in note 7.

Geographical

A geographical analysis of revenue from external customers has not been presented, as the OEMs to whom the majority of 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 principle subsidiaries is domiciled.

	2018 £000s	2017 £000s
Country of domicile		
Intangible assets	**4,629**	4,877
Property, plant and equipment	**2,002**	1,796
Total country of domicile non-current assets	**6,631**	6,673
Foreign countries		
Intangible assets	**175**	302
Property, plant and equipment	**9,091**	7,582
Total foreign non-current assets	**9,266**	7,884
Total non-current assets	**15,897**	14,557

Of the 'foreign countries' balance above, £6,000 (2017: £20,000) 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 2018 there were two major customers that individually accounted for at least 10% of total revenues (2017: two customers). The revenues relating to these customers in 2018 were £17,233,000 and £11,869,000 (2017: £16,223,000 and £10,907,000).

5. Employees and Directors

(a) Employee benefit expenses

	2018 £000s	2017 £000s
Wages and salaries	**15,957**	14,999
Defined contribution pension cost (note 5(c))	**381**	398
Non-exceptional employee benefit expenses	**16,338**	15,397
Share-based payment transactions (note 22)	**4,862**	2,042
Total employee benefit expenses	**21,200**	17,439

5. Employees and Directors continued

(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, key management was considered to be the Executive Committee, including the Directors.

	2018 £000s	2017 £000s
Salaries and other short-term employee benefits	**1,639**	4,319
Post-employment benefits	**172**	164
Share-based payment transactions	**4,521**	1,647
	6,332	6,130

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 £381,000 (2017: £398,000).

(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 2018 by a qualified independent actuary. The valuation of the scheme used the projected unit method.

At 31 December 2018 the market value of the scheme assets was £226,000 (2017: £181,000) and the present value of the scheme liabilities were £393,000 (2017: £406,000). The net post-employment obligation at 31 December 2018 is £167,000 (2017: £225,000). The total charge recognised in the consolidated statement of comprehensive income was £5,000 (2017: £6,000).

The actuarial gain recognised in the consolidated statement of comprehensive income was £19,000 (2017: actuarial loss of £8,000). The Group expects to make total contributions of £40,000 in the year ending 31 December 2019.

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.

6. Expenses

(a) Expenses by nature

	2018 £000s	2017 £000s
Employee benefit expense	**16,338**	15,397
Depreciation charges	**3,198**	3,023
Amortisation and impairment charges	**2,292**	3,180
Operating lease payments	**1,144**	1,152
Exceptional items		
– reorganisation costs	**–**	23
– strategic projects	**206**	–
– exit costs	**4**	820
– share-based payment transactions	**4,862**	2,042
Foreign exchange (gains)/losses	**(78)**	201

Research and development expenditure totalled £3,820,000 (2017: £3,549,000), with £1,849,000 (2017: £1,688,000) 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.

Strategic project costs relates to certain projects being undertaken to support the achievement of the Group's strategic plans.

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

The share-based payment transactions relate to conditional share options issued to certain employees. Further details are provided in note 22.

During 2017 £13,817,000 of costs incurred in relation to the IPO were debited to equity in accordance with IAS 32. No costs were debited to equity in 2018.

(c) Auditor's remuneration

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

	2018 £000s	2017 £000s
Fees payable to Company's auditor and its associates for the audit of consolidated financial statements	**114**	109
Fees payable to Company's auditor and its associates for other services:		
– the audit of Company's subsidiaries	**4**	4
– audit assurance services	**–**	205
– other assurance services	**9**	14
– non-audit services	**–**	205
– tax compliance	**9**	9
	136	546

The audit assurance services in 2017 related 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 were debited to equity.

The non-audit services in 2017 included 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 were debited to equity.

7. Revenue

The following table shows a disaggregation of revenue into categories by product line:

	2018	2017
Kettle controls	**83,514**	82,954
Aqua Optima*	**9,263**	7,357
Other*	**992**	952
Total revenue	**93,769**	91,263

* The Group has reclassified a certain product line previously reported under 'Other' as part of 'Aqua Optima' when compared to the revenue disaggregation table reported at H1 2018. This reclassification has also been applied to 2017 in the table above in order to follow a change to the internal reporting of this product line.

8. Finance costs

	2018 £000s	2017 £000s
Letter of credit charges	**68**	66
Pension scheme interest	**1**	6
Borrowing costs	**1,603**	692
Total finance costs	**1,672**	764

9. Taxation

Analysis of charge in year	2018 £000s	2017 £000s
Current tax (overseas)		
Current tax on overseas profits for the year	**960**	793
Adjustments in respect of prior years – overseas	**(13)**	(6)
Total tax charge	**947**	787

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 2018 calculated on the same basis of £1.3m are included within the current tax liability balance in the consolidated balance sheet, 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% (2017: 0%). The differences are explained below.

	2018 £000s	2017 £000s
Profit on ordinary activities before tax	**24,134**	25,419
Profit on ordinary activities multiplied by the rate of income tax in the Isle of Man of 0% (2017: 0%)	**–**	–
Impact of higher overseas tax rate	**960**	793
Adjustments in respect of prior years – overseas	**(13)**	(6)
Total taxation charge	**947**	787

The Company is subject to Isle of Man income tax on profits at the rate of 0% (2017: 0%). Based on the Company's current activities, the Company is not expected to have any future Isle of Man tax liability.

10. Earnings per share

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

	2018	2017
Earnings (£000s)		
Earnings for the purposes of basic and diluted earnings per share	**23,187**	24,632
Number of shares (000s)		
Weighted average number of shares for the purposes of basic earnings per share	**190,000**	190,000
Weighted average dilutive effect of conditional share awards	**9,326**	3,587
Weighted average number of shares for the purposes of diluted earnings per share	**199,326**	193,587
Earnings per ordinary share (pence)		
Basic earnings per ordinary share	**12.2**	13.0
Diluted earnings per ordinary share	**11.6**	12.7
Adjusted earnings per ordinary share (pence)[1]		
Basic adjusted earnings per ordinary share[1]	**14.9**	14.5
Diluted adjusted earnings per ordinary share[1]	**14.2**	14.2

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

	2018 £000s	2017 £000s
Profit for the year	**23,187**	24,632
Add back:		
Reorganisation costs	**–**	23
Strategic project costs	**206**	–
Exit costs	**4**	820
Share-based payment transactions	**4,862**	2,042
Adjusted earnings[1]	**28,259**	27,517

1. Adjusted results exclude 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.

11. Intangible assets

	2018			2017		
	Development costs £000s	Software £000s	Total £000s	Development costs £000s	Software £000s	Total £000s
At 1 January						
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
Year ended 31 December						
Additions	**1,849**	**68**	**1,917**	1,688	291	1,979
Amortisation charges	**(2,126)**	**(166)**	**(2,292)**	(2,925)	(107)	(3,032)
Impairment charges	**–**	**–**	**–**	(148)	–	(148)
Closing net book value	**4,562**	**242**	**4,804**	4,839	340	5,179
At 31 December						
Cost	**12,886**	**579**	**13,465**	12,716	511	13,227
Accumulated amortisation and impairment	**(8,324)**	**(337)**	**(8,661)**	(7,877)	(171)	(8,048)
Net book value	**4,562**	**242**	**4,804**	4,839	340	5,179

Amortisation charges have been treated as an expense, and are allocated to cost of sales (2018: £2,189,000; 2017: £2,935,000), distribution costs (2018: £2,000; 2017: £2,000) and administrative expenses (2018: £101,000; 2017: £95,000) in the consolidated statement of comprehensive income. There were no reversals of prior year impairments during the year (2017: same). During the year, £1,679,000 (2017: £2,078,000) of assets with a net book value of zero were derecognised in line with the derecognition policy disclosed in note 2.

12. Property, plant and equipment

	2018					
	Plant & machinery £000s	Fixtures, fittings & equipment £000s	Motor vehicles £000s	Production tools £000s	Assets under construction £000s	Total £000s
At 1 January						
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**
Year ended 31 December						
Additions	**–**	**684**	**60**	**–**	**4,290**	**5,034**
Transfers	**2,730**	**(53)**	**(23)**	**1,415**	**(4,069)**	**–**
Disposals	**(115)**	**–**	**–**	**(6)**	**–**	**(121)**
Depreciation charge	**(1,575)**	**(511)**	**(16)**	**(1,096)**	**–**	**(3,198)**
Closing net book value	**5,928**	**1,079**	**90**	**2,107**	**1,889**	**11,093**
At 31 December						
Cost	**20,623**	**3,674**	**141**	**13,484**	**1,889**	**39,811**
Accumulated depreciation	**(14,695)**	**(2,595)**	**(51)**	**(11,377)**	**–**	**(28,718)**
Net book value	**5,928**	**1,079**	**90**	**2,107**	**1,889**	**11,093**

Depreciation charges are allocated to cost of sales (£2,490,000), distribution costs (£551,000) and administrative expenses (£157,000) in the consolidated statement of comprehensive income. During the year, £5,029,000 of assets with a net book value of zero were derecognised in line with the derecognition policy disclosed in note 2.

12. Property, plant and equipment continued

	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.

13. 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	% of ordinary shares held by the Company %	% 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 (U.K.) Limited	Group's sale and distribution centre	UK	–	100
Strix Hong Kong Ltd	Sale and distribution of products	Hong Kong	–	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 £1,222,000 (2017: £932,000).

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.

14. Inventories

	2018 £000s	2017 £000s
Raw materials and consumables	**5,993**	4,791
Finished goods and goods in transit	**4,525**	4,374
	10,518	9,165

The cost of inventories recognised as an expense and included in cost of sales amounted to £33,895,000 (2017: £32,545,000). The charge for impaired inventories was £52,000 (2017: £198,000). There were no reversals of previous inventory write-downs.

15. Trade and other receivables

	2018 £000s	2017 £000s
Amounts falling due within one year:		
Trade receivables	**3,336**	3,791
Trade receivables past due	**131**	84
Loss allowance	**(26)**	(17)
Trade receivables – net	**3,441**	3,858
Prepayments	**987**	1,192
Advance purchase of commodities	**1,483**	1,340
Other receivables	**1,343**	805
	7,254	7,195

Trade and other receivables are all current and any fair value difference is not material.

The amount of trade receivables past due is not material, therefore an aging analysis has not been presented (2017: same). The amount of trade receivables impaired at 31 December 2018 is equal to the provision (2017: same). The amount of the provision for trade receivables as at 31 December 2018 was £26,000 (2017: £17,000).

The advance purchase of commodities relates to a payment in advance to secure the purchase of key commodities at an agreed price to mitigate the commodity price risk.

£822,000 of prepayments were capitalised in 2017 relating to transaction costs for the non-current borrowings put in place as part of the Group reorganisation and admission to trading on AIM. At 31 December 2018, £587,000 (2017: £751,000) of these transaction costs are included within prepayments.

Other receivables includes government grants due of £355,000 (2017: £338,000). 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 ten years from the date of the last grant payment, funds may be reclaimed.

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

	2018 £000s	2017 £000s
British Pound	**4,017**	4,560
Chinese Yuan	**1,721**	1,536
United States Dollar	**1,184**	811
Euro	**191**	157
Hong Kong Dollar	**122**	109
Other	**19**	22
	7,254	7,195

Movements on the Group's provision for impairment of trade receivables and the inputs and estimation technique used to calculate expected credit losses have not been disclosed on the basis the amounts are not material. The provision at 31 December 2018 was £26,000 (2017: £17,000).

The creation and release of a provision for impaired receivables is allocated to cost of sales in the consolidated statement of comprehensive income. For the year ended 31 December 2018, the amount allocated to cost of sales was £9,000 (2017: £22,000). Amounts charged to the allowance account are written off when there is no expectation of recovering additional cash.

16. Cash and cash equivalents

	2018 £000s	2017 £000s
Cash and cash equivalents		
Cash at bank and in hand	**13,521**	10,111

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

	2018 £000s	2017 £000s
British Pound	**6,709**	6,127
Chinese Yuan	**868**	732
United States Dollar	**5,217**	2,954
Hong Kong Dollar	**357**	200
Euro	**370**	98
	13,521	10,111

17. Trade and other payables

	2018 £000s	2017 £000s
Trade payables	**4,881**	5,026
Current income tax liabilities	**1,575**	1,103
Social security and other taxes	**108**	191
Other liabilities	**5,737**	4,854
Payments in advance from customers	**1,961**	1,863
Accrued expenses	**4,137**	4,230
	18,399	17,267

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:

	2018 £000s	2017 £000s
British Pound	**6,726**	5,622
Chinese Yuan	**6,849**	7,726
United States Dollar	**4,167**	3,133
Hong Kong Dollar	**354**	434
Euro	**303**	352
	18,399	17,267

18. Borrowings

	2018 £000s	2017 £000s
Non-current bank loans	**41,000**	56,000

Term and debt repayment schedule

	Currency	Interest rate	Maturity date	2018 carrying value (£000s)
Revolving credit facility	GBP	LIBOR + 1.50% – 2.50%	27 July 2022	**41,000**

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, 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 were capitalised in 2017 and are being amortised over the period of the facility (see note 15).

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 2018, the Group has not breached any of the financial covenants contained within the agreement – see note 21(d) for further details.

On 30 June 2018, the total facility available reduced by £5,000,000, and has continued to reduce by a further £2,000,000 every six months thereafter. The Group voluntarily cancelled £10,000,000 of the facility on 19 June 2018. As at 31 December 2018 the total facility available is £53,000,000 (2017: £70,000,000).

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%

At 31 December 2018 the margin applied was 1.5% (2017: 2.0%).

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

19. Commitments

(a) Capital commitments

	2018 £000s	2017 £000s
Contracted for but not provided in the consolidated financial statements – Property, plant and equipment	**1,005**	1,010

(b) Operating lease commitments

The Group leases various offices, warehouses and factories under non-cancellable operating lease agreements. The lease terms are between one and ten 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:

	2018 £000s	2017 £000s
Within one year	**1,012**	1,037
Later than one year and less than five years	**2,104**	1,870
After five years	**806**	1,031
	3,922	3,938

20. 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 2018, 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 2018 (2017: same).

21. 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 transacts in are:

- British Pounds
- Chinese Yuan
- United States Dollar
- Hong Kong Dollar
- Euro

Exposure by currency is analysed in notes 15, 16 and 17.

(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 18. 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 2018 or 2017.

At 31 December 2018 and 2017, payments were made in advance to buy certain commodities at fixed prices, as disclosed in note 15.

(iv) Sensitivity analysis

- **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% (2017: +10%), the impact on profit would be a decrease of £406,000 (2017: an increase of £117,000), and the impact on equity would be a decrease of £555,000 (2017: a decrease of £342,000). A -10% change (2017: -10%) in FX rates would cause an increase in profit of £496,000 (2017: a decrease in profit of £143,000) and a £679,000 increase in equity (2017: £418,000 increase in equity). 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 18. Assuming a reasonably possible change in the LIBOR rate of ±0.5% (2017: ±0.5%), the impact on profit would be an increase/decrease of £242,000 (2017: £115,000), and the impact on equity would be an increase/decrease of £165,000 (2017: £73,000). 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 $\pm$8.2% for silver (2017: $\pm$5.2%) and $\pm$15.8% for copper (2017: $\pm$7.8%) based on volatility analysis for the past year, the impact on profit would be an increase/decrease of £1,068,000 (2017: increase/decrease of £497,000). 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 (2017: 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 believe there is no further credit risk provision required in excess of normal provision for doubtful receivables, as disclosed in note 15. The amount of trade and other receivables written off during the year amounted to less than 0.05% of revenue (2017: less than 0.05% of revenue).

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:

	2018 £000s	2017 £000s
AA	**588**	131
A	**1,252**	1,001
BBB	**11,658**	8,882
B	**–**	77
n/a	**23**	20
	13,521	10,111

(c) Liquidity risk
The Group maintained 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 £12,000,000 (2017: £14,000,000) remains available on this facility at 31 December 2018.

The Group's non-derivative financial liabilities (represented by trade and other payables) substantially all have a contractual maturity date of less than three 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 two and five 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 reduce the 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 18. These ratios are formally reported on a quarterly basis. At 31 December 2018 these ratios were as follows:
- **Interest cover ratio:** 22.0x (2017: 42.5x); and
- **Leverage ratio:** 0.8x (2017: 1.3x).

22. Share-based payments
Long-term incentive plan terms
As part of the admission to trading on AIM in August 2017, the Group granted a number of share options to employees of the Group. 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. Further awards have been made since August 2017 under the same scheme on similar terms.

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 ten-year anniversary of the award date.

22. Share-based payments continued

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 the options is shown in the table below:

	07/2017 Directors	07/2017 Others	02/2018 Others	11/2018 Directors	11/2018 Others	Total
1 January 2017 share options outstanding	–	–	–	–	–	–
Granted during the year	5,700,000	3,431,505	–	–	–	9,131,505
Forfeited during the year	–	(21,324)	–	–	–	(21,324)
31 December 2017 share options outstanding	5,700,000	3,410,181	–	–	–	9,110,181
1 January 2018 share options outstanding	5,700,000	3,410,181	–	–	–	9,110,181
Granted during the year	–	21,000	118,262	400,287	889,343	1,428,892
Forfeited during the year	–	(234,048)	(9,500)	–	–	(243,548)
31 December 2018 share options outstanding	5,700,000	3,197,133	108,762	400,287	889,343	10,295,525

The Group has recognised a total expense of £4,862,000 (2017: £2,042,000) in respect of equity-settled share-based payment transactions in the year ended 31 December 2018. No options were exercised during the year (2017: 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.

For each of the tranches, the first day of the exercise period is the vesting date and the last day of the exercise period is the expiry date, as listed in the valuation model input table below. The weighted average contractual life of options outstanding at 31 December 2018 was 8.8 years (2017: 9.6 years).

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)	Exercise period	Expectation of meeting performance criteria
07/2017 – Directors	8 August 2017	130.00	1 January 2020 – 8 August 2027	100%
07/2017 – Others	15 August 2017	133.38	1 January 2020 – 15 August 2027	100%
02/2018 – Others	12 February 2018	138.00	1 January 2021 – 12 February 2028	100%
11/2018 – Directors	1 November 2018	146.80	1 January 2021 – 1 November 2028	50%
11/2018 – Others	1 November 2018	146.80	1 January 2021 – 1 November 2028	50%

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 £78,000 (2017: £32,000) and the expected charge over the life of the options by a total of £245,000 (2017: £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 outstanding at the period end was £1.3508 (2017: £1.2927).

23. Share capital

	Number of shares (000s)	Total £000s
Allotted and fully paid: ordinary shares of 1p each		
Balance at 1 January 2017	–	–
Issue of shares (see below)	190,000	1,900
Balance at 31 December 2017	190,000	1,900
Balance at 31 December 2018	**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. See note 22 for further information regarding share-based payments which may impact the share capital in future periods.

24. Dividends

The following amounts were recognised as distributions in the year:

	2018 £000s	2017 £000s
Interim 2018 dividend of 2.3p per share (2017: 1.0p)	**4,370**	1,900
Final 2017 dividend of 1.9p per share (2017: nil)	**3,610**	–
Total dividends recognised in the year	**7,980**	1,900

In addition to the above dividends, since year end the Directors have proposed the payment of a final dividend of 4.7p per share (2017: 1.9p). The aggregate amount of the proposed final dividend expected to be paid on 3 June 2018 out of retained earnings at 31 December 2018, 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.

	2018 £000s	2017 £000s
Final 2018 dividend of 4.7p per share (2017: 1.9p)	**8,930**	3,610
Total dividends proposed but not recognised in the year	**8,930**	3,610

25. Cash flow statement notes

(a) Cash generated from operations

	Note	**2018 £000s**	2017 £000s
Cash flows from operating activities			
Operating profit		**25,789**	26,177
Adjustments for:			
Depreciation of property, plant and equipment	12	**3,198**	3,023
Amortisation of intangible assets	11	**2,292**	3,032
Impairment of intangible assets	11	**–**	148
Profit on disposal of property, plant and equipment		**(14)**	(4)
Pension contributions made	5(c)	**(40)**	(38)
Movement in derivative financial instruments		**–**	(42)
Share-based payment transactions	22	**4,862**	2,042
Net exchange differences	6(a)	**(78)**	201
		36,009	34,539
Changes in working capital:			
Increase in inventories		**(1,396)**	(595)
Increase in trade and other receivables		**(266)**	(532)
Increase in trade and other payables		**1,084**	936
Cash generated from operations		**35,431**	34,348

(b) Movement in net debt

	At 1 January 2018 £000s	Non-cash movements Cash flows £000s	 Currency movements £000s	**At 31 December 2018 £000s**
Non-current borrowings	(56,000)	15,000	–	**(41,000)**
Total liabilities from financing activities	**(56,000)**	**15,000**	**–**	**(41,000)**
Cash and cash equivalents	10,111	3,203	207	**13,521**
Net debt	**(45,889)**	**18,203**	**207**	**(27,479)**

26. Ultimate beneficial owner

There is not considered to be any ultimate beneficial owner, as the Company is listed on AIM. No single shareholder beneficially owns more than 25% of the Company's share capital. 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.

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

Related party	Balance due from 2018 £000s	Balance due from 2017 £000s	Balance due to 2018 £000s	Balance due to 2017 £000s
The Strix Limited Retirement Fund	**–**	–	**(37)**	(14)

(c) Related party transactions

The following transactions with related parties occurring during the year:

Name of related party	2018 £000s	2017 £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)
Transactions with other related parties		
Post-employment benefit schemes	**(421)**	(436)

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

- 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 distribution to Strix Group Limited in 2017 was made as part of the Group reorganisation prior to the Group's admission to trading on AIM, as described in note 28.

28. Group reorganisation

The principal steps of the Group reorganisation which occurred in 2017 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 in 2017

- 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 2017 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

Acquisition of specified assets from HaloSource

On 7 March 2019, the Group completed the acquisition of specified assets from HaloSource Corporation ('HaloSource'), following approval by HaloSource shareholders at the general meeting held on 26 February 2019. The Group has entered into an asset purchase agreement with HaloSource, pursuant to which it will acquire specified assets relating to HaloSource's HaloPure division and its Astrea product, for total consideration of US$1.33m.

Incorporation of Strix (USA), Inc

On 14 February 2019 Strix (USA), Inc was incorporated in the state of Washington, United States of America. Strix (USA), Inc is a wholly owned subsidiary of Strix (U.K.) Limited.

Incorporation of Strix (China) Limited

On 20 February 2019, Strix (China) Limited was granted a business licence. Strix (China) Limited, a company incorporated in China, is a wholly owned subsidiary of Strix (Hong Kong) Ltd.

New manufacturing facility in China

In February 2019, a contract was signed to purchase a plot of land in the Zengcheng District of Guangzhou, China, close to the Group's existing facility. The acquisition of the plot of land is expected to take a further two to three months before the process can be completed in order to comply with local regulations.

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Financial calendar

Financial year end	31 December 2018
Announcement of full-year results	21 March 2019
Publication of Annual report and accounts	30 April 2019
Annual General Meeting	23 May 2019
Dividend:	
– ex-dividend date	9 May 2019
– record date	10 May 2019
– payment date	3 June 2019
Announcement of half-year results	Late September 2019

Notes

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