Strix
INNOVATIVE TECHNOLOGY

Sustainable Innovative Dependable

Annual report and accounts 2019

Our mission:

Shaping a safer, more sustainable future in the **design and supply** of innovative products that enhance customers' everyday lives.

Sustainable water categories

Innovative appliances

Dependable kettle controls

Strategic report

Governance report

Financial statements

2019 highlights

Financial highlights

Revenue[3] (constant currency basis)
£m

+3.3%

2019	96.8
2018	93.8
2017	91.3

Adjusted profit before tax[1]
£m

+3.4%

2019	£30.2m
2018	£29.2m
2017	£28.3m

Adjusted profit after tax[1]
£m

+2.1%

2019	£28.9m
2018	£28.3m
2017	£27.5m

Adjusted EBITDA[1,2]
£m

+1.5%

2019	£36.9m
2018	£36.4m
2017	£35.1m

Adjusted earnings per share[1]

+2.1%

2019	15.2p
2018	14.9p
2017	14.5p

Total dividend per share for the year

+10.0%

2019	7.7p
2018	7.0p
2017	2.9p

Operational highlights

- Production efficiency of core kettle products improved by 5% to 98% through the continued introduction of automation and lean initiatives.
- The U9 series continues to show strong growth with over 15 million controls sold. The new U90 automation line achieved 80% labour and 85% machine efficiency, in line with original projections.
- Intertek has awarded the Group's Guangzhou facility 'Benchmark' score in four out of the six categories, with the remaining ranked as mature and the Isle of Man facilities a 'Benchmark' score for all ISO categories, the highest standard available within the scoring system which very few audited companies achieve.
- Focus on continuous improvement, automation and refinement of existing processes has delivered a 29% improvement in customer quality ppm (parts per million).

1. Adjusted results exclude exceptional items, which include share based payment transactions and other reorganisation and strategic project costs. Adjusted results are non-GAAP metrics used by management and are not an IFRS disclosure. A table which shows both Adjusted and Reported results is included in the Chief Financial Officer's review.
2. 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.
3. Revenue – constant currency basis, which is defined as 2019 revenue restated at the exchange rates prevailing in 2018, is a non-GAAP metric used by management and is not an IFRS disclosure.

Strategic highlights

- Maintained global market value share of the kettle controls market at c.54%.
- Acquisition of specific assets from HaloSource Corporation successfully completed on 7 March 2019, adding significant R&D capabilities and commercial opportunities to the Water Category.
- Construction contract for the new factory within Zengcheng district, China, signed on 2 September 2019 for £13.9m. Total factory project is on target to be fully operational by August 2021 and remains on budget at the previously guided £20m.
- Appointment of Richard Sells as a Non-Executive Director effective 18 March 2020. Richard brings a wealth of commercial experience to the Board which will support the Group's growth ambitions.
- Continued focus on both safety and intellectual property actions resulting in 17 kettles being removed from online sale and nine unsafe competitor kettles being recalled globally.

HALO PURE®

The HaloSource business contributed an adjusted total comprehensive loss of c.£2.0m, which is in line with the Group's expectations at the time of acquisition.

Company overview

Strix is the global leader in the design, manufacture and supply of kettle safety controls and other complementary water products used in temperature control, steam management and water filtration. Strix is listed on the Alternative Investment Market of the London Stock Exchange (AIM: KETL).

New product launches pg26

Sustainable

Water category

Strix has developed a diverse range of products within the water filtration market through its three core brands; Aqua Optima, astrea and HaloPure. These brands deliver global solutions for water filtration and sterilisation needs through the delivery of water bottles, jugs, filters and other related appliances.

Given increased consumer focus on health-conscious choices and on reducing plastic waste, Strix is able to offer a sustainable choice to the end consumer.

We expect to launch a further seven products within this category during 2020.

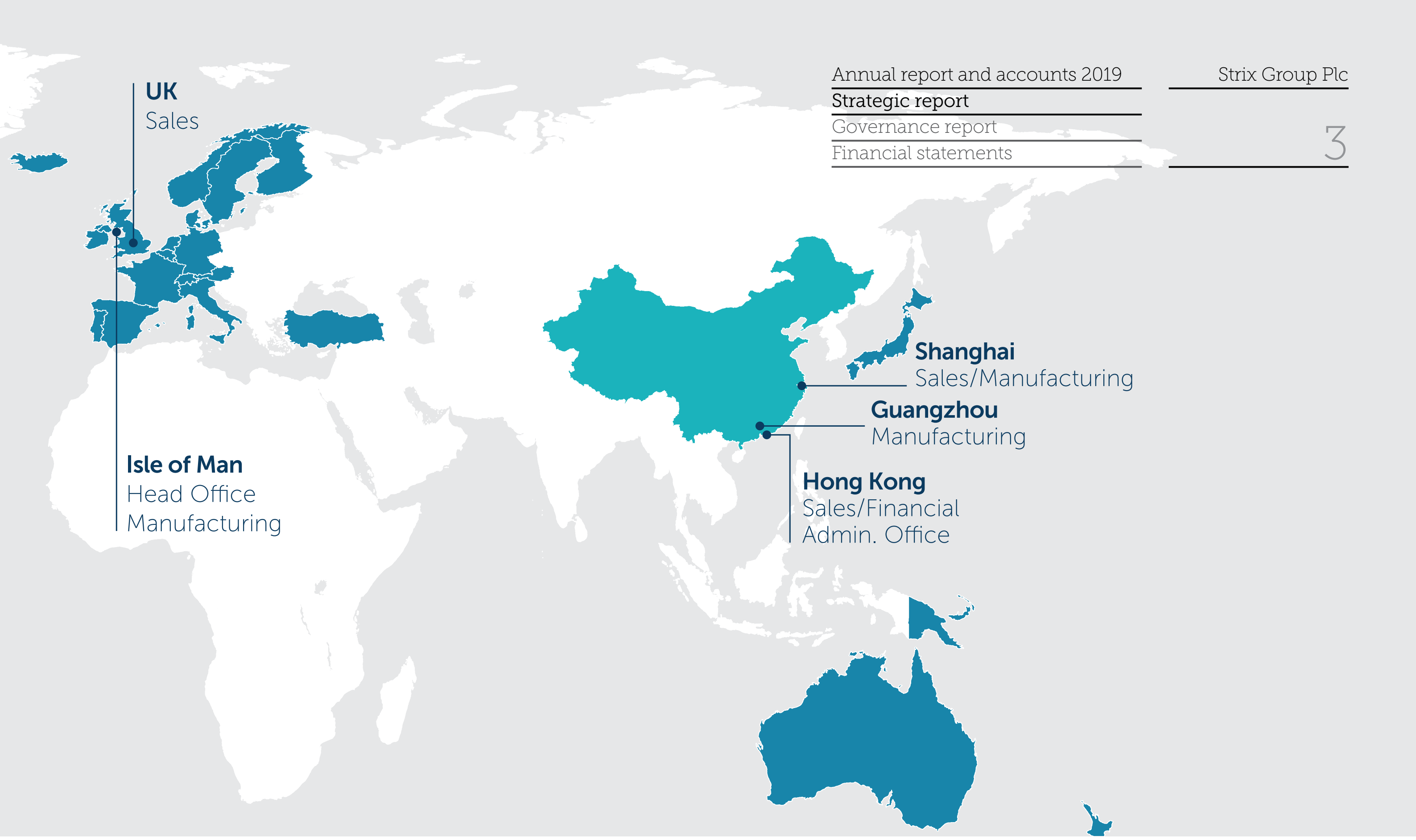
Innovative

Appliance category

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

Strix's research & development team is continually focussed on delivering product innovation within the appliance market, either through new technologies, new applications, or by adapting Strix's existing technology to meet consumer needs. Innovative controls technology within this category has enabled Strix to improve energy efficiency within its products.

We expect to launch a further five products within this category during 2020.



Dependable

Kettle controls

Strix's core products are safety controls for small domestic appliances, primarily kettles, which are responsible for disconnecting the power to heating elements at the point of boiling water.

Strix has positioned itself as the market leader in the Kettle controls market with c.54% of the market value share. Kettle controls make up the majority of our business, and we have established a strong reputation for dependable products that will achieve the highest level of performance while meeting all of the relevant safety requirements.

We expect to launch a further two products within this category during 2020.

Revenue split by category – 2019

- Kettle controls **2019: £85.79m** (2018: £83.51m)
- Water category **2019: £9.83m** (2018: £9.26m)
- Appliance category **2019: £1.25m** (2018: £0.99m)

Strix's long-term vision is to diversify its revenue streams across the three core categories. The Group's investment in R&D and new product launches across these categories reinforce the Group's ongoing focus in evolving Strix's revenue mix.

Chairman's statement

"I am pleased to announce that through the Group's stable business model and global presence, it has achieved another year of growth and profitability, despite the effects of continuing geo-political events."

Gary Lamb
Non-Executive Chairman

Revenue (constant currency basis)

+3.3%

2019: £96.9m
2018: £93.8m
2017: £91.3m

Adjusted EBITDA

+1.5%

2019: £36.9m
2018: £36.4m
2017: £35.1m

Introduction

As a result of strong cash generation, and following capital investments made, the Group has improved its net debt position to £26.3m (2018: £27.5m). This excludes the impact of IFRS 16 lease liabilities which was adopted for the first time from 1 January 2019.

The Group continues to execute its strategy for growth through its investment in research and development, automation, the construction of a new factory in China and through the strategic acquisition of HaloSource in March 2019. The Board is pleased with the integration and development of the acquired assets from HaloSource which have performed in line with expectation.

The Group promotes a culture of innovation which along with the manufacture of safe, reliable and high-quality products continues to make Strix renowned within the industry.

Kettle control market performance

I am pleased to report that the global kettle control market displayed value growth of c.3% inclusive of Chinese multi-cooker appliances. This is positive when compared to the c.2% average annual value growth experienced since 2016.

In conjunction with the growth in the global market, Strix maintained its value share in both the Regulated and Less Regulated markets at c.73% and c.34% respectively, while the Group's value share in the China domestic market increased to c.49%.

Financial performance

Revenue for the year reached £96.9m, a 3.3% growth on 2018 (1.8% growth on a constant currency basis) and I am pleased to report a 2.1% growth in adjusted profit after tax to £28.9m (2018: £28.3m). The Group presented a 1.8% increase in adjusted gross profit to £39.6m (2018: £38.9m) primarily as a result of the newly acquired HaloSource business which contributed an adjusted gross loss of £1.1m. Adjusted EBITDA increased 1.5% to £36.9m (2018: £36.4m).

Cash generation remains strong, with £34.4m net cash generated from operating activities, compared with £35.0m in 2018.

Impact of COVID-19

The Board is closely monitoring the development of COVID-19 and has put in place a number of preventative measures within the Guangzhou manufacturing facility. In order to provide a safe and healthy working environment for our employees, the Group has made medical supplies such as face masks, thermometers and sterilisers readily available. We have also used our newly acquired HaloSource product within the sterilisation zone at the factory entrance to enhance our preventative measures. Globally, the Group is adhering to the latest travel advice provided by the World Health Organisation.

The impact on Strix has thus far been limited with our Guangzhou manufacturing facility operating at 96% resource levels as at 18 March 2020, having only been closed for one extra week in line with government imposed policy to extend the mandatory Chinese New Year holiday. All of our top 20 largest OEM customers have resumed production and are continuing to increase capacity.

We expect the kettle control market to be resilient but we are closely following the effect on global consumer demand.

Dividend policy

The Board is proposing a final dividend of 5.1p per share following the 2.6p interim dividend paid in October 2019. This will bring the full year dividend to 7.7p, as indicated within the interim results announcement. The final dividend will be paid on 3 June 2020 to shareholders on the register at 11 May 2020 and the shares will trade ex-dividend from 7 May 2020. 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.

Board composition

I am delighted that, as of 18 March 2020, Richard Sells is appointed as a Non-Executive Director. Richard brings a wealth of advisory, operational and board experience developed over 30 years' working across multinational corporations, public companies, entrepreneur-led SME enterprises and private-equity backed businesses.

Annual General Meeting

The Group will host its Annual General Meeting on 28 May 2020 at 09:00 at our registered office at Forrest House on the Isle of Man.

Gary Lamb
Chairman

Governance code

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 re-issued QCA Corporate Governance Code Compliance statement was published on our investor relations website on 9 August 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.

Chief Executive Officer's statement

"Strix has continued to deliver on its strategic plans during 2019 which has strengthened the Group's position across its three product categories: kettle controls, water, and appliances."

Mark Bartlett
Chief Executive Officer

Adjusted profit before tax

+3.4%

2019: £30.2m
2018: £29.2m
2017: £28.3m

Final and interim dividend per share for the year

+10.0%

2019: 7.7p
2018: 7.0p
2017: 2.9p

Introduction

The Group maintained its market leading c.54% value share of the global kettle controls market whilst acquiring certain assets from HaloSource in March. In addition, construction of a new manufacturing facility in China has commenced and remains on target to be fully operational by August 2021.

Financial performance

The Group has delivered another solid performance driven by a 3.3% increase in revenue (1.8% on a constant currency basis) and a reduction in net debt ahead of market expectations. Excluding the newly acquired HaloSource business, adjusted profit before tax increased by 9.9% to £32.1m and adjusted EBITDA increased by 5.5% to £38.3m. The HaloSource business contributed an adjusted total comprehensive loss of £2.0m, which is in line with the Group's expectations at the time of acquisition.

The Group continues to demonstrate strong cash generation which has supported the payment of an increased dividend for 2019, a £1.0m reduction in the balance of the Group's revolving credit facility, and an increase of £8.9m in cash used in investing activities. This reflects the Group's commitment to undertake strategic projects that will drive future growth and profitability.

Kettle control category

Strix continues to hold a strong value share of the global kettle control market at c.54%, posting growth in the China Market segment and holding a stable position in the Regulated and Less Regulated segments. It is estimated that the value of the global kettle control market grew c.3% to c.£160m in 2019. It exhibits continued growth potential as global penetration of electric kettles increased to c.38% of households.

The overall value of the Regulated kettle control market was estimated to grow by c.2% to c.£70m. The key driver behind Regulated market growth was recovering performance in European (excluding UK) markets and ongoing growth in North America where both markets posted growth of more than 5%. Sector performance was held back by poor UK performance adversely impacted by market uncertainty resulting from Brexit. Strix maintained its value share at c.73% in the Regulated market.

In the Less Regulated market, Strix estimates that in 2019 the value of the kettle control market grew by c.4% to c.£59m, slightly ahead of the medium-term average annual growth rate. The key drivers behind Less Regulated market growth were Russia and Central Africa which both experienced growth of over 10%, whilst South Africa and the Middle East posted flat/negative growth.

In the Chinese market, Strix estimates that in 2019 the value of the kettle control market grew by c.2% to c.£31m, slightly lower than the c.3% medium-term average annual growth rate. The higher priced multi-cooker appliances continue to gain value share to c.26%, and Strix's share of this sector has grown to greater than c.35% (2018: c.18%) following successful commercial and legal actions in the last two years.

New product development

We have continued to focus product development on opportunities within the Regulated, Less Regulated and China markets that will strengthen Strix's position and support our market share aspirations.

To achieve this we have expanded our range of products within the successful U9 platform, and developed a variant of the new electronic kettle connector. This allows the Group to access the growing glass powerbase segment of multi-function kettles in both China and the rest of the world. In addition, we have developed variants of our P72 Adaptor, one targeted at the heavy-duty iron market and the other at lower-power milk frothers. We have also been engaging customers, primarily with products aimed at the Regulated market, to use Aqua Optima filters within their appliances, including one which will offer both boiling and chilled water. Finally we have been working on developments to extend the performance of the astrea filter.

We continue to use our strong relationships with key OEMs, brands and retailers, coupled with consumer research, to increase the focus on innovative products that will support our market share aspirations across all the product categories.

Throughout 2020, in line with our growth ambitions, we have 14 intended new product launches. The most notable impact being within our Water category, which across the three brands, will account for half of our launches. A further two range expansions are planned within kettle controls and five products will be launched within our appliance category.

Water category

The Group's water category has been further strengthened during 2019 through the acquisition of certain assets from HaloSource which now incorporates the Aqua Optima, astrea and HaloPure brands. The water category reported a 6.1% growth in revenue in 2019 which incorporates a 1.1% growth within the Aqua Optima brand which out-performed the 0.7% value growth in the UK filter and jug market.

The category is well placed to take advantage of its world-class R&D knowledge, which was further strengthened through the acquisition of HaloSource, to bring innovative and sustainable products to the market. The introduction of a category management team has strengthened the commercialisation of new technologies to ensure Strix obtains the greatest value out of its research & development activities.

The Aqua Optima brand is strategically positioned to take advantage of the market shift towards trade-brand filters through its product portfolio and partnership with a number of UK and global brands. The brand concluded a number of sales and partnership initiatives in 2019 which are expected to lead to expanded distribution opportunities into new markets.

The astrea brand acquired from HaloSource in March 2019 delivers safe drinking water to consumers through certified lead reductions. During 2019, the astrea team worked with a number of leading retailers within the US and completed a successful collaboration with AquaShield Health Technology Company Ltd to launch a new Philips co-branded water bottle globally outside of North America during 2020. In addition to our co-branded bottle, we intend to launch a further two products under the astrea brand during 2020, the next-generation astrea ONE bottle filter and a plastic astrea bottle.

The HaloPure brand also acquired from HaloSource, delivers safer water through patented bromine-based polystyrene beads that kill bacteria and viruses. During 2019, the HaloPure team focussed on new business development related to the sterilisation industry. The brand achieved positive testing results and strong interest from customers on the application of its products within the farming and medical sectors. The Group is currently seeking government approval for a sterilisation product license within China to support the long-term growth of this technology.

Appliance category

Strix has developed a portfolio of water, temperature and steam management technologies which have been commercialised in adjacent products and markets. The appliance category reported a 25.9% growth in revenue in 2019 and continues to be focussed on delivering product innovation within the appliance market, with a particular focus on baby care and 'hot water on demand'.

- The latest version of Tommee Tippee's appliance was awarded the Mother & Baby gold award for 'innovation of the year 2019', its volumes have now exceeded one million since the original product was launched.
- We signed a development agreement to launch two new products in 2020 with a leading Asian mother and baby brand.
- We launched the Zwilling Water Dispenser in April 2019 which uses our patented instant flow heater 'IFH' technology. This product was developed with one of our OEM partners and is being sold under the Zwilling brand across China as a hot and warm multi-function drinking water appliance. The benefit is that it can heat water to different temperatures, for different drinks.
- In Q3 2019, we launched the Mr. Coffee HotCup unit, designed as a pod-free single-serve brewer. The unit features Strix patented kettle-heating technology to heat water to the optimal brewing temperature and a water flow system and cone-style filtration to extract flavours.

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.

Operations review

Lean and continuous improvement initiatives have continued to be a key focus for Strix and as a result we have secured a 29% reduction to our customer quality ppm (parts per million) rate which includes a 4% reduction to our kettle control customer quality ppm, achieving another record low for the Group. The Group's culture of lean initiatives has achieved £0.2m of savings in 2019 from a total of 17 projects.

During 2019, 521 million parts were manufactured at our factory in Ramsey by a team of only 37 people. Total Quality Assurance Provider, Intertek, has awarded this facility, along with our Ronaldsway head office a 'Benchmark' score within all ISO categories. This represents the highest standards available within the scoring system which very few audited companies achieve. Our larger Guangzhou manufacturing facility also received exceptional results where four out of the six criteria were 'Benchmark' and the remainder 'Mature' which is considered a top industry ranking for this size of facility.

We continued to invest in production automation with further automated lines being specified and installed during 2019, with investment planned for 2020 to automate an additional five 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 value of our investment in automation is demonstrated through an improvement in the production efficiency of core kettle products by 5% to 98%.

The Group made significant progress during 2019 in its plans to relocate the manufacturing operations in China to Guangzhou's Zengcheng district. The Group completed and received government approval for the detailed designs of the factory and has signed a construction contract with Shanghai Installation Engineering Group Co. Ltd for £13.9m. During October, Strix senior management attended the foundation stone laying ceremony with the foundation pile driving process being completed by the end of December. The relocation of our manufacturing facilities in China will support the future growth ambitions of the business and enable the Group to maximise the economic benefit of our investment in automation. The Board is pleased to re-confirm that the construction project is on schedule to meet the August 2021 completion with costs in line with expectations.

Defence of intellectual property

We remain committed to consumer safety where we continue to initiate regulatory enforcement actions to remove unsafe and poor quality products from the market. Such actions have again been undertaken in 2019 resulting in product recalls and withdrawal of kettles from sale in Chile, Bulgaria, Sweden and Germany incorporating four European Rapid Exchange of Information (RAPEX) alerts – an all-time high. We continue to actively monitor the markets in which we operate for violation of our intellectual property rights and have again taken action to limit online sales in Europe of products that infringe our IP culminating in the taking down of 17 electronic kettles. Defence of intellectual property and regulatory enforcement remain core activities of our business and are vital in achieving the Group's growth potential.

Senior management team

During April 2019, we appointed Harry Kyriacou into the new role of Chief Commercial Officer. He brings a wealth of experience in commercialising and marketing new products that will support the next phase of growth within the business, particularly within the water and appliance categories. Strix has since introduced a category management team that will strengthen the commercialisation of our existing and new technologies.

Acquisition strategy

Strix is actively seeking opportunities that will add value across the Group through niche acquisitions or technologies. Acquisitions are subject to strict financial criteria and consistent with the Group's capital allocation priorities, to further enhance the Group's growth potential within the water and appliance categories.

Trading and outlook

The Board continues to work with the Group's management teams to deliver on our strategy to create value for our shareholders. In spite of continuing global volatility during the period driven by Brexit and US/China trade tensions, the Group delivered a solid performance in 2019 which demonstrates the strength of Strix's core business model.

In 2020 we continue to focus on our key strategic objectives which include the construction of the new factory in China, implementation of a new 'ERP' system and commercialisation of new products across all three categories.

Whilst there are a number of geopolitical and economic headwinds which could make 2020 challenging including Brexit, the impact of COVID-19, and the continued US/China trade tensions, the Board believes it has taken appropriate preparatory steps to mitigate the risk presented by these challenges. At present we expect that the majority of the impact will occur in H1, attributable to interruptions in global supply chains and global demand. Our profitability model strategically targets the second half of 2020, and as such is expected to provide some resilience against this uncertain backdrop.

The Group's manufacturing operations in China have recovered with a c.100% production capacity and operational supply chain which is sufficient to meet customer demand. The Board recognises that although we are entering unprecedented times, the Group's stable, recurring and resilient business model will help support the Group through the COVID-19 pandemic. The Group will continue to focus on a prudent allocation of capital and be vigilant about the broader implications of COVID-19 which will include daily monitoring of consumer and brand demand. As a result, the Group is working on several strategic self-help initiatives, including new products and efficiencies, to minimise the impact to the full year.

We will strive to maintain our market-leading share of kettle safety controls, and to grow our revenue streams within the water and appliance categories, by further diversifying 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. 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

COVID-19

Strix continues to closely monitor the situation with regard to COVID-19. The Group's manufacturing operations in China resumed production on 10 February (in line with Government policy for an extended Chinese New Year holiday) and reached 96% resource levels as at 18 March 2020. In addition, all of the Company's 20 largest OEM customers have now resumed production. We are extremely pleased by the performance of the team through a challenging situation and with minimal disruption to our production. The welfare of all Strix's employees remains the primary concern and pre-cautionary measures will continue for the foreseeable future in order to ensure we can continue to serve our customers.

As COVID-19 has spread globally, Strix has been closely monitoring the potential effect on demand. Strix's products have historically had limited correlation with short-term consumer confidence with kettles being seen by many as a household essential and repeat purchase. However, in the event of a fall in demand, the Board believes Strix has an appropriate balance sheet and procedures in place to capitalise and continue to serve its customers in the long-term.

Business model

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 market leading products for consumers across the globe.

Kettle controls

Our USP

Strix is unusual in that it has direct relationships with OEMs, brands and retailers within the kettle safety control supply chain. Using Strix's extensive market intelligence, 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 barrier to entry for competitors by ensuring that Strix controls are specified. Strix continues to enhance consumer safety through its involvement with standard-setting bodies and uses its in-house independently accredited stage 3 Customer Test Facility ("CTF") to streamline the kettle control accreditation process.

Long-term growth

Whilst Strix does already hold a strong market leading position, the Company believes there is still significant room for growth in the kettle control category. We aim to achieve this by adopting a split strategy approach across our three market segments: Regulated, Less Regulated and China. Within Regulated markets, our goal is to increase our share and average selling price through developing innovative new products with features our customers value. Strix has over three times more share in Regulated markets than the more fragmented Less Regulated segment, hence Strix aims to grow aggressively in this area. We will achieve this through leveraging our established partnerships with our OEM base, and by further expanding our StrixVQ product range and brand.

The China market continues to grow in volume and in diversity with consumers demanding new solutions in a marketplace where traditional products are being left behind. With this considered alongside the ever more competitive market, we intend to grow through a rigorous value based approach to product development and commercial execution with products based on trends at extremely competitive pricing. Strix believes its strategic investment in automation and process improvements will continue supporting its competitive advantage by increasing production efficiency and quality management throughout the manufacturing lifecycle, and mitigating the risk of rising wage costs.

Water category

Our USP

Strix progressed its offering within the water filtration and sterilisation market with the addition of HaloSource in March 2019. This complements Strix's existing product portfolio and provides access to world-class R&D knowledge and skills that support the culture of innovation within the Group. The water category continues to benefit from trade brand agreements with multiple large UK retailers, and brands. The business continues to increase consumer recognition for its three brands through partnerships with Parkrun, TerraCycle and strong multi-media campaigns. The category benefits from a diverse range of distribution channels including direct website sales which support the sale of new products into the market.

Long-term growth

The water category plans to maintain its competitive advantage by leveraging its R&D capabilities to bring innovative and sustainable products to the market. Furthermore, the category plans to penetrate new markets with its existing and new product portfolio to drive to future category growth.

Strix continues to invest in the growing trade brand segment which grew by 18% during 2019 and represented the fastest growing segment of the UK filter and jug market. The addition of the Evolve+ filter in 2020 that offers filtration speed and multi-fit compatibility will support growth within this segment during 2020.

The Group is also actively seeking acquisition opportunities within our core competencies that will add value across any and all parts of the Group.

Strix continues to invest in the growing trade brand segment which grew by 18% during 2019.

Appliance category

Our USP

Strix's mission within the appliance category is to develop products that allow consumers to live a safer, more sustainable and more convenient life at home. The principal aim being to take frustrations out of everyday tasks with a current focus on Hot Water on Demand, Baby Care, Beverage and Food Preparation. The use of Strix's innovative patented technology has allowed the Group to launch disruptive products within the appliance market, such as the Tommee Tippee Perfect Prep machine.

Long-term growth

The category will continue to utilise Strix's R&D capabilities to bring innovative consumer driven products to the market. This will include the use of Strix's unique Instant Flow Heater technology which is one of the only reliable elements on the market to offer 'true boil' performance, and the introduction of the Duality appliance which provides the market with the first significant kettle innovation since Strix's variable temperature control technology. Within the Baby Care sector, Strix's ambition is to become the 'go to' technical solutions partner to global Baby Care brands.

Strix's ambition is to become the 'go to' technical solutions partner to global Baby Care brands.

How we create value:

Strix:
Our business model 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 make strategic acquisitions and deliver an attractive return to our investors. Our global market coverage and number of product lines also provide a buffer against geo-political events, such as those experienced in 2019 and onwards into 2020.

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 the number of customers who have traded with us for ten years or more.

Employees
We treat our employees with respect and provide them with an environment in which product innovation can thrive. 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 for success and maximise their potential.

Suppliers
We work closely with our suppliers to build strong relationships that make doing business with us a long-term goal which brings value to 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.

Market review: kettle safety controls

Strix estimates that in 2019 the global market for kettle controls, including those for Chinese multi-cooker appliances, grew c.3% to c.£160m. This exceeds the c.2% annual value growth that the kettle control market has experienced since 2016.

Electric Kettle penetration rates provide an indicator of potential growth, and in 2019 Strix estimates global electric kettle penetration has increased slightly to around c.38% of all households.

By combining a culture of innovation with technical expertise established over the last three decades in the kettle control market, Strix continues to develop more cost effective kettle controls, whilst still achieving the highest standards of quality that routinely exceed 12,000 cycles in life endurance tests.

c.20%

Growth in Chinese (Multi Cooker) appliance market, doubling Strix's share value to 35%

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 2019 Strix estimates the value of the Regulated kettle control market grew by c.2% to c.£70m, in line with the medium-term CAGR. The key driver behind Regulated market growth was recovering performance in European markets and ongoing growth in North America where both markets posted growth of greater than 5%. Sector performance was held back by poor UK performance resulting from Brexit uncertainty.

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 Russia, the Middle East, South East Asia, Africa and South America. In 2019, Strix estimates the value of Less Regulated kettle control market grew by c.4% to c.£59m, slightly ahead of the medium-term CAGR. The key drivers behind Less Regulated market growth were Russia and Central Africa which both experienced growth of over 10%, whilst South Africa and the Middle East posted flat/negative growth.

China kettle market

China is generally considered to be a Less Regulated market, but is developing quickly with improving safety standards and enforcement. Overall, the value of the China kettle control market is estimated to have grown by c.2% to c.£31m, slightly lower than the c.3% medium-term growth rate.

The China domestic market continued to see growth in the higher priced multi-cooker appliances sector which gained value share to c.26% (2018: c.21%) of the China market. Strix's value share of this sector doubled to c.35% (2018: c.18%).

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 c.73% value share (2018: c.73%) of the kettle controls market.

Market share – regulated markets

c.73%

Less Regulated markets:

In Less Regulated markets, Strix maintained its value share at c.34% (2018: c.34%) of the kettle controls market. Growth in Underfloor share was offset by poor market performance in the South African Immersed sector.

Market share – less regulated markets

c.34%

China:

Our value share in China improved to c.49% in 2019 (2018: c.45%) due to improved performance in the multi-cooker appliances segment combined with maintaining our market leading position in controls for traditional kettles.

Market share – China

c.49%

Market review: water category

Following the acquisition of HaloSource, the water category has consolidated into a global team featuring a number of consumer brands including Aqua Optima, astrea and HaloPure.

With access to best-in-class technology, and a strong footprint in global markets, the Group aims to bring to market a portfolio of consumer products that 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.

The category is exploring the application of its newly acquired HaloPure technology within the sterilisation sector. The introduction of this technology as a precautionary measure within the Guangzhou facility's sterilisation tent reaffirms Strix's commitment to the health and safety of our workforce and the prevention of the spread of COVID-19.

Aqua Optima

The current Aqua Optima product range includes water filter jugs, and a range of other filters and appliances. Aqua Optima remains the number 2 brand in the UK market, leveraging multi-fit evolve filters to continue to offer a budget-friendly alternative to the leading brand. Sales and partnership initiatives concluded in 2019 are expected to lead to expanded distribution opportunities for Aqua Optima in new markets.

With a market shift towards trade-brand filter replacements, the Group has strategically positioned itself as a partner to a number of UK and global brands, providing them with multi-fit evolve filters that offer a wider addressable market than Strix's competitors. Aqua Optima grew its net sales by 1.1% during 2019 which outperformed a 0.7% growth in the total UK filter/jug market. During 2019, there has been a strategic shift within the UK market to online retailers which grew 17% compared to a 4% decline in traditional retailers and an increase of 18% in the trade brand segment.

Aqua Optima net sales growth 2019

1.1%

astrea

The astrea product range includes water bottles and filters that provide great tasting water with the benefit of providing a certified lead reduction. The brand continues to find traction in the US market through strategic distribution partners and direct consumer sales. The partnership with Aquashield to develop a Philips co-branded astrea ONE filtration bottle looks to expand this distribution globally outside the US market. In 2019, a contract was secured to supply astrea ONE bottles through the gifting channel, where the bottle is featured as a premium offering for corporate partners to offer to their employees and key customers. In 2019 an on-air segment featuring and selling the astrea bottle on a key home-shopping network was secured for H2 2020. The brand continues ongoing discussions with large US retailers for further placements in 2020.

HaloPure

The HaloPure product range includes patented bromine based filters that kill bacteria and viruses. The brand will continue to support key drinking water partners in China and with support from Strix's R&D department expand its technology into adjacent categories and markets. HaloPure's unique chemistry offers distinctive benefits within the sterilisation industry with specific applications being investigated within the pet, skincare and agricultural industries. The Group has received encouraging testing results from the application of this technology within the farming and pet market, with positive feedback from key brands within this marketplace. The Group is currently seeking government approval for a sterilisation product license within China that will support long term growth of this technology.

Market review: appliance category

The appliance category incorporates a number of products within the Hot Water on Demand, Baby Care, Beverage and Food Preparation markets.

Strix's mission within the category is to develop products that allow consumers to live a safer, more convenient, sustainable life at home.

The Hot Water on Demand market is gaining traction, with substantial growth in the China market due to increasing consumer demand for more convenient, modern appliances. Strix plans to capitalise on this trend initially through our Instant Flow Heater (IFH) offering, which has a unique 'true boil' USP and offers our customers the reliable quality and best-in-class performance for which Strix is renowned. Going forward we look to expand our IFH appliance footprint in China whilst developing and expanding our range of flow-through element technology. This will aim to capture the spectrum of consumer needs across different market price points.

Strix's first Duality appliance is also due to launch in Q4 2020; this innovative twist on kettle technology provides the market with the first real kettle innovation since Strix's variable temperature control technology – here the consumer benefits are convenience, speed and sustainability through water and energy reduction.

Baby Care continues to prove a resilient category valued at over £150bn worldwide. Here it is our ambition to be the 'go to' technical solutions partner to leading Baby Care brands seeking innovative new electrical appliances. Today we have a strong relationship with Tommee Tippee within the UK and going forward we have set plans in place to expand alongside strategic partners across key North American and Asian markets. A key highlight in Q4 2019 was gaining signature on a new product development contract with a leading Asian Baby Care brand. Strix expects to commercialise this innovative new product in Q4 2020.

Strix's addressable baby care market value is

£10m

Our strategy for growth

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

Strategic pillar

1 Build and maintain market share

2019 progress

Product: We maintained our market leading value share in the global kettle control market at c.54%, including a stable value share in Regulated at c.73% and Less Regulated at c.34%, and growth in China to c.49%.

Aqua Optima achieved a 1.1% growth in net sales which outperformed a 0.7% growth in the UK filter/jug market.

People: On 1 April 2019, we appointed a Chief Commercial Officer to strengthen the senior management team and to provide proven experience in developing and commercialising product ideas to market.

2020 outlook:

Product: The launch of the low-cost VQ control in 2019 is expected to gain further share in the Less Regulated market during 2020. The launch of a low-cost control for multi-cooker appliances in 2019 is expected to gain further share during 2020 in the China market.

The water category looks to launch 16 new products through 2021, enhancing our current product portfolio, and developing new product applications that continue to expand our category access.

Performance: Sales partnerships developed in 2019 are expected to lead to expanded distribution for the Aqua Optima and astrea product portfolio during 2020.

Risks

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 pg32-37

Strategic pillar

2 Focus on safety and quality

2019 progress

Performance: 2019 saw the Guangzhou facility achieve ISO "Benchmark" across four of the six identified categories and the Isle of Man achieve an ISO 'Benchmark' certification status across the six identified categories. This is the highest standard available within the scoring system which very few audited companies achieve.

The Group has continued its momentum in defending consumer safety and intellectual property rights through the recall of four kettles via the RAPEX procedure which all incorporated poor quality competitor controls and the removal from sale of a further five unsafe kettles.

In addition to these actions in Chile, Bulgaria, Sweden and Germany, further complaints in Switzerland, the Netherlands, and Argentina led to kettle models being converted to Strix controls.

Online retail outlets were again monitored across Europe and patent infringement claims brought against vendors where appropriate.

Process: We continue to invest in automation and refine our existing operations in order to protect customer safety by manufacturing and delivering high quality products. These enhancements have delivered a 29% improvement in customer quality ppm during 2019.

2020 outlook:

Process: Automation of a further five lines is planned for 2020 subject to consumer demand, helping to deliver our quality and efficiency targets as well as support our future capacity needs.

Performance: We will continue to engage in regulatory enforcement activities and, where appropriate, the defence of our intellectual property rights across all categories.

Risks

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 pg32-37

Strategic pillar

3 Explore new technologies

2019 progress

Product: Strix upholds a culture of innovation which supported the launch of a number of new products into the market during 2019. These products serve a variety of price points and include refining and improving existing products. During the year, this included an expansion of the technologies developed within the U9 platform, adding a dry-boil only range, and a new mini control targeted to access a range of smaller appliances. We also launched a next-generation electronic kettle control with additional functionality for Healthy Eating appliances, which shares some common features with the U9 platform.

Aqua Optima Launched the Lumi Chiller and a new version of the Evolve water filter during 2019. With the acquisition of certain HaloSource assets in Q1, this allowed the creation of a water category team based out of an R&D facility in Seattle, USA.

Finally, we launched two new appliances, an instant flow heater unit with Zwilling in China and a hot cup coffee machine with Mr Coffee in the US.

People: The Engineering headcount within the Isle of Man Head Office and Design Centre was increased by a further 20% during 2019, primarily within the R&D team.

Performance: During our May 2019 AGM, a new innovation lab was unveiled at the Isle of Man Head Office. The lab provides a creative space to develop new concept models and is equipped with our first Formlabs 3D printer which enables a shortening of the initial development cycle.

2020 outlook:

Product: During the second half of 2019 the Group spent time developing and updating our product roadmap strategies for our three main categories: kettle controls, appliances and water.

The Group will continue to deliver best-in-class products to the market through its global distribution channels. Within the kettle control category this includes range expansions to the U9 control series and a range expansion within electronic controls. In the water category this includes the launch of the next-generation astrea ONE filter bottle and Aurora filter water station. Within the appliance category this includes the launch of the Duality appliance, baby care steriliser dryer and introduction of the iKetl. A full list of product launches is disclosed within the product roadmap on page 26.

People: Strix has introduced the role of category managers to expedite the commercialisation of new products and technologies to support the next phase of the Group's growth. These new roles act as a direct link between engineering and sales to ensure that product specifications are clear and that sales have the tools to obtain maximum market potential out of current and future Strix technologies.

Risks

The risk of not exploring new technologies is driven by existing technologies becoming obsolete, either through the advancement of competitor technology or through changing consumer needs. This would lead to the Group having an insufficient product portfolio to meet market needs.

The relevant principal risks are:
- Competitors and market pressures
- Reputation with customer base
- Intellectual property.

For further risk information pg32-37

Capital Allocation Framework

Strix's Capital Allocation Framework is used to prioritise the use of cash generated by the Group. Our framework addresses the investment needs of the business, regular dividend payments and additional returns to shareholders. The framework also seeks to maintain an appropriate capital structure and a robust balance sheet.

Operating capital expenditure

The Group has invested heavily in production automation since IPO to increase production volumes, quality control, efficiency and reliability whilst managing to control rising labour costs in China.

Relocation of the current manufacturing facility will support the Group's strategy for growth with a significant increase in facility capacity.

Progressive dividend policy

In line with the communicated dividend policy, the Group declared a dividend growth of 10% from the dividend per share declared in 2018.

The Group has demonstrated a progressive dividend policy since IPO which demonstrates the Group's strong cash generation and high ROCE.

Value accretive acquisitions

In March 2019, we completed the acquisition of HaloSource, which added two additional brands to the Group's water category. The acquisition added significant research and development capabilities and commercial opportunities to the category which support the Group's sustainable investment proposition.

Conservative balance sheet

The Group operates a stable, recurring and resilient business model which benefits from high ROCE and a high proportion of cash in advance payment terms. This helps the Group to limit the risk of non-payment and working capital fluctuations.
The Group has available liquidity, consisting of cash and undrawn facilities, of £22.7m as at 18 March 2020. The Group has continued to improve its net debt (excluding the impact of IFRS 16 lease liabilities) to adjusted EBITDA ratio to 0.7x (2018: 0.8x).

Strix applied its Capital Allocation Framework during 2019 as follows:

- In 2019, the Group declared a final dividend of 5.1p per share following the 2.6p interim dividend paid in October 2019, bringing the full year dividend to 7.7p, representing a 10% growth from 2018. The Board has previously communicated its dividend policy is to increase the dividend in line with future underlying earnings.
- Paid US$1.3m for the acquisition of HaloSource, acquiring extensively developed technology and gaining access to skilled research and development resource in the USA, which complemented its water category.
- Construction contract for the new factory within Zengcheng district, China, for £13.9m. Total factory project is on target to be fully operational by August 2021 and remains on budget at the previously guided £20m.

Strix is committed to further investment in its capital projects which includes automation of a further five lines planned for 2020, subject to consumer demand.

Delivering our strategy: the IPO journey

Strix has made significant progress in delivering its strategy since the Group's initial listing on the AIM market in August 2017.

The Group made a number of key strategic decisions over this time which have supported the Group's growth and added considerable value for its shareholders from the initial £1.00 public offering.

The Group's focus on longer-term investment decisions and culture of innovation has supported the development of market leading patented technology that will support the future growth of the business.

Each of Strix's core categories has evolved considerably since the IPO with the following key changes:

Appliances

Following the IPO in 2017, Strix has placed a higher emphasis on the appliance category to derive enhanced value from its existing and new patented technologies. The category has worked with partners to launch a range of appliances into the market, including the Zwilling master water dispenser in China, the award winning Tommee Tippee Perfect Prep Day & Night, and the Mr Coffee Single Serve (Pod Free) Coffee Maker.

Following the introduction of a category management team, there has been increased focus on value based development directed toward consumer requirements and commercial execution. The ability to place long-term investment in this category has set the foundations for growth in years to come, with plans to launch 20 new products over the next three years.

Kettle controls

Strix has solidified its position within the global kettle control market to remain the market leading provider of kettle control components. The introduction of a number of key product series within this category has allowed Strix to penetrate new markets and provides customers with a 'good', 'better', 'best' classification that ensures Strix's products are aligned to customer needs and price points.

This includes the introduction of the U6 series control for electronic kettles in 2018 and the U9 range in 2017 which has already sold over 15 million units. The product portfolio continued to be enhanced through the launch of the StrixVQ range in 2019 which provides a lower cost alternative for the less regulated market. Over the next three years there are five planned product launches for the kettle controls category.

Within this period the Group remained focussed on defending its intellectual property with particular success within the China healthy eating kettle market which is supporting growth within this segment. Strix increased its focus on identifying the sale of copyists and unsafe kettles particularly for online sales. This led to a number of actions being undertaken that include product recalls, intellectual property enforcement raids, unfair competition claims, patent infringement claims and copyright claims.

Water

The water category has changed significantly since IPO partly driven by the acquisition of HaloSource in March 2019 which has expanded the category's product portfolio through the addition of the astrea and HaloPure brands. The successful integration of these brands into the water category and the combined strength of the category's R&D team will support the delivery of the Group's ongoing strategy.

Despite sustained political headwinds, the Aqua Optima brand has built its market share within the UK to become the number 2 brand within the UK market. During this time, Aqua Optima has entered into contracts with a number of leading UK retail brands to launch private label products and released a number of innovative products to the market, such as the Lumi Chiller.

The brand has also signed strategic partnerships with the Terra Cycle recycling initiative and parkrun to increase the reputation and sustainability of the brand.

The category is well placed to deliver its strategy for growth thanks to long-term investment decisions made from IPO to date and plans to launch 16 products by 2021.

Adjusted EBITDA 2019[1]

£36.9m

Adjusted EBITDA*

As a result of the Group's strategic decision making since IPO, Strix's adjusted EBITDA has increased from £35.1m in 2017 to £36.9m in 2019.

Total dividend per share

+10.0%

Increase in dividend per share

As a result of the Group's high ROCE the Group declared a dividend per share growth of 10% in 2019. This demonstrates the Group's commitment to its progressive dividend policy since IPO.

Net debt 2019[2]

£26.3m

Reduction in Net Debt*

As a result of strong underlying cash generation the Group has reduced its net debt position from £45.9m in 2017 to £26.3m in 2019. This strong cash generation supports the Group's strategy for making long-term investment decisions and seeking acquisition opportunities.

1 Excluding the acquisition of HaloSource Inc. assets.
2 Net debt excludes the impact of IFRS 16 lease liabilities which was adopted from 1 January 2019. As at 31 December 2019 IFRS 16 lease liabilities equated to £4.5m.

Key strategic decisions

Land and factory

During 2018, the Group undertook a review of its existing manufacturing facilities with the outcome being to purchase land and construct a new factory within Guangzhou's Zengcheng district. The relocation of the current manufacturing facility will support the Group's strategy for growth with a significant increase in facility capacity. During 2019, the Group signed a construction contract with Shanghai Installation Engineering Group Co. Ltd for RMB 128m and concluded the detailed designs of the factory which have been approved by the local government. The project is on schedule to be fully operational by August 2021.

Acquisitions – HaloSource Inc. Assets

The acquisition of HaloSource in March 2019 for US$1.3m represented an opportunity to acquire extensively developed technology at an attractive price. This provides the Group with access to skilled research and development resources in the USA which complement Strix's existing Aqua Optima business.

The acquisition included two technically advanced water purification/sterilisation technologies represented by the astrea and HaloPure brands. These technologies will drive future growth in markets outside of the UK where Strix currently holds 20.9% market share.

The HaloSource Inc. acquisition will support growth in the global water filtration market with retail value estimated to be over c.£8bn, with key markets valued at c.£3.0bn[1]:

- **£0.3bn** Europe
- **£0.5bn** Latin America
- **£1.0bn** China
- **£1.2bn** North America

1 Market data sourced from Baytel Report (2015), Mintel Report (2018), GFK Data & Strix analysis.

astrea

Premium filtering water bottle certified to reduce 23 contaminants including lead, pesticides, antibiotics and pharmaceuticals.

The astrea product range includes consumer water bottles and filters designed to provide great tasting water while benefiting from certified contaminant filtration. The filters have recently been re-certified with 50% more capacity (30 gallons) and now cover a wide range of emerging contaminants including hormones.

The brand continues to find traction in the US Market through strategic distribution partners aided by Strix's global presence and strong brand reputation.

KEY POST ACQUISITION HIGHLIGHTS:

- Secured a global partnership with Aquashield to develop a Philips co-branded bottle for distribution outside the US marketplace.
- Secured an on-air segment of a key home-shopping network for 2020.
- Contract with the gifting channel offering corporate partners and key customers with astrea ONE premium water filtration bottles.
- Continuous innovation supported by Strix's extensive R&D team to provide three new products in 2020; a next-generation astrea One bottle filter, a plastic astrea bottle and a Philips co-branded astrea bottle.

HaloPure

Patented bromine-based technology that kills bacteria and viruses.

HaloPure has continued to support key drinking water partners in China while exploring the technology's distinctive benefits within the sterilisation industry. With support from Strix's R&D team, the Group is investigating specific applications of the HaloPure technology within the pet, skincare and agricultural industries.

KEY POST ACQUISITION HIGHLIGHTS:

- Positive testing results on the application of the HaloPure technology within the poultry farming market.
- Implementation of the HaloPure technology within Strix's Guangzhou manufacturing facility specialist sterilisation tent, used to combat the spread of COVID-19.
- Application currently underway for government approval as a sterilisation product within China.

Financial Highlights

The HaloSource business has contributed an adjusted total comprehensive loss of c.£2.0m in 2019 which is in line with the Group's expectations at the time of acquisition.

The Board continues to seek strategically compelling acquisition opportunities which further complement the existing product portfolio and R&D capabilities.

Automation

The Group has invested heavily in production automation since IPO to increase production volumes, quality control and reliability, whilst mitigating rising labour costs in China. This is highlighted through the improvement in customer quality ppm which reduced to 555 in 2019.

Strix's strong automation plan for the China sites will seek to introduce new automated lines to generate additional manufacturing capacity, allowing the Group to manage increased production volumes until the new manufacturing facility is complete in summer 2021.

An additional five lines are expected to be automated in 2020 subject to consumer demand, which would take the total to over three-quarters of the current lines. We continue to examine the operational and financial benefits of automating further lines.

Continuous improvement initiatives in our manufacturing processes are a key focus to improve 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 +29% improvement in quality ppm for 2019 as a result of this.

Due to improvements in automation and other measures undertaken to reduce manufacturing costs, reported gross profit[1] has increased by 4.4%.

1 Excluding the acquisition of HaloSource Inc. assets.

Due to improvements in automation and other measures undertaken to reduce manufacturing costs, reported gross profit[1] has increased by

+4.4%

1 Excluding the acquisition of HaloSource Inc. assets

15m

Number of U90 series controls sold to date

+80%

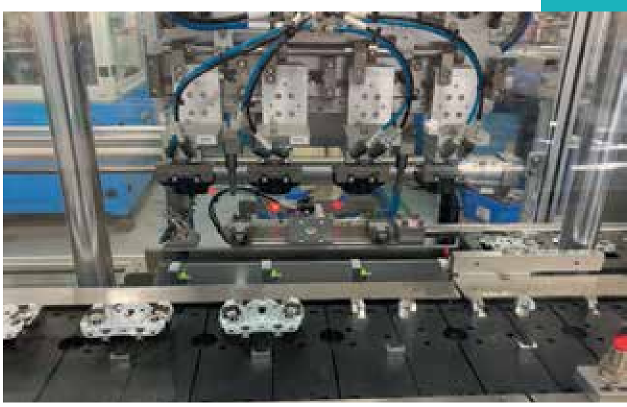
New U90 Automation line achieved 80% labour and 85% machine efficiency

+29%

improvement in customer ppm quality results from 2018

75%

The Group expects 75% of lines to be automated in 2020



Key performance indicators

Financial KPIs

Kettle control revenue (£000)

2019	85,799
2018	83,514

+2.7%

Definition
Kettle controls revenue is the value of items sold during the year within the kettle controls category.

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2019 performance
Globally the kettle safety controls market, including Chinese multi-cooker appliances, was estimated to have grown by c.3% to £160m in 2019.

Adjusted EBITDA[2,3] (£000)

2019	36,903
2018	36,351

+1.5%

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

2019 performance
Adjusted EBITDA increased by 1.5% (2018: 3.5%) to £36.9m. HaloSource which was acquired in March 2019 contributed an adjusted EBITDA loss of £1.4m which was in line with management's expectations. The Adjusted EBITDA increase excluding the HaloSource acquisition was 5.5%.

Adjusted gross profit[2] (£000)

2019	39,167
2018	38,918

+1.8%

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

2019 performance
Adjusted gross profit increased by 1.8% (2018: increased by 4.7%). Excluding the acquisition of HaloSource, adjusted gross profit increased by 4.7% as a result of further efficiencies and cost savings.

Net cash generated from operating activities

2019	34,360
2018	34,956

-1.7%

Definition
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.

2019 performance
In spite of increased expenditure on land and factory, automation expenditure and the acquisition of HaloSource in 2019, cash conversion remains strong as a result of the Group's stable, recurring and resilient business model, showing a decrease of only 1.7% (2018: increase of 3.4%).

1. www.wisecampaign.org.uk/statistics/2019-workforce-statistics-one-million-women-in-stem-in-the-uk/
2. Adjusted results exclude exceptional items, which include share based payment transactions and other reorganisation and strategic project costs. Adjusted results are non-GAAP metrics used by management and are not an IFRS disclosure. A table which shows both Adjusted and Reported results is included in the Chief Financial Officer's review.
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.

Total R&D expenditure (£000)

2019 4,439
2018 3,820

+16.2%

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

For further strategy information pg16

2019 performance
Total R&D expenditure has continued to grow by 16.2% as a result of the acquisition of HaloSource for c.£1.0m in 2019, adding significant R&D capabilities displaying our commitment to investing in new technologies to deliver future growth.

Non-Financial KPIs

Gender diversity

2019 19.5%
2018 18.2%

+1.3%

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

2019 performance
Our percentage of women in management roles across the Group was 19.5% (2018: 18.2%), a further increase from 2018. This compares favourably with the 2019 UK statistic indicating that women in management roles across all science, engineering and technology roles reduced to 14% (2018: 14.8%)[1].

Energy usage per head

Oil

2019 283
2018 363

-22.1%

Electricity

2019 3,830
2018 4,871

-21.4%

Definition
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.

2019 performance
Energy usage per head has further decreased at our Isle of Man Head Office during the year where headcount increased by 27.5% (2018: 12.2%). We intend to extend our energy recovery system to the entire head office building during 2020 which will further reduce our heating oil consumption.

New products roadmap

Strix continues to invest in its R&D capabilities to deliver innovative new technology into each of its core categories. The Group is focused on delivering products that meet consumer needs at a variety of price points and functionality levels. The introduction of a category management team will support the commercialisation of new technologies to ensure Strix obtains the greatest value out of its research & development activities.

Kettle controls

2019

StrixVQ product & brand launch

U68 electronic control

U7 kettle control

Mini U9 kettle control

2020

Range expansion for the U9 control series

Range expansion for the electronic control series

2021

Range expansion for the StrixVQ control series

Next-generation control series

Water category

2019

Lumi filter water chiller

Amazon basics filters

Private label branded filters

2020

Next-generation astrea ONE bottle filter

Plastic astrea bottle

Philips co-branded astrea bottle

Evolve+ multi-fit filter

Next-generation China market filter

Next-generation anti-bac filter

2021

Outdoor/travel bottle

Next-generation filter jugs

Glass filter carafe

Next-generation evolve filter

New filtering appliance

Appliance category

2019

Mr Coffee Hot Cup coffee machine

Instant Flow Heater appliance for China market

2020

Duality

Steriliser-dryer

New design for Instant Flow Heater appliance

iKetl

Aurora water station

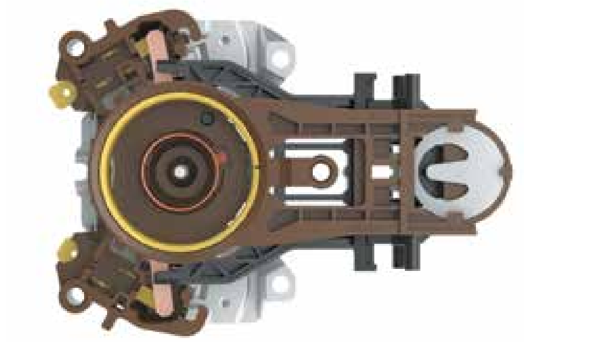
2021

Range expansion for the Duality appliance

Baby Care milk preparation appliance

Baby Care sterilisation appliance

Next-generation Instant Flow Heater



StrixVQ control series

Delivered in 2019

The StrixVQ kettle control range stands for value and quality. The range provides a reliable solution to customer needs within the less regulated market.

Aurora water station

Delivering 2020

Initially launching under the Aqua Optima brand and powered by Strix Instant Flow Heater technology, the Aurora delivers auto-dispensing hot, boiled and chilled filtered water at the touch of a button. It features Evolve+ five-stage filtration, and with 49 size and temperature select combinations, delivers the perfect temperature drink every time.

Aurora is part of a continued expansion of the Aqua Optima portfolio, focused on delivering budget friendly water filtration solutions that are powered by best-in-class Strix technology.

Steriliser-dryer

Delivering 2020

Strix is due to launch its patented steriliser technology this year with a leading Asian Baby Care brand. This technology offers a strong unique selling point in comparison to other current market offerings.

Strix Investment case

Dominant market position in global kettle controls

- Diversified across a wide variety of geographies and component specifications.
- Component of choice in Regulated markets with 73% market value share (2018: c.73%).
- Maintained stable position in the Less Regulated Markets with strong opportunity for growth, given c.34% (2018: c.34%) of market value share.
- Growing position in the China markets with c.49% (2018: c.45%) of the market value share.
- Experienced R&D team able to develop targeted specifications for each market with the ability to produce higher quality products than competition through operational scale and excellence.

Market leading adjusted EBITDA margin of 38%

- Extensive patent portfolio underpins margins with targeted campaigns to report infringements and remove copyists from the market.
- Significant investment in factory automation resulting in scope to deliver further EBITDA margin uplift.
- Increasing appliance product mix, further boosting margin as these are typically more complex and expensive components.

Strong free cash flow generation with unique working capital cycle

- Customers typically pay in advance, reducing non-payment risk and increasing cash conversion cycle.
- Low requirement for maintenance capex (excluding investment in new factory).
- Operating free cash flow (before financing and tax) to EBITDA conversion of 67% (2018: 89%). Reduction driven by Strix's continued investment in manufacturing and development assets to support future strategic growth.

Organic growth opportunities in new markets and in the Water and Appliances categories

- The Russian and the Baltics' kettle markets have recovered strongly over the last few years, and Strix's volume share of sub 15% still presents significant opportunities for share growth. In the US, Strix's volume share growth is significantly stronger at c.70%, but there remains significant upside from a market which only has a kettle penetration of around 14% of households, in spite of the market growing at a CAGR of 10%.
- Ability to leverage off existing technology portfolio to grow in a global water filtration market estimated to have a retail value over c.£8bn[1] and in the Appliance markets, where the Baby Care segment alone is valued at over £150bn worldwide.

1 Market data sourced from Baytel Report (2015), Mintel Report (2018), GFK Data & Strix analysis.

High barriers to entry and defence of copyist components

- Patent portfolio underpins Strix technologies with successful campaigns globally (including China) to remove infringing products and initiate regulatory enforcement actions.
- Unique relationships with brands, OEMs and retailers to provide support across the value chain and throughout the product lifecycle, including product design and advice on specification and manufacturing solutions. These value-added services and existing strong relationships ensure brands and retailers support the use of Strix components.

Scope for selected inorganic expansion to enhance IP portfolio

- Acquisition of HaloSource in 2019 added extensively developed technology which complements the water category at an attractive price.
- The Board continues to seek strategically compelling acquisition opportunities which further complement its existing product portfolio and R&D capabilities.

COVID-19: Crisis response, recovery and protection

On 30 January 2020, a Public Health Emergency of International Concern was declared by The World Health Organisation (WHO), and subsequently characterised as a pandemic by mid-March 2020.

The coronavirus outbreak is continuing to severely impact people, society and industries globally. Strix continues to pro actively respond to the evolving outbreak, implementing precautionary measures to keep its people healthy, ensuring that the workplace is safe and to preserve cash.

Strix continues to assess the impact of COVID-19, from both an operational and financial standpoint. Regular communication between the senior leadership team enables the Group to act decisively to mitigate actual or potential risks as they arise.

The Group's manufacturing operations in China have recovered with a 100% production capacity and a fully operational supply chain which is sufficient to meet customer demand.

The Group will continue to focus on a prudent allocation of capital and be vigilant about the broader implications of COVID-19 which will include daily monitoring of consumer and brand demand. As a result, the Group is working on several strategic initiatives, including new products and efficiency measures, to minimise the impact to full year forecasts.

Strix's Community

COVID-19 Commitment

Engineering and manufacturing businesses based in the Isle of Man have been stepping up to support the local and international response to the COVID-19 pandemic. Businesses have been turning their expertise to designing and producing essential medical equipment to fight COVID-19.

Strix has contributed direct engineering and manufacturing support to the Isle of Man's hospital, including 3D printing of medical components and testing of face masks. In addition, we worked on the Charlotte Valve project, which builds on work started in Italy to enable full-face snorkel masks to be converted for use as emergency respirator masks during times of critical demand.

Provided support for the Isle of Man Government identifying parallel sourcing options to de-risk their supply chain for items of PPE using our trading contacts and compliance teams across the globe.

The Engineering department have been providing design expertise and technical support to the local government to manage the assembly of face visors to frames which were 3D printed by a community based project, led by crowdshield.im. Over 1,000 of these face visors have been used as a buffer while more PPE stocks arrive.

Strix's response

Strix's priority is the health and safety of its employees. The following precautionary measures were implemented with immediate effect:

1 Educate employees on COVID-19 symptoms and prevention

- Regular updates sent out to all employees providing education on COVID-19
- Reporting of daily COVID-19 impact assessments

2 Reinforce screening protocols

- High quality sanitisation products provided and accessible to all employees
- Minimisation of cross infection by appropriate workforce segregations within each site
- Professional cleaning of all sites carried out at increased frequencies
- Risk assessments conducted for all staff including mandatory daily temperature checks
- All staff within our Guangzhou manufacturing facility were required to enter the premises through a specialist sterilisation tent that uses HaloPure's patented technology

3 Prepare for increased absenteeism

- Expected absenteeism will increase following health screening protocols. Implementation of shared role responsibility to ensure no stoppages
- Issuance of laptops and remote working guidance

4 Restrict non-essential travel and promote flexible working arrangements

- All non-essential business travel suspended until restrictions are lifted and it is deemed safe to resume travel
- Employees, where appropriate, have been encouraged to work from home

5 Align IT systems and support to evolving work requirements

- Flexible workforce arrangements implemented with effective remote working policies in place
- IT systems and support aligned with latest work policies
- System stability, network robustness and data security have been addressed ensuring smooth operation

6 Prepare succession plans for key executive positions

- Key management geographically diversified
- Regular updates between the key executive team

7 Focus on cash flow

- Strong cash generation model which incorporates a high ROCE and high proportion of cash in advance payment terms limiting risk of non-payment and working capital fluctuations
- Group has available liquidity consisting of cash and undrawn facilities of £22.7m as at 18 March 2020

Risk management approach

Risk management and 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 (e.g. the Business Continuity Plan). The Board agrees the appetite for risk, and endorses that of the senior management team.

Ongoing monitoring

Identified risks included within the Risk Register are reviewed periodically by the senior management team, and at least annually by the Board. The review includes an assessment of each risk to address any changes in circumstance, a re-appraisal of the residual risk and the effectiveness of 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.

The Group is currently evaluating its risk monitoring software and expects to introduce a new reporting package during 2020 that will improve the quality and consistency of risk reporting.

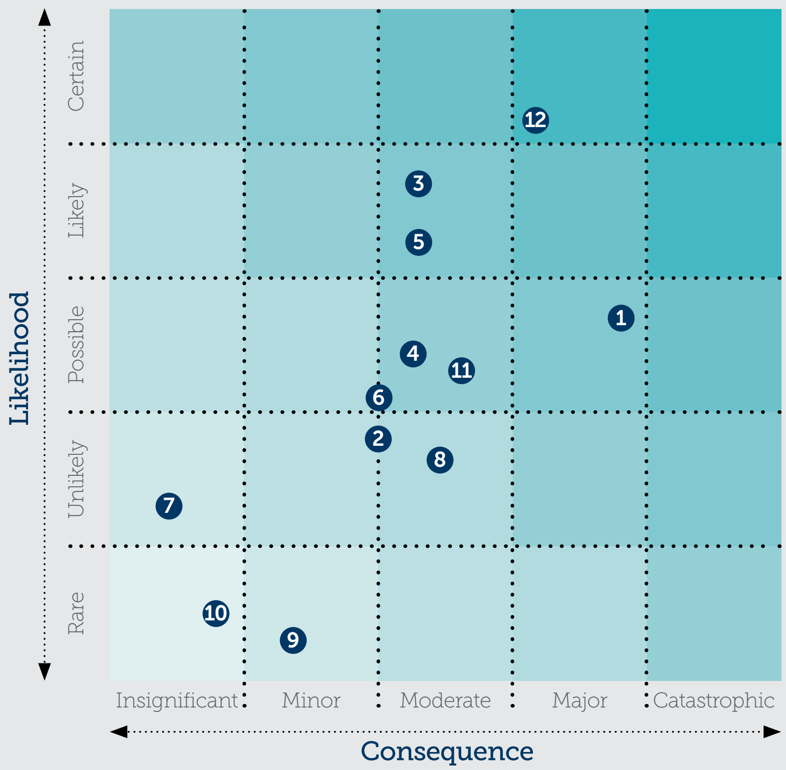
Risk appetite

To strengthen our competitive advantage and culture of innovation, the Board recognises that employees are encouraged to take considered risks that drive product innovation and support the growth potential of the business.

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

Principal risks are highlighted by a **bold typeface**, whilst less critical risks are highlighted in an *italicised typeface*.

Risk heat map



Identify risk

The risks identified in the heat map above highlight those which could have the greatest impact on the Group's operations and viability.

1. **Reliance 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**
12. **COVID-19**

Principal risks

Increase Decrease No change

Risk	Impact	Mitigation	Movement
Strategic risks			
Reliance 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.58% of the Group's revenues in the financial year ended 31 December 2019 (2018: c.57%), with the largest customer making up c.22% (2018: c.18%) 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 would be 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 operates 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 specific 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

Increase Decrease 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 has put in place appropriate steps to mitigate the impact of this. However, a significant change in the cost of certain raw materials, particularly silver and copper, if sustained for a prolonged period may increase our material costs without necessarily allowing a corresponding increase in the sales price of our products, which could affect the Group's margins and ultimate profitability. Any change in the costs of operating the Group could impact on the Group's profitability. Such cost increases could be incurred from increments in supplier costs (including, amongst other things, raw materials and energy costs, particularly electricity costs), employment costs or wage inflation, or increases in costs to be incurred due to regulatory change. Although such costs are accounted for, where these can be estimated, in future budgets for the Group, not all cost increases are capable of being estimated adequately in advance.	• We have undertaken a number of automation projects to mitigate the risk of labour cost inflation and reduce the costs of production wherever possible, particularly in China where the majority of our manufacturing employees are located. • Careful management of our variable and fixed cost bases. • 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 2020 prices already secured.	No change
External factors	We continue to monitor the ever changing political landscape with particular focus on Brexit in the UK and the US/China trade tensions. The potential trade implications of Brexit are relatively unknown, especially for the Isle of Man, until the final position is agreed. In the case where the UK exits the EU without a trade deal there may be some disruption to our supply chains. Given the Group's primary customers are kettle OEMs located in China, the disruption is expected to be relatively muted. Due to the large degree of uncertainty and volatility in discussions, the Group is actively monitoring these situations and continues to review the Group's risks.	• 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.	No change

Risk	Impact	Mitigation	Movement
Financial risks			
Foreign exchange risk	The Group has a natural hedge in place as our sales and costs are generally balanced across the various currencies in which the Group operates. Following the acquisition of HaloSource in March 2019 the Group's currency exposure has increased due to the consolidation of foreign subsidiaries into the Group. The Group's payments and receipts are predominantly in Sterling, US Dollars and Yuan 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. In particular, in the PRC, the taxation laws are complex and subject to change, which may reduce the returns available to investors in the future.	• We actively monitor changes in the direction of legislation and regulation in China, where the highest risk of change exists. • A formal taxation review on our China operations was undertaken in 2018 in order to understand potential future changes and to put in place mitigating actions where appropriate. Following the review, Strix converted its contract processing model to an import processing model during 2019.	v

Increase Decrease No change

Risk	Impact	Mitigation	Movement
Operational risks			
Impact of COVID-19	With the outbreak of COVID-19 reaching pandemic status in 2020, Strix is continuously monitoring the impact of the outbreak on the Group, from both an operational and financial standpoint. The Group currently manufactures the majority of its products at its main manufacturing facility in Guangzhou, China. From an operational standpoint if the COVID-19 outbreak is contracted by employees within our factory, this could lead to disruption within the manufacturing cycle and ultimately lead to capacity constraints in meeting customer demands. The Group has already been affected by the closure of its manufacturing operations in China for one extra week following the government imposed policy to extend the mandatory Chinese New Year holiday. Any major disruption will put global supply chains at risk and could impact our ability to meet customer demand due to shortages/downtime further down our supply chain and furthermore interrupt outbound logistics options.	• The Group has put in place a number of preventative measures emphasising workplace hygiene, including making medical supplies such as face masks, thermometers and hand sanitizers readily available. • The Group has been sterilising its Guangzhou manufacturing facility on a daily basis. • The Group has created an emergency response team and released guidance to all employees stipulating best practices and mitigating the spread of misinformation. • The Group has suspended all non-essential business travel until restrictions are lifted and it is deemed safe to resume travel. • The Group has used its newly acquired HaloSource product within the sterilisation zone at the factory entrance to enhance its preventative measures. • The Group has aligned IT systems to support evolving working requirements. • The Group has prepared for increased absenteeism by instigating a 'Hire Incentive Plan'. This referral incentive is for our workforce to recommend close associates to join Strix.	
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. • A small temporary factory has been rented to support business capacity needs until the end of the current factory lease.	

Risk	Impact	Mitigation	Movement
Operational risks			
New factory project	During 2018, the Group undertook a review of its existing manufacturing facilities. The outcome of this review was to proceed with a planned purchase of 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 internally 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. • A robust project plan with suitable contingency planning has been created. The project team is pleased to confirm the project is progressing on schedule. • 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.	
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.	
Compliance risks			
Intellectual Property	The Group relies on a combination of patents, design registrations, 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 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.	

Chief Financial Officer's review

"Adjusted profit after tax increased to £28.9m (2018: £28.3m), an increase of 2.1%"

Raudres Wong
Chief Financial Officer

Adjusted earnings per share

+2.1%

2019: 15.2p
2018: 14.9p
2017: 14.5p

Net debt*

+4.1%

2019: £26.3m
2018: £27.5m
2017: £45.9m

* Net debt excludes the impact of IFRS 16 lease liabilities which was adopted from 1 January 2019. As at 31 December 2019 IFRS 16 lease liabilities equated to £4.5m.

Financial summary

	Adjusted results[1]			Reported results		
	2019 £m	2018 £m	Change %[5]	**2019 £m**	2018 £m	Change %[5]
Revenue	**96.9**	93.8	+3.3%	**96.9**	93.8	+3.3%
Revenue – constant currency basis[2]	**95.4**	93.8	+1.8%	**95.4**	93.8	+1.8%
EBITDA[3]	**36.9**	36.4	+1.5%	**29.6**	31.3	-5.4%
Gross profit	**39.6**	38.9	+1.8%	**39.4**	38.9	+1.4%
Operating profit	**31.5**	30.9	+2.2%	**24.2**	25.8	-6.1%
Operating profit – excluding the acquisition of HaloSource	**33.4**	30.9	+8.3%	**26.3**	25.8	+2.0%
Profit before tax	**30.2**	29.2	+3.4%	**22.9**	24.1	-5.2%
Profit after tax	**28.9**	28.3	+2.1%	**21.5**	23.2	-7.1%
Total comprehensive income	**28.8**	28.3	+1.7%	**21.4**	23.2	-7.7%
Net debt[4]	**26.3**	27.5	+4.1%	**26.3**	27.5	+4.1%
Net cash generated from operating activities	**34.4**	35.0	-1.7%	**34.4**	35.0	-1.7%
Basic earnings per share	**15.2p**	14.9p	+2.1%	**11.3p**	12.2p	-7.1%
Total dividend per share	**7.7p**	7.0p	+10.0%	**7.7p**	7.0p	+10.0%

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 2019 revenue restated at the exchange rates prevailing in 2018, 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. Net debt excludes the impact of IFRS 16 lease liabilities. This standard was adopted from 1 January 2019.
5. Figures are calculated from the full numbers as presented in the consolidated financial statements.

Financial performance

Revenue for 2019 has risen by 3.3% to £96.9m as a result of maintaining market value share in a growing market, the acquisition of HaloSource in March 2019 which contributed £0.5m of revenue, and the weakening of Sterling against the Dollar. As a consequence, revenue growth on a constant currency basis was 1.8% and gross profit has increased by £0.5m (+1.4%). This incorporates a gross loss of £1.2m relating to the acquisition of HaloSource. Gross profit margin has further increased from 41.5% to 42.1% excluding the acquisition of HaloSource.

Adjusted EBITDA increased to £36.9m from £36.4m, representing a 1.5% increase. Excluding the acquisition of HaloSource, adjusted EBITDA increased 5.5% to £38.3m. Adjusted EBITDA is defined as profit before depreciation, amortisation, finance costs, finance income, taxation, and exceptional items including share based payments.

Adjusted operating profit showed an increase of 2.2% to £31.5m (2018: £30.9m) due to lower amortisation being reported (2019: £1.3m; 2018: £2.3m). This has been offset by an increase in fixed salary costs partially driven by the acquisition of HaloSource during the year.

The Group's reported operating profit was £24.2m (2018: £25.8m) which represents a decrease of 6.1%, primarily due to incurring an operating loss of £2.1m in relation to the newly acquired HaloSource business offset by a £0.5m increase in operating profit for the remaining business.

Adjusted profit before tax increased to £30.2m (2018: £29.2m). Excluding the newly acquired HaloSource business the adjusted profit before tax increased by 9.9% to £32.1m. Interest on the revolving credit facility decreased by £0.4m to £0.9m following a reduction in the facility amount from £41.0m to £40.0m and a reduction in the applicable interest rate.

The Group's reported profit before tax was £22.9m (2018: £24.1m).

Adjusted profit after tax increased to £28.9m (2018: £28.3m), an increase of 2.1%, as a result of an increased tax charge representing an effective tax rate of 4.4% (2018: 3.2%) of the Group's adjusted profit before tax. This is following a change in tax basis from contract processing to an import processing model in China during 2019. The Group's reported profit after tax was £21.5m (2018: £23.2m).

Adjusted diluted earnings per share and reported diluted earnings per share were 14.2p (2018: 14.2p) and 10.6p (2018: 11.6p) respectively. This is a result of the weighted average number of diluted shares increasing during 2019. Basic earnings per share were reported at 11.3p (2018: 12.2p), and adjusted for exceptional costs were 15.2p (2018: 14.9p).

Capital expenditure and capitalised development costs

Tangible assets had additions to net book value of £18.8m in 2019, compared to £5.0m in 2018. This includes £6.7m (2018: £0.2m) of capital expenditure under construction, £5.7m (2018: £nil) of right of use assets following the adoption of IFRS 16 on 1 January 2019, £2.7m (2018: £2.7m) of plant and machinery, £2.0m (2018: £nil) of land, £0.9m (2018: £1.4m) of production tools and £0.8m (2018: £0.6m) of fixtures and fittings. This demonstrates Strix's continued investment in its manufacturing and development assets to support our strategic growth objectives.

Intangible assets had additions to net book value of £3.2m (excluding goodwill) in 2019, compared to £1.9m in 2018. This includes £2.4m (2018: £1.8m) of capitalised development costs relating to our R&D investment, £0.3m (2018: £0.1m) of software and £0.5m (2018: £nil) of intellectual property rights which have been separated into a new asset class in 2019.

Share based payments

The total charge incurred in the consolidated statement of comprehensive income in 2019 for share based payments was £5.9m (2018: £4.9m). The charge will reduce in 2020, once the tranche of IPO share options have vested. Some additional share awards were also granted during 2019 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 USD and RMB as it both generates revenues and incurs costs in these currencies. The impact of foreign exchange in 2019 is a loss of £0.3m (2018: gain of £0.1m). Despite significant currency fluctuations in 2019, the foreign exchange loss is equivalent to only 0.3% (2018: 0.1%) of revenue.

Taxation

The effective tax rate for the year is equivalent to 4.4% (2018: 3.2%) of the Group's adjusted profit before tax. During the year, in order to mitigate the risk of higher tax charges in the future, the Group changed its tax basis in China from a contract processing to an import processing basis.

Balance sheet

Property, plant and equipment increased to £25.5m (2018: £11.1m). Capital additions include £6.0m of assets and land use rights relating to the new factory in Guangzhou (2018: £nil), £5.7m of right of use assets following the adoption of IFRS 16 on 1 January 2019, and £4.4m of plant and equipment (2018: £4.8m). Depreciation increased to £4.2m (2018: £3.2m) as a result of the adoption of IFRS 16 which incurred £1.3m of right of use asset depreciation. Net intangible assets (comprising capitalised development costs, goodwill, software and intellectual property rights) increased by £2.3m (2018: decreased by £0.4m) driven by a £1.3m increase in capitalised development costs in line with the Group's strategic growth objectives.

Current assets increased to £32.5m compared to £31.3m in 2018 primarily due to a £1.3m increase in trade debtors at year end following an increase in December sales and a £0.7m increase in advances to suppliers. Inventory decreased by £1.0m following increased demand in the second half of the year. Cash and cash equivalents were broadly unchanged at £13.7m (2018: £13.5m).

Current liabilities increased to £21.2m (2018: £18.4m) primarily due to a £1.5m increase in future lease liabilities following the introduction of IFRS 16 on 1 January 2019. Trade and other payables increased by £1.0m to £17.8m (2018: 16.8m).

Cash flow and net debt

The net increase in cash and cash equivalents over the year was £0.6m (2018: £3.2m). This was primarily a result of an increase in dividend payments from £8.0m to £13.9m and an increase in the purchase of property, plant and equipment from £5.7m to £12.6m. Net cash generated from operating activities were down £0.6m in 2019 to £34.4m (2018: £35.0m) with net cash used in investing activities up £8.9m to £16.4m (2018: £7.5m) due to the acquisition of HaloSource; and the increased investment in both tangible and intangible assets.

Net debt (excluding the impact of IFRS 16 lease liabilities) has decreased from £27.5m in 2018 to £26.3m despite the acquisition of HaloSource and higher investment in capital expenditure. We expect the Group's net debt and leverage to increase due to continued investment in capital expenditure including the construction of the new factory in China. Including the impact of IFRS 16 lease liabilities, which was adopted from 1 January 2019, net debt has decreased to £30.8m.

The Group still has in place a revolving credit facility of £49.0m (2018: £53.0m) of which £40.0m (2018: £41.0m) remains drawn on the facility as at 31 December 2019. The Net debt (excluding the impact of IFRS 16 lease liabilities) to adjusted EBITDA ratio as at 31 December 2019 was 0.7x (2018: 0.8x).

Raudres Wong
Chief Financial Officer

Sustainable investing

The Group focuses its sustainable investment proposition through four core pillars: water filtration/cleanliness, reduction in the use of plastics, energy efficiency, and health and wellness.

Environmental impact

The Group is an environmentally conscious organisation, which minimises the impact of its operations on the environment. The Group fully complies with applicable legal and other compliance obligations, whilst at all times striving for best practice, specifically by maintaining an external approval to the ISO 14001:2015 standard. The Group is committed to continually investigating ways of improving its impact on the environment, which includes a strategic partnership with TerraCycle for recycling Aqua Optima filters and wherever practical, reducing, recycling and reusing our resources. A further example of this is the energy recovery system that we installed in our head office in 2018, which we are intending to extend to the entire building heating system in 2020 thereby reducing our heating oil consumption.

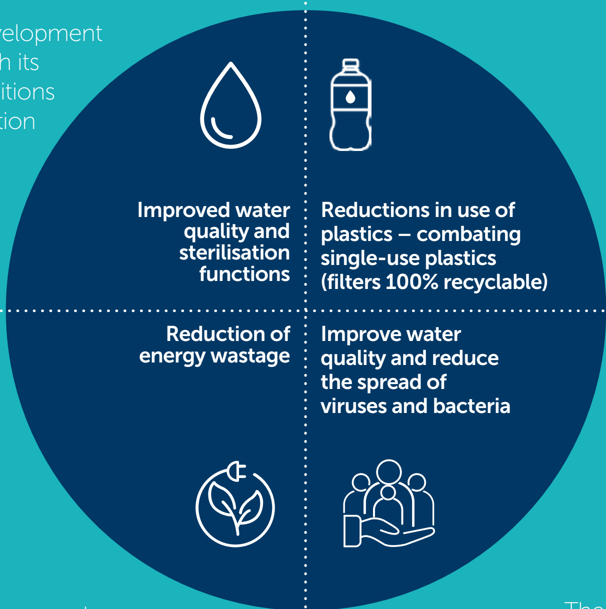
Water filtration/cleanliness

The acquisition of certain assets from HaloSource during the year has built on Strix's existing Aqua Optima brand to provide further innovations and technology that deliver improved water quality and sterilisation functions. The astrea ONE offers customers 'on the go' filtration technology that removes lead to the stringent NSF53 standard while HaloPure uses patented bromine-based technology that kills bacteria and viruses.

The expanded research and development team will support the Group with its new product development ambitions which includes the next-generation Anti-bacteria filter within the Aqua Optima brand.

Reduction in the use of plastics

The Group combats single-use plastics with its range of astrea One reusable water bottles and Aqua Optima water filtration jugs where the Aqua Optima filters are 100% recyclable in the UK and EIRE. Strix has further developed and launched a range of eco-friendly appliances which reduce the need for single-use products.



Energy efficiency

Strix's kettle controls reduce energy wastage through safety measures which disconnect the power supply to the heating element once water has boiled. In addition, the Group's innovative hot water on demand solutions allow users to boil and dispense only the water they require which addresses the £300m per year wasted on boiling excess water in the UK alone. The Group expects the investment in the new manufacturing facility in China to provide further efficiency improvements on the current factory.

Health and wellness

The Group has developed a number of innovative technologies that both improve water quality and reduce the spread of viruses and bacteria. Strix's appliance category has developed market leading sterilisation applications within the baby product category where during 2019, the Tommee Tippee Perfect Prep Day & Night machine won a Gold Mother & Baby innovation award. The Group has signed an agreement with a leading Asian baby care brand to launch a range of products in 2020 with further opportunities to expand this technology across Asia and North American markets being explored.

Responsible business

To fulfil our mission of shaping a safer and more sustainable future in the design and supply of innovative hot water and filtration systems, the Group must ensure that it behaves in a socially and environmentally responsible manner.

Corporate Social Responsibility

Strix recognises that long-term success relies upon balancing the interests of its customers, shareholders, employees, suppliers, regulators and the communities in which it operates. Management of the Group's impact on society, the communities within which it operates and the environment are key factors in the Group's strategy for success and in the practice of good corporate governance.

Strix's long history has enabled it to develop a good understanding of its key stakeholders which supports the Board and senior management to make well-informed business decisions to deliver on our strategic objectives. Strix holds regular discussions with its customers and suppliers to maintain these key relations which in many cases have been in place for decades.

Employees

The Group currently employs c.900 people in six different international locations and is committed to a strategy built around the foundations of recruitment and retention, performance management and development, reward and recognition, and people policies. The Group believes that the development and retention of talent is important to achieve the long-term strategic goals of the business. Employees are therefore encouraged and supported to undertake ongoing training to develop their skills and reach their full potential.

Age, colour, race, gender, disability, ethnic origin, national origin, marital status, sexual orientation, religious or political views are not seen as barriers to employment and are evidenced in the Group's diverse employment base. The Group is committed to providing equal opportunities for individuals in all aspects of employment.

The Group operates a culture of open communication through a range of mediums including: a global intranet platform; newsletters; Town Hall meetings; and Pulse of the Business lunches with the CEO. In addition, the Group conducts employee engagement surveys using the 'Say-Stay-Strive' model with the last survey undertaken in 2018. As part of our HR strategy, Strix is committed to making positive changes in the Group which will increase our engagement index score.

Ethical behaviour

The Group has a number of defined policies in place to cover anti-slavery, anti-human trafficking, anti-corruption and anti-bribery. Strix is committed to supporting and promoting international and local laws which prohibit modern-day slavery, human trafficking and support the detection and prevention of corruption and fraud. Strix has a zero tolerance of violations to these policies, which apply equally to all of our Directors, officers, employees, apprentices, volunteers, agents, consultants and other representatives.

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

Involvement in Isle of Man business life

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

"The Group is committed to providing equal opportunities for individuals in all aspects of employment."


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.

As a group which is proud of its innovators, Strix is committed to help support and invest in our workforce of engineers and leaders for the 21st century. On the Isle of Man, one such scheme 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.

During 2019, we undertook a number of internship programmes across the globe, including multiple engineering internships in the Isle of Man and in Guangzhou. This places undergraduates from the UK, Hong Kong and China into industrial placements and provides students with the opportunity to undertake practical work projects to further their studies.

In July, two of our recent graduates displayed their degree work at the 'New Designers' Exhibition in London, which showcases the best work from over 3,500 newly graduated designers from most of the UK's universities.

We would like to express our thanks for the valued work that all those involved in the internship programme perform. The below represents a selection of those involved in our global initiative: Strix further supports the education and development of future Engineers through:

- Working 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.
- Supporting 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 2019 this included the School Ambassador Sessions and science fairs plus a STEM Fest at the Villa Marina on the Isle of Man.
- STEM Fest stands for Science, Technology, Engineering and Maths festival. This event was for children aged 9 to 11 from around the Isle of Man. Companies from across the island presented stands, each with a different activity linked to their products. At Strix we came up with the idea of a golf course that fired our very own Bimetallic Blades (energy we harness to drive our switches can make a bimetal jump).


Board of Directors

Gary Lamb

Non-Executive Chairman of the Board (53)

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 Ltd 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.

Mark Bartlett

Chief Executive Officer (55)

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.

Raudres Wong

Chief Financial Officer (57)

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

Mark Kirkland

Non-Executive Director (52)

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 Group Limited) and later became CFO of Marwyn Management Partners plc. Mark is currently CEO of Delin Property.

Richard Sells

Non-Executive Director (61)

Richard has over 30 years' experience working across multinational corporations, public companies, entrepreneur-led SME enterprises and private-equity backed businesses. Previously Richard has held the position of Chief Innovation Officer at Electrolux AB, prior to this he was Group Managing Director for Electrolux in the UK. He has served as Chairman of AMDEA and was on the board of London listed Alba plc. Richard is currently serving on Advisory Board of Evrythng and is as an Associate at The Foundation.

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.

Harry Kyriacou
Chief Commercial Officer

Harry joined Strix in 2019 and directs and leads the Sales, Marketing, Engineering, Commercial Operations and Water Category functions as well as the commercialisation of new products and technologies to support the next phase of the Group's growth.

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 and Appliance sales strategy through an international team comprising 15 personnel.

David Trustrum
Commercial Director

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

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.

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.

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.

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.

Strix applies the principles of 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 and serves to mitigate and minimise risks.

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.

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 Group Financial Review, together with the financial position of the Group, its cash flows, liquidity position and borrowing facilities. In addition, note 22 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:

- strong historic trading performance of the Company and the Group;
- budgets and cash flow forecasts for the period to December 2022;
- the current financial position of the Group, including its cash and cash equivalents balances of £13.7m;
- the availability of further funding should this be required (including the headroom of £9.0m 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 with the appointment of an additional Non-Executive Director from 18 March 2020. 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 Director for the 2019 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

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 2019, 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	13	13	2	2
Mark Bartlett	13	13	–	–
Raudres Wong	13	7	–	–
Mark Kirkland	13	8	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	5	5	–	–
Mark Bartlett	–	–	–	–
Raudres Wong	–	–	–	–
Mark Kirkland	5	5	–	–

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 2019.

Internal control

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

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

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

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

Shareholders

The Chairman and the Non-Executive Directors will always make themselves available to meet with shareholders. 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 43 of the Annual Report provide the information necessary for shareholders to assess the Company's performance, business model and strategy.

Substantial shareholdings

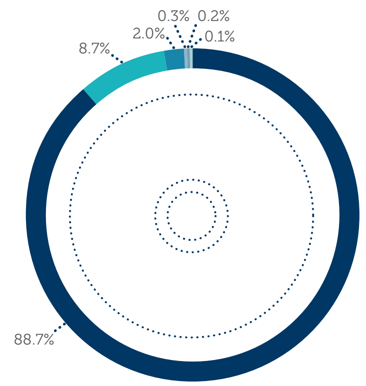
As at 14 March 2020, the Company has been advised, in accordance with the Disclosure and Transparency Rules of the Financial Conduct Authority, of the following notifiable interests in 3% or more of its voting rights:

	Number
Number of securities in issue:	190,694,646
AIM securities not in public hands:	0.6%

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

Registered shareholder	Shares held	% holding
Kames Capital	11,696,763	6.13%
River & Mercantile Asset Mgt	11,208,777	5.88%
Premier Miton Investors	11,206,256	5.88%
Octopus Investments	10,928,512	5.73%
Chelverton Asset Mgt	8,970,000	4.70%
Canaccord Genuity Wealth Mgt	8,400,000	4.40%
Rathbone Investment Mgt	8,230,273	4.32%
Artemis Investment Mgt	8,019,581	4.21%
Close Asset Mgt	6,931,068	3.63%
Hargreaves Lansdown Asset Mgt	5,730,891	3.01%
Legal & General Investment Mgt	5,730,860	3.01%

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:



Share capital structure

Details of the Company's share capital can be found in note 24 of the Group financial statements.

Remuneration policy

The Remuneration Committee reviews the Group's remuneration policy for the Executive Directors and senior management on an annual basis to ensure continued alignment with the principles set out below. In doing so, we will consult with our major shareholders where necessary, and 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 Company's strategy and with the interests of shareholders. We have been guided by a number of fundamental principles:

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

Application of the remuneration policy in 2019

For 2019, 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 2019 LTIP grant is based on the achievement of stretched 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 55.

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 Company and any formal announcements relating to the Company's financial performance, reviewing significant financial reporting judgements contained in them;
- review the Company'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 Company'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 UK professional and regulatory requirements;
- develop and implement policy on the engagement of the external auditor to supply non-audit services, taking into account relevant ethical guidance regarding the provision of non-audit services by the external audit firm; and
- to report to the Board, identifying any matters in respect of which it considers that action or improvement is needed and making recommendations as to the steps to be taken.

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

- Mark Kirkland (Chairman)
- Gary Lamb

The 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 members of the executive team 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 2019 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 was satisfied that, taken as a whole, the 2019 Annual Report and Accounts are fair, balanced and understandable.

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

- The impact of the new IFRS 16 'Leases' standard 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

"The Committee was satisfied that, taken as a whole, the 2019 Annual Report and Accounts are fair, balanced and understandable."

Directors' remuneration report

Statement from the Chairman of the Remuneration Committee

This report sets out the Directors' remuneration policy, the basis for the remuneration paid to Directors in respect of 2019 and explains how we intend to implement the policy for 2020. 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 five meetings during 2019. 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 beyond 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 2019

As explained elsewhere in this Annual Report, 2019 was a successful year for Strix. The business maintained a solid level of performance in the kettle controls market despite geo-political headwinds, and strengthened its position in the appliance and water categories. Growing market confidence in the business was reflected in a strong level of share price growth throughout 2019. The performance during the year completed an impressive period of growth for Strix since the IPO in August 2017.

As disclosed in the Admission Document in 2017 and in subsequent Annual Reports, the Executive Directors and other senior employees were granted awards under the Long-Term Incentive Plan ("LTIP") in 2017, with performance measured over the period ending 31 December 2019. The awards were specifically designed to provide a focus on profit, share price and dividend performance over each of the critical first three years following Admission and, subject to achieving the stretching performance targets, to promote a significant interest in Strix shares and establish an immediate alignment of interests with shareholders. The awards made to the CEO and CFO in August 2017 were over shares equivalent to 2% and 1% of the Company's issued share capital respectively.

Subsequent to the year end, the Remuneration Committee reviewed the performance conditions set for the 2017 award and confirmed that all targets had been met in full. This reflected EPS performance in each of the 2017, 2018 and 2019 financial years plus the achievement of the underpins linked to share price performance and dividends. The Committee's assessment took into account a small adjustment to the EPS target made during 2019 in light of the acquisition of HaloSource. The specific performance targets and more detail on this adjustment are included on page 55.

As a result of the performance assessment, the 2017 award has vested in full. The Committee is comfortable that a strong link between Company performance and individual reward has been maintained. It is worth emphasising that the 2017 award was a one-off arrangement linked to the IPO and performance over the following period. LTIP awards in subsequent years have been at much lower levels and the Committee does not expect to materially change its approach in this respect for the foreseeable future.

The LTIP grant made during 2019 was in line with the stated intentions in last year's Directors' Remuneration Report. Awards were granted to the Executive Directors at a level of 100% of basic salary, with vesting dependent on the satisfaction of EPS performance conditions over the three financial years to the end of 2021.

The annual bonus scheme for 2019 for the Executive Directors was based on the achievement of performance conditions linked to challenging PBT and free cash flow targets. Despite strong performance over the course of the year, the Committee determined that no bonus should be paid to the Executive Directors.

Proposed application of the remuneration policy for 2020

As indicated in last year's report, during 2019 the Committee reviewed the remuneration policy to ensure it remains relevant in the context of Strix's development as a listed company. This review took into account levels of pay, the structure of the incentive schemes and practice at other companies of a similar size. The Committee agreed that, in general, the policy remains fit for purpose and that no radical change is required. However, the Committee considered in detail the appropriate levels of basic salary for the Executive Directors given Strix's development since IPO and the growth in the size and complexity of the business.

Following this review, the Committee agreed initial proposals to adjust the salaries of the CEO and the CFO. However, taking into account the unprecedented coronavirus outbreak in China and its subsequent global spread, and the resulting uncertainties over the precise longer-term impact on the business, we decided that the most prudent approach would be not to finalise any salary increases at this stage. This is consistent with what has been agreed for other senior executives within the Company. As a result, the salaries of the CEO and the CFO will remain unchanged from their 2019 levels. We will review the situation again later in 2020 taking into account the circumstances at the time. Any decision to adjust the salaries for the Executive Directors will be disclosed and explained in next year's Directors' Remuneration Report.

The annual bonus opportunity will remain at 100% of basic salary for the Executive Directors for 2020 and the overall structure of the scheme will be the same as in previous years. Our intention is that the performance targets will be disclosed in next year's Directors' Remuneration Report when they are no longer considered commercially sensitive.

We intend to make a further award under the LTIP in 2020. The Committee has discussed the structure of the plan and considered possible alternatives to the EPS performance metric which has been used to date. After consideration, the Committee determined that the plan remains appropriate for Strix at the current time and, for the 2020 grant, we will apply the same EPS growth range as in previous years. These targets are considered appropriately challenging in light of business circumstances at the current time. LTIP awards to the Executive Directors will remain at a level of 100% of basic salary.

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, we will again 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 on the next page, Executive Directors are required to work towards meeting share ownership guidelines. Further details are provided on page 55.

Element	Purpose and link to strategy	Operation	Maximum opportunity
Base salary	To recruit and reward high-calibre executives for the role required.	Reviewed annually by the Committee, taking account of Group performance, individual performance, changes in responsibility and levels of increase for the workforce generally. Reference is also made to comparator benchmarks from time to time. The Committee considers the impact of any basic salary increase on the total remuneration package.	There is no prescribed maximum annual increase. The Committee is guided by movements in market rates, the performance of the business and the general salary increase for the broader employee population, but on occasions may need to take into account factors such as development in role, change in responsibility, and/or specific retention issues.
Benefits	To provide market-competitive benefits and to help ensure the overall wellbeing of employees.	The Group typically provides: • car allowance • medical insurance • health insurance • cost-of-living allowance • other ancillary benefits, including relocation expenses (as required) Executive Directors are also entitled to 25 days' leave per annum.	Benefits provision is set at a level considered appropriate taking into account a variety of factors, including market practice elsewhere.
Pension	To provide market-competitive benefits and to assist post retirement financial planning.	A Group contribution to a defined contribution pension scheme or provision of cash allowance in lieu of pension.	Up to 20% of basic salary.
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, the Remuneration Committee applies a limit of 100% of basic salary to grants made under the LTIP to Executive Directors. 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 2019

	Date	Salary and fees[1] £	Benefits[2] £	Pension £	Annual bonus £	Long-term incentives[3] £	Total £
Executive Directors							
Mark Bartlett	2019	312	65	64	–	6,935	7,376
	2018	305	61	61	–	–	427
Raudres Wong	2019	305	6	31	–	3,468	3,810
	2018	302	2	30	–	–	334
Non-Executive Directors							
Gary Lamb	2019	70	–	–	–	–	70
	2018	70	–	–	–	–	70
Mark Kirkland	2019	45	–	–	–	–	45
	2018	45	–	–	–	–	45

1. As disclosed in last year's report, the 2019 basic salaries for the Executive Directors were £311,508 for Mark Bartlett and HKD 3,050,808 for Raudres Wong. For Raudres Wong, where relevant the 2019 remuneration in the table above has been translated into sterling using the year-end exchange rate of GBP 1: HKD 10.319 (2018: GBP 1 : HKD 9.9). For 2019, 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 medical insurance and permanent health insurance schemes.
3. The numbers in this column reflect the indicative value of the 2017 LTIP award based on the share price as at the exercise date, 6 April 2020 (£1.70), plus an amount reflecting the value of dividend equivalents. This award was based on performance measured up to 31 December 2019.

Annual bonus scheme outcome for 2019

Executive Directors had an entitlement to an annual bonus up to a maximum opportunity of 100% of basic salary for 2019. Achievement of the bonus was based on performance conditions linked to achievement of challenging PBT and cash flow targets. Payment of the bonus required achievement of minimum PBT for 2019 of £30.0m, with the potential for the maximum award payable to be reduced by 50% if a separate free cash flow target of £10.8m was not met.

Despite strong performance over the course of the year, the Committee determined that no bonus should be paid to the Executive Directors.

LTIP award granted in 2019

Executive Directors and other senior employees were granted an award of shares under the LTIP in May 2019. For the Executive Directors, the award was granted at a level of 100% of basic salary. Vesting of the award is subject to the achievement of performance conditions based on the Company's EPS performance over the three financial years ending 31 December 2021, 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, as set out in the remuneration policy on page 50.

Performance under the LTIP award granted in 2017

As previously disclosed, the LTIP award granted shortly after Admission in August 2017 involved 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.

Financial year ending	EPS to be achieved
31 December 2017	13.58p
31 December 2018	14.86p
31 December 2019	15.08p

With respect to the target to be achieved for the year ending 31 December 2019, the Committee agreed an adjustment to the previously stated target of 16.13p in order to recognise the impact of the acquisition of HaloSource early in 2019. As discussed elsewhere in the Annual Report, this transaction represented a compelling opportunity to acquire extensively developed technology at an attractive price, materially enhancing Strix's existing product portfolio and market penetration in the water filtration segment. As anticipated at the time the acquisition was announced, Strix has invested £2m in HaloSource during the 2019 financial year. The Committee decided to adjust the 2019 EPS target for the LTIP in order to exclude these costs. This was considered appropriate so as to remove any disincentive for management not to acquire HaloSource, a transaction which is considered to be in the best long-term interests of shareholders in Strix. In addition, the adjustment was considered fair given that the acquisition of HaloSource had not been anticipated at the time the LTIP targets were initially set in 2017. The Board continues to expect the HaloSource acquisition to be earnings enhancing in the financial year ending 31 December 2021.

Following a final assessment of performance, the Committee determined that the EPS targets for all of the financial years ended 31 December 2017, 31 December 2018 and 31 December 2019 had been met.

In addition to the EPS condition, vesting of the award also required a TSR underpin to be met. The TSR underpin required (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

The average share price of Strix over the final four weeks of the performance period (i.e. the period to 31 December 2019) was 189.13p and, accordingly, the Committee determined that the share price condition set out above had been met. In addition, the Committee noted that Strix's dividends in respect of each financial year were consistent with the payment schedule as set out above.

Accordingly, the Committee determined that the performance conditions for the 2017 LTIP awards had been met and the awards vested in full. Dividend equivalents were also payable on vested awards. Clawback provisions apply to the awards for a period of two years following vesting.

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.

Executive	Scheme	Grant date	Exercise price	Number of shares at 31 December 2018	Granted during year	Vested during year	Lapsed during year	Number of shares at 31 December 2019	End of performance period	Vesting date[1]
Mark Bartlett	LTIP	08 Aug 2017	Nil	3,800,000	–	–	–	3,800,000[2]	31 Dec 2019	1 Jan 2020[2]
	LTIP	01 Nov 2018	Nil	208,417	–	–	–	208,417	31 Dec 2020	1 Jan 2021
	LTIP	20 May 2019	Nil	–	198,398	–	–	198,398	31 Dec 2021	1 Apr 2022
Raudres Wong	LTIP	08 Aug 2017	Nil	1,900,000	–	–	–	1,900,000[2]	31 Dec 2019	1 Jan 2020[2]
	LTIP	01 Nov 2018	Nil	191,870	–	–	–	191,870	31 Dec 2020	1 Jan 2021
	LTIP	20 May 2019	Nil	–	196,267	–	–	196,267	31 Dec 2021	1 Apr 2022

1. These LTIP options cannot be exercised until the Remuneration Committee determines the performance conditions have been met, which is normally later than the vesting date.
2. As explained above, the performance conditions for this award were formally tested after the year end and it was deemed that this award had vested in full.

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:

Director	Beneficially owned at 31 December 2019	Shareholding guideline achieved at 31 December 2019 as % of 2019 basic salary[1]
Mark Bartlett	300,000	164%
Raudres Wong[2]	300,000	167%
Gary Lamb	500,000	n/a
Mark Kirkland	–	n/a

1. Based on the year-end share price of £1.70.
2. Shares held in the name of her husband, Wing Yip Fong.

Application of the remuneration policy for 2020

Fixed remuneration

As explained in the statement from the Chairman of the Remuneration Committee on page 50, the Committee discussed salary adjustments for the Executive Directors for 2020 but decided to make no changes at the current time in the context of the uncertainties caused by the coronavirus outbreak. As a result, salaries will remain at the 2019 levels, as set out in the table below.

Director	Salary with effect from 1 January 2019	Salary with effect from 1 January 2020	% increase
Mark Bartlett	£311,508	£311,508	0.0%
Raudres Wong[1]	HKD 3,050,808	HKD 3,050,808	0.0%

1. Salary set and paid in Hong Kong Dollars.

Later in 2020 the Committee will review again the salary levels in the context of the circumstances at the time. Any decision to adjust the salaries for the Executive Directors will be disclosed and explained in next year's Directors' Remuneration Report.

Annual bonus scheme

The annual bonus scheme will continue to incentivise the delivery of performance over the short term. The scheme will again be based upon the achievement of a challenging profit before tax target. In addition, if a separate free cash flow target is not met, then the maximum award payable will be reduced by 50%.

We intend to disclose the specific bonus targets in the 2020 Directors' Remuneration Report, alongside details of performance against the targets.

The maximum annual bonus opportunity for 2020 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 2022, 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 2021	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 awards granted in 2018 and 2019. The Committee believes that the targets remain appropriately stretching when taking into account expectations of the Company's performance over the forthcoming 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. The awards will be subject to malus and clawback provisions, as set out in the remuneration policy on page 50.

Chairman and Non-Executive Directors

The fees for Gary Lamb, the Board Chairman, and Mark Kirkland, the other Non-Executive Director in post since 2017, were reviewed during 2019. This review took into account, among other things, Strix's growth since listing, practice at other AIM-listed companies of a similar size and the time commitment and responsibilities of the individuals concerned. Following the review, it was agreed to increase the fees with effect from 1 January 2020. The Chairman's fee was increased from £70,000 to £80,000 and the fee for Mark Kirkland was increased from £45,000 to £48,000. This is the first time since the IPO in 2017 that the fees for these Directors have been increased.

In light of the coronavirus outbreak and its impact on the Company, the Chairman and Mark Kirkland agreed in March 2020 to revert to the previous fee levels. This ensured alignment with the approach taken for basic salaries for the Executive Directors and other senior staff within Strix, as discussed on page 48. The decision will be reviewed later in 2020 taking into account circumstances at the time. The conclusions of this review will be included in next year's Directors' Remuneration Report.

Richard Sells, appointed to the Board on 18 March 2020, will receive a fee of £40,000 per annum.

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

Gary Lamb
Chairman of the Remuneration Committee

Directors' report

For the year ended 31 December 2019

The Directors present their report together with the audited financial statements of the Group for the year ended 31 December 2019.

Principal activities of the Group

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

Business review and future developments

The Group has delivered a solid performance across the Group during 2019 despite continuing global volatility driven by Brexit and USA/China trade tensions. As a result of strong cash generation and an improvement in cash outflows, the Group's net debt position excluding the impact of IFRS 16 lease liabilities, which was adopted from 1 January 2019, has decreased to £26.3m (2018: £27.5m).

The Group has made significant progress during the year in relocating the manufacturing operations in China to Guangzhou's Zengcheng district and has signed a construction contract with Shanghai Installation Engineering Group Co. Ltd for RMB 128m, equating to £13.9m.

Results and dividends

The Group recorded revenue in the year of £96.9m (2018: £93.8m) and a profit after tax of £21.5m (2018: £23.2m).

The Directors recommend a final dividend for the year of 5.1p per share which, if approved at the Annual General Meeting ("AGM") on 28 May 2020, will be payable on 3 June 2020 to shareholders who are on the register at 11 May 2020 and the shares will trade ex-dividend from 7 May 2020. Together with the interim dividend paid during the year of 2.6p per share, this will result in a total dividend of 7.7p per share.

Financial risk management

Information relating to the financial risks of the Group have been included within note 22, "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

Gary Lamb 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 28 May 2020. The Directors who held office during the year and as at 31 December 2019 had the following interests in the number of ordinary shares of the Company:

Name of Director	2019	2018
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 2019 is shown below:

	2019	2018
Mark Bartlett	4,206,815	4,008,417
Raudres Wong	2,288,137	2,091,870

The market price of the Company's shares at the end of the financial year was 195.0p (2018: 142.0p) and the range of market prices in the year was between 135.0p and 200.0p (2018: between 123.2p and 174.6p).

No changes took place in the interests of Directors between 31 December 2019 and the date of signing the Group financial statements. Following the signing of the Group financial statements the Remuneration Committee will review the LTIP performance targets and issue a maximum number of 5,700,000 ordinary shares.

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
17 March 2020

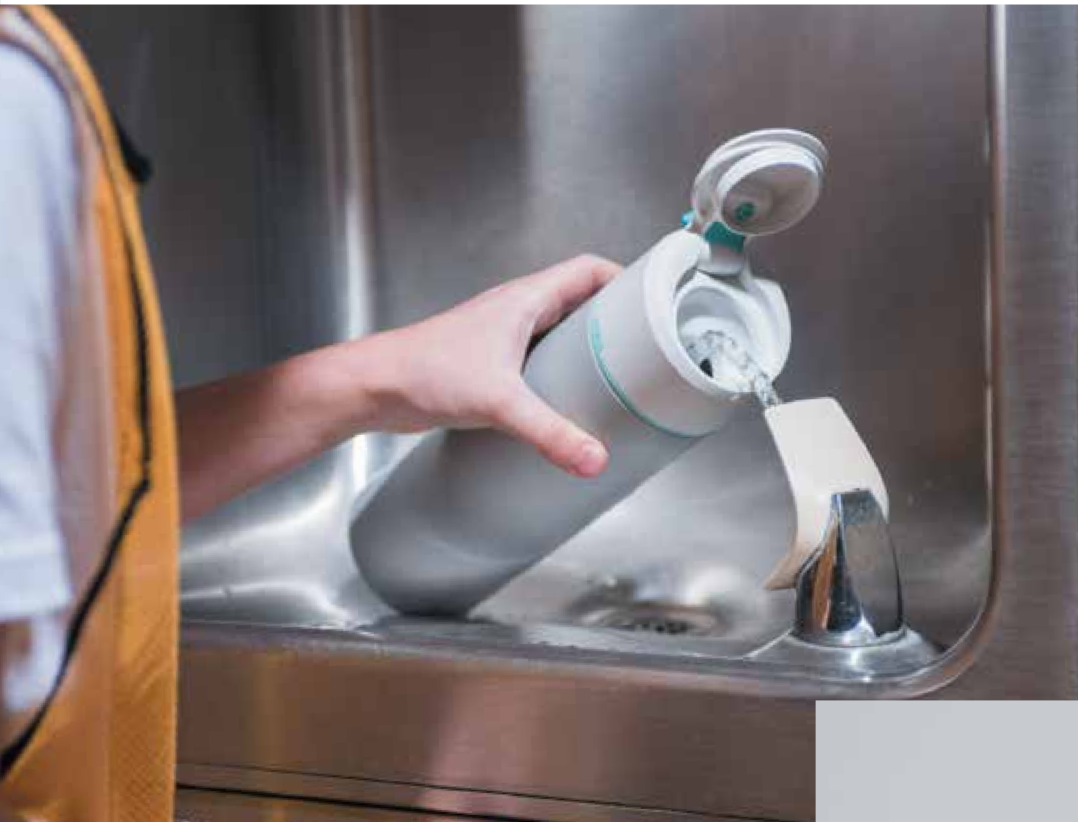
Nominations Committee report

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 light of this evaluation, prepare a description of the role and capabilities required for a particular appointment.

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

The Committee did not hold any formal meetings during the year.

Gary Lamb
Chairman of the Nominations Committee



Statement of Directors' responsibilities in respect of the financial statements

For the year ended 31 December 2019

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
17 March 2020

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 2019 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 2019;
- 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

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

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the key audit matter
Revenue recognition Refer to note 2 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 programs 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 in relation to the sales process, including the automated generation of invoices and packing lists, and approval of changes to standing data; • 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; and • Testing a sample of revenue transactions back to the purchase order, the invoice and proof of receipt from the client to confirm occurrence and accuracy of the transaction. 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 of the United Kingdom's withdrawal from the European Union 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 25 November 2019 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
17 March 2020

Consolidated statement of comprehensive income

For the year ended 31 December 2019

	Note	2019 £000s	2018 £000s
Revenue	7	**96,876**	93,769
Cost of sales – before exceptional items		**(57,259)**	(54,851)
Cost of sales – exceptional items	6	**(171)**	–
Cost of sales		**(57,430)**	(54,851)
Gross profit		**39,446**	38,918
Distribution costs		**(5,287)**	(5,344)
Administrative expenses – before exceptional items		**(3,385)**	(3,083)
Administrative expenses – exceptional items	6	**(7,152)**	(5,072)
Administrative expenses		**(10,537)**	(8,155)
Other operating income		**587**	370
Operating profit		**24,209**	25,789
Analysed as:			
Adjusted EBITDA[1]		**36,904**	36,351
Amortisation	11	**(1,256)**	(2,292)
Depreciation	12	**(2,903)**	(3,198)
Right-of-use depreciation	12	**(1,323)**	–
Exchange differences on translation of foreign operations		**110**	–
Other exceptional items	6	**(7,323)**	(5,072)
Operating profit		**24,209**	25,789
Finance costs	8	**(1,351)**	(1,672)
Finance income		**19**	17
Profit before taxation		**22,877**	24,134
Income tax expense	9	**(1,339)**	(947)
Profit for the year		**21,538**	23,187
Other comprehensive income/(expense)			
Items that may be reclassified to profit or loss:			
Exchange differences on translation of foreign operations		**(110)**	–
Items that will never be reclassified to profit or loss:			
Re-measurement of pension scheme obligations	5(c)	**–**	19
Total comprehensive income for the year		**21,428**	23,206
Earnings per share (pence)			
Basic	10	**11.3**	12.2
Diluted	10	**10.6**	11.6

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 68 to 95 form part of these Group financial statements.

Consolidated balance sheet

As at 31 December 2019

	Note	2019 £000s	2018 £000s
ASSETS			
Non-current assets			
Intangible assets	11	**7,068**	4,804
Property, plant and equipment	12	**25,525**	11,093
Total non-current assets		**32,593**	15,897
Current assets			
Inventories	15	**9,497**	10,518
Trade and other receivables	16	**9,333**	7,254
Cash and cash equivalents	17	**13,658**	13,521
Total current assets		**32,488**	31,293
Total assets		**65,081**	47,190
EQUITY AND LIABILITIES			
Equity			
Share capital	24	**1,900**	1,900
Share based payment reserve	23	**13,063**	6,904
Retained deficit		**(14,052)**	(21,180)
Total equity/(deficit)		**911**	(12,376)
Current liabilities			
Trade and other payables	18	**17,773**	16,824
Future lease liabilities	26	**1,508**	–
Current income tax liabilities	18	**1,929**	1,575
Total current liabilities		**21,210**	18,399
Non-current liabilities			
Future lease liabilities	26	**2,960**	–
Borrowings	19	**40,000**	41,000
Post-employment benefits	5(c)	**–**	167
Total non-current liabilities		**42,960**	41,167
Total liabilities		**64,170**	59,566
Total equity and liabilities		**65,081**	47,190

The Group financial statements on pages 64 to 95 were approved and authorised for issue by the Board of Directors on 17 March 2020 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 2019

	Share capital £000s	Share based payment reserve £000s	Retained (deficit)/ earnings £000s	Total (deficit)/equity £000s
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
Dividends paid (note 25)	–	–	(7,980)	(7,980)
Share based payment transactions (note 23)	–	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)
Balance at 1 January 2019	**1,900**	**6,904**	**(21,180)**	**(12,376)**
Transition to IFRS 16 (note 2)	**–**	**–**	**(270)**	**(270)**
Balance at 1 January 2019 (as adjusted)	**1,900**	**6,904**	**(21,450)**	**(12,646)**
Profit for the year	**–**	**–**	**21,538**	**21,538**
Other comprehensive expense	**–**	**–**	**(110)**	**(110)**
Total comprehensive income for the year	**–**	**–**	**21,428**	**21,428**
Dividends paid (note 25)	**–**	**–**	**(13,870)**	**(13,870)**
Share based payment transactions (note 23)	**–**	**6,159**	**(238)**	**5,921**
Total transactions with owners recognised directly in equity	**–**	**6,159**	**(14,108)**	**(7,949)**
Post-employment benefit transactions (note 5(c))	**–**	**–**	**78**	**78**
Other transactions recognised directly in equity	**–**	**–**	**78**	**78**
Balance at 31 December 2019	**1,900**	**13,063**	**(14,052)**	**911**

The notes on pages 68 to 95 form part of these Group financial statements.

Consolidated cash flow statement

For the year ended 31 December 2019

	Note	2019 £000s	2018 £000s
Cash flows from operating activities			
Cash generated from operations	27	**35,345**	35,431
Tax paid		**(985)**	(475)
Net cash generated from operating activities		**34,360**	34,956
Cash flows from investing activities			
Purchase of property, plant and equipment		**(12,565)**	(5,703)
Capitalised development costs	11	**(2,358)**	(1,849)
Purchase of HaloSource Inc assets net of cash acquired	14	**(953)**	–
Purchase of intangibles	11	**(518)**	(68)
Proceeds on sale of property, plant and equipment		**4**	135
Finance income		**19**	17
Net cash used in investing activities		**(16,371)**	(7,468)
Cash flows from financing activities			
Drawdowns under credit facility	19	**9,000**	–
Repayment of non-current borrowings	19	**(10,000)**	(15,000)
Finance costs paid		**(1,198)**	(1,305)
Principal elements of lease payments	26	**(1,301)**	–
Dividends paid	25	**(13,870)**	(7,980)
Net cash used in financing activities		**(17,369)**	(24,285)
Net increase in cash and cash equivalents		**620**	3,203
Cash and cash equivalents at the beginning of the year		**13,521**	10,111
Effects of foreign exchange on cash and cash equivalents		**(483)**	207
Cash and cash equivalents at the end of the year		**13,658**	13,521

The notes on pages 68 to 95 form part of these Group financial statements.

Notes to the consolidated financial statements

For the year ended 31 December 2019

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 interpretations issued by the IFRS Interpretations Committee ("IFRS IC") as adopted by the European Union. The financial statements comply with IFRS as issued by the International Accounting Standards Board (IASB). The financial statements have been prepared on the going concern basis and on the historical cost basis.

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.

Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and all of its subsidiary undertakings. Subsidiaries are fully consolidated from the date on which control commences and are deconsolidated from the date that control ceases. The financial statements of all Group companies are adjusted, where necessary, to ensure the use of consistent accounting policies.

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 consolidated financial statements.

Business combinations

Business combinations are accounted for using the acquisition method as at the acquisition date with the assets and liabilities of a subsidiary being 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. The Group measures goodwill at the acquisition date as:

- the fair value of the consideration transferred; plus
- the recognised amount of any non-controlling interests in the acquiree; plus
- if the business combination is achieved in stages, the fair value of the pre-existing interest in the acquiree; less
- the fair value of the identifiable assets acquired and liabilities assumed.

Transaction costs that the Group incurs in connection with a business combination are expensed as incurred.

The Group recognises any non-controlling interest in the acquired entity on an acquisition-by-acquisition basis either at fair value or at the non-controlling interest's proportionate share of the acquired entity's net identifiable assets.

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

The Directors have made 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 Group;
- budgets and cash flow forecasts for the period to December 2022;
- the current financial position of the Group, including its cash and cash equivalents balances of £13.7m;
- the availability of further funding should this be required (including the headroom of £9.0m 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 Group has 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.

Foreign currency translation
Functional and presentation 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 consolidated financial statements are presented in Sterling, which is Strix Group Plc's functional and presentation currency.

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

Group companies
The results and financial position of foreign operations that have a functional currency different from the presentation currency 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.

New standards, amendments and interpretations
The Group has applied the following standards and amendments for the first time for their annual reporting period commencing 1 January 2019:
- IFRS 16 Leases
- IFRIC 23 – Uncertainty over Income Tax Treatments

The Group had to change its accounting policies as a result of adopting IFRS 16. The Group elected to adopt the new rules retrospectively recognising the cumulative effect of initially applying the new standard on 1 January 2019. The impact of the adoption of the leasing standard and the new accounting policies are disclosed below in this note.

Other amendments to IFRSs effective for the financial period ended 31 December 2019 have not had a material impact on the Group.

Standards, amendments and interpretations which are not effective or early adopted
Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2019 reporting periods, and these have not been early adopted by the Group. These standards are not expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

2. Principal accounting policies continued

Adoption of IFRS 16 'Leases'

This section explains the impact of the adoption of IFRS 16 'Leases' on the Group's financial statements. The Group has adopted IFRS 16 retrospectively from 1 January 2019, and has not restated comparatives for the 2018 reporting period, as permitted under the specific transitional provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening balance sheet on 1 January 2019.

Adjustments recognised on adoption of IFRS 16

On adoption of IFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of IAS 17 'Leases'. These liabilities were measured at the present value of the future lease payments, discounted using the lessee's incremental borrowing rate as of 1 January 2019. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 January 2019 was 2.7%.

The following table reconciles the difference between the operating lease commitments disclosure in the 2018 Annual Report and the future lease liability recognition on 1 January 2019:

	£000s
Operating lease commitments as disclosed at 31 December 2018	3,922
Discounted using the lessee's incremental borrowing rate	(272)
Other adjustments	(37)
Lease liability recognised as at 1 January 2019	**3,613**

The Group has no leases which were previously classified as finance leases under IAS 17 'Leases'.

The right-of-use assets for property leases were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to those leases recognised in the balance sheet at 31 December 2018. Other right-of-use assets for one lease were measured on a retrospective basis as if the new rules had always been applied. There were no onerous lease contracts that would have required an adjustment to the right-of-use assets at the date of initial application.

The recognised right-of-use assets all relate to building leases. The change in accounting policy affected the following items on the consolidated balance sheet as at 1 January 2019:

	£000s
Property, plant and equipment (right-of-use assets)	3,343
Future lease liabilities	(3,613)
Retained earnings	270

Practical expedients applied

In applying IFRS 16 for the first time, the Group used the following practical expedients permitted by the standard:

- the use of a single discount rate to a portfolio of leases with reasonably similar characteristics;
- the accounting for operating leases with a remaining lease term of less than 12 months as at 1 January 2019 as short-term leases;
- the exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application; and
- the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

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
- Right-of-use assets 2 – 8 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.

The land right-of-use asset acquired by Strix (China) Limited (see note 13) has been included within 'Land and Buildings' in note 12.

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 goodwill, capitalised development costs, patents and computer software. Goodwill is the excess of the consideration paid over the fair value of the identifiable assets, liabilities and contingent liabilities in a business combination and relates to assets which are not capable of being individually identified and separately recognised. Goodwill acquired is allocated to those cash-generating units ("CGUs") expected to benefit from the business combination in which the goodwill arose. Goodwill is measured at cost less any accumulated impairment losses. The CGUs represent the lowest level within the Group at which goodwill is monitored for internal management purposes. Goodwill is subject to impairment testing on an annual basis and at any time during the year if an indicator of impairment exists. Where the recoverable amount of a cash generating unit is less than the carrying amount, an impairment loss is recognised. Impairment losses arising in respect of goodwill are not reversed once recognised. Where a subsidiary is sold, any goodwill arising on acquisition, net of any impairment, is included in determining the profit or loss arising on disposal.

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.

2. Principal accounting policies continued

Intangible assets continued

Capitalised development costs include employee, travel and other directly attributable costs necessary to create, produce and prepare the asset to be capable of operating in the manner intended by management.

Patent costs are capitalised where it is probable that future economic benefits associated with the patent will flow to the Group, and the cost can be measured reliably. The costs of renewing and maintaining patents are expensed in the consolidated statement of comprehensive income as they are incurred.

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.

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
• Patents	Lower of useful or legal life
• 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, are measured as the difference between the net disposal proceeds and the carrying amount of the asset, and are recognised in the consolidated statement of comprehensive income when the asset is derecognised.

Impairment

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

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

Leases

Leases in which a significant portion of the risks and rewards of ownership were not transferred to the Group as lessee were classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) were charged to the statement of comprehensive income on a straight-line basis over the period of the lease.

From 1 January 2019, the Group has changed its accounting policy for leases to apply IFRS 16. The new policy is described below with the impact of the change disclosed above in this note:

The leasing activities of the Group and how these are accounted for

The Group leases office space, workshops, warehouses and factory space. Rental contracts are typically made for periods of 3 – 10 years, but may have extension options. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants, but leased assets may not be used as security for borrowing purposes.

Until the 2018 financial year, leases of property, plant and equipment (including buildings) were classified as operating leases. Payments made under operating leases (net of any lease incentives received from the lessor) were charged to the statement of comprehensive income on a straight-line basis over the period of the lease. From 1 January 2019, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group.

Measurement of future lease liabilities
Assets and liabilities arising from a lease are initially measured on a present value basis. Future lease liabilities include the net present value of the following lease payments:
- fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- variable lease payments that are based on an index or a rate;
- amounts expected to be payable by the lessee under residual value guarantees;
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that options; and
- the payment of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases in the Group, the lessee's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

Lease payments are allocated between principal and finance cost. The finance cost is charged to the statement of comprehensive income over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Measurement of right-of-use assets
Right-of-use assets are measured at cost comprising the following:
- the amount of the initial measurement of lease liability;
- any lease payments made at or before the commencement date less any lease incentives received;
- any initial direct costs; and
- restoration costs.

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense in the statement of comprehensive income. Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise primarily IT equipment.

Extension and termination options
Extension and termination options are included in a number of property leases across the Group. These terms are used to maximise operational flexibility in terms of managing contracts.

Lease income
Lease income from operating leases where the Group is a lessor is recognised in other income on a straight-line basis over the lease term.

Financial assets
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 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.

2. Principal accounting policies continued

Financial assets continued

Impairment of financial assets

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.

Share based payments

The Group has issued conditional equity settled share based options and conditional share awards 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 of the Group. The fair value of the employee services received in exchange for the grant of options or conditional share awards is recognised as an expense.

The total amount to be expensed is determined by reference to the fair value of the options or conditional share awards 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 bi-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 or conditional share awards is included in the calculation of diluted earnings per share.

Further details on the awards is included in note 23.

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 Original Equipment Manufacturer ("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 within 45 days from the date of sale.

2. Principal accounting policies continued

Revenue continued

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 (2018: 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 comprises costs arising in connection with the manufacture of thermostatic controls, cordless interfaces, and other products such as water jugs and filters. Cost is based on the cost of purchases on a first in, first out basis and includes all direct costs and an appropriate portion of fixed and variable overheads where they are directly attributable to bringing the inventories into their present location and condition. This also includes an allocation of non-production overheads, costs of designing products for specific customers and amortisation of capitalised development costs.

Exceptional items

Items that are material in size, unusual or infrequent in nature are included within operating profit and disclosed separately as exceptional items in the consolidated statement of comprehensive income. The separate reporting of exceptional items helps provide an indication of the Group's underlying performance, and includes restructuring costs, exit costs, 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 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, interest on future lease liabilities 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 substantively enacted at the balance sheet date in the countries where the Group companies 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.

Government grants
Subsidiary companies receive grants from the Isle of Man and Chinese governments towards revenue and capital 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.

Revenue and capital 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
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) Ltd which has a Hong Kong Dollar functional currency, Strix (USA), Inc which has a US Dollar functional currency and HaloSource Water Purification Technology (Shanghai) Co. Ltd which has a Chinese Yuan functional currency. The functional currency of Strix Guangzhou Ltd has been determined as Sterling. 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 2.6% of gross turnover (2018: 4.2%).

4. Segmental reporting

Management has determined the operating segments based on the operating reports reviewed by the Board of Directors that are used to assess both performance and strategic decisions. Management has identified that the Board of Directors is the chief operating decision maker in accordance with the requirements of IFRS 8 'Operating segments'. The Group's activities consist of the design, manufacture and sale of thermostatic controls, cordless interfaces, and other products such as water jugs and filters, primarily to OEMs based in China. It is managed as one entity and management has 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: Kettle controls, Water category and Appliances. 'Appliances' relates to new technology products and other appliances which do not fit in either 'Kettle controls' or 'Water category'. 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 principal subsidiaries is domiciled.

	2019 £000s	2018 £000s
Country of domicile		
Intangible assets	**6,137**	4,629
Property, plant and equipment	**3,381**	2,002
Total country of domicile non-current assets	**9,518**	6,631
Foreign countries		
Intangible assets	**931**	175
Property, plant and equipment	**22,144**	9,091
Total foreign non-current assets	**23,075**	9,266
Total non-current assets	**32,593**	15,897

Major customers

In 2019 there were two major customers that individually accounted for at least 10% of total revenues (2018: two customers). The revenues relating to these customers in 2019 were £20,816,000 and £11,064,000 (2018: £17,223,000 and £11,869,000).

5. Employees and Directors

(a) Employee benefit expenses

	2019 £000s	2018 £000s
Wages and salaries	**17,981**	15,957
Defined contribution pension cost (note 5(c))	**646**	381
Non-exceptional employee benefit expenses	**18,627**	16,338
Share based payment transactions (note 23)	**5,944**	4,862
Total employee benefit expenses	**24,571**	21,200

(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.

	2019 £000s	2018 £000s
Salaries and other short-term employee benefits	**1,787**	1,639
Post-employment benefits	**160**	172
Termination benefits	**100**	–
Share based payment transactions	**4,525**	4,521
	6,572	6,332

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 £646,000 (2018: £381,000).

(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 accruals. During 2019, all retirement benefit plan obligations relating to the defined benefit scheme were transferred to Aviva.

At 31 December 2019 the market value of the scheme assets was £nil (2018: £226,000) and the present value of the scheme liabilities were £nil (2018: £393,000). The net post-employment obligation at 31 December 2019 is £nil (2018: £167,000). The total charge recognised in the consolidated statement of comprehensive income was £nil (2018: £5,000). On the transfer of retirement benefit plan obligations to Aviva, income of £78,000 was recognised directly into equity.

The actuarial gain recognised in the consolidated statement of comprehensive income was £nil (2018: actuarial gain of £19,000).

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

	2019 £000s	2018 £000s
Employee benefit expense	**18,627**	16,338
Depreciation charges	**2,903**	3,198
Right-of-use depreciation charges	**1,323**	–
Operating lease payments	**–**	1,144
Amortisation and impairment charges	**1,298**	2,292
Exceptional items – reorganisation/exit costs	**171**	4
– strategic projects	**1,208**	206
– share based payment transactions	**5,944**	4,862
Foreign exchange (gains)/losses	**266**	(78)

Research and development expenditure totalled £4,439,000 (2018: £3,820,000), with £2,358,000 (2018: £1,849,000) of these costs being capitalised during the year.

6. Expenses continued

(b) Exceptional items

Strategic project costs relates to certain projects being undertaken to support the achievement of the Group's strategic plans including the acquisition of HaloSource and the implementation of a new global Enterprise resource planning system.

The share based payment transactions relate to options and conditional share awards issued to certain employees and Directors. Further details are provided in note 23.

(c) Auditor's remuneration

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

	2019 £000s	2018 £000s
Fees payable to Company's auditor and its associates for the audit of Consolidated financial statements	**124**	114
Fees payable to Company's auditor and its associates for other services:		
– the audit of Company's subsidiaries	**4**	4
– other assurance services	**9**	9
– tax compliance	**5**	9
	142	136

7. Revenue

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

	2019 £000s	2018 £000s
Kettle controls	**85,799**	83,514
Water categories	**9,829**	9,263
Appliances	**1,248**	992
Total revenue	**96,876**	93,769

8. Finance costs

	2019 £000s	2018 £000s
Letter of credit charges	**65**	68
Pension scheme interest	**–**	1
Right-of-use lease interest	**110**	–
Borrowing costs	**1,176**	1,603
Total finance costs	**1,351**	1,672

9. Taxation

Analysis of charge in year	2019 £000s	2018 £000s
Current tax (overseas)		
Current tax on overseas profits for the year	**1,265**	960
Adjustments in respect of prior years – overseas	**74**	(13)
Total tax charge	**1,339**	947

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 £1.2m (2018: £1.3m) are included within the current tax liability balance in the consolidated balance sheet, in line with the basis of the tax enquiry. During 2019, following a formal taxation review, Strix converted its contract processing model to an import processing model.

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 of tax 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% (2018: 0%). The differences are explained below.

	2019 £000s	2018 £000s
Profit on ordinary activities before tax	**22,877**	24,134
Profit on ordinary activities multiplied by the rate of income tax in the Isle of Man of 0% (2018: 0%)	**–**	–
Impact of higher overseas tax rate	**1,265**	960
Adjustments in respect of prior years – overseas	**74**	(13)
Total taxation charge	**1,339**	947

The Company is subject to Isle of Man income tax on profits at the rate of 0% (2018: 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.

	2019	2018
Earnings (£000s)		
Earnings for the purposes of basic and diluted earnings per share	**21,538**	23,187
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 share awards (note 23)	**12,845**	9,326
Weighted average number of shares for the purposes of diluted earnings per share	**202,845**	199,326
Earnings per ordinary share (pence)		
Basic earnings per ordinary share	**11.3**	12.2
Diluted earnings per ordinary share	**10.6**	11.6
Adjusted earnings per ordinary share (pence)[1]		
Basic adjusted earnings per ordinary share[1]	**15.2**	14.9
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:

	2019 £000s	2018 £000s
Profit for the year	**21,538**	23,187
Add back:		
Reorganisation/exit costs	**171**	4
Strategic project costs	**1,208**	206
Share based payment transactions	**5,944**	4,862
Adjusted earnings[1]	**28,861**	28,259

1 Adjusted results exclude exceptional items, which include share based payment transactions and other reorganisation and strategic project costs. Adjusted results are non-GAAP metrics used by management and are not an IFRS disclosure

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

11. Intangible assets

	2019				
	Development costs £000s	Software £000s	Intellectual Property £000s	Goodwill £000s	Total £000s
At 1 January					
Cost	12,886	579	–	–	13,465
Accumulated amortisation and impairment	(8,324)	(337)	–	–	(8,661)
Net book value	4,562	242	–	–	4,804
Year ended 31 December					
Additions	2,358	343	175	–	2,876
HaloSource acquisition	–	–	316	384	700
Impairment	(42)	–	–	–	(42)
Amortisation charges	(1,036)	(202)	(18)	–	(1,256)
Exchange differences	(11)	(1)	(2)	–	(14)
Closing net book value	5,831	382	471	384	7,068
At 31 December					
Cost	9,837	922	488	384	11,631
Accumulated amortisation and impairment	(4,006)	(540)	(17)	–	(4,563)
Net book value	5,831	382	471	384	7,068

Amortisation charges have been treated as an expense, and are allocated to cost of sales (£1,153,000), distribution costs £nil, and administrative expenses (£103,000) in the consolidated statement of comprehensive income.

During the year, £5,396,000 (2018: £1,679,000) of assets with a net book value of £42,000 (2018: £nil) were derecognised in line with the derecognition policy disclosed in note 2.

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

Amortisation charges have been treated as an expense, and are allocated to cost of sales (£2,189,000), distribution costs (£2,000), and administrative expenses (£101,000) in the consolidated statement of comprehensive income.

There were no reversals of prior year impairments during the year (2018: same).

12. Property, plant and equipment

	2019							
	Plant & machinery £000s	Fixtures, fittings & equipment £000s	Motor vehicles £000s	Production tools £000s	Land & buildings £000s	Right-of-use assets (note 26) £000s	Assets under construction £000s	Total £000s
At 1 January								
Cost	**20,624**	**3,673**	**141**	**13,484**	**–**	**–**	**1,889**	**39,811**
Opening balance at adoption of IFRS 16	**–**	**–**	**–**	**–**	**–**	**3,343**	**–**	**3,343**
Accumulated depreciation	**(14,695)**	**(2,595)**	**(51)**	**(11,377)**	**–**	**–**	**–**	**(28,718)**
Net book value	**5,929**	**1,078**	**90**	**2,107**	**–**	**3,343**	**1,889**	**14,436**
Year ended 31 December								
Additions	**–**	**743**	**–**	**–**	**1,996**	**2,344**	**10,041**	**15,124**
HaloSource acquisition	**135**	**93**	**1**	**49**	**–**	**–**	**23**	**301**
Transfers	**2,545**	**–**	**–**	**819**	**–**	**–**	**(3,364)**	**–**
Disposals	**(9)**	**–**	**–**	**–**	**–**	**–**	**–**	**(9)**
Depreciation charge	**(1,119)**	**(758)**	**(27)**	**(966)**	**(33)**	**(1,323)**	**–**	**(4,226)**
Exchange differences	**(1)**	**35**	**–**	**(2)**	**–**	**(113)**	**(20)**	**(101)**
Closing net book value	**7,480**	**1,191**	**64**	**2,007**	**1,963**	**4,251**	**8,569**	**25,525**
At 31 December								
Cost	**21,924**	**4,126**	**130**	**13,298**	**1,996**	**5,386**	**8,569**	**55,429**
Accumulated depreciation	**(14,444)**	**(2,935)**	**(66)**	**(11,291)**	**(33)**	**(1,135)**	**–**	**(29,904)**
Net book value	**7,480**	**1,191**	**64**	**2,007**	**1,963**	**4,251**	**8,569**	**25,525**

Depreciation charges are allocated to cost of sales (£3,453,000), distribution costs (£355,000), and administrative expenses (£418,000) in the consolidated statement of comprehensive income.

During the year, £3,070,000 (2018: £5,029,000) of assets with a net book value of £nil (2018: £nil) were derecognised in line with the derecognition policy disclosed in note 2.

	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.

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 Group %
Sula Limited	Holding company	IOM	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
Strix (China) Limited	Construction of manufacturing facility	China	100
HaloSource Water Purification Technology (Shanghai) Co. Ltd	Manufacture and sale of products	China	100
Strix (USA), Inc	Research and development, sales, and distribution of products	USA	100

Acquisition of specified assets from HaloSource

On 7 March 2019, the Group completed the acquisition of specified assets from HaloSource Corporation, the details of which are disclosed below. HaloSource Water Purification Technology (Shanghai) Co. Ltd was acquired by the Group as part of this transaction and is a wholly owned subsidiary of Strix (Hong Kong) Ltd.

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. The US-based assets acquired as part of the acquisition of specified assets from HaloSource were transferred into this entity.

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. Strix (China) Limited owns the land use right acquired by the Group in the Zengcheng District of Guangzhou, China in respect of the site of the new manufacturing facility.

Group restrictions

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 £2,300,000 (2018: £1,222,000)

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 except as disclosed in note 17.

14. 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 a general meeting held on 26 February 2019. The Group entered into an asset purchase agreement with HaloSource, pursuant to which it has acquired specified assets relating to HaloSource's HaloPure division and its astrea product, for total consideration of US$1.33m (£1.01m) payable in cash.

The Board of Strix considered that the acquisition represented an opportunity to acquire extensively developed technology, which complemented its Water category, at an attractive price, as well as gaining access to skilled research and development resource in the USA. Strix will continue the process of commercialising the technology and products that it has acquired, leveraging its experience of operating in the water filtration sector and bringing to market new consumer products.

The fair value of the assets and liabilities acquired were as follows:

	£000s
Non-current assets	
Intangible assets	**316**
Property, plant and equipment	**301**
Total non-current assets	**617**
Current assets	
Inventories	**251**
Trade and other receivables	**448**
Other assets	**100**
Cash and cash equivalents	**61**
Total current assets	**860**
Total assets	**1,477**
Current liabilities	
Trade and other payables	**(847)**
Total current liabilities	**(847)**
Net assets acquired	**630**

The fair value of the intangibles assets was calculated using a discounted cash flow model, based on the expected future income the patents and brand names acquired will generate. The discount rate applied was the Group's Weighted Average Cost of Capital, and a growth rate of 5.0% was assumed in perpetuity, based on the CAGR the Group has experienced with similar products in the same sector over the past few years.

Acquisition costs included within 'Administration expenses – exceptional items' in the consolidated statement of comprehensive income amounted to £1.2m. This included £0.4m of bridging loans made available to HaloSource to ensure the company continued to operate during the due diligence period. These have been designated as 'separate transaction' per IFRS 3 and therefore not included as part of the purchase consideration. The bridging loans did not constitute effective settlement of a pre-existing relationship.

The acquired business contributed revenues of £464,000 and an adjusted total comprehensive loss of £1,953,000 to the Group for the period from 7 March 2019 to 31 December 2019. The Group revenues and profit if the acquisition had occurred on 1 January 2019 has not been calculated as the supporting information is not available given the status of the acquired assets at the date of acquisition. The Directors believe the amount would be insignificant to the Group as due to a shortage of funds under the previous ownership, it is unlikely the assets would generate any significant revenues, profit or loss prior to the acquisition date.

The goodwill of £384,000, calculated as the purchase consideration of £1,014,000 less the fair value of the net assets acquired of £630,000 is attributable to the cumulative skills and knowledge of the members of staff who became employees of the Group at the date of acquisition, together with the synergies expected to be generated by the Group following the acquisition, particularly within the Water category.

15. Inventories

	2019 £000s	2018 £000s
Raw materials and consumables	**5,071**	5,993
Finished goods and goods in transit	**4,426**	4,525
	9,497	10,518

The cost of inventories recognised as an expense and included in cost of sales amounted to £35,037,000 (2018: £33,895,000). The charge for impaired inventories was £302,000 (2018: £52,000). There were no reversals of previous inventory write-downs.

16. Trade and other receivables

	2019 £000s	2018 £000s
Amounts falling due within one year:		
Trade receivables	**4,286**	3,336
Trade receivables past due	**502**	131
Loss allowance	**(50)**	(26)
Trade receivables – net	**4,738**	3,441
Prepayments	**1,042**	987
Advance purchase of commodities	**2,174**	1,483
Other receivables	**1,379**	1,343
	9,333	7,254

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 (2018: same). The amount of trade receivables impaired at 31 December 2019 is equal to the loss allowance provision (2018: same).

The advance purchase of commodities relates to payments 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 2019, £423,000 (2018: £587,000) of these transaction costs are included within prepayments.

Other receivables includes government grants due of £392,000 (2018: £355,000). 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:

	2019 £000s	2018 £000s
Pound Sterling	**3,430**	4,017
Chinese Yuan	**2,952**	1,721
US Dollar	**2,464**	1,184
Euro	**344**	191
Hong Kong Dollar	**123**	122
Other	**20**	19
	9,333	7,254

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 2019 was £50,000 (2018: £26,000).

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 2019, the amount allocated to cost of sales was £24,000 (2018: £9,000). Amounts charged to the allowance account are written off when there is no expectation of recovering additional cash.

17. Cash and cash equivalents

	2019 £000s	2018 £000s
Cash and cash equivalents		
Cash at bank and in hand	**13,658**	13,521

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

	2019 £000s	2018 £000s
Pound Sterling	**4,712**	6,709
Chinese Yuan	**1,409**	868
US Dollar	**7,091**	5,217
Hong Kong Dollar	**247**	357
Euro	**199**	370
	13,658	13,521

Cash and cash equivalents includes £380,000 (2018: £nil) of cash deposits held as a guarantee to China SuiDong Customs office which expires on 30 May 2020.

18. Trade and other payables

	2019 £000s	2018 £000s
Trade payables	**6,779**	4,881
Current income tax liabilities	**1,929**	1,575
Social security and other taxes	**98**	108
Other liabilities	**5,620**	5,737
Payments in advance from customers	**1,286**	1,961
Accrued expenses	**3,990**	4,137
	19,702	18,399

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

Other liabilities includes deferred government grants of £333,000 (2018: £nil). There were no unfulfilled conditions in relation to these grants at the year end.

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

	2019 £000s	2018 £000s
Pound Sterling	**6,025**	6,726
Chinese Yuan	**10,216**	6,849
US Dollar	**2,669**	4,167
Hong Kong Dollar	**364**	354
Euro	**427**	303
Other	**1**	–
	19,702	18,399

19. Borrowings

	2019 £000s	2018 £000s
Non-current bank loans	**40,000**	41,000

Term and debt repayment schedule

	Currency	Interest rate	Maturity date	2019 carrying value (£000s)
Revolving credit facility	GBP	LIBOR + 1.50% – 2.50%	27 July 2022	**40,000**

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 distributions 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 16).

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 2019, the Group has not breached any of the financial covenants contained within the agreement – see note 22(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 2019 the total facility available is £49,000,000 (2018: £53,000,000).

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 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 2019 the margin applied was 1.5% (2018: 1.5%).

20. Commitments

(a) Capital commitments

	2019 £000s	2018 £000s
Contracted for but not provided in the consolidated financial statements – Property, plant and equipment	**12,559**	1,005

Construction of new factory

The above commitments include capital expenditure of £10,472,000 (2018: £nil) relating to the construction of a new factory in Zengcheng district, China. Strix (China) Limited entered into a contract with Shanghai Installation Engineering Group Co. on 2 September 2019 for RMB 128m, equating to £13.9m.

21. 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 defended 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 2019, 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 2019 (2018: same).

22. 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:

- Pound Sterling
- Chinese Yuan
- US Dollar
- Hong Kong Dollar
- Euro

Exposure by currency is analysed in notes 16, 17 and 18.

(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 19. 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 2019 or 2018.

At 31 December 2019 and 2018, payments were made in advance to buy certain commodities at fixed prices, as disclosed in note 16.

22. Financial risk management continued

(a) Market risk continued

(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% (2018: +10%), the impact on profit would be a decrease of £361,000 (2018: a decrease of £406,000), and the impact on equity would be an increase of £2,230,000 (2018: a decrease of £555,000). A -10% change (2018: -10%) in FX rates would cause an increase in profit of £442,000 (2018: an increase in profit of £496,000) and a £2,726,000 decrease in equity (2018: £679,000 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 19. Assuming a reasonably possible change in the LIBOR rate of ±0.5% (2018: ±0.5%), the impact on profit would be an increase/decrease of £204,000 (2018: £242,000), and the impact on equity would be an increase/decrease of £125,000 (2018: £165,000). 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, based on volatility analysis for the past year, of ±15.5% for silver (2018: ±8.2%) and ±4.4% for copper (2018: ±15.8%). The impact on profit would be an increase/decrease of £1,043,000 (2018: £1,068,000). 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 (2018: same). This has been calculated by taking the average purchase price of these commodities during the year in purchase currency and recalculating the cost of the purchases with the price sensitivity applied.

(b) Credit risk

The Group has no external concentrations of credit risk. The Group has policies in place to ensure that sales of goods are made to clients with an appropriate credit history. The Group uses letters of credit and advance payments to minimise credit risk. Management believes there is no further credit risk provision required in excess of normal provision for doubtful receivables, as disclosed in note 16. The amount of trade and other receivables written off during the year amounted to less than 0.05% of revenue (2018: 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:

	2019 £000s	2018 £000s
AA	**636**	588
A	**2,169**	1,252
BBB	**10,824**	11,658
n/a	**29**	23
	13,658	13,521

(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 £9,000,000 (2018: £12,000,000) remains available on this facility at 31 December 2019.

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.

For the maturity of the Group's leases see note 26.

(d) Capital risk management

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

Capital is monitored by the Group on a monthly basis by the finance function. This includes the monitoring of the Group's gearing ratios and monitoring the terms of the financial covenants related to the revolving credit facility as disclosed in note 19. These ratios are formally reported on a quarterly basis. At 31 December 2019 these ratios were as follows:

- **Interest cover ratio:** 26.7x (2018: 22.0x); and
- **Leverage ratio:** 0.7x (2018: 0.8x)

23. 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 shares granted are subject to service conditions, being continued employment with the Group until the end of the vesting period. The shares 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.

During 2019, the Group amended the terms of the Isle of Man share options to conditional share awards.

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. Where the employee is entitled to share options, these remain exercisable until the ten-year anniversary of the award date. Where the employee is entitled to conditional share awards, these are exercised on the vesting date.

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

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

	2019 Number of shares	2018 Number of shares
At 1 January	**10,295,525**	9,110,181
Granted during the year	**1,189,813**	1,428,892
Exercised during the year	**–**	–
Forfeited during the year	**(311,816)**	(243,548)
As at 31 December	**11,173,522**	10,295,525
Vested and exercisable at 31 December	**–**	–

The Group has recognised an expense of £5,944,000 (2018: £4,862,000) in respect of equity-settled share based payment transactions with employees and Directors in the year ended 31 December 2019. No share options or conditional share awards were exercised during the year (2018: none) as none can be exercised before 3 January 2020. There is no exercise price attached to any of the options or conditional share awards 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 and conditional share awards outstanding at 31 December 2019 was 6.7 years (2018: 8.8 years).

23. Share based payments continued

Valuation model inputs

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

Grant date	Share price on grant date (p)	Expiry date	Weighted average probability of meeting performance criteria	**Share options outstanding at 31 December 2019**	Share options outstanding at 31 December 2018
15 August 2017	133.38	15 August 2027	100.0%	**7,862,873**	8,897,133
12 February 2018	138.00	12 February 2028	100.0%	**35,336**	108,762
1 November 2018	146.80	1 November 2028	60.0%	**755,344**	1,278,870
26 November 2018	136.00	26 November 2028	100.0%	**10,760**	10,760
4 March 2019	155.00	4 March 2029	100.0%	**215,651**	–
20 May 2019	157.80	20 May 2029	62.5%	**544,140**	–
21 August 2019	161.80	21 August 2029	100.0%	**7,288**	–
Total share options				**9,431,392**	10,295,525

The key inputs to the Black-Scholes-Merton model for the purposes of estimating the fair values of the conditional share awards outstanding at the end of the year are as follows:

Grant date	Share price on grant date (p)	Vesting date	Weighted average probability of meeting performance criteria	**Conditional share awards outstanding at 31 December 2019**	Conditional share awards outstanding at 31 December 2018
15 August 2017	133.38	3 January 2020	100.0%	**985,143**	–
12 February 2018	138.00	3 January 2020	100.0%	**29,000**	–
12 February 2018	138.00	1 January 2021	100.0%	**60,500**	–
1 November 2018	146.80	1 January 2021	49.3%	**348,233**	–
20 May 2019	157.80	1 April 2022	62.5%	**304,254**	–
19 August 2019	158.00	1 April 2022	100.0%	**15,000**	–
Total conditional share awards				**1,742,130**	–
Total share options and conditional share awards				**11,173,522**	10,295,525

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 £30,000 (2018: £78,000) and the expected charge over the life of the options by a total of £427,000 (2018: £245,000).

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 £1.3180 (2018: £1.3508).

The movement within the share based payment reserve during the period is as follows:

	2019 £000s	2018 £000s
Share based payment transactions (note 5(a))	**5,944**	4,862
Other share based payment transactions	**215**	–
Total share based payment transactions	**6,159**	4,862

Zeus warrant

As part of the admission to trading on AIM in August 2017, the Group granted Zeus Capital Limited a warrant for 3,800,000 ordinary shares at an exercise price of £1.00. The warrant is not reliant on any service conditions and can be exercised between 8 August 2019 and 8 August 2027. The fair value of the warrant was calculated as £238,000 and has been reflected in equity as part of issuance costs.

Valuation model inputs

The key inputs to the Black-Scholes model for the purposes of estimating the fair value of the warrant include an admission share price of £1.00, a risk free rate of 0.23% equivalent to the price of a 2-year UK Gilt, a two-year vesting period, and volatility based on the share price of a selection of peer companies for the two years prior to admission equating to 10.74%.

24. Share capital

	Number of shares (000s)	Par value £000s	Total £000s
Allotted and fully paid: ordinary shares of 1p each			
Balance at 1 January 2018 and 31 December 2018	190,000	1,900	1,900
Balance at 31 December 2019	**190,000**	**1,900**	**1,900**

Under the Isle of Man Companies Act 2006, the Company is not required to have an authorised share capital.

The Company's share capital consists of 190,000,000 ordinary shares of £0.01 each which were issued for consideration of £190,000,000. The balance net of issuance costs was recorded as share premium and subsequently transferred to retained earnings/(deficit) as part of a capital reduction.

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 23 for further information regarding share based payments which may impact the share capital in future periods.

25. Dividends

The following amounts were recognised as distributions in the year:

	2019 £000s	2018 £000s
Interim 2019 dividend of 2.6p per share (2018: 2.3p)	**4,940**	4,370
Final 2018 dividend of 4.7p per share (2018: 1.9p)	**8,930**	3,610
Total dividends recognised in the year	**13,870**	7,980

In addition to the above dividends, since year end the Directors have proposed the payment of a final dividend of 5.1p per share (2018: 4.7p). The aggregate amount of the proposed final dividend expected to be paid on 3 June 2020 out of retained earnings at 31 December 2019, 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.

	2019 £000s	2018 £000s
Final 2019 dividend of 5.1p per share (2018: 4.7p)	**9,725**	8,930
Total dividends proposed but not recognised in the year	**9,725**	8,930

26. Leases

The Group has adopted IFRS 16 from 1 January 2019. The rationale and impact of the transition is explained more fully in note 2 to the financial statements.

(a) Amounts recognised in the balance sheet

The balance sheet shows the following amounts relating to leases:

	2019 £000s	2018 £000s
Right-of-use assets		
Offices and warehouses	**4,251**	–
Total right-of-use assets	**4,251**	–
Current future lease liabilities (due within 12 months)	**1,508**	–
Non-current future lease liabilities (due in more than 12 months)	**2,960**	–
Total future lease liabilities payable	**4,468**	–

Additions to the right-of-use assets during the 2019 financial year were £2,338,000.

26. Leases continued

(a) Amounts recognised in the balance sheet continued

The movement in lease liabilities is as follows:

	2019 £000s	2018 £000s
Balance as at 1 January	**–**	–
Opening balance at adoption of IFRS 16	**3,613**	–
Balance as at 1 January (as adjusted)	**3,613**	–
Additions	**2,338**	–
Repayments	**(1,301)**	–
Interest expense (included in finance cost)	**110**	–
Sub-lease income	**(121)**	
Foreign exchange gains	**(171)**	–
Balance as at 31 December	**4,468**	–

(b) Amounts recognised in the statement of comprehensive income

The statement of comprehensive income shows the following amounts relating to leases:

	2019 £000s	2018 £000s
Depreciation of right-of-use assets	**(1,323)**	–
Interest expense (included in finance cost)	**(110)**	–
Foreign exchange gains	**171**	
Total cost relating to leases	**(1,262)**	–

At 31 December 2018, commitments for minimum lease payments in relation to non-cancellable operating leases were £1,012,000 within one year, £2,104,000 later than one year and less than five years, and £806,000 after five years.

27. Cash flow statement notes

(a) Cash generated from operations

	Note	2019 £000s	2018 £000s
Cash flows from operating activities			
Operating profit		**24,209**	25,789
Adjustments for:			
Depreciation of property, plant and equipment	12	**2,903**	3,198
Depreciation of right-of-use assets	12	**1,323**	–
Amortisation of intangible assets	11	**1,256**	2,292
Impairment of intangible assets	11	**42**	–
Loss/(Profit) on disposal of property, plant and equipment		**5**	(14)
Government grants relating to capital expenditure		**(40)**	–
Pension contributions made		**(89)**	(40)
Share based payment transactions	23	**5,944**	4,862
Net exchange differences	6(a)	**156**	(78)
		35,709	36,009
Changes in working capital:			
Decrease/(increase) in inventories		**1,318**	(1,396)
Increase in trade and other receivables		**(1,750)**	(266)
Increase in trade and other payables		**68**	1,084
Cash generated from operations		**35,345**	35,431

(b) Movement in net debt

	At 1 January 2019 £000s	Non-cash movements: Cash flows £000s	Currency movements £000s	Other movements £000s	At 31 December 2019 £000s
Non-current borrowings	(41,000)	1,000	–	–	**(40,000)**
Lease liabilities (arising at 1 January 2019 on adoption of IFRS 16)	(3,613)	1,301	171	(2,327)	**(4,468)**
Total liabilities from financing activities	**(44,613)**	**2,301**	**171**	**(2,327)**	**(44,468)**
Cash and cash equivalents	13,521	620	(483)	–	**13,658**
Net debt	**(31,092)**	**2,921**	**(312)**	**(2,448)**	**(30,810)**

28. Ultimate beneficial owner

It is not considered that there is any ultimate beneficial owner, as the Group is listed on AIM and no single shareholder beneficially owns more than 25% of the Group's share capital.

29. 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 contribution pension scheme, The Strix Limited Retirement Fund, which is considered a related party (2018: The Group operated a defined benefit pension scheme, The Strix Limited (1978) Retirement Fund which was considered a related party).

(b) Related party balances

Trading balances

	Balance due from		Balance due to	
Related party	**2019 £000s**	2018 £000s	**2019 £000s**	2018 £000s
The Strix Limited Retirement Fund	**–**	–	**(66)**	(37)

(c) Related party transactions

The following transactions with related parties occurred during the year:

Name of related party	**2019 £000s**	2018 £000s
Transactions with other related parties		
Contributions to post-employment benefit schemes	**(735)**	(421)

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 25.

30. Post balance sheet events

The Group does not have any material events after the reporting period to disclose.

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