Rakon Limited Interim Report

September 2014

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Unaudited Consolidated Interim Statement of Comprehensive Income

	Note	Unaudited six months ended 30 September 2014 ($000s)	Unaudited six months ended 30 September 2013 ($000s)	Audited year ended 31 March 2014 ($000s)
Continuing operations				
Revenue	3	61,371	80,481	149,951
Cost of sales		(44,402)	(64,404)	(121,231)
Gross profit		**16,969**	**16,077**	**28,720**
Other operating income		1,244	1,418	3,056
Operating expenses	4	(24,173)	(31,109)	(59,363)
Other (losses)/gains – net	5	1,625	(157)	(1,902)
Impairment		-	(7,545)	(19,920)
Operating loss		**(4,335)**	**(21,316)**	**(49,409)**
Finance income		3	2	5
Finance costs		(534)	(985)	(1,722)
Share of profit of associates and joint venture		1,777	1,365	1,700
Loss before income tax		**(3,089)**	**(20,934)**	**(49,426)**
Income tax expense		(279)	(447)	(1,076)
Net loss after tax from continuing operations		**(3,368)**	**(21,381)**	**(50,502)**
Discontinued operations				
Loss from discontinued operations		-	(24,301)	(33,297)
Net loss for the period		**(3,368)**	**(45,682)**	**(83,799)**
Other comprehensive income:				
Items that may be reclassified subsequently to profit or loss:				
Increase/(decrease) in fair value cash flow hedges		(1,714)	950	758
Increase/(decrease) in fair value net investment hedge		(1,321)	827	942
Increase/(decrease) in fair value currency translation differences		3,850	3,615	4,366
Income tax relating to components of other comprehensive income		815	(423)	(403)
Foreign currency translation reserve related to disposal of ERC (non-controlling interest share)		-	154	480
Other comprehensive income for the period, net of tax		**1,630**	**5,123**	**6,143**
Total comprehensive losses for the period		**(1,738)**	**(40,559)**	**(77,656)**
Loss attributable to:				
Equity holders of the Company		(3,368)	(42,125)	(79,429)
Non-controlling interests		-	(3,557)	(4,370)
		(3,368)	**(45,682)**	**(83,799)**
Total comprehensive losses attributable to:				
Equity holders of the Company		(1,738)	(37,156)	(73,766)
Non-controlling interests		-	(3,403)	(3,890)
		(1,738)	**(40,559)**	**(77,656)**
Earnings per share for (loss)/profit attributable to the equity holders of the Company:		Cents	Cents	Cents
Basic (losses)/earnings per share				
From continuing operations		(1.8)	(11.2)	(26.7)
From discontinued operations		-	(11.1)	(15.0)
From loss for the period		**(1.8)**	**(22.3)**	**(41.7)**
Diluted (losses)/earnings per share				
From continuing operations		(1.7)	(11.2)	(26.4)
From discontinued operations		-	(11.1)	(14.9)
From loss for the period		**(1.7)**	**(22.3)**	**(41.3)**

The accompanying notes form an integral part of these financial statements.

Unaudited Consolidated Interim Statement of Changes in Equity

	Share capital ($000s)	Retained earnings/ (accumulated losses) ($000s)	Other reserves ($000s)	Equity ($000s)	Non-controlling Interests ($000s)	Total equity ($000s)
Balance at 31 March 2013	**173,881**	**8,310**	**(29,395)**	**152,796**	**3,890**	**156,686**
Net loss after tax for the half year ended 30 September 2013	-	(42,125)	-	(42,125)	(3,557)	(45,682)
Currency translation differences	-	-	3,615	3,615	154	3,769
Cash flow hedges, net of tax	-	-	759	759	-	759
Net investment hedge, net of tax	-	-	595	595	-	595
Total comprehensive (losses)/income for the half year	**-**	**(42,125)**	**4,969**	**(37,156)**	**(3,403)**	**(40,559)**
Employee share schemes – value of employee services	-	-	21	21	-	21
Balance at 30 September 2013	**173,881**	**(33,815)**	**(24,405)**	**115,661**	**487**	**116,148**
Net loss after tax for the half year ended 31 March 2014	-	(37,304)	-	(37,304)	(813)	(38,117)
Currency translation differences	-	-	751	751	326	1,077
Cash flow hedges, net of tax	-	-	(140)	(140)	-	(140)
Net investment hedge, net of tax	-	-	83	83	-	83
Total comprehensive (losses)/income for the half year	**-**	**(37,304)**	**694**	**(36,610)**	**(487)**	**(37,097)**
Employee share schemes – value of employee services	-	-	(84)	(84)	-	(84)
Balance at 31 March 2014	**173,881**	**(71,119)**	**(23,795)**	**78,967**	**-**	**78,967**
Net loss after tax for the half year ended 30 September 2014	-	(3,368)	-	(3,368)	-	(3,368)
Currency translation differences	-	-	3,850	3,850	-	3,850
Cash flow hedges, net of tax	-	-	(1,269)	(1,269)	-	(1,269)
Net investment hedge, net of tax	-	-	(951)	(951)	-	(951)
Total comprehensive (losses)/income for the half year	**-**	**(3,368)**	**1,630**	**(1,738)**	**-**	**(1,738)**
Employee share schemes – value of employee services	-	-	6	6	-	6
Balance at 30 September 2014	**173,881**	**(74,487)**	**(22,159)**	**77,235**	**-**	**77,235**

The accompanying notes form an integral part of these financial statements.

Unaudited Consolidated Interim Balance Sheet

	Note	Unaudited as at 30 September 2014 ($000s)	Unaudited as at 30 September 2013 ($000s)	Audited as at 31 March 2014 ($000s)
Assets				
Current assets				
Cash and cash equivalents		7,609	11,166	9,211
Trade and other receivables		34,204	40,024	34,255
Derivatives – held for trading	2	18	392	-
Derivatives – cash flow hedges	2	248	1,295	1,056
Derivatives – interest rate swaps	2	-	72	-
Inventories		27,431	31,251	28,443
Current income tax asset		2	1	2
Total current assets		**69,512**	**84,201**	**72,967**
Non-current assets				
Trade and other receivables		-	-	-
Property, plant and equipment		23,111	33,095	24,374
Intangible assets		11,524	24,778	10,819
Investment in associate		8,702	8,494	7,666
Interest in joint venture		7,039	5,728	6,210
Deferred tax asset		6,941	4,233	6,349
Total non-current assets		**57,317**	**76,328**	**55,418**
Assets of disposal group classified as held for sale		-	36,165	-
Total assets		**126,829**	**196,694**	**128,385**
Liabilities				
Current liabilities				
Bank overdraft	6	3,728	1,127	4,411
Borrowings	6	12,004	36,998	42
Trade and other payables		25,375	27,067	23,258
Derivatives – held for trading	2	143	-	-
Derivatives – cash flow hedges	2	1,350	-	-
Derivatives – interest rate swaps	2	30	-	23
Provisions	7	2,449	3,854	6,108
Current income tax liabilities		161	617	456
Total current liabilities		**45,240**	**69,663**	**34,298**
Non-current liabilities				
Borrowings	6	46	167	11,132
Provisions	7	2,145	2,564	1,825
Deferred tax liabilities		2,163	-	2,163
Total non-current liabilities		**4,354**	**2,731**	**15,120**
Liabilities of disposal group classified as held for sale		-	8,152	-
Total liabilities		**49,594**	**80,546**	**49,418**
Net assets		**77,235**	**116,148**	**78,967**
Equity				
Share capital		173,881	173,881	173,881
Reserves		(22,159)	(24,405)	(23,795)
Retained earnings/(accumulated losses)		(74,487)	(33,815)	(71,119)
		77,235	115,661	78,967
Non-controlling interests		-	487	-
Total equity		**77,235**	**116,148**	**78,967**

The accompanying notes form an integral part of these financial statements.

Unaudited Consolidated Interim Statement of Cash Flows

	Unaudited six months ended 30 September 2014 ($000s)	Unaudited six months ended 30 September 2013 ($000s)	Audited year ended 31 March 2014 ($000s)
Operating activities			
Cash provided from			
Receipts from customers	63,376	96,958	160,129
Interest received	5	2	5
Dividend received from associate/joint venture	1,048	1,161	1,162
R&D grants received	1,444	2,042	4,699
Other income received	114	138	365
	65,987	**100,301**	**166,360**
Cash was applied to			
Payment to suppliers and others	(36,441)	(64,009)	(102,170)
Payment to employees	(28,770)	(26,700)	(49,093)
Interest paid	(537)	(1,205)	(1,720)
Income tax paid	(269)	(612)	(890)
	(66,017)	**(92,526)**	**(153,873)**
Net cash flow from operating activities	**(30)**	**7,775**	**12,487**
Investing activities			
Cash was provided from			
Sale of property, plant and equipment	297	203	419
Sale of equity interest in subsidary	-	-	22,535
Deposit received sale of subsidiary	-	1,825	-
	297	**2,028**	**22,954**
Cash was applied to			
Purchase of property, plant and equipment	(1,612)	(1,124)	(3,979)
Purchase of intangibles	(962)	(635)	(2,245)
Additional investment in subsidiary	-	(88)	-
	(2,574)	**(1,847)**	**(6,224)**
Net cash flow from investing activities	**(2,277)**	**181**	**16,730**
Financing activities			
Cash was applied to			
Repayment of principal on borrowings	-	-	(25,890)
	-	**-**	**(25,890)**
Net cash flow from financing activities	**-**	**-**	**(25,890)**
Net increase/(decrease) in cash and cash equivalents	**(2,307)**	**7,956**	**3,327**
Foreign currency translation adjustment	1,388	(1,207)	(1,817)
Cash and cash equivalents at the beginning of the period	4,800	3,290	3,290
Cash and cash equivalents at the end of the period	**3,881**	**10,039**	**4,800**
Composition of cash and cash equivalents			
Cash and cash equivalents	7,609	11,166	9,211
Bank overdraft	(3,728)	(1,127)	(4,411)
	3,881	**10,039**	**4,800**

The accompanying notes form an integral part of these financial statements.

Unaudited Consolidated Interim Statement of Cash Flows

	Note	Unaudited six months ended 30 September 2014 ($000s)	Unaudited six months ended 30 September 2013 ($000s)	Audited year ended 31 March 2014 ($000s)
Reconciliation of net loss to net cash flows from operating activities				
Reported net loss after tax		**(3,368)**	**(45,682)**	**(83,799)**
Adjustments for				
Depreciation expense		3,814	4,337	15,441
Amortisation expense		941	891	1,794
Increase/(decrease) in estimated doubtful debts		(2)	40	82
Employee share based payments		6	21	(63)
Movement in provisions	8	(3,339)	-	5,857
Movement in foreign currency		(1,039)	1,790	69
Share of profit from joint venture and associate		(726)	(1,359)	(515)
Impairment		-	7,544	19,920
Loss on sale of shares in subsidiary		-	-	9,339
Impairment of assets in subsidiary		-	25,137	25,137
Deferred tax		(67)	259	(399)
(Gain)/loss on disposal of property, plant and equipment		(19)	(75)	388
		(431)	**38,585**	**77,050**
Impact of changes in working capital items				
Trade and other receivables		248	6,769	11,423
Inventories		923	9,945	13,683
Trade and other payables		2,914	(1,525)	(6,984)
Tax provisions		(316)	(317)	1,114
		3,769	**14,872**	**19,236**
Net cash flow from operating activities		**(30)**	**7,775**	**12,487**

The accompanying notes form an integral part of these financial statements.

Notes to the Unaudited Consolidated Interim Financial Statements

1 General information

Rakon Ltd ('the Company') and its subsidiaries ('the Group') is a world leader in the development of frequency control solutions for a wide range of applications. Rakon has leading market positions in the supply of crystal oscillators to the GPS, telecommunications network timing/synchronisation and aerospace markets.

The Company is a limited liability company incorporated and domiciled in New Zealand. It is registered under the Companies Act 1993 with its registered office at 8 Sylvia Park Road, Mt Wellington, Auckland. The Company is an issuer in terms of the Securities Act 1978 and is listed on the New Zealand Stock Exchange (NZX).

These financial statements have been approved for issue by the Board of Directors on 13 November 2014.

2 Summary of significant accounting policies

2.1 Basis of preparation

The interim financial statements of the Group have been prepared in accordance with Generally Accepted Accounting Practice in New Zealand (NZ GAAP). They comply with NZ IAS 34 Interim Financial Reporting [and IAS 34 Interim Financial Reporting] and consequently, do not include all the information required for full financial statements. These condensed Group interim financial statements should be read in conjunction with the annual report for the year ended 31 March 2014. All amounts are in New Zealand dollars unless stated otherwise.

The interim financial statements of the Group have been prepared in accordance with the requirements of the Financial Reporting Act 2013, the Companies Act 1993 and the NZX. Rakon Ltd is registered under the Companies Act 1993 and will become a Financial Markets Conduct Reporting Entity under the Financial Markets Conduct Act 2013 on 1 December 2014.

2.2 Accounting policies

The accounting policies applied are consistent with those of the annual financial statements for the year ended 31 March 2014.

2.3 Fair value of financial instruments

The Group uses various methods in estimating the fair value of a financial instrument. The methods comprise:

Level 1 – the fair value is calculated using quoted prices in active markets.

Level 2 – the fair value is estimated using inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices).

Level 3 – the fair value is estimated using inputs for the asset or liability that are not based on observable market data. Investments in unlisted equity shares for which there is currently no active market, are valued at cost less impairment.

The fair value of the financial instruments as well as the methods used to estimate the fair value are summarised in the following tables.

	Valuation technique – market observable inputs (Level 2) ($000s)	Valuation technique – market observable inputs (Level 3) ($000s)	Total ($000s)
At 30 September 2014			
Financial assets			
Derivative instruments			
Foreign exchange contracts and collar options – held for trading	18	-	18
Foreign exchange contracts and collar options – cash flow hedges	248	-	248
	266	-	**266**
Financial liabilities			
Derivative instruments			
Interest rate swaps	30	-	30
Foreign exchange contracts and collar options – held for trading	143	-	143
Foreign exchange contracts and collar options – cash flow hedges	1,350	-	1,350
	1,523	-	**1,523**

	Valuation technique – market observable inputs (Level 2) ($000s)	Valuation technique – market observable inputs (Level 3) ($000s)	Total ($000s)
At 31 March 2014			
Financial assets			
Derivative instruments			
Foreign exchange contracts and collar options – held for trading	-	-	-
Foreign exchange contracts and collar options – cash flow hedges	1,056	-	1,056
	1,056	**-**	**1,056**
Financial liabilities			
Derivative instruments			
Interest rate swaps	23	-	23
Foreign exchange contracts and collar options – held for trading	-	-	-
Foreign exchange contracts and collar options – cash flow hedges	-	-	-
	23	**-**	**23**

For financial instruments not quoted in active markets, the Group uses valuation techniques such as present value techniques, comparison to similar instruments for which market observable prices exist and other relevant models used by market participants. These valuation techniques use both observable and unobservable market inputs.

If all significant inputs required to fair value an instrument are observable, the instrument is included in Level 2. The Group's foreign exchange contracts are Level 2 at 30 September 2014 and 31 March 2014.

Specific valuation techniques include:

The fair value of forward foreign exchange contracts and collars is determined using forward exchange rate at the balance sheet date, with the resulting value discounted back to present value.

The fair value of unlisted equity securities has been estimated by discounting the present value of the net cash inflows from expected future dividends, or subsequent disposal of the securities.

There were no transfers between categories during the year.

2.4 New applicable accounting standards and IFRIC interpretations issued but not yet adopted by the Group

NZ IFRS 9, 'Financial Instruments', was issued in September 2014 as a complete version of the standard. NZ IFRS 9 replaces the parts of NZ IAS 39 that relate to the classification and measurement of financial instruments, hedge accounting and impairment. NZ IFRS 9 requires financial assets to be classified into two measurement categories: those measured at fair value and those measured at amortised cost. The determination is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. For financial liabilities, the standard retains most of the NZ IAS 39 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch. The new hedge accounting model more closely aligns hedge accounting with risk management activities undertaken by companies when hedging their financial and non-financial risks. NZ IFRS 9 introduces a new expected credit loss model for calculating the impairment of financial assets. This standard is effective for reporting periods beginning on or after 1 January 2018. The Group is yet to assess NZ IFRS 9's full impact.

NZ IFRS 15, 'Revenue from contracts with customers' addresses recognition of revenue from contracts with customers. It replaces the current revenue recognition guidance in NZ IAS 18 Revenue and NZ IAS 11 Construction Contracts and is applicable to all entities with revenue. It sets out a five step model for revenue recognition to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services. The Group is yet to assess NZ IFRS 15's full impact.

2.5 Comparatives

Certain comparative balances have been restated in order to conform with current period presentation.

3 Segment information

The chief operating decision maker assesses the performance of the operating segments based on a non-GAAP measure of 'underlying EBITDA' defined as:

"Earnings before interest, tax, depreciation, amortisation, impairment, employee share schemes, non-controlling interests, adjustments for associates and joint ventures share of interest, tax & depreciation, loss on disposal of assets and other non-cash items (Underlying EBITDA)."

Underlying EBITDA is a non-GAAP measure that has not been presented in accordance with GAAP. The Directors present underlying EBITDA as a useful non-GAAP measure to investors, in order to understand the underlying operating performance of the Group and each operating segment, before the adjustment of specific non-cash charges and before cash impacts relating to the capital structure and tax position. Underlying EBITDA is considered by the Directors to be the closest measure of how each operating segment within the Group is performing. Management uses the non-GAAP measure of underlying EBITDA internally, to assess the underlying operating performance of the Group and each operating segment.

Underlying EBITDA as non-GAAP financial information has been extracted from the unaudited financial statements for the half year and the audited financial statements for the full year. Except as noted below, other information provided to the chief operating decision maker is measured in a manner consistent with that in the financial statements. The Directors provide a reconciliation of underlying EBITDA to net loss for the period including additional disclosure by continuing and discontinued operations.

Unaudited six months ended 30 September 2014

	NZ ($000s)	UK ($000s)	France ($000s)	China - T'maker [6] ($000s)	India - Centum Rakon [5] ($000s)	Other [1] ($000s)	Total continued operations ($000s)	Discontinued operations ($000s)	Total ($000s)
Sales to external customers	23,245	9,946	28,150	-	-	30	61,371	-	61,371
Inter-segment sales	392	5,343	9	-	-	(247)	5,497	-	5,497
Segment revenue	23,637	15,289	28,159	-	-	(217)	66,868	-	66,868
Underlying EBITDA	**(920)**	**1,555**	**(32)**	**504**	**3,014**	**144**	**4,265**	**-**	**4,265**
Depreciation and amortisation	(3,398)	(716)	(484)	-	-	(157)	(4,755)	-	(4,755)
Income tax expense	(52)	(125)	-	-	-	(101)	(278)	-	(278)
Total assets[3]	**54,278**	**28,996**	**30,608**	**8,702**	**7,039**	**(2,794)**	**126,829**	**-**	**126,829**
Investment in associates	-	-	-	8,702		-	8,702	-	8,702
Investment in joint venture	-	-	-	-	7,039	-	7,039	-	7,039
Additions of property, plant, equipment and intangibles	1,232	614	932	-	-	-	2,778	-	2,778
Total liabilities[3]	**25,395**	**5,000**	**18,539**	**-**	**-**	**660**	**49,594**	**-**	**49,594**

Unaudited six months ended 30 September 2013

	NZ ($000s)	UK ($000s)	France ($000s)	China - T'maker [6] ($000s)	India - Centum Rakon [5] ($000s)	Other [1] ($000s)	Total continued operations ($000s)	Discontinued operations[4] ($000s)	Total ($000s)
Sales to external customers	38,644	13,066	28,429	-	-	342	80,481	473	80,954
Inter-segment sales	2,713	1,751	-	-	-	-	4,464	7,554	12,018
Segment revenue	41,357	14,817	28,429	-	-	342	84,945	8,027	92,972
Underlying EBITDA[2]	**(4,501)**	**2,580**	**(5,639)**	**458**	**2,412**	**(71)**	**(4,761)**	**52**	**(4,709)**
Depreciation and amortisation	(3,195)	(584)	(367)	-	-	-	(4,146)	(946)	(5,092)
Goodwill impairment	(7,545)	-	-	-	-	-	(7,545)	(21,516)	(29,061)
Income tax expense	(112)	(285)	-	-	-	(16)	(413)	-	(413)
Total assets[3]	**72,373**	**39,300**	**33,917**	**8,494**	**5,728**	**717**	**160,529**	**36,165**	**196,694**
Investment in associates	-	-	-	8,494	-	-	8,494	-	8,494
Investment in joint venture	-	-	-	-	5,728	-	5,728	-	5,728
Additions of property, plant, equipment and intangibles	1,626	853	979	-	-	-	3,458	223	3,681
Total liabilities[3]	**34,730**	**5,912**	**31,752**	**-**	**-**	**-**	**72,394**	**8,152**	**80,546**

Audited year ended 31 March 2014

	NZ ($000s)	UK ($000s)	France ($000s)	China - T'maker [6] ($000s)	India - Centum Rakon [5] ($000s)	Other [1] ($000s)	Total continued operations ($000s)	Discontinued operations[4] ($000s)	Total ($000s)
Sales to external customers	67,734	26,413	56,301	-	-	(497)	149,951	404	150,355
Inter-segment sales	2,117	1,210	5	-	-	808	4,140	6,401	10,541
Segment revenue	69,851	27,623	56,306	-	-	311	154,091	6,805	160,896
Underlying EBITDA[2]	**(11,823)**	**5,500**	**(7,280)**	**556**	**3,822**	**(115)**	**(9,340)**	**1,809**	**(7,531)**
Depreciation and amortisation	(13,395)	(1,546)	(775)	-	-	74	(15,642)	(804)	(16,446)
Loss on disposal of assets (sale of shares in subsidiary)	-	-	-	-	-	-	-	(8,467)	(8,467)
Impairment	(19,920)	-	-	-	-	-	(19,920)	(21,467)	(41,387)
Income tax credit/(expense)	(832)	(578)	29	-	-	305	(1,076)	-	(1,076)
Total assets[3]	**48,773**	**29,554**	**34,055**	**7,666**	**6,210**	**2,127**	**128,385**	**-**	**128,385**
Investment in associates	-	-	-	7,666	-	-	7,666	-	7,666
Investment in joint venture	-	-	-	-	6,210	-	6,210	-	6,210
Additions of property, plant, equipment and intangibles	1,625	1,546	2,526	-	-	-	5,697	223	5,920
Total liabilities[3]	**30,627**	**11,203**	**9,174**	**-**	**-**	**(1,586)**	**49,418**	**-**	**49,418**

[1] Includes investments in subsidiaries: Rakon Financial Services Ltd, Rakon UK Holdings Ltd, Rakon Europe Ltd and Rakon Investment HK Ltd and Rakon HK Ltd.

[2] Includes one off restructure costs in NZ (March 2014: $443,000), in UK (March 2014: £1,522,000), and in France (September 2013: €2,300,000). See also note 7.

[3] The measure of assets and liabilities has been disclosed for each reportable segment as it is regularly provided to the chief operating decision maker and excludes intercompany payable balances eliminated on consolidation.

[4] Includes 85.4% investment in ECEC Rakon Crystal (Chengdu) Co. Ltd (ERC) prior to sale in September 2013, and impact of 80% sale of equity interest and write-down of balance of investment to nil in March 2013.

[5] Includes Rakon Ltd's 49% share of investment in Centum Rakon India Private Ltd.

[6] Includes Rakon Ltd's 40% share of investment in Shenzhen Timemaker Crystal Technology Co. Ltd, Chengdu Timemaker Crystal Technology Co. Ltd and Shenzhen Taixaing Wafer Co. Ltd.

A reconciliation of underlying EBITDA to net loss for the period is provided as follows:

Unaudited six months ended 30 September 2014	Continuing operations ($000s)	Discontinued operations ($000s)	Total ($000s)
Underlying EBITDA	4,265	-	4,265
Depreciation and amortisation	(4,755)	-	(4,755)
Employee share schemes	(6)	-	(6)
Finance costs – net	(531)	-	(531)
Adjustment for associates and joint venture share of interest, tax & depreciation	(1,748)	-	(1,748)
Other non-cash items	(314)	-	(314)
Loss before income tax	**(3,089)**	**-**	**(3,089)**
Income tax/(expense)	(279)	-	(279)
Net loss for the period	**(3,368)**	**-**	**(3,368)**

Unaudited six months ended 30 September 2013	Continuing operations ($000s)	Discontinued operations ($000s)	Total ($000s)
Underlying EBITDA	(6,727)	2,018	(4,709)
Depreciation and amortisation	(4,150)	(942)	(5,092)
Impairment	(3,875)	(25,136)	(29,011)
Employee share schemes	(20)	-	(20)
Finance costs – net	(983)	(241)	(1,224)
Adjustment for associates and joint venture share of interest, tax & depreciation	(1,552)	-	(1,552)
Non controlling interest	(3,557)	-	(3,557)
Other non-cash items	(70)	-	(70)
Loss before income tax	**(20,934)**	**(24,301)**	**(45,235)**
Income tax/(expense)	(447)	-	(447)
Net loss for the period	**(21,381)**	**(24,301)**	**(45,682)**

Audited year ended 31 March 2014	Continuing operations ($000s)	Discontinued operations ($000s)	Total ($000s)
Underlying EBITDA	(9,340)	1,809	(7,531)
Depreciation and amortisation	(15,642)	(804)	(16,446)
Impairment	(19,920)	(21,467)	(41,387)
Loss on disposal of assets (sale of shares in subsidiary)	-	(8,467)	(8,467)
Employee share schemes	(20)	-	(20)
Finance costs – net	(1,717)	2	(1,715)
Adjustment for associates and joint venture share of interest, tax & depreciation	(2,787)	-	(2,787)
Non controlling interest	-	(4,370)	(4,370)
Loss before income tax	**(49,426)**	**(33,297)**	**(82,723)**
Income tax/(expense)	(1,076)	-	(1,076)
Net loss for the year	**(50,502)**	**(33,297)**	**(83,799)**

4 Operating expenses

	Unaudited six months ended 30 September 2014 ($000s)	Unaudited six months ended 30 September 2013 ($000s)	Audited year ended 31 March 2014 ($000s)
Operating expense by function:			
Selling and marketing costs	5,193	6,052	10,697
Research and development	6,156	7,421	13,567
General and administration	12,824	19,471	35,968
	24,173	32,944	60,232
Discontinued operations	-	1,835	869
	24,173	**31,109**	**59,363**

5 Other gains/(losses) – net

	Unaudited six months ended 30 September 2014 ($000s)	Unaudited six months ended 30 September 2013 ($000s)	Audited year ended 31 March 2014 ($000s)
Gain/(loss) on disposal of property, plant, equipment and intangibles:	80	75	388
	80	75	388
Foreign exchange (losses)/gains – net			
Forward foreign exchange contracts – held for trading	214	176	-
Gain/(loss) on revaluation of foreign denominated monetary assets and liabilities	1,331	(399)	(423)
	1,545	(223)	(423)
	1,625	(148)	(35)
Discontinued operations	-	9	1,867
	1,625	**(157)**	**(1,902)**

6 Borrowings

	Unaudited as at 30 September 2014 ($000s)	Unaudited as at 30 September 2013 ($000s)	Audited as at 31 March 2014 ($000s)
Current			
Obligations under finance lease	196	92	42
Bank overdrafts	3,728	1,127	4,411
Bank borrowings	11,808	36,906	-
Current	**15,732**	**38,125**	**4,453**
Non-current			
Obligations under finance lease	46	167	275
Bank borrowings	-	-	10,857
Non-current	**46**	**167**	**11,132**

Bank borrowings

During the period Rakon increased its borrowing facility from $12,000,000 to $22,000,000. The planned sale of properties in France and the UK will be used to repay bank borrowings where required. The facility expires in May 2015 and the Directors anticipate renewing the facility on similar terms and conditions as part of the annual review of bank facilities before year end. Net cash flows from operating activities for the period to 30 September 2014 include restructuring costs (note 7). Cash flow forecasts are expected to be positive during the second half of the year.

The facility has a covenant of shareholders funds to total tangible assets and requires bank approval for distributions (including dividends). Bank overdrafts and borrowings are secured by first mortgage over all the undertakings of Rakon Ltd and any other wholly owned present and future subsidiaries.

7 Provisions for other liabilities and charges

	Unaudited as at 30 September 2014 ($000s)	Unaudited as at 30 September 2013 ($000s)	Audited as at 31 March 2014 ($000s)
Current portion	6,108	202	202
Non-current portion	1,825	2,412	2,412
Opening balance	**7,933**	**2,614**	**2,614**
Charged/(credited) to the income statement:			
– additional provisions	604	203	333
– restructuring costs	-	3,757	7,184
– unused amount reversed	(271)	(60)	(751)
Used during the year	(3,672)	(96)	(1,447)
At period end	**4,594**	**6,418**	**7,933**
Represented by			
Current portion	2,450	3,854	6,108
Non-current portion	2,145	2,564	1,825
	4,594	**6,418**	**7,933**

Restructure provision

Planned relocation of Lincoln manufacturing plant

On 16 January 2014 a proposal was announced to relocate the manufacturing of products from the Lincoln UK manufacturing plant to New Zealand. Following a collective consultation with Rakon UK Ltd employee representatives, the Directors announced on 5 March 2014 their confirmed decision to close the Lincoln UK plant. At September 2014 the provision balance was £492,000 (September 2013: nil, March 2014: £1,522,000) and related to the remaining employees who were expected to cease their employment by 30 November 2014.

France restructure

The implementation of the restructure plans communicated to the employees of Rakon France SAS on 27 September 2013 continued as expected during the period with a remaining provision of €730,000 at September 2014 (September 2013 €2,300,000, March 2014 €1,568,000). The last phase of the restructure plan is expected to be completed by June 2015.

8 Share capital

Rakon employee share option scheme (2014)

In July 2014 Rakon established an employee share option scheme with 4,800,000 options issued to selected employees. Each option granted will convert to one ordinary share on exercise. A participant may exercise half of his or her options any time after the first anniversary and second anniversaries subject to the weighted average share price on the 10 days preceding the date of exercise exceeding a benchmark share price. Options lapse on their third anniversary.

	Option Price*	2015 Number of Options
Opening balance	-	-
Granted	0.25	4,800,000
Balance outstanding	**0.25**	**4,800,000**

*weighted average

Share options outstanding at the end of the period have the following expiry date and exercise prices:

	Exercise price	Benchmark price	2015 Number of Options
Year ended 31 March 2018	0.25	0.30	2,400,000
Year ended 31 March 2019	0.25	0.30	2,400,000

The weighted average fair value of options granted during the period of $0.046 per option was determined using the Black-Scholes valuation model. The significant inputs into the model were weighted average share price of $0.25 at the grant date, exercise price shown above, volatility of 32%, dividend yield of 0%, an average expected option life of 2 years, and an annual risk-free interest rate of 4.0%. The volatility was measured at the standard deviation of continuously compounded share returns based on statistical analysis of daily share prices from the 12 months preceding July 2014.

There have been no allocations since September 2014.

9 Contingencies

It is not anticipated than any material liabilities will arise from contingent liabilities.

10 Subsequent events

There have been no subsequent events after 30 September 2014.

Directory

Registered Office

Rakon Ltd
8 Sylvia Park Road
Mt Wellington
Auckland 1060
Telephone: +64 9 573 5554
Facsimile: +64 9 573 5559
Website: www.rakon.com

Mailing Address

Rakon Ltd
Private Bag 99943
Newmarket
Auckland 1149

Directors

Bryan Mogridge
Brent Robinson
Bruce Irvine
Peter Maire
Darren Robinson
Warren Robinson
Herbert Hunt

Principal Lawyers

Bell Gully
PO Box 4199
Shortland Street
Auckland 1140

Auditors

PricewaterhouseCoopers
Private Bag 92162
Auckland 1142

Share Registrar

Computershare Investor Services Ltd
Private Bag 92119
Victoria Street West
Auckland 1142

Managing Your Shareholding Online:
To change your address, update your payment instructions and to view your investment portfolio including transactions, please visit:
www.computershare.co.nz/investorcentre
General enquiries can be directed to:
enquiry@computershare.co.nz
Telephone: +64 9 488 8777
Facsimile: +64 9 488 8787
Website: www.computershare.co.nz

Bankers

ASB Bank
PO Box 35
Shortland Street
Auckland 1140

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