# Rakon Limited Interim Report

September 2016

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# Unaudited Consolidated Interim Statement of Comprehensive Income

| | Note | Unaudited six months ended 30 September 2016 $000s | Unaudited six months ended 30 September 2015 $000s | Audited year ended 31 March 2016 $000s |
|---|---|---|---|---|
| **Continuing operations** | | | | |
| Revenue | 4 | 45,957 | 57,990 | 112,737 |
| Cost of sales | | (29,282) | (33,942) | (64,797) |
| **Gross profit** | | **16,675** | **24,048** | **47,940** |
| Other operating income | | 1 | 79 | 125 |
| Operating expenses | 6 | (20,672) | (23,279) | (47,766) |
| Other (losses)/gains – net | 5 | (215) | 1,726 | 871 |
| **Operating (loss)/profit** | | **(4,211)** | **2,574** | **1,170** |
| Finance income | | 2 | 1 | 3 |
| Finance costs | | (689) | (606) | (1,128) |
| Share of (loss)/profit of associates and joint venture | 7 | (531) | (732) | (902) |
| **(Loss)/profit before income tax** | | **(5,429)** | **1,237** | **(857)** |
| Income tax (expense)/credit | | (269) | (157) | (874) |
| **Net (loss)/profit for the period** | | **(5,698)** | **1,080** | **(1,731)** |
| | | | | |
| **Other comprehensive income** | | | | |
| Items that may be reclassified subsequently to profit or loss | | | | |
| (Decrease)/increase in fair value cash flow hedges | | (375) | (4,899) | 932 |
| Cash flow hedges – realised | | 1,361 | - | - |
| (Decrease)/increase in fair value currency translation differences | | (3,943) | 9,780 | 4,998 |
| Income tax relating to components of other comprehensive income | | (276) | 1,371 | (261) |
| **Other comprehensive (losses)/income for the period, net of tax** | | **(3,233)** | **6,252** | **5,669** |
| **Total comprehensive (losses)/income for the period** | | **(8,931)** | **7,332** | **3,938** |
| | | | | |
| **(Loss)/profit attributable to equity holders of the Company** | | **(5,698)** | **1,080** | **(1,731)** |
| **Total comprehensive (loss)/profit attributable to equity holders of the Company** | | **(8,931)** | **7,332** | **3,938** |
| | | | | |
| **Earnings per share for (loss)/profit attributable to the equity holders of the Company from continuing operations** | | **Cents** | **Cents** | **Cents** |
| Basic (losses)/earnings per share | | (3.0) | 0.6 | (0.9) |
| Diluted (losses)/earnings per share | | (2.9) | 0.6 | (0.9) |

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

# Unaudited Consolidated Interim Statement of Changes in Equity

| | Share capital $000s | Retained earnings $000s | Cash flow hedge reserve realised $000s | Other reserves $000s | Total equity $000s |
|---|---|---|---|---|---|
| **Balance at 31 March 2015** | **173,881** | **(67,929)** | **-** | **(26,543)** | **79,409** |
| Net profit after tax for the half year ended 30 September 2015 | - | 1,080 | - | - | 1,080 |
| Currency translation differences | - | - | - | 9,780 | 9,780 |
| Cash flow hedges, net of tax | - | - | - | (3,528) | (3,528) |
| **Total comprehensive income for the half year** | **-** | **1,080** | **-** | **6,252** | **7,332** |
| Employee share schemes | | | | | |
| Value of employee services | - | - | - | 40 | 40 |
| **Balance at 30 September 2015** | **173,881** | **(66,849)** | **-** | **(20,251)** | **86,781** |
| Net loss after tax for the half year ended 31 March 2016 | - | (2,811) | - | - | (2,811) |
| Currency translation differences | - | - | - | (4,782) | (4,782) |
| Cash flow hedges, net of tax | - | - | - | 4,199 | 4,199 |
| **Total comprehensive income for the half year** | **-** | **(2,811)** | **-** | **(583)** | **(3,394)** |
| Employee share schemes | | | | | |
| Value of employee services | - | - | - | 41 | 41 |
| **Balance at 31 March 2016** | **173,881** | **(69,660)** | **-** | **(20,793)** | **83,428** |
| Net loss after tax for the half year ended 30 September 2016 | - | (5,698) | | - | (5,698) |
| Currency translation differences | - | - | - | (3,943) | (3,943) |
| Cash flow hedges, net of tax | - | - | 980 | (270) | 710 |
| **Total comprehensive loss for the half year** | **-** | **(5,698)** | **980** | **(4,213)** | **(8,931)** |
| Employee share schemes | | | | | |
| Value of employee services | - | - | - | 29 | 29 |
| **Balance at 30 September 2016** | **173,881** | **(75,358)** | **980** | **(24,977)** | **74,526** |

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

# Unaudited Consolidated Interim Balance Sheet

| | Note | Unaudited six months ended 30 September 2016 $000s | Unaudited six months ended 30 September 2015 $000s | Audited year ended 31 March 2016 $000s |
|---|---|---|---|---|
| **Assets** | | | | |
| **Current assets** | | | | |
| Cash and cash equivalents | | 3,111 | 7,609 | 3,370 |
| Trade and other receivables | | 26,506 | 30,445 | 28,812 |
| Derivatives – held for trading | | - | 20 | 227 |
| Derivatives – cash flow hedges | | 334 | 90 | 459 |
| Inventories | | 29,078 | 32,923 | 29,830 |
| Current income tax asset | | 47 | 113 | 212 |
| **Total current assets** | | **59,076** | **71,200** | **62,910** |
| **Non-current assets** | | | | |
| Derivatives – cash flow hedges | | - | 145 | 1,466 |
| Trade and other receivables | | 1,812 | 1,549 | 1,165 |
| Property, plant and equipment | | 16,038 | 17,471 | 17,234 |
| Intangible assets | | 13,116 | 17,713 | 14,850 |
| Investment in associates | 7 | 13,528 | 9,827 | 10,315 |
| Interest in joint venture | 7 | 6,351 | 7,220 | 6,798 |
| Deferred tax asset | | 6,471 | 9,136 | 6,538 |
| **Total non-current assets** | | **57,316** | **63,061** | **58,366** |
| **Total assets** | | **116,392** | **134,261** | **121,276** |
| **Liabilities** | | | | |
| **Current liabilities** | | | | |
| Bank overdraft | 8 | 3,799 | 5,273 | 3,931 |
| Borrowings | 8 | 18,921 | 12,032 | 15 |
| Trade and other payables | | 15,356 | 20,103 | 17,526 |
| Derivatives – held for trading | | - | 516 | 3 |
| Derivatives – cash flow hedges | | 89 | 3,879 | 813 |
| Derivatives – interest rate swaps | | 329 | 255 | 330 |
| Provisions | | 639 | 516 | 414 |
| Current income tax liability | | 134 | - | - |
| **Total current liabilities** | | **39,267** | **42,574** | **23,032** |
| **Non-current liabilities** | | | | |
| Derivatives – cash flow hedges | | - | 1,954 | 421 |
| Borrowings | 8 | 64 | 15 | 12,000 |
| Provisions | | 2,120 | 2,538 | 2,361 |
| Deferred tax liabilities | | 415 | 399 | 34 |
| **Total non-current liabilities** | | **2,599** | **4,906** | **14,816** |
| **Total liabilities** | | **41,866** | **47,480** | **37,848** |
| **Net assets** | | **74,526** | **86,781** | **83,428** |
| | | | | |
| **Equity** | | | | |
| Share capital | | 173,881 | 173,881 | 173,881 |
| Other reserves | | (23,997) | (20,251) | (20,793) |
| Accumulated losses | | (75,358) | (66,849) | (69,660) |
| **Total equity** | | **74,526** | **86,781** | **83,428** |

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 2016 $000s | Unaudited six months ended 30 September 2015 $000s | Audited year ended 31 March 2016 $000s |
|---|---|---|---|---|
| **Operating activities** | | | | |
| **Cash provided from** | | | | |
| Receipts from customers | | 50,108 | 65,304 | 119,026 |
| Interest received | | - | - | - |
| Income tax refund | | 389 | 205 | 205 |
| Dividend received from joint venture | | - | 1,253 | 1,253 |
| R&D grants received | | - | 1,793 | 3,064 |
| Other income received | | 1 | 39 | 147 |
| **Cash provided from operating activities** | | **50,498** | **68,594** | **123,695** |
| **Cash was applied to** | | | | |
| Payment to suppliers and others | | (28,868) | (40,147) | (70,217) |
| Payment to employees | | (21,313) | (22,106) | (44,478) |
| Interest paid | | (605) | (508) | (1,081) |
| Income tax paid | | (324) | (504) | (634) |
| **Cash was applied to operating activities** | | **(51,110)** | **(63,265)** | **(116,410)** |
| **Net cash flow from operating activities** | | **(612)** | **5,329** | **7,285** |
| **Investing activities** | | | | |
| **Cash was provided from** | | | | |
| Sale of property, plant and equipment | | 16 | - | - |
| **Cash was provided from investing activities** | | **16** | **-** | **-** |
| **Cash was applied to** | | | | |
| Purchase of property, plant and equipment | | (838) | (2,023) | (3,377) |
| Purchase of intangibles | | (861) | (1,054) | (1,954) |
| Investment in shares & associates | | (4,629) | - | (1,663) |
| **Cash was applied to investing activities** | | **(6,328)** | **(3,077)** | **(6,994)** |
| **Net cash flow from investing activities** | | **(6,312)** | **(3,077)** | **(6,994)** |
| **Financing activities** | | | | |
| **Cash was provided from** | | | | |
| Proceeds from borrowings | | 6,911 | - | - |
| **Cash was provided from financing activities** | | **6,911** | **-** | **-** |
| **Net cash flow from financing activities** | | **6,911** | **-** | **-** |
| **Net (decrease)/increase in cash and cash equivalents** | | **(13)** | **2,252** | **291** |
| Effects of exchange rate changes on cash and cash equivalents | | (114) | 1,314 | 378 |
| Cash and cash equivalents at the beginning of the year | | (561) | (1,230) | (1,230) |
| **Cash and cash equivalents at the end of the period** | | **(688)** | **2,336** | **(561)** |
| **Composition of cash and cash equivalents** | | | | |
| Cash and cash equivalents | 8 | 3,111 | 7,609 | 3,370 |
| Bank overdraft | 8 | (3,799) | (5,273) | (3,931) |
| **Total cash and cash equivalents** | | **(688)** | **2,336** | **(561)** |

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 2016 $000s | Unaudited six months ended 30 September 2015 $000s | Audited year ended 31 March 2016 $000s |
|---|---|---|---|---|
| **Reconciliation of net (loss)/profit to net cash flows from operating activities** | | | | |
| **Reported net (loss)/profit after tax** | | **(5,698)** | **1,080** | **(1,731)** |
| Depreciation expense | | 1,730 | 2,029 | 3,945 |
| Amortisation expense | | 1,070 | 1,084 | 2,675 |
| (Decrease)/increase in estimated doubtful debts | | - | (38) | (24) |
| Provision for restructure | 6 | 322 | - | 195 |
| Employee share based expense | | 29 | 40 | 81 |
| Movement in foreign currency | | (476) | 1,821 | (68) |
| Monetised cash flow hedge, net of tax | | 980 | - | - |
| Share of profit and dividends from joint venture and associates | | 531 | 1,950 | 2,131 |
| Deferred tax | | 381 | (27) | 160 |
| (Gain)/loss on disposal of property, plant and equipment | | (5) | 3 | 115 |
| Gain on disposal of intangibles | | - | - | 1 |
| **Total items not involving cash flow** | | **4,562** | **6,862** | **9,211** |
| **Impact of changes in working capital items** | | | | |
| Trade and other receivables | | 1,659 | 3,787 | 5,464 |
| Provision for restructure | | (307) | (548) | (850) |
| Inventories | | 752 | (4,207) | (1,114) |
| Trade and other payables | | (1,879) | (1,244) | (4,060) |
| Tax provisions | | 299 | (401) | 365 |
| **Total impact of changes in working capital items** | | **524** | **(2,613)** | **(195)** |
| **Net cash flow from operating activities** | | **(612)** | **5,329** | **7,285** |

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

## 1. General information

Rakon Limited ('the Company') and its subsidiaries ('the Group') design and manufacture frequency control solutions for a wide range of applications. Rakon has leading market positions in the supply of crystal oscillators to the telecommunications, global positioning and space & defence 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.

These financial statements of the Group are presented in New Zealand dollars and have been approved for issue by the Board of Directors on 17 November 2016.

## 2. Summary of significant accounting policies

### 2.1 Basis of preparation and accounting policies

The Company is registered under the Companies Act 1993 and is a Financial Markets Conduct reporting entity under Part 7 of the Financial Markets Conduct Act 2013. The financial statements of the Group have been prepared in accordance with the requirements of Part 7 of the Financial Markets Conduct Act 2013 and the NZX (Main Board/Debt Market) Listing Rules. In accordance with the Financial Markets Conduct Act 2013, group financial statements are prepared and presented for the Company and its subsidiaries; as a result separate financial statements for the Company are no longer required to be prepared and presented.

These interim financial statements of the Group, are for the six months ended 30 September 2016 and are not audited and should be read in conjunction with the annual report for the year ended 31 March 2016. The interim financial statements do not include all the information required for full financial statements prepared in accordance with NZ IFRS. Selected explanatory notes are included to assist understanding of the Group's financial position and performance for the period.

These interim financial statements comply with NZ IAS 34 Interim Financial Reporting and IAS 34 Interim Financial Reporting. They have been prepared in accordance with New Zealand equivalents to International Financial Reporting Standards ('NZ IFRS') and NZ GAAP.

Accounting policies applied in these financial statements comply with NZ IFRS and New Zealand equivalents to International Financial Reporting Interpretations Committee ('NZ IFRIC') interpretations, issued and effective, or issued and early adopted as at the time of preparing these financial statements as applicable to Rakon Limited as a profit oriented entity.

The accounting principles recognised as appropriate for the measurement and reporting of profit and loss and financial position on a historical cost basis have been applied, except for derivative financial instruments which have been measured at fair value. The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates. The accounting policies applied are consistent with those of the annual report for the year ended 31 March 2016. There are no new standards, amendments and interpretations adopted by the Group as of 1 April 2016.

### 2.2 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 forward foreign exchange contracts and collar options are determined using forward exchange rates at the balance date, with the resulting value discounted back to present value. The Group's foreign exchange contracts and collar options are Level 2 at 30 September 2016 and 31 March 2016.

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 period.

During the period derivatives were closed out with a $1.4m benefit held within the 'cash flow hedge reserve – realised' on the balance sheet. This will be released to the statement of comprehensive income as the original forecast transactions occur, with $322,000 released in the six month period to March 2017 and $1,039,000 released in the year to March 2018.

## 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 cash and 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 financial statements for the period. Except for Underlying EBITDA, other information provided to the chief operating decision maker is measured in a manner consistent with GAAP. The Directors provide a reconciliation of Underlying EBITDA to net profit or loss for the year.

## 3.1 Accounting policy

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 performance of the operating segments, has been identified as the Managing Director, Sales and Marketing Director and Chief Financial Officer.

**Unaudited six months ended 30 September 2016**

| | NZ $000s | UK $000s | France $000s | China – T'maker [1] $000s | India – Centum Rakon [2] $000s | Other [3] $000s | Total $000s |
|---|---|---|---|---|---|---|---|
| Sales to external customers | 30,270 | - | 15,687 | - | - | - | 45,957 |
| Inter-segment sales | 49 | - | - | - | - | (7) | 42 |
| Segment revenue | 30,319 | - | 15,687 | - | - | (7) | 45,999 |
| Underlying EBITDA | 292 | 1,039 | (1,574) | 809 | 531 | (450) | 647 |
| Depreciation and amortisation | 1,756 | 336 | 792 | - | - | (84) | 2,800 |
| Income tax (expense)/credit | - | (136) | - | - | - | (133) | (269) |
| Total assets[4] | 58,730 | 6,884 | 28,993 | 8,268 | 6,351 | 7,166 | 116,392 |
| Investment in associates | - | - | - | 8,268 | - | 5,260 | 13,528 |
| Investment in joint venture | - | - | - | - | 6,351 | - | 6,351 |
| Additions of property, plant, equipment and intangibles | 1,208 | 277 | 247 | - | - | - | 1,732 |
| Total liabilities[5] | 34,598 | 659 | 7,937 | - | - | (1,328) | 41,866 |

**Unaudited six months ended 30 September 2015**

| | NZ $000s | UK $000s | France $000s | China – T'maker [1] $000s | India – Centum Rakon [2] $000s | Other [3] $000s | Total $000s |
|---|---|---|---|---|---|---|---|
| Sales to external customers | 39,204 | 5 | 18,774 | - | - | 7 | 57,990 |
| Inter-segment sales | 43 | - | - | - | - | 35 | 78 |
| Segment revenue | 39,247 | 5 | 18,774 | - | - | 42 | 58,068 |
| Underlying EBITDA | 7,896 | 755 | (2,620) | (54) | 397 | (164) | 6,210 |
| Depreciation and amortisation | 2,080 | 361 | 573 | - | - | 99 | 3,113 |
| Income tax credit/(expense) | - | (75) | 15 | - | - | (97) | (157) |
| Total assets[4] | 69,107 | 10,497 | 36,185 | 9,827 | 7,220 | 1,425 | 134,261 |
| Investment in associates | - | - | - | 9,827 | - | - | 9,827 |
| Investment in joint venture | - | - | - | - | 7,220 | - | 7,220 |
| Additions of property, plant, equipment and intangibles | 2,013 | 374 | 787 | - | - | - | 3,174 |
| Total liabilities[5] | 32,984 | 614 | 13,529 | - | - | 353 | 47,480 |

**Audited year 31 March 2016**

| | NZ $000s | UK $000s | France $000s | China – T'maker [1] $000s | India – Centum Rakon [2] $000s | Other [3] $000s | Total $000s |
|---|---|---|---|---|---|---|---|
| Sales to external customers | 74,661 | 5 | 38,071 | - | - | - | 112,737 |
| Inter-segment sales | 162 | - | - | - | - | 55 | 217 |
| Segment revenue | 74,823 | 5 | 38,071 | - | - | 55 | 112,954 |
| Underlying EBITDA | 9,526 | 1,873 | (4,481) | 217 | 1,026 | 847 | 9,008 |
| Depreciation and amortisation | 4,436 | 745 | 1,237 | - | - | 202 | 6,620 |
| Income tax (expense)/credit | 342 | (253) | (1,006) | - | - | 43 | (874) |
| Total assets [4] | 60,931 | 10,144 | 31,279 | 8,689 | 6,798 | 3,435 | 121,276 |
| Investment in associates | - | - | - | 8,689 | - | 1,626 | 10,315 |
| Investment in joint venture | - | - | - | - | 6,798 | - | 6,798 |
| Additions of property, plant, equipment and intangibles | 3,440 | 729 | 1,378 | - | - | - | 5,547 |
| Total liabilities [5] | 27,185 | 671 | 9,457 | - | - | 535 | 37,848 |

[1] Includes Rakon Limited's 40% share of investment in Chengdu Shen-Timemaker Crystal Technology Co. Limited, Chengdu Timemaker Crystal Technology Co. Limited and Shenzhen Taixiang Wafer Co. Limited.

[2] Includes Rakon Limited's 49% share of investment in Centum Rakon India Private Limited ('CRI').

[3] Includes investments in subsidiaries, Rakon Financial Services Limited, Rakon UK Holdings Limited, Rakon Investment HK Limited, Rakon HK Limited and Rakon Limited's 46% interest in Thinxtra Pty Limited ('Thinxtra').

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

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

A reconciliation of Underlying EBITDA to net (loss)/profit is provided as follows:

| **Continuing operations** | **Unaudited six months ended 30 September 2016 $000s** | **Unaudited six months ended 30 September 2015 $000s** | **Audited year ended 31 March 2016 $000s** |
|---|---|---|---|
| Underlying EBITDA | 647 | 6,210 | 9,008 |
| Depreciation and amortisation | (2,800) | (3,113) | (6,620) |
| One off cash gains realised on derivatives closed out | (1,361) | - | - |
| Employee share schemes | (29) | (40) | (81) |
| Finance costs – net | (687) | (605) | (1,125) |
| Adjustment for associates and joint venture share of interest, tax & depreciation | (980) | (1,079) | (2,118) |
| Loss on asset sales/disposal | (4) | - | (120) |
| Other non – cash items | (215) | (136) | 199 |
| **(Loss)/profit before income tax** | **(5,429)** | **1,237** | **(857)** |
| Income tax (expense)/credit | (269) | (157) | (874) |
| **Net (loss)/profit for the period** | **(5,698)** | **1,080** | **(1,731)** |

## 4. Revenue

### 4.1 Accounting policy

Revenue comprises the fair value of amounts received and receivable by the Group for goods and services supplied in the ordinary course of business. Revenue is stated net of goods and services tax (or value added tax) collected from customers. Revenue from the sale of goods is recognised in the statement of comprehensive income when the significant risks and rewards of ownership have been transferred to the buyer and the amount can be measured reliably. Revenue from services rendered is recognised in the statement of comprehensive income, in proportion to the stage of completion of the transaction at the balance date.

### 4.2 Breakdown of revenue by goods and services

Revenue from all sources is as follows:

| | Unaudited six months ended 30 September 2016 $000s | Unaudited six months ended 30 September 2015 $000s | Audited year ended 31 March 2016 $000s |
|---|---|---|---|
| Sales of goods | 45,031 | 57,798 | 111,587 |
| Revenue from services | 926 | 192 | 1,150 |
| **Total revenue** | **45,957** | **57,990** | **112,737** |

### 4.3 Breakdown of revenue by region

The Group's trading revenue is derived in the following regions. Revenue is allocated based on the country in which the customer is located.

| | Unaudited six months ended 30 September 2016 $000s | Unaudited six months ended 30 September 2015 $000s | Audited year ended 31 March 2016 $000s |
|---|---|---|---|
| Asia | 21,460 | 25,806 | 48,725 |
| North America | 8,883 | 11,912 | 23,927 |
| Europe | 14,885 | 18,650 | 37,217 |
| Others | 729 | 1,622 | 2,868 |
| **Total revenue by region** | **45,957** | **57,990** | **112,737** |

### 4.4 Breakdown of revenue by market segment

| | Unaudited six months ended 30 September 2016 $000s | Unaudited six months ended 30 September 2015 $000s | Audited year ended 31 March 2016 $000s |
|---|---|---|---|
| Telecommunications | 21,262 | 28,872 | 53,422 |
| Global Positioning | 12,048 | 16,501 | 31,451 |
| Space and Defence | 11,609 | 11,337 | 25,265 |
| Other | 1,038 | 1,280 | 2,599 |
| **Total revenue by market segment** | **45,957** | **57,990** | **112,737** |

## 5. Other gains – net

| | Unaudited six months ended 30 September 2016 $000s | Unaudited six months ended 30 September 2015 $000s | Audited year ended 31 March 2016 $000s |
|---|---|---|---|
| Gain/(loss) on disposal of property, plant, equipment and intangibles | 1 | 3 | (117) |
| **Foreign exchange gains/(losses) – net** | | | |
| Foreign exchange contracts and hedges [1] | 424 | (449) | 275 |
| Revaluation of foreign denominated monetary assets and liabilities | (640) | 2,172 | 713 |
| **Total foreign exchange gains – net** | **(216)** | **1,723** | **988** |
| **Total other (losses)/gains – net** | **(215)** | **1,726** | **871** |

[1] Includes realised and unrealised gains/(losses) arising from accounts receivable and accounts payable. Hedge accounting is applied on the initial sale of goods and purchase of inventory, subsequent movements are recognised in trading foreign exchange.

## 6. Operating expenses

| | Unaudited six months ended 30 September 2016 $000s | Unaudited six months ended 30 September 2015 $000s | Audited year ended 31 March 2016 $000s |
|---|---|---|---|
| **Operating expense by function** | | | |
| Selling and marketing costs | 4,721 | 5,206 | 10,377 |
| Research and development | 5,696 | 6,956 | 12,059 |
| General and administration | 10,255 | 11,117 | 25,330 |
| **Total operating expenses** | **20,672** | **23,279** | **47,766** |

### 6.1 New Zealand restructure

During the period a partial restructure took place in the NZ business. Restructure related costs of $737,000 are included in operating expenses for the six months to 30 September 2016. A provision of $213,000 exists at 30 September 2016 for costs incurred but not yet settled. These are expected to be settled within the next six months.

## 7. Interests in associates and joint venture

### 7.1 Accounting policy

Associates are entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting and are initially recognised at cost.

Joint arrangements are classified as either joint operations or joint ventures. The classification depends on the contractual rights and obligations of each investor, rather than the legal structure of the joint arrangement. The Group's joint venture is accounted for using the equity method.

Under the equity method of accounting, the investments are initially recognised at cost and adjusted thereafter to recognise the Group's share of the post-acquisition profits or losses of the investee in profit or loss, and the Group's share of movements in other comprehensive income of the investee in other comprehensive income. Dividends received or receivable from associates and joint ventures are recognised as a reduction in the carrying amount of the investment. When the Group's share of losses in an equity-accounted investment equals or exceeds its interest in the entity, including any other unsecured long-term receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the other entity. Unrealised gains on transactions between the Group and its associates and joint ventures are eliminated to the extent of the Group's interest in these entities. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of equity accounted investees have been changed where necessary to ensure consistency with the policies adopted by the Group.

### 7.2 Breakdown of interest in associates & joint venture

Set out below are the associates and joint venture of the Group. The entities listed below have share capital consisting solely of ordinary shares, which are held directly by the Group. The country of incorporation or registration is also their principal place of business, and the proportion of ownership interest is the same as the proportion of voting rights held.

| | | | % of ownership interest | | |
|---|---|---|---|---|---|
| **Name of entity** | **Nature of relationship** | **Country of incorporation** | **Unaudited six months ended 30 September 2016** | **Unaudited six months ended 30 September 2015** | **Audited year ended 31 March 2016** |
| Chengdu Shen-Timemaker Crystal Technology Co. Limited | Associate | China | 40% | 40% | 40% |
| Chengdu Timemaker Crystal Technology Co. Limited | Associate | China | 40% | 40% | 40% |
| Shenzhen Taixiang Wafer Co. Limited | Associate | China | 40% | 40% | 40% |
| Thinxtra Pty Limited | Associate | Australia | 46% | - | 40% |
| Centum Rakon India Private Limited | Joint venture | India | 49% | 49% | 49% |

| | Net investment | | | Equity accounted (loss)/profit | | |
|---|---|---|---|---|---|---|
| | **Unaudited six months ended 30 September 2016 $000s** | **Unaudited six months ended 30 September 2015 $000s** | **Audited year ended 31 March 2016 $000s** | **Unaudited six months ended 30 September 2016 $000s** | **Unaudited six months ended 30 September 2015 $000s** | **Audited year ended 31 March 2016 $000s** |
| Chengdu Shen-Timemaker Crystal Technology Co. Limited | 6,219 | 8,010 | 6,842 | | | |
| Chengdu Timemaker Crystal Technology Co. Limited | 1,647 | 1,359 | 1,411 | | | |
| Shenzhen Taixiang Wafer Co. Limited | 402 | 458 | 436 | | | |
| Total Timemaker Group | 8,268 | 9,827 | 8,689 | 433 | (212) | (704) |
| Thinxtra Pty Limited | 5,260 | - | 1,626 | (938) | - | (95) |
| **Total carrying amount of associates** | **13,528** | **9,827** | **10,315** | **(505)** | **(212)** | **(799)** |
| Centum Rakon India Private Limited | 6,351 | 7,220 | 6,798 | (26) | (520) | (103) |
| **Total carrying amount of equity accounted associates and joint venture** | **19,879** | **17,047** | **17,113** | **(531)** | **(732)** | **(902)** |

The Timemaker and CRI entities provide products and services to the frequency control products industry.

### 7.3 Investment in Thinxtra

Thinxtra Pty Limited (‘Thinxtra') is an 'Internet of Things' business that started operations in Australia and New Zealand in 2016. Thinxtra's focus is on establishing a network and providing products, services and solutions to customers who have Machine-to-Machine communication needs.

During the period Rakon invested a further A$4.2m in Thinxtra and at 30 September 2016 had a shareholding of 46%. Rakon’s shareholding would reduce to 36% in the likely event that Thinxtra’s founding shareholders chose to exercise all their outstanding options. The Directors have concluded that Rakon does not have control over Thinxtra and continues to be accounted for as an associate.

The Group commenced equity accounting its investment in Thinxtra from December 2015.

## 8. Borrowings

### 8.1 Accounting policy

Interest bearing borrowings are recognised initially at fair value, net of transaction costs incurred. Subsequent to initial recognition, interest bearing borrowings are measured at amortised cost with any difference between the proceeds (net of transaction costs) and the redemption amount, recognised in the statement of comprehensive income over the period of the borrowings using the effective interest method. Arrangement fees are amortised over the term of the loan facility. General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets (which are assets that necessarily take a substantial period of time to get ready for their intended use), are added to the cost of those assets until such time as the assets are substantially ready for their intended use. Other borrowing costs are expensed when incurred.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after balance date.

### 8.2 Breakdown of borrowings

| | Unaudited six months ended 30 September 2016 $000s | Unaudited six months ended 30 September 2015 $000s | Audited year ended 31 March 2016 $000s |
|---|---|---|---|
| **Current** | | | |
| Obligations under finance lease | 10 | 32 | 15 |
| Bank overdrafts | 3,799 | 5,273 | 3,931 |
| Bank borrowings | 18,911 | 12,000 | - |
| **Current borrowings** | **22,720** | **17,305** | **3,946** |
| | | | |
| **Non-current** | | | |
| Obligations under finance lease | 64 | 15 | - |
| Bank borrowings | - | - | 12,000 |
| **Non-current borrowings** | **64** | **15** | **12,000** |

### 8.3 Bank borrowings

The Group maintains the following lines of credit:

- $15.1m cash advance facility with ASB. The interest rate is reset every 30 – 90 days and interest is payable based on the bank bill rate for that interest period, the term funding premium and the applicable margin. The drawn down balance at balance date was $13.5m and the facility expiry date is May 2017.
- $5.4m cash advance facility with ASB. The interest rate is reset every 30 – 90 days and interest is payable based on the bank bill rate for that interest period, the term funding premium and the applicable margin. During the period $5.4m was drawn down and used for the purchase of the Group's investment in Thinxtra. The facility expiry date is September 2017.
- $9.3m overdraft limit. Interest is payable at the ASB Corporate Indicator Rate plus applicable margin.

Facilities are secured by a general security deed over all the present and future assets and undertakings of the Group. In March 2016 Rakon renewed its facilities and in September 2016 Rakon amended some terms of its facilities. Prior to expiry the Directors anticipate renewing the cash advance facilities at reduced levels. The Directors anticipate renewing the overdraft facility on similar terms and conditions.

## 9. Contingencies

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

## 10. Events after reporting date

### 10.1 France restructure

A proposal for re-organisation has been discussed with the Work Inspection Administration and Workers Council in France and communicated to the employees of Rakon France SAS as a plan to restructure in November and December 2016. Restructure related costs are expected to be €1,414,000.

There have been no other subsequent events after 30 September 2016.

# Directory

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Bruce Irvine
Peter Maire
Warren Robinson
Herbert Hunt (ceased 4 July 2016)
Darren Robinson (ceased 16 September 2016)

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## Share Registrar

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*Managing your shareholding online:*
To change your address, update your payment instructions and to view your investment portfolio including transactions, please visit:
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## Bankers

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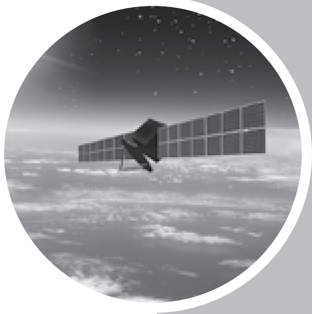


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