Rakon Ltd

Financial Statements 2020

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Directors' Statement

The Directors are responsible for ensuring that the financial statements fairly present the financial position of the Group as at 31 March 2020 (FY2020) and the financial performance and cash flows for the year ended on that date.

The Directors consider that the financial statements of the Group have been prepared using appropriate accounting policies, consistently applied and supported by reasonable judgements and estimates, and that all relevant financial reporting and accounting standards have been followed.

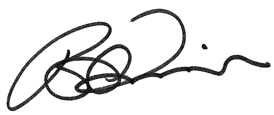
The Directors believe that proper accounting records have been kept, which enable, with reasonable accuracy, the determination of the financial position of the Company and the Group and facilitate compliance of the financial statements with the Financial Markets Conduct Act 2013.

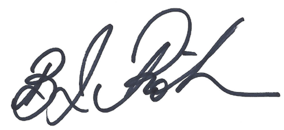
The Directors consider they have taken adequate steps to safeguard the assets of the Company and the Group and to prevent and detect fraud and other irregularities.

The Directors present the financial statements, set out in pages 4 – 43, of Rakon Limited and subsidiaries for the year ended 31 March 2020.

The Board of Directors of Rakon Limited authorised these financial statements for issue on 29 June 2020.

On behalf of the Directors





BR Irvine	BJ Robinson
Chair	CEO, Managing Director

Statement of Comprehensive Income

For the year ended 31 March 2020

	Note	2020 $000s	2019 $000s
Continuing operations			
Revenue	5	118,980	113,985
Cost of sales		(66,947)	(62,317)
Gross profit		**52,033**	**51,668**
Other operating income	7	28	121
Operating expenses	6	(48,081)	(47,338)
Other (losses)/gains – net	8	(438)	718
Operating profit		**3,542**	**5,169**
Finance income	9	8	37
Finance costs	9	(1,063)	(571)
Share of net profits of associates and joint venture	16	797	839
Profit before income tax		**3,284**	**5,474**
Income tax credit/(expense)	21	696	(2,110)
Net profit for the year attributable to equity holders of the Company		**3,980**	**3,364**
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss			
Decrease in fair value cash flow hedges		(7,247)	(1,812)
Cost of hedging		570	31
Exchange differences on translation of foreign operations		4,140	1,329
Income tax relating to components of other comprehensive income		2,029	507
Items that will not be reclassified subsequently to profit or loss			
Changes in fair value of equity investments at fair value through other comprehensive income – Thinxtra		(1,632)	(454)
Other comprehensive income for the year, net of tax		**(2,140)**	**(399)**
Total comprehensive income for the year attributable to equity holders of the Company		**1,840**	**2,965**
Earnings per share attributable to the equity holders of the Company		**Cents**	**Cents**
Basic earnings per share	23	1.8	1.5
Diluted earnings per share	23	1.8	1.5

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

Rakon Limited

Statement of Changes in Equity

For the year ended 31 March 2020

	Note	Share capital $000s	Retained earnings $000s	Other reserves $000s	Total equity $000s
Balance at 31 March 2018		**181,024**	**(73,219)**	**(20,754)**	**87,051**
Net profit after tax for the year		-	3,364	-	3,364
Currency translation differences	24	-	-	1,329	1,329
Cash flow hedges, net of tax	24	-	-	(1,274)	(1,274)
Changes in fair value of equity investments at fair value through other comprehensive income – Thinxtra	24	-	-	(454)	(454)
Total comprehensive income for the year		**-**	**3,364**	**(399)**	**2,965**
Balance at 31 March 2019		**181,024**	**(69,855)**	**(21,153)**	**90,016**
Net profit after tax for the year		-	3,980	-	3,980
Currency translation differences	24	-	-	4,140	4,140
Cash flow hedges, net of tax	24	-	-	(4,648)	(4,648)
Changes in fair value of equity investments at fair value through other comprehensive income – Thinxtra	24	-	-	(1,632)	(1,632)
Total comprehensive income for the year		**-**	**3,980**	**(2,140)**	**1,840**
Balance at 31 March 2020		**181,024**	**(65,875)**	**(23,293)**	**91,856**

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

Rakon Limited

Balance Sheet

As at 31 March 2020

	Note	2020 $000s	2019 $000s
Assets			
Current assets			
Cash and cash equivalents	10	5,086	4,719
Trade and other receivables	11	42,379	38,220
Derivative financial instruments	25	27	307
Financial asset at fair value through profit or loss	25	2	19
Inventories	12	37,624	39,310
Current income tax asset		889	561
Total current assets		**86,007**	**83,136**
Non-current assets			
Derivative financial instruments	25	-	258
Financial asset at fair value through other comprehensive income – Thinxtra	17	2,918	4,549
Trade and other receivables	11	2,702	2,267
Property, plant and equipment	13	18,924	19,394
Right-of-use assets	15	9,730	-
Intangible assets	14	9,003	9,149
Investment in associates	16	11,714	10,399
Deferred tax asset	21	9,246	7,352
Total non-current assets		**64,237**	**53,368**
Total assets		**150,244**	**136,504**
Liabilities			
Current liabilities			
Bank overdraft	18	12,848	11,501
Borrowings	18	145	474
Trade and other payables	19	22,252	26,398
Lease liabilities	15	2,741	-
Deferred consideration on acquisition – Rakon India		-	1,885
Derivative financial instruments	25	5,040	945
Provisions	20	714	471
Deferred income – government wage subsidy	11	2,000	-
Total current liabilities		**45,740**	**41,674**
Non-current liabilities			
Derivative financial instruments	25	2,840	343
Borrowings	18	-	412
Lease liabilities	15	6,704	-
Provisions	20	2,918	2,990
Deferred tax liabilities	21	186	1,069
Total non-current liabilities		**12,648**	**4,814**
Total liabilities		**58,388**	**46,488**
Net assets		**91,856**	**90,016**
Equity			
Share capital	22	181,024	181,024
Other reserves	24	(23,293)	(21,153)
Accumulated losses		(65,875)	(69,855)
Total equity		**91,856**	**90,016**

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

Rakon Limited

Statement of Cash Flows

For the year ended 31 March 2020

	Note	2020 $000s	2019 $000s
Operating activities			
Cash provided from			
Receipts from customers		116,396	114,974
R&D grants received		1,557	1,894
Other income received		36	58
		117,989	**116,926**
Cash was applied to			
Payment to suppliers and others		(58,364)	(71,695)
Payment to employees		(48,860)	(46,286)
Interest paid		(918)	(459)
Income tax paid		(446)	(254)
		(108,588)	**(118,694)**
Net cash flow from operating activities		**9,401**	**(1,768)**
Investing activities			
Cash was provided from			
Sale of property, plant and equipment		44	82
		44	**82**
Cash was applied to			
Purchase of property, plant and equipment		(3,753)	(6,188)
Purchase of intangibles		(774)	(720)
Purchase of shares in Centum Rakon India Private Limited		(2,148)	(5,848)
		(6,675)	**(12,756)**
Net cash flow from investing activities		**(6,631)**	**(12,674)**
Financing activities			
Cash was applied to			
Lease liabilities payments		(3,078)	-
Finance lease payments		-	(24)
Cash was applied to financing activities		**(3,078)**	**(24)**
Net cash flow from financing activities		**(3,078)**	**(24)**
Net decrease in cash and cash equivalents		**(308)**	**(14,466)**
Effects of exchange rate changes on cash and cash equivalents		(672)	144
Cash and cash equivalents at the beginning of the year		(6,782)	7,540
Cash and cash equivalents at the end of the year	10	**(7,762)**	**(6,782)**

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

Rakon Limited

Statement of Cash Flows

For the year ended 31 March 2020

	Note	31 March 2020 $000s	31 March 2019 $000s
Reconciliation of net profit to net cash flows from operating activities			
Reported net profit after tax		**3,980**	**3,364**
Adjustments for			
Depreciation and amortisation expense	6	8,823	5,802
Increase in allowance for expected credit loss		4	475
Interest expenses		164	-
Provisions provided		415	342
Movement in foreign currency		1,608	439
Deferred revenue – Siward technology licence agreement		-	(101)
Share of net profits of associates and joint venture	16	(797)	(839)
Deferred tax movement	21	(919)	231
Gain on disposal of property, plant and equipment		-	(82)
		9,298	**6,267**
Change in operating assets and liabilities			
Increase in trade and other receivables		(4,594)	(5,007)
Increase/(decrease) in provisions		171	(246)
Decrease/(increase) in inventories		3,020	(9,145)
(Decrease)/increase in trade and other payables		(2,146)	2,781
(Decrease)/increase in tax provisions		(328)	218
Total impact of changes in working capital items		**(3,877)**	**(11,399)**
Net cash flow from operating activities		**9,401**	**(1,768)**

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

Notes to the Financial Statements

1. General information

Rakon Limited ('the Company') and its subsidiaries ('the Group') are a global technology company that design and manufacture leading 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, and its registered office is at 8 Sylvia Park Road, Mt Wellington, Auckland.

The financial statements of the Group have been presented in New Zealand dollars and has been rounded to the nearest thousands unless otherwise indicated.

2. Impact of Covid-19

Covid-19 has had a negative short-term impact to the Group with the New Zealand and Indian operations severely restricted for periods of time. In the medium to longer term Covid-19 is not expected to have a material adverse effect on the Group. The telecommunications segment is a major part of the Group's operations and Covid-19 has increased the reliance on remote communications, reliable telecommunications infrastructure and higher network capacities. At this stage the Group has not seen a material negative change in demand for its products due to Covid-19 including those used in non-telecommunications segments (i.e. global positioning, space and defence). Further, the Group has not seen a material negative impact on its customers or suppliers.

The effect of Covid-19 to date on specific areas of the business is explained below.

a. Manufacturing operations

In the period from late March 2020 to the end of April 2020 operations were significantly affected due to severe government imposed closures of manufacturing operations in New Zealand and India. Both the New Zealand and Indian manufacturing operations were able to resume during April 2020. The New Zealand operation is now back to normal manufacturing capacity with the Indian operations expected to achieve this by the end of June 2020. The French manufacturing operations were able to continue operating through the period. Non-manufacturing activities were not significantly impacted with most staff working remotely. Reduced global airfreight capacity made movement of materials difficult for a period, however movement of materials is no longer an issue.

b. Customers

No material adverse impact has been observed to date in respect of Rakon's customers. Aging of receivables and cash collections continues to be within normal ranges and no requests to defer payments have been received to date. The business is not aware of any key customers being in financial distress due to Covid-19 and no changes to terms have been made as a result of Covid-19. These factors were taken into account in the assessment of the expected credit loss provision (note 11).

c. Mitigation actions

A number of actions were taken to mitigate the initial effects on the business, these include;

- Ceasing or deferring expenditure (including capital expenditure, incentive payments, temporary rent reductions)
- Applying salary reductions across a large part of the employee base for a period of nine weeks from April 2020
- Reducing directors' fees by 50% for the quarter beginning April 2020
- Accessing government support where eligible and appropriate to enable the retaining of staff for as long as possible. This was through initiatives such as wage subsidies, funded furlough's and through access to longer-term state backed funding in France. The New Zealand wage subsidy applied for in March 2020 is included in trade and other receivables (note 11) and deferred income – government wage subsidy for equivalent amounts. The grants from the governments are recognised where there is reasonable assurance that the grant will be received and the Group will comply with all attached conditions. These are recorded in the Statement of Comprehensive Income over the period necessary to match them with the costs that they are intended to compensate. No wage subsidies have been recognised in the current Statement of Comprehensive Income.

d. Going concern assessment

As part of the response to Covid-19, the company undertook detailed planning and forecasting of the business covering a number of scenarios and took into consideration the current and expected future effects of Covid-19 on the Group. Examples of scenarios modelled include; an extended period of closure for the New Zealand and Indian manufacturing operations; Group revenue being lower than forecast; higher than expected growth in inventory. The assessment showed the 'base case' or 'most likely' outcome was that cash flow and net debt forecasts would be within bank facility limits and covenants. Further, most downside scenarios modelled could be accommodated apart from a scenario where a second outbreak was to occur and the New Zealand and Indian manufacturing operations were closed for two months. No new information or developments have become evident up to the date of signing of these financial statements that would materially adversely impact the base case forecast.

The Directors concluded that these financial statements are prepared on a going concern basis, taking into account the above and acknowledge the uncertainties around forecasting earnings in the Covid-19 environment. The Directors note that such uncertainties do not represent material uncertainties related to going concern.

e. Impairment of assets

Covid-19 is not expected to have a fundamental negative impact in the medium to long term on Rakon's customers, suppliers or Rakon's value proposition. Covid-19 has increased the reliance on remote communications, reliable telecommunications infrastructure and higher network capacities. The forecasts used to underpin the asset impairment assessments (notes 13 and 14) include the negative short-term impacts of Covid-19.

f. Inventory (note 12)

The Group has not seen a material negative change in demand for its products due to Covid-19. Accordingly, Covid-19 is not expected to adversely impact the carrying value of inventory.

g. Derivatives and hedging (note 25)

Derivatives used for hedging are potentially affected by Covid-19 where the forecast hedged items or counterparty credit risks are materially impacted. The Group's forecasts for exposures which are hedged are not significantly impacted by Covid-19. The impact of Covid-19 on counterparty credit risk is also assessed and not considered material.

3. Statement of accounting policies

a. Basis of preparation and measurement base

The Company is registered under the Companies Act 1993 and is a FMC 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) Listing Rules.

These consolidated financial statements for the year ended 31 March 2020 have been prepared in accordance with New Zealand Generally Accepted Accounting Practice (NZ GAAP). They comply with New Zealand equivalents to International Financial Reporting Standards (NZ IFRS), other New Zealand accounting standards and authoritative notices that are applicable to entities that apply NZ IFRS. The consolidated financial statements also comply with International Financial Reporting Standards (IFRS). The Group is a Tier 1 for-profit entity.

The financial statements have been prepared on a historical cost basis, with the exception of derivative financial instruments and equity instruments, which are measured at fair value.

b. Basis of consolidation

The financial statements of the subsidiaries are included in the Company's financial statements from the date on which control commences until the date on which control ceases, refer note 28 for further information on subsidiaries. All material intercompany transactions, balances and unrealised gains on transactions between the subsidiaries are eliminated on consolidation. Interests in associates and joint ventures are accounted for using equity method, refer note 16.

c. Critical accounting estimates and judgements

The preparation of financial statements in accordance with NZ IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and assumptions that involved a higher degree of judgement or complexity, or are significant to financial statements are listed below and disclosed within the specified notes:

- Calculation of inventory obsolescence (note 12)
- Estimated useful life of product development assets (note 14)
- Impairment of assets (note 14)
- Calculations of right-of-use assets and lease liability (note 15)
- Thinxtra valuation (note 17)
- Estimation of year end income tax and deferred tax (note 21)
- Estimation of contingent liabilities (note 31)

d. Significant accounting policies and new accounting standards

Accounting policies are disclosed within each of the applicable notes to the financial statements. The principal accounting policies applied in the preparation of these financial statements have been consistently applied except for the new accounting standard, NZ IFRS 16 Leases that replaces the requirements in NZ IAS 17 Leases. The Group adopted NZ IFRS 16 Leases from 1 April 2019 and have elected to apply it retrospectively with the cumulative effect of initially applying the standard recognised at the date of initial application. Under this method the Group has not restated comparatives for this reporting period, refer note 15.

Following adoption of NZ IFRS 16 Leases, the disclosed lease liabilities and right-of-use assets in the interim financial statements of the Group for the period ended 30 September 2019 have been restated to reflect an error in the lease payments of Rakon India Private Limited. The revised lease liabilities and right-of-use assets at 30 September 2019 is $9,978,000 and $10,204,000 respectively, an increase of $1,297,000 and

$1,287,000. The impact of this change on the reported interest on the lease liabilities and depreciation on the right-of-use assets for the period ended 30 September 2019 was not material.

The Group has also reviewed the NZ IFRIC 23 Uncertainty over Income Tax Treatment and has concluded that there is no impact of this on the financial statements.

e. New standards and interpretations not yet adopted

Certain new accounting standards and interpretations have been published that are not mandatory for 31 March 2020 reporting periods and have not been early adopted by the Group. These standards are not expected to have a material impact on the Group.

f. Foreign currency translation

Functional and presentation currency

The financial statements of each entity in the Group are measured using the currency of primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in New Zealand dollars, ('the presentation currency'), which is the functional currency of the parent.

Transactions and balances

Foreign currency transactions are translated into the relevant functional currency at the exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the balance date are translated to functional currency at the foreign exchange rate at that date. Foreign exchange differences arising on translation are recognised in the Statement of Comprehensive Income, within other (losses)/gains – net, except when deferred in other comprehensive income (OCI) as qualifying cash flow hedges. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated at foreign exchange rates at the dates the fair value was determined.

The assets and liabilities of all of the Group companies (none of which has a currency of a hyper-inflationary economy) that have a functional currency that differs from the presentation currency, including goodwill and fair value adjustments arising on consolidation, are translated to New Zealand dollars at foreign exchange rates, at the balance date. The revenues and expenses of these foreign operations are translated to New Zealand dollars, at rates approximating to the foreign exchange rates at the dates of the transactions. Exchange differences arising from the translation of foreign operations are recognised in the foreign currency translation reserve, refer note 23.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and are translated at the foreign exchange rates at the balance date.

4. Segment information

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, Chief Operating Officer and Chief Financial Officer.

The chief operating decision maker also assess 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 associate's and joint venture's 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 cash and non-cash items 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 year. Except for Underlying EBITDA, other information provided to the chief operating decision maker is measured in a manner consistent with GAAP.

Rakon Limited

a. Segment results

Information related to each reportable segment is set out below.

31 March 2020

	NZ $000s	UK $000s	France $000s	India [2] $000s	China – T'maker [1] $000s	Other [3] $000s	Total $000s
Sales to external customers	70,382	-	45,764	2,834	-	-	118,980
Inter-segment sales	499	-	-	21,923	-	(117)	22,305
Segment revenue	70,881	-	45,764	24,757	-	(117)	141,285
Underlying EBITDA	9,634	1,813	(1,690)	3,169	2,214	(353)	14,787
Depreciation and amortisation	3,972	648	2,236	1,838	-	129	8,823
Income tax credit/(expense)	1,012	(186)	31	-	-	(161)	696
Total assets [4]	71,021	3,130	36,364	25,341	11,714	2,674	150,244
Investment in associates	-	-	-	-	11,714	-	11,714
Additions of property, plant, equipment and intangibles	2,587	480	635	920	-	-	4,622
Total liabilities [5]	36,131	1,385	12,426	7,544	-	902	58,388

31 March 2019

	NZ $000s	UK $000s	France $000s	India [2] $000s	China – T'maker [1] $000s	Other [3] $000s	Total $000s
Sales to external customers	64,376	-	45,058	4,551	-	-	113,985
Inter-segment sales	285	-	33	23,092	-	(323)	23,087
Segment revenue	64,661	-	45,091	27,643	-	(323)	137,072
Underlying EBITDA	7,857	1,691	(1,312)	2,605	2,136	293	13,270
Depreciation and amortisation	2,426	515	1,775	1,099	-	(13)	5,802
Income tax credit/(expense)	(858)	(214)	31	(420)	-	(649)	(2,110)
Total assets [4]	65,766	2,141	32,129	23,085	10,399	2,984	136,504
Investment in associates	-	-	-	-	10,399	-	10,399
Additions of property, plant, equipment and intangibles	3,191	482	1,395	1,986	-	-	7,054
Total liabilities [5]	27,373	591	9,798	7,497	468	761	46,488

[1] Includes Rakon Limited's 40% share of investment in Chengdu Timemaker Crystal Technology Co. Limited and Shenzhen Taixiang Wafer Co. Limited, refer note 16.

[2] On 2 May 2018, the Group acquired remaining 51% of the issued shares it did not own in Centum Rakon India Private Limited ('CRI'), a previously held joint venture which provides products and services to the frequency control industry. Subsequent to acquisition, the name of the investment was changed to Rakon India Private Limited. Rakon India contract manufactures telecommunications products that are sold by Rakon France.

[3] Includes investments in subsidiaries, Rakon Financial Services Limited, Rakon UK Holdings Limited, Rakon Investment HK Limited, and Rakon HK Limited.

[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.

b. Reconciliation of Underlying EBITDA to net profit for the year

Continuing operations	2020 $000s	2019 $000s
Underlying EBITDA	14,787	13,270
Depreciation and amortisation	(8,823)	(5,802)
Finance costs – net	(1,055)	(534)
Adjustment for associates and joint venture share of interest, tax and depreciation	(1,447)	(1,120)
Loss on asset sales/disposal	(11)	(6)
Other non-cash items	(167)	(334)
Profit before income tax	**3,284**	**5,474**
Income tax credit/(expense)	696	(2,110)
Net profit for the year	**3,980**	**3,364**

5. Revenue

The Group generally recognises revenue when the performance obligations are satisfied by transferring control of products to the customer based on the specified contract price. Typically, control transfers to the customer at the same time as the legal title of the products are passed to the customer. This is usually on delivery of the products. The transaction price includes all amounts that the Group expects to be entitled to net of any sales taxes.

Long-term contracts – space and defence segment in France

The Group has long-term contracts in the space and defence segment in France. For these contracts, the revenue is recognised over time as the Group's performance creates an asset, which does not have an alternative use to the Group, and the Group has an enforceable right to be paid for work completed to date. The Group uses the percentage-of-completion to determine the appropriate amount to recognise in a given period. The stage of completion is measured by reference to the contract costs incurred up to the end of the reporting period as a percentage of total estimated costs for each contract.

a. Revenue from contracts with customers

Timing of revenue recognition

	2020 $000s	2019 $000s
Products transferred at a point in time	116,032	110,837
Products and services transferred over time	2,948	3,148
	118,980	113,985

The performance obligation of the products and services transferred over time which were in progress at 31 March 2019 were completed during the year.

b. Revenue analysis

The Group predominately operates in one segment, its primary business being the design, manufacture, marketing and the sale of frequency control solutions. There is one main revenue stream, which is the sale of manufactured finished products.

Market segment

The Group's products are used in the telecommunications, global positioning and space & defence markets.

	2020 $000s	2019 $000s
Telecommunications	65,167	53,599
Global Positioning	18,915	20,498
Space and Defence	28,230	31,583
Other	6,668	8,305
Total revenue by market segment	**118,980**	**113,985**

Geographical segment

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

	2020 $000s	2019 $000s
Asia	60,474	53,799
North America	26,959	25,793
Europe	29,073	31,671
Others	2,474	2,722
Total revenue by region	**118,980**	**113,985**

Assets and liabilities related to contracts with customers

	2020 $000s	2019 $000s
Total current contract assets	950	2,788
Total current contract liabilities	(392)	(929)
	558	1,859

	2020 $000s	2019 $000s
Revenue recognised in relation to contract liabilities		
Revenue recognised that was included in the contract liability balance at the beginning of the period	929	1,916
Asset recognised for costs to fulfil a contract		
Assets recognised from costs incurred to fulfill a contract	446	792

6. Expenditure included in net profit

Additional information in respect of expenses included in the Statement of Comprehensive Income is as follows.

a. Operating expenses by function

	2020 $000s	2019 $000s
Selling and marketing	9,585	9,809
Research and development	13,888	11,029
General and administration	24,608	26,500
Total operating expenses	**48,081**	**47,338**

b. Breakdown of significant expenses by nature

	2020 $000s	2019 $000s
Employee benefit expenses		
Wages and salaries	45,253	43,872
Contributions to defined plans	666	644
Increase in liability for French retirement indemnity plan (note 20)	220	265
Increase in liability for long service leave (note 20)	179	65
Total employee benefit expenses	**46,318**	**44,846**
Depreciation (note 13)	3,925	3,765
Amortisation (note 14)	2,200	2,037
Depreciation on right-of-use assets (note 15)	2,698	-
Rental expense	-	2,613
Donations	6	14

Rakon Limited

	2020 $000s	2019 $000s
Research and development grants/credits		
Research and development government grant	(961)	(847)
Research and development tax credit	(1,196)	(997)
Total research and development grants/credits	**(2,157)**	**(1,844)**
Fees to the auditors		
Audit and review of financial statements		
PwC New Zealand	374	369
PwC India	35	21
PwC China	50	48
PwC France	96	110
PwC UK	41	26
BDO Limited (Hong Kong) [1]	16	12
T S Tay Public Accounting Corporation (Singapore) [1]	9	7
Morison (Mauritius) [1]	5	5
Total audit and review fees	**626**	**598**
Assurance and audit related services		
Performed by PwC New Zealand		
Annual Shareholders' Meeting procedures [2]	-	8
Performed by PwC France		
Certification of expenditure on R&D activities	5	-
Total assurance and audit related services	**5**	**8**
Other services		
Performed by PwC New Zealand		
Government R&D credits reviews	-	14
Other services [3]	26	26
Performed by PwC India		
Research and development expenses review	2	-
Total other services fees	28	40
Total fees paid to auditors	**659**	**646**

[1] The fee relates to the annual audit of the local territory financial statements.

[2] Other audit related services comprise other non-assurance services undertaken by PwC in their capacity as auditor. Other audit related services in 2019 comprise an agreed upon procedures engagement in relation to proxy vote scrutineering.

[3] Other assurance services comprise provision of treasury related financial markets risk analysis and commentary.

Employee benefits expenses

Employee entitlements to salaries, wages and annual leave to be settled within 12 months of balance date represent present obligations resulting from employees' services provided up to the balance date. These are calculated at undiscounted amounts based on remuneration rates that the Group expects to pay.

Superannuation schemes

The Group's New Zealand and overseas operations participate in their respective government superannuation schemes, whereby the Group is required to pay fixed contributions into a separate entity. The Group has no legal or constructive obligations to pay further contributions if the fund does not have sufficient assets to pay all employees the benefits relating to the 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 an employee benefit expense when they are due.

Rental expenses

In the current year, the Group has adopted NZ IFRS 16 Leases which has changed the classification of rental expenses, refer note 15. Rental payments exclusive of GST/VAT previously classified as rental expenses are now recorded to reduce the lease liabilities. Depreciation on right-of-use assets are recorded to reflect the use of leases. Related finance cost is also recorded in the Statement of Comprehensive Income.

Research and development

Expenditure on research activities has been undertaken with the prospect of gaining new scientific or technical knowledge and understanding. Any research and development taxation credits and government grant funding for research and development are recognised when eligibility criteria have been met and there is a reasonable assurance that tax credits and the grants will be received.

Grants and tax credits from government are recognised at their fair value. The research and development grants and tax credits are recognised in trade and other receivables (note 11), and in the Statement of Comprehensive Income over the period necessary to match them with the costs that they are intended to compensate.

7. Other operating income

	2020	2019
	$000s	$000s
Other income	28	20
Income from technology license agreement with Siward	-	101
Total other operating income	**28**	**121**

Prior year – Investment by Siward Crystal Technology Company Limited ('Siward') and attribution of proceeds

Siward is a Taiwan based crystal manufacturer, which is listed on the Taiwan Stock Exchange. In February 2017, Siward paid US$10m cash in return for 38,016,681 fully paid ordinary shares in Rakon and rights arising from a technology license agreement. Siward took up one appointment on Rakon's Board. At 31 March 2019, the transfer under the technology licence agreement was fully completed and the residual revenue of $0.1m recognised.

8. Other (losses)/gains – net

	2020	2019
	$000s	$000s
Gain/(loss) on disposal of property, plant, equipment, and intangible	33	(82)
Foreign exchange (losses)/gains – net		
Forward foreign exchange contracts		
Held for trading	(29)	46
Revaluation of foreign denominated monetary assets and liabilities [1]	(442)	754
Total foreign exchange (losses)/gains – net	**(471)**	**800**
Total other (losses)/gains – net	**(438)**	**718**

[1] Includes realised and unrealised (losses)/gains arising from accounts receivable and accounts payable.

9. Net finance (costs)/income

Interest income is recognised in the Statement of Comprehensive Income as it accrues, using the effective interest method.

	2020	2019
	$000s	$000s
Finance income		
Interest income	8	37
Finance costs		
Interest expense on bank borrowings	(899)	(459)
Interest on deferred consideration on acquisition – Rakon India	(53)	(100)
Unwinding of lease make good provision discount	(16)	(12)
Interest on lease liabilities	(95)	-
Total finance costs	(1,063)	(571)
Net finance costs	**(1,055)**	**(534)**

Overdraft interest rate

The average interest rate was as follows. Additional information on borrowings is in note 18.

- ASB facility in New Zealand 6.53% (2019: 5.15%)
- SBI facility in India 10.55% (2019: 9.95%)

10. Cash and cash equivalents

Cash and cash equivalents comprise of cash balances, call deposits, and other short-term highly liquid investments with original maturities of three months or less, that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value and bank overdrafts. Bank overdrafts are shown separately from borrowings on the balance sheet.

	2020	2019
	$000s	$000s
Cash at bank and on hand	5,086	4,719

Cash, cash equivalents and bank overdrafts include the following for the purposes of the Statement of Cash Flows

Cash and cash equivalents	5,086	4,719
Bank overdrafts (note 18)	(12,848)	(11,501)
Total cash and cash equivalents	**(7,762)**	**(6,782)**

11. Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

Trade receivables are customers whom the Group has been able to validate acceptable credit quality. These are amounts due for goods sold or services performed in the ordinary course of business and are non-interest bearing. They are generally due for settlement within 30 to 120 days.

a. Trade and other receivables balances

	2020	2019
	$000s	$000s
Trade receivables	35,083	33,960
Less: allowance for expected credit loss	(763)	(816)
Net trade receivables	34,320	33,144
Prepayments	987	1,448
GST/VAT receivable	1,406	1,913
Receivables from related parties (note 30)	201	349
Other receivables [1]	8,167	3,633
Total trade and other receivables	**45,081**	**40,487**
Less non-current other receivables [1]	2,702	2,267
Current trade and other receivables	**42,379**	**38,220**

[1] Other receivables includes research and development related tax credits and government grants, and Covid-19 government wage subsidies ($2.0m), refer note 2. A corresponding deferred income for the government wage subsidy of $2.0m was also recorded.

The Group has established credit policies under which each new customer is analysed individually for credit-worthiness before payment and delivery terms and conditions are agreed. The Group's review includes trade references and external ratings, where appropriate and in some cases bank references. Purchase limits are established for each customer, which represents the maximum open amount; these limits are reviewed periodically. Customers that fail to meet the Group's benchmark credit-worthiness may transact with the Group only on a prepayment basis.

The trade receivables balances included $6,700,000 (2019: $6,500,000) representing 19.7% (2019: 25.1%) due from the Group's three largest customers. The balances due from these customers are current and are considered a low credit risk to the Group.

The maximum exposure to credit risk at balance date is the carrying value of each class of receivable mentioned above. The Group does not hold any collateral as security.

b. Allowance for expected credit loss

Impairment losses on trade receivables are presented as net impairment losses within operating profit. Trade receivables are written off when considered to have become uncollectable. Subsequent recoveries of amounts previously written off are credited against the same line item.

The Group applies NZ IFRS 9 Financial Instruments simplified approach to measure the expected credit loss provision that uses a lifetime expected loss allowance for all trade receivables and contract assets. This provision was based on the historical credit losses, and adjusted to reflect the current and forward-looking information on factors affecting the ability of the customers to settle the receivables. The forward looking assumptions also included recent customer aging profile, which remained unchanged to pre-Covid-19.

Information on how Covid-19 impacts the Group is disclosed in note 2.

The loss allowance was determined as follows.

	Current	More than 30 days past due	30 days to 180 days past due	More than 180 days past due	Total
	$000s	$000s	$000s	$000s	$000s
As at 31 March 2020					
Gross carrying amount of trade receivables	29,272	4,338	1,134	339	35,083
Expected loss rate	1.3%	2.6%	16.9%	20.0%	
Allowance for the expected credit loss	**390**	**113**	**192**	**68**	**763**
As at 31 March 2019					
Gross carrying amount of trade receivables	28,033	4,600	614	713	33,960
Expected loss rate	1.6%	2.6%	16.9%	20.0%	
Allowance for the expected credit loss	**449**	**120**	**104**	**143**	**816**

The reconciliation of the loss allowance is as follows.

	2020	2019
	$000s	$000s
Allowance for expected credit loss as at 1 April 2019	816	64
Increase in allowance recognised in profit or loss during the year	4	475
Unused amount reversed	(77)	-
Foreign exchange difference	20	65
Acquisition of subsidiaries	-	212
Allowance for expected credit loss as at 31 March 2020	**763**	**816**

12. Inventories

Inventories are stated at the lower of cost (weighted average cost) or net realisable value. Costs comprise direct materials, direct labour and appropriate proportion of variable and fixed overhead expenditure, the latter being allocated on the basis of normal operating capacity. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

a. Inventory classification and balances

	2020	2019
	$000s	$000s
Raw materials	13,042	15,895
Work in progress	19,016	17,667
Finished goods	5,566	5,748
Total inventories	**37,624**	**39,310**

b. Obsolescence

An inventory obsolescence provision of $8,713,000 (2019: $5,132,000) is included in the inventory figures above. During the year, consumption of slow moving inventory was lower than previously anticipated. As a result, obsolescence provisions were increased against specific slow moving and aged categories of inventory. The carrying value of other inventory items were also reviewed in detail with adjustments to provisions made on an item-by-item basis.

Significant judgements made in determining the provision include:

- Aging of inventory
- Forecast revenue and likely consumption of inventory
- Historical revenue and actual consumption of inventory
- Specific identification of inventory items for which the net realisable value is deemed lower than cost

The Group has not seen a material negative change in demand for its products due to Covid-19. Accordingly, Covid-19 is not expected to adversely impact the carrying value of inventory.

During the year inventory of $1,437,000 (2019: $1,168,000) was scrapped.

13. Property, plant and equipment

Items of property, plant and equipment are stated at cost, less accumulated depreciation and impairment losses.

a. Cost

The cost of purchased property, plant and equipment is the value of the consideration given to acquire the assets and the value of other directly attributable costs, which have been incurred in bringing the assets to the location and condition necessary for their intended service. Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant or equipment.

The Group recognises in the carrying amount of an item of property, plant or equipment the cost of replacing part of such an item when that cost is incurred, only when it is probable that the future economic benefits embodied with the item will flow to the Group and the cost of the item can be measured reliably. All other costs are recognised in the Statement of Comprehensive Income as an expense when incurred.

b. Depreciation methods and useful lives

Depreciation of property, plant and equipment, other than freehold land, is calculated on a straight-line basis to expense the cost of the assets to their expected residual values over their useful lives as follows:

Land	Nil
Buildings	15 – 20 years
Leasehold improvements	3 – 25 years
Plant and equipment	1 – 20 years
Computer hardware	1 – 10 years
Furniture and fittings	2 – 20 years
Assets under construction	Nil

	Land and buildings $000s	Leasehold improve-ments $000s	Plant and equipment $000s	Computer hardware $000s	Other $000s	Assets under construction $000s	Total $000s
As at 1 April 2018							
Cost	4,887	7,450	80,725	5,040	2,480	2,975	103,557
Accumulated depreciation & impairment	(4,358)	(5,734)	(73,282)	(4,662)	(2,014)	(26)	(90,076)
Net book value	**529**	**1,716**	**7,443**	**378**	**466**	**2,949**	**13,481**
Year ended 31 March 2019							
Opening net book value	529	1,716	7,443	378	466	2,949	13,481
Foreign exchange differences	(4)	(35)	(54)	(12)	(21)	(40)	(166)
Additions	-	552	2,414	728	56	2,467	6,217
Additions on acquisition	-	98	3,540	4	79	28	3,749
Disposals	-	-	(667)	(29)	(5)	(76)	(777)
Depreciation charge	-	(470)	(2,940)	(292)	(63)	-	(3,765)
Depreciation reversal on disposals	-	-	627	28	-	-	655
Transfers	-	414	643	20	7	(1,084)	-
Closing net book amounts	**525**	**2,275**	**11,006**	**825**	**519**	**4,244**	**19,394**

	Land and buildings $000s	Leasehold improve-ments $000s	Plant and equipment $000s	Computer hardware $000s	Other $000s	Assets under construction $000s	Total $000s
As at 31 March 2019							
Cost	4,883	8,479	86,601	5,751	2,596	4,270	112,580
Accumulated depreciation & impairment	(4,358)	(6,204)	(75,595)	(4,926)	(2,077)	(26)	(93,186)
Net book value	**525**	**2,275**	**11,006**	**825**	**519**	**4,244**	**19,394**
Year ended 31 March 2020							
Opening net book value	525	2,275	11,006	825	519	4,244	19,394
Foreign exchange differences	141	139	288	34	37	22	661
Additions	10	137	1,985	321	31	1,304	3,788
Disposals	-	-	(82)	(146)	(10)	(49)	(287)
Depreciation charge	(57)	(463)	(2,992)	(346)	(67)	-	(3,925)
Depreciation reversal on disposals	-	-	71	146	1	-	218
Transfers	811	43	617	29	-	(1,500)	-
Transfers to Intangible assets	-	-	-	-	-	(925)	(925)
Closing net book amounts	**1,430**	**2,131**	**10,893**	**863**	**511**	**3,096**	**18,924**
At 31 March 2020							
Cost	5,845	8,798	89,409	5,989	2,654	3,122	115,817
Accumulated depreciation & impairment	(4,415)	(6,667)	(78,516)	(5,126)	(2,143)	(26)	(96,893)
Net book value	**1,430**	**2,131**	**10,893**	**863**	**511**	**3,096**	**18,924**

The assets' residual values and useful lives are reviewed and adjusted if appropriate, at each balance date.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within 'other (losses)/ gains – net' in the Statement of Comprehensive Income.

14. Intangible assets

Software assets and capitalised costs of developing systems are recorded as intangible assets and amortised unless they are directly related to a specific item of hardware, and in that case are recorded as property, plant and equipment.

	Goodwill $000s	Patents $000s	Software $000s	Product development $000s	Assets under construction $000s	Total $000s
As at 1 April 2018						
Cost	1,846	2,946	8,610	10,264	3,672	27,338
Accumulated amortisation & impairment	(1,846)	(2,442)	(8,175)	(5,760)	-	(18,223)
Net book value	**-**	**504**	**435**	**4,504**	**3,672**	**9,115**
Year ended 31 March 2019						
Opening net book value	-	504	435	4,504	3,672	9,115
Foreign exchange differences	-	(2)	(6)	(25)	(4)	(37)
Additions	1,294	-	73	447	317	2,131
Disposals	-	-	(25)	(102)	(20)	(147)
Amortisation charge	-	-	(325)	(1,712)	-	(2,037)
Amortisation reversal on disposals	-	-	22	102	-	124
Transfers	-	-	117	3,248	(3,365)	-
Closing net book amounts	**1,294**	**502**	**291**	**6,462**	**600**	**9,149**

	Goodwill $000s	Patents $000s	Software $000s	Product development $000s	Assets under construction $000s	Total $000s
As at 31 March 2019						
Cost	3,140	2,944	8,769	13,832	600	29,285
Accumulated amortisation & impairment	(1,846)	(2,442)	(8,478)	(7,370)	-	(20,136)
Net book value	**1,294**	**502**	**291**	**6,462**	**600**	**9,149**
Year ended 31 March 2020						
Opening net book value	1,294	502	291	6,462	600	9,149
Foreign exchange differences	-	33	7	272	13	325
Additions	-	-	265	355	214	834
Disposals	-	-	(8)	(5)	(28)	(41)
Amortisation charge	-	-	(398)	(1,802)	-	(2,200)
Amortisation reversal on disposals	-	-	8	3	-	11
Transfers	-	-	437	361	(798)	-
Transfers from property, plant & equipment	-	-	-	-	925	925
Closing net book amounts	**1,294**	**535**	**602**	**5,646**	**926**	**9,003**
At 31 March 2020						
Cost	3,140	2,977	9,470	14,815	926	31,328
Accumulated amortisation & impairment	(1,846)	(2,442)	(8,868)	(9,169)	-	(22,325)
Net book value	**1,294**	**535**	**602**	**5,646**	**926**	**9,003**

a. Cost

Identifiable intangible assets that are acquired by the Group are stated at cost less accumulated amortisation and impairment losses. Subsequent expenditure on intangible assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

b. Product development

Expenditure on development activities, whereby research findings are applied to a plan or design for the production of new or substantially improved products and processes, is capitalised if the product or process is technically and commercially feasible and the Group has sufficient resources to complete development. Other development expenditure is recognised in the Statement of Comprehensive Income as an expense as incurred.

Total capitalised development costs are $6.1m (2019: $6.8m) made up of product development assets and assets under construction. During the year, specific product development projects and projects in progress were reviewed for recoverability based on the expected cash flows to be generated by the projects including the impact of Covid-19. The expected cash flows supported the carrying values and no impairment was recorded.

The Group estimates the useful life of the new product development assets based on the judgement of the technical advancements of such assets and experiences with similar assets. The actual useful life may be shorter or longer depending on technical innovations and competitor actions.

Covid-19 is not expected to have a material adverse impact on the recoverability of product development assets as most are related to the growing telecommunications segment. Further information on how Covid-19 impacts the Group is in note 2.

c. Amortisation and useful lives

Amortisation is charged to the Statement of Comprehensive Income on a straight-line basis over the estimated useful lives as follows:

Goodwill	Nil
Patents	20 years
Software	2 –10 years
Product development	5 –10 years
Assets under construction	Nil

d. Impairment tests for goodwill and the cash generating units (CGUs)

Goodwill is attributed to business units acquired through business combination. The business units are also determined to be the CGUs of the Group. Goodwill is tested annually for impairment or more frequently if there is an impairment indicator.

The current balance of goodwill was generated when on 2 May 2018, the Group acquired the remaining 51% of the issued shares it did not own in CRI, a previously held joint venture. Subsequent to acquisition, the name of the investment was changed to Rakon India Private Limited.

The carrying amounts of Group's other non-financial assets are reviewed at each balance date to determine whether there is any indication of impairment.

If an indicator of impairment exists, the asset's or CGU's recoverable amount is estimated being the higher of an asset's fair value less costs to sell and the asset's value in use. An impairment loss is recognised whenever the carrying amount of an asset or its CGU exceeds its recoverable amount. Impairment losses are recognised in the Statement of Comprehensive Income.

Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to CGUs and then, to reduce the carrying amount of the other assets in the unit on a pro rata basis.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised. Accumulated impairment losses on goodwill are not reversed.

Key assumptions for impairment test

The Group concluded at 31 March 2020 that indicators of impairment existed. In making this assessment management and the Directors considered factors including the current profitability of the Group, the market capitalisation value of the Company in comparison to the Group's net asset value and the impact of Covid-19 on the Group's operations (note 2). As a result, the Group has estimated the recoverable amount of its CGUs on a value-in-use basis and determined that there is no impairment.

The value-in-use are based on Board approved cash flow forecasts covering a five-year period. Covid-19 negatively impacts the near term forecasts used for the value-in-use calculations. This is predominantly due to the New Zealand and India manufacturing operations being severely restricted for a limited period in March/April 2020. Further information on how Covid-19 impacts the Group is in note 2.

Key assumptions used in 'value in use' calculations

CGU	Assumption	Range	5 Year CAGR
New Zealand	Annual sales growth rate[1]	3% to 12%	5.4%
	Gross margin %[2]	49% to 55%	n/a
France	Annual sales growth rate[1]	2% to 33%	11.4%
	Gross margin %[2]	26% to 36%	n/a
India	Annual sales growth rate[1]	9% to 29%	17.9%
	Gross margin %[2]	21% to 31%	n/a
China	Annual net profit growth rate[3]	3% to 25%	9.2%
	Free cash flow[3]	44%	207.6%

Free cash flow is used in the above tables as the China assets are held through Rakon's investment in associates.

[1] Sales growth – Management have forecasted sales to grow over the period of the cash flow projection, due to a combination of factors including industry forecasts for the key market segments in which Rakon operates, future product innovation and estimations of its own share of the market reflective of the quality of its product range and technology advantages. Management have forecast a future increase in revenues for the NZ, France and India CGUs specifically as a result of its product positioning which is expected to meet the future increased technology specification that will be demanded in the telecommunications segment.

[2] Gross margin – Management forecasted gross margin based on past performance and its expectations of market development also taking into account gradual decline in average selling prices. Anticipated industry trends, product innovations, manufacturing efficiency and raw material cost improvements have also been factored into these gross margin assumptions.

[3] China, net profit – Management forecasted net profit based on a combination of factors including industry forecasts for the key market segments, future product innovation and estimations of its own share of the market reflective of the quality of its product range and technology advantages.

These assumptions have been used for the analysis of each CGU within the business segment.

Significant estimate: impact of reasonably possible changes in key assumptions

New Zealand CGU

The recoverable amount is estimated to be $65.9m (2019: $47.6m). This exceeds the carrying amount of the CGU at balance date by $16.4m (2019: $5.7m). If the sales volumes used in the value-in-use calculation had been 5.0% lower than management's estimates, the Group would have recognised an impairment against the carrying amount of net assets of $2.7m. If the gross margin percentage used in the value-in-use calculation had been 2.0% lower than management's estimates, the Group would have recognised an impairment against the carrying amount of net assets of $5.2m. If the pre-tax discount rate applied to the cash flow projections was 16.0% instead of 12.3%, the recoverable amount of the CGU would equal its carrying amount.

France CGU

The recoverable amount is estimated to be $48.2m (2019: $21.9m). This exceeds the carrying amount of the CGU at balance date by $21.7m (2019: $2.8m). If the sales used in the value-in-use calculation had been 6.5% lower than management's estimates, the Group would have recognised an impairment against the carrying amount of net assets of $1.9m. If the gross margin percentage used in the value-in-use calculation had been 2.0% lower than management's estimates, the Group would have recognised an impairment against the carrying amount of net assets of $0.8m. If the pre-tax discount rate applied to the cash flow projections was 13.9% instead of 10.3%, the recoverable amount of the CGU would equal its carrying amount.

India CGU

The recoverable amount is estimated to be $21.0m (2019: $17.1m). This exceeds the carrying amount of the CGU at balance date by $2.1m (2019: $1.7m). If the sales used in the value-in-use calculation had been 3.0% lower than management's estimates, no impairment would result. If the gross margin percentage used in the value-in-use calculation had been 3.0% lower than management's estimates, the Group would have recognised an impairment against the carrying amount of net assets of $1.3m. If the pre-tax discount rate applied to the cash flow projections was 24.3% instead of 22.7%, the recoverable amount of the CGU would equal its carrying amount.

China CGU

The recoverable amount is estimated to be $12.0m (2019: $9.9m). This exceeds the carrying amount of the CGU at balance date by $0.3m (2019: $2.8m). If free cash flow was 10.0% lower than management's estimates, the Group would have recognised an impairment against the carrying amount of net assets of $1.4m. If the pre-tax discount rate applied to the cash flow projections was 22.0% instead of 15.8%, the recoverable amount of the CGU would equal its carrying amount.

Growth Rates and Discount Rates

The discount rates used are pre-tax and reflect specific risks relating to the relevant segments. Cash flows beyond the five-year period are extrapolated using the estimated growth rates stated below. The growth rates are consistent with the industries in those relevant territories.

	Growth rate		**Discount rate (pre-tax)**	
	2020	**2019**	**2020**	**2019**
New Zealand	1.90%	1.90%	12.30%	13.60%
United Kingdom	2.50%	2.50%	9.40%	12.10%
France	1.32%	1.30%	10.30%	13.50%
India	3.50%	3.50%	22.70%	27.10%
China	2.50%	2.50%	15.80%	14.80%

15. Leases

The Group leases various properties, equipment and cars. 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 31 March 2019, leases of property, plant and equipment were classified as either finance or operating leases, refer note 29.

The Group has adopted NZ IFRS 16 Leases retrospectively from 1 April 2019, and recognised leases as a right-of-use asset and a corresponding lease liability for the period in which the leased asset is available for use to the Group. The Group has not restated comparatives for the 31 March 2019 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 April 2019.

a. Adjustments recognised on adoption of NZ IFRS 16 Leases

On adoption of NZ IFRS 16 Leases, the Group recognised lease liability in relation to leases that had previously been classified as operating leases under the principles of NZ IAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the estimated incremental borrowing rate as at 1 April 2019, and which ranged between 4.3% and 10.0%. The incremental borrowing rate is based where possible on the third party financing rate as the starting point and adjusted for any changes in conditions of financing. If not, the Group uses the build-up approach that starts with a risk free interest rate, adjusted for the credit risk for leases and for any specific lease conditions. The lease payments to be made under reasonably certain extension options are also included in the measurement of the liability. In determining the lease term, the management considers all facts that creates an economic incentive to exercise the extension option. Where it is reasonably certain that the lease will not be extended, the extension is not included in the lease term for calculation. Extension options for manufacturing plants and offices are included in the lease liability. The Group has chosen the option to measure the right-of-use asset at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments recognised immediately before the date of initial application.

Subsequent to initial measurement, lease liabilities increase as a result of interest charged at a constant rate on the balance outstanding and are reduced for lease payments made. The future variable increases in the leases are not factored in the calculation. When the leases are reviewed and such changes are effected, the lease liability will be reassessed and adjusted against the right-of-use asset. Right-of-use assets are amortised on a straight-line basis over the remaining term of the lease or over the remaining economic life of the asset.

Rakon Limited

Summary at 1 April 2019

	2019
	$000s
Operating lease commitments as at 31 March 2019	10,382
Discounted using the Group's borrowing rate at the date of initial application	10,213
Finance lease liabilities recognised as at 31 March 2019	812
Adjustments as a result of a different treatment of extension options	290
Lease liability recognised as at 1 April 2019	**11,315**

Recognition of lease liability

	At 1 April 2019	2020
	$000s	**$000s**
Represented by		
Current lease liabilities	2,856	2,741
Non-current lease liabilities	8,459	6,704
Total lease liabilities	**11,315**	**9,445**

Recognition of right-of-use assets

	At 1 April 2019	2020
	$000s	**$000s**
Properties	9,935	8,843
Equipment	928	669
Motor vehicle	312	218
Total right-of-use assets	**11,175**	**9,730**

Movements in right-of-use assets during the year

	Properties	Equipment	Motor vehicle	Total
	$000s	**$000s**	**$000s**	**$000s**
Cost				
At 1 April 2019	9,935	928	312	11,175
Additions	641	140	67	848
Foreign exchange differences	435	27	16	478
At 31 March 2020	11,011	1,095	395	12,501
Accumulated depreciation				
Charge for current year	2,111	415	172	2,698
Foreign exchange differences	57	11	5	73
At 31 March 2020	2,168	426	177	2,771
Carrying amount as at 31 March 2020	**8,843**	**669**	**218**	**9,730**

During the year, interest expense on lease liabilities was $95,000 (note 9), and depreciation expense of $2,698,000 on right-of-use assets.

b. Changes due to adoption of NZ IFRS 16 Leases

The change in accounting policy affected the following items in the balance sheet on 1 April 2019:

- Right-of-use assets: increase by $11,175,000
- Prepayments: decrease by $672,000
- Borrowings: decrease by $812,000
- Lease liabilities: increase by $11,315,000

The Underlying EBITDA, segment assets and segment liabilities for 31 March 2020 increased as a result of the change in accounting policy which are detailed below.

	Underlying EBITDA Impact $000s	Segment assets $000s	Segment liabilities $000s
NZ	1,649	5,142	4,891
UK	155	798	776
France	632	2,713	2,723
India	442	845	827
Other	182	232	228
	3,060	**9,730**	**9,445**

In applying NZ IFRS 16 Leases for the first time, the Group has 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
- reliance on previous assessments on whether leases are onerous
- the exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application
- the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease

The Group has also elected not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date, the Group relied on its assessment made applying NZ IAS 17 Leases and NZ IFRIC 4 Determining whether an Arrangement Contains a Lease.

16. Interest in associates and joint venture

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. 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 the Statement of 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.

The carrying amounts of the investments are reviewed at each balance date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated being the higher of an asset's fair value less costs to sell and the asset's value in use. An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognised in the Statement of Comprehensive Income. 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.

a. Breakdown of interest in associates and joint venture

Name of entity	Country of incorporation	% of ownership interest 2020	2019	Nature of relationship	Measurement method	Net investment 2020 $000s	2019 $000s	Equity accounted (loss)/profit 2020 $000s	2019 $000s
Chengdu Timemaker Crystal Technology Co. Ltd [1]	China	40%	40%	Associate	Equity method	11,259	9,974		
Shenzhen Taixiang Wafer Co. Ltd [1]	China	40%	40%	Associate	Equity method	455	425		
Total Timemaker Group						**11,714**	**10,399**	**797**	**1,050**
Thinxtra Pty Limited [3]	Australia	0%	0%	Associate	Equity method	-	-	-	(287)
Total carrying amount of associates						**11,714**	**10,399**	**797**	**763**
Centum Rakon India Private Ltd [2]	India	0%	0%	Joint venture	Equity method	-	-	-	76
Total carrying amount of equity accounted associates and joint venture						**11,714**	**10,399**	**797**	**839**

[1] The Group has a 40% interest in two related companies: Chengdu Timemaker Crystal Technology Co. Limited and Shenzhen Taixiang Wafer Co. Limited, which provide products and services to the frequency control products industry.

2 On 2 May 2018, the Group assumed full ownership of Centum Rakon India Private Limited (CRI) by acquiring the remaining 51% interest of shares and subsequently changed the name to Rakon India Private Limited. Prior to the acquisition, CRI was a joint venture.

3 Due to loss of significant influence, on 1 June 2018, the Group has reclassified the investment in Thinxtra Pty Limited (Thinxtra), as a financial asset at fair value through other comprehensive income (FVOCI), refer note 17.

b. Timemaker Group

The Timemaker Group is the world's largest quartz wafer manufacturer and a key supplier to Rakon. The tables below provides summarised financial information for the Timemaker Group. The information disclosed reflects the amounts presented in the financial statements of the relevant associates and not the Group's share of those amounts. They have been amended to reflect adjustments made by the entity when using the equity method, including fair value adjustments and modifications for differences in accounting policy. The total Timemaker Group is an aggregate of Chengdu Timemaker Crystal Technology Co. Limited and Shenzhen Taixiang Wafer Co. Limited.

Covid-19 has not materially impacted the Timemaker Group with the business continuing to operate uninterrupted through the March/April 2020 period. Minor impacts were noted including difficulty recruiting staff and logistics issues due to supply chain interruptions.

	Chengdu Timemaker Crystal Technology Co. Ltd		Shenzhen Taixiang Wafer Co. Ltd		Total Timemaker Group	
	2020	2019	2020	2019	2020	2019
	$000s	$000s	$000s	$000s	$000s	$000s
Summarised Balance Sheet						
Current assets						
Cash & cash equivalents	3,567	2,904	3	2	3,570	2,906
Other current assets	26,890	17,786	1,212	1,135	28,102	18,921
Total current assets	**30,457**	**20,690**	**1,215**	**1,137**	**31,672**	**21,827**
Non-current assets	**26,178**	**25,097**	**-**	**-**	**26,178**	**25,097**
Current liabilities						
Financial liabilities (excluding trade payables)	13,456	11,371	-	-	13,456	11,371
Other current liabilities	13,119	8,923	78	73	13,197	8,996
Total current liabilities	**26,575**	**20,294**	**78**	**73**	**26,653**	**20,367**
Non-current liabilities						
Other non-current liabilities	1,912	558	-	-	1,912	558
Total non-current liabilities	**1,912**	**558**	**-**	**-**	**1,912**	**558**
Net assets	**28,148**	**24,935**	**1,137**	**1,064**	**29,285**	**25,999**

	Chengdu Timemaker Crystal Technology Co. Ltd		Shenzhen Taixiang Wafer Co. Ltd		Total Timemaker Group	
	2020	2019	2020	2019	2020	2019
	$000s	$000s	$000s	$000s	$000s	$000s
Summarised Statement of Comprehensive Income						
Revenue	27,509	28,260	-	-	27,509	28,260
Depreciation and amortisation	(2,661)	(3,071)	-	-	(2,661)	(3,071)
Interest expenses	(491)	(576)	-	-	(491)	(576)
Profit for the period	1,988	2,625	-	-	1,988	2,625

	Chengdu Timemaker Crystal Technology Co. Ltd		Shenzhen Taixiang Wafer Co. Ltd		Total Timemaker Group	
	2020	2019	2020	2019	2020	2019
	$000s	$000s	$000s	$000s	$000s	$000s
Reconciliation of net assets to carrying amount						
Rakon's share in %	**40%**	**40%**	**40%**	**40%**	**40%**	**40%**
Rakon's share of associates' and joint venture's net assets	11,259	9,974	455	425	11,714	10,399
Carrying amount	**11,259**	**9,974**	**455**	**425**	**11,714**	**10,399**
Movement in carrying amount						
Opening net assets 1 April					10,399	9,350
Equity accounted profit					797	1,050
Foreign exchange movement					518	(1)
Carrying amount					**11,714**	**10,399**

c. Other joint venture and associate

On 2 May 2018, the Group assumed full ownership of CRI and subsequently changed the name to Rakon India Private Limited.

On 1 June 2018 due to loss of significant influence, the Group has reclassified the investment in Thinxtra, as a financial asset at FVOCI, refer note 17.

	Centum Rakon India Private Ltd		Thinxtra Pty Ltd	
	2020	2019	2020	2019
	$000s	$000s	$000s	$000s
Movement in carrying amount				
Opening net assets 1 April	-	2,876	-	5,290
Equity accounted gain/(loss)	-	76	-	(287)
Foreign exchange movement	-	42	-	-
De-recognition of joint venture and associate	-	(2,994)	-	(5,003)
Net carrying amount	-	-	-	-

17. Investment in Thinxtra – financial asset at fair value through other comprehensive income

Subsequent to losing significant influence in Thinxtra and ceasing equity accounting of the investment on 1 June 2018, the Group elected to present changes in fair value of its investment in other comprehensive income. Refer note 26 for accounting policy.

a. Thinxtra

Thinxtra is an 'Internet of Things' (IoT) business that started in 2016. Thinxtra's focus is on establishing an IoT network in Australia, New Zealand and Hong Kong and providing products, services and solutions enabling connectivity of devices to the network. Thinxtra's business model is based on subscription for access to the network, platform solutions and the sale of IoT products. Further information is available at www.thinxtra.com.

Rakon was one of the founding members of Thinxtra in 2016 and has a 7.1% ownership interest at 31 March 2020 (March 2019: 17.8%). This is calculated on a fully diluted basis including the exercise of existing options.

b. Valuation of the investment in Thinxtra at 31 March 2020

It is recognised that there is a high level of volatility and judgement required in valuing Thinxtra given its early stage of business; the new and developing IoT market and ecosystem in which it operates; the volatility in prices achieved by historic capital raises, it being a private company investment not actively traded; and the track record of the Company in achieving its forecast performance.

The Directors have used a range of valuation techniques as it was considered that one single valuation method would not provide an appropriate result. Accordingly, the Directors have assigned a probability based weighting based on the available information and Directors' judgement. The Directors recognise there is a high risk the valuation will change significantly over time and have chosen to adopt this consistent overall methodology for the valuations reported at 31 March 2019 and 31 March 2020.

For the year ended 31 March 2020, the Directors recognise that a valuation of $4.4m achieved where a higher weighting is given to the discounted cash flow method, reflects more closely the likelihood that Thinxtra will execute its plans including an eventual listing. However, the Directors also recognise that relevant accounting standards require more weighting to be applied to observable inputs, in this case, the average price achieved for the A$9m capital raise in February 2020 of A$2.29 per share. Therefore the final valuation of $2.9m was adopted resulting from a higher weighting given to the A$9m capital raise price.

In forming the Directors' judgement, the Directors have taken into consideration whether there is an active market in Thinxtra as indicated by the recent capital raise and concluded that there is not. However the Directors have concluded that the weighting that should be attributed to the capital raise should be higher than in the previous year, maximising the use of relevant observable inputs and minimising the use of unobservable inputs. If there is an active market, the fair value would be considered to be the recent share issue price as the investment would be treated as a Level 1 investment under the fair value hierarchy (refer to scenarios below).

The Directors reviewed all the available information to date including Thinxtra's audited financial statements, current capital raise activity and other shareholder communications including the impact of Covid-19. The impact of Covid-19 includes the short-term deferment of forecast revenue and a delay to the original IPO timeline. This is not expected to materially change the future realisation of Rakon's investment.

Valuation methodology and key inputs

In undertaking the fair value assessment, given the range of potential outcomes, it was considered that one single valuation method would not provide an appropriate result. Accordingly, the Directors have used a range of valuation techniques which provide different scenario outcomes. These outcomes have then been assigned a probability based on the available information and Directors' judgement. The methodology, key inputs and overall outcome is summarised as follows:

Valuation Technique	*Weighting Assigned*
A: Discounted cash flow (discount rate 15%)	30%
B: February 2020 capital raise of A$9m at A$2.29 per share	70%

The valuation was based on Rakon having a 7.1% shareholding which assumed all existing share options were exercised and all shares were issued under the capital raise offer that was open.

The resultant valuation of A$3.64 is adopted in the 31 March 2020 financial statements (2019: A$5.82).

Sensitivities on key inputs

The Directors recognise that the valuation outcomes under each technique are dependent on assumptions used. The following table provides an analysis of the impact on the final valuation where key assumptions are changed as described in b) to c) below:

Scenario	*Assumptions changes*	Valuation NZ$m	change
a) Base case valuation	base case	2.9	
b) Discounted cash flow	Cash flow is 50% lower than forecast	2.1	(0.8)
c) Discounted cash flow	Discount rate is 1% higher (ie 16%)	2.7	(0.2)

Sensitivities on probability weightings assigned

The Directors recognise that the final valuation is dependent on weightings assigned to each scenario/valuation technique combination. The following table provides an analysis of the impact on the final valuation where the weightings are changed.

To provide an indication about the reliability of the inputs used in determining fair value, the Directors classified the fair valuation of Thinxtra investment as a level 3 investment. Instruments are classified as level 3 only if one or more of the significant inputs for the valuation is not based on observable market data.

Valuation Technique	**Base case**	**Alternate case A**	**Alternate case B**
Discounted cash flow	30%	70%	0%
Last A$9m capital raise	70%	30%	100%
	100%	100%	100%
Valuation NZ$m	2.9	4.4	1.8
change in valn NZ$m		+1.4	-1.1

18. Borrowings

The Group is reliant on its bank facilities and equity as the principal sources of capital management. The ability of the Group to remain in compliance with its banking covenants has been considered by the Directors in the adoption of the going concern assumption during the preparation of these financial statements.

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.

a. Line of credits

The Group maintains following line of credits.

Current year

ASB

At 31 March 2020 a $15.2m combined trade facility and a $3.3m overdraft facility was in place.

On 26 May 2020 the facilities with ASB were extended. The Company has agreed to reduce the combined trade facility of $15.2m as follows:

- Up to 29 June 2020: $13.2m
- From 30 June 2020 to 30 September 2020: $11.2m
- From 1 October 2020 to 31 December 2020: $7.7m
- From 1 January 2021: $5.7m

Facilities are secured by a general security deed over all the present and future assets and undertakings of the Group. The Group has agreed to certain capital requirements, restrictions on dividend distributions and capital expenditure. The financial covenants include net tangible assets to total tangible assets, net debt to Underlying EBITDA and Underlying EBITDA to interest. Interest is based on wholesale market interest rates, bank margin and applicable line fee. The Company was in compliance with all required financial covenants during the year.

State Bank of India

Rakon India has an existing facility with State Bank of India including ₹150m (NZ$3.2m) which can be used for cash based working capital requirements.

Prior year

On 30 November 2018 the facilities with ASB were restructured and increased. At 31 March 2019 a $15.5m overdraft facility was in place. Interest was payable at the ASB Corporate Indicator Rate plus applicable margin. The increase to the previous facility was due to additional working capital required for growth in the telecommunications business supplied out of India and New Zealand. This overdraft was drawn for the purchase of Rakon India.

b. Borrowings balance

	2020 $000s	2019 $000s
Current		
Obligations under finance lease	-	405
Other borrowings	145	69
Bank overdrafts	12,848	11,501
Current borrowings	**12,993**	**11,975**
Non-current		
Obligations under finance lease	-	412
Non-current borrowings	**-**	**412**

The Group has adopted NZ IFRS 16 Leases from 1 April 2019, refer note 15 for information on lease obligations.

The exposure of the Group's bank borrowings to interest rate changes and the contractual re-pricing dates at the balance dates are as follows.

	2020 $000s	2019 $000s
6 months or less	12,848	11,501
Total bank borrowings including overdraft	**12,848**	**11,501**

c. Borrowings costs

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalised. Other borrowing costs are expensed in the period in which they incur, refer note 9.

d. Net debt reconciliation

	Other asset	Liabilities from financing activities		
	Cash/ bank overdraft	Borrowings	Lease liabilties	Total
	$000s	$000s	$000s	$000s
Balance as at 1 April 2018	**7,540**	**(98)**	**-**	**7,442**
Cash flows	(14,466)	24	-	(14,442)
Acquisitions	-	(812)	-	(812)
Foreign exchange changes	144	-	-	144
Balance as at 31 March 2019	**(6,782)**	**(886)**	**-**	**(7,668)**
Cash flows	(308)	-	3,078	2,770
Acquisitions	-	(71)	(688)	(759)
Impact from NZ IFRS 16 Leases adoption	-	812	(11,315)	(10,503)
Foreign exchange changes	(672)	-	(425)	(1,097)
Interest on lease liabilties	-	-	(95)	(95)
Balance as at 31 March 2020	**(7,762)**	**(145)**	**(9,445)**	**(17,352)**

On adoption of NZ IFRS 16 Leases, the Group recognised lease liabilities. Refer note 15 for more information.

19. Trade and other payables

Trade and other payables represent liabilities for goods and services provided to the Group prior to the end of the financial period, which are unpaid. These are unsecured and are usually paid within 60 days of recognition. They are recognised initially at their fair value and subsequently measured at amortised cost using the effective interest method.

	2020 $000s	2019 $000s
Trade payables	8,882	13,439
Amounts due to related parties (note 31)	628	468
Employee entitlements	9,330	8,908
Accrued expenses	3,412	3,583
Total trade and other payables	**22,252**	**26,398**

20. Provisions for other liabilities and charges

A provision is recognised when the Group has a present legal or constructive obligation as a result of a past event and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and where appropriate, the risks specific to the liability.

	Retirement provision $000s	Long service leave $000s	Restructure provision $000s	Lease make good $000s	Total $000s
At 31 March 2018	**2,146**	**470**	**439**	**640**	**3,695**
Charged to the Statement of Comprehensive Income					
Additional provisions recognised	265	65	-	-	330
Unwinding of discount	-	-	-	12	12
Used during the year	-	(72)	(439)	-	(511)
Foreign exchange	(80)	-	-	15	(65)
At 31 March 2019	**2,331**	**463**	**-**	**667**	**3,461**
Charged to the Statement of Comprehensive Income					
Additional provisions recognised	220	179	-	-	399
Unwinding of discount	-	-	-	16	16
Unused amount reversed	(231)	(20)	-	-	(251)
Used during the year	(154)	(104)	-	-	(258)
Foreign exchange	265	-	-		265
At 31 March 2020	**2,431**	**518**	**-**	**683**	**3,632**
Represented by					
Current portion	382	332	-	-	714
Non-current portion	2,049	186	-	683	2,918
Total provisions for other liabilities and charges	**2,431**	**518**	**-**	**683**	**3,632**

a. Retirement provision

The Group's net obligation in respect of the French retirement indemnity plan is the amount of future benefit that employees have earned in return for their service in the current and prior periods. The obligation is calculated using the projected unit credit method and is discounted to its present value and the fair value of any related assets is deducted. The French retirement indemnity plan entitles permanent French employees to a lump sum on retirement. The payment is dependent on an employee's final salary and the number of years of service rendered.

French employees are entitled to a retirement payout once they have met specific criteria. This is a one off payment based on service time at retirement date. A provision has been created to recognise this cost taking in consideration the time served, probability of attainment and discount rates. An actuarial valuation was performed at 31 March 2020.

b. Long service leave

The Group's net obligation in respect of long service leave is the amount of future benefit that employees have earned in return for their service in the current and prior periods. The obligation is calculated using the projected unit credit method and is discounted to its present value.

New Zealand employees are entitled to long service leave after the completion of 10 years' of continuous service, in the form of special holidays and allowance. A provision has been created to recognise this cost, taking into consideration the time served, probability of attainment and discount rates.

c. Lease make good

The Company is required to restore the leased premises at Mt Wellington, Auckland, New Zealand and Bengaluru, India to their original condition at the end of the respective lease terms. A provision is recognised for the present value of the estimated expenditure required to remove any leasehold improvements. These costs have been capitalised as part of the cost of leasehold improvements and are amortised over the lease terms.

21. Taxation

The Group is subject to income taxes in numerous jurisdictions. Significant judgement is required in determining the worldwide provision for income taxes and recognition of deferred tax. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will affect the income tax and deferred tax provisions in the period in which such determination is made.

a. Income tax expense

Income tax on the net profit for the year comprises current and deferred tax. Income tax is recognised in the Statement of Comprehensive Income, with the exception of other items that relate to other comprehensive income, in which case it is recognised in OCI.

	2020 $000s	2019 $000s
Current tax	(223)	(1,879)
Deferred tax expense	919	(231)
Income tax credit/(expense)	**696**	**(2,110)**

Reconciliation of income tax expense	2020 $000s	2019 $000s
Profit before tax	3,284	5,474
Tax calculated at domestic tax rates applicable to profits in the respective countries	(580)	(1,540)
Expenses not deductible	95	(276)
Non-taxable income	182	684
Expenses deductible for tax purposes	-	34
Prior year adjustment	109	46
Associate and joint venture results reported net of tax	126	95
Movement in deferred tax subsquent to business combination	-	(427)
Recognition and utilisation of previously unrecognised tax losses	2,210	347
Tax losses for which no deferred income tax asset was recognised	(1,446)	(1,073)
Income tax credit/(expense)	**696**	**(2,110)**

The weighted average applicable tax rate was 21% (2019: -39%).

b. Deferred tax

Deferred taxes arising from temporary differences and unused tax losses are summarised.

	Property, plant & equipment $000s	Employee benefits $000s	Other[1] $000s	Future income tax benefit $000s	Total $000s
At 31 March 2018	**48**	**502**	**2,481**	**2,631**	**5,662**
(Charged)/credited to profit or loss	(321)	149	(138)	79	(231)
Losses transferred to subsidiaries	-	-	-	(209)	(209)
Acquisition of subsidiaries	-	-	568	-	568
Charged to equity	-	-	496	-	496
Foreign exchange difference	-	-	(3)	-	(3)
At 31 March 2019	**(273)**	**651**	**3,404**	**2,501**	**6,283**
(Charged)/credited to profit or loss	(149)	10	984	74	919
Losses transferred to subsidiaries	-	-	-	(73)	(73)
Charged to equity	-	-	1,807	-	1,807
Foreign exchange difference	-	-	124	-	124
At 31 March 2020	**(422)**	**661**	**6,319**	**2,502**	**9,060**

[1] Includes deferred tax arising from financial instruments (cash flow hedges) and inventory provisioning.

At balance date Rakon Limited had total tax losses of $19,171,000 (2019: $26,743,000) of which $8,908,000 (2019: $8,908,000) are recognised in deferred income tax assets. Accordingly, $10,263,000 (2019: $17,835,000) of tax losses have not been recognised in deferred income tax assets. Rakon Limited's tax losses have no expiry date. During the year Rakon Limited recognised tax losses of $7,895,000 (2019: $1,712,000) which were not previously recognised in deferred income tax assets. These were fully utilised against current year taxable income. Deferred income tax assets are recognised for tax losses to the extent that the related tax benefit is expected to be realised through future taxable profits.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and current tax liabilities and when the deferred income taxes relate to the same taxation authority.

	2020 $000s	2019 $000s
Deferred tax assets	9,246	7,352
Deferred tax liabilities	(186)	(1,069)
Net deferred tax asset	**9,060**	**6,283**

c. Imputation balances

	2020 $000s	2019 $000s
Imputation credit available for use in subsequent periods	11,204	11,203

22. Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

At 31 March 2020 the total number of ordinary shares, including treasury shares, is 229,055,272 shares (2019: 229,055,272) made up as follows:

- 226,961,983 are fully paid shares (2019: 226,961,983)
- 321,972 unpaid ordinary shares were on issue and held in trust on behalf of participants in the Rakon Share Plan (2019: 321,972)
- 1,771,317 unpaid ordinary shares were held by Rakon ESOP Trustee Limited for future allocation to participants (2019: 1,771,317)

At 31 March 2020, the share capital remained unchanged at $181,024,000.

23. Earnings per share

a. Basic

Basic earnings per share is calculated by dividing the profit or loss attributable to equity holders of the Group, by the weighted average number of ordinary shares on issue during the year.

	2020 $000s	2019 $000s
Weighted average number of ordinary shares on issue (note 22)	226,962	226,962
Continuing operations		
Earnings attributable to equity holders of the Group ($000s)	3,980	3,364
Basic earnings per share (cents per share)	**1.8**	**1.5**

b. Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares.

At 31 March 2020, the Group did not have any dilutive options or potential dilutive ordinary shares that could be converted into ordinary shares (2019: nil). The diluted earnings per share and basic earnings per share were same.

24. Other reserves

	Foreign currency translation reserve $000s	Hedging reserve $000s	Share option reserve $000s	Other comprehensive income revaluation $000s	Total $000s
At 31 March 2018	**(24,712)**	**894**	**3,064**	**-**	**(20,754)**
Cash flow hedges					
Fair value gains/(losses) in year	-	(1,221)	-	-	(1,221)
Cost of hedge	-	31	-	-	31
Changes in fair value of equity investments at fair value through other comprehensive income – Thinxtra	-	-	-	(454)	(454)
Tax on fair value losses	-	342	-	-	342
Transfers to revenue	-	(591)	-	-	(591)
Income tax on transfers to revenue	-	165	-	-	165
Subsidiaries	1,330	-	-	-	1,330
Associates and joint venture	(1)	-	-	-	(1)
At 31 March 2019	**(23,383)**	**(380)**	**3,064**	**(454)**	**(21,153)**
Cash flow hedges					
Fair value gains/(losses) in year	-	(4,818)	-	-	(4,818)
Cost of hedge	-	570	-	-	570
Changes in fair value of equity investments at fair value through other comprehensive income – Thinxtra	-	-	-	(1,632)	(1,632)
Tax on fair value losses	-	1,349	-	-	1,349
Transfers to revenue	-	(2,429)	-	-	(2,429)
Income tax on transfers to revenue	-	680	-	-	680
Subsidiaries	3,967	-	-	-	3,967
Associates and joint venture	173	-	-	-	173
At 31 March 2020	**(19,243)**	**(5,028)**	**3,064**	**(2,086)**	**(23,293)**

a. Foreign currency translation

Recognises exchange differences arising on translation of the foreign controlled entities, as described in note 3. The cumulative amount is reclassified to the Statement of Comprehensive Income when the investment is disposed.

b. Hedging reserve

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of hedging instruments and cost of hedging used in cash flow hedges pending subsequent recognition in the Statement of Comprehensive Income or directly included in the initial cost or other carrying amount of a non-financial asset or non-financial liability.

c. Share option

The share-based payments reserve is used to recognise:

- the grant date fair value of options issued to employees but not exercised
- the grant date fair value of shares issued to employees
- the grant date fair value of deferred shares granted to employees but not yet vested

d. Other comprehensive income revaluation

The Group has elected to recognise the change in fair value of investment in Thinxtra in other comprehensive income, refer note 17.

25. Derivative financial instruments

The Group is exposed to certain risks relating to its ongoing business operations. To mitigate the risks the Group uses derivative financial instruments such as cross-currency swaps and interest rates swaps. These instruments are held for risk and asset management purposes only and not for the purpose of speculation. The Group's risk management strategy and how it is applied to manage risk is explained further in note 26.

a. Derivatives and hedge accounting

Where all relevant criteria are met, hedge accounting is applied to the derivatives to remove the mismatch between the hedging instrument and hedged item. When the Group designates certain derivatives to be part of a hedging relationship, and they meet the criteria for hedge accounting, the hedges are classified as cash flow hedges.

At the inception of hedge relationship, hedging documentation is prepared to document the economic relationship between hedging instruments and hedged items with the Group's risk management objective and strategy for undertaking of hedge transactions. The Group documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are effective in offsetting changes in cash flows of hedged items. The effective portion of changes in the fair value of cash flow hedges is recognised (including related tax impacts) through OCI in the cash flow hedge reserve in equity, refer note 23. The balance of the cash flow hedge reserve in relation to each particular hedge is transferred to the Statement of Comprehensive Income in the period when the hedged item affects Statement of Comprehensive Income. Hedge accounting is discontinued when a hedging instrument expires or is sold or terminated, or when a hedge no longer meets the criteria for hedge accounting. The cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the Statement of Comprehensive Income. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the Statement of Comprehensive Income.

The Group designates only the intrinsic value of option as the hedging instrument. These are recognised in the cash flow hedge reserve within equity. The changes in time value of the options that related to the hedged item are recognised within OCI in the cost of hedging reserve with equity.

The gain or loss relating to the effective portion of the interest rate swaps hedging variable rate borrowings, is recognised in Statement of Comprehensive Income within finance cost at the same time as the interest expense on the hedged borrowings.

For hedges of foreign currency purchases, the Group enters into hedge relationships where the critical terms of the hedging instrument match exactly with the terms of the hedged item. The Group therefore performs a qualitative assessment of effectiveness. In hedges of foreign currency purchases, ineffectiveness may arise if the timing of the forecast transaction changes from what was originally estimated, or if there are changes in the credit risk of the derivative counterparty. Any infectiveness assessed during the year was recognised to the foreign exchange (losses)/gains — net in the Statement of Comprehensive Income.

Information on how Covid-19 impact the Group's derivative is in note 2.

The following table sets out the notional amount of derivative instruments.

	2020 Assets $000s	2020 Liabilities $000s	2019 Assets $000s	2019 Liabilities $000s
Interest rate swaps – cash flow hedge	-	24	-	100
Forward foreign exchange contracts – cash flow hedges	2	6,178	274	837
Forward foreign exchange collar option – cash flow hedges	25	649	291	256
Total derivative financial instruments	**27**	**6,851**	**565**	**1,193**
Less: non-current forward foreign exchange – cash flow hedges	-	2,840	258	343
Current - derivative financial instruments	**27**	**4,011**	**307**	**850**
Financial asset at fair value through profit or loss	2	1,029	19	95
Total - derivative financial instruments	**29**	**5,040**	**326**	**945**

Trading derivatives are classified as a current asset or liability. The full fair value of a hedging derivative is classified as a non-current asset or liability if the remaining maturity of the hedged item is more than 12 months, or as a current asset or liability if the maturity of the hedged item is less than 12 months.

b. Forward foreign exchange contracts

The hedged highly probable forecast transactions denominated in foreign currency are expected to occur at various dates during the next 24 months. Gains and losses recognised in the hedging reserve in equity on forward foreign exchange contracts will be recognised in the Statement of Comprehensive Income, in the period or periods during which the hedged forecast transaction affects the Statement of Comprehensive Income.

c. Interest rate swap contracts

The Group enters into interest rate swaps that have similar critical terms as the hedged item, such as reference rate, reset dates, payment dates, maturities and notional amount. The Group does not hedge 100% of its loans, therefore the hedged item is identified as a proportion of the outstanding loans up to the notional amount of the swaps. As all critical terms matched during the year, the economic relationship was 100% effective.

Hedge ineffectiveness for interest rate swaps is assessed using the same principles as for hedges of foreign currency purchases. It may occur due to the credit value/debit value adjustment on the interest rate swaps which is not matched by the loan, and differences in critical terms between the interest rate swaps and loans.

There was no ineffectiveness during 2020 in relation to the interest rate swaps (2019: nil).

At balance date, one interest rate swap was in place with $3m of borrowings fixed at 4.17%, expiring June 2020. The interest rate swap, with a fair value of -$24,000 (2019: -$100,000), is exposed to fair value movements if interest rates change. During the year, $3,000 (2019: $45,000) net was charged to the Statement of Comprehensive Income.

The following table summarises Group's current hedging instruments.

	2020			2019		
	Foreign currency options	Foreign currency forwards	Interest rate swaps	Foreign currency options	Foreign currency forwards	Interest rate swaps
Notional amount ($'000s)	23,420	36,314	3,000	32,940	42,421	3,000
Maturity date	Apr-20 to May-21	Apr-20 to Feb-22	Jun-20	May-19 to Sep-20	Apr-19 to Oct-20	Jun-20
Hedge ratio	1:1	1:1	1:1	1:1	1:1	1:1
Change in intrinsic value of outstanding hedging instruments	(879)			(31)		
Weighted average strike rate on outstanding options						
GBP/USD	-			1.34		
NZD/USD	0.66			0.69		
Weighted average contract rate on forwards						
NZD/USD		0.66			0.74	
GBP/USD		1.29			1.33	
EUR/USD		1.14			1.14	
INR/USD		73.78			71.56	

26. Financial risk management

The Group's activities expose it to a variety of financial risks: credit risk, liquidity risk and market risk.

The Board has overall responsibility for the establishment and oversight of the Group's risk management framework. The Board has established the Audit and Risk Committee, which together with the Board, is responsible for developing and monitoring the Group's risk management policies.

The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls and to monitor risk adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities.

The Group's risk management is predominantly controlled at head office in New Zealand (Group treasury) under policies approved by the Board. Group treasury identifies, evaluates and hedges financial risks in close co-operation with the Group's operating units. The Board provides written principles for overall risk management, as well as policies covering specific areas, such as foreign exchange risk, interest rate risk, and credit risk, use of derivative financial instruments and non-derivative financial instruments, and investment of excess liquidity.

The impact of Covid-19 on financial risks was reviewed and analysis is outlined under each risk category.

Risk	Exposure arising from	Measurement	Management
Market risk-foreign exchange	Recognised financial assets and liabilities not denominated in currency units	Cash flow forecasting Sensitivity analysis	Foreign currency forwards and foreign currency options
Market risk-interest rate	Bank overdraft at variable rates	Sensitivity analysis	Interest rate swaps
Credit risk	Cash and cash equivalents, trade receivables, derivative financial instruments	Aging analysis Credit ratings	Credit limits
Liquidity risk	Borrowings and other liabilities	Rolling cash flow forecasts	Availability of committed credit lines and borrowing facilities

a. Financial instruments—fair values and risk management

Financial assets and financial liabilities are recognised on the Group's balance sheet when the Group becomes a party to the contractual provisions of the instrument. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership.

Fair value estimates

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement, or for disclosure purposes.

The fair value of financial instruments that are not traded in an active market is determined using valuation techniques. The Group uses a variety of methods and makes assumptions that are based on market conditions existing at each balance date. Techniques, such as estimated discounted cash flows, are used to determine fair value for financial instruments. The fair value of forward exchange contracts and collar options is determined using forward exchange market rates at the balance date.

The nominal value less estimated credit adjustments of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes, is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

Classification of financial assets

The Group classifies its financial assets in the following categories:

- Financial asset at fair value through profit or loss (FVPL)
- Financial assets at fair value through other comprehensive income (FVOCI)
- Derivative financial instruments
- Other financial assets at amortised cost.

The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition and re-evaluates this designation at each reporting date with the exception of financial assets at FVOCI.

Financial assets at fair value through profit or loss (FVPL)

This category has two subcategories: financial assets held for trading and those designated at FVPL on initial recognition. For accounting purposes, derivatives are categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if they are either held for trading or are expected to be realised within 12 months of the balance date.

Financial assets at FVPL are carried at fair value. Realised and unrealised gains and losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are included in the Statement of Comprehensive Income, in the period in which they arise.

The Group establishes fair value by using valuation techniques. These include reference to the fair values of recent arm's length transactions, involving the same instruments or other instruments that are substantially the same and discounted cash flow analysis.

The Group assesses at each balance date whether there is objective evidence that a financial asset or group of financial assets is impaired.

Classification of financial assets at fair value through other comprehensive income (FVOCI)

On disposal of these equity investments, any related balance within the FVOCI reserve is reclassified to retained earnings. Equity securities which are not held for trading, and which the Group has irrevocably elected at initial recognition to recognise in this category. These are strategic investments and the Group considers this classification to be more relevant.

Other financial assets at amortised cost

Receivables and other financial assets are classified as subsequently measured at amortised cost on the basis of both the Group's business model for managing the financial assets and the contractual cash flow characteristics of the financial asset. If collection of the amounts is expected in one year or less they are classified as current assets.

Other financial assets at amortised cost include loans to related parties and trade and other receivables.

Derivative financial instruments

In accordance with its wider risk management, it is the Group's strategy to apply cash flow hedge accounting to keep its foreign currency revaluation fluctuations within its established limits, refer note 25. Applying cash flow hedge accounting enables the Group to reduce the cash flow fluctuations arising from foreign exchange risk on an instrument or Group of instruments, or to hedge mismatches. A cash flow hedge is a hedge of the exposure to variability in cash flows that is attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction that could affect profit or loss.

Following table shows the carrying amounts and fair values of financial assets and financial liabilities.

	Measurement category	Carrying amount 2020 $000s	2019 $000s
Current financial assets			
Derivative financial instruments – cash flow hedges	FVOCI	27	565
Derivative financial instruments – held for trading	FVPL	2	19
Trade and other receivables	Amortised cost	45,081	40,487
Cash and cash equivalents	Amortised cost	5,086	4,719
Non-current financial asset			
Financial asset at fair value through other comprehensive income – Thinxtra	FVOCI	2,918	4,549
Derivative financial instruments – cash flow hedges	FVOCI	-	258
Trade and other receivables	Amortised cost	2,702	2,267
Current financial liabilities			
Derivative financial instruments – cash flow hedges	FVOCI	4,011	850
Derivative financial instruments – held for trading	FVPL	1,029	95
Bank overdraft	Amortised cost	12,848	11,501
Trade and other payables	Amortised cost	22,252	26,398
Non-current financial liabilities			
Derivative financial instruments – cash flow hedges	FVOCI	2,840	343

b. Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arises principally from the Group's receivables from customers.

Trade and other receivables

The Group has financial assets of trade receivables from sales of inventory that are subject to the expected credit loss model. The Group has established credit policies, and applies the NZ IFRS 9 Financial Instruments simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables, refer note 11.

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The demographics of the Group's customer base, including the default risk of the industry and country, in which customers operate, has less influence.

Due to Covid-19, no material adverse impact has been observed to date in respect of Rakon's customers, refer note 2.

Cash and cash equivalents

While cash and cash equivalents are also subject to the impairment requirements of NZ IFRS 9 Financial Instruments, the identified impairment loss was immaterial.

Exposure to credit risk

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at 31 March is set out below.

	Carrying amount 2020 $000s	2019 $000s
Financial assets at fair value through profit or loss (note 25)	2	19
Financial asset at fair value through other comprehensive income – Thinxtra (note 17)	2,918	4,549
Trade and other receivables (note 11)	45,081	40,487
Cash and cash equivalents (note 10)	5,086	4,719
Forward exchange contracts and collar options used for hedging (note 25)	27	565
Total exposure to credit risk	**53,114**	**50,339**

The maximum exposure to credit risk for trade receivables at 31 March by currency of denomination is set out under the liquidity risk.

c. Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

Typically, the Group ensures that it has sufficient cash on demand to meet expected operational expenses for a period of 60 days, including the servicing of financial obligations; this excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters. The historical and potential future impact of Covid-19 has been incorporated into detailed forecasts of cash and facility requirements. Further information on the impact of Covid-19 on the business is in note 2.

The Directors forecast that the Group will trade at levels appropriate to manage its working capital requirements and have considered the achievability of the assumptions underlying those forecasts, including forecast sales and positioning the business for the future. Forecasts indicate that the Group will meet its net cash requirements and that there is sufficient headroom to allow for downward sensitivities, should the actual revenue and margin levels be lower than forecast. For further information on going concern, refer note 2.

The following table shows the contractual undiscounted cash flow maturities of financial liabilities, including interest payments and excluding the impact of netting agreements.

31 March 2020	**Carrying amount**	**6 months or less**	**6 – 12 months**	**1 – 2 years**	**2 – 5 years**	**5 – 10 years**
	$000s	**$000s**	**$000s**	**$000s**	**$000s**	**$000s**
Financial liabilities						
Derivatives (note 25)	7,880	(2,734)	(2,320)	(1,946)	(880)	-
Trade and other payables (note 19)	22,252	(22,252)	-	-	-	-
Bank overdraft (note 18)	12,848	(13,305)	-	-	-	-
Finance leases (note 18)	-	-	-	-	-	
Lease liabilities (note 15)	9,445	(1,396)	(1,345)	(2,236)	(3,550)	(918)
Total financial liabilities	**52,425**	**(39,687)**	**(3,665)**	**(4,182)**	**(4,430)**	**(918)**

31 March 2019	**Carrying amount**	**6 months or less**	**6 – 12 months**	**1 – 2 years**	**2 – 5 years**	**5 – 10 years**
	$000s	**$000s**	**$000s**	**$000s**	**$000s**	**$000s**
Financial liabilities						
Derivatives (note 25)	1,288	(750)	(343)	(195)	-	-
Trade and other payables (note 19)	26,398	(26,398)	-	-	-	-
Bank overdraft (note 18)	11,501	(11,797)	-	-	-	-
Finance leases (note 18)	817	(405)	(412)	-	-	-
Total financial liabilities	**40,004**	**(39,350)**	**(755)**	**(195)**	**-**	**-**

Further information on bank overdraft interest rate is in note 18.

d. Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices, will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, whilst optimising the return on risk.

The Group enters into derivatives in the ordinary course of business and also incurs financial liabilities, in order to manage market risks. All such transactions are carried out within the guidelines set by the Board and Audit and Risk Committee. Generally, the Group seeks to apply hedge accounting in order to manage volatility in the Statement of Comprehensive Income. Further information on the impact of Covid-19 on the business is in note 2.

Currency risk

The Group is exposed to currency risk on sales and purchases that are denominated in a currency other than the respective functional currencies of the Group's entities, primarily New Zealand Dollars (NZD), Sterling (GBP), the Euro (EUR) and Indian Rupees (INR). The currencies in which these sales and purchases transactions are primarily denominated are US Dollars (USD), Japanese Yen (JPY), INR, NZD, GBP and EUR. The Group uses foreign currency forward exchange contracts and collar options to hedge its currency risk.

Exposure to currency risk

The table below summarises the foreign exchange exposure on the net monetary assets of the Group against its respective functional currency, expressed in NZD.

	USD	**EUR**	**GBP**	**JPY**
	$000s	**$000s**	**$000s**	**$000s**
31 March 2020	15,749	3,603	(1,297)	(1,164)
31 March 2019	17,397	(1,533)	(460)	(5,751)

Rakon Limited

The following significant exchange rates applied during the year.

	Average rate		Reporting date rate	
NZD	2020	2019	2020	2019
USD	0.6454	0.6768	0.6023	0.6806
EUR	0.5816	0.5887	0.5404	0.6044
GBP	0.5086	0.5188	0.4833	0.5154
JPY	70.2392	75.1127	64.9600	75.1800

Sensitivity analysis

Underlying exposures

A 10% weakening of the NZD against the following currencies at 31 March would have increased (decreased) equity and profit or loss by the amounts shown below. Based on historical movements, a 10% increase or decrease in the NZD is considered to be a reasonable estimate. This analysis assumes that all other variables, in particular interest rates remain constant. The analysis was performed on the same basis for 2019.

10% weakening	2020		2019	
	Equity	Profit or loss	Equity	Profit or loss
	$000s	$000s	$000s	$000s
USD	1,750	1,750	1,933	1,933
EUR	400	400	(170)	(170)
GBP	(144)	(144)	(51)	(51)
JPY	(129)	(129)	(639)	(639)

A 10% strengthening of the NZD against the above currencies at 31 March would have had the equal but opposite effect on the above currencies to the amount shown above, on the basis that all other variables remain constant.

Forward foreign exchange contracts

A 10% weakening of the purchased currencies below against the forward foreign exchange contracts outstanding at 31 March, would have increased (decreased) equity and profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for 2019.

	2020			2019		
	Fair value	Equity	Profit or loss	Fair value	Equity	Profit or loss
	$000s	$000s	$000s	$000s	$000s	$000s
Forward foreign exchange contracts - Cash flow hedge						
Net buy NZD sell USD	8,013	(8,013)	-	5,811	(5,811)	-
Forward foreign exchange contracts - held for trading						
Net buy EUR sell USD	(47)	(63)	(63)	(28)	231	231
Net buy GBP sell USD	(70)	(96)	(96)	20	277	277
Net buy NZD sell USD	(862)	(1,761)	(1,761)	119	(496)	(496)
Net buy INR sell USD	89	54	54	-	-	-

Interest rate risk

Under the Group's Treasury Management Policy, a minimum of 50% of term debt is required to be on fixed interest rates. The Group adopts a policy to manage its exposure to interest rates by considering fixed interest rate swap agreements.

Profile

At 31 March the interest rate profile of the Group's interest bearing financial instruments.

	2020	2019
Variable rate instruments	$000s	$000s
Financial assets (note 10)	5,086	4,719
Financial liabilities	(12,848)	(11,501)
Net variable rate instruments	(7,762)	(6,782)
Fixed rate instruments		
Financial liabilities	(164)	(176)
Net fixed rate instruments	(164)	(176)

Sensitivity analysis

An increase of 100 basis points in interest rates at 31 March would have increased (decreased) equity and profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular foreign exchange rates, remain constant. The analysis for 2020 was performed on the same basis as 2019.

	2020		2019	
	Equity	Profit or loss	Equity	Profit or loss
	$000s	$000s	$000s	$000s
Variable rate instruments	(78)	(78)	(68)	(68)
Fixed rate instruments	(2)	(2)	76	76

A decrease of 100 basis points in interest rates at 31 March would have the opposite impact to what is shown above.

27. Share based payments

The Group's management awards qualifying employees' bonuses, in the form of share options and conditional rights to redeemable ordinary shares, from time to time, on a discretionary basis. These are subject to vesting conditions and their fair value is recognised as an employee benefit expense with a corresponding increase in other reserve equity over the vesting period. The fair value determined at grant date excludes the impact of any non-market vesting conditions, such as the requirement to remain in employment with the Group. Non-market vesting conditions are included in the assumptions about the number of options that are expected to vest and the number of redeemable ordinary shares that are expected to transfer. At each balance date the estimate of the number of options expected to vest and the number of redeemable ordinary shares expected to transfer is revised and the impact of any change in this estimate is recognised in the Statement of Comprehensive Income with a corresponding entry to equity. The proceeds received net of any directly attributable transaction costs are credited to share capital when the options are exercised, or the conditional rights to redeemable ordinary shares are transferred.

Rakon Share Plan

In March 2006, Rakon Limited established a share plan to enable selected employees of Rakon Limited to acquire shares in the Company through the plan trustee, Rakon ESOP Trustee Limited.

Under the terms of the share plan, 2,759 ordinary shares were issued at deemed market value at that time to Rakon ESOP Trustee Limited to hold on behalf of the participating employees. Following a share split on 13 April 2006, the resulting number of shares under this plan was 859,137. All shares issued to Rakon ESOP Trustee Limited have been allocated. The shares rank equally in all respects with all other ordinary shares issued by the Company. The outstanding loan balance provided by Rakon Limited to participating employees in respect of these shares totals $195,000 (2019: $195,000). Loans are provided on an interest free basis and the employee may repay all or part of the loan at any time. No repayments were due at 31 March 2020 (2019: nil). The Trust Deed makes provision for the Company to require repayment of the loans in certain circumstances.

As at 31 March 2020, 321,972 (31 March 2019: 321,972) shares were allocated to participants but held by Rakon ESOP Trustee Limited.

Shares issued under the share plan are held on trust by Rakon ESOP Trustee Limited. A participant may request the trustee to transfer the relevant shares to him or her, provided their loan has been repaid in full.

The Company may remove and appoint trustees at any time. The Directors and shareholders of Rakon ESOP Trustee Limited are Keith Oliver and Bruce Irvine.

Shares held by the share plan represent approximately 0.14% of the Company's total shares on issue as at balance date (2019: 0.14%).

28. Principal subsidiaries

Subsidiaries are all entities over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

Business combinations are accounted for using the acquisition method. The consideration transferred in a business combination shall be measured at fair value, which shall be calculated as the following: the total of the acquisition date fair values of the assets transferred by the Group, the liabilities incurred by the Group to former owners, the equity issued by the Group and the amount of any non-controlling interest in the acquiree either at fair value or at the proportional share of the acquiree's identifiable net assets. Acquisition related costs are expensed as incurred.

All material transactions between subsidiaries or between the parent company and subsidiaries are eliminated on consolidation. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

When the Group ceases to have control, any retained interest in the entity is re-measured to its fair value at the date when control is lost, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in OCI in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in OCI are reclassified to profit or loss.

Name of entity	Principal activities	Country of incorporation	Balance date	% interest held by group 2020	2019
Rakon America LLC	Marketing support	USA	31-Mar	100	100
Rakon Singapore (Pte) Limited	Marketing support	Singapore	31-Mar	100	100
Rakon Financial Services Limited	Financing	New Zealand	31-Mar	100	100
Rakon International Limited	Marketing support	New Zealand	31-Mar	100	100
Rakon UK Holdings Limited	Holding company	United Kingdom	31-Mar	100	100
Rakon UK Limited	Research and development	United Kingdom	31-Mar	100	100
Rakon France SAS	R&D, manufacturing and sales	France	31-Mar	100	100
Rakon HK Limited	Holding company	Hong Kong	31-Mar	50	50
Rakon (Mauritius) Limited	Holding company	Mauritius	31-Mar	100	100
Rakon Investment HK Limited	Holding company	Hong Kong	31-Mar	100	100
Rakon Crystal Electronic International Limited	Marketing support	China	31-Mar	100	100
Rakon India Pvt Limited	Manufacturing, R&D and sales	India	31-Mar	100	100
Rakon ESOP Trustee Limited	Share trustee	New Zealand	31-Mar	-	-
Rakon PPS Trustee Limited	Share trustee	New Zealand	31-Mar	-	-

Rakon ESOP Trustee Limited and Rakon PPS Trustee Limited are classified as in-substance subsidiaries and are consolidated into the Group financial statements.

29. Commitments

a. Capital commitments

Capital expenditure contracted for at the balance date but not incurred is $366,000 (2019: $194,000).

b. Operating and finance leases

During 2019, the Group was the lessee. Leases where the lessor retains substantially all the risk and rewards of ownership 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.

c. 2019 leases pre-adoption of NZ IFRS 16 Leases

From 1 April 2019, the Group has adopted NZ IFRS16 Leases and has recognised right-of-use assets and its corresponding lease liabilities, refer note 15.

	2020 $000s	2019 $000s
No later than 1 year	-	405
Later than 1 year and no later than 5 years	-	412
Total minimum lease payments	**-**	**817**
Less amounts representing finance charges	-	(26)
Present value of minimum lease payments	**-**	**791**
Included in the financial statements as		
Current borrowings (note 18)	-	405
Non-current borrowings (note 18)	-	412
Total finance lease included in borrowings	**-**	**817**

Operating lease commitments – Group as lessee

The Group leases various factories, offices and warehouses under non-cancellable operating lease agreements. The leases have varying terms and renewal rights. On renewal the terms are renegotiated.

The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	2020 $000s	2019 $000s
No later than 1 year	-	2,689
Later than 1 year and no later than 5 years	-	6,755
Later than 5 years	-	938
Total non-cancellable operating leases	**-**	**10,382**

30. Related party information

No amounts owed by a related party have been written off or forgiven during the year. Related party transactions were transacted at arm's length. Following is the summary of transactions between related parties, and closing receivables and payables balances.

	2020 $000s	2019 $000s
Key management and directors' compensation		
Salaries and other short-term employee benefits	4,045	3,767
Directors' fees	360	358
Total key management and directors' compensation	4,405	4,125
Transactions with associate and joint-venture		
Purchases from associate, Chengdu Shen-Timemaker Crystal Technology Co. Limited	(940)	(233)
Purchases from joint venture, Centum Rakon India Private Limited [1]	-	(1,284)
Net transactions	**(940)**	**(1,517)**
Payables to Chengdu Shen-Timemaker Crystal Technology Co. Limited	56	232
Receivables from Rakon HK Limited	163	139
Transactions with Siward Crystal Technologies Co. Limited		
Sales	502	210
Purchases	(2,218)	(236)
Net transactions	**(1,716)**	**(26)**
Receivables from Siward Crystal Technologies Co. Limited	38	210
Payables to Siward Crystal Technologies Co. Limited	572	236

[1] On 2 May 2018, the Group assumed full ownership of Centum Rakon India Private Limited and subsequently any purchases are treated as intercompany transactions.

31. Contingencies

Prior to acquisition, Rakon India has received income tax and indirect taxes assessments, which had been in dispute. The Directors of Rakon India believe the positions are likely to be upheld and accordingly no provision was made in Rakon India's financial statements. The below summarises the potential impacts on Rakon India's tax balances if the assessments are upheld.

Income taxes

- 2011/12 – an increase in taxable income of $1.6m (tax value $1,000,000)
- 2013/14 – no increase in taxable income (tax value $580,000)

Indirect taxes

- December 2010/ August 2012 – excess input credit availed (tax value $440,000)

32. Subsequent events

On 13 June 2020 a €3.5m loan was made available to Rakon France for an initial term of 12 months with Rakon France having an option to extend for up to a further five years at the end of the first 12 months. This loan has certain restrictions that limits it to be used for working capital/treasury support for the French business only. Interest is payable at zero percent for the initial 12 months along with a guarantee fee of 0.25%. There are no covenants on the loan and no additional security is required.

On 26 May 2020 the facilities with ASB have also been renewed, refer note 18.

The Directors are not aware of any other material events subsequent to the balance date 31 March 2020. In particular no information has come to light related to Covid-19's impact on the Group which is expected to have a material negative effect.

Independent auditor's report

To the Shareholders of Rakon Limited

We have audited the financial statements which comprise:

- the balance sheet as at 31 March 2020;
- the statement of comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include significant accounting policies.

Our opinion

In our opinion, the accompanying financial statements of Rakon Limited (the Company), including its subsidiaries (the Group), present fairly, in all material respects, the financial position of the Group as at 31 March 2020, its financial performance and its cash flows for the year then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS) and International Financial Reporting Standards (IFRS).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (New Zealand) (ISAs (NZ)) and 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.

We are independent of the Group in accordance with Professional and Ethical Standard 1 (Revised) *Code of Ethics for Assurance Practitioners* (PES 1) issued by the New Zealand Auditing and Assurance Standards Board and the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Our firm carries out other services for the Group in the areas of treasury related financial markets risk analysis and commentary, review procedures over the confirmation of the Eligible Research and Development Expense claimed under the Research and Development Income Tax incentive scheme in India and certification of expenditure on Research and Development activities claimed under the Research and Development subsidy in France. The provision of these other services has not impaired our independence as auditor of the Group.

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 year. 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
Impairment risk for non-financial assets As set out in note 14d, the Directors assess intangible assets and other non-financial assets annually for impairment. The Directors look initially for indicators of impairment which requires a level of judgement. When the market capitalisation is lower than the net asset value of the Group this can be an indicator of potential impairment of non-financial assets held by the Group. Market capitalisation of the Group at 31 March 2020 was $36.7 million compared to the carrying value of the net assets of $91.8 million. Subsequent to the year end the market capitalisation increased and was $59.5 million as at 26 June 2020. The Directors performed an assessment of impairment on an asset class basis as well as performing a business valuation for the Group as a whole. The business valuation was prepared on a value in use basis using a discounted cash flow model. In preparing this model the Directors took into account factors including the current profitability of the Group and the impact of Covid-19 on the Group's operations. The key assumptions in the discounted cash flow model are included in note 14d of the financial statements and include: • Annual sales growth rate • Gross margin • Terminal growth rates • Discount rates The results of the Directors' assessment, including the impact of reasonably possible changes in assumptions, are detailed in note 14d.	We updated our understanding of business processes and controls applied in the assessment of indicators of impairment of non-financial assets and determining any impairment required. In considering the results of the Directors' assessment of impairment on an asset class basis we have considered: • the historical recoverability of inventory balances and whether there is any indication of impairment; • whether there were indicators of impairment for intangible product development assets, which has been discussed in the key audit matter below; • the recoverability of deferred tax assets; • whether there were any specific indicators of impairment for property, plant and equipment assets; and • the effects of Covid-19 on the assets' values. In considering the discounted cash flow model used for the assessment of impairment of the business as a whole our procedures included the following: • Obtained an understanding of the current and forecast outlook for the business and management's basis for determining the key assumptions in preparing the forecast cash flows; • Compared cash flow forecasts used in the model to budgets and long-term forecasts approved by the Board subsequent to the year end; • Assessed the reliability of management's budgeting process by understanding the differences between the historical and budgeted performance in previous years;

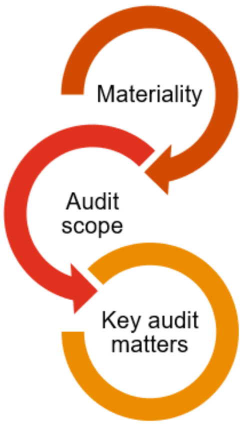
Key audit matter	How our audit addressed the key audit matter
	• Evaluated the key assumptions in particular the estimated sales growth rates and gross margins and the potential impact of Covid-19, by analysing the Group's past performance, key trends and interrelationship of key assumptions and benchmarking information to market data where relevant and available; • Engaged our valuation expert to assist us in challenging management's key cash flow assumptions and to assess the terminal growth rates, discount rates and a range of cash flow scenarios; and • Assessed the adequacy of disclosures in the financial statements to ensure that they are compliant with the requirements of NZ IFRS. As a result of these procedures we have no matters to report.
Valuation of research and development costs associated with the development of new products Rakon incurs costs with respect to developing new products. This is included within the product development and assets under construction categories of intangible assets (note 14 of the financial statements) and amounts to $6.1 million at 31 March 2020. There is a risk that the costs that are being capitalised for development may not meet the criteria for capitalisation as an intangible asset under NZ IFRS. There is judgement and often uncertainty around the potential for success of new products as well as the technical feasibility and probable future economic benefits associated with new and existing projects primarily with respect to new telecommunications infrastructure products. The Directors assessed the future income generating ability of capitalised development expenditure by referring to current demand for the products now in production and to the business case for future sales of products not yet in production.	Our audit procedures included the following: • Updated our understanding of how the costs for research and development are captured and, where appropriate, are approved for capitalisation and the controls over these processes; • Obtained an understanding of the projects which have been capitalised during the year and, on a sample basis, agreed costs incurred to supporting documentation and approval; • Assessed overall costs capitalised for compliance with Group policies and the requirements defined in NZ IFRS for capitalisation of product development costs; • For those products in production, where costs were capitalised and are now being amortised, we challenged the Directors' assessment of the future income expected from those products by comparing the estimate with the level of sales currently being achieved;

Key audit matter	How our audit addressed the key audit matter
	• Challenged the Directors' assessment of the future income expected from new telecommunications infrastructure products by comparing the estimate with the level of sales of previous generations of telecommunications infrastructure products and with market forecast reports. As a result of these procedures we have no matters to report.
Compliance with banking facilities As at 31 March 2020 the Group's net debt was \$7.9 million. Note 18 to the financial statements explains that the Group's bank funding comprises trade and overdraft facilities with ASB and a trade facility with the State Bank of India. The ASB facilities were extended on 26 May 2020 and the trade facility is scheduled to reduce over the next six months. The ASB facilities have financial covenants requirements attached. In addition, subsequent to the year end, a loan was made available to Rakon France, as described in note 32. We consider forecast compliance with the Group banking facilities and the financial covenants for the ASB facilities to be a key audit matter, given the reduction of the facility limit over the next 6 months and the uncertainties associated with Covid-19. The Directors have assessed forecast compliance with banking facilities by: • preparing scenario forecasts (base case and various downside scenarios) for the Group for the next 12 months from the date of approval of financial statements; • assessed the restrictions on the use of the loan made available to Rakon France; • using the forecasts to calculate financial covenant compliance at future covenant test dates. The Directors have concluded there are no material uncertainties related to going concern and compliance with the requirements of banking facilities.	We have read the bank agreements and understood the attached requirements. We obtained the Group's cash flow forecasts for the next 12 months from the date of the approval of the financial statements and performed the following audit procedures: • Ensured the base case cash flow forecast is consistent with the forecast used for the impairment assessment; • Assessed the reasonableness of management's forecast scenarios and performed sensitivities by considering additional scenarios, taking into account the restricted use of the bank funding in France; • Assessed whether the Group is able to fund the required reduction in the ASB trade facility limit over the next six months; • Assessed the ability of the Group to comply with the covenant requirements by recalculating covenant compliance at the measurement dates; and • Considered the adequacy of disclosure in notes 2d, 18 and 32 to ensure they accurately reflect information relevant to management's assessment of the Group's ability to comply with the banking facilities over the next 12 months. From our procedures, we have no matters to report.

Key audit matter	How our audit addressed the key audit matter
Valuation of the investment in Thinxtra Limited Rakon holds ordinary shares in Thinxtra Limited (“Thinxtra”), which is a level three investment accounted for at fair value through Other Comprehensive Income. We considered the valuation of the investment in Thinxtra a key audit matter because of the uncertainty involved in the estimation process and the significant judgements the Directors make in determining the fair value. Changes in the assumptions applied as part of the estimation process can lead to significant movements in the fair value of the investment. The Directors developed a valuation methodology based on valuation techniques with different assigned probabilities based on the available information and Directors’ judgement, as disclosed in note 17. The Directors also considered sensitivity of the key inputs in the valuation methodology by determining other reasonably possible scenarios and assessing the impact on the valuation of these scenarios. The results of the Directors’ assessment and sensitivity analysis is detailed in note 17.	We performed the following audit procedures: • Obtained an understanding of the valuation methodology developed by the Directors and the key assumptions they applied in determining the fair value of the investment in Thinxtra as at 31 March 2020; • Agreed the key inputs in the valuation model to unaudited information obtained by management from Thinxtra; • Considered the discounted cash flow model approach which formed part of the Directors’ basis of valuation. We determined the underlying forecasts used in the model were not sufficiently reliable due to Thinxtra’s business being at an early stage of development and the history of not meeting budgeted results. Accordingly, this required us to take a different valuation approach based wholly on using the observable inputs from the recent capital raise; • Engaged our valuation expert to assist in the valuation of the investment as at 31 March 2020. Our expert concluded that the share price achieved in the recent capital raise provided the best evidence of the fair value at 31 March 2020. Using this price results in a lower fair value than determined by the Directors, consistent with the fair value disclosed in alternate case B sensitivity in note 17. The difference between the Directors’ assessment of fair value and our valuation, was reported to the Directors who determined that this judgemental difference was not material in the context of the financial statements. This difference was below our overall Group materiality; and • Assessed the adequacy of disclosures in the financial statements to ensure that this is compliant with the requirements of NZ IFRS.

Our audit approach

Overview



An audit is designed to obtain reasonable assurance whether the financial statements are free from material misstatement.

Overall Group materiality: $1,189,800, which represents approximately 1% of revenue.

In our judgement, revenue provides a more stable measure for establishing our materiality benchmark and best reflects performance of the Group.

We have determined that there are four key audit matters:

- Impairment risk for non-financial assets
- Valuation of research and development costs associated with the development of new products
- Compliance with banking facilities
- Valuation of the investment in Thinxtra Limited.

Materiality

The scope of our audit was influenced by our application of materiality.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall Group materiality for the financial statements as a whole as set out above. These, together with qualitative considerations, helped us to determine the scope of our audit, the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Audit scope

We designed our audit by assessing the risks of material misstatement in the financial statements and our application of materiality. 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.

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

We conducted a full scope audit over two segments, New Zealand, including the investment in Thinxtra, and France and limited review procedures were conducted for India. Together these represent 100% of external revenue. We conducted specific audit procedures over certain financial statement line items for the UK subsidiary. Limited review procedures were conducted for the investment in Timemaker.

Information other than the financial statements and auditor's report

The Directors are responsible for the annual report. Our opinion on the financial statements does not cover the other information included in the annual report and we do not and will not express any form of assurance conclusion on the other information.

In connection with our audit of the financial statements, if other information is included in the annual report, our responsibility is to read the other information 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 on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have received a draft of the annual report and based on the draft we have read, we have nothing to report. We will read the final version of the annual report when it is made available to us.

Responsibilities of the Directors for the financial statements

The Directors are responsible, on behalf of the Company, for the preparation and fair presentation of the financial statements in accordance with NZ IFRS and IFRS, 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.

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 (NZ) and 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.

A further description of our responsibilities for the audit of the financial statements is located at the External Reporting Board's website at:

https://www.xrb.govt.nz/standards-for-assurance-practitioners/auditors-responsibilities/audit-report-1/

This description forms part of our auditor's report.

Who we report to

This report is made solely to the Company's Shareholders, as a body. Our audit work has been undertaken so that we might state those matters which we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's Shareholders, as a body, for our audit work, for this report or for the opinions we have formed.

The engagement partner on the audit resulting in this independent auditor's report is Lisa Crooke.

For and on behalf of:

PricewaterhouseCoopers

Chartered Accountants
29 June 2020

Auckland