Rakon Limited

Annual Report 2014

rakon

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Directors' Report

The Directors are responsible for ensuring that the financial statements give a true and fair view of the financial position of the Company and the Group as at 31 March 2014 and their financial performance and cash flows for the period ended on that date.

The Directors consider that the financial statements of the Company and 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 Reporting Act 1993.

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 note the following as material changes in the nature of the business undertaken by the Company and the Group in the past year.

- A sale of 80% of the equity in Rakon Crystal (Chengdu) Co. Ltd (RCC) to ZheJiang East Crystal Electronic Co. Ltd; subsequently reported as discontinued operations from 1 April 2013 to 17 October 2013.
- A restructure of Rakon France SAS, with an associated completion in the shift of OCXO manufacturing to Centum Rakon India Private Limited.
- A confirmation by the Directors on 5 March 2014, to close the Lincoln, UK manufacturing plant (Rakon UK Limited), with the intention to relocate all UK manufacturing to New Zealand during 2014. Restructure costs relating to this plan have been provisioned in the period.

The Directors present the financial statements set out in pages 3-51, of Rakon Limited and subsidiaries for the period 1 April 2013 to 31 March 2014.

The Board of Directors of Rakon Limited authorised these financial statements for issue on 29 May 2014.

Financial Results

Rakon Limited has reported a full year net loss after tax of $83.8 million, of which $79.4 million is attributable to Rakon equity holders and $4.4 million is attributable to Non-controlling interests.

Sales revenue for the year was $150 million, down $26.3 million or 15% on the previous year. The Group's sales revenue reduced as a result of the exit from the Smart Wireless market segment following the equity sale of RCC. Gross profit for the year was $28.7m, down $13.8m or 32% on the previous year. Gross margins were down as a result of the reduction in sales revenue and as a result of $7.4 million of accelerated depreciation taken up in the period. Operating expenses for the year of $59.4 million are $5.6 million up compared to the previous year, significantly impacted by total restructure costs of $7.2 million reported in the period.

An impairment charge of $15.0m has been recorded against the goodwill of Rakon's UK 'cash generating unit'.

As at 31 March 2014 Rakon's shareholders' equity stood at $79.0 million, funding 62% of total assets.

The Board has determined that no dividend will be paid, consistent with the Group's policy that from the completion of the year ending 31 March 2015, a dividend will be paid of up to 50% of the after tax profit, if considered fiscally appropriate by the Directors.

Donations & Audit Fees

The Group made donations totalling $11,000 during the past year. Amounts paid to PricewaterhouseCoopers for audit and other services are shown in note 6 of the Financial Statements.

Other Statutory Information

Additional information required by the Companies Act 1993 is set out in the Shareholder Information section.

On behalf of the Directors

B W Mogridge	B J Robinson
Chairman	CEO, Managing Director

Statements of Comprehensive Income

For the year ended 31 March 2014

		Group		Parent	
		2014	2013	2014	2013
	Note	($000s)	($000s)	($000s)	($000s)
Continuing operations					
Revenue	4	149,951	176,259	69,851	100,023
Cost of sales		(121,231)	(133,746)	(71,392)	(88,144)
Gross profit		**28,720**	**42,513**	**(1,541)**	**11,879**
Other operating income	5	3,056	5,296	5,992	16,625
Operating expenses	6	(59,363)	(53,770)	(27,394)	(26,139)
Other (losses)/gains - net	7	(1,902)	224	(336)	1,662
Impairment	27	(19,920)	(17,331)	(54,488)	(7,686)
Operating (loss)/profit		**(49,409)**	**(23,068)**	**(77,767)**	**(3,659)**
Finance income	9	5	172	-	95
Finance costs	9	(1,722)	(1,144)	(1,690)	(2,047)
Share of profit of associates and joint venture	19, 20	1,700	1,281	-	-
Loss before income tax		**(49,426)**	**(22,759)**	**(79,457)**	**(5,611)**
Income tax credit/(expense)	10	(1,076)	(2,464)	(833)	(681)
Net loss after tax from continuing operations		**(50,502)**	**(25,223)**	**(80,290)**	**(6,292)**
Discontinued operations					
Loss for the year from discontinued operations	32	(33,297)	(7,598)	(2,669)	-
Net loss for the year		**(83,799)**	**(32,821)**	**(82,959)**	**(6,292)**
Other comprehensive income:					
Items that may be reclassified subsequently to profit or loss:					
Increase/(decrease) in fair value cash flow hedges		758	(159)	190	499
Increase/(decrease) in fair value net investment hedge		942	1,421	-	-
Increase/(decrease) in fair value currency translation differences		4,366	(5,755)	-	-
Income tax relating to components of other comprehensive income		(403)	(379)	(53)	(140)
Foreign currency translation reserve related to disposal of ERC (non-controlling interest share)		480	-	-	-
Other comprehensive (losses)/income for the period, net of tax		**6,143**	**(4,872)**	**137**	**359**
Total comprehensive losses for the period		**(77,656)**	**(37,693)**	**(82,822)**	**(5,933)**
Loss attributable to:					
Equity holders of the company		(79,429)	(31,844)	(82,959)	(6,292)
Non-controlling interests		(4,370)	(977)	-	-
		(83,799)	**(32,821)**	**(82,959)**	**(6,292)**
Total comprehensive losses attributable to:					
Equity holders of the company		(73,766)	(36,614)	(82,822)	(5,933)
Non-controlling interests		(3,890)	(1,079)	-	-
		(77,656)	**(37,693)**	**(82,822)**	**(5,933)**
Earnings per share for (loss)/profit attributable to the equity holders of the company:		Cents	Cents		
Basic (losses)/earnings per share					
From continuing operations	11	(26.7)	(13.3)		
From discontinued operations	11	(15.0)	(3.4)		
From loss for the year		(41.7)	(16.7)		
Diluted (losses)/earnings per share					
From continuing operations	11	(26.4)	(13.2)		
From discontinued operations	11	(14.9)	(3.4)		
From loss for the year		(41.3)	(16.6)		

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

Statements of Changes in Equity

For the year ended 31 March 2014

		Attributable to owners of the parent					
GROUP	Note	Share capital ($000s)	Retained earnings ($000s)	Other ($000s)	Equity ($000s)	Non-controlling interests ($000s)	Total equity ($000s)
Balance at 31 March 2012		**173,881**	**40,154**	**(24,737)**	**189,298**	**4,969**	**194,267**
Net loss after tax for the year ended 31 March 2013		-	(31,844)	-	(31,844)	(977)	(32,821)
Currency translation differences	29	-	-	(5,653)	(5,653)	(102)	(5,755)
Cash flow hedges, net of tax	29	-	-	(140)	(140)	-	(140)
Net investment hedge, net of tax	29	-	-	1,023	1,023	-	1,023
Total comprehensive (losses)/income for the year		**-**	**(31,844)**	**(4,770)**	**(36,614)**	**(1,079)**	**(37,693)**
Employee share schemes							
- value of employee services	29	-	-	112	112	-	112
Balance at 31 March 2013		**173,881**	**8,310**	**(29,395)**	**152,796**	**3,890**	**156,686**
Net loss after tax for the year ended 31 March 2014		-	(79,429)	-	(79,429)	(4,370)	(83,799)
Currency translation differences	29	-	-	4,366	4,366	480	4,846
Cash flow hedges, net of tax	29	-	-	619	619	-	619
Net investment hedge, net of tax	29	-	-	678	678	-	678
Total comprehensive (losses)/income for the year		**-**	**(79,429)**	**5,663**	**(73,766)**	**(3,890)**	**(77,656)**
Employee share schemes							
- value of employee services	29	-	-	(63)	(63)	-	(63)
Balance at 31 March 2014		**173,881**	**(71,119)**	**(23,795)**	**78,967**	**-**	**78,967**
PARENT							
Balance at 31 March 2012		**175,231**	**19,774**	**2,718**	**197,723**	**-**	**197,723**
Net loss after tax for the year ended 31 March 2013		-	(6,292)	-	(6,292)	-	(6,292)
Cash flow hedges, net of tax	29	-	-	359	359	-	359
Total comprehensive (losses)/income for the year		**-**	**(6,292)**	**359**	**(5,933)**	**-**	**(5,933)**
Employee share schemes							
- value of employee services	29	-	-	112	112	-	112
Balance at 31 March 2013		**175,231**	**13,483**	**3,189**	**191,903**	**-**	**191,903**
Net loss after tax for the year ended 31 March 2014		-	(82,959)	-	(82,959)	-	(82,959)
Cash flow hedges, net of tax	29	-	-	137	137	-	137
Total comprehensive (losses)/income for the year		**-**	**(82,959)**	**137**	**(82,822)**	**-**	**(82,822)**
Employee share schemes							
- value of employee services	29	-	-	(63)	(63)	-	(63)
Balance at 31 March 2014		**175,231**	**(69,476)**	**3,263**	**109,018**	**-**	**109,018**

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

Balance Sheets

As at 31 March 2014

	Note	Group 2014 ($000s)	Group 2013 ($000s)	Parent 2014 ($000s)	Parent 2013 ($000s)
Assets					
Current assets					
Cash and cash equivalents	12	9,211	9,779	1,922	1,653
Trade and other receivables	13	34,255	47,725	24,426	42,022
Derivatives – held for trading	14	-	543	-	543
Derivatives – cash flow hedges	14	1,056	1,378	746	1,378
Inventories	15	28,443	45,786	15,458	28,978
Current income tax asset		2	1	-	-
Total current assets		**72,967**	**105,212**	**42,552**	**74,574**
Non-current assets					
Trade and other receivables	13	-	5,871	-	891
Property, plant and equipment	17	24,374	86,540	13,057	27,492
Intangible assets	18	10,819	24,623	1,893	2,368
Investment in subsidiaries	32	-	-	79,872	148,175
Investment in associate	19	7,666	8,248	-	-
Interest in joint venture	20	6,210	5,174	-	-
Deferred tax asset	25	6,349	7,759	4,864	6,363
Total non-current assets		**55,418**	**138,215**	**99,686**	**185,289**
Total assets		**128,385**	**243,427**	**142,238**	**259,863**
Liabilities					
Current liabilities					
Bank overdraft	22	4,411	6,489	4,411	6,489
Borrowings	22	42	22,633	42	22,633
Trade and other payables	23	23,258	35,655	11,991	21,359
Derivatives – held for trading	14	-	71	-	-
Derivatives – cash flow hedges	14	-	1,236	-	911
Derivatives – interest rate swaps	14	23	119	23	119
Provisions	24	6,108	202	3,524	72
Current income tax liabilities		456	1,291	-	-
Total current liabilities		**34,298**	**67,696**	**19,991**	**51,583**
Non-current liabilities					
Borrowings	22	11,132	13,717	11,132	13,717
Provisions	24	1,825	2,412	277	312
Deferred tax liabilities	25	2,163	2,916	1,820	2,349
Total non-current liabilities		**15,120**	**19,045**	**13,229**	**16,378**
Total liabilities		**49,418**	**86,741**	**33,220**	**67,961**
Net assets		**78,967**	**156,686**	**109,018**	**191,902**
Equity					
Share capital	28	173,881	173,881	175,231	175,231
Reserves	29	(23,795)	(29,395)	3,263	3,189
Retained earnings/(accumulated losses)		(71,119)	8,310	(69,476)	13,482
		78,967	152,796	109,018	191,902
Non-controlling interests		-	3,890	-	-
Total equity		**78,967**	**156,686**	**109,018**	**191,902**

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

Statement of Cash Flows

For the year ended 31 March 2014

		Group		Parent	
	Note	2014 ($000s)	2013 ($000s)	2014 ($000s)	2013 ($000s)
Operating activities					
Cash provided from					
Receipts from customers		160,129	173,653	84,013	85,585
Interest received		5	73	111	6
Dividend received from associate/joint venture	20	1,162	138	1,181	10,683
Dividend received from subsidiaries		-	-	-	-
R&D grants received		4,699	7,036	2,002	4,711
Other income received		365	124	161	21
		166,360	**181,024**	**87,468**	**101,006**
Cash was applied to					
Payment to suppliers and others		(102,170)	(127,128)	(52,618)	(76,021)
Payment to employees		(49,093)	(52,683)	(24,645)	(22,899)
Interest paid		(1,720)	(2,048)	(1,690)	(2,047)
Income tax paid		(890)	(1,835)	-	(103)
		(153,873)	**(183,694)**	**(78,953)**	**(101,070)**
Net cash flow from operating activities		**12,487**	**(2,670)**	**8,515**	**(64)**
Investing activities					
Cash was provided from					
Sale of property, plant and equipment		419	407	428	395
Sale of equity interest in ERC	32	22,535	-	-	-
Repurchase of shares in subsidiary	32	-	-	18,707	2,595
Repayment of advances by subsidiaries		-	-	-	-
		22,954	**407**	**19,135**	**2,990**
Cash was applied to					
Purchase of property, plant and equipment		(3,979)	(8,650)	(938)	(1,855)
Purchase of intangibles		(2,245)	(3,693)	(687)	(608)
		(6,224)	**(12,343)**	**(1,625)**	**(2,463)**
Net cash flow from investing activities		**16,730**	**(11,936)**	**17,510**	**527**
Financing activities					
Cash was provided from					
Proceeds from borrowings		-	4,000	-	4,000
Intercompany loans		-	-	3,785	434
Proceeds from joint venture loan repayment		-	2,641	-	-
		-	**6,641**	**3,785**	**4,434**
Cash was applied to					
Repayment of principal on borrowings	22	(25,890)	-	(25,890)	-
Intercompany advances		-	-	-	(10,088)
		(25,890)	**-**	**(25,890)**	**(10,088)**
Net cash flow from financing activities		**(25,890)**	**6,641**	**(22,105)**	**(5,654)**
Net increase/(decrease) in cash and cash equivalents		**3,327**	**(7,965)**	**3,920**	**(5,191)**
Foreign currency translation adjustment		(1,817)	(1,179)	(1,573)	(1,425)
Cash and cash equivalents at the beginning of the period		3,290	12,434	(4,836)	1,780
Cash and cash equivalents at the end of the period		**4,800**	**3,290**	**(2,489)**	**(4,836)**
Composition of cash and cash equivalents					
Cash and cash equivalents		9,211	9,779	1,922	1,653
Bank overdraft		(4,411)	(6,489)	(4,411)	(6,489)
		4,800	**3,290**	**(2,489)**	**(4,836)**

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

Statement of Cash Flows

For the year ended 31 March 2014

	Note	Group 2014 ($000s)	Group 2013 ($000s)	Parent 2014 ($000s)	Parent 2013 ($000s)
Reconciliation of net loss to net cash flows from operating					
Reported net loss after tax		**(83,799)**	**(32,821)**	**(82,959)**	**(6,292)**
Items not involving cash flow					
Depreciation expense	6	15,441	10,901	12,076	6,282
Amortisation expense	6	1,794	1,447	948	694
Increase in estimated doubtful debts		82	20	-	-
Provision for restructure	24	5,857	-	3,368	-
Employee share based payments		(63)	112	(63)	110
Movement in foreign currency		69	683	67	(467)
Share of profit from joint venture and associate		(515)	(1,419)	-	-
Impairment	27	19,920	17,331	54,488	7,686
Loss on sale of shares in subsidiary (ERC)	32	9,339	-	2,669	-
Impairment of assets in subsidiary (ERC)	32	25,137	-	-	-
Deferred tax		(399)	707	675	578
(Gain)/loss on disposal of property, plant and equipment		388	(28)	116	(91)
(Gain)/loss on disposal of intangibles		-	38	-	38
		77,050	**29,792**	**74,344**	**14,830**
Impact of changes in working capital items					
Trade and other receivables		11,423	(5,378)	13,519	(10,216)
Inventories		13,683	2,318	13,220	(1,104)
Trade and other payables		(6,984)	3,525	(9,766)	2,718
Tax provisions		1,114	(106)	157	-
		19,236	**359**	**17,130**	**(8,602)**
Net cash flow from operating activities		**12,487**	**(2,670)**	**8,515**	**(64)**

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

1. General information

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

The Company is a limited liability company incorporated and domiciled in New Zealand. It is registered under the Companies Act 1993 with its registered office at One Pacific Rise, Mt Wellington, Auckland. The Company is an issuer in terms of the Securities Act 1978 and is listed on the New Zealand Stock Exchange.

These financial statements have been approved for issue by the Board of Directors on 29 May 2014.

2. Summary of significant accounting policies

2.1. Basis of preparation

These financial statements of the Group and Parent, profit oriented entities, are for the year ended 31 March 2014. They have been prepared in accordance with the requirements of the Financial Reporting Act 1993, the Companies Act 1993 and in accordance with New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS).

The financial statements have been prepared in accordance with NZ GAAP. Accounting policies applied in these financial statements comply with NZ IFRS and New Zealand equivalents to International Financial Reporting Interpretations Committee (NZ IFRIC) interpretations issued and effective or issued and early adopted as at the time of preparing these financial statements, as applicable to Rakon Limited as a profit oriented entity. The financial statements of the Group and Parent are in compliance with International Financial Reporting Standards (IFRS).

The accounting principles recognised as appropriate for the measurement and reporting of profit and loss and financial position on an historical cost basis have been applied, except for derivative financial instruments which have been measured at fair value.

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. Actual results may differ from these estimates, refer to 2.17.

The Group has adopted the following new and amended NZ IFRSs of relevance to the Group and Company as of 1 April 2013:
NZ IFRS 10 Consolidated Financial Statements, NZ IFRS 11 Joint Arrangements, NZ IFRS 12 Disclosure of Interests in Other Entities, revised NZ IAS 27 Separate Financial Statements and NZ IAS 28 Investments in Associates and Joint Ventures (effective 1 January 2013).

NZ IFRS 10 replaces all of the guidance on control and consolidation in NZ IAS 27 Consolidated and Separate Financial Statements, and NZ SIC 12 Consolidation – Special Purpose Entities. The core principle that a consolidated entity presents a parent and its subsidiaries as if they are a single economic entity remains unchanged, as do the mechanics of consolidation. However, the standard introduces a single definition of control that applies to all entities. It focuses on the need to have both power and rights or exposure to variable returns before control is present. Power is the current ability to direct the activities that significantly influence returns. Returns must vary and can be positive, negative or both.

NZ IFRS 11 introduces a principles based approach to accounting for joint arrangements. The focus is no longer on the legal structure of joint arrangements, but rather on how rights and obligations are shared by the parties to the joint arrangement. Based on the assessment of rights and obligations, a joint arrangement will be classified as either a joint operation or joint venture. Joint ventures are accounted for using the equity method, and the choice to proportionately consolidate will no longer be permitted. Parties to a joint operation will account their share of revenues, expenses, assets and liabilities in much the same way as under the previous standard. NZ IFRS 11 also provides guidance for parties that participate in joint arrangements but do not share joint control.

NZ IFRS 12 sets out the required disclosures for entities reporting under the two new standards, NZ IFRS 10 and NZ IFRS 11, and replaces the disclosure requirements currently found in NZ IAS 28. Application of this standard by the Group does not affect any of the amounts recognised in the financial statements, but impacts the type of information disclosed in relation to the Group's investments.

NZ IAS 27 is renamed Separate Financial Statements and is now a standard dealing solely with separate financial statements. Application of this standard by the Group and parent entity does not affect any of the amounts recognised in the financial statements.

Amendments to NZ IAS 28 provide clarification that an entity continues to apply the equity method and does not re-measure its retained interest as part of ownership changes where a joint venture becomes an associate, and vice versa. The amendments also introduce a "partial disposal" concept.

The Group has reviewed its interests and investments in other entities and concluded there is not a significant impact on the Group's financial statements as a result of application of the above standards.

NZ IFRS 13 Fair Value Measurement (effective 1 January 2013)
NZ IFRS 13 explains how to measure fair value and aims to enhance fair value disclosures. The use of fair value measurements by the Group is detailed in note 3. The impact of the new standards has related mainly to additional disclosure.

NZ IAS 32 Offsetting Financial Assets and Financial Liabilities (effective 1 January 2014) and NZ IFRS 7 – Disclosures – Offsetting financial assets and liabilities (effective 1 January 2013)
The amendments to the application guidance in NZ IAS 32 Financial Instruments: Presentation, clarify some of the requirements for offsetting financial assets and financial liabilities in the balance sheet. These amendments are effective from 1 January 2014. They are unlikely to affect the accounting for any of the entity's current offsetting arrangements. However, the amendment to NZ IFRS 7 has also introduced more extensive disclosure requirements which applies from 1 January 2013. The Group does not have material offsetting arrangements.

Amendments to NZ IFRS arising from Annual Improvements 2009 – 2011 cycle (effective for annual periods beginning on or after 1 January 2013)
In June 2012 a number of amendments were made to NZ IFRS as a result of the 2009 – 2011 annual improvements project. The Group has applied the amendments from 1 April 2013. There are no adjustments necessary as the result of applying the revised standards.

2.2. Consolidation

2.2.1. 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 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 and included in other gains/(losses) – net.

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.

2.2.2. Disposal of subsidiaries

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 other comprehensive income 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 other comprehensive income are reclassified to profit or loss.

2.2.3. Associates

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.

The Group's share of its associates' post-acquisition profits or losses is recognised in the statement of comprehensive income, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceed its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

2.2.4. Joint arrangements

The Group's joint arrangements are joint ventures which are accounted for using the equity method. Under the equity method of accounting, interests in joint ventures are initially recognised at cost and adjusted thereafter to recognise the Group's share of the post-acquisition profits or losses and movements in other comprehensive income. When the Group's share of losses in a joint venture equals or exceeds its interests in the joint ventures (which includes any long-term interests that, in substance, form part of the Group's net investment in the joint ventures), the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the joint ventures.

Unrealised gains on transactions between the Group and its joint ventures are eliminated to the extent of the Group's interest in the joint ventures. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of the joint ventures have been changed where necessary to ensure consistency with the policies adopted by the Group.

2.3. Foreign currency translation

2.3.1. Functional and presentation currency

Items included in the financial statements of each entity in the Group are measured using the currency that best reflects the economic substance of the underlying events and circumstances relevant to that entity (the functional currency). The consolidated financial statements are presented in New Zealand dollars, (the presentation currency), which is the functional currency of the Parent.

2.3.2. Transactions and balances

Transactions in foreign currencies are translated at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to New Zealand dollars at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the statement of comprehensive income, within other gains/(losses) – net, except when deferred in other comprehensive income as qualifying cash flow hedges and qualifying net investment 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 to New Zealand dollars at foreign exchange rates ruling at the dates the fair value was determined.

2.3.3. Group companies

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 ruling at the balance sheet date. The revenues and expenses of these foreign operations are translated to New Zealand dollars at rates approximating to the foreign exchange rates ruling at the dates of the transactions.

Exchange differences arising from the translation of foreign operations are recognised in the foreign currency translation reserve and borrowings and other currency instruments designated as hedges of such investments are taken to shareholders' equity.

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 ruling at the balance sheet date.

2.4. Share capital

Ordinary shares and redeemable 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.

Where any Group company purchases the Company's equity share capital (Rakon Restricted Share Plan), the consideration paid, including any directly attributable incremental costs (net of income taxes) is deducted from equity attributable to the Company's equity holders until the shares are cancelled or reissued. Where such ordinary shares are subsequently reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the Company's equity holders.

2.5. Property, plant and equipment

2.5.1. Initial recording and subsequent measurement

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

2.5.2. Subsequent costs

The entity 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 entity and the cost of the item can be measured reliably. All other costs are recognised in the statement of comprehensive income as an expense as incurred.

2.5.3. Depreciation

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

	2014	**2013**
Land	Nil	Nil
Buildings	5 – 10%	5 – 10%
Leasehold improvements	4 – 36%	20 – 36%
Computer hardware	10 – 50%	10 – 60%
Plant and equipment	5 – 50%	5 – 50%
Motor vehicles	20%	20%
Furniture and fittings	5 – 33%	5 – 33%
Assets under course of construction	Nil	Nil

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance date (refer note 17).

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

2.6. Leases

The entity is the lessee.

Leases where the lessor retains substantially all the risk and rewards of ownership are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the statement of comprehensive income on a straight-line basis over the period of the lease.

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased asset or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised in finance costs in profit or loss.

Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset and the lease term if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term.

2.7. Intangible assets

2.7.1. Goodwill

Goodwill acquired in a business combination is initially measured at cost of the business combination being the excess of the consideration transferred over the fair value of the Group's net identifiable assets acquired and liabilities assumed. If this consideration transferred is lower than the fair value of the net identifiable assets of the acquired subsidiary, associate or joint venture, the difference is recognised in profit or loss. Goodwill on acquisitions of subsidiaries is included in intangible assets.

Goodwill on acquisition of associates and joint ventures is included in 'investment in associates/interest in joint ventures' and is tested for impairment as part of the overall balance.

Separately recognised goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose.

Expenditure on internally generated goodwill and brands is recognised in the statement of comprehensive income as an expense as incurred.

2.7.2. Patents and software

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.

Amortisation is charged to the statement of comprehensive income on a straight-line basis over the estimated useful lives of intangible assets unless such lives are indefinite.

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 recorded as property, plant and equipment.

2.7.3. Research and development

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognised in the statement of comprehensive income as an expense as incurred. Any research and development taxation credits are recognised when eligibility criteria have been met and are treated as a reduction in expenses. Government grant funding for research and development is recognised when eligible criteria have been met and is recognised as other operating income.

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 entity has sufficient resources to complete development. Other development expenditure is recognised in the statement of comprehensive income as an expense as incurred.

2.8. Inventories

Inventories are stated at the lower of cost (weighted average cost) or net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

2.9. Impairment of non-financial assets

The carrying amounts of the Group's non-financial assets are reviewed at each balance sheet 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 or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the statement of comprehensive income.

For goodwill the recoverable amount is estimated at each balance sheet date. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to cash-generating units (group of units) and then, to reduce the carrying amount of the other assets in the unit (group of units) 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.

2.10. Financial instruments

Financial instruments comprise cash and cash equivalents, trade and other receivables, trade and other payables, borrowings and derivative financial instruments (forward foreign exchange contracts, forward foreign exchange options, zero cost collars, interest rate swaps).

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.

2.10.1. Cash and cash equivalents

Cash and cash equivalents comprise cash balances, call deposits, 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 within borrowings in current liabilities on the balance sheet.

2.10.2. 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.

Collectability of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectable are written off. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due, according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the statement of comprehensive income.

2.10.3. Classification of financial assets

The Group classifies its financial assets in the following categories: financial assets at fair value through profit or loss, loans and receivables. 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.

a) Financial assets at fair value through profit or loss

This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss 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 sheet date.

b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a customer with no intention of selling the receivable. They are included in current assets, except for those with maturities greater than 12 months after the balance sheet date which are classified as non-current assets. The Group's loans and receivables comprise 'trade and other receivables' and 'cash and cash equivalents' in the balance sheet.

Purchases and sales of financial assets are recognised on trade-date – the date on which the Group commits to purchase or sell the asset. Financial assets at fair value through profit and loss are carried at fair value. Loans and receivables are carried at amortised cost using the effective interest method. 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. Impairment testing of trade receivables is described above.

2.10.4. Trade and other payables

Trade and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

2.10.5. Interest bearing borrowings

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

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

2.10.6. Derivative financial instruments

The Group uses derivative financial instruments to hedge its exposure to foreign exchange and interest rate risks. The Group does not hold or issue derivative financial instruments for trading purposes. However, derivatives that do not qualify for hedge accounting are accounted for as trading instruments.

Derivative financial instruments are initially recognised at fair value on the date a derivative contract is entered into and are re-measured at their fair value at subsequent reporting dates. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument and, if so, the nature of the item being hedged. The Group designates certain derivatives as hedges of a particular risk associated with a recognised liability or a highly probable forecast transaction (cash flow hedge).

The Group documents, at the inception of the transaction, the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedging transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in cash flows of hedged items.

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

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income. The gain or loss relating to the ineffective portion is recognised immediately in the statement of comprehensive income within 'other gains/(losses) – net'.

Amounts accumulated in equity are recycled in the statement of comprehensive income in the periods when the hedged item affects profit or loss (for example, when the forecast sale that is hedged takes place). The gain or loss relating to the effective portion of interest rate swaps (hedging variable rate borrowings) is recognised in the statement of comprehensive income within finance costs. The gain or loss relating to the effective portion of forward foreign exchange contracts (hedging export sales) is recognised in the statement of comprehensive income within sales. The gain or loss relating to the effective portion of forward foreign exchange contracts (hedging raw materials purchases) is recognised in the statement of comprehensive income.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any 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 within 'other gains/(losses) – net'.

Certain derivative instruments do not qualify for hedge accounting. Changes in the fair value of any derivative instrument that does not qualify for hedge accounting are recognised immediately in the statement of comprehensive income within 'other gains/(losses) – net'.

2.11. 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 is determined using forward exchange market rates at the balance sheet 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.

2.12. Employee entitlements

2.12.1. Long term employee benefits

The Group's net obligation in respect of long service leave and 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.

2.12.2. Short term employee benefits

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

2.12.3. Share based plans

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 entity. 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 sheet 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.

2.12.4. Superannuation schemes

The Group's NZ 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 employee benefit expense when they are due.

2.13. Provisions

A provision is recognised in the balance sheet 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.

2.14. Revenue

2.14.1. Goods sold and services rendered

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

2.14.2. Interest income

Interest income is recognised in the statement of comprehensive income as it accrues, using the effective interest method.

2.14.3. Dividend income

Dividend income is recognised when the right to receive payment is established.

2.14.4. Royalty income

Royalty income is recognised on an accruals basis in accordance with the substance of the relevant agreements.

2.14.5. Government grants

Government grants related to an expense item are recognised as income when the right to receive payment has been met. The income is recognised within other operating income in the statement of comprehensive income.

2.15. Income tax

Income tax on the profit or loss for the periods presented comprises current and deferred tax. Income tax is recognised in the statement of comprehensive income except to the extent that it relates to items recognised directly in other comprehensive income, in which case it is recognised in other comprehensive income.

Current tax is the expected tax payable on the taxable income for the period, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit, and differences relating to investments in subsidiaries, associates and joint ventures to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset shall be recognised for the carry forward of unused tax losses and unused tax credits, to the extent that it is probable that future taxable profit will be available, against which the unused tax losses and unused tax credits can be utilised.

2.16. Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Managing Director, Marketing Director and Chief Financial Officer.

2.17. Critical accounting estimates and assumptions

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, rarely equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are outlined below.

2.17.1. Estimated impairment of goodwill

The Group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated in note 2.9. The recoverable amounts of cash-generating units (CGU) have been determined based on value-in-use calculations. These calculations require the use of estimates. Refer note 21.

2.17.2. Income taxes

The Group is subject to income taxes in numerous jurisdictions. Significant judgement is required in determining the worldwide provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for anticipated tax audit issues, based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

2.17.3. Impairment

The Group, as required by NZ IFRS, has assessed as at 31 March 2014 whether any indicators of impairment exist. In doing so management and the Directors have considered factors including the substantial divestment in ECEC Rakon Crystal (Chengdu) Co. Ltd (ERC) (formerly Rakon Crystal (Chengdu) Co. Ltd) (note 32), the relocation of the Lincoln (UK) manufacturing facility (note 24), the restructure the NZ operations (note 24), the partial shift of manufacturing operations to India from France, the current profitability of the Group and the market capitalisation value of the Company in comparison to the Group's net asset value. In undertaking such an assessment indicators of impairment were identified. The Group has, as a result, undertaken a more detailed consideration of the Group's and Company's asset values and note the following factors:

- Impairment of UK goodwill – subsequent to the planned relocation of the Lincoln (UK) manufacturing facility to NZ the recoverable amount of the NZ CGU has been determined on a going concern basis including the contribution from products previously manufactured in the UK. The recoverable amount did not support the goodwill and an impairment charge of $15,027,000 was recognised (note 21).
- Investment ERC – following the substantial divestment of ERC, the Group has undertaken an assessment of the recoverable amount of the remaining investment. The Group viewed that there are various indicators of impairment in existence and when assessed together result in a full impairment charge taken up in the period against the remaining interest in ERC (note 32).
- Plant, equipment and intangibles – the Group undertook an impairment assessment of assets which resulted in either a reduced useful life, or in the case of specific assets, full impairment. There is significant judgement and subjectivity involved in this assessment. Details relating to the impairment as assessed are included at note 17 and 18.
- Inventory – the Group has undertaken an assessment to estimate the net realisable value of inventory based on impacts as a result of business change in the period, the age of inventory items and their respective risk of obsolescence. The Group has recognised an additional provision for inventory obsolescence, as a result of specifically identified inventory being recognised as no longer having a use or having a realisable value on sale below the carrying value (note 15).
- Trade and other receivables – the Group assessed the recoverability of specific other receivables, with the result that a full impairment charge has been recognised in the period against two specific receivables – the Glacier convertible note and the deferred settlement on sale of proprietary software. Details relating to the impairment of these are included in note 13.
- Investment in subsidiaries – the Company has undertaken assessments of the recoverable amounts of its investments. In relation to Rakon HK Limited and Rakon UK Holding Limited the Company viewed that there are various indicators of impairment in existence and when assessed together result in impairment charges taken up in the period (note 32). These have no impact on the Group.

Following these impairment assessments the Directors consider the net asset value of the Group to be appropriate.

2.18. New accounting standards and IFRIC interpretations

2.18.1. Standard and interpretations early adopted by the Group

The Group and Company have not early adopted any new accounting standard and IFRIC interpretations in the current financial period.

2.18.2. Standards, amendments and interpretations to existing standards that are relevant to the Group, not yet effective and have not been early adopted by the Group

Certain new standards, amendments and interpretations issued by the International Accounting Standards Board (IASB), and approved by the External Reporting Board (XRB) have been published which will be mandatory for use in future accounting periods but the Group has not early adopted them. These are not expected to have a significant impact on the Group's financial statements.

3. Financial risk management

3.1. Overview

The Group has exposure to the following risks:

- Credit risk
- Liquidity risk
- Market risk

This note presents information about the Group's exposures to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk, and the Group's management of capital. Further quantitative disclosures are included throughout these consolidated financial statements.

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework. The Board has established the Audit and Risk Management 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, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Board of Directors and Audit and Risk Management Committee oversees how management monitors compliance with the Group's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Group.

3.2. 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.

3.2.1. Trade and other receivables

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 on credit risk. The Group's most significant customer accounts for 11% (2013: 15%) of external revenue with the next most significant customer accounting for less than 8% of external revenue.

The Group has established credit policies under which each new customer is analysed individually for creditworthiness 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 creditworthiness may transact with the Group only on a prepayment basis.

In monitoring customer credit risk, customers are grouped according to their credit characteristics. Customers that are graded as 'high risk' are placed on a restricted customer list, and future sales are made on a prepayment basis only.

The Group establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade and other receivables and investments. The main components of this allowance are a specific loss component that relates to individually significant exposures, and a collective loss component established for Groups of similar assets in respect of losses that have been incurred but not yet identified. The collective loss allowance is determined based on historical data of payment statistics for similar financial assets.

Credit quality of financial assets

Exposure to credit risk

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was as set out below other than for derivatives which is shown in note 14.

	Group		Parent	
	Carrying amount		Carrying amount	
	2014	2013	2014	2013
	($000s)	($000s)	($000s)	($000s)
Financial assets at fair value through profit or loss	-	543	-	543
Loans and receivables	34,255	53,596	24,426	42,913
Cash and cash equivalents	9,211	9,779	1,922	1,653
Forward exchange contracts used for hedging	1,056	1,378	746	1,378
	44,522	**65,296**	**27,094**	**46,487**

The maximum exposure to credit risk for trade receivables at the reporting date by currency of denomination is set out in note 13.

3.3. 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. In addition, the Group maintains the following lines of credit:

Current year

- $18 million revolving cash advance facility from 1 April 2014 to June 2014, which increases to $22 million thereafter. The interest rate is reset every 30 – 90 days and interest is payable based on the bank bill rate for that interest period, the term funding premium and the applicable margin. The facility expiry date is May 2015. Also refer to note 22.
- $9.3 million overdraft limit. Interest is payable at the ASB Corporate Indicator Rate plus applicable margin.

  All NZ facilities are secured by a general security deed over all the present and future assets and undertakings of the Group.
- GBP200,000 multi-currency overdraft facility. Interest is payable at National Westminster Bank Plc.'s base lending rate plus 100 basis points. This facility is secured by a debenture and guarantees with Rakon UK Limited.

Prior year

- $40 million revolving cash advance facility. The interest rate is reset every 30 – 90 days and interest is payable based on the bank bill rate for that interest period, the term funding premium and the applicable margin. The facility expiry date is April 2014.
- $9.3 million overdraft limit. Interest is payable at the ASB Corporate Indicator Rate plus applicable margin.

  All NZ facilities are secured by a general security deed over all the present and future assets and undertakings of the Group.
- GBP200,000 multi-currency overdraft facility. Interest is payable at National Westminster Bank Plc.'s base lending rate plus 100 basis points. This facility is secured by a debenture and unlimited cross guarantees between Rakon UK Limited and Rakon Europe Limited.

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

31 March 2014 Group	Carrying amount ($000s)	Contractual cash flows ($000s)	6 months or less ($000s)	6 – 12 months ($000s)	1 – 2 years ($000s)	2 – 5 years ($000s)
Non-derivative financial liabilities						
Secured bank loans	10,857	(10,857)	(163)	(163)	(11,183)	-
Trade and other payables	23,257	(23,257)	(23,257)	-	-	-
Bank overdraft	4,411	(4,411)	(4,411)	-	-	-
Finance leases	317	(542)	(131)	(169)	(225)	(17)
	38,842	**(39,067)**	**(27,962)**	**(332)**	**(11,408)**	**(17)**

31 March 2014 Parent	Carrying amount ($000s)	Contractual cash flows ($000s)	6 months or less ($000s)	6 – 12 months ($000s)	1 – 2 years ($000s)	2 – 5 years ($000s)
Non-derivative financial liabilities						
Secured bank loans	10,857	(10,857)	(163)	(163)	(11,183)	-
Trade and other payables	11,991	(11,991)	(11,991)	-	-	-
Bank overdraft	4,411	(4,411)	(4,411)	-	-	-
Finance leases	317	(542)	(131)	(169)	(225)	(17)
	27,576	**(27,801)**	**(16,696)**	**(332)**	**(11,408)**	**(17)**

31 March 2013 Group	Carrying amount ($000s)	Contractual cash flows ($000s)	6 months or less ($000s)	6 – 12 months ($000s)	1 – 2 years ($000s)	2 – 5 years ($000s)
Non-derivative financial liabilities						
Secured bank loans	36,079	(24,102)	(6,933)	(3,855)	(13,314)	-
Trade and other payables	35,655	(35,655)	(35,655)	-	-	-
Bank overdraft	6,489	(6,489)	(6,489)	-	-	-
Derivative financial liabilities						
Forward exchange contracts and collar options used for hedging						
– inflows	1,236	15,309	8,085	3,937	3,287	-
– outflows	-	(16,490)	(9,126)	(3,981)	(3,383)	-
	79,459	**(67,427)**	**(50,118)**	**(3,899)**	**(13,410)**	**-**

31 March 2013 Parent	Carrying amount ($000s)	Contractual cash flows ($000s)	6 months or less ($000s)	6 – 12 months ($000s)	1 – 2 years ($000s)	2 – 5 years ($000s)
Non-derivative financial liabilities						
Secured bank loans	36,079	(24,102)	(6,933)	(3,855)	(13,314)	-
Trade and other payables	21,359	(21,359)	(21,359)	-	-	-
Bank overdraft	6,489	(6,489)	(6,489)	-	-	-
Derivative financial liabilities						
Forward exchange contracts and collar options used for hedging						
– inflows	913	3,803	3,803	-	-	-
– outflows	-	(4,751)	(4,751)	-	-	-
	64,840	**(52,898)**	**(35,729)**	**(3,855)**	**(13,314)**	**-**

3.4. 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 of Directors and Audit & Risk Management Committee. Generally the Group seeks to apply hedge accounting in order to manage volatility in profit or loss.

3.4.1. 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) and the Euro (EUR). The currencies in which these sales and purchases transactions are primarily denominated are US Dollar (USD), Japanese Yen (JPY), NZD, GBP, CNY and EUR.

Under the Group's Treasury Management Policy, minimum hedging of 50% and 25% of estimated foreign currency exposure in respect of forecast sales and purchases is required over the next 0 – 12 and 13 – 24 months respectively, subject to any variation approved by the Board. At 31 March 2014, 49% and 17% of currency exposures over the next 0 – 12 and 13 – 24 months respectively were hedged. No hedging was taken beyond month 24, however Group policy does permit the Board to implement hedging for longer periods. The Group uses forward exchange contracts, options and collars to hedge its currency risk.

3.4.2. Exposure to currency risk

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

31 March 2014	USD ($000s)	EUR ($000s)	GBP ($000s)	JPY ($000s)	CNY ($000s)
Rakon Limited	10,224	6	-	(954)	13
Rakon UK Limited	7,705	(19)	-	(492)	-
Rakon France SAS	6,523	-	(137)	(273)	-
Rakon Crystal (Chengdu) Co. Ltd	-	-	-	-	-
Rakon Group	24,452	(13)	(137)	(1,719)	13

31 March 2013	USD ($000s)	EUR ($000s)	GBP ($000s)	JPY ($000s)	CNY ($000s)
Rakon Limited	19,250	1,237	9	(2,445)	50
Rakon UK Limited	9,098	64	-	(290)	-
Rakon France SAS	(4,516)	-	-	12	(32)
Rakon Crystal (Chengdu) Co. Ltd	528	-	-	146	-
Rakon Group	**24,360**	**1,301**	**9**	**(2,577)**	**18**

The following significant exchange rates applied during the year:

	Average rate		Reporting date mid-spot rate	
NZD	**2014**	**2013**	**2014**	**2013**
USD	0.8524	0.8147	0.8661	0.8372
EUR	0.6163	0.6323	0.6298	0.6529
GBP	0.5127	0.5157	0.5204	0.5506
JPY	87.157	67.708	89.052	78.886
CNY	5.2585	5.1227	5.3806	5.1979

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 2013.

	GROUP		PARENT	
31 March 2014	**Equity ($000s)**	**Profit or loss ($000s)**	**Equity ($000s)**	**Profit or loss ($000s)**
USD	3,137	3,137	1,312	1,312
EUR	(2)	(2)	1	1
GBP	(29)	(29)	(0)	(0)
JPY	(2)	(2)	(1)	(1)
CNY	-	-	-	-
31 March 2013				
USD	2,707	2,707	2,139	2,139
EUR	145	145	137	137
GBP	1	1	1	1
JPY	(286)	(286)	(272)	(272)
CNY	(17)	(17)	6	6

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 NZD against the following forward foreign exchange contracts outstanding at 31 March 2014 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 2013.

		GROUP		**PARENT**	
31 March 2014	**Fair value ($000s)**	**Equity ($000s)**	**Profit or loss ($000s)**	**Equity ($000s)**	**Profit or loss ($000s)**
Forward foreign exchange contracts – cash flow hedges					
Net buy NZD sell USD	127	(199)	-	(199)	-
Net buy JPY sell USD	21	2	-	2	-
Net buy GBP sell USD	121	(178)	-	-	-
31 March 2013					
Forward foreign exchange contracts – held for trading					
Net buy NZD sell USD	178	(266)	(266)	(266)	(266)
Net buy JPY sell USD	-	-	-	-	-
Net buy GBP sell USD	(25)	(87)	(87)	-	-
Forward foreign exchange contracts – cash flow hedges					
Net buy NZD sell USD	1,047	(2,322)	-	(2,322)	-
Net buy JPY sell USD	(913)	426	-	426	-
Net buy GBP sell USD	(86)	(252)	-	-	-

A 10% strengthening of the NZD against the following forward foreign exchange contracts outstanding at 31 March 2014 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 2013.

		GROUP		**PARENT**	
31 March 2014	**Fair value ($000s)**	**Equity ($000s)**	**Profit or loss ($000s)**	**Equity ($000s)**	**Profit or loss ($000s)**
Forward foreign exchange contracts – cash flow hedges					
Net buy NZD sell USD	127	161	-	161	-
Net buy JPY sell USD	21	(2)	-	(2)	-
Net buy GBP sell USD	119	178	-	-	-

		GROUP		**PARENT**	
31 March 2013	**Fair value ($000s)**	**Equity ($000s)**	**Profit or loss ($000s)**	**Equity ($000s)**	**Profit or loss ($000s)**
Forward foreign exchange contracts – held for trading					
Net buy NZD sell USD	178	217	217	217	217
Net buy JPY sell USD	-	-	-	-	-
Net buy GBP sell USD	(25)	87	87	-	-
Forward foreign exchange contracts – cash flow hedges					
Net buy NZD sell USD	1,048	1,894	-	1,894	-
Net buy JPY sell USD	(913)	(348)	-	(348)	-
Net buy GBP sell USD	(87)	252	-	-	-

3.4.3. Interest rate risk

The Group adopts a policy to manage its exposure to interest rates by considering fixed rate interest rate swap agreements. As at balance date borrowings were fixed for a term of 90 days at 3.0% (2013: 90 days at 4.9%). Interest rate swap contracts outlined in note 14, with a fair value of Group -$23,000 (2013: -$119,000), Parent -$23,000 (2013: -$119,000), are exposed to fair value movements if interest rates change.

Profile

At the reporting date the interest rate profile of the Group's interest-bearing financial instruments was:

	GROUP		PARENT	
Variable rate instruments	**2014 ($000s)**	**2013 ($000s)**	**2014 ($000s)**	**2013 ($000s)**
Financial assets	9,211	9,779	1,922	1,653
Financial liabilities	(9,685)	(28,527)	(9,685)	(28,527)
	(474)	(18,748)	(7,763)	(26,874)
Fixed rate instruments				
Financial assets	-	-	-	-
Financial liabilities	(5,625)	(14,312)	(5,625)	(14,312)
	(5,625)	(14,312)	(5,625)	(14,312)

Sensitivity analysis

An increase of 100 basis points in interest rates at the reporting date 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 2014 was performed on the same basis as 2013.

	GROUP		PARENT	
31 March 2014	**Equity ($000s)**	**Profit or loss ($000s)**	**Equity ($000s)**	**Profit or loss ($000s)**
Variable rate instruments	(5)	(5)	(78)	(78)
Fixed rate instruments	56	56	56	56
31 March 2013				
Variable rate instruments	(187)	(187)	(269)	(269)
Fixed rate instruments	143	143	143	143

A decrease of 100 basis points in interest rates at the reporting date would have the opposite impact as shown above.

3.5. Capital management

The Board's policy is to maintain a capital base so as to sustain future development of the business. The Board of Directors monitors both the demographic spread of shareholders, as well as the return on capital, which the Group defines as total shareholders' equity.

There were no changes to the Group's approach to capital management during the year.

The Group is subject to externally imposed capital requirements which it has complied with for the entire year reported (2013: complied). The Parent has a facility agreement in place with ASB Bank Ltd as described previously. Also refer to note 22.

Fair value

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

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

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

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

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

GROUP	Year ended 31 March 2014 Valuation technique – market observable inputs (Level 2) ($000s)	Valuation technique – non-market observable inputs (Level 3) ($000s)	Total ($000s)	Year ended 31 March 2013 Valuation technique – market observable inputs (Level 2) ($000s)	Valuation technique – non-market observable inputs (Level 3) ($000s)	Total ($000s)
Financial assets						
Derivative instruments						
Foreign exchange contracts and collar options – held for trading	-	-	-	543	-	543
Foreign exchange contracts and collar options – cash flow hedges	1,056	-	1,056	1,378	-	1,378
	1,056	**-**	**1,056**	**1,921**	**-**	**1,921**
Financial liabilities						
Derivative instruments						
Interest rate swaps	23	-	23	119	-	119
Foreign exchange contracts and collar options – held for trading	-	-	-	71	-	71
Foreign exchange contracts and collar options – cash flow hedges	-	-	-	1,236	-	1,236
	23	**-**	**23**	**1,426**	**-**	**1,426**

PARENT	Year ended 31 March 2014 Valuation technique – market observable inputs (Level 2) ($000s)	Valuation technique – non-market observable inputs (Level 3) ($000s)	Total ($000s)	Year ended 31 March 2013 Valuation technique – market observable inputs (Level 2) ($000s)	Valuation technique – non-market observable inputs (Level 3) ($000s)	Total ($000s)
Financial assets						
Derivative instruments						
Foreign exchange contracts and collar options – held for trading	-	-	-	543	-	543
Foreign exchange contracts and collar options – cash flow hedges	746	-	746	1,378	-	1,378
	746	**-**	**746**	**1,921**	**-**	**1,921**
Financial liabilities						
Derivative instruments						
Interest rate swaps	23	-	23	119	-	119
Foreign exchange contracts and collar options – cash flow hedges	-	-	-	911	-	911
	23	**-**	**23**	**1,030**	**-**	**1,030**

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

If all significant inputs required to fair value an instrument are observable, the instrument is included in Level 2. The Group's foreign exchange contracts are Level 2 at 31 March 2014 and 31 March 2013.

Specific valuation techniques include:

- The fair value of forward foreign exchange contracts and collars is determined using forward exchange rate at the balance sheet date, with the resulting value discounted back to present value.
- The fair value of unlisted equity securities has been estimated by discounting the present value of the net cash inflows from expected future dividends, or subsequent disposal of the securities.

There were no transfers between categories during the year.

4. Segment information

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

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

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

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

31 March 2014

($000s)	NZ	UK	France	China – T'maker[5]	India – Centum Rakon[6]	Other[1]	Total continuing operations	Total dis-continued operations[4]	Total
Sales to external customers	67,734	26,413	56,301	-	-	(497)	149,951	404	150,355
Inter-segment sales	2,117	1,210	5	-	-	808	4,140	6,401	10,541
Segment revenue	69,851	27,623	56,306	-	-	311	154,091	6,805	160,896
Underlying EBITDA	**(11,823)[7]**	**5,500**	**(7,280)[7]**	**556**	**3,822**	**(115)**	**(9,340)**	**1,809**	**(7,531)**
Depreciation and amortisation	(13,395)	(1,546)	(775)	-	-	74	(15,642)	(804)	(16,446)
Loss on disposal of assets (sale of shares in subsidiary (note 32))	-	-	-	-	-	-	-	(8,467)	(8,467)
Impairment (note 27)	(19,920)	-	-	-	-	-	(19,920)	(21,467)	(41,387)
Income tax credit/(expense)	(832)	(578)	29	-	-	305	(1,076)	-	(1,076)
Total assets[2]	**48,773**	**29,554**	**34,055**	**7,666**	**6,210**	**2,127**	**128,385**	**-**	**128,385**
Investment in associates	-	-	-	7,666		-	7,666	-	7,666
Interest in joint venture	-	-	-		6,210	-	6,210	-	6,210
Additions of property, plant, equipment and intangibles	1,625	1,546	2,526	-	-	-	5,697	223	5,920
Total liabilities[3]	**30,627**	**11,203**	**9,174**	**-**	**-**	**(1,586)**	**49,418**	**-**	**49,418**

($000s)	NZ	UK	France	China – T'maker[5]	India – Centum Rakon[6]	Other[1]	Total continuing operations	Total dis-continued operations[4]	Total
					31 March 2013				
Sales to external customers	96,649	28,745	50,705	-	-	160	176,259	-	176,259
Inter-segment sales	3,374	691	-	-	-	-	4,065	11,979	16,044
Segment revenue	**100,023**	**29,436**	**50,705**	**-**	**-**	**160**	**180,324**	**11,979**	**192,303**
Underlying EBITDA	**(928)**	**7,804**	**(3,339)**	**551**	**3,559**	**210**	**7,857**	**(2,803)**	**5,054**
Depreciation and amortisation	(7,245)	(1,108)	(585)	-	-	(290)	(9,228)	(2,888)	(12,116)
Impairment	(7,222)	-	-	(10,109)	-	-	(17,331)	-	(17,331)
Income tax credit/(expense)	(821)	(1,541)	(4)	-	-	(96)	(2,462)	(10)	(2,472)
Total assets[2]	**95,890**	**40,196**	**32,915**	**8,248**	**5,174**	**1,777**	**184,200**	**59,227**	**243,427**
Investment in associates	-	-	-	8,248	-	-	8,248	-	8,248
Interest in joint venture	-	-	-	-	5,174	-	5,174	-	5,174
Additions of property, plant, equipment and intangibles	2,881	1,956	2,808	-	-	-	7,645	4,633	12,278
Total liabilities[3]	**58,422**	**3,968**	**20,353**	**-**	**-**	**-**	**82,743**	**3,998**	**86,741**

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

[2] Excludes intercompany receivable balances eliminated on consolidation.

[3] 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 payable balances eliminated on consolidation.

[4] Includes 85.4% investment in ECEC Rakon Crystal (Chengdu) Co. Ltd (ERC) prior to sale.

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

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

[7] Includes one off restructure costs of $3,368,000 for NZ and $3,816,000 for France (note 6).

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

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

2013	**Continuing operations**	**Discontinued operations**	**Total**
Underlying EBITDA	7,857	(2,803)	5,054
Depreciation and amortisation	(9,228)	(2,888)	(12,116)
Impairment	(17,331)	-	(17,331)
Loss on loss on disposal of assets (sale of shares in subsidiary)	-	-	-
Employee share schemes	(112)	-	(112)
Finance costs – net	(972)	(925)	(1,897)
Adjustment for associates and joint venture share of interest, tax & depreciation	(2,912)	-	(2,912)
Non controlling interest	-	(977)	(977)
Other non-cash items	(63)	5	(58)
Loss before income tax	**(22,761)**	**(7,588)**	**(30,349)**
Income tax/(expense)	(2,462)	(10)	(2,472)
Net loss for the year	**(25,223)**	**(7,598)**	**(32,821)**

Breakdown of the revenue from all sources is as follows:

	2014 ($000s)	**2013 ($000s)**
Sales of goods	149,000	174,137
Revenue from services	1,355	2,122
	150,355	**176,259**

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

Total revenues by destination	**2014 ($000s)**	**2013 ($000s)**
Region		
Asia	78,537	95,045
North America	18,485	26,972
Europe	50,720	49,928
Others	2,613	4,314
	150,355	**176,259**

The Group's trading revenue is made up of the following segments.

Total revenues by market	2014 ($000s)	2013 ($000s)
Telecommunications	61,598	60,590
Global Positioning	30,779	32,664
Smart Wireless	24,399	45,948
Space and Defence	25,330	28,746
Other[1]	8,249	8,311
	150,355	**176,259**

[1]includes sales from the trading of products not manufactured by the Group

5. Other operating income

	Group		Parent	
	2014 ($000s)	**2013 ($000s)**	**2014 ($000s)**	**2013 ($000s)**
Dividend income	1	1	1,181	10,683
Rental income	26	20	26	20
Management fee/royalties received from subsidiaries	-	-	3,152	2,718
Government grants – research and development	2,790	5,118	1,498	3,204
Government grants – business support, China	-	13	-	-
Other income	325	157	135	-
	3,142	**5,309**	**5,992**	**16,625**
Discontinued operations	86	13	-	-
	3,056	**5,296**	**5,992**	**16,625**

6. Operating expenses

	Group		Parent	
	2014 ($000s)	**2013 ($000s)**	**2014 ($000s)**	**2013 ($000s)**
Operating expense by function:				
Selling and marketing costs	15,266	14,876	8,552	7,759
Research and development	13,567	14,644	5,164	5,278
General and administration	31,399	30,069	13,678	13,102
	60,232	59,589	27,394	26,139
Discontinued operations	869	5,819	-	-
	59,363	**53,770**	**27,394**	**26,139**
Operating expenses include:				
Depreciation – inclusive of depreciation included in cost of sales (note 17)	15,441	10,901	12,076	6,282
Amortisation (note 18)	1,794	1,447	948	694
Research and development expense	14,779	16,874	5,164	5,278
Research and development taxation credits	(1,212)	(2,230)	-	-
Restructure cost (note 24)	7,184	91	3,368	91
Rental expense on operating leases	2,576	2,315	1,639	1,591
Costs of offering credit				
Impairment loss on trade receivables	107	(1)	-	-
Bad debt write-offs	(25)	(4)	-	(4)
Governance expenses				
Directors' fees	400	380	400	380
Auditors' fees				
Principal auditors				
Audit fees for current year	510	543	221	187
Share registrar audit	3	3	3	3
Treasury advisory services	30	14	30	14
Audit services other auditors	19	47	-	-
Sundry expenses				
Donations	11	11	5	3

7. Other gains/(losses) – net

	Group		Parent	
	2014	**2013**	**2014**	**2013**
	($000s)	**($000s)**	**($000s)**	**($000s)**
Gain/(loss) on disposal of property, plant, equipment and intangibles	388	(10)	116	53
	388	(10)	116	53
Foreign exchange (losses)/gains – net				
Forward foreign exchange contracts				
– held for trading	-	268	-	373
(Losses)/gains on revaluation of foreign denominated monetary assets				
and liabilities [1]	(423)	250	(452)	1,236
	(423)	518	(452)	1,609
	(35)	508	(336)	1,662
Discontinued operations	1,867	284	-	-
	(1,902)	**224**	**(336)**	**1,662**

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

8. Employee benefits expenses

	Group		Parent	
	2014	**2013**	**2014**	**2013**
	($000s)	**($000s)**	**($000s)**	**($000s)**
Wages and salaries	47,416	52,739	21,659	22,983
Contributions to defined contribution plans	741	598	481	350
Increase/(decrease) in liability for French retirement indemnity plan (note 24)	(486)	(169)	-	-
(Decrease)/increase in liability for long service leave (note 24)	68	(11)	68	(11)
Redundancy cost	5,865	535	2,896	413
Employee share scheme	20	112	11	72
	53,624	53,804	25,115	23,807
Discontinued operations	809	1,768	-	-
	52,815	**52,036**	**25,115**	**23,807**

9. Net finance (costs)/income

	Group		Parent	
	2014	**2013**	**2014**	**2013**
	($000s)	**($000s)**	**($000s)**	**($000s)**
Financial income				
Interest income	5	172	-	95
	5	172	-	95
Financial expenses				
Interest expense on bank borrowings	(1,720)	(2,051)	(1,690)	(2,047)
Interest expense on other liabilities	-	(18)	-	-
	(1,720)	(2,069)	(1,690)	(2,047)
	(1,715)	(1,897)	(1,690)	(1,952)
Discontinued operations	2	(925)	-	-
Net finance (costs)/income	**(1,717)**	**(972)**	**(1,690)**	**(1,952)**

10. Income tax expense

	Group		Parent	
	2014	2013	2014	2013
	($000s)	($000s)	($000s)	($000s)
Current tax	1,475	1,765	157	103
Deferred tax (note 25)	(399)	707	675	578
	1,076	2,472	832	681

The tax on the Group's and the Parent's result before tax differs from the theoritical amount that would arise using the weighted average tax rate applicable to the results of the consolidated entities as follows:

	Group 2014	Group 2013	Parent 2014	Parent 2013
Profit/(loss) before tax	(82,723)	(30,349)	(82,126)	(5,611)
Tax calculated at domestic tax rates applicable to profits in the respective countries	(22,316)	(6,999)	(22,995)	(1,571)
Foreign exchange difference in income tax calculation	52	65	-	-
Expenses not deductible	14,851	3,567	18,392	2,165
Non-taxable income	(211)	(681)	(450)	(3,514)
Expenses deductible for tax purposes	(4)	(251)	(4)	(251)
Prior year adjustment	(407)	922	(30)	763
Associate and Joint Venture results reported net of tax	(145)	(98)	-	-
Deferred tax expense (income) resulting from reduction in tax rate	(49)	(33)	-	-
Forfeited NRWT and branch foreign tax	160	118	157	103
Controlled foreign company income	-	222	-	222
Tax losses for which no deferred income tax asset was recognised	9,145	5,640	5,763	2,764
Income tax expense/ (credit)	1,076	2,472	833	681
Discontinued operations	-	8	-	-
	1,076	**2,464**	**833**	**681**

The weighted average applicable tax rate was -1% (2013: -8%), Parent -1% (2013: -12%). The parent has not recognised tax losses generated in the current year. Parent tax losses have been transferred to subsidiaries of the Group.

11. Earnings per share

Basic

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

	Group	
	2014	2013
	($000s)	($000s)
Weighted average number of ordinary shares on issue	188,945	188,945
Continuing operations		
(Loss)/profit attributable to equity holders of the Group	(50,502)	(25,223)
Basic (losses)/earnings per share (cents per share)	**(26.7)**	**(13.3)**
Discontinued operations		
(Loss)/profit attributable to equity holders of the Group	(28,436)	(6,489)
Basic (losses)/earnings per share (cents per share)	**(15.0)**	**(3.4)**

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. The Group has two categories of dilutive potential ordinary shares: restricted ordinary shares and share options. Both the restricted ordinary shares and the share options are reviewed to determine the number of shares/options which would be exercisable based on comparing the benchmark price for each respective issue to the market share price.

	Group	
	2014	**2013**
	($000s)	**($000s)**
Weighted average number of ordinary shares on issue	191,038	191,038
Adjustments for dilutive potential ordinary shares (restricted ordinary shares and share options)	-	-
Weighted average number of ordinary shares for diluted earnings per share	191,038	191,038
Continuing operations		
(Loss)/profit attributable to equity holders of the Group	(50,502)	(25,223)
Diluted (losses)/earnings per share (cents per share)	**(26.4)**	**(13.2)**
Discontinued operations		
(Loss)/profit attributable to equity holders of the Group	(28,436)	(6,489)
Diluted (losses)/earnings per share (cents per share)	**(14.9)**	**(3.4)**

12. Cash and cash equivalents

	Group		Parent	
	2014	**2013**	**2014**	**2013**
	($000s)	**($000s)**	**($000s)**	**($000s)**
Cash at bank and on hand	9,211	9,779	1,922	1,653
	9,211	**9,779**	**1,922**	**1,653**
Cash, cash equivalents and bank overdrafts include the following for the purposes of the cash flow statement				
Cash and cash equivalents	9,211	9,779	1,922	1,653
Bank overdrafts (note 22)	(4,411)	(6,489)	(4,411)	(6,489)
	4,800	**3,290**	**(2,489)**	**(4,836)**

13. Trade and other receivables

	Group		Parent	
	2014	**2013**	**2014**	**2013**
	($000s)	**($000s)**	**($000s)**	**($000s)**
Trade receivables	26,292	41,616	9,748	23,472
Less: provision for impairment of trade receivables	(186)	(104)	(25)	(25)
Net trade receivables	26,106	41,512	9,723	23,447
Prepayments	1,013	1,311	299	454
GST/VAT receivable	779	6,229	586	1,232
Receivables from related parties (note 33)	3,655	895	13,818	16,514
Other receivables	2,702	3,649	-	1,266
	34,255	**53,596**	**24,426**	**42,913**
Less non-current portion: GST receivable	-	(4,980)	-	-
Less non-current portion: other receivables	-	(891)	-	(891)
Current portion	**34,255**	**47,725**	**24,426**	**42,022**

The fair values of trade and other receivables are equivalent to the carrying values.

As of 31 March 2014, trade receivables of the Group: $19,516,000 (2013: $35,796,000), Parent: $5,678,000 (2013: $20,171,000) were fully performing. None of the financial assets that are fully performing have been re-negotiated.

As of 31 March 2014, trade receivables of Group: $6,798,000 (2013: $5,646,000), Parent: $4,319,000 (2013: $3,276,000) were past due but not impaired. These relate to a number of customers for whom there is no recent history of default.

Deferred settlement on sale of proprietary software

During 2012 Rakon sold proprietary software. Under the terms of the sale and purchase agreement part of the sale price was deferred and was payable to Rakon based on future sales made by the purchaser. During the current year the receivable of $900,000 was fully impaired on the basis of non-achievement of forecasted sales, also refer note 27.

Glacier convertible note

In 2010 Rakon purchased a US$500,000 convertible note issued by Glacier Microelectronics Inc. (Glacier). This note accrued interest of 6% per annum payable on conversion. During 2014 the note and accrued interest was converted to ordinary shares. Subsequent to an assessment of Glacier, it was determined to fully impair the receivable of $702,000, also refer note 27.

The aging analysis of trade receivables is as follows:

	Group		**Parent**	
	2014 ($000s)	**2013 ($000s)**	**2014 ($000s)**	**2013 ($000s)**
Up to 3 months	4,555	5,196	2,315	3,049
3 to 6 months	128	305	58	165
Over 6 months	2,115	145	1,946	62
	6,798	**5,646**	**4,319**	**3,276**

As of 31 March 2014, trade receivables of the Group: $186,000 (2013: $173,000), Parent: $25,000 (2013: $25,000) were impaired and partially provided for. The amount of the provision was Group: $186,000 (2013: $104,000), Parent $25,000 (2013: $25,000). The impaired receivables mainly relate to customers who are in financial difficulty or dispute. It was assessed that a portion of the receivables is expected to be recovered.

The aging of these receivables is as follows:

	Group		**Parent**	
	2014 ($000s)	**2013 ($000s)**	**2014 ($000s)**	**2013 ($000s)**
Up to 3 months	13	33	-	-
3 to 6 months	3	-	-	-
Over 6 months	170	140	25	25
	186	**173**	**25**	**25**

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

	Group		**Parent**	
	2014 ($000s)	**2013 ($000s)**	**2014 ($000s)**	**2013 ($000s)**
NZD	962	1,190	2,773	5,765
USD	22,740	43,172	13,777	36,668
EUR	6,203	5,622	7,515	7
GBP	4,252	976	319	-
CNY	-	976	-	-
Other	98	1,660	42	473
	34,255	**53,596**	**24,426**	**42,913**

Movements on the Group provision for impairment of trade receivables are as follows:

	Group		Parent	
	2014	2013	2014	2013
	($000s)	($000s)	($000s)	($000s)
At 1 April	104	86	25	25
Provision for receivables impairment	107	20	-	-
Receivables written off during the year as uncollectible	(25)	-	-	-
Unused amounts reversed	-	(2)	-	-
At 31 March	**186**	**104**	**25**	**25**

The creation and release of provisions for impaired receivables have been included in 'costs of offering credit' in the statement of comprehensive income (note 6). Amounts charged to the allowance account are generally written off when there is no expectation of recovering additional cash.

The other classes within trade and other receivables do not contain impaired assets.

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

14. Derivative financial instruments

	2014		2013	
	Assets	Liabilities	Assets	Liabilities
Group	($000s)	($000s)	($000s)	($000s)
Interest rate swaps – net investment hedge	-	23	-	119
Forward foreign exchange contracts – held for trading	-	-	178	25
Forward foreign exchange contracts - cash flow hedges	267	-	1,047	999
Forward foreign exchange collar option - cash flow hedges	789	-	331	237
Forward foreign exchange collar option-held for trading	-	-	365	46
	1,056	**23**	**1,921**	**1,426**

	2014		2013	
	Assets	Liabilities	Assets	Liabilities
Parent	($000s)	($000s)	($000s)	($000s)
Interest rate swaps – net investment hedge	-	23	-	119
Forward foreign exchange contracts – held for trading	-	-	178	-
Forward foreign exchange contracts - cash flow hedges	148	-	1,047	911
Forward foreign exchange collar option - cash flow hedges	598	-	331	-
Forward foreign exchange collar option-held for trading	-	-	365	-
	746	**23**	**1,921**	**1,030**

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 and as a current asset or liability if the maturity of the hedged item is less than 12 months.

Forward foreign exchange contracts

The notional principal amounts of the outstanding forward foreign exchange contracts at 31 March 2014 were $4,473,000 (2013: $26,483,000) for Group and $2,834,000 for Parent (2013: $23,019,000).

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 (note 29) on forward foreign exchange contracts as of 31 March 2014 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.

15. Inventories

	Group		Parent	
	2014	**2013**	**2014**	**2013**
	($000s)	**($000s)**	**($000s)**	**($000s)**
Raw materials	10,587	15,865	5,710	12,583
Work in progress	11,956	20,616	5,770	10,802
Finished goods	5,900	9,305	3,978	5,593
	28,443	**45,786**	**15,458**	**28,978**

An inventory obsolescence provision of $5,335,000 (2013: $9,476,000) for Group and $2,285,000 (2013: $6,027,000) for Parent is included in the inventory figures above. This provision has been calculated on specific identification of items of inventories for which the net realisable value is deemed to be lower than cost. During the year inventory of Group $7,518,000 Parent $6,547,000 was scrapped.

16. Financial instruments by category

The accounting policies for financial instruments have been applied to the line items in the tables below. Trade and other receivables (note 13) include prepayments which are not classified as financial instruments. Trade and other payables (note 23) include employee entitlements and accrued expenses which are not classified as financial instruments. These balances are excluded from the amounts shown below.

Group

31 March 2014	**Loans and receivables**	**At fair value through profit and loss**	**Derivatives used for hedging**	**Total**
Assets per balance sheet	**($000s)**	**($000s)**	**($000s)**	**($000s)**
Derivative financial instruments	-	-	1,056	1,056
Trade and other receivables	33,242	-	-	33,242
Cash and cash equivalents (note 12)	9,211	-	-	9,211
	42,453	**-**	**1,056**	**43,509**

Group

31 March 2014	**Liabilities at fair value through the profit and loss**	**Derivatives used for hedging**	**Other financial liabilities**	**Total**
Liabilities per balance sheet	**($000s)**	**($000s)**	**($000s)**	**($000s)**
Borrowings (note 22)	-	-	15,585	15,585
Derivative financial instruments (note 14)	-	23	-	23
Trade and other payables (note 23)	-	-	12,255	12,255
	-	**23**	**27,840**	**27,863**

Group

31 March 2013	**Loans and receivables**	**At fair value through profit and loss**	**Derivatives used for hedging**	**Total**
Assets per balance sheet	**($000s)**	**($000s)**	**($000s)**	**($000s)**
Derivative financial instruments	-	543	1,378	1,921
Trade and other receivables	53,596	-	-	53,596
Cash and cash equivalents	9,779	-	-	9,779
	63,375	**543**	**1,378**	**65,296**

Group

31 March 2013 Liabilities per balance sheet	Liabilities at fair value through the profit and loss ($000s)	Derivatives used for hedging ($000s)	Other financial liabilities ($000s)	Total ($000s)
Borrowings	-	-	42,839	42,839
Derivative financial instruments	-	1,355	71	1,426
Trade and other payables	-	-	21,387	21,387
	-	**1,355**	**64,297**	**65,652**

Parent

31 March 2014 Assets per balance sheet	Loans and receivables ($000s)	At fair value through profit and loss ($000s)	Derivatives used for hedging ($000s)	Total ($000s)
Derivative financial instruments	-	-	746	746
Trade and other receivables	24,127	-	-	24,127
Cash and cash equivalents (note 12)	1,922	-	-	1,922
	26,049	**-**	**746**	**26,795**

Parent

31 March 2014 Liabilities per balance sheet	Liabilities at fair value through the profit and ($000s)	Derivatives used for hedging ($000s)	Other financial liabilities ($000s)	Total ($000s)
Borrowings (note 22)	-	-	15,585	15,585
Derivative financial instruments (note 14)	-	23	-	23
Trade and other payables (note 23)	-	-	7,386	7,386
	-	**23**	**22,971**	**22,994**

Parent

31 March 2013 Assets per balance sheet	Loans and receivables ($000s)	At fair value through profit and loss ($000s)	Derivatives used for hedging ($000s)	Total ($000s)
Derivative financial instruments	-	543	1,378	1,921
Trade and other receivables	42,913	-	-	42,913
Cash and cash equivalents	1,653	-	-	1,653
	44,566	**543**	**1,378**	**46,487**

Parent

31 March 2013 Liabilities per balance sheet	Liabilities at fair value through the profit and ($000s)	Derivatives used for hedging ($000s)	Other financial liabilities ($000s)	Total ($000s)
Borrowings	-	-	42,839	42,839
Derivative financial instruments	-	1,030	-	1,030
Trade and other payables	-	-	16,250	16,250
	-	**1,030**	**59,089**	**60,119**

17. Property, plant and equipment

Group	Land and buildings ($000s)	Leasehold improvements ($000s)	Plant and equipment ($000s)	Computer hardware ($000s)	Other ($000s)	Assets under construction ($000s)	Total ($000s)
At 1 April 2012							
Cost	25,407	7,944	98,771	4,295	2,685	3,769	142,871
Accumulated depreciation & impairment	(1,348)	(3,783)	(43,059)	(3,133)	(1,137)	-	(52,460)
Net book value	**24,059**	**4,161**	**55,712**	**1,162**	**1,548**	**3,769**	**90,411**
Year ended 31 March 2013							
Opening net book value	24,059	4,161	55,712	1,162	1,548	3,769	90,411
Foreign exchange differences	(104)	389	(1,760)	20	(62)	327	(1,190)
Additions	440	28	4,387	246	393	3,091	8,585
Disposals	-	-	(104)	(166)	(129)	(301)	(700)
Depreciation charge	(806)	(592)	(8,434)	(644)	(425)	-	(10,901)
Depreciation reversal on disposals	-	-	63	165	107	-	335
Transfers	52	-	561	-	-	(613)	-
Closing net book amounts	**23,641**	**3,986**	**50,425**	**783**	**1,432**	**6,273**	**86,540**
At 31 March 2013							
Cost	25,786	8,353	101,855	4,395	2,887	6,273	149,549
Accumulated depreciation & impairment	(2,145)	(4,367)	(51,430)	(3,612)	(1,455)	-	(63,009)
Net book value	**23,641**	**3,986**	**50,425**	**783**	**1,432**	**6,273**	**86,540**
Year ended 31 March 2014							
Opening net book value	23,641	3,986	50,425	783	1,432	6,273	86,540
Foreign exchange differences	529	52	2,773	165	(265)	(1,564)	1,690
Additions	-	1	713	172	174	2,460	3,520
Disposals	-	-	(565)	(11)	(26)	(95)	(697)
Impairment other[1]	-	(940)	(1,629)	(53)	(455)	-	(3,077)
Impairment of ERC assets	-	-	(25,137)	-	-	-	(25,137)
Depreciation charge	(499)	(916)	(13,237)	(417)	(372)	-	(15,441)
Depreciation reversal on disposals	-	-	566	10	25	-	601
Disposal of asset on sale of subsidiary	(20,408)	-	(1,775)	(209)	(274)	(959)	(23,625)
Transfers	-	-	349	39	-	(388)	-
Closing net book amounts	**3,263**	**2,183**	**12,483**	**479**	**239**	**5,727**	**24,374**
At 31 March 2014							
Cost	9,266	9,419	88,137	5,187	2,811	5,727	120,547
Accumulated depreciation & impairment	(6,003)	(7,236)	(75,654)	(4,708)	(2,572)	-	(96,173)
Net book value	**3,263**	**2,183**	**12,483**	**479**	**239**	**5,727**	**24,374**

Parent	Land and buildings ($000s)	Leasehold improvements ($000s)	Plant and equipment ($000s)	Computer hardware ($000s)	Other ($000s)	Assets under construction ($000s)	Total ($000s)
At 1 April 2012							
Cost	29	7,596	66,053	3,617	1,370	2,936	81,600
Accumulated depreciation & impairment	(25)	(3,679)	(41,709)	(2,923)	(868)	-	(49,204)
Net book value	**4**	**3,917**	**24,344**	**694**	**502**	**2,936**	**32,396**
Year ended 31 March 2013							
Opening net book value	4	3,917	24,344	694	502	2,936	32,397
Additions	-	5	715	74	5	873	1,672
Disposals	-	-	(25)	(166)	(33)	(254)	(478)
Depreciation charge	(4)	(570)	(5,255)	(361)	(92)	-	(6,282)
Depreciation reversal on disposals	-	-	6	165	12	-	183
Transfers	-	18	1,312	35	10	(1,375)	-
Closing net book amounts	**-**	**3,370**	**21,097**	**441**	**404**	**2,180**	**27,492**
At 31 March 2013							
Cost	29	7,619	68,056	3,560	1,352	2,180	82,796
Accumulated depreciation & impairment	(29)	(4,249)	(46,959)	(3,119)	(948)	-	(55,304)
Net book value	**-**	**3,370**	**21,097**	**441**	**404**	**2,180**	**27,492**
Year ended 31 March 2014							
Opening net book value	-	3,370	21,097	441	404	2,180	27,492
Additions	-	1	278	115	133	411	938
Disposals	-	-	(140)	-	(2)	(220)	(362)
Impairment other[1]	-	(940)	(1,629)	(53)	(144)	(311)	(3,077)
Depreciation charge	-	(812)	(10,922)	(227)	(115)	-	(12,076)
Depreciation reversal on disposals	-	-	140	-	2	-	142
Transfers	-	-	320	39	-	(359)	-
Closing net book amounts	**-**	**1,619**	**9,144**	**315**	**278**	**1,701**	**13,057**
At 31 March 2014							
Cost	29	5,837	63,866	3,509	1,113	1,701	76,055
Accumulated depreciation & impairment	(29)	(4,218)	(54,722)	(3,194)	(835)	-	(62,998)
Net book value	**-**	**1,619**	**9,144**	**315**	**278**	**1,701**	**13,057**

[1] Due to the planned relocation of Rakon's manufacturing facility in Lincoln and the reorganisation of the NZ operations (refer note 24), the useful lives and future requirements of property, plant and equipment held by the New Zealand and UK operations were reviewed. The reassessment resulted in impairment of $3,077,000 for Group and Parent (note 27). The review of useful lives resulted in additional depreciation for the current financial year of $7,398,000 for Group and $7,025,000 for Parent.

18. Intangible assets

Group	Goodwill ($000s)	Patents ($000s)	Software ($000s)	Product development ($000s)	Assets under construction ($000s)	Total ($000s)
At 31 March 2012						
Cost	24,826	3,701	6,347	3,612	274	38,760
Accumulated amortisation & impairment	-	(1,912)	(4,970)	(398)	-	(7,280)
Net book value	**24,826**	**1,789**	**1,377**	**3,214**	**274**	**31,480**
Year ended 31 March 2013						
Opening net book value	24,826	1,789	1,377	3,214	274	31,480
Foreign exchange differences	(1,476)	(105)	(60)	(204)	-	(1,845)
Additions – internally developed		-	1,765	1,132	797	3,694
Disposals	-	-	(259)	-	-	(259)
Amortisation charge	-	(321)	(702)	(424)	-	(1,447)
Amortisation reversal on disposals	-	-	222	-	-	222
Impairment of goodwill [1]	(7,222)	-	-	-	-	(7,222)
Transfers	-	-	473	20	(493)	-
Closing net book amounts	**16,128**	**1,363**	**2,816**	**3,738**	**578**	**24,623**
At 31 March 2013						
Cost	23,350	3,596	8,266	4,560	578	40,350
Accumulated amortisation & impairment	(7,222)	(2,233)	(5,450)	(822)	-	(15,727)
Net book value	**16,128**	**1,363**	**2,816**	**3,738**	**578**	**24,623**
Year ended 31 March 2014						
Opening net book value	16,128	1,363	2,816	3,738	578	24,623
Foreign exchange differences	935	174	9	147	(6)	1,259
Additions – acquired separately	-	-	95	-	201	296
Additions – internally developed	-	143	155	1,391	260	1,949
Impairment [2]	-	-	(74)	(140)	-	(214)
Amortisation charge	-	(301)	(957)	(536)	-	(1,794)
Disposal of asset on sale of subsidiary	-	-	(274)	-	-	(274)
Impairment of goodwill [1]	(15,026)	-	-	-	-	(15,026)
Transfers	-	-	333	233	(566)	-
Closing net book amounts	**2,037**	**1,379**	**2,103**	**4,833**	**467**	**10,819**
At 31 March 2014						
Cost	24,285	3,457	7,984	5,607	467	41,800
Accumulated amortisation & impairment	(22,248)	(2,078)	(5,881)	(774)	-	(30,981)
Net book value	**2,037**	**1,379**	**2,103**	**4,833**	**467**	**10,819**

Parent	Software ($000s)	Product development ($000s)	Assets under construction ($000s)	Total ($000s)
At 31 March 2012				
Cost	5,501	843	277	6,621
Accumulated amortisation & impairment	(4,344)	(398)	-	(4,742)
Net book value	**1,157**	**445**	**277**	**1,879**
Year ended 31 March 2013				
Opening net book value	1,157	445	277	1,879
Additions – acquired separately	-	-	-	-
Additions – internally developed	756	34	430	1,220
Disposals	(259)	-	-	(259)
Amortisation charge	(521)	(173)	-	(694)
Amortisation reversal on disposals	222	-	-	222
Transfers	107	20	(127)	-
Closing net book amounts	**1,462**	**326**	**580**	**2,368**
At 31 March 2013				
Cost	6,105	897	580	7,582
Accumulated amortisation & impairment	(4,643)	(571)	-	(5,214)
Net book value	**1,462**	**326**	**580**	**2,368**
Year ended 31 March 2014				
Opening net book value	1,462	326	580	2,368
Additions – acquired separately	95	-	201	296
Additions – internally developed	266	58	67	391
Impairment[2]	(74)	(140)	-	(214)
Amortisation charge	(733)	(215)	-	(948)
Transfers	333	233	(566)	-
Closing net book amounts	**1,349**	**262**	**282**	**1,893**
At 31 March 2014				
Cost	6,695	513	282	7,490
Accumulated amortisation & impairment	(5,346)	(251)	-	(5,597)
Net book value	**1,349**	**262**	**282**	**1,893**

[1] Refer to note 21 and note 27 for impairment of goodwill.

[2] Due to the planned relocation of Rakon's manufacturing facility in Lincoln (UK) and the reorganisation of the NZ operations (refer note 24) the useful lives and future use of intangible assets held by the New Zealand and UK operations was reviewed and residual values reassessed.

The remaining amortisation period is:	**2014**	**2013**
Patents	2 – 19 years	3 – 20 years
Software	1 – 9 years	1 – 5 years
Product development	1 – 10 years	2 – 10 years

19. Investments in associates

40% Investment in Timemaker

	Group		Parent	
	2014	**2013**	**2014**	**2013**
	($000s)	**($000s)**	**($000s)**	**($000s)**
Beginning of year	8,248	19,164	-	-
Investment impairment (note 21)	-	(10,109)	-	-
Share of profit/(loss)	(295)	(450)	-	-
Dividend received	-	(138)	-	-
Exchange differences	(287)	(219)	-	-
End of year	**7,666**	**8,248**	**-**	**-**

On 30 June 2008 the Group acquired a 40% interest in three companies Shenzhen Timemaker Crystal Technology Co. Ltd, Roye Crystal Technology (Shanghai) Co. Ltd (subsequently renamed Chengdu Timemaker Crystal Technology Co. Ltd) and Shenzhen Taixiang Wafer Co. Ltd, which provide products and services to the frequency control products industry and are incorporated in China.

In the prior year an impairment charge was recorded subsequent to the reassessment of the recoverable amount of the investment (note 27).

The results of the associates for the year, all of which are unlisted, and their aggregated assets (excluding goodwill) and liabilities are as follows:

NZD (000s)	**Shenzhen Timemaker Crystal Technology Co. Ltd**		**Chengdu Timemaker Crystal Technology Co. Ltd**		**Shenzhen Taixiang Wafer Co. Ltd**		**Total Timemaker Group**	
	2014	**2013**	**2014**	**2013**	**2014**	**2013**	**2014**	**2013**
Balance Sheet								
Cash	40	762	2,232	1,145	-	14	2,272	1,921
Other current assets	15,761	15,377	6,983	5,358	1,017	1,623	23,761	22,358
Current liabilities	(4,344)	(4,995)	(20,918)	(15,937)	(100)	(704)	(25,362)	(21,636)
Non current assets	5,174	5,809	18,309	18,417	24	52	23,507	24,278
Non current liabilities	-	-	(4,158)	(5,913)	-	-	(4,158)	(5,913)
Net assets	16,631	16,953	2,448	3,070	941	985	20,020	21,008
Statement of Comprehensive Income								
Revenue	7,822	11,639	13,386	15,188	352	-	21,559	26,827
Profit/(loss)	(175)	348	(623)	(1,261)	(36)	(102)	(834)	(1,014)

Contingencies

There are no contingent liabilities relating to the Group's interest in the associates, and no contingent liabilities of the associates themselves.

Chengdu Timemaker Crystal Technology Co. Ltd has borrowed under facilities which expire in October 2014, February 2015 & April 2016. The company is restricted from making any distributions to shareholders or associated companies under the terms of the arrangement.

Shenzhen Timemaker Crystal Technology Co. Ltd has borrowed under a banking facility arrangement which expires in June 2014. There are no restrictions under this facility.

20. Interest in joint venture

	Group		Parent	
	2014	**2013**	**2014**	**2013**
	($000s)	**($000s)**	**($000s)**	**($000s)**
Beginning of year	5,174	3,744	-	-
Share of profit/(loss)	1,995	1,731	-	-
Dividend received	(1,161)	-	-	-
Exchange differences	202	(301)	-	-
End of year	**6,210**	**5,174**	**-**	**-**

Investment in Centum Rakon India Private Limited (CRI)

The Group has a 49% interest in a joint venture CRI which provides products and services to the frequency control products industry, is incorporated in, and has its principal place of business in India. The interest in CRI at 31 March 2014 includes goodwill of $3,004,000 (2013: $2,897,000).

The results of CRI, which are unlisted and their aggregated assets and liabilities (excluding goodwill), are as follows:

NZD (000s)	Centum Rakon India Private Limited	
	2014	**2013**
Balance Sheet		
Cash	1,492	741
Other current assets	10,111	14,138
Current liabilities	(7,774)	(14,972)
Non current assets	7,642	9,179
Non current liabilities	(315)	(560)
Net assets	11,156	8,526
Statement of Comprehensive Income		
Revenue	28,264	24,206
Profit/(loss)	3,867	3,486

Capital commitments and loan provided

During the year CRI repaid the loan owing to the Group. At 31 March 2014 Rakon had not committed to invest any further amounts (2013: Nil), by way of a loan, in the joint venture.

CRI had capital expenditure contracted for at balance sheet date but not yet incurred of $191,000 (2013 nil).

Contingencies

There are no contingent liabilities relating to the Group's interest in CRI and no contingent liabilities of the venture itself.

CRI has short term borrowings under banking facility arrangements which expire in September and October 2014. The company is restricted under the terms of the arrangement to use the funds only for working capital purposes.

21. Impairment tests for goodwill

Goodwill is allocated to the Group's cash generating units (CGUs) identified according to country of operation.

A geographical level summary of the goodwill allocation is presented below:

	Group	
	2014	**2013**
	($000s)	**($000s)**
New Zealand	-	-
United Kingdom	-	14,203
France	509	481
India – OCXO products transferred from France	1,528	1,444
Net book value of goodwill recognised in Intangible assets (note 18)	**2,037**	**16,128**

The recoverable amount of a CGU is determined based on value-in-use calculations. These calculations use pre-tax cash flow projections based on financial forecasts covering an eight year period due to product life cycles, pricing trends and longer term expected currency trends.

The UK manufacturing facility (in Lincoln) is expected to relocate in the 2014 calendar year with the transfer of production and sales to NZ (refer note 24). Once the transfer is completed, the associated goodwill is expected to transfer to the NZ CGU. At 31 March 2014 the recoverable amount of the NZ CGU has been determined on a going concern basis including the contribution from products previously manufactured in the UK. The recoverable amount did not support the goodwill due to a continued deterioration in the underlying NZ business (driven by industry pricing pressures) as well as the loss of the smart wireless device business (see comments under 'prior year' below). An impairment charge of $15,027,000 (being the carrying value of goodwill at 31 March 2014) was recorded (note 27). The recoverable amount of the NZ CGU is $59,939,000.

Industry forecasts are for investment by telecommunication operators into new network infrastructure to handle an increase in data traffic. Rakon is expected to benefit from the expected industry growth, with the future cash flow projections continuing to support the carrying of goodwill balances for the France and India CGUs' where network infrastructure is a prime or significant market.

Prior Year

At March 2013 goodwill was reviewed for indicators of impairment. Despite industry forecasts for continued growth in the sale of smart wireless device products, the future cash flow projections from this segment are lower than at the time of the previous review, as a result of a decline in prices for the products Rakon sells to the makers of smart wireless devices. The result is an impairment charge to goodwill of $17,331,000 as at 31 March 2013 (note 27) as explained following.

An impairment charge of $10,109,000 was previously recognised for Investment in associate – China. The charge is subsequent to the reassessment of the recoverable amount of the CGU as a result of the current year's adverse trading results and projections on future cash flows from continued industry pricing pressures.

An impairment charge of $7,222,000 (being the carrying value of goodwill at 31 March 2013) was recorded in relation to the goodwill previously recognised for the New Zealand CGU. The charge is subsequent to the reassessment of the recoverable amount of the CGU as a result of the current year's adverse trading results and projections on future cash flows from continued pricing pressures, particularly in the smart wireless device segment.

Key assumptions used in value in use calculations

Cash flows beyond the four year period are extrapolated using the estimated growth rates stated below. The sales volume growth rates do not exceed the long-term average growth rate for the frequency control products business in which the CGUs operate.

	Growth rate		**Discount rate**	
	2014	**2013**	**2014**	**2013**
New Zealand	2.5%	2.5%	13.7%	12.7%
United Kingdom	2.5%	2.5%	9.0%	9.3%
France	2.5%	2.5%	10.2%	11.7%
China	2.5%	2.5%	12.9%	13.3%
India	2.5%	2.5%	20.7%	22.6%

Discount rates – Discount rates reflect management's estimate of the risks specific to each unit. This is the benchmark used by management to assess operating performance and to evaluate future investment proposals. In determining appropriate discount rates for each unit, regard has been given to the yield on a ten-year government bond at the beginning of the forecast year.

Sales growth – Management have determined 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.

Gross margin – Management determined budgeted 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 costs improvements have also been factored into these gross margin assumptions.

These assumptions have been used for the analysis of each CGU within the business segment. The discount rates used are pre-tax and reflect specific risks relating to the relevant segments.

22. Borrowings

	Group		**Parent**	
	2014 ($000s)	**2013 ($000s)**	**2014 ($000s)**	**2013 ($000s)**
Current				
Obligations under finance lease	42	55	42	55
Bank overdrafts	4,411	6,489	4,411	6,489
Bank borrowings	-	22,578	-	22,578
Current	4,453	29,122	4,453	29,122
Non-current				
Obligations under finance lease	275	217	275	217
Bank borrowings	10,857	13,500	10,857	13,500
Non-current	11,132	13,717	11,132	13,717

Bank borrowings

During the year Rakon reduced its borrowing facility from $40,000,000 to $12,000,000; the total drawn is now $10,857,000 (2013: 36,079,000). This reduction was achieved through working capital adjustments and from the proceeds from the sale of Rakon's interest in ECEC Rakon Crystal (Chengdu) Co. Ltd (note 32). The average interest rate during the period on this facility was 5.2%. In March 2014 Rakon renewed its facility with the total facility increasing to $18 million from April 2014 to June 2014, then to $22 million thereafter. The facility expires in May 2015 prior to which the Directors anticipate renewing the facilities on similar terms and conditions. The planned sale of properties in France and the UK will be used to repay bank borrowings where required. The facility has a covenant of shareholders funds to total tangible assets and requires bank approval for distributions (including dividends).

Bank overdrafts and borrowings are secured by first mortgage over all the undertakings of Rakon Limited and any other wholly owned present and future subsidiaries.

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

	Group		Parent	
	2014	2013	2014	2013
	($000s)	($000s)	($000s)	($000s)
6 months or less	4,411	12,567	4,411	12,567
6 – 12 months	-	16,500	-	16,500
1 – 5 years	10,857	13,500	10,857	13,500
Over 5 years	-	-	-	-
	15,268	42,567	15,268	42,567

The carrying amounts and fair value of the non-current bank borrowings are as follows:

	Group and Parent			
	Carrying amount		Fair value	
	2014	2013	2014	2013
	($000s)	($000s)	($000s)	($000s)
Bank borrowings	10,857	13,500	10,857	13,500

The fair value of current borrowings equals the carrying amount. The fair value of the non-current bank borrowings equals the carrying amount as interest is charged at market rates.

The carrying amounts of the Group's bank borrowings are denominated in the following currencies:

	Group		Parent	
	2014	2013	2014	2013
	($000s)	($000s)	($000s)	($000s)
GBP	5,650	5,850	5,650	5,850
NZD	-	31,989	-	31,989

23. Trade and other payables

	Group		Parent	
	2014	2013	2014	2013
	($000s)	($000s)	($000s)	($000s)
Trade payables	6,998	12,771	4,133	8,894
Amounts due to related parties (note 33)	5,257	8,616	3,253	7,356
Employee entitlements	8,934	11,589	3,146	3,242
Accrued expenses	2,069	2,679	1,459	1,867
	23,258	35,655	11,991	21,359

24. Provisions for other liabilities and charges

Group	Retirement provision ($000s)	Long service leave ($000s)	Restructure provision ($000s)	Total ($000s)
At 1 April 2012	**2,571**	**395**	**-**	**2,966**
Charged/(credited) to the statement of comprehensive income:				
– additional provisions	726	-	-	726
– unused amount reversed	(895)	(11)	-	(906)
Used during the year	(172)	-	-	(172)
At 31 March 2013	**2,230**	**384**	**-**	**2,614**
Charged/(credited) to the statement of comprehensive income:				
– additional provisions	234	99	7,184	7,517
– unused amount reversed	(720)	(31)	-	(751)
Used during the year	(101)	(19)	(1,327)	(1,447)
At 31 March 2014	**1,643**	**433**	**5,857**	**7,933**
Represented by				
Current portion	95	156	5,857	6,108
Non-current portion	1,548	277	-	1,825
	1,643	**433**	**5,857**	**7,933**

Parent	Long service leave ($000s)	Restructure provision ($000s)	Total ($000s)
At 1 April 2012	**395**	**-**	**395**
Charged/(credited) to the statement of comprehensive income:			
– unused amount reversed	(11)	-	(11)
At 31 March 2013	**384**	**-**	**384**
Charged/(credited) to the statement of comprehensive income:			
– additional provisions (note 8)	99	3,368	3,467
– unused amount reversed (note 8)	(31)	-	(31)
Used during the year	(19)	-	(19)
At 31 March 2014	**433**	**3,368**	**3,801**
Represented by			
Current portion	156	3,368	3,524
Non-current portion	277	-	277
	433	**3,368**	**3,801**

Restructure provision

Planned relocation of Lincoln manufacturing plant

On 16 January 2014 a proposal was announced to relocate the Lincoln UK manufacturing plant. The proposal was for a full relocation of the plant with the manufacturing of products to be relocated to NZ during calendar year 2014. Following a collective consultation with Rakon UK Limited employee representatives, the Directors announced on 5 March 2014 their confirmed decision to close the plant. A restructuring provision of £1,522,000 has been recognised for redundancy and related costs and is included in the above table. This is payable by the Parent to Rakon UK Limited.

New Zealand restructure

In March 2014 a proposal for re-organisation of the NZ operation was announced and communicated to employees. The proposal includes a reduction in headcount and facilities and is expected to be completed during calendar year 2014. A provision of $443,000 has been recognised for redundancy and related costs and is included in the above table. In addition, property, plant and equipment has been reviewed with changes to useful lives and impairment recognised accordingly (refer note 17).

France restructure

During the period a proposal for re-organisation was discussed with the Work Inspection Administration and the Workers Councils in France. The proposal was accepted by the Councils and communicated to the employees of Rakon France SAS as a plan to restructure on 27 September 2013. A provision of €1,568,000 has been recognised for the remaining estimated costs to complete the plan.

Retirement provision

French employees are entitled to a retirement pay-out 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 by ADP at March 2013.

Long service leave

New Zealand employees are entitled to long term service leave after the completion of 10 years 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.

25. Deferred income tax

Deferred income 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 fiscal authority. The offset amounts are as follows:

	Group		Parent	
	2014 ($000s)	2013 ($000s)	2014 ($000s)	2013 ($000s)
Deferred tax assets				
Deferred tax assets to be recovered after more than 12 months	5,712	6,780	4,618	5,843
Deferred tax assets to be recovered within 12 months	637	979	246	520
Deferred tax liabilities				
Deferred tax liabilities to be recovered after more than 12 months	(1,730)	(2,333)	(1,334)	(1,801)
Deferred tax liabilities to be recovered within 12 months	(433)	(583)	(486)	(548)
Net deferred tax assets	**4,186**	**4,843**	**3,044**	**4,014**
The gross movement in the deferred income tax account is as follows:				
Beginning of year	4,843	6,052	4,014	4,732
Foreign exchange differences	59	28	-	-
Losses transferred to subsidiaries	(402)	(152)	(241)	-
Forfeiture of deferred tax on disposal of subsidiaries	(517)	-	-	-
Deferred tax on cash flow hedge	(47)	20	(54)	(140)
Deferred tax on net investments hedge	(149)	(398)	-	-
Income statement credit (note 10)	399	(707)	(675)	(578)
End of year	**4,186**	**4,843**	**3,044**	**4,014**

The movement in deferred income tax assets and liabilities during the year, without taking into consideration the offsetting of balances within the same jurisdiction, is as follows:

Group	Property, plant & equipment ($000s)	Intangibles ($000s)	Employee benefits ($000s)	Other[1] ($000s)	Future income tax benefit ($000s)	Total ($000s)
At 1 April 2012	**(2,375)**	**(543)**	**652**	**3,079**	**5,239**	**6,052**
(Charged)/credited to income statement	(166)	96	(54)	355	(938)	(707)
Losses transferred to subsidiaries	-	-	-	-	(152)	(152)
(Charged)/transferred to equity	-	-	-	(379)	-	(379)
Foreign exchange difference	22	50	(7)	(17)	(19)	29
At 31 March 2013	**(2,519)**	**(397)**	**591**	**3,038**	**4,130**	**4,843**
(Charged)/credited to income statement	674	79	(57)	(468)	171	399
Losses transferred to subsidiaries	-	-	-	-	(402)	(402)
Forfeiture of deferred tax on disposal of subsidiaries	-	-	-	(517)	-	(517)
(Charged)/credited to equity	-	-	-	(196)	-	(196)
Foreign exchange difference	-	-	-	73	(14)	59
At 31 March 2014	**(1,845)**	**(318)**	**534**	**1,930**	**3,885**	**4,186**

Parent	Property, plant & equipment ($000s)	Intangibles ($000s)	Employee benefits ($000s)	Other ($000s)	Future income tax benefit ($000s)	Total ($000s)
At 1 April 2012	**(2,108)**	**-**	**634**	**1,403**	**4,803**	**4,732**
(Charged)/credited to income statement	(144)	-	(46)	542	(930)	(578)
(Charged)/transferred to equity	-	-	-	(140)	-	(140)
Losses transferred to subsidiaries	-	-	-	-	-	-
At 31 March 2013	**(2,252)**	**-**	**588**	**1,805**	**3,873**	**4,014**
(Charged)/credited to income statement	583	-	(54)	(1,205)	1	(675)
(Charged)/transferred to equity	-	-	-	-	(241)	(241)
Losses transferred to subsidiaries	-	-	-	(53)	-	(53)
At 31 March 2014	**(1,669)**	**-**	**534**	**547**	**3,633**	**3,045**

[1] includes deferred tax arising from financial arrangements and inventory provisioning.

Deferred income tax assets are recognised for tax loss carry-forwards to the extent that the realisation of the related tax benefit through the future tax profits is probable. The Parent did not recognise current deferred income tax assets of $5.8 million (2013: $2.8 million). The Group did not recognise deferred income tax assets of $9.1 million (2013: $5.5 million) in respect of losses carried forward against future taxable income. These losses have no expiry date.

26. Imputation balances

	Group		Parent	
	2014	2013	2014	2013
	($000s)	($000s)	($000s)	($000s)
Imputation credit available for use in subsequent periods	11,201	11,203	9,661	9,663

27. Impairment

	Group		Parent	
	2014	2013	2014	2013
	($000s)	($000s)	($000s)	($000s)
Glacier convertible notes (note 13)	702	-	702	-
Deferred settlement on sale of proprietary software (note 13)	900	-	900	-
Impairment of other property, plant, equipment & intangibles (note 17, 18)	3,291	-	3,291	-
Impairment of ERC property, plant, equipment (note 17)	25,137	-	-	-
Investment in associate (China) (note 21)	-	10,109	-	-
Goodwill - New Zealand CGU (note 21)	-	7,222	-	-
Goodwill - UK CGU (note 21)	15,027	-	-	-
Investment impairment - Rakon HK Limited (note 32)	-	-	34,568	-
Investment impairment - Rakon Financial Services Limited (note 32)	-	-	-	7,686
Investment impairment - Rakon UK Holdings Ltd	-	-	15,027	-
	45,057	**17,331**	**54,488**	**7,686**
Discontinued operations	25,137	-	-	-
	19,920	**17,331**	**54,488**	**7,686**

Consistent with significant judgements and estimates described in note 2.17, the above impairments were recognised.

28. Share capital

	Number of shares	Group ordinary shares ($000s)	Parent ordinary shares ($000s)
At 1 April 2012	**191,038,591**	**173,881**	**175,231**
Shares issued			
Ordinary shares – cash	-	-	-
At 31 March 2013	**191,038,591**	**173,881**	**175,231**
Shares issued			
Ordinary shares – cash	-	-	-
At 31 March 2014	**191,038,591**	**173,881**	**175,231**

At 31 March 2014 the total authorised number of ordinary shares, including treasury shares, is 191,038,591 shares (2013: 191,038,591):

- 188,945,302 are fully paid shares (2013: 188,945,302);
- 743,289 unpaid ordinary shares were on issue and held in trust on behalf of participants in the Rakon Share Plan (2013: 743,289);
- No fully paid restricted ordinary shares were on issue and held in trust on behalf of participants in the Rakon Restricted Share Plan (2013: 975,000);
- 1,350,000 unpaid ordinary shares were on issue and held by Rakon ESOP Trustee Limited for future allocation to participants (2013: 375,000).

Rakon Restricted Share Plan

In July 2010, Rakon Limited established a Restricted Share Plan to enable selected employees of Rakon Limited and its subsidiaries to acquire shares in the Company through the Plan Trustee, Rakon ESOP Trustee Limited.

Under the terms of the Restricted Share Plan on 23 July 2010 1,350,000 shares were issued at $1 each to Rakon ESOP Trustee Limited, all shares issued have been allocated. The shares rank equally in all respects with all other ordinary shares issued by the Company. A loan facility provided by Rakon Financial Services Limited to participating employees in respect of these shares totals $1,350,000. Loans are provided on an interest free basis. The participating employee must repay the loan from the proceeds of specific bonuses paid by Rakon Limited, dividends received or from the sale of the Restricted Shares by the Trustee.

The Plan rules provide for the transfer of these shares over a five year period, provided the loans are repaid in full and the Group has met the exercise hurdles based on earnings before interest and tax to shares ratio. The Board has the discretion to review these targets and annual transfers.

During the prior year 375,000 shares were transferred to Rakon ESOP Trustee Limited due to participants leaving the Plan.

During the current year the Plan was wound up with the remaining 975,000 shares being transferred to Rakon ESOP Trustee Limited.

The Company may remove and appoint trustees at any time. The directors and shareholders of Rakon ESOP Trustee Limited are Bryan Mogridge and Bruce Irvine.

Shares held by the Restricted Share Plan represent 0% of the Company's total shares on issue as at balance date (2013: 0.5%).

		2014		**2013**
	Share Price[1]	**Number of shares**	**Share Price[1]**	**Number of shares**
Opening Balance	1.00	975,000	1.00	1,350,000
Transferred to Rakon ESOP Trustee Limited	1.00	(975,000)	1.00	(375,000)
Balance Outstanding		**-**		**975,000**

[1]weighted average

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 $450,000 (2013: $450,000). 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 2014 (2013: $nil). The Trust Deed makes provision for the Company to require repayment of the loans in certain circumstances.

As at 31 March 2014, 743,289 (31 March 2013: 743,289) shares were held by Rakon ESOP Trustee Limited.

Shares issued under the Share Plan are held in trust by Rakon ESOP Trustee Limited. A participating manager may request the Trustee to transfer the relevant shares to him or her provided the loan to that manager 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 Bryan Mogridge and Bruce Irvine.

Shares held by the Share Plan represent approximately 0.39% of the Company's total shares on issue as at balance date (2013: 0.39%).

Rakon Employee Share Option Scheme

In May 2006 Rakon established an employee share option scheme. Each option granted will convert to one ordinary share on exercise. A participant may exercise a third of his or her options any time after the first anniversary, second and third anniversaries subject to the weighted average share price on the 10 days preceding the date of exercise exceeding a benchmark price. The benchmark price requires that Rakon's share price increases by a compound rate (as shown below) per annum from the date of issue of the option. Options lapse on their fourth anniversary. Participants also have the option to cancel options whereby they will be issued shares to the value of the gain that would have been received had the options been exercised.

During the year to 31 March 2014 nil (year to 31 March 2013: nil) options were issued to selected employees.

	2014		2013	
	Option price[1]	Number of options (thousands)	Option price[1]	Number of options (thousands)
Opening balance	0.90	625	1.44	1,087
Cancelled	0.90	(15)	1.32	(123)
Lapsed		-	2.47	(339)
Balance outstanding	**0.90**	**610**	**0.90**	**625**

[1]weighted average

All 610,000 outstanding options (2013: 625,000 options) were exercisable. No options were exercised in 2014, (2013: nil). Share options totalling 15,000 (2013: 123,000) were cancelled due to holders leaving employment.

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

Expiry date	Exercise price	Benchmark price	2014	2013
Year ended 31 March 2013	2.47 – 2.81	14%	-	-
Year ended 31 March 2014	-		-	-
Year ended 31 March 2015	0.90	20%	610,000	625,000
			610,000	**625,000**

During the year nil options (2013: nil) were issued and nil options (2013: nil) were exercisable. The weighted average fair value of options granted during 2011 determined using the Black-Scholes valuation model was $0.11 per option. The significant inputs into the model were weighted average share price of $0.88 at the grant date, exercise price shown above, volatility of 35%, dividend yield of 0%, an average expected option life of 2 years, and an annual risk-free interest rate of 3.9%. The volatility was measured at the standard deviation of continuously compounded share returns based on statistical analysis of daily share prices since listing. Total expense is recognised in the statement of comprehensive income for share options granted to employees.

There have been no allocations since year end.

29. Other reserves

Group	Foreign currency translation reserve ($000s)	Hedging reserve ($000s)	Share option reserve ($000s)	Total ($000s)
At 1 April 2012	**(27,699)**	**136**	**2,826**	**(24,737)**
Cash flow hedges:				
– fair value gains/(losses) in year	-	1,392	-	1,392
– tax on fair value gains	-	(411)	-	(411)
– transfers to sales	-	(1,551)	-	(1,551)
– tax on transfers to income tax expense	-	430	-	430
Currency translation differences				
– Subsidiaries	(5,134)	-	-	(5,134)
Associates and joint venture	(519)	-	-	(519)
Net investment hedge – gross	1,421	-	-	1,421
Net investment hedge – tax	(398)	-	-	(398)
Other				
– fair value of share options issued	-	-	112	112
At 31 March 2013	**(32,329)**	**(4)**	**2,938**	**(29,395)**
Cash flow hedges:				
– fair value gains/(losses) in year	-	885	-	885
– tax on fair value gains	-	(179)	-	(179)
– transfers to sales	-	(127)	-	(127)
– tax on transfers to income tax expense	-	40	-	40
Currency translation differences				
– Subsidiaries	4,281	-	-	4,281
Associates and joint venture	85	-	-	85
Net investment hedge – gross	942	-	-	942
Net investment hedge – tax	(264)	-	-	(264)
Other				
– fair value of share options issued	-	-	(63)	(63)
At 31 March 2014	**(27,285)**	**615**	**2,875**	**(23,795)**

Parent	Hedging reserve ($000s)	Share option reserve ($000s)	Total ($000s)
At 1 April 2012	**(108)**	**2,826**	**2,718**
Cash flow hedges:			
– fair value gains/(losses) in year	1,933	-	1,933
– tax on fair value gains	(541)	-	(541)
– transfers to sales	(1,435)	-	(1,435)
– tax on transfers to income tax expense	402	-	402
Other			
– fair value of share options issued	-	112	112
At 31 March 2013	**251**	**2,938**	**3,189**
Cash flow hedges:			
– fair value gains/(losses) in year	351	-	351
– tax on fair value gains	(98)	-	(98)
– transfers to sales	(161)	-	(161)
– tax on transfers to income tax expense	45	-	45
Other			
– fair value of share options issued	-	(63)	(63)
At 31 March 2014	**388**	**2,875**	**3,263**

30. Contingencies

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

31. Commitments

Capital commitments

Capital expenditure contracted for at the balance sheet date but not yet incurred is as follows:

	Group		Parent	
	2014	2013	2014	2013
	($000s)	($000s)	($000s)	($000s)
Property, plant and equipment	527	367	406	165
Intangible assets	80	56	5	-
	607	**423**	**411**	**165**

Finance lease – Group as lessee

The Group has the following finance lease contracts:

- The right to use software with a carrying amount of $202,000 (2013: $282,000) for both the Group and Parent. This lease contract expires within three years. At the end of the lease term the perpetual right to use the software reverts to the lessee.
- Photocopier lease with a carrying amount of $91,000 (2013: nil) for both the Group and Parent. This lease contract expires within three years.

	Group		Parent	
	2014	2013	2014	2013
	($000s)	($000s)	($000s)	($000s)
No later than 1 year	267	13	267	13
Later than 1 years and no later than 5 years	218	298	218	298
Total minimum lease payments	485	311	485	311
Less amounts representing finance charges	(16)	(8)	(16)	(8)
Present value of minimum lease payments	469	303	469	303
Included in the financial statements as:				
Current borrowings (note 22)	42	55	42	55
Non-current borrowings (note 22)	275	217	275	217
Total included in borrowings	317	272	317	272

Operating lease commitments – Group as lessee

The Group leases various factories, offices and warehouses under non-cancellable operating lease agreements. The lease terms are between 1 and 10 years, and the majority of lease agreements are renewable at the end of the lease period at market rate.

The Group also leases motor vehicles under operating lease agreements. The lease terms are between 3 and 4 years. The lease expenditure charged to the statement of comprehensive income during the year is disclosed in note 6.

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

	GROUP		PARENT	
	2014	2013	2014	2013
	($000s)	($000s)	($000s)	($000s)
No later than 1 year	1,353	1,309	1,204	1,155
Later than 1 years and no later than 5 years	924	1,475	620	948
Later than 5 years	143	28	143	-
	2,420	2,812	1,967	2,103

32. Investments in subsidiaries

	Parent	
	2014	2013
Cost of investments	($000s)	($000s)
Rakon Financial Services Limited	19,239	19,239
Rakon UK Holdings Limited	36,721	51,748
Rakon (Mauritius) Limited	9,211	9,211
Rakon Investments HK Limited	14,513	14,513
Rakon HK Limited	-	53,275
Rakon Crystal Electronic Limited	188	189
	79,872	**148,175**

Significant subsidiaries comprise:

Name of entity	Principal activities	Country of incorporation	Balance date	Interest held by Group (%)	
				2014	2013
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	Manufacturing and sales	United Kingdom	31-Mar	100	100
Rakon France SAS	Manufacturing and sales	France	31-Dec	100	100
Rakon HK Limited	Holding company	Hong Kong	31-Mar	85	85
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 Limited	Sales	China	31-Mar	100	100

Sale of 80% interest in ECEC Rakon Crystal (Chengdu) Co. Ltd (ERC) (formerly Rakon Crystal (Chengdu) Co. Ltd) & impairments of remaining investment

During the year the Company sold 80% of ERC's shares to ZheJiang East Crystal Electronic Co. Ltd. (ECEC) for US$18.8 million. Settlement and completion took place on 17 October 2013 following receipt of the full sale price by Rakon HK Limited (RHK). RHK returned investment and settled intercompany loans to Rakon Limited. Following completion, NZ$20 million of bank borrowings was repaid in October 2013. ERC was a wholly owned subsidiary of Rakon HK Limited (RHK), which in turn is 85.4% owned by Rakon Limited with non-controlling interests holding the remaining 14.6%.

Subsequent to the sale the Group derecognised non-controlling interests and undertook an assessment of the recoverable amount of the remaining investment. The Group viewed that there are various indicators of impairment in existence and when assessed together result in a full impairment charge taken up in the period against the remaining interest in ERC.

In addition the Company recognised an impairment of $34,568,000 in relation to the shares held by Rakon Limited (Parent) in RHK. There is no impact to the Group.

	2014 ($000s)	2013 ($000s)
Net cash flow from/(used in) operating activities	(107)	(3,262)
Net cash flow from/(used in) investing activities	(1,447)	(6,775)
Net cash flow from/(used in) financing activities	-	6,503
Net increase/(decrease) in cash and cash equivalents	**(1,554)**	**(3,534)**

Net income from discontinued operations

	2014 ($000s)	2013 ($000s)
Revenue	473	-
Cost of sales	(380)	(1,117)
Gross profit/(loss)	**93**	**(1,117)**
Other operating income	86	(13)
Operating expenses	(869)	(5,819)
Other income	1,867	284
Impairment of assets	(25,137)	-
Operating profit/(loss) from discontinued operations	**(23,960)**	**(6,665)**
Finance income	2	-
Finance costs	-	(925)
Loss before income tax	**(23,958)**	**(7,590)**
Income tax credit/(expense)	**-**	**(8)**
Net loss after tax from discontinued operations	**(23,958)**	**(7,598)**
Loss on sale	(9,339)	-
Total loss after tax from discontinued operations	**(33,297)**	**(7,598)**

Loss after tax from discontinued operations recorded in Parent is $2,669,000.

Loss on sale of investment

	2014 ($000s)	
Sales proceeds received	22,492	
Costs to sell	(335)	
Net sales proceeds	22,157	
Fair value of continuing 20% interest held by Rakon HK Limited	-	
Total sales proceeds	22,157	*(a)*
Carrying value of net assets prior to sale	**28,404**	*(b)*
Reclassification adjustment of other comprehensive income	1,177	
Amount receivable from ERC forgiven as part of the sale and purchase agreement	1,915	
	3,092	*(c)*
Loss on sale	**(9,339)**	*(a)-(b)-(c)*
Loss on sale atttibutable to Rakon	(8,467)	
Loss on sale atttibutable to the Non-Controlling interest	(872)	
Loss on sale	**(9,339)**	

Impairment of Investment in Rakon UK Holdings Limited

At March 2014 an impairment of $15,027,000 was recognised of in relation to the shares held by Rakon Limited (Parent) in Rakon UK Holdings Limited. Rakon UK Holdings Limited holds investments in Rakon UK Limited and Rakon France Limited. Based on the reassessment of the recoverable amount of the investments an impairment was booked. There is no impact to the Group.

Prior Year

In June 2012 and March 2013 Rakon (Mauritius) Limited repurchased 500,000 ordinary shares for $791,000 and 1,175,000 ordinary shares for $1,804,000 respectively.

At March 2013 an impairment of $7,686,000 was recognised in relation to the shares held by Rakon Limited (Parent) in Rakon Financial Services Limited. This was to recognise the impact of the adverse movement in the NZD/GBP exchange rate on a GBP denominated intercompany advance from Rakon Financial Services Limited. There is no impact to the Group.

33. Related party information

Rakon Limited leases premises from Trident Investments Limited (Trident). Trident is owned by three directors of Rakon Limited (Warren Robinson, Brent Robinson and Darren Robinson). Normal commercial lease agreements are in place for the premises. The lease costs charged by Trident Investments Limited to Rakon Limited for the year is $579,000 (31 March 2013: $579,000). Lease charges are payable in advance on the 1st day of each month; no amounts are outstanding at 31 March 2014 (31 March 2013: nil).

No amounts owed by a related party have been written off or forgiven during the year.

Sales of goods and services to related parties are based on either market price less 5% or where market price is unavailable, on a cost-plus basis allowing for a 35% margin.

Key management compensation

	Group		Parent	
	2014	**2013**	**2014**	**2013**
	($000s)	**($000s)**	**($000s)**	**($000s)**
Salaries and other short-term employee benefits	3,550	3,608	2,589	2,680
Share based payments	63	-	25	-
	3,613	**3,608**	**2,614**	**2,680**

Year-end balances arising from sale/purchases of goods/services and plant, equipment and intangibles

Group	**2014 ($000s)**	**2013 ($000s)**
Intangible, plant and equipment sales to joint venture	-	34
Sales to joint venture	5,397	5,243
Purchases from joint venture	(29,056)	(23,676)
Purchases from associates	(277)	(2,859)
Engineering support charges to joint venture	-	358
Net income statement impact	**(23,936)**	**(20,900)**
Receivables from joint venture, Centum Rakon India Private Limited:		
Rakon Limited trade receivables	215	20
Rakon France SAS trade receivables	1,305	841
Rakon UK Limited trade receivables	24	34
	1,544	**895**
Payables to joint venture, Centum Rakon India Private Limited:		
Rakon Limited trade payables	-	5
Rakon France SAS trade payables	4,227	8,611
Rakon UK Limited trade payables	151	-
	4,378	**8,616**
Payables to associate, Shenzhen Timemaker Crystal Technology Co. Ltd:		
Rakon Limited	40	16
	40	**16**
Receivables from investment, ECEC Rakon Crystal (Chengdu) Co. Ltd:		
Rakon Limited trade receivables	2,111	-
	2,111	**-**
Payables to investment, ECEC Rakon Crystal (Chengdu) Co. Ltd:		
Rakon Limited trade payables	839	-
	839	**-**

Parent	2014 ($000s)	2013 ($000s)
Sales to subsidiaries	9,604	11,372
Sales to joint venture	193	10
Equipment sales to subsidiaries	-	303
Equipment sales to joint venture	-	102
Purchases from subsidiaries	(12,488)	(3,948)
Purchases from associates	(277)	(1,007)
R&D charges from subsidiary	-	(2,125)
Engineering support charges to subsidiaries	-	871
Dividend received from subsidiary	1,180	10,684
Management charges to subsidiaries	3,152	1,556
Royalty fee to subsidiary	-	1,162
Employee share schemes charges to subsidiaries	-	72
Net income statement impact	**1,364**	**19,052**

Parent	2014 ($000s)	2013 ($000s)
Receivables from subsidiaries:		
Rakon France SAS	1,717	764
Rakon Crystal Electronic Limited	-	33
Rakon UK Limited	9,239	3,862
Rakon Crystal (Chengdu) Co. Limited	-	4,113
Rakon (Mauritius) Limited	16	152
Rakon International Limited	546	1,799
Rakon HK Limited	15	5,754
Rakon Investment HK Limited	-	5
Rakon Financial Services Limited	174	32
	11,707	**16,514**
Payables to Subsidiaries:		
Rakon Singapore (Pte.) Limited	413	385
Rakon America LLC	200	13
Rakon UK Limited	4,057	4,855
Rakon France SAS	163	-
Rakon International Limited	-	533
Rakon Crystal (Chengdu) Co. Limited	-	1,570
Rakon Crystal Electronics Limited	17	-
Rakon Investment HK Limited	449	-
	5,299	**7,356**
Payable to Associates:		
Shenzhen Timemaker Crystal Technology Co. Ltd	40	-
	40	**-**
Receivables from investment, ECEC Rakon Crystal (Chengdu) Co. Ltd:		
Rakon Limited trade receivables	2,111	-
	2,111	**-**
Payables to investment, ECEC Rakon Crystal (Chengdu) Co. Ltd:		
Rakon Limited trade payables	839	-
	839	**-**

Associates

Shenzhen Etimes Industrial Co. Ltd (an associated party of Shenzhen Timemaker Crystal Technology Co. Ltd) has advanced CNY¥4,000,000 to Shenzhen Timemaker Crystal Technology Co. Ltd during the year.

Intercompany funding between wholly owned subsidiaries of the Group is repayable on demand and incurs interest at the relevant 3 month LIBOR rate plus a margin applicable for a BB+ rates security.

Intercompany charges, sales and purchases bear no interest and are repayable on 90 day payment terms. Management fees between wholly owned subsidiaries are for sales, marketing and administration services.

34. Events after balance sheet date

There have been no subsequent events after 31 March 2014.

Independent Auditors' Report

to the shareholders of Rakon Limited

Report on the Financial Statements

We have audited the financial statements of Rakon Limited ("the Company") on pages 3 to 51, which comprise the balance sheets as at 31 March 2014, the statements of comprehensive income, statements of changes in equity and statements of cash flows for the year then ended, and the notes to the financial statements that include a summary of significant accounting policies and other explanatory information for both the Company and the Group. The Group comprises the Company and the entities it controlled at 31 March 2014 or from time to time during the financial year.

Directors' Responsibility for the Financial Statements

The Directors are responsible for the preparation of these financial statements in accordance with generally accepted accounting practice in New Zealand and that give a true and fair view of the matters to which they relate and for such internal controls as the Directors determine are necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (New Zealand) and International Standards on Auditing. These standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider the internal controls relevant to the Company and the Group's preparation of financial statements that give a true and fair view of the matters to which they relate, in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company and the Group's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

We have no relationship with, or interests in, Rakon Limited or any of its subsidiaries other than in our capacities as auditors and providers of other assurance and advisory services. These services have not impaired our independence as auditors of the Company and the Group.

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Independent Auditors' Report
Rakon Limited

Opinion
In our opinion, the financial statements on pages 3 to 51:

(i) comply with generally accepted accounting practice in New Zealand; and

(ii) comply with International Financial Reporting Standards; and

(iii) give a true and fair view of the financial position of the Company and the Group as at 31 March 2014, and their financial performance and cash flows for the year then ended.

Report on Other Legal and Regulatory Requirements
We also report in accordance with Sections 16(1)(d) and 16(1)(e) of the Financial Reporting Act 1993. In relation to our audit of the financial statements for the year ended 31 March 2014:

(i) we have obtained all the information and explanations that we have required; and

(ii) in our opinion, proper accounting records have been kept by the Company as far as appears from an examination of those records.

Restriction on Use of our Report
This report is made solely to the Company's shareholders, as a body, in accordance with Section 205(1) of the Companies Act 1993. Our audit work has been undertaken so that we might state to the Company's shareholders those matters which we are required to state to them in an auditors' 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.

PricewaterhouseCoopers

Chartered Accountants
29 May 2014

Auckland

Directors

Non-executive Directors receive fees determined by the Board on the recommendation of the Remuneration Committee plus reasonable travelling, accommodation and other expenses incurred in the course of performing duties or exercising powers as Directors. Shareholders approved a total pool of $420,000 for the remuneration of non-executive directors in September 2013. Annual Directors' fees were set at $120,000 for the Chairman and $60,000 for each non-executive Director with effect from 1 April 2013.

Brent Robinson and Darren Robinson are employed by Rakon as Managing Director and Marketing Director respectively and receive salary and other remuneration and benefits in respect of their employment.

The following people held office as a Director during the year and received the following remuneration including benefits during the year.

		Remuneration	
Name	**Category**	**2014**	**2013**
Bryan Mogridge	Independent Chairman	$120,000	$120,000
Brent Robinson	Executive	$733,039	$764,525
Darren Robinson	Executive	$599,667	$618,367
Warren Robinson	Non-executive	$60,000	$60,000
Sir Peter Maire	Non-executive	$60,000	$60,000
Bruce Irvine	Independent	$60,000	$60,000
Peter Springford*	Independent	$45,000	$55,000
Herbert Hunt**	Independent	$60,000	$25,000

*Appointed as Director of Rakon Limited on 1 May 2012 & resigned as Director of Rakon Limited effective 11 December 2013.

**Appointed as Director of Rakon Limited on 1 November 2012.

Directors' interests

Trident Investments Limited, a company associated with Warren Robinson, Brent Robinson and Darren Robinson have leased premises to Rakon on arms-length, commercial terms under Deeds of Lease dated 23 August 2005 between Rakon and Trident Investments Limited and receive rental payments from Rakon.

As permitted by the Companies Act 1993, the Company has granted certain indemnities to the Directors and specified employees of the Company or any related company in respect of liability and legal costs incurred by those Directors and specified employees in their capacity as Directors and/or employees of the Company or any related company. As permitted by the Companies Act 1993, the Company has arranged a policy of Directors' and Officers' Liability Insurance which insures those persons indemnified for certain liabilities and costs.

In accordance with Section 140(2) of the Companies Act 1993 and Section 19(U) of the Securities Markets Act 1988, the Directors named below have made a general disclosure of interest during the period 1 April 2013 to 31 March 2014 by a general notice disclosed to the Board and entered in the Company's interests register:

Bryan William Mogridge
Director of:

- Appointed as Director XP Security Limited on 31 December 2013.
- Appointed as Director Pyne Gould Corporation Limited on 27 February 2014.
- Resigned as Director Bupa Care Services NZ Limited 12 May 2014.

Shareholder in:

- Beneficial interest in 1,387,049 ordinary shares in Rakon Limited following the purchase of 150,000 shares by The Mogridge Family Trust on 16 July 2013.
- Beneficial interest in 1,512,050 ordinary shares in Rakon Limited following the purchase of 125,001 shares by The Mogridge Family Trust on 18 July 2013.
- Beneficial interest in 1,665,926 ordinary shares in Rakon Limited following the purchase of 153,876 shares by Mogridge & Associates Limited on 17 September 2013.

Brent John Robinson

Shareholder in:

- Legal & beneficial interest in 10,153,913 ordinary shares in Rakon Limited following the purchase of 238,499 shares on 9 July 2013.
- Legal & beneficial interest in 10,282,021 ordinary shares in Rakon Limited following the purchase of 128,108 shares on 11 July 2013.
- Legal & beneficial interest in 10,408,552 ordinary shares in Rakon Limited following the purchase of 126,531 shares on 16 July 2013.
- Legal & beneficial interest in 10,398,552 ordinary shares in Rakon Limited following the sale of 10,000 shares on 2 August 2013.
- Legal & beneficial interest in 10,388,552 ordinary shares in Rakon Limited following the sale of 10,000 shares on 5 August 2013.
- Legal & beneficial interest in 10,378,552 ordinary shares in Rakon Limited following the sale of 10,000 shares on 6 August 2013.
- Legal & beneficial interest in 10,358,552 ordinary shares in Rakon Limited following the sale of 20,000 shares on 14 August 2013.
- Legal & beneficial interest in 10,308,552 ordinary shares in Rakon Limited following the sale of 50,000 shares on 20 August 2013.
- Legal & beneficial interest in 10,258,552 ordinary shares in Rakon Limited following the sale of 50,000 shares on 21 August 2013.
- Legal & beneficial interest in 10,238,552 ordinary shares in Rakon Limited following the sale of 20,000 shares on 26 August 2013.
- Legal & beneficial interest in 10,222,352 ordinary shares in Rakon Limited following the sale of 16,200 shares on 3 September 2013.
- Legal & beneficial interest in 10,209,595 ordinary shares in Rakon Limited following the sale of 12,757 shares on 4 September 2013.
- Legal & beneficial interest in 10,197,352 ordinary shares in Rakon Limited following the sale of 12,243 shares on 5 September 2013.
- Legal & beneficial interest in 10,192,352 ordinary shares in Rakon Limited following the sale of 5,000 shares on 6 September 2013.
- Legal & beneficial interest in 9,915,414 ordinary shares in Rakon Limited following the sale of 276,938 shares on 17 September 2013.

Darren Paul Robinson

Shareholder in:

- Legal & beneficial interest in 10,152,679 ordinary shares in Rakon Limited following the purchase of 238,499 shares on 9 July 2013.
- Legal & beneficial interest in 10,280,787 ordinary shares in Rakon Limited following the purchase of 128,108 shares on 11 July 2013.
- Legal & beneficial interest in 10,407,318 ordinary shares in Rakon Limited following the purchase of 126,531 shares on 16 July 2013.
- Legal & beneficial interest in 10,397,318 ordinary shares in Rakon Limited following the sale of 10,000 shares on 2 August 2013.
- Legal & beneficial interest in 10,387,318 ordinary shares in Rakon Limited following the sale of 10,000 shares on 5 August 2013.
- Legal & beneficial interest in 10,377,318 ordinary shares in Rakon Limited following the sale of 10,000 shares on 6 August 2013.
- Legal & beneficial interest in 10,357,318 ordinary shares in Rakon Limited following the sale of 20,000 shares on 14 August 2013.
- Legal & beneficial interest in 10,307,318 ordinary shares in Rakon Limited following the sale of 50,000 shares on 20 August 2013.
- Legal & beneficial interest in 10,257,318 ordinary shares in Rakon Limited following the sale of 50,000 shares on 21 August 2013.
- Legal & beneficial interest in 10,237,318 ordinary shares in Rakon Limited following the sale of 20,000 shares on 26 August 2013.
- Legal & beneficial interest in 10,221,118 ordinary shares in Rakon Limited following the sale of 16,200 shares on 3 September 2013.
- Legal & beneficial interest in 10,208,361 ordinary shares in Rakon Limited following the sale of 12,757 shares on 4 September 2013.
- Legal & beneficial interest in 10,196,118 ordinary shares in Rakon Limited following the sale of 12,243 shares on 5 September 2013.
- Legal & beneficial interest in 10,191,118 ordinary shares in Rakon Limited following the sale of 5,000 shares on 6 September 2013.
- Legal & beneficial interest in 9,914,180 ordinary shares in Rakon Limited following the sale of 276,938 shares on 17 September 2013.

Bruce Robertson Irvine

Director of:

- Appointed as Director Limeloader Irrigation Limited on 11 July 2013.
- Appointed as Director Heartland Pie Fund Limited on 12 August 2013.
- Appointed as Director Canterbury Building Society Limited on 5 November 2013.

Shareholder in:

- Beneficial interest in 454,278 ordinary shares in Rakon Limited following the purchase of 400,000 shares on 17 September 2013.

Herbert Dennis Hunt

Director of:

- Appointed as Director of Wynyard Group Limited on 1 April 2013.
- Appointed as Director of Jasta Limited on 8 May 2014.

Peter Martin Springford

Director of:

- Resigned as Director Rakon Limited on 11 December 2013.

Directors' shareholdings

Directors' shareholdings are shown as at balance date.

Name	31 March 2014
Bryan Mogridge	
- shares held with beneficial interest	1,665,926
- shares held with non-beneficial interest [1]	2,093,299
Brent Robinson	
- shares held with beneficial interest	34,846,237
- held by associated persons	10,339,845
Darren Robinson	
- shares held with beneficial interest	34,845,003
- held by associated persons	10,341,079
Warren Robinson	
- shares held with beneficial interest	24,930,823
- held by associated persons	20,255,259
Peter Maire	
- shares held with beneficial interest	10,713,218
Bruce Irvine	
- shares held with beneficial interest	454,278
- shares held with non-beneficial interest [1]	2,093,299
- shares held with non-beneficial interest	289,824

[1] Bryan Mogridge and Bruce Irvine jointly hold the same parcel of 2,093,299 ordinary shares as trustees of the Rakon ESOP Trustee Limited.

Employees' remuneration

During the year the number of employees or former employees not being Directors of Rakon Limited received remuneration including the value of other benefits in excess of $100,000 in the following bands:

Remuneration	Number of Employees	Remuneration	Number of Employees
$100,000 – $110,000	18	$210,001 – $220,000	6
$110,001 – $120,000	24	$220,001 – $230,000	2
$120,001 – $130,000	18	$230,001 – $240,000	2
$130,001 – $140,000	10	$240,001 – $250,000	3
$140,001 – $150,000	14	$250,001 – $260,000	2
$150,001 – $160,000	5	$270,001 – $280,000	1
$160,001 – $170,000	6	$280,001 – $290,000	1
$170,001 – $180,000	4	$290,001 – $300,000	2
$180,001 – $190,000	4	$320,001 – $330,000	1
$190,001 – $200,000	4	$400,001 – $410,000	1
$200,001 – $210,000	1	$430,001 – $440,000	1

The remuneration above includes the fair value attributable to employee share schemes, 30 employees are employed by the Parent, and the remainder are employed by overseas subsidiaries.

Substantial security holders

The following information is given pursuant to Section 26 of the Securities Markets Act 1988.

The following are recorded by the Company as at 22 April 2014 as Substantial Security Holders in the Company, and have declared the following relevant interest in voting securities under the Securities Markets Act 1988:

Name	Shareholding	%
Trusts Limited		
– Non–Beneficial Relevant Interest	24,930,823	13.05
Warren John Robinson		
– Beneficial Relevant Interest	24,930,823	13.05
Tahia Investments Limited		
– Beneficial Relevant Interest	10,713,218	5.61
Charles Peter Maire		
– Non–Beneficial Relevant Interest	10,713,218	5.61
Brent John Robinson		
– Direct Beneficial Relevant Interest	9,915,414	5.19
– Beneficial Relevant Interest	24,930,823	13.05
Darren Paul Robinson		
– Direct Beneficial Relevant Interest	9,914,180	5.18
– Beneficial Relevant Interest	24,930,823	13.05

Spread of security holders as at 22 April 2014

Size of shareholding	Number of holders	%	Total number held	%
1 – 99	15	0.26	818	0
1,00 – 199	58	1.03	7,528	0
200 – 499	226	4.00	69,434	0.04
500 – 999	342	6.05	224,774	0.12
1,000 – 1,999	796	14.08	1,045,289	0.55
2,000 – 4,999	1,490	26.35	4,633,926	2.43
5,000 – 9,999	886	15.67	5,846,240	3.06
10,000 – 49,999	1,450	25.65	28,273,253	14.80
50,000 – 99,999	190	3.36	12,607,601	6.60
100,000 – 499,999	167	2.95	28,629,902	14.95
500,000 – 999,999	13	0.23	9,099,455	4.76
1,000,000 – 9,999,999	21	0.37	100,600,371	52.66
Total	**5,654**	**100.00**	**191,038,591**	**100.00**

Largest security holders as at 22 April 2014

Name	Shareholding	%
Warren John Robinson & Trusts Limited	24,930,823	13.05
Tahia Investments Limited	10,713,218	5.61
Brent John Robinson	9,915,414	5.19
Darren Paul Robinson	9,914,180	5.18
JBWere (NZ) Nominees Limited (A/C 52093)	8,350,452	4.37
Forsyth Barr Custodians Limited (1-33)	6,272,967	3.28
New Zealand Central Securities Depository Limited	4,603,982	2.40
Superlife Trustee Nominees Limited (SL NZ A/C)	4,470,215	2.33
Etimes Group International Limited	3,697,716	1.93
FNZ Custodians Limited	2,551,664	1.33
Rakon ESOP Trustee Limited	2,093,289	1.09
Superlife Trustee Nominees Limited (SL GEMINO A/C)	1.910,700	1.00
ASB Nominees Limited (A/C 212412)	1,600,000	0.83
HLR Holdings Company Limited	1,584,736	0.82
Paul Edward Alex Baines & Campbell Murray Lobb	1,500,000	0.78
Leveraged Equities Finance Limited	1,303,232	0.68
Denise Jane Campbell	1,092,900	0.57
Ling Te Hu	1,058,824	0.55
Custodial Services Limited (A/C 3)	1,036,059	0.54
Phillip Malcolm Cook	1,000,000	0.52

New Zealand Central Securities Depository Limited (NZCSD) is a depository system which allows electronic trading of securities to members. As at 22 April 2014, the eight largest shareholdings in the company held through the NZCSD were:

Name	Shareholding
Accident Compensation Corporation	1,401,436
BNP Paribas Nominees (NZ) Limited	800,228
JPMorgan Chase Bank NA NZ Branch	772,883
HSBC Nominees (New Zealand) Limited	635,055
New Zealand Superannuation Fund Nominees Limited	615,631
Citibank Nominees (New Zealand) Limited	214,790
Private Nominees Limited	116,181
National Nominees New Zealand Limited	47,778

Corporate Governance

The role of the Board

The Board has ultimate responsibility for the strategic direction of Rakon and oversight of the management of Rakon for the benefit of Shareholders. Specifically, the responsibilities of the Board include:

- working with management to establish the strategic direction of Rakon;
- monitoring management and financial performance;
- monitoring compliance and risk management;
- establishing and monitoring the health and safety policies of Rakon;
- establishing and ensuring implementation of succession plans for senior management; and
- ensuring effective disclosure policies and procedures.

In discharging their duties, Directors have direct access to and may rely upon Rakon's senior management and external advisers. Directors have the right, with the approval of the Chairman or by resolution of the Board, to seek independent legal or financial advice at the expense of Rakon for the proper performance of their duties.

The Board comprises seven Directors: a non-executive Chairman, two executive Directors and four non-executive Directors. Under the Constitution, the Independent Chairman holds a casting vote at Board meetings. Board members have an appropriate range of proficiencies, experience and skills to ensure that all governance responsibilities are fulfilled and to achieve the best possible management of resources.

In accordance with the Constitution the Board have resolved that the Managing Director will not be required to retire by rotation.

Directors' meetings

The Board plan to meet not less than nine times during any financial year including sessions to consider the strategic direction of Rakon and Rakon's forward-looking business plans. Video and/or phone conferences are also used as required. For the year ended 31 March 2014 there were 16 Board and Strategic Planning Meetings held.

Director	Meetings held	Meetings attended
Bryan Mogridge	16	16
Brent Robinson	16	16
Darren Robinson	16	15
Warren Robinson	16	16
Peter Maire	16	14
Bruce Irvine	16	16
Herbert Hunt	16	13
Peter Springford[1]	12	12

[1]Resigned as Director of Rakon Limited effective 11 December 2013

Board committees

The Board committees review and analyse policies and strategies which are within their terms of reference. They examine proposals and, where appropriate, make recommendations to the full Board. Committees do not take action or make decisions on behalf of the Board unless specifically mandated by prior Board authority to do so. The Committees are as follows:

Audit and Risk Management Committee

The Audit and Risk Management Committee is responsible for overseeing the risk management (including treasury and financing policies), insurance, accounting and audit activities of Rakon, and reviewing the adequacy and effectiveness of internal controls, meeting with and reviewing the performance of external auditors, reviewing the consolidated financial statements, and making recommendations on financial and accounting policies.

The members of the Audit and Risk Management Committee are Bruce Irvine (Chairman), Bryan Mogridge and Warren Robinson.

Director	Meetings held	Meetings attended
Bruce Irvine	2	2
Bryan Mogridge	2	2
Warren Robinson	2	2

Remuneration Committee

The Remuneration Committee is responsible for overseeing management succession planning, establishing employee incentive schemes, reviewing and approving the compensation arrangements for the executive Directors and senior management, and recommending to the full Board the compensation of Directors.

The members of the Remuneration Committee are Bryan Mogridge (Chairman), Peter Maire and Herbert Hunt.

Director	Meetings held	Meetings attended
Bryan Mogridge	1	1
Peter Maire	1	1
Herbert Hunt	1	1

Nomination Committee

The Nomination Committee is responsible for ensuring the Board is composed of Directors who contribute to the successful management of the company, ensuring formal review of the performance of the Board, individual Directors and the Board's committees and ensuring effective induction and training programmes are in place for new and existing Directors.

The members of the Nomination Committee are Bryan Mogridge (Chairman), Peter Maire and Herbert Hunt.

Director	Meetings held	Meetings attended
Bryan Mogridge	1	1
Peter Maire	1	1
Herbert Hunt	1	1

Diversity

A breakdown of gender composition of directors and officers as at 31 March 2014 is shown below:

	2014	2013
Directors		
- male	7	8
- female	-	-
Officers		
- male	4	5
- female	-	-

Exercise of NZX Disciplinary Powers

In relation to Listing Rule 5.4.2 the NZX exercised the following under its powers.

On 24 February 2014, the NZ Markets Disciplinary Tribunal (the Tribunal) found that the Company breached NZX Main Board listing rule 10.1.1. The breach related to the timing of the market release made by the Company on 5 July 2013 where the Company's strategic partnership agreement with ECEC (an entity listed on the Shenzhen Stock Exchange) was prematurely announced by ECEC to the China market several hours before it was announced to the New Zealand market by the Company. The Company was fined $30,000 plus costs for breach of the listing rules but the Tribunal found that there had been no suggestion that the Company deliberately breached the listing rules. The Tribunal acknowledged that the Company was mindful of its obligations under the listing rules and sought to ensure a coordinated release of announcements to the market.

Directory

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

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Auditors

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Auckland 1142

Share Registrar

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Managing Your Shareholding Online:
To change your address, update your payment instructions and to view your investment portfolio including transactions, please visit;
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