Rakon Limited

Results for announcement to the market

Reporting period	12 months to 31st March 2014
Previous reporting period	12 months to 31st March 2013

Unaudited	**Amount NZ$000**	**% Change**
Revenue from ordinary activities	149,951	-15%
Underlying EBITDA [c] **(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)**	(7,531) [a]	-249%
(Loss)/profit from ordinary activities after tax attributable to security holders	(79,429) [b]	-149%
Net (loss)/profit attributable to security holders	(79,429) [b]	-149%

Note a: includes share of underlying EBITDA from associates and joint ventures of NZ$4,487,000 (2013: $4,110,000).

b: includes equity accounted earnings from associates and joint ventures of $1,647,000 (2013: $1,280,000).

c: Further information regarding the disclosure and use of non-GAAP financial information is disclosed at Note 3 (Unaudited Notes to the Financial Statements) in this results announcement.

	Amount per security	**Imputed amount per security**
Interim / Final Dividend	Nil dividend proposed	Nil dividend proposed
Record Date	Not Applicable	Not Applicable
Dividend Payment Date	Not Applicable	Not Applicable

Comments

22 MAY 2014 (RAK)

RAKON FY2014 RESULTS: STRUCTURAL AND OPERATIONAL REALIGNMENT WELL UNDERWAY

Rakon Limited (NZX:RAK) ("Rakon" or "the Company") today reports an unaudited full year net loss after tax for the year ending 31 March 2014 ("FY2014") of $83.8 million; of the loss **$79.4 million is attributable to Rakon equity holders** and $4.4 million is attributable to Non-controlling interests. FY2014 'Underlying EBITDA' was a loss of $7.5 million, within the range of guidance provided. Net debt was $6.4 million and Bank borrowings $10.9 million at 31 March 2014, thereby achieving the Company's target of reducing bank borrowings to below $12 million by that date.

Rakon has undertaken a number of structural realignment initiatives throughout FY2014 to return the company to future profitability. The key initiatives included:

- A successful 80% equity sale of Rakon Crystal (Chengdu) Co. Limited ("RCC") to ZheJiang East Crystal Electronic Co. Limited ("ECEC") on 17 October 2013; and
- A restructure of Rakon France SAS, and associated completion in the transfer of OCXO component manufacturing from France to Rakon's India joint venture (Centum Rakon); and
- A decision to close the Lincoln, UK manufacturing plant (Rakon UK), with a plan currently in progress to transfer all UK manufacturing to New Zealand during the 2014 calendar year.

Brent Robinson, Rakon CEO, said "*the FY2014 financial result is very disappointing for all shareholders. During the year we have made some difficult but necessary decisions to restructure the business in order to return Rakon to future profitability and better margins. Actions have already been undertaken, our debt repayment target has been achieved, and we are undergoing a renewed focus".*

Following the sale of RCC (renamed ECEC-Rakon ("ERC") following the sale) and subsequent exit from the smart wireless market, Rakon will continue its focus on the Telecommunications, Global Positioning and Space & Defence markets from FY2015. *"Rakon's focus and resources are now aligned to markets where we see higher margins and growth opportunities. Rakon's position as a leading 'frequency control product' supplier to key customers involved in the global deployment of 4G/LTE networks, provides a brighter outlook".*

"We expect FY2015 to be a year where we will start to benefit from the structural realignment initiatives in which costs are being taken out of the business. The transfer of manufacturing from Lincoln, UK to New Zealand is a key project, with significant focus on delivering that successfully", Mr Robinson said.

Financial Results

Revenues for the year were $150.0 million (FY2013 $176.3 million). The reduction in revenues compared to FY2013, result mainly from Rakon's exit from the Smart Wireless market following the RCC sale.

The loss attributed to continuing operations was $50.5 million. Following the equity sale in RCC, a loss of $33.3 million resulted from discontinued operations. The remaining value of Rakon's equity investment in ERC was assessed as having indicators of impairment that result in it being fully impaired and charged to the loss from discontinued operations.

Costs of $7.2 million relating to restructuring activities were recorded for FY2014; including a provision for restructure costs relating to the planned closure of the Lincoln, UK plant.

Total impairment charges were $19.9 million including an impairment charge against goodwill of $15.0 million as previously announced by Rakon on 8 May 2014. The goodwill impairment relates to the carrying amount of UK goodwill. Following the annual testing for impairment of goodwill undertaken at the FY2014 financial year end, the value-in-use calculation for the New Zealand cash generating unit does not support the carrying amount of UK goodwill once transferred.

Further to the FY2014 financial year end testing for impairment, certain Property, Plant & Equipment assets were assessed as having a reduced useful life which resulted in an acceleration of depreciation of $7.4 million being brought forward into FY2014. The impact of accelerated depreciation results in a reduction in gross profit in the Statement of Comprehensive Income.

Balance Sheet

Following the reorganisation of Rakon's debt during FY2014, the company has entered a renewed arrangement with ASB Bank until 31 May 2015 to increase borrowings up to $22.0 million. Mr Robinson said that *"the renewal of the facility gives the company balance sheet the necessary flexibility for its strategic actions such as providing funding to cover restructuring activity whilst ensuring there is adequate headroom for the operating requirements of the business"*. The increase in funding is a bridging requirement with future inflows expected from property sales of the Lincoln, UK and Argenteuil, France sites. Once completed, the Board expects borrowings to be below current levels.

The Directors confirm that this FY2014 preliminary results announcement is based on unaudited results, with the audit in progress.

-ends-

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Directors Declaration (NZX Listing Rules Appendix 1, 3.1 & 3.2)

The Directors declare that the selected consolidated financial information on pages 4 to 24 have been prepared in compliance with applicable Financial Reporting Standards and extracted from the unaudited annual financial statements. The financial statements are in the process of being audited and are not likely to be subject to qualification or be materially different to those presented on pages 4 to 24. The accounting policies the Directors consider critical to the portrayal of the company's financial condition and results which require judgements and estimates about matters which are inherently uncertain are disclosed in note 2.17 of the financial statements that form part of this announcement.

Unaudited Statements of Comprehensive Income

For the year ended 31 March 2014

	Note	Group 2014 ($000s)	Group 2013 ($000s)	Parent 2014 ($000s)	Parent 2013 ($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)**

	Note		
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.

Unaudited 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.

Unaudited 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.

Unaudited Statement of Cash Flows

For the year ended 31 March 2014		Group		Parent	
		2014	2013	2014	2013
	Note	($000s)	($000s)	($000s)	($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		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		(102,127)	(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)
		(153,830)	**(183,694)**	**(78,953)**	**(101,070)**
Net cash flow from operating activities		**12,530**	**(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	8	22,492	-	-	-
Repurchase of shares in subsidiary		-	-	18,707	2,595
		22,911	**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		**16,687**	**(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		(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.

Unaudited Statement of Cash Flows

For the year ended 31 March 2014		**Group**		**Parent**	
		2014	**2013**	**2014**	**2013**
	Note	**($000s)**	**($000s)**	**($000s)**	**($000s)**
Reconciliation of net loss to net cash flows from operating activities					
Reported net loss after tax		**(83,799)**	**(32,821)**	**(82,959)**	**(6,292)**
Items not involving cash flow					
Depreciation expense	5	15,441	10,901	12,121	6,282
Amortisation expense	5	1,794	1,447	948	694
Increase in estimated doubtful debts		82	20	-	-
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		19,920	17,331	54,488	7,686
Loss on sale of shares in subsidiary (ERC)		34,476	-	2,669	
Deferred tax		626	707	832	578
(Gain)/loss on disposal of property, plant and equipment		71	(28)	-	(91)
(Gain)/loss on disposal of intangibles		-	38	-	38
		71,901	**29,792**	**71,062**	**14,830**
Impact of changes in working capital items					
Trade and other receivables		19,393	(5,378)	16,887	(10,216)
Inventories		17,343	2,318	13,220	(1,104)
Trade and other payables		(12,397)	3,525	(9,695)	2,718
Tax provisions		89	(106)	-	-
		24,428	**359**	**20,412**	**(8,602)**
Net cash flow from operating activities		**12,530**	**(2,670)**	**8,515**	**(64)**

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

Unaudited Notes to the 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 22 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. The new standard does not have a significant impact on the Group's composition.

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 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, and 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. 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.

1. *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.

2. *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 have been determined based on value-in-use calculations. These calculations require the use of estimates.

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. Limited), the relocation of the Lincoln (UK) manufacturing facility, the restructure the NZ operations, 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.
- 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.
- 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. 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.
- Trade & 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.

- 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. 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. *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 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

($000's)	**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	7,495	11,635
Segment revenue	69,851	27,623	56,306	-	-	311	154,091	7,899	161,990
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 loss on disposal of assets (sale of shares in subsidiary)	(8,467)	-	-	-	-	-	(8,467)	-	(8,467)
Impairment	(19,920)	-	-	-	-	-	(19,920)	(21,467)	(41,387)
Income tax credit/(expense)	(832)	(578)	29	-	-	305	(1,076)	-	(1,076)
Total assets[2]	**47,002**	**29,554**	**34,055**	**7,666**	**6,210**	**1,691**	**126,178**	**-**	**126,178**
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]	**25,906**	**11,203**	**12,124**	**-**	**-**	**(1,586)**	**47,647**	**-**	**47,647**

($000's)	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]	**93,638**	**39,532**	**32,915**	**8,248**	**5,174**	**1,777**	**181,284**	**59,227**	**240,511**
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]	**56,170**	**3,304**	**20,353**	**-**	**-**	**-**	**79,827**	**3,998**	**83,825**

[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, Limited, Chengdu Timemaker Crystal Technology Co, Limited and Shenzhen Taixaing Wafer Co, Limited

[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 5).

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

4. *Other operating income*

	Group		Parent	
	2014	2013	2014	2013
	($000s)	($000s)	($000s)	($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**

5. *Operating expenses*

	Group		Parent	
	2014	2013	2014	2013
	($000s)	($000s)	($000s)	($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	15,441	10,901	12,076	6,282
Amortisation	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	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

6. *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.

7. Borrowings

	Group		Parent	
	2014	2013	2014	2013
	($000s)	($000s)	($000s)	($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. 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 $18m from April 2014 to June 2014, then to $22m 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 Fund 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

8. Investments in subsidiaries

Cost of investments	Parent 2014 ($000s)	Parent 2013 ($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	Interest held by Group (%) 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. Limited) & impairments of remaining investment

During the year the Company sold 80% of ERC's shares to ZheJiang East Crystal Electronic Co. Ltd. [ECEC] for USD $18.8m. 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, NZD $20m 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.

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)**	

Other Information

A. Dividends (NZX Listing Rules Appendix 1: 1.3(d))

During the period the Rakon Limited Board of Directors resolved to update its dividend policy. This was noted to the market in the Chairman's address at the Annual Shareholders Meeting on 6 September 2013:

From the completion of the year ending 31 March 2015, Rakon intends to begin paying a dividend of up to 50% of the after tax profit, if considered fiscally appropriate.

B. Net Tangible Assets per Security (NZX Listing Rules Appendix 1: 1.3(g))

	31 March 2014	31 March 2013
Net tangible assets $000	68,148	132,063
Number of ordinary securities 000	191,039	191,039
Net tangible asset backing per ordinary security $	0.36	0.69

C. Control gained and lost over Entities (NZX Listing Rules Appendix 1: 1.3(h))

Rakon Limited has gained or lost control over the following entities during the period:

On 17 October 2013, Rakon HK Limited (a subsidiary of Rakon Limited with an 85.4% equity interest) completed the sale of an 80% equity interest in its subsidiary Rakon Crystal (Chengdu) Co. Limited ("RCC"). Control of "RCC" was lost on 17 October 2013. The Statement of Comprehensive Income contained in the Financial Statements to this Results Announcement, reports and discloses the contribution from the "RCC" entity as Discontinued Operations with further details at Note 8 of the Financial Statements.

D. Associates & Joint Ventures (NZX Listing Rules Appendix 1: 1.3(i))

Rakon Limited has the following associate entities and joint venture arrangements.

	Shareholding
Centum Rakon India Private Limited	49%
Shenzhen Timemaker Crystal Technology Co, Limited	40%
Chengdu Timemaker Crystal Technology Co, Limited	40%
Shenzhen Taixiang Wafer Co, Limited	40%

The contribution of Centum Rakon to Rakon Limited's net results from ordinary activities is a net profit after tax of $1,995,000 (prior year $1,731,000). The contribution of Shenzhen Timemaker, Chengdu Timemaker and Shenzhen Taixiang to Rakon Limited's net results from ordinary activities is a net loss after tax of -$295,000 (prior year -$451,000).

E. Audit (NZX Listing Rules Appendix 1: 1.3(l))

The financial statements are in the process of being audited and are not likely to be subject to qualification or be materially different to those presented on pages 4 to 24.

F. Business Changes (NZX Listing Rules Appendix 1: 1.3(m))

There have not been any major changes or trends in Rakon's business subsequent to year end.