Rakon Limited Interim Report

September 2017

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1967 ▸ 2017 50 YEARS OF INNOVATION

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Unaudited Consolidated Interim Statement of Comprehensive Income

For the period ended 30 September 2017

	Note	Unaudited six months ended 30 September 2017 $000s	Unaudited six months ended 30 September 2016 $000s	Audited year ended 31 March 2017 $000s
Continuing operations				
Revenue	B3 b)	48,278	45,957	94,738
Cost of sales		(28,137)	(29,282)	(61,063)
Gross profit		**20,141**	**16,675**	**33,675**
Other operating income	B5 b)	688	1	4,363
Operating expenses	B4	(19,490)	(20,672)	(41,888)
Other gains/(losses) – net		492	(215)	439
Impairment		-	-	(6,594)
Operating profit/(loss)		**1,831**	**(4,211)**	**(10,005)**
Finance income		-	2	3
Finance costs		(227)	(689)	(1,435)
Share of losses of associates and joint venture	B8 b)	(543)	(531)	(2,054)
Profit/(loss) before income tax		**1,061**	**(5,429)**	**(13,491)**
Income tax expense		(153)	(269)	(67)
Net profit/(loss) for the period		**908**	**(5,698)**	**(13,558)**
Other comprehensive income				
Items that may be reclassified subsequently to profit or loss				
(Decrease)/increase in fair value cash flow hedges		(313)	986	1,018
Increase/(decrease) in fair value currency translation differences		1,467	(3,943)	(3,567)
Income tax credit/(expense) relating to components of other comprehensive income		88	(276)	40
Other comprehensive income/(losses) for the period, net of tax		**1,242**	**(3,233)**	**(2,509)**
Total comprehensive income/(losses) for the period		**2,150**	**(8,931)**	**(16,067)**
Profit/(loss) attributable to equity holders of the Company		**908**	**(5,698)**	**(13,558)**
Total comprehensive profit/(loss) attributable to equity holders of the Company		**2,150**	**(8,931)**	**(16,067)**
Earnings per share for profit/(loss) attributable to the equity holders of the Company from continuing operations		**Cents**	**Cents**	**Cents**
Basic earnings/(losses) per share		0.4	(3.0)	(6.9)
Diluted earnings/(losses) per share		0.4	(2.9)	(6.8)

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

Unaudited Consolidated Interim Statement of Changes in Equity

For the period ended 30 September 2017

	Share capital $000s	Retained earnings $000s	Other reserves $000s	Total equity $000s
Balance at 31 March 2016	**173,881**	**(69,660)**	**(20,793)**	**83,428**
Net loss after tax for the half year ended 30 September 2016	-	(5,698)	-	(5,698)
Currency translation differences	-	-	(3,943)	(3,943)
Cash flow hedges, net of tax	-	-	710	710
Total comprehensive income for the half year	**-**	**(5,698)**	**(3,233)**	**(8,931)**
Employee share schemes				
Value of employee services	-	-	29	29
Balance at 30 September 2016	**173,881**	**(75,358)**	**(23,997)**	**74,526**
Net loss after tax for the half year ended 31 March 2017	-	(7,860)	-	(7,860)
Currency translation differences	-	-	376	376
Cash flow hedges, net of tax	-	-	348	348
Total comprehensive income for the half year	**-**	**(7,860)**	**724**	**(7,136)**
Contribution of equity, net of transaction costs	7,154	-	-	7,154
Employee share schemes				
Value of employee services	-	-	13	13
Balance at 31 March 2017	**181,035**	**(83,218)**	**(23,260)**	**74,557**
Net profit after tax for the half year ended 30 September 2017	-	908	-	908
Contribution of equity, transaction cost	(11)	-	-	(11)
Currency translation differences	-	-	1,467	1,467
Cash flow hedges, net of tax	-	-	(225)	(225)
Total comprehensive loss for the half year	**(11)**	**908**	**1,242**	**2,139**
Employee share schemes				
Value of employee services	-	-	8	8
Balance at 30 September 2017	**181,024**	**(82,310)**	**(22,010)**	**76,704**

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

Unaudited Consolidated Interim Balance Sheet

As at 30 September 2017

	Note	Unaudited six months ended 30 September 2017 $000s	Unaudited six months ended 30 September 2016 $000s	Audited year ended 31 March 2017 $000s
Assets				
Current assets				
Cash and cash equivalents		3,566	3,111	3,305
Trade and other receivables		22,824	26,506	28,249
Assets classified as held for sale	B6 b)	2,090	-	1,969
Derivatives – held for trading		65	-	2
Derivatives – cash flow hedges		676	334	179
Inventories		26,281	29,078	24,286
Current income tax asset		10	47	96
Total current assets		**55,512**	**59,076**	**58,086**
Non-current assets				
Derivatives – cash flow hedges		673	-	115
Trade and other receivables		2,166	1,812	1,365
Property, plant and equipment		11,113	16,038	12,745
Intangible assets		10,780	13,116	9,467
Investment in associates	B8 b)	11,602	13,528	12,004
Interest in joint venture	B8 b)	3,451	6,351	3,722
Deferred tax asset		6,560	6,471	6,692
Total non-current assets		**46,345**	**57,316**	**46,110**
Total assets		**101,857**	**116,392**	**104,196**
Liabilities				
Current liabilities				
Bank overdraft	B7 b)	1,362	3,799	3,229
Borrowings	B7 b)	2,526	18,921	4,530
Trade and other payables		15,652	15,356	15,246
Derivatives – held for trading		-	-	1
Derivatives – cash flow hedges		168	418	225
Provisions		464	639	910
Deferred revenue	B5 b)	1,847	-	2,534
Current income tax liability		-	134	-
Total current liabilities		**22,019**	**39,267**	**26,675**
Non-current liabilities				
Derivatives – cash flow hedges		159	-	-
Borrowings	B7 b)	19	64	31
Provisions		2,922	2,120	2,909
Deferred tax liabilities		34	415	24
Total non-current liabilities		**3,134**	**2,599**	**2,964**
Total liabilities		**25,153**	**41,866**	**29,639**
Net assets		**76,704**	**74,526**	**74,557**
Equity				
Share capital		181,024	173,881	181,035
Other reserves		(22,010)	(23,997)	(23,260)
Accumulated losses		(82,310)	(75,358)	(83,218)
Total equity		**76,704**	**74,526**	**74,557**

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

Unaudited Consolidated Interim Statement of Cash Flows

For the period ended 30 September 2017

	Note	Unaudited six months ended 30 September 2017 $000s	Unaudited six months ended 30 September 2016 $000s	Audited year ended 31 March 2017 $000s
Operating activities				
Cash provided from				
Receipts from customers		52,124	50,108	98,179
Income tax refund		-	389	231
R&D grants received		1,405	-	1,327
Siward technology license agreement		-	-	6,877
Other income received		-	1	41
		53,529	**50,498**	**106,655**
Cash was applied to				
Payment to suppliers and others		(29,622)	(28,868)	(54,112)
Payment to employees		(18,668)	(21,313)	(41,174)
Interest paid		(248)	(605)	(1,449)
Income tax paid		(62)	(324)	(417)
		(48,600)	**(51,110)**	**(97,152)**
Net cash flow from operating activities		**4,929**	**(612)**	**9,503**
Investing activities				
Cash was provided from				
Sale of property, plant and equipment		-	16	8
		-	**16**	**8**
Cash was applied to				
Purchase of property, plant and equipment		(255)	(838)	(2,586)
Purchase of intangibles		(688)	(861)	(1,157)
Investment in shares and associates		-	(4,629)	(4,629)
		(943)	**(6,328)**	**(8,372)**
Net cash flow from investing activities		**(943)**	**(6,312)**	**(8,364)**
Financing activities				
Cash was provided from				
Issuance of share capital		-	-	7,195
Proceeds from borrowings		-	6,911	6,911
		-	**6,911**	**14,106**
Cash was applied to				
Share issuance cost		(11)	-	(41)
Repayment of principal on borrowings		(2,016)	-	(14,411)
Cash was applied to financing activities		**(2,027)**	**-**	**(14,452)**
		(2,027)	**6,911**	**(346)**
Net increase/ (decrease) in cash and cash equivalents		**1,959**	**(13)**	**793**
Effects of exchange rate changes on cash and cash equivalents		169	(114)	(156)
Cash and cash equivalents at the beginning of the year		76	(561)	(561)
Cash and cash equivalents at the end of the period		**2,204**	**(688)**	**76**
Composition of cash and cash equivalents				
Cash and cash equivalents		3,566	3,111	3,305
Bank overdraft	B7 b)	(1,362)	(3,799)	(3,229)
Total cash and cash equivalents		**2,204**	**(688)**	**76**

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

Unaudited Consolidated Interim Statement of Cash Flows

For the period ended 30 September 2017

	Note	Unaudited six months ended 30 September 2017 $000s	Unaudited six months ended 30 September 2016 $000s	Audited year ended 31 March 2017 $000s
Reconciliation of net profit/(loss) to net cash flows from operating activities				
Reported net profit/(loss) after tax		**908**	**(5,698)**	**(13,558)**
Depreciation expense		1,336	1,730	3,491
Amortisation expense		971	1,070	2,118
Impairment		-	-	6,594
Increase/(decrease) in estimated doubtful debts		7	-	(69)
Provision for restructure		-	322	3,043
Employee share based expense		8	29	42
Movement in foreign currency		(16)	(476)	418
Monetised cash flow hedge, net of tax		(941)	980	1,096
Deferred revenue – Siward technology license agreement		(687)	-	2,534
Share of profit and dividends from joint venture and associates		543	531	2,054
Deferred tax		-	381	294
Loss on disposal of property, plant and equipment		12	(5)	330
Loss on disposal of intangibles		-	-	-
Total items cash flow adjusted for		**1,233**	**4,562**	**21,945**
Impact of changes in working capital items				
Trade and other receivables		5,424	1,659	363
Provision for restructure		(420)	(307)	(2,402)
Inventories		(1,995)	752	5,544
Trade and other payables		(307)	(1,879)	(2,505)
Tax provisions		86	299	116
Total impact of changes in working capital items		**2,788**	**524**	**1,116**
Net cash flow from operating activities		**4,929**	**(612)**	**9,503**

Asset and liabilities arising from financing activities

	Unaudited six months ended 30 September 2017				
	Other asset	Liabilities from financing activities			
	Cash/ bank overdraft $000s	Finance lease due within 1 year $000s	Finance lease due after 1 year $000s	Borrowings due within 1 year $000s	Total $000s
Reconciliation of changes in asset and liablities arising from financing activities					
Balance as at 1 April 2017	**76**	**(30)**	**(31)**	**(4,500)**	**(4,485)**
Cash flows	1,959	4	12	2,000	3,975
Foreign exchange changes	169	-	-	-	169
Balance as at 30 September 2017	**2,204**	**(26)**	**(19)**	**(2,500)**	**(341)**

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

A. General information

Rakon Limited ('the Company') and its subsidiaries ('the Group') design and manufacture frequency control solutions for a wide range of applications. Rakon has leading market positions in the supply of crystal oscillators to the telecommunications, global positioning and space & defence markets. The Company is a limited liability company incorporated and domiciled in New Zealand. It is registered under the Companies Act 1993 with its registered office at 8 Sylvia Park Road, Mt Wellington, Auckland.

The financial statements of the Group have been presented in New Zealand dollars unless otherwise indicated and have been approved for issue by Rakon's Board of Directors ('the Board') on 16 November 2017.

B. Calculation of key numbers

B1. Basis of preparation

The Company is registered under the Companies Act 1993 and is a Financial Markets Conduct reporting entity under Part 7 of the Financial Markets Conduct Act 2013. The interim financial statements of the Group have been prepared in accordance with the requirements of Part 7 of the Financial Markets Conduct Act 2013 and the NZX (Main Board) Listing Rules.

These consolidated interim financial statements for the period ended 30 September 2017 have been prepared in accordance with New Zealand Generally Accepted Accounting Practice (NZ GAAP). They comply with New Zealand equivalents to International Financial Reporting Standards (NZ IFRS), other New Zealand accounting standards and authoritative notices that are applicable to entities that apply NZ IFRS. The consolidated financial statements also comply with International Financial Reporting Standards (IFRS). The Group is a profit-oriented entity for the purposes of complying with NZ GAAP. These financial statements comprise Rakon and its subsidiaries.

The financial statements have been prepared on a historical cost basis, except for the following:

- available-for-sale financial assets, financial assets and liabilities (including derivative instruments) – measured at fair value, and
- assets held for sale – measured at fair value less cost of disposal.

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. This interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report should be read in conjunction with the annual report for the year ended 31 March 2017 and any public announcements made by the Company during the interim reporting period. The accounting policies applied are consistent with those of the annual report for the year ended 31 March 2017. There are no new standards, amendments and interpretations adopted by the Group as of 1 April 2017.

B2. Segment information

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

"Earnings before interest, tax, depreciation, amortisation, impairment, employee share schemes, non-controlling interests, adjustments for associates and joint ventures' share of interest, tax & depreciation, loss on disposal of assets and other cash and non-cash items (Underlying EBITDA)", refer note B2 c).

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

Underlying EBITDA as non-GAAP financial information has been extracted from the financial statements for the period. Except for Underlying EBITDA, other information provided to the chief operating decision maker is measured in a manner consistent with GAAP. The Directors provide a reconciliation of Underlying EBITDA to net profit or loss for the period, refer note B2 c).

B2 a) Accounting policy

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

B2 b) Segment results

Unaudited six months ended 30 September 2017

	NZ $000s	UK $000s	France $000s	China – T'maker [1] $000s	India – Centum Rakon [2] $000s	Australia – Thinxtra [6] $000s	Other [3] $000s	Total $000s
Sales to external customers	32,072	-	16,206	-	-	-	-	48,278
Inter-segment sales	90	-	-	-	-	-	19	109
Segment revenue	32,162	-	16,206	-	-	-	19	48,387
Underlying EBITDA	3,953	815	(1,327)	1,389	371	(1,272)	(129)	3,800
Depreciation and amortisation	1,297	251	675	-	-	-	84	2,307
Income tax (expense)/credit	-	(91)	14	-	-	-	(76)	(153)
Total assets[4]	48,275	3,164	29,828	8,798	3,451	5,608	2,733	101,857
Investment in associates	-	-	-	8,798	-	-	2,804	11,602
Investment in joint venture	-	-	-	-	3,451	-	-	3,451
Additions of property, plant, equipment and intangibles	690	164	198	-	-	-	-	1,052
Total liabilities[5]	13,004	482	11,197	-	-	-	470	25,153

Unaudited six months ended 30 September 2016

	NZ $000s	UK $000s	France $000s	China – T'maker [1] $000s	India – Centum Rakon [2] $000s	Australia – Thinxtra [6] $000s	Other [3] $000s	Total $000s
Sales to external customers	30,270	-	15,687	-	-	-	-	45,957
Inter-segment sales	49	-	-	-	-	-	(7)	42
Segment revenue	30,319	-	15,687	-	-	-	(7)	45,999
Underlying EBITDA	292	1,039	(1,574)	809	531	(921)	471	647
Depreciation and amortisation	1,756	336	792	-	-	-	(84)	2,800
Income tax expense	-	(136)	-	-	-	-	(133)	(269)
Total assets[4]	58,730	6,884	28,993	8,268	6,351	5,260	1,906	116,392
Investment in associates	-	-	-	8,268	-	5,260	-	13,528
Investment in joint venture	-	-	-	-	6,351	-	-	6,351
Additions of property, plant, equipment and intangibles	1,208	277	247	-	-	-	-	1,732
Total liabilities[5]	34,598	659	7,937	-	-	-	(1,328)	41,866

Audited year ended 31 March 2017

	NZ $000s	UK $000s	France $000s	China – T'maker [1] $000s	India – Centum Rakon [2] $000s	Australia - Thinxtra [6] $000s	Other [3] $000s	Total $000s
Sales to external customers	61,297	-	33,441	-	-	-	-	94,738
Inter-segment sales	111	-	7	-	-	-	(23)	95
Segment revenue	61,408	-	33,448	-	-	-	(23)	94,833
Underlying EBITDA	4,579	1,952	(4,149)	1,101	956	(2,100)	1,693	4,032
Depreciation and amortisation	3,484	638	1,646	-	-	-	(159)	5,609
Impairment	789	160	635	-	3,164	-	1,846	6,594
Income tax credit/(expense)	313	(264)	28	-	-	-	(144)	(67)
Total assets[4]	52,292	6,452	30,248	7,930	3,722	4,074	(522)	104,196
Investment in associates	-	-	-	7,930	-	4,074	-	12,004
Investment in joint venture	-	-	-	-	3,722	-	-	3,722
Additions of property, plant, equipment and intangibles	2,795	449	569	-	-	-	-	3,813
Total liabilities[5]	18,918	432	8,241	-	-	-	2,048	29,639

[1] Includes Rakon Limited's 40% share of investment in Chengdu Shen-Timemaker Crystal Technology Co. Limited, Chengdu Timemaker Crystal Technology Co. Limited and Shenzhen Taixiang Wafer Co. Limited, refer note B8.

[2] Includes Rakon Limited's 49% share of investment in Centum Rakon India Private Limited, refer note B8.

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

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

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

[6] Includes Rakon Limited's 33% share of investment in in Thinxtra Pty Limited, refer to note B8 b).

The year to 31 March 2017 includes one off restructure costs in New Zealand of $817,000 and $2,242,000 in France, and income from a technology license agreement with Siward of $4,343,000 in the New Zealand segment.

B2 c) Reconciliation of Underlying EBITDA to net profit/(loss) for the period

Continuing operations	Unaudited six months ended 30 September 2017 $000s	Unaudited six months ended 30 September 2016 $000s	Audited year ended 31 March 2017 $000s
Underlying EBITDA	3,800	647	4,032
Depreciation and amortisation	(2,307)	(2,800)	(5,609)
One off cash gains realised on derivatives closed out	941	(1,361)	(1,096)
Employee share schemes	(8)	(29)	(42)
Finance costs – net	(227)	(687)	(1,432)
Adjustment for associates and joint venture share of interest, tax and depreciation	(1,032)	(980)	(2,079)
Impairment	-	-	(6,594)
Loss on asset sales/disposal	(12)	(4)	(296)
Other non – cash items	(94)	(215)	(375)
Profit/(loss) before income tax	**1,061**	**(5,429)**	**(13,491)**
Income tax expense	(153)	(269)	(67)
Net profit/(loss) for the period	**908**	**(5,698)**	**(13,558)**

B3. Revenue

B3 a) Accounting policy

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

B3 b) Breakdown of revenue by goods and services

Revenue from all sources is as follows:

	Unaudited six months ended 30 September 2017 $000s	Unaudited six months ended 30 September 2016 $000s	Audited year ended 31 March 2017 $000s
Sales of goods	47,868	45,031	93,283
Revenue from services	410	926	1,455
Total revenue	**48,278**	**45,957**	**94,738**

B3 c) Breakdown of revenue by market segment

	Unaudited six months ended 30 September 2017 $000s	Unaudited six months ended 30 September 2016 $000s	Audited year ended 31 March 2017 $000s
Telecommunications	21,657	21,088	42,380
Global Positioning	13,152	11,838	24,142
Space and Defence	10,335	9,596	21,776
Other	3,134	3,435	6,440
Total revenue by market segment	**48,278**	**45,957**	**94,738**

B4. Operating expenses

	Unaudited six months ended 30 September 2017 $000s	Unaudited six months ended 30 September 2016 $000s	Audited year ended 31 March 2017 $000s
Operating expense by function			
Selling and marketing costs	4,439	4,721	8,723
Research and development	5,292	5,696	9,947
General and administration	9,759	10,255	23,218
Total operating expenses	**19,490**	**20,672**	**41,888**

B5. Other operating income

B5 a) Breakdown of other operating income

	Unaudited six months ended 30 September 2017 $000s	Unaudited six months ended 30 September 2016 $000s	Audited year ended 31 March 2017 $000s
Dividend income	1	1	1
Other income	-	-	19
Income from technology license agreement with Siward	687	-	4,343
Total other operating income	**688**	**1**	**4,363**

B5 b) Investment by Siward Crystal Technology Company Limited ('Siward') and attribution of proceeds

Siward is a Taiwan based crystal manufacturer which is listed on the Taiwan Stock Exchange. In February 2017 Siward paid US$10m cash in return for 38,016,681 new fully paid ordinary shares of Rakon and rights arising from a technology license agreement. Siward has taken up one new appointment to Rakon's board. Of the US$10m proceeds, NZ$7.2m was attributed to the new fully paid ordinary shares based on an independent valuation report. The balance of NZ$6.9m was allocated to the technology license agreement.

The $6.9m attributed to the technology license agreement is recognised as revenue on the basis of the stage of completion of the transaction. This involves judgement in assigning value to each of the four key technologies to be transferred and allocation of these between technology transfer and deployment.

During the period a further $687,000 (31 March 2017: $4.34m) is recognised on the basis of further work completed with a remaining balance at reporting date of $1,847,000 recognised as deferred revenue.

B6. Assets classified as held for sale

B6 a) Accounting policy

Current assets are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use and a sale is considered highly probable. They are measured at the lower of their carrying amount and fair value less costs to sell, except for assets such as deferred tax assets, assets arising from employee benefits, financial assets and investment property that are carried at fair value and contractual rights under insurance contracts, which are specifically exempt from this requirement.

An impairment loss is recognised for any initial or subsequent write-down of the asset to fair value less costs to sell. A gain is recognised for any subsequent increases in fair value less costs to sell of an asset, but not in excess of any cumulative impairment loss previously recognised. A gain or loss not previously recognised by the date of the sale of the current asset is recognised at the date of derecognition.

Current assets are not depreciated or amortised while they are classified as held for sale. Interest and other expenses attributable to the liabilities of a disposal group classified as held for sale continue to be recognised.

Current assets classified as held for sale are presented separately from the other assets in the balance sheet.

B6 b) Land and buildings at Argenteuil, France

	Unaudited six months ended 30 September 2017 $000s	Unaudited six months ended 30 September 2016 $000s	Audited year ended 31 March 2017 $000s
Current asset held for sale			
Land & building	2,090	-	1,969
	2,090	**-**	**1,969**

During the year a conditional agreement for the sale of land and buildings at Argenteuil, France was entered into. In March 2017 the Directors consider the contract was sufficiently progressed to consider the sale highly likely and the land and buildings were reclassified as held for sale and measured at the lower of their carrying amount and fair value less costs to sell. The fair value of the land was based on the sale price in the agreement which was higher than the carrying amount, therefore no change to the carrying amount was made. A condition of the sale is an approved building consent for use on the site, which was not issued as at 30 September 2017.

B7. Borrowings

B7 a) Accounting policy

Interest bearing borrowings are recognised initially at fair value, net of transaction costs incurred. Subsequent to initial recognition, interest bearing borrowings are measured at amortised cost with any difference between the proceeds (net of transaction costs) and the redemption amount, recognised in the statement of comprehensive income over the period of the borrowings, using the effective interest method. Arrangement fees are amortised over the term of the loan facility.

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 reporting date.

B7 b) Breakdown of borrowings

	Unaudited six months ended 30 September 2017 $000s	Unaudited six months ended 30 September 2016 $000s	Audited year ended 31 March 2017 $000s
Current			
Obligations under finance lease	26	10	30
Bank overdrafts	1,362	3,799	3,229
Bank borrowings	2,500	18,911	4,500
Current borrowings	**3,888**	**22,720**	**7,759**
Non-current			
Obligations under finance lease	19	64	31
Non-current borrowings	**19**	**64**	**31**

B7 c) Bank borrowings

On 8 May 2017 Rakon renewed its facilities with ASB maintaining the following lines of credit:

- $6.2m cash advance facility with ASB. The interest rate is reset every 30 – 90 days and interest is payable based on the bank bill rate for that interest period, the term funding premium and the applicable margin. The drawn down balance at reporting date was $2.5m and the facility expiry date is May 2018.
- $7.8m overdraft limit. Interest is payable at the ASB Corporate Indicator Rate plus applicable margin.

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

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 carrying amount of the Group's cash advance facility is denominated in NZD.

B8. Interests in associates and joint venture

B8 a) Accounting policy

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

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

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

B8 b) Breakdown of associates and joint venture

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

Name of entity	Nature of relationship	Country of incorporation	% of ownership interest: Unaudited six months ended 30 September 2017	Unaudited six months ended 30 September 2016	Audited year ended 31 March 2017
Chengdu Shen-Timemaker Crystal Technology Co. Ltd [1]	Associate	China	-	40%	40%
Chengdu Timemaker Crystal Technology Co. Ltd [1]	Associate	China	40%	40%	40%
Shenzhen Taixiang Wafer Co. Ltd [1]	Associate	China	40%	40%	40%
Thinxtra Pty Limited [3]	Associate	Australia	33%	46%	42%
Centum Rakon India Private Ltd [2]	Joint venture	India	49%	49%	49%

	Net investment			Equity accounted losses		
	Unaudited six months ended 30 September 2017 $000s	Unaudited six months ended 30 September 2016 $000s	Audited year ended 31 March 2017 $000s	Unaudited six months ended 30 September 2017 $000s	Unaudited six months ended 30 September 2016 $000s	Audited year ended 31 March 2017 $000s
Chengdu Shen-Timemaker Crystal Technology Co. Limited [1]	-	6,219	5,370			
Chengdu Timemaker Crystal Technology Co. Limited [1]	8,383	1,647	2,157			
Shenzhen Taixiang Wafer Co. Limited [1]	416	402	403			
Total Timemaker Group	8,799	8,268	7,930	769	433	24
Thinxtra Pty Limited [3]	2,803	5,260	4,074	(1,271)	(938)	(2,123)
Total carrying amount of associates	**11,602**	**13,528**	**12,004**	**(502)**	**(505)**	**(2,099)**
Centum Rakon India Private Limited [2]	3,451	6,351	3,722	(41)	(26)	45
Total carrying amount of equity accounted associates and joint venture	**15,053**	**19,879**	**15,726**	**(543)**	**(531)**	**(2,054)**

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

[2] The Group has a 49% interest in Centum Rakon India Private Limited (‘CRI’), a joint venture which provides products and services to the frequency control industry.

[3] The Group has a 33% interest in Thinxtra Pty Limited (‘Thinxtra'), an 'Internet of Things' business, refer note B8 c).

B8 c) Investment in Thinxtra

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

During the period Rakon’s shareholding reduced from 42.3% to 33% as Thinxtra continued to raise capital with new shares being issued. The Directors have concluded that Rakon does not have control over Thinxtra and continues to be accounted for as an associate. See also note B10.

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

B8 d) Investment in Timemaker

In June 2017 Chengdu Shen-Timemaker Crystal Technology Co. Limited and Chengdu Timemaker Crystal Technology Co. Limited were merged with the merged entity being Chengdu Timemaker Crystal Technology Co. Limited.

B9. Contingencies

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

B10. Events after reporting date

B10 a) Partial sale of investment in Thinxtra

On 12 October 2017 the conditional sale of 199,242 shares in Thinxtra was announced for A$3m. After the completion of the sale Rakon expects to hold 785,407 shares, representing approximately 18.3% – 21.7% depending on the number of share options exercised by other parties.

There have been no other subsequent events after 30 September 2017.

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