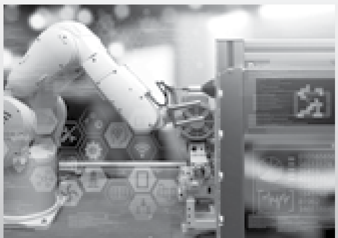
rakon

Rakon Limited Interim Report

September 2019



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Unaudited Consolidated Interim Statement of Comprehensive Income

For the period ended 30 September 2019

	Note	Unaudited six months ended 30 September 2019 $000s	Restated Unaudited six months ended 30 September 2018 $000s	Audited year ended 31 March 2019 $000s
Continuing operations				
Revenue	B1 d)	56,912	53,309	113,985
Cost of sales		(30,652)	(28,715)	(62,317)
Gross profit		**26,260**	**24,594**	**51,668**
Other operating income		8	1	121
Other gains – net		29	645	718
Re-measurement on change in treatment – Thinxtra shares	B4 c)	-	-	-
Net loss from business combination		-	(69)	-
Operating expenses	B2	(25,099)	(23,492)	(47,338)
Operating profit		**1,198**	**1,679**	**5,169**
Finance income		8	9	37
Finance costs		(532)	(186)	(571)
Share of net profits of associates and joint venture		753	570	839
Profit before income tax		**1,427**	**2,072**	**5,474**
Income tax expense		(85)	(45)	(2,110)
Net profit for the period		**1,342**	**2,027**	**3,364**
Other comprehensive income				
Items that may be reclassified subsequently to profit or loss				
Decrease in fair value cash flow hedges		(3,465)	(3,454)	(1,812)
Cost of hedging		173	154	31
Increase in fair value currency translation differences		2,547	2,125	1,329
Income tax credit relating to components of other comprehensive income		970	967	507
Item that will not be reclassified subsequently to profit or loss				
Changes in fair value of equity investments at fair value through other comprehensive income – Thinxtra	B4 c)	133	-	(454)
Other comprehensive income/(losses) for the period, net of tax		**358**	**(208)**	**(399)**
Total comprehensive income for the period		**1,700**	**1,819**	**2,965**
Profit attributable to equity holders of the Company		**1,342**	**2,027**	**3,364**
Total comprehensive profit attributable to equity holders of the Company		**1,700**	**1,819**	**2,965**
Earnings per share for profit attributable to the equity holders of the Company from continuing operations		**Cents**	**Cents**	**Cents**
Basic earnings per share		0.6	0.9	1.5
Diluted earnings per share		0.6	0.9	1.5

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 2019

	Note	Share capital $000s	Retained earnings $000s	Other reserves $000s	Total equity $000s
Balance at 31 March 2018		**181,024**	**(73,219)**	**(20,754)**	**87,051**
Restated net profit after tax for the half year ended 30 September 2018	B4	-	2,027	-	2,027
Currency translation differences		-	-	2,125	2,125
Cash flow hedges, net of tax		-	-	(2,333)	(2,333)
Total comprehensive income for the half year		**-**	**2,027**	**(208)**	**1,819**
Balance at 30 September 2018 restated		**181,024**	**(71,192)**	**(20,962)**	**88,870**
Net profit after tax for the half year ended 31 March 2019		-	1,337	-	1,337
Currency translation differences		-	-	(796)	(796)
Cash flow hedges, net of tax		-	-	1,059	1,059
Changes in fair value of equity investments at fair value through other comprehensive income – Thinxtra		-	-	(454)	(454)
Total comprehensive income for the half year		**-**	**1,337**	**(191)**	**1,146**
Balance at 31 March 2019		**181,024**	**(69,855)**	**(21,153)**	**90,016**
Net profit after tax for the half year ended 30 September 2019		-	1,342	-	1,342
Currency translation differences		-	-	2,547	2,547
Cash flow hedges, net of tax		-	-	(2,322)	(2,322)
Changes in fair value of equity investments at fair value through other comprehensive income – Thinxtra		-	-	133	133
Total comprehensive income for the half year		**-**	**1,342**	**358**	**1,700**
Balance at 30 September 2019		**181,024**	**(68,513)**	**(20,795)**	**91,716**

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

Unaudited Consolidated Interim Balance Sheet

As at 30 September 2019

	Note	Unaudited six months ended 30 September 2019 $000s	Restated Unaudited six months ended 30 September 2018 $000s	Audited year ended 31 March 2019 $000s
Assets				
Current assets				
Cash and cash equivalents		5,350	2,629	4,719
Trade and other receivables		35,531	34,973	38,220
Inventories		44,796	37,444	39,310
Derivative financial instruments		58	69	307
Financial asset at fair value through profit and loss		19	11	19
Current income tax asset		726	820	561
Total current assets		**86,480**	**75,946**	**83,136**
Non-current assets				
Property, plant and equipment		19,528	17,243	19,394
Intangible assets		8,701	10,276	9,149
Investment in associates		11,356	9,954	10,399
Right-of-use assets	B8	8,917	-	-
Trade and other receivables		2,186	2,959	2,267
Financial asset at fair value through other comprehensive income – Thinxtra	B4	4,682	5,004	4,549
Derivative financial instruments		75	278	258
Deferred tax asset		7,324	8,209	7,352
Total non-current assets		**62,769**	**53,923**	**53,368**
Total assets		**149,249**	**129,869**	**136,504**
Liabilities				
Current liabilities				
Bank overdraft	B3	12,704	6,201	11,501
Borrowings	B3	280	294	474
Lease liabilities	B8	2,530	-	-
Trade and other payables		25,357	26,169	26,398
Provisions		257	354	471
Derivative financial instruments		3,381	1,550	945
Deferred consideration on acquisition – Rakon India		1,938	1,832	1,885
Deferred revenue – Siward		-	101	-
Total current liabilities		**46,447**	**36,501**	**41,674**
Non-current liabilities				
Borrowings		-	-	412
Lease liabilities	B8	6,151	-	-
Provisions		3,415	3,100	2,990
Derivative financial instruments		1,318	1,154	343
Deferred tax liabilities		202	244	1,069
Total non-current liabilities		**11,086**	**4,498**	**4,814**
Total liabilities		**57,533**	**40,999**	**46,488**
Net assets		**91,716**	**88,870**	**90,016**
Equity				
Share capital		181,024	181,024	181,024
Other reserves		(20,795)	(20,962)	(21,153)
Accumulated losses		(68,513)	(71,192)	(69,855)
Total equity		**91,716**	**88,870**	**90,016**

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

For the period ended 30 September 2019

	Unaudited six months ended 30 September 2019 $000s	Restated Unaudited six months ended 30 September 2018 $000s	Audited year ended 31 March 2019 $000s
Operating activities			
Cash provided from			
Receipts from customers	61,816	54,754	114,974
R&D grants received	1,219	305	1,894
Other income received	(5)	38	58
	63,030	**55,097**	**116,926**
Cash was applied to			
Payment to suppliers and others	(34,515)	(34,598)	(71,695)
Payment to employees	(24,633)	(23,680)	(46,286)
Interest paid	(453)	(140)	(459)
Income tax paid	-	(107)	(254)
	(59,601)	**(58,525)**	**(118,694)**
Net cash flow from operating activities	**3,429**	**(3,428)**	**(1,768)**
Investing activities			
Cash was provided from			
Sale of property, plant and equipment	42	16	82
	42	**16**	**82**
Cash was applied to			
Purchase of property, plant and equipment	(2,404)	(2,115)	(6,188)
Purchase of intangibles	(678)	(223)	(720)
Purchase of shares in Centum Rakon India Pvt Ltd	-	(5,848)	(5,848)
	(3,082)	**(8,186)**	**(12,756)**
Net cash flow from investing activities	**(3,040)**	**(8,170)**	**(12,674)**
Financing activities			
Cash was applied to			
Lease liabilities payments	(1,531)	-	-
Finance lease payments	-	(13)	(24)
Cash was applied to financing activities	**(1,531)**	**(13)**	**(24)**
Net cash flow from financing activities	**(1,531)**	**(13)**	**(24)**
Net decrease in cash and cash equivalents	**(1,142)**	**(11,611)**	**(14,466)**
Effects of exchange rate changes on cash and cash equivalents	570	499	144
Cash and cash equivalents at the beginning of the year	(6,782)	7,540	7,540
Cash and cash equivalents at the end of the year	**(7,354)**	**(3,572)**	**(6,782)**
Composition of cash and cash equivalents			
Cash and cash equivalents	5,350	2,629	4,719
Bank overdraft	(12,704)	(6,201)	(11,501)
Total cash and cash equivalents	**(7,354)**	**(3,572)**	**(6,782)**

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

For the period ended 30 September 2019

	Note	Unaudited six months ended 30 September 2019 $000s	Restated Unaudited six months ended 30 September 2018 $000s	Audited year ended 31 March 2019 $000s
Reconciliation of net profit to net cash flows from operating activities				
Reported net profit after tax		**1,342**	**2,027**	**3,364**
Adjustments for				
Depreciation and amortisation expense		4,326	2,781	5,802
Increase in estimated doubtful debts		-	-	475
Provisions provided		(26)	-	342
Movement in foreign currency		450	(32)	439
Deferred revenue – Siward technology licence agreement		-	-	(101)
Share of net profits of associates and joint venture		(753)	(570)	(839)
Deferred tax movement		66	-	231
Gain on disposal of property, plant and equipment		(42)	(16)	(82)
Thinxtra shares – fair value adjustment	B4	-	-	-
Net loss from business combination		-	69	-
		4,021	**2,232**	**6,267**
Change in operating assets and liabilities				
Decrease/ (increase) in trade and other receivables		3,265	(2,268)	(5,007)
Decrease in provisions		(212)	(252)	(246)
Increase in inventories		(3,986)	(7,404)	(9,145)
(Decrease)/ increase in trade and other payables		(836)	2,278	2,781
(Decrease)/ increase in tax provisions		(165)	(41)	218
Total impact of changes in working capital items		**(1,934)**	**(7,687)**	**(11,399)**
Net cash flow from operating activities		**3,429**	**(3,428)**	**(1,768)**

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.

Certain items in the comparative period to 30 September 2018 have been restated. These relate to the valuation of Rakon's investment in Thinxtra Pty Limited. Further details are in note B4 b).

The financial statements have been approved for issue by Rakon's Board of Directors ('the Board') on 19 November 2019.

B. Calculation of key numbers

B1. 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 venture's share of interest, tax & depreciation, loss on disposal of assets and other cash and non-cash items (Underlying EBITDA)', refer note B1 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 for the period, refer note B1 c).

B1 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.

B1 b) Segment results

Unaudited six months ended 30 September 2019

	NZ $000s	UK $000s	France $000s	India [2] $000s	China– T'maker [1] $000s	Australia– Thinxtra [6] $000s	Other [3] $000s	Total $000s
Sales to external customers	35,626	-	20,589	697	-	-	-	56,912
Inter-segment sales	354	-	-	11,696	-	-	(23)	12,027
Segment revenue	35,980	-	20,589	12,393	-	-	(23)	68,939
Underlying EBITDA	6,505	857	(2,331)	849	1,387	-	(331)	6,935
Depreciation and amortisation	1,878	321	1,255	837	-	-	35	4,326
Income tax (expense)/credit	67	(107)	16	-	-	-	(61)	(85)
Total assets [4]	72,120	3,182	33,456	27,103	11,356	-	2,033	149,249
Investment in associates	-	-	-	-	11,356	-	-	11,356
Additions of property, plant, equipment and intangibles	1,644	248	188	952	-	-	-	3,032
Total liabilities [5]	35,832	1,396	11,512	7,754	-	-	1,040	57,533

Restated Unaudited six months ended 30 September 2018

	Note	NZ $000s	UK $000s	France $000s	India [2] $000s	China– T'maker [1] $000s	Australia– Thinxtra [6] $000s	Other [3] $000s	Total $000s
Sales to external customers		32,726	-	18,603	1,980	-	-	-	53,309
Inter-segment sales		174	-	104	8,288	-	-	-	8,566
Segment revenue		32,900	-	18,707	10,268	-	-	-	61,875
Underlying EBITDA		6,186	848	(3,457)	1,418	1,355	(289)	(182)	5,879
Depreciation and amortisation		1,138	258	900	484	-	-	1	2,781
Income tax (expense)/credit		-	43	16	-	-	-	(104)	(45)
Total assets restated [4]	B4	61,327	3,373	32,591	21,177	9,954	-	1,447	129,869
Investment in associates		-	-	-	-	9,954	-	-	9,954
Additions of property, plant, equipment and intangibles		1,130	271	547	109	-	-	-	2,057
Total liabilities [5]		19,631	471	12,743	8,019	-	-	135	40,999

Audited year ended 31 March 2019

	NZ $000s	UK $000s	France $000s	India [7] $000s	China– T'maker [1] $000s	Australia– Thinxtra [6] $000s	Other [3] $000s	Total $000s
Sales to external customers	64,376	-	45,058	4,551	-	-	-	113,985
Inter-segment sales	285	-	33	-	-	-	(323)	(5)
Segment revenue	64,661	-	45,091	4,551	-	-	(323)	113,980
Underlying EBITDA	7,857	1,691	(1,312)	2,605	2,136	-	293	13,270
Depreciation and amortisation	2,426	515	1,775	1,099	-	-	(13)	5,802
Income tax (expense)/credit	(858)	(214)	31	(420)	-	-	(649)	(2,110)
Total assets [4]	65,766	2,141	32,129	23,085	10,399	-	2,984	136,504
Investment in associates	-	-	-	-	10,399	-	-	10,399
Additions of property, plant, equipment and intangibles	3,191	482	1,395	1,986	-	-	-	7,054
Total liabilities [5]	27,373	591	9,798	7,497	468	-	761	46,488

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

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

[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] Rakon Limited holds a 17.8% interest in Thinxtra Limited, refer note B4.

B1 c) Reconciliation of Underlying EBITDA to net profit for the period

	Unaudited six months ended 30 September 2019 $000s	Restated Unaudited six months ended 30 September 2018 $000s	Audited year ended 31 March 2019 $000s
Continuing operations			
Underlying EBITDA	6,935	5,879	13,270
Depreciation and amortisation	(4,326)	(2,781)	(5,802)
Finance costs – net	(525)	(177)	(534)
Adjustment for associates and joint venture share of interest, tax and depreciation	(649)	(648)	(1,120)
Loss on asset sales/disposal	(7)	(20)	(6)
Other non-cash items	(1)	(181)	(334)
Profit before income tax	**1,427**	**2,072**	**5,474**
Income tax expense	(85)	(45)	(2,110)
Net profit for the period	**1,342**	**2,027**	**3,364**

B1 d) Breakdown of revenue by market segment

	Unaudited six months ended 30 September 2019 $000s	Unaudited six months ended 30 September 2018 $000s	Audited year ended 31 March 2019 $000s
Telecommunications	32,176	24,335	53,599
Global Positioning	9,698	11,397	20,498
Space and Defence	12,258	13,354	31,583
Other	2,780	4,223	8,305
Total revenue by market segment	**56,912**	**53,309**	**113,985**

B1 e) Breakdown of revenue by region

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

	Unaudited six months ended 30 September 2019 $000s	Unaudited six months ended 30 September 2018 $000s	Audited year ended 31 March 2019 $000s
Asia	30,470	25,154	53,799
North America	12,546	12,688	25,793
Europe	12,509	14,152	31,671
Others	1,387	1,315	2,722
Total revenue by region	**56,912**	**53,309**	**113,985**

B2. Operating expenses

	Unaudited six months ended 30 September 2019 $000s	Unaudited six months ended 30 September 2018 $000s	Audited year ended 31 March 2019 $000s
Operating expense by function			
Selling and marketing costs	5,214	4,945	9,809
Research and development	6,312	5,556	11,029
General and administration	13,573	12,991	26,500
Total operating expenses	**25,099**	**23,492**	**47,338**

B3. Borrowings

	Unaudited six months ended 30 September 2019 $000s	Unaudited six months ended 30 September 2018 $000s	Audited year ended 31 March 2019 $000s
Current			
Obligations under finance lease	-	19	405
Other borrowings	280	275	69
Bank overdrafts	12,704	6,201	11,501
Current borrowings	**12,984**	**6,495**	**11,975**
Non-current			
Obligations under finance lease	-	-	412
Non-current borrowings	**-**	**-**	**412**

In July 2019, facilities with ASB were restructured and the overdraft limit increased from $15.5m to $18.5m until 30 April 2020 when the limit reduces by $4.5m to $14m. Interest is payable at the ASB Corporate Indicator Rate plus applicable margin. The temporary increase is for additional working capital to support the growth in the Telecommunications market segment.

The ASB facilities are secured by a general security deed over all the present and future assets and undertakings of the Group with the exception of Rakon India Private Limited. The Company was in compliance with all financial covenants during the period.

B4. Investment in Thinxtra

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

Rakon was one of the founding members of Thinxtra in 2016 and has a 17.8% ownership interest at 30 September 2019 (September 2018: 21.4%).

B4 a) Loss of significant influence and fair value re-measurement (1 June 2018)

On 1 June 2018 Rakon lost significant influence in Thinxtra and ceased equity accounting the investment. In accordance with NZ IAS 28 Investments in Associates and Joint Ventures at 1 June 2018, the investment held was initially measured at fair value of $12.2m and a gain of $7.2m recognised in profit and loss. In determining the fair value at 1 June 2018, the Directors obtained an independent valuation report and adopted the lowest valuation in the range given in that report. In determining a valuation range the independent valuation report relied on the October 2017 capital raise which was oversubscribed and the subsequent sale of 199,763 shares by Rakon in November 2017 to those who missed out on the capital raise. Further, effective 1 June 2018, the Group elected to present subsequent changes in fair value of its investment in Thinxtra in other comprehensive income. These amounts were presented in the unaudited consolidated interim financial statements of the Group for the six months ended 30 September 2018.

B4 b) Initial fair value at 1 June 2018, as disclosed in the unaudited 30 September 2018 interim financial statements and subsequently restated in the 31 March 2019 Annual Report

Upon re-examining the information available, the Directors considered the 1 June 2018 valuation of $12.2m (which relied on the independent valuation report which was based on a historical capital raise and limited external transactions dating back to October and

November 2017), was not appropriate and should be restated. Accordingly, this valuation was reassessed resulting in a revised valuation of $5.0m of the investment at 1 June 2018 and the reversal of the previously recognised gain of $7.2m.

Valuation methodology and key inputs

In undertaking the restated fair value assessment as at 1 June 2018, it was considered that one single valuation method would not provide an appropriate result. Accordingly, the Directors used a range of valuation techniques which provide different scenario outcomes. These outcomes have then been assigned a probability based on the available information and Directors' judgement.

The methodology, key inputs and overall outcome is summarised as follows:

Valuation Technique	*Indicative View*	*Probability Assigned*
A: Discounted cash flow (discount rate 30.5%)	Most likely	75%
B: Last successful capital raise, October 2017 which raised A$20m at A$15.47 per share	Possible	25%

The valuation was based on Rakon having a 14% shareholding which assumed all existing share options were exercised and all shares were issued under the capital raise offer that was open at the time.

The valuation was between A$5.25 and A$6.52 per share with a value of A$5.89 per share resulting in a restated valuation of $5.0m at 1 June 2018. This is also consistent with the equity accounted value of the investment as at 1 June 2018.

Sensitivities on key input

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

Scenario	*Assumptions changes*	Valuation NZ$	change
a) Base case valuation	base case	5.0	
b) DCF	Cash flow is 50% lower than forecast	3.7	(1.3)
c) DCF	Discount rate is 5% higher	4.2	(0.8)

An opposite change in assumptions would have the equal but opposite effect on the valuation.

Sensitivities on probability weightings assigned

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

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

Valuation Technique	Base case	Alternate case	change in valn NZ$m
A: Discounted cash flow	75%	85%	
B: Last capital raise October 2017	25%	15%	
	100%	100%	
Valuation NZ$	5.0	3.9	(1.1)

Impact of restatement on 30 September 2018 financial statements

Unaudited Consolidated Interim Statement of Comprehensive Income For the period ended 30 September 2018	**As previously stated**	**Adjustment**	**As restated**
	$000s	**$000s**	**$000s**
Re-measurement on change in treatment – Thinxtra shares	7,172	(7,172)	-
Operating profit	**8,851**	**(7,172)**	**1,679**
Profit before income tax	**9,244**	**(7,172)**	**2,072**
Net profit for the period	**9,199**	**(7,172)**	**2,027**
Total comprehensive income for the period	**8,991**	**(7,172)**	**1,819**
Profit attributable to equity holders of the Company	**9,199**	**(7,172)**	**2,027**
Total comprehensive profit attributable to equity holders of the Company	**8,991**	**(7,172)**	**1,819**
Earnings per share for profit attributable to the equity holders of the Company from continuing operations	**Cents**	**Cents**	**Cents**
Basic earnings per share	4.1	(3.2)	0.9
Diluted earnings per share	4.0	(3.1)	0.9

Unaudited Consolidated Interim Balance Sheet As at 30 September 2018	**As previously stated**	**Adjustment**	**As restated**
	$000s	**$000s**	**$000s**
Financial asset at fair value through other comprehensive income – Thinxtra	12,176	(7,172)	5,004
Total non-current assets	**61,095**	**(7,172)**	**53,923**
Total assets	**137,041**	**(7,172)**	**129,869**
Net assets	**96,042**	**(7,172)**	**88,870**
Accumulated losses	(64,020)	(7,172)	(71,192)
Total equity	**96,042**	**(7,172)**	**88,870**

	As previously stated	**Adjustment**	**As restated**
	$000s	**$000s**	**$000s**
Reconciliation of net profit to net cash flows from operating activities			
Reported net profit after tax	**9,199**	**(7,172)**	**2,027**
Following adjustments			
Thinxtra shares – fair value adjustment	(7,172)	7,172	-
Total items cash flow adjusted for	**(4,940)**	**7,172**	**2,232**

The correction further affected some amounts disclosed in note B1 b), where total assets for 30 September 2018 was decreased by $7,172,000, and note B1 c) was restated as follows:

	As previously stated	**Adjustment**	**As restated**
	$000s	**$000s**	**$000s**
Continuing operations			
Underlying EBITDA	5,879	-	5,879
Re-measurement on change in treatment – Thinxtra shares	7,172	(7,172)	-
Profit before income tax	9,244	(7,172)	2,072
Net profit for the period	**9,199**	**(7,172)**	**2,027**

B4 c) Subsequent capital raise offers by Thinxtra between September 2018 and March 2019

In September 2018 Thinxtra announced a new capital raise offer aimed at raising A$20m. This offer was not filled with the main impediments being; the offer price was out of alignment with the maturity of the business; there were anti-dilution rights held by existing security holders which were an impediment to any new investors; and Thinxtra's two main shareholders elected not to participate in the capital raise offering.

A revised limited special offer was announced in March 2019 to raise A$4m. This was expected to allow Thinxtra to sufficiently develop its business in preparation for additional funding to be raised through equity, debt or merger & acquisition activity to allow it to achieve break-even. The Directors determined that Rakon would not participate in the March 2019 special offer due to the requirement to prioritise spend in its core business. This capital raise was successful and A$5m was raised. In the Directors' view this was a special offer with a placement discount and was not indicative of the fair value of the Company.

B4 d) Valuation of the investment in Thinxtra at 31 March 2019

As set out below, the Directors have determined the valuation range of Thinxtra at 31 March 2019, with a value recognised of $4.6m. In forming this view, it was recognised that there is a high level of volatility and judgement required in valuing Thinxtra given its early stage of business; the new and developing IoT market and ecosystem in which it operates; the volatility in prices achieved by historic capital raises, it being a private company investment; and the track record of the Company achieving its forecast performance.

Valuation methodology and key inputs

Consistent with the revised valuation approach adopted at 1 June 2018, in undertaking the fair value assessment, and given the range of potential outcomes, it was considered that one single valuation method would not provide an appropriate result. Accordingly, the Directors used a range of valuation techniques which provide different scenario outcomes. These outcomes have then been assigned a probability based on the available information and Directors' judgement. The methodology, key inputs and overall outcome is summarised as follows:

Valuation Technique	*Indicative View*	*Probability Assigned*
A: Discounted cash flow (discount rate 20.5%)	Likely	40%
B: Last successful capital raise, March 2019 which raised A$5m at A$3 per share	Likely	30%
C: Replacement cost of assets	Likely	30%

The valuation was based on Rakon having an 11% shareholding which assumed all existing share options were exercised and all shares were issued under the capital raise offer that was open at the time.

The resultant valuation was between A$4.83 and A$6.11 per share with a value of A$5.47 adopted in the 31 March 2019 financial statements. This has resulted in fair value of $4.6m at 31 March 2019 with the reduction of $0.4m since 1 June 2018 being reflected in other comprehensive income.

Sensitivities on key inputs

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

Scenario	*Assumptions changes*	Valuation NZ$	change
a) Base case valuation	base case	4.6	
b) Discounted cash flow	Cash flow is 50% lower than forecast	3.4	(1.1)
c) Discounted cash flow	Discount rate is 10% higher	3.0	(1.5)
d) Replacement cost	Replacement cost is 20% lower	3.8	(0.8)

Sensitivities on probability weightings assigned

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

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

Valuation Technique	**Base case**	**Alternate case**	**change in valn NZ$m**
A: Discounted cash flow	40%	30%	
B: Last capital raise April 2019	30%	50%	
C: Replacement cost	30%	20%	
	100%	100%	
Valuation NZ$	4.6	4.0	(0.6)

B4 e) Valuation of the investment in Thinxtra at 30 September 2019

As set out below, the Directors have determined the valuation range of Thinxtra at 30 September 2019, with a value recognised of $4.7m. The methodology and overall outcome is consistent with what was adopted in the 31 March 2019 Annual Report. In forming this view, it was recognised that there is a high level of volatility and judgement required in valuing Thinxtra given its early stage of business; the new and developing IoT market and ecosystem in which it operates; the volatility in prices achieved by historic capital raises, it being a private company investment; and the track record of the Company achieving its forecast performance. The Directors reviewed all the available information to date including Thinxtra's audited financial statements, current capital raise activity and other shareholder communications.

Valuation methodology and key inputs

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

Valuation Technique	*Indicative View*	*Probability Assigned*
A: Discounted cash flow (discount rate 20.5%)	Likely	40%
B: Last successful capital raise, March 2019 which raised A$5m at A$3 per share	Likely	30%
C: Replacement cost of assets	Likely	30%

The valuation was based on Rakon having an 11% shareholding which assumed all existing share options were exercised and all shares were issued under the capital raise offer that was open.

The resultant valuation was between A$4.83 and A$6.11 per share with a value of A$5.47 adopted in the 30 September 2019 financial statements. The NZD movement in carrying value between March 2019 and September 2019 is due to changes in the NZD/AUD exchange rate.

Sensitivities on key inputs

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

Scenario	*Assumptions changes*	Valuation NZ$	change
a) Base case valuation	base case	4.7	
b) Discounted cash flow	Cash flow is 50% lower than forecast	3.5	(1.2)
c) Discounted cash flow	Discount rate is 10% higher	3.1	(1.6)
d) Replacement cost	Replacement cost is 50% lower	3.9	(0.8)

Sensitivities on probability weightings assigned

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

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

Valuation Technique	**Base case**	**Alternate case**	**change in valn NZ$m**
A: Discounted cash flow	40%	30%	
B: Last capital raise April 2019	30%	50%	
C: Replacement cost	30%	20%	
	100%	100%	
Valuation NZ$	4.7	4.1	(0.6)

B5. Interests in associates and joint venture

B5 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.

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

B5 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 2019**	**Unaudited six months ended 30 September 2018**	**Audited year ended 31 March 2019**
Chengdu Timemaker Crystal Technology Co. Ltd [1]	Associate	China	40%	40%	40%
Shenzhen Taixiang Wafer Co. Ltd [1]	Associate	China	40%	40%	40%

	Net investment			Equity accounted profits/(losses)		
	Unaudited six months ended 30 September 2019 $000s	Unaudited six months ended 30 September 2018 $000s	Audited year ended 31 March 2019 $000s	Unaudited six months ended 30 September 2019 $000s	Unaudited six months ended 30 September 2018 $000s	Audited year ended 31 March 2019 $000s
Chengdu Timemaker Crystal Technology Co. Limited [1]	10,917	9,531	9,974			
Shenzhen Taixiang Wafer Co. Limited [1]	439	423	425			
Total Timemaker Group	11,356	9,954	10,399	753	781	1,050
Thinxtra Pty Limited [3]	-	-	-	-	(287)	(287)
Total carrying amount of associates	**11,356**	**9,954**	**10,399**	**753**	**494**	**763**
Centum Rakon India Private Limited [2]	-	-	-	-	76	76
Total carrying amount of equity accounted associates and joint venture	**11,356**	**9,954**	**10,399**	**753**	**570**	**839**

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

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

[3] Due to loss of significant influence, on 1 June 2018, the investment in Thinxtra Pty Limited ('Thinxtra') was reclassified as a financial asset at fair value through other comprehensive income, refer note B4.

B6. Contingencies

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

B7. Events after reporting date

The final payment of US$1.375m in relation to the acquisition of the remaining 51% of Centum Rakon India Private Limited, a previously held joint venture was made in October 2019. Refer note B6 in the 31 March 2019 audited consolidated financial statements.

There have been no other subsequent events after 30 September 2019.

B8. 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 Listing Rules.

These consolidated interim financial statements for the half-year reporting period ended 30 September 2019 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, in particular IAS 34 Interim Financial Reporting. 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 available-for-sale financial assets, financial assets and liabilities (including derivative instruments) – 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. 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 2019 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 2019 except for the adoption of new and amended standards as set out below.

B8 a) New and amended standards adopted by the Group

NZ IFRS 16 Leases

The Group leases various properties, equipment and cars. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants, but leased assets may not be used as security for borrowing purposes. Until 31 March 2019, leases of property, plant and equipment were classified as either finance or operating leases.

The Group has adopted IFRS 16 retrospectively from 1 April 2019, but has not restated comparatives for the 31 March 2019 reporting period, as permitted under the specific transitional provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening balance sheet on 1 April 2019.

Adjustments recognised on adoption of IFRS 16

On adoption of IFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as operating leases under the principles of IAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 April 2019, and which ranged between 4.32% and 6.88%. The Group has chosen the option to measure the right-of-use asset at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments recognized immediately before the date of initial application.

Lease liability recognised as at 1 April 2019

	2019 $000s
Operating lease commitments disclosed as at 31 March 2019	10,382
Discounted using the Group's borrowing rate at the date of initial application	10,213

	At 1 April 2019 $000s	Unaudited six months ended 30 September 2019 $000s
Represented by		
Current lease liability	2,415	2,530
Non-current lease liability	7,798	6,151
Total lease liability	**10,213**	**8,681**

The recognised right-of-use assets relate to the following types of assets

	At 1 April 2019 $000s	Unaudited six months ended 30 September 2019 $000s
Properties	8,829	7,819
Equipment	1,073	865
Motor vehicle	311	233
Total right-of-use assets	**10,213**	**8,917**

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

- Right-of-use assets: increase by $10,213,000
- Prepayments: decrease by $536,000
- Borrowings: decrease by $617,000
- Lease liabilities: increase by $10,213,000

The net impact on retained earnings on 1 April 2019 was an increase of $122,000.

The Underlying EBITDA, segment assets and segment liabilities for September 2019 all increased as a result of the change in accounting policy which are detailed below.

	Adjusted Underlying EBITDA $000s	Segment assets $000s	Segment liabilities $000s
NZ	874	5,826	5,617
UK	77	866	860
France	453	1,840	1,821
India	85	235	234
Other	57	150	149
	1,546	**8,917**	**8,681**

In applying IFRS 16 for the first time, the Group has used the following practical expedients permitted by the standard:

- the use of a single discount rate to a portfolio of leases with reasonably similar characteristics
- reliance on previous assessments on whether leases are onerous
- the accounting for operating leases with a remaining lease term of less than 12 months as at 1 April 2019 as short-term leases
- the exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application, and
- the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

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

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