Rakon Limited

ANNUAL REPORT 2021

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Directors' Statement

The Directors are responsible for ensuring that the financial statements fairly present the financial position of the Group as at 31 March 2021 (FY2021) and the financial performance and cash flows for the year ended on that date.

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

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

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

The Directors present the financial statements, set out in pages 4 – 38, of Rakon Limited and subsidiaries for the year ended 31 March 2021.

The Board of Directors of Rakon Limited authorised these financial statements for issue on 27 May 2021.

On behalf of the Directors

BR Irvine	BJ Robinson
Chair	CEO, Managing Director

Statement of Comprehensive Income

For the year ended 31 March 2021

	Note	2021 $000s	2020 $000s
Continuing operations			
Revenue	6	128,260	118,980
Cost of sales		(69,344)	(66,947)
Gross profit		**58,916**	**52,033**
Other operating income	8	2,604	28
Operating expenses			
Selling and marketing		(9,441)	(9,585)
Research and development	7	(13,644)	(12,842)
General and administration		(25,936)	(25,654)
Total operating expenses		**(49,021)**	**(48,081)**
Other (losses)/gains – net	9	(1,181)	(438)
Operating profit		**11,318**	**3,542**
Finance income	10	29	8
Finance costs	10	(1,628)	(1,063)
Share of net profits of associates	17	1,446	797
Profit before income tax		**11,165**	**3,284**
Income tax (expense)/credit	22	(1,527)	696
Net profit after tax for the year attributable to equity holders of the Company		**9,638**	**3,980**
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss			
Decrease in fair value cash flow hedges		9,906	(7,247)
Cost of hedging		(105)	570
Exchange differences on translation of foreign operations		(4,826)	4,140
Income tax relating to components of other comprehensive income		(2,745)	2,029
Items that will not be reclassified subsequently to profit or loss			
Changes in fair value of equity investments – Thinxtra		203	(1,632)
Other comprehensive income for the year, net of tax		**2,433**	**(2,140)**
Total comprehensive income for the year attributable to equity holders of the Company		**12,071**	**1,840**
Earnings per share attributable to the equity holders of the Company		**Cents**	**Cents**
Basic earnings per share	24	4.2	1.8
Diluted earnings per share	24	4.2	1.8

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

Statement of Changes in Equity

For the year ended 31 March 2021

	Note	Share capital $000s	Retained earnings $000s	Other reserves $000s	Total equity $000s
Balance at 31 March 2019		**181,024**	**(69,855)**	**(21,153)**	**90,016**
Net profit after tax for the year		-	3,980	-	3,980
Currency translation differences	25	-	-	4,140	4,140
Cash flow hedges, net of tax	25	-	-	(4,648)	(4,648)
Changes in fair value of equity investments at fair value through other comprehensive income – Thinxtra	25	-	-	(1,632)	(1,632)
Total comprehensive income for the year		**-**	**3,980**	**(2,140)**	**1,840**
Balance at 31 March 2020		**181,024**	**(65,875)**	**(23,293)**	**91,856**
Net profit after tax for the year		-	9,638	-	9,638
Currency translation differences	25	-	-	(4,826)	(4,826)
Cash flow hedges, net of tax	25	-	-	7,056	7,056
Changes in fair value of equity investments at fair value through other comprehensive income – Thinxtra	25	-	-	203	203
Total comprehensive income for the year		**-**	**9,638**	**2,433**	**12,071**
Balance at 31 March 2021		**181,024**	**(56,237)**	**(20,860)**	**103,927**

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

Balance Sheet

As at 31 March 2021

	Note	2021 $000s	2020 $000s
Assets			
Current assets			
Cash and cash equivalents	11	15,073	5,086
Trade and other receivables	12	38,906	42,379
Inventories	13	37,699	37,624
Derivative financial instruments	26	2,521	27
Financial asset at fair value through profit or loss	26	333	2
Current income tax asset		478	889
Total current assets		**95,010**	**86,007**
Non-current assets			
Property, plant and equipment	14	18,296	18,924
Intangible assets	15	7,584	9,003
Right-of-use assets	16	7,195	9,730
Interest in associates	17	12,333	11,714
Trade and other receivables	12	3,843	2,702
Financial asset at fair value through other comprehensive income – Thinxtra	18	3,120	2,918
Derivative financial instruments	26	587	-
Deferred tax asset	22	6,398	9,246
Total non-current assets		**59,356**	**64,237**
Total assets		**154,366**	**150,244**
Liabilities			
Current liabilities			
Bank overdraft	19	3,599	12,848
Borrowings	19	6,433	145
Trade and other payables	20	26,026	22,252
Lease liabilities	16	2,272	2,741
Deferred income	12	2,806	2,000
Provisions	21	330	714
Derivative financial instruments	26	29	5,040
Total current liabilities		**41,495**	**45,740**
Non-current liabilities			
Provisions	21	3,134	2,918
Lease liabilities	16	5,418	6,704
Derivative financial instruments	26	260	2,840
Deferred tax liabilities	22	132	186
Total non-current liabilities		**8,944**	**12,648**
Total liabilities		**50,439**	**58,388**
Net assets		**103,927**	**91,856**
Equity			
Share capital	23	181,024	181,024
Other reserves	25	(20,860)	(23,293)
Accumulated losses		(56,237)	(65,875)
Total equity		**103,927**	**91,856**

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

Statement of Cash Flows

For the year ended 31 March 2021

	Note	2021 $000s	2020 $000s
Operating activities			
Cash provided from			
Receipts from customers		123,876	116,396
Advance from customers		2,806	-
R&D grants received		1,812	1,557
Covid-19 government assistance		2,517	-
Interest received		23	36
		131,034	**117,989**
Cash was applied to			
Payment to suppliers and others		(59,087)	(58,364)
Payment to employees		(50,060)	(48,860)
Interest paid		(534)	(918)
Income tax paid		(1,294)	(446)
		(110,975)	**(108,588)**
Net cash inflow from operating activities		**20,059**	**9,401**
Investing activities			
Cash was provided from			
Sale of property, plant and equipment		-	44
		-	**44**
Cash was applied to			
Purchase of property, plant and equipment		(4,194)	(3,753)
Purchase of intangibles		(882)	(774)
Purchase of shares in Centum Rakon India Private Limited		-	(2,148)
		(5,076)	**(6,675)**
Net cash outflow from investing activities		**(5,076)**	**(6,631)**
Financing activities			
Cash was provided from			
Proceeds from borrowings		6,450	-
		6,450	**-**
Cash was applied to			
Lease liabilities payments		(2,962)	(3,078)
Cash was applied to financing activities		**(2,962)**	**(3,078)**
Net cash inflow from financing activities		**3,488**	**(3,078)**
Net increase/(decrease) in cash and cash equivalents		**18,471**	**(308)**
Effects of exchange rate changes on cash and cash equivalents		765	(672)
Cash and cash equivalents at the beginning of the year		(7,762)	(6,782)
Cash and cash equivalents at the end of the period		**11,474**	**(7,762)**
Composition of cash and cash equivalents			
Cash and cash equivalents	11	15,073	5,086
Bank overdraft	19	(3,599)	(12,848)
Total cash and cash equivalents		**11,474**	**(7,762)**

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

Statement of Cash Flows (continued)

For the year ended 31 March 2021

	2021 $000s	2020 $000s
Reconciliation of net profit to net cash flows from operating activities		
Reported net profit after tax	**9,638**	**3,980**
Adjustments for		
Depreciation and amortisation expense	8,692	8,823
Net increase in allowance for expected credit loss	73	4
Interest expenses	17	164
Provisions provided	(338)	415
Movement in foreign currency	(961)	1,608
Share of net profits of associate	(1,446)	(797)
Deferred tax movement	(67)	(919)
	5,970	**9,298**
Change in operating assets and liabilities		
Decrease/(increase) in trade and other receivables	1,498	(4,594)
(Increase)/decrease in inventories	(1,870)	3,020
(Decrease)/increase in provisions	(168)	171
Increase/(decrease) in trade and other payables	4,528	(2,146)
Decrease/(increase) in tax provisions	463	(328)
Total impact of changes in working capital items	**4,451**	**(3,877)**
Net cash flow from operating activities	**20,059**	**9,401**

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

Notes to the Financial Statements

1. General information

Rakon Limited ('the Company') and its subsidiaries ('the Group') are a global technology company that design and manufacture advanced frequency control and timing solutions for a wide range of applications. Rakon's core markets are Telecommunications, Space & Defence, and Global Positioning. The Company is a limited liability company, incorporated and domiciled in New Zealand, and listed on the New Zealand Stock Exchange (NZX code: RAK). The address of the registered office is 8 Sylvia Park Road, Mt Wellington, Auckland.

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

2. Impact of Covid-19

At the start of the 2021 financial year the impact of Covid-19 on the Group was initially severe with the New Zealand, French and Indian operations curtailed due to government-imposed restrictions. After the initial period of restrictions, the operations were able to return to normal capacity with additional operating procedures in place. Demand from the telecommunications infrastructure segment continued at high levels as the need for reliable remote communications and higher network capacities became evident.

There remains a heightened level of uncertainty given the continued presence of Covid-19. The risks and uncertainties faced by the Group relate to (and are not limited to):

- The impact of wider global economic pressures and shift in market dynamics
- A potential outbreak at one of the Group's production facilities, significantly affecting site access, production and sales
- Supply chain disruptions

However, the management continuously monitors these risks and plans accordingly to reduce the impact of these on the Group.

3. Going concern

These financial statements have been prepared on a going concern basis. The Directors are not aware of material uncertainties related to events or conditions that may cast significant doubt upon the entity's ability to continue as a going concern. In making this assessment management and the Directors considered factors including the current profitability of the Group, the potential future impact of Covid-19, and the availability of short term funding, refer note 32.

4. Statement of significant accounting policies

a. Basis of preparation and measurement base

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

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

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

The operating expenses previously disclosed in the notes to the financial statements have been re-presented in the Statement of Comprehensive Income to ensure consistency with the current year disclosures and to provide more meaningful comparison.

b. Basis of consolidation and equity accounting

The financial statements of the subsidiaries are included in the Group's financial statements from the date on which control commences until the date on which control ceases, refer note 28 or further information on subsidiaries. All material intercompany transactions, balances and unrealised gains on transactions between the subsidiaries are eliminated on consolidation. Interests in associates and joint ventures are accounted for by using the equity method, refer note 17.

c. Significant accounting estimates and judgements

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

- Calculation of inventory obsolescence (note 13)
- Valuation and estimated useful lives of product development assets (note 15)

- Valuation of the Group's investment in Thinxtra (note 18)
- Identification of reportable segment

Impairment of assets, calculations of right-of-use of assets and lease liabilities, estimation of year-end income tax and deferred tax, and estimation of contingent liabilities are no longer considered to be significant accounting estimates and judgement, given the impact of these on the current financial result.

d. Significant accounting policies and new accounting standards

The significant accounting policies adopted in the preparation of these consolidated financial statements are disclosed within each of the applicable notes to the financial statements. The accounting policies have been consistently applied to all years presented with exception of the following new accounting standards.

Covid-19 Related Rent Concessions – Amendment to NZ IFRS 16 Leases

In June 2020, the New Zealand Accounting Standards Board provided a practical expedient to NZ IFRS 16 Leases. The expedient allows optional relief from applying NZ IFRS 16's guidance on lease modification accounting for rent concessions that occur as a direct consequence of the Covid-19 pandemic and meet specified conditions. The Group has elected to adopt the expedient for all rent concessions that meet the conditions of NZ IFRS 16 Leases.

The Group recorded $83,000 relating to rent concessions in the Statement of Comprehensive Income for which practical expedient applied.

e. New standards and interpretations not yet adopted

There are no new accounting standards issued that would have a material impact on the Group.

f. Foreign currency translation

Functional and presentation currency

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

Transactions and balances

Foreign currency transactions are translated into the relevant functional currency of the Group's overseas operations at the exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at balance date are translated to the functional currency at the foreign exchange rate at that date. Foreign exchange differences arising on translation are recognised in the Statement of Comprehensive Income, except for qualifying cash flow hedges which are recognised in other comprehensive income (OCI). Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated at foreign exchange rates at the dates the fair value was determined.

The assets and liabilities of all Group companies that have a functional currency that differs from the Group's presentation currency, including goodwill and fair value adjustments arising on consolidation, are translated to New Zealand dollars at foreign exchange rates at balance date. The revenues and expenses of these foreign operations are translated to New Zealand dollars at rates approximating to the foreign exchange rates at the dates of the transactions. Exchange differences arising from the translation of foreign operations are recognised in the foreign currency translation reserve, refer note 25.

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

5. Segment information

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Managing Director, Sales and Marketing Director, Chief Operating Officer and Chief Financial Officer. The determination of reportable segments is a significant judgement. The chief decision maker uses a number of reports to make informed decisions on resource allocation. These include elements of and/or combination of: business unit reporting; geographical segment reporting; product profitability reporting; and customer profitability reporting.

The chief operating decision maker also assess the performance of the operating segments based on a non-GAAP measure of 'Underlying EBITDA' defined as: 'Earnings before interest, tax, depreciation, amortisation, impairment, employee share schemes, non-controlling interests, adjustments for associate's share of interest, tax & depreciation, loss on disposal of assets and other cash and non-cash items (Underlying EBITDA)'.

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

Except for Underlying EBITDA, other information provided to the chief operating decision maker is measured in a manner consistent with GAAP. This measure should not be viewed in isolation, nor considered as a substitute for measures reported in accordance with NZ IFRS. This non-GAAP financial measure may not be comparable to similarly titled amounts reported by other companies.

a. Segment results

Information relating to each reportable segment is set out below. Segment revenue information is disclosed in note 6.

31 March 2021

	NZ $000s	UK $000s	France $000s	India $000s	China – T'maker $000s	Other $000s	Total $000s
Underlying EBITDA	15,862	2,099	(4,260)	6,291	3,289	203	23,484
Total assets[1]	81,488	2,886	34,103	21,528	12,333	2,028	154,366
Interest in associate	-	-	-	-	12,333	-	12,333
Additions of property, plant and equipment, and intangibles	4,027	78	470	501	-	-	5,076
Total liabilities[2]	24,828	1,503	18,518	4,540	-	1,050	50,439

31 March 2020

	NZ $000s	UK $000s	France $000s	India $000s	China – T'maker $000s	Other $000s	Total $000s
Underlying EBITDA	9,634	1,813	(1,690)	3,169	2,214	(353)	14,787
Total assets[1]	71,021	3,130	36,364	25,341	11,714	2,674	150,244
Interest in associate	-	-	-	-	11,714	-	11,714
Additions of property, plant and equipment, and intangibles	2,587	480	635	920	-	-	4,622
Total liabilities[2]	36,131	1,385	12,426	7,544	-	902	58,388

[1] 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.

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

b. Segment description and principal activities

The New Zealand (NZ) operations manufactures products for Telecommunications, Global Positioning and Space & Defence markets. The facility also contains a highly experienced design team and continues to develop products and process innovations used in other operations.

Rakon's Harlow design centre (UK) provides support to the Group with precision research and development (R&D) and design for high end products.

France designs high precision and high reliability frequency solutions for Telecommunications, Space & Defence applications. The telecommunications products are manufactured in India and the space & defence solutions manufactured in France.

Rakon's India facility in Bengaluru is engaged in the contract manufacturing of telecommunications products that are sold by Rakon France (France-Telco) and the design and manufacturing of high performance frequency control products for the local Indian, defence, aeronautics and space markets.

The Timemaker Group (China T'maker) produces crystal blanks and represents the Group's 40% ownership interest, refer note 17.

Other - Includes investments in subsidiaries, Rakon Financial Services Limited, Rakon UK Holdings Limited, and Rakon Investment HK Limited.

c. Reconciliation of Underlying EBITDA to net profit after tax for the year

Continuing operations	Note	2021 $000s	2020 $000s
Underlying EBITDA		**23,484**	**14,787**
Depreciation and amortisation	7	(8,692)	(8,823)
Finance costs – net	10	(1,599)	(1,055)
Adjustment for associate share of interest, tax and depreciation		(1,848)	(1,447)
Other non-cash items		(180)	(178)
Profit before income tax		**11,165**	**3,284**
Income tax (expense)/ credit	22	(1,527)	696
Net profit after tax for the year		**9,638**	**3,980**

6. Revenue

The Group designs, manufactures and sells frequency control solutions for a wide range of applications. Revenue is derived from the transfer of goods over time and at a point in time. Arrangements are agreed with the customers, set out in the terms and conditions which cover, the pricing, settlement of liabilities, return policies and any other negotiated performance obligations.

Sale of goods – at a point in time

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

A receivable is recognised based on the delivery terms of the products as this is the point in time when the consideration is unconditional.

Products and services transferred over time – Space & Defence segment in France

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

In case of fixed price contracts, payments are received from the customer based on an agreed payment schedule. A contract liability is recognised when the payments exceed estimated work completed, and contract asset when estimated work completed exceeds payments.

a. Revenue by segment

FY2021	NZ $000s	France $000s	India $000s	Other $000s	Total $000s
Sales to external customers	**76,056**	**49,091**	**3,113**	**-**	**128,260**
Inter-segment sales	419	16	29,882	(112)	30,205
Segment revenue	**76,475**	**49,107**	**32,995**	**(112)**	**158,465**
Products transferred at a point in time	76,056	45,648	3,113	-	124,817
Products and services transferred over time	-	3,443	-	-	3,443
Sales to external customers	**76,056**	**49,091**	**3,113**	**-**	**128,260**

FY2020	NZ $000s	France $000s	India $000s	Other $000s	Total $000s
Sales to external customers	**70,382**	**45,764**	**2,834**	**-**	**118,980**
Inter-segment sales	499	-	21,923	(117)	22,305
Segment revenue	**70,881**	**45,764**	**24,757**	**(117)**	**141,285**
Products transferred at a point in time	70,382	42,816	2,834	-	116,032
Products and services transferred over time	-	2,948	-	-	2,948
Sales to external customers	**70,382**	**45,764**	**2,834**	**-**	**118,980**

b. Group revenue analysis

Market segment

The Group's products are used in the Telecommunications, Global Positioning, and Space & Defence markets.

	2021 $000s	2020 $000s
Telecommunications	77,103	65,167
Global Positioning	13,974	18,915
Space and Defence	30,203	28,230
Other	6,980	6,668
Total revenue by market segment	**128,260**	**118,980**

Geographical segment

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

	2021 $000s	2020 $000s
Asia	69,950	60,474
North America	29,035	26,959
Europe	26,970	29,073
Others	2,305	2,474
Total revenue by geographical segment	**128,260**	**118,980**

c. Assets and liabilities related to contract customers

	2021 $000s	2020 $000s
Total current contract assets	3,051	950
Total current contract liabilities	(1,573)	(392)
	1,478	**558**

Customer contracts liabilities are payments received in advance for subsequent delivery of services and goods to the customers. $392,000 recognised as customer contract liabilities in the prior year, was recognised as revenue in the year ended 31 March 2021. The remaining performance obligations at 31 March 2021 have an expected duration of less than a year.

The performance obligation of the products and services transferred over time which were in progress at 31 March 2020 were completed during the year. The remaining performance obligations at 31 March 2021 have an expected duration of less than a year.

7. Expenditure included in net profit

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

a. Breakdown of significant expenses by nature

	2021 $000s	2020 $000s
Employee benefit expenses		
Wages and salaries	46,292	45,253
One-off redundancy costs	1,092	-
Contributions to defined plans	671	666
Increase in liability for French retirement indemnity plan (note 21)	200	220
Increase in liability for long service leave (note 21)	150	179
Total employee benefit expenses	**48,405**	**46,318**
Depreciation on property, plant and equipment (note 14)	3,952	3,925
Amortisation on intangible assets (note 15)	2,064	2,200
Depreciation on right-of-use assets (note 16)	2,676	2,698
Total depreciation and amortisation	**8,692**	**8,823**
Research and development		
Research and development expenses	16,012	14,999
Research and development government grant	(939)	(961)
Research and development tax credit	(1,429)	(1,196)
Net research and development expense	**13,644**	**12,842**

	2021 $000s	2020 $000s
Fees to the auditors		
Audit and review of financial statements		
PwC	577	596
BDO Limited (Hong Kong) [1]	11	16
T S Tay Public Accounting Corporation (Singapore) [1]	9	9
Morison (Mauritius) [1]	4	5
MHA MacIntyre Hundson (UK) [1]	35	-
Total audit and review fees	**636**	**626**
Assurance and audit related services		
Performed by PwC France		
Certification of expenditure for the purposes of the European Union subsidy for community projects	8	-
Certification of expenditure on R&D activities	-	5
Total assurance and audit related services	**8**	**5**
Other services		
Performed by PwC New Zealand		
Other services [2]	14	26
Performed by PwC India		
Research and development expenses review	-	2
Total other services fees	**14**	**28**
Total fees paid to auditors	**658**	**659**

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

[2] Other assurance services comprised provision of treasury related financial markets risk analysis and commentary, and market data relating to executive remuneration. The treasury related service was terminated effective 31 December 2020.

Employee benefits expenses

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

Superannuation schemes

The Group's New Zealand and overseas operations participate in their respective government superannuation schemes. Where 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 contributions are recognised as an employee benefit expense when they are due.

Redundancy

Part of the Group's strategic plan involves a realignment of global resources and resulted in redundancies in some business units and the creation of new positions in others. Once the strategy is fully implemented, the net change in staff is not expected to be significant.

Research and development

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

Grants and tax credits from governments are recognised at their fair value. The research and development grants and tax credits are recognised in trade and other receivables (note 12), and in the Statement of Comprehensive Income. Government grants are offset against the related expenses over the periods in which those costs are recognised.

8. Other operating income

	2021 $000s	2020 $000s
Other income	260	28
Covid-19 government assistance [1]	2,344	-
Total other operating income	**2,604**	**28**

[1] Eligible New Zealand wage subsidy, the UK Government funded furlough, and French Government assistance.

9. Other (losses)/gains – net

	2021 $000s	2020 $000s
(Loss)/gain on disposal of property, plant and equipment, and intangible assets	(24)	33
Foreign exchange (losses)/gains – net		
Forward foreign exchange contracts		
Financial asset at fair value through profit or loss	304	(29)
Revaluation of foreign denominated monetary assets and liabilities [1]	(1,461)	(442)
Total foreign exchange (losses) – net	**(1,157)**	**(471)**
Total other (losses) – net	**(1,181)**	**(438)**

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

10. Net finance (costs)/income

Interest income and costs are recognised in the Statement of Comprehensive Income as it accrues, using the effective interest rate applicable.

	2021 $000s	2020 $000s
Finance income		
Interest income	29	8
Finance costs		
Interest expense on bank borrowings	(534)	(899)
Interest on deferred consideration on acquisition – Rakon India	-	(53)
Unwinding of lease make good provision	(17)	(16)
Interest on lease liabilities (note 16)	(1,077)	(95)
Total finance costs	(1,628)	(1,063)
Net finance costs	**(1,599)**	**(1,055)**

Overdraft interest rate

The average interest rate was as follows. Additional information on borrowings is presented in note 19.

- ASB facility in New Zealand 5.33% (2020: 6.53%)
- State Bank of India facility 9.15% (2020: 10.55%)
- Crédit Agricole Provence Côte D’Azur facility in France 0.25% (2020: nil)

11. Cash and cash equivalents

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

	2021	2020
	$000s	$000s
Cash at bank and on hand	15,073	5,086

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

Cash and cash equivalents	15,073	5,086
Bank overdrafts (note 19)	(3,599)	(12,848)
	11,474	**(7,762)**

12. Trade and other receivables

Trade and other receivables are recognised initially at the amount of consideration that is unconditional and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

a. Trade and other receivables balances

	2021	2020
	$000s	$000s
Trade receivables	31,378	35,083
Less: allowance for expected credit loss	(690)	(763)
Net trade receivables	30,688	34,320
Prepayments	953	987
GST/VAT receivable	1,085	1,406
Receivables from related parties (note 29)	266	201
Other receivables [1]	9,757	8,167
Total trade and other receivables	**42,749**	**45,081**
Less non-current other receivables [1]	3,843	2,702
Current trade and other receivables	**38,906**	**42,379**

[1] Other receivables includes research and development related tax credits and government grants. In 2020, this also included the Covid-19 government wage subsidies ($2.0m) with a corresponding deferred income also recorded. The wage subsidy was received in the current year and recorded in the Statement of Comprehensive Income, refer note 8.

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

During the year an advance of US$2.0m was received from a customer for future supply of products. A corresponding deferred income was recorded.

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

The trade receivables balances included $8,700,000 (2020: $6,700,000) representing 28.0% (2020: 19.7%) due from the Group's three largest customers. The balances due from these customers are current and are considered a low credit risk to the Group.

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

b. Allowance for expected credit loss

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

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

The loss allowance was determined as follows.

	Current	Less than 30 days past due	30 days to 180 days past due	More than 180 days past due	Total
	$000s	$000s	$000s	$000s	$000s
As at 31 March 2021					
Gross carrying amount of trade receivables	25,947	3,428	1,500	503	31,378
Expected loss rate	1.0%	2.3%	16.9%	20.0%	
Allowance for the expected credit loss	**257**	**79**	**253**	**101**	**690**
As at 31 March 2020					
Gross carrying amount of trade receivables	29,272	4,338	1,134	339	35,083
Expected loss rate	1.3%	2.6%	16.9%	20.0%	
Allowance for the expected credit loss	**390**	**113**	**192**	**68**	**763**

The reconciliation of the loss allowance is as follows.

	2021	2020
	$000s	$000s
Opening balance	763	816
Increase in allowance recognised in profit or loss during the year	220	4
Receivables written off during the year	(247)	-
Unused amount reversed	-	(77)
Foreign exchange difference	(46)	20
Allowance for expected credit loss as at 31 March 2021	**690**	**763**

Trade receivables are written-off where all reasonable effort to collect the overdues have been exhausted. Indicators that there is no expectation of recovery include failure of an overdue debtor to engage in an agreed repayment plan.

13. Inventories

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

a. Inventory classification and balances

	2021	2020
	$000s	$000s
Raw materials	12,487	13,042
Work in progress	17,960	19,016
Finished goods	7,252	5,566
Total inventories	**37,699**	**37,624**

b. Obsolescence

An inventory obsolescence provision of $7,970,000 (2020: $8,713,000) is included in the inventory balances above. The carrying value of inventory items were reviewed in detail with adjustments to provisions made on an item-by-item basis.

Significant judgements made in determining the provision include:

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

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

During the year inventory of $2,466,000 (2020: $1,437,000) was scrapped.

14. Property, plant and equipment

Property, plant and equipment are stated at cost, less accumulated depreciation and impairment losses.

a. Cost

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

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

	Land and buildings $000s	Leasehold improvements $000s	Plant and equipment $000s	Computer hardware $000s	Other $000s	Assets under construction $000s	Total $000s
At 31 March 2019							
Cost	4,883	8,479	86,601	5,751	2,596	4,270	112,580
Accumulated depreciation & impairment	(4,358)	(6,204)	(75,595)	(4,926)	(2,077)	(26)	(93,186)
Net book value	**525**	**2,275**	**11,006**	**825**	**519**	**4,244**	**19,394**
Year ended 31 March 2020							
Opening net book value	525	2,275	11,006	825	519	4,244	19,394
Foreign exchange differences	141	139	288	34	37	22	661
Additions	10	137	1,985	321	31	1,304	3,788
Disposals	-	-	(82)	(146)	(10)	(49)	(287)
Depreciation charge	(57)	(463)	(2,992)	(346)	(67)	-	(3,925)
Depreciation reversal on disposals	-	-	71	146	1	-	218
Transfers	811	43	617	29	-	(1,500)	-
Transfers to intangible assets	-	-	-	-	-	(925)	(925)
Closing net book amounts	**1,430**	**2,131**	**10,893**	**863**	**511**	**3,096**	**18,924**
At 31 March 2020							
Cost	5,845	8,798	89,409	5,989	2,654	3,122	115,817
Accumulated depreciation & impairment	(4,415)	(6,667)	(78,516)	(5,126)	(2,143)	(26)	(96,893)
Net book value	**1,430**	**2,131**	**10,893**	**863**	**511**	**3,096**	**18,924**
Year ended 31 March 2021							
Opening net book value	1,430	2,131	10,893	863	511	3,096	18,924
Foreign exchange differences	(126)	(145)	(497)	(30)	(38)	(31)	(867)
Additions	7	32	2,768	570	41	776	4,194
Disposals	-	-	(123)	(600)	(12)	-	(735)
Depreciation charge	(68)	(386)	(3,012)	(429)	(57)	-	(3,952)
Depreciation reversal on disposals	-	-	122	598	12	-	732
Transfers	-	-	2,089	28	-	(2,117)	-
Closing net book amounts	**1,243**	**1,632**	**12,240**	**1,000**	**457**	**1,724**	**18,296**
At 31 March 2021							
Cost	5,726	8,685	93,646	5,957	2,645	1,750	118,409
Accumulated depreciation & impairment	(4,483)	(7,053)	(81,406)	(4,957)	(2,188)	(26)	(100,113)
Net book value	**1,243**	**1,632**	**12,240**	**1,000**	**457**	**1,724**	**18,296**

b. Depreciation methods and useful lives

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

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

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

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

15. Intangible assets

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

a. Cost

Identifiable intangible assets that are acquired or developed 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.

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

	Goodwill $000s	Patents $000s	Software $000s	Product development $000s	Assets under construction $000s	Total $000s
Year ended 31 March 2021						
Opening net book value	1,294	535	602	5,646	926	9,003
Foreign exchange differences	-	(25)	(27)	(175)	-	(227)
Additions – acquired separately	-	-	371	246	265	882
Disposals	-	-	(54)	-	(12)	(66)
Amortisation charge	-	-	(462)	(1,602)	-	(2,064)
Amortisation reversal on disposals	-	-	56	-	-	56
Transfers	-	-	33	117	(150)	-
Closing net book amounts	**1,294**	**510**	**519**	**4,232**	**1,029**	**7,584**
At 31 March 2021						
Cost	3,140	2,952	9,793	15,003	1,029	31,917
Accumulated amortisation & impairment	(1,846)	(2,442)	(9,274)	(10,771)	-	(24,333)
Net book value	**1,294**	**510**	**519**	**4,232**	**1,029**	**7,584**

b. Product development

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

Total capitalised development costs are $5.0m (2020: $6.1m) at balance date, made up of product development assets and assets under construction. During the year, specific product development projects and projects in progress were reviewed for recoverability based on the expected cash flows to be generated by the projects. The expected cash flows supported the carrying values and no impairment was recorded.

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

c. Amortisation and useful lives

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

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

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

Goodwill is attributed to business units acquired through business combination and represents the excess of the acquisition cost over the fair value of the acquired net assets. Goodwill is allocated to cash-generating units (CGU) and is, tested annually for impairment, or more frequently if there is an impairment indicator. The business units are determined to be the CGUs of the Group.

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

Impairment tests for CGUs within the Group

The carrying amounts of the Group's other non-financial assets are reviewed at each balance date to determine whether there is any indication of impairment. If an indicator of impairment exists, the asset's or CGU's recoverable amount is estimated being the higher of an asset's fair value less costs to sell and the asset's value in use (VIU). An impairment loss is recognised whenever the carrying amount of an asset or its CGU exceeds its recoverable amount. Impairment losses are recognised in the Statement of Comprehensive Income. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to CGUs and then, to reduce the carrying amount of the other assets in the unit on a pro rata basis. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised. Accumulated impairment losses on goodwill are not reversed.

As at 31 March 2021, the Group concluded that there were no indicators of impairment relating to the New Zealand, France, India and China CGU. In the prior year, the Group concluded that indicators of impairment existed. In making this assessment management and the Directors considered factors including the current profitability of the Group, the market capitalisation value of the Company in comparison to the Group's net asset value and the impact of Covid-19 on the Group's operations (note 2).

Goodwill

The Directors have undertaken an impairment review and have concluded that the goodwill is not impaired based on the current and future expected trading performance of Rakon India. The recoverable amount for Rakon India is estimated to be $21.0m (2020: $21.0m) calculated on a VIU basis which exceeds the carrying amount of the CGU at balance date by $5.0m (2020: $2.1m). The calculation uses cash flow forecasts approved by the Board of Directors covering a five-year period. Cash flows beyond the five year period are extrapolated using estimated terminal growth rate which is consistent with the long term average growth rate observed by the Group. Based on the assumptions below no impairment of goodwill has been recognised in the Statement of Comprehensive Income.

The forecasts used in impairment testing require assumptions and judgements about the future which are inherently uncertain. Key assumptions are those to which the model is most sensitive to. No reasonable adverse changes in the key assumptions would result in the carrying amount to exceed the recoverable value.

Key assumptions used in the VIU calculation

CGU	Assumption	Range	5 Year CAGR
India	Annual sales growth rate[1]	5% to 13%	19.3%
	Gross margin %[2]	27% to 31%	n/a

[1] Sales growth – the management has forecasted sales to grow over the period of the cash flow projection, due to a combination of factors including industry forecasts for the key market segments in which Rakon India operates, future product innovation and estimations of its own share of the market reflective of the quality of its product range and technology advantages.

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

Growth Rate and Discount Rate

The pre-tax discount rate used of 22.6% (2020: 22.7%). The terminal value within the VIU assessment has been calculated using a terminal growth rate assumption of 2.5% (2020: 3.5%).

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 leases do not impose any covenants, and leased assets are not used as security for borrowings. The Group adopted NZ IFRS 16 Leases from 1 April 2019, using the modified retrospective transition method, with no restatement of prior periods. This new standard recognises on-balance sheet accounting for leases. Right-of-use assets are recognised representing the Group's right to use the underlying assets, with lease liabilities representing the obligation for lease payments.

The Group's lease agreements are for 12 months to 12 years and may have extension options exercisable by the Group. Management applied judgement to determine the lease term for contracts that include renewal options. The lease term assessment may significantly affect the amounts recognised for lease liabilities and right-of-use assets. The Group has considered all facts and circumstances in their decisions relating to lease extension options and have included all extension options for the manufacturing facilities and offices in the calculations. The costs and business disruption was considered significant factors in this decision.

The lease term is reassessed if an option is exercised or terminated. No changes to lease options were recorded in the current year (2020: nil).

Assets and liabilities arising from a lease are initially measured at present value by discounting the future lease payments using the interest rate implicit to the lease. Where it is difficult to determine the implicit interest rate, the incremental borrowing rate is used. The incremental borrowing rate is determined by using where possible, a recent third-party financing received as a starting point and adjusted for any changes since finance was received. If not, a build-up approach is used where the risk-free interest rate is adjusted for credit risk for leases and specific to the lease terms.

The lease assets and liabilities do not include potential future increases in variable lease payments based on an index. The lease liability is reassessed when these increases occur and are adjusted against the right-of-use asset.

Lease payments are allocated between the principal and finance cost. Right-of-use assets are depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

The total cash outflow for leases was $2,962,000 (2020: $3,078,000).

a. Right-of-use assets

	Properties	Equipment	Motor vehicle	Total
	$000s	$000s	$000s	$000s
As at 31 March 2020				
Cost	11,011	1,095	395	12,501
Accumulated depreciation	(2,168)	(426)	(177)	(2,771)
Net book value	**8,843**	**669**	**218**	**9,730**
Year ended 31 March 2021				
Opening net book value	8,843	669	218	9,730
Foreign exchange differences	(253)	(97)	(40)	(390)
Additions	509	-	22	531
Disposals	-	(78)	(116)	(194)
Depreciation charge	(2,128)	(419)	(129)	(2,676)
Depreciation reversal on disposals	-	78	116	194
Closing net book amounts	**6,971**	**153**	**71**	**7,195**
As at 31 March 2021				
Cost	11,267	920	261	12,448
Accumulated depreciation	(4,296)	(767)	(190)	(5,253)
Net book value	**6,971**	**153**	**71**	**7,195**

b. Lease liabilities

	$000s
As at 1 April 2020	9,445
Movements during the year	
Additions	531
Accretion of interest	1,077
Payments	(2,962)
Foreign exchange differences	(401)
Closing amounts	**7,690**

Current and non-current lease liabilities:

	2021	2020
	$000s	$000s
Current	2,272	2,741
Non-current	5,418	6,704
	7,690	**9,445**

Maturity analysis of future undiscounted lease liability payments:

	$000s
Not longer than 1 year	2,660
Longer than 1 year and not longer than 5 years	6,088
Longer than 5 years	210
Total undiscounted lease liabilities	**8,958**

Under the Covid-19 Related Rent Concessions – Amendment to the NZ IFRS 16 Leases, the Group has recorded rent concessions of $83,000 in other operating income, refer note 8.

17. Interest in associate

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. The Group's associates are 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 associates in the Statement of Comprehensive Income. Dividends received or receivable from associates are recognised as a reduction in the carrying amount of the investment. Unrealised gains on transactions between the Group and its associates 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.

Set out below is the significant associate of the Group. The entities listed below have share capital consisting solely of ordinary shares, which are held directly by the Group. The proportion of ownership interest is the same as the proportion of voting rights held.

a. Timemaker Group

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

Name of entity	Country of incorporation	% of ownership interest 2021	% of ownership interest 2020	Nature of relationship	Measurement method	Net investment 2021 $000s	Net investment 2020 $000s	Equity accounted profit 2021 $000s	Equity accounted profit 2020 $000s
Chengdu Timemaker Crystal Technology Co. Ltd	China	40%	40%	Associate	Equity method	11,902	11,259		
Shenzhen Taixiang Wafer Co. Ltd	China	40%	40%	Associate	Equity method	431	455		
Total Timemaker Group						**12,333**	**11,714**	**1,446**	**797**

	Chengdu Timemaker Crystal Technology Co. Ltd 2021 $000s	Chengdu Timemaker Crystal Technology Co. Ltd 2020 $000s	Shenzhen Taixiang Wafer Co. Ltd 2021 $000s	Shenzhen Taixiang Wafer Co. Ltd 2020 $000s	Total Timemaker Group 2021 $000s	Total Timemaker Group 2020 $000s
Summarised Statement of Comprehensive Income						
Revenue	37,715	27,509	-	-	37,715	27,509
Depreciation and amortisation	(2,943)	(2,661)	-	-	(2,943)	(2,661)
Interest expenses	(1,034)	(491)	-	-	(1,034)	(491)
Profit for the period	**3,615**	**1,988**	**-**	**-**	**3,615**	**1,988**

	Chengdu Timemaker Crystal Technology Co. Ltd		Shenzhen Taixiang Wafer Co. Ltd		Total Timemaker Group	
	2021	2020	2021	2020	2021	2020
	$000s	$000s	$000s	$000s	$000s	$000s
Summarised Balance Sheet						
Current assets						
Cash & cash equivalents	2,326	3,567	9	3	2,335	3,570
Other current assets	33,967	26,890	1,067	1,212	35,034	28,102
Total current assets	**36,293**	**30,457**	**1,076**	**1,215**	**37,369**	**31,672**
Non-current assets	**27,140**	**26,178**	**-**	**-**	**27,140**	**26,178**
Current liabilities						
Financial liabilities (excluding trade payables)	16,349	13,456	-	-	16,349	13,456
Other current liabilities	15,617	13,119	-	78	15,617	13,197
Total current liabilities	**31,966**	**26,575**	**-**	**78**	**31,966**	**26,653**
Non-current liabilities						
Other non-current liabilities	1,712	1,912	-	-	1,712	1,912
Total non-current liabilities	**1,712**	**1,912**	**-**	**-**	**1,712**	**1,912**
Net assets	**29,755**	**28,148**	**1,076**	**1,137**	**30,831**	**29,285**

	Chengdu Timemaker Crystal Technology Co. Ltd		Shenzhen Taixiang Wafer Co. Ltd		Total Timemaker Group	
	2021	2020	2021	2020	2021	2020
	$000s	$000s	$000s	$000s	$000s	$000s
Reconciliation of net assets to carrying amount						
Rakon's share in %	**40%**	**40%**	**40%**	**40%**	**40%**	**40%**
Rakon's share of associate's net assets	11,902	11,259	431	455	12,333	11,714
Carrying amount	**11,902**	**11,259**	**431**	**455**	**12,333**	**11,714**
Movement in carrying amount						
Opening net assets 1 April					11,714	10,399
Equity accounted profit					1,446	797
Foreign exchange movement					(827)	518
Carrying amount					**12,333**	**11,714**

18. Financial asset at fair value through other comprehensive income – Thinxtra

Subsequent to losing significant influence in Thinxtra and ceasing equity accounting of the investment on 1 June 2018, the Group elected to present changes in fair value of its investment in other comprehensive income (FVOCI).

The FVOCI are strategic investments which are not held for trading, and which the Group has irrevocably elected the classification at initial recognition, considering this to be more relevant. For assets measured at FVOCI, gains and losses on revaluation are recorded in OCI reserve. On disposal of these equity investments, any related balance within the OCI reserve is reclassified to retained earnings.

a. 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 6.9% ownership interest at 31 March 2021 (March 2020: 7.1%). This is calculated on a fully diluted basis including the exercise of any existing options. Rakon had decided not to participate in additional capital raisings which resulted in Rakon's ownership interest diluting.

The Directors have reviewed the information and observations available and concluded that the valuation of A$2.8m or A$3.57 per share as at 31 March 2021 is still appropriate (31 March 2020: A$2.9m).

b. Valuation of the investment in Thinxtra at 31 March 2021

It is recognised that there is a high level of volatility and judgement required in valuing Thinxtra given its early stage of business; the new and developing IoT market and ecosystem in which it operates; the volatility in prices achieved by historic capital raises; it being a private company investment not actively traded; and the track record of the Company in achieving its forecast performance. The Directors recognise there is a high risk of the valuation will change significantly over time and have chosen to adopt this consistent overall methodology for the valuations reported at 31 March 2019, 31 March 2020 and now 31 March 2021.

In forming the Directors' judgement, the Directors have taken into consideration whether there is an active market in Thinxtra as indicated by the last capital raise in February 2020 for A$9m, which concluded in August 2020 with an additional subscription of A$1m. The Directors concluded that there is not. If there is an active market, the fair value would be considered to be the recent share issue price as the investment would be treated as a Level 1 investment under the fair value hierarchy (refer to scenarios below).

The Directors reviewed the available information to date including Thinxtra's audited financial statements for the year ended 30 June 2020 and other shareholder communications. Whilst the impact of Covid-19 meant the short-term deferment of forecast revenue and a delay to the original IPO timeline, this was not expected to materially change the future realisation of Rakon's investment and therefore the carrying value of the investment.

Valuation methodology and key inputs

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

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

The valuation was based on Rakon having a 6.9% shareholding which assumed any existing share options were exercised and all shares were issued under the capital raise offer that was open. No weighting was assigned to the additional A$1m raised as an extension of the February 2020 capital raise.

The resultant valuation of A$3.57 per share is adopted in the 31 March 2021 financial statements (2020: A$3.64).

Sensitivities on key inputs

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

Scenario	Assumptions changes	Valuation NZ$m	Change
a) Base case valuation	Base case	3.1	
b) Discounted cash flow	Cash flow is 50% lower than forecast	2.2	(0.8)
c) Discounted cash flow	Discount rate is 1% higher (ie 16%)	2.8	(0.2)

Sensitivities on probability weightings assigned

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

Valuation Technique	Base case	Alternate case A	Alternate case B
Discounted cash flow	30%	70%	0%
A$9m capital raise	70%	30%	100%
	100%	100%	100%
Valuation NZ$m	3.1	4.5	2.0
change in valn NZ$m		+1.5	-1.1

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.

19. Borrowings

The borrowings are initially recognised at fair value and subsequently measured at amortised cost. Fees paid are recognised in the Statement of Comprehensive Income when the draw down occurs. Borrowings are removed from the balance sheet when the obligation specified in the contract is discharged, cancelled or expired. Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after balance date.

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

	2021 $000s	2020 $000s
Current		
French Government loan	5,894	-
Other borrowings	539	145
Current borrowings	**6,433**	**145**
Bank overdrafts	3,599	12,848
Total current borrowings	**10,032**	**12,993**

a. Line of credits

The Group maintains following line of credits.

ASB

At 31 March 2021 a $6.7m (2020: $15.2m) combined trade facility and a $3.3m (2020: $3.3m) overdraft was in place.

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

During the year the Company operated within its facility limits and was in compliance with all required financial covenants.

State Bank of India

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

Crédit Agricole Provence Côte D'Azur

As part of the French government's Covid-19 assistance program, a €3.5m loan was made available to Rakon France for an initial term of 12 months from 15 June 2020 with an option to extend for up to a further five years at the end of the first 12 months. This loan has certain restrictions that limits it to be used for working capital/treasury support for the French business. Interest is payable at zero percent for the initial 12 months along with a guarantee fee of 0.25%.There are no covenants on the loan and no additional security is required.

b. Borrowings balance

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

	2021 $000s	2020 $000s
6 months or less	10,032	12,848
Total bank borrowings including overdraft	**10,032**	**12,848**

c. Borrowings costs

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalised. Other borrowing costs are expensed in the period in which they incur, refer note 10.

d. Net debt reconciliation

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

	Other asset	Liabilities from financing activities		
	Cash/ bank overdraft	Borrowings	Leases	Total
	$000s	$000s	$000s	$000s
Balance as at 1 April 2020	**(7,762)**	**(145)**	**(9,445)**	**(17,352)**
Cash flows to (increase)/decrease liabilities	18,471	-	2,962	21,433
Acquisitions	-	(6,450)	(531)	(6,981)
Foreign exchange changes	765	162	401	1,328
Interest on lease liabilities	-	-	(1,077)	(1,077)
Balance as at 31 March 2021	**11,474**	**(6,433)**	**(7,690)**	**(2,649)**

20. Trade and other payables

Trade and other payables represent liabilities for goods and services provided to the Group prior to the end of the financial period, which are unpaid. These are unsecured and are usually paid within 60 days of recognition. The carrying amounts are considered to be the same as fair values, due to their short-term nature.

If the payments are due after 12 months, the trade and other payables are presented as non-current liabilities. The non-current liabilities are initially recognised at the fair value and subsequently measured at amortised cost using the effective interest method.

	2021	2020
	$000s	$000s
Trade payables	11,207	8,882
Amounts due to related parties (note 29)	890	628
Employee entitlements	10,737	9,330
Accrued expenses	3,192	3,412
Total trade and other payables	**26,026**	**22,252**

21. Provisions

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

	Retirement provision	Long service	Lease make good	Total
	$000s	$000s	$000s	$000s
At 31 March 2019	**2,331**	**463**	**667**	**3,461**
Charged to the Statement of Comprehensive Income				
Additional provisions recognised	220	179	-	399
Unwinding of discount	-	-	16	16
Unused amount reversed	(231)	(20)	-	(251)
Used during the year	(154)	(104)	-	(258)
Foreign exchange	265	-	-	265
At 31 March 2020	**2,431**	**518**	**683**	**3,632**
Charged to the Statement of Comprehensive Income				
Additional provisions recognised	200	150	-	350
Unwinding of discount	-	-	16	16
Unused amount reversed	-	(12)	-	(12)
Used during the year	(132)	(168)	-	(300)
Foreign exchange	(222)	-	-	(222)
At 31 March 2021	**2,277**	**488**	**699**	**3,464**
Current portion	228	102	-	330
Non-current portion	2,049	386	699	3,134
Total provisions	**2,277**	**488**	**699**	**3,464**

a. Retirement provision

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

French employees are entitled to a retirement pay-out once they have met specific criteria. This is a one-off payment based on service time at retirement date. A provision has been created to recognise this cost taking in consideration the time served, probability of attainment and discount rates. An actuarial valuation was performed at 31 March 2021.

b. Long service leave

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

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

c. Lease make good

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

22. Taxation

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

The current and deferred tax is recognised in the Statement of Comprehensive Income, except to the extent that it relates to items recognised in Statement of Other Comprehensive Income (OCI), or directly in equity. In this case, the tax is recognised in the OCI or equity, respectively.

a. Income tax expense

Income tax expense is calculated on applicable income tax rate for each jurisdiction, and adjusted by the changes in deferred tax assets and liabilities attributable to temporary differences, unused tax losses and adjustments relating to the prior period.

	2021 $000s	2020 $000s
Current tax	(1,594)	(223)
Deferred tax expense	67	919
Income tax (expense)/credit	**(1,527)**	**696**

The tax on the Group's result before tax differs from the theoretical amount that would arise using the weighted average tax rate applicable to the results of the consolidated entities.

Reconciliation of income tax expense	2021 $000s	2020 $000s
Profit before tax	11,165	3,284
Tax calculated at domestic tax rates applicable to profits in the respective countries	(2,312)	(580)
Non-deductibles	26	277
Prior year adjustment	(253)	109
Associate result reported net of tax	238	126
Recognition and utilisation of previously unrecognised tax losses	2,800	2,210
Tax losses for which no deferred income tax asset was recognised	(2,026)	(1,446)
Income tax (expense)/credit	**(1,527)**	**696**

The weighted average applicable tax rate was 14% (2020: 21%).

b. Deferred tax

Deferred tax is recognised using the liability method on the temporary differences between the tax bases of assets and liabilities and their carrying amounts. Deferred tax assets are recognised only if management is certain that the future benefits of the taxable amount will be utilised. Judgement is required when deferred tax assets are reviewed at each reporting date. The management uses future forecasts to ascertain future benefits of deferred tax assets.

	Property, plant & equipment $000s	Employee benefits $000s	Other[1] $000s	Future income tax benefit $000s	Total $000s
At 31 March 2019	**(273)**	**651**	**3,404**	**2,501**	**6,283**
(Charged)/credited to profit or loss	(149)	10	984	74	919
Losses transferred to subsidiaries	-	-	-	(73)	(73)
Charged to equity	-	-	1,807	-	1,807
Foreign exchange difference	-	-	124	-	124
At 31 March 2020	**(422)**	**661**	**6,319**	**2,502**	**9,060**
(Charged)/credited to profit or loss	154	588	(731)	56	67
Losses transferred to subsidiaries	-	-	-	(37)	(37)
Charged to equity	-	-	(2,745)	-	(2,745)
Foreign exchange difference	(5)	-	(74)	-	(79)
At 31 March 2021	**(273)**	**1,249**	**2,769**	**2,521**	**6,266**

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

The Company recorded the remaining balance of unrecognised tax losses amounting to $10,896,000 (2020: $7,895,000) in deferred income tax asset. The carried forward balance of tax losses is $8,975,000 (2020: $19,171,000). There are no expiry dates on these tax losses. Deferred income tax assets are recognised for tax losses to the extent that the related tax benefit is expected to be realised through future taxable profits.

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

	2021 $000s	2020 $000s
Deferred tax assets	6,398	9,246
Deferred tax liabilities	(132)	(186)
Net deferred tax asset	**6,266**	**9,060**

c. Imputation balances

Imputation credit account with Inland Revenue.

	2021 $000s	2020 $000s
Imputation credit available for use in subsequent periods	11,205	11,204

23. Share capital

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

At 31 March 2021 the total number of ordinary shares that were authorised and issued, including treasury shares, is 229,055,272 shares (2020: 229,055,272) made up as follows.

- 226,961,983 are fully paid shares (2020: 226,961,983)
- 321,972 unpaid ordinary shares were on issue and held in trust on behalf of participants in the Rakon Share Plan (2020: 321,972)
- 1,771,317 unpaid ordinary shares were held by Rakon ESOP Trustee Limited for future allocation to participants (2020: 1,771,317)

At 31 March 2021, the share capital remained unchanged at $181,024,000.

24. Earnings per share

a. Basic

	2021	2020
Weighted average number of ordinary shares on issue (000s) (note 23)	226,962	226,962
Continuing operations		
Earnings attributable to equity holders of the Group ($000s)	9,638	3,980
Basic earnings per share (cents per share)	**4.2**	**1.8**

b. Diluted

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

At 31 March 2021, the Group did not have any dilutive options or potential dilutive ordinary shares that could be converted into ordinary shares (2020: nil). The diluted earnings per share and basic earnings per share were the same.

25. Other reserves

	Foreign currency translation reserve $000s	Hedging reserve $000s	Share option reserve $000s	OCI[1] revaluation $000s	Total $000s
At 31 March 2019	**(23,383)**	**(380)**	**3,064**	**(454)**	**(21,153)**
Cash flow hedges					
Fair value losses in year	-	(4,818)	-	-	(4,818)
Cost of hedge	-	570	-	-	570
Changes in fair value of equity investments at fair value through other comprehensive income – Thinxtra	-	-	-	(1,632)	(1,632)
Tax on fair value losses	-	1,349	-	-	1,349
Transfers to revenue	-	(2,429)	-	-	(2,429)
Income tax on transfers to revenue		680			680
Subsidiaries	3,967	-	-	-	3,967
Associate – Timemaker Group	173	-	-	-	173
At 31 March 2020	**(19,243)**	**(5,028)**	**3,064**	**(2,086)**	**(23,293)**
Cash flow hedges					
Fair value gains in year	-	9,461	-	-	9,461
Cost of hedge	-	(105)	-	-	(105)
Changes in fair value of equity investments at fair value through other comprehensive income – Thinxtra	-	-	-	203	203
Tax on fair value gains	-	(2,620)	-	-	(2,620)
Transfers to revenue	-	445	-	-	445
Income tax on transfers to revenue	-	(125)	-	-	(125)
Subsidiaries	(3,999)	-	-	-	(3,999)
Associate – Timemaker Group	(827)	-	-	-	(827)
At 31 March 2021	**(24,069)**	**2,028**	**3,064**	**(1,883)**	**(20,860)**

[1] OCI – Thinxtra revaluation through other comprehensive income.

a. Foreign currency translation reserve

Recognises exchange differences arising on translation of the foreign controlled entities, as described in note 4. The cumulative amount is reclassified to the Statement of Comprehensive Income when the investment is disposed.

b. Hedging reserve

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

c. Share option

The share-based payments reserve is used to recognise:

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

d. Financial asset at fair value through other comprehensive income (FVOCI)

The Group has elected to recognise the change in fair value of investment in Thinxtra in other comprehensive income, refer note 18. These changes are accumulated within the FVOCI reserve, and transferred to retained earnings when investment is derecognised.

26. Financial risk and capital management

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

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

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

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

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

a. Derivatives

The Group is exposed to certain risks relating to its ongoing business operations. To mitigate the risks the Group uses derivative financial instruments such as foreign currency forward exchange contracts and foreign currency collar options. These instruments are held for risk and asset management purposes only and not for the purpose of speculation.

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

Derivatives and hedge accounting

The Group designates certain derivatives to be part of a hedging relationship. These are classified as cash flow hedges. The Group enters into hedge relationships where the critical terms of the hedging instrument match exactly with the terms of the hedged item. The Group performs a qualitative assessment of effectiveness and maintains hedging documentation which describes the economic relationship, objective and strategy for the hedge transactions. The effectiveness of the hedged relationships are assessed on an ongoing basis.

The fair value changes to the effective portion of the cash flow hedges are recognised (including related tax impacts) through OCI in the cash flow hedge reserve in equity, refer note 25. The balance of the cash flow hedge reserve in relation to each particular hedge is transferred to the

Statement of Comprehensive Income in the period when the hedged item affects Statement of Comprehensive Income. Hedge accounting is discontinued when a hedging instrument expires, is sold, terminated, or when a hedge no longer meets the criteria for hedge accounting.

If the maturity of the hedged item is less than 12 months, the full fair value of a hedging derivative is classified as a current asset or liability, otherwise non-current asset or liability. Derivatives that do not meet the hedge accounting criteria are classified as held for trading for accounting purposes and are accounted for at fair value through profit and loss.

The following table sets out the Group's derivative financial instruments in the Balance Sheet.

	2021 Assets $000s	2021 Liabilities $000s	2020 Assets $000s	2020 Liabilities $000s
Interest rate swaps — cash flow hedge	-	-	-	24
Forward foreign exchange contracts — cash flow hedges	2,711	39	2	6,178
Forward foreign exchange collar option — cash flow hedges	397	250	25	649
Total derivative financial instruments	**3,108**	**289**	**27**	**6,851**
Less: non-current forward foreign exchange — cash flow hedges	587	260	-	2,840
Current derivative financial instruments	**2,521**	**29**	**27**	**4,011**
Financial assets/ liabilities at fair value through profit or loss	333	-	2	1,029
Total derivative financial instruments	**2,854**	**29**	**29**	**5,040**

Forward foreign exchange contracts

In hedges of foreign currency purchases, ineffectiveness may arise if the timing of the forecast transaction changes from what was originally estimated, or if there are changes in the credit risk of the derivative counterparty. The hedged highly probable forecast transactions denominated in foreign currency are expected to occur at various dates during the next 24 months.

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

When forward contracts are used to hedge, the Group designates full change in fair value of the forward contract as the hedging instrument.

The following table summarises the Group's current hedging instruments.

	2021			2020		
	Foreign currency options	**Foreign currency forwards**	**Interest rate swaps**	**Foreign currency options**	**Foreign currency forwards**	**Interest rate swaps**
Notional amount ($000s)	18,087	47,569	-	23,420	36,314	3,000
Maturity date	Nov-21 to Jan-23	Apr-21 to Oct-22	-	Apr-20 to May-21	Apr-20 to Feb-22	Jun-20
Hedge ratio	1:1	1:1		1:1	1:1	1:1
Change in intrinsic value of outstanding hedging instruments	148			(879)		
Weighted average strike rate on outstanding options						
GBP/USD	1.32			-		
NZD/USD	0.68			0.66		
Weighted average contract rate on forwards						
NZD/USD		0.65			0.66	
GBP/USD		1.28			1.29	
EUR/USD		-			1.14	
USD/INR		74.32			73.78	
JPY/USD		108.86			-	

b. Credit risk

The Group is exposed to credit risk arising from trade customers, financial instruments (note 18, 26a), and cash and cash equivalents (note 11). The maximum exposure to credit risk at the end of the period is represented by the carrying value of for these financial assets.

The Group has financial assets of trade receivables from sales of inventory that are subject to the expected credit loss model. The Group has established credit policies, and applies the NZ IFRS 9 Financial Instruments simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables, refer note 12. The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The demographics of the Group's customer base, including the default risk of the industry and country, in which customers operate, has less influence.

The Group only deals with institutions with high credit quality for banking and derivative counterparty.

c. Liquidity risk

The Group maintains committed credit facilities to ensure adequate cash is available to meet obligations when due. Management monitors rolling forecasts of the Group's liquidity position on the basis of expected cash flow. Forecasts indicate that the Group operate within its credit facilities.

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

31 March 2021	**Carrying amount**	**6 months or less**	**6 – 12 months**	**1 – 2 years**	**2 – 5 years**	**5 – 10 years**
	$000s	**$000s**	**$000s**	**$000s**	**$000s**	**$000s**
Financial liabilities						
Secured bank loans (note 19)	5,894	(5,900)	-	-	-	-
Derivatives (note 26)	289	(21)	(7)	(261)	-	-
Trade and other payables (note 20)	26,026	(26,026)	-	-	-	-
Other borrowings (note 19)	539	(179)	(49)	(98)	(213)	-
Bank overdraft (note 19)	3,599	(3,695)	-	-	-	-
Lease liabilities (note 16)	7,690	(1,346)	(1,314)	(2,092)	(3,996)	(210)
Total financial liabilities	**44,037**	**(37,167)**	**(1,370)**	**(2,451)**	**(4,209)**	**(210)**

31 March 2020	**Carrying amount**	**6 months or less**	**6 – 12 months**	**1 – 2 years**	**2 – 5 years**	**5 – 10 years**
	$000s	**$000s**	**$000s**	**$000s**	**$000s**	**$000s**
Financial liabilities						
Derivatives (note 26)	7,880	(2,734)	(2,320)	(1,946)	(880)	-
Trade and other payables (note 20)	22,252	(22,252)	-	-	-	-
Bank overdraft (note 19)	12,848	(13,305)	-	-	-	-
Lease liabilities (note 16)	9,445	(1,396)	(1,345)	(2,236)	(3,550)	(918)
Total financial liabilities	**52,425**	**(39,687)**	**(3,665)**	**(4,182)**	**(4,430)**	**(918)**

Information on bank overdraft interest rate is in note 19.

d. Market risk – foreign exchange

The objective of market risk management is to manage and control market risk exposures within acceptable parameters, whilst optimising the return on risk. The Group enters into derivatives in the ordinary course of business and also incurs financial liabilities, in order to manage market risks. All such transactions are carried out within the guidelines set by the Board and Audit and Risk Committee. Generally, the Group seeks to apply hedge accounting in order to manage volatility in the Statement of Comprehensive Income.

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

	USD	**EUR**	**GBP**	**JPY**
	$000s	**$000s**	**$000s**	**$000s**
31 March 2021	27,952	2,149	(72)	(2,053)
31 March 2020	15,749	3,603	(1,297)	(1,164)

The following significant exchange rates applied during the year.

	Average rate		Reporting date rate	
	2021	**2020**	**2021**	**2020**
NZD/USD	0.6695	0.6454	0.6994	0.6023
NZD/EUR	0.5739	0.5816	0.5939	0.5404
NZD/GBP	0.5112	0.5086	0.5072	0.4833
NZD/INR	49.4536	47.4790	50.8746	46.9870
NZD/JPY	70.8577	70.2392	76.7000	64.9600

Sensitivity analysis

Underlying exposures

A 10% weakening of the NZD against the following currencies at 31 March would have increased (decreased) equity and profit or loss by the amounts shown below. Based on historical movements, a 10% increase or decrease in the NZD is considered to be a reasonable estimate. This analysis assumes that all other variables, in particular interest rates remain constant. The analysis was performed on the same basis for 2020.

	2021		2020	
	Equity	Profit or loss	Equity	Profit or loss
	$000s	$000s	$000s	$000s
USD	3,106	3,106	1,750	1,750
EUR	239	239	400	400
GBP	(8)	(8)	(144)	(144)
JPY	(228)	(228)	(129)	(129)

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

Forward foreign exchange contracts

A 10% weakening of the purchased currencies below against the forward foreign exchange contracts outstanding at 31 March, would have increased (decreased) equity and profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for 2020.

	2021			2020		
	Fair value	**Equity**	**Profit or loss**	**Fair value**	**Equity**	**Profit or loss**
	$000s	**$000s**	**$000s**	**$000s**	**$000s**	**$000s**
Forward foreign exchange contracts - Cash flow hedge						
Net buy NZD sell USD	5,172	(5,172)	-	8,013	(8,013)	-
Net buy GBP sell USD	187	(187)	-	-	-	-
Net buy JPY sell USD	72	(72)	-	-	-	-
Forward foreign exchange contracts - held for trading						
Net buy EUR sell USD	-	-	-	(47)	(63)	(63)
Net buy GBP sell USD	42	(60)	(60)	(70)	(96)	(96)
Net buy NZD sell USD	283	(278)	(278)	(862)	(1,761)	(1,761)
Net buy INR sell USD	8	(80)	(80)	89	54	54

e. Market risk – interest rate

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

Interest rate swap contracts

The Group enters into interest rate swaps that have similar critical terms as the hedged item, such as reference rate, reset dates, payment dates, maturities and notional amount. The hedged item is identified as a proportion of the outstanding loans up to the notional amount of the swaps. Hedge ineffectiveness for interest rate swaps is assessed using the same principles as for hedges of foreign currency purchases. It may occur due to the credit value/debit value adjustment on the interest rate swaps which is not matched by the loan, and differences in critical terms between the interest rate swaps and loans.

At balance date, the Group did not have any interest rate swaps. In 2020, there was one outstanding interest rate swap contract valued at $3m of borrowings fixed at 4.17%. During the year $24,000 (2020: $3,000) net was charged to the Statement of Comprehensive Income.

Profile

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

	2021	2020
Variable rate instruments	**$000s**	**$000s**
Financial assets (note 11)	15,073	5,086
Financial liabilities (note 11)	(3,599)	(12,848)
Net variable rate instruments	11,474	(7,762)
Fixed rate instruments		
Financial liabilities	(539)	(164)
Net fixed rate instruments	(539)	(164)

Sensitivity analysis

An increase of 100 basis points in interest rates at 31 March would have increased (decreased) equity and profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular foreign exchange rates, remain constant. The analysis for 2021 was performed on the same basis as 2020.

	2021		2020	
	Equity	**Profit or loss**	**Equity**	**Profit or loss**
	$000s	**$000s**	**$000s**	**$000s**
Variable rate instruments	115	115	(78)	(78)
Fixed rate instruments	(1)	(1)	(2)	(2)

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

f. Capital risk management

The Group's objective when managing capital is to maintain its ability to continue as a going concern, meet its debt obligations, maintain an appropriate capital structure and manage capital costs. The Group's capital comprises of all components of equity. The Group also maintains credit facilities with major banks, refer note 19 for details.

27. Commitments

a. Capital commitments

Capital expenditure contracted for at the balance date but not incurred is $721,000 (2020: $336,000).

28. Principal subsidiaries

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

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.

The list of subsidiaries is as follows.

Name of entity	Principal activities	Country of incorporation	Balance date	% interest held by group 2021	2020
Rakon America LLC	Marketing support	USA	31-Mar	100	100
Rakon Singapore (Pte) Limited	Marketing support	Singapore	31-Mar	100	100
Rakon Financial Services Limited	Financing	New Zealand	31-Mar	100	100
Rakon International Limited	Marketing support	New Zealand	31-Mar	100	100
Rakon UK Holdings Limited	Holding company	United Kingdom	31-Mar	100	100
Rakon UK Limited	Research and development	United Kingdom	31-Mar	100	100
Rakon France SAS	R&D, manufacturing and sales	France	31-Mar	100	100
Rakon (Mauritius) Limited	Holding company	Mauritius	31-Mar	100	100
Rakon Investment HK Limited	Holding company	Hong Kong	31-Mar	100	100
Rakon Crystal Electronic International Limited	Marketing support	China	31-Mar	100	100
Rakon India Pvt Limited	Manufacturing, R&D and sales	India	31-Mar	100	100
Rakon ESOP Trustee Limited	Share trustee	New Zealand	31-Mar	-	-
Rakon PPS Trustee Limited	Share trustee	New Zealand	31-Mar	-	-

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

29. Related party transactions

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

	2021 $000s	2020 $000s
Salaries and other short-term employee benefits	3,491	4,045
Directors' fee	318	360
Total key management compensation	3,809	4,405

	2021 $000s	2020 $000s
Transactions with associates		
Sales to associate, Chengdu Shen-Timemaker Crystal Technology Co. Limited	42	-
Purchases from associate, Chengdu Shen-Timemaker Crystal Technology Co. Limited	(1,625)	(940)
Net transactions	**(1,583)**	**(940)**
Payables to Chengdu Shen-Timemaker Crystal Technology Co. Limited	255	56
Receivables from Rakon HK Limited	160	163
Transactions with Siward Crystal Technologies Co. Limited		
Sales	683	502
Purchases	(2,003)	(2,218)
Net transactions	**(1,320)**	**(1,716)**
Payables to Siward Crystal Technologies Co. Limited	635	572
Receivables from Siward Crystal Technologies Co. Limited	106	38
Net transactions	**741**	**610**

30. Share based payments

The Group's management awards qualifying employees' bonuses, in the form of share options and conditional rights to redeemable ordinary shares, from time to time, on a discretionary basis. These are subject to vesting conditions and their fair value is recognised as an employee benefit expense with a corresponding increase in other reserve equity over the vesting period. The fair value determined at grant date excludes the impact of any non-market vesting conditions, such as the requirement to remain in employment with the Group. Non-market vesting conditions are included in the assumptions about the number of options that are expected to vest and the number of redeemable ordinary shares that are expected to transfer.

a. Rakon Share Plan

In March 2006, Rakon Limited established a share plan to enable selected employees of Rakon Limited to acquire shares in the Company through the plan trustee, Rakon ESOP Trustee Limited. Under the terms of the share plan, 2,759 ordinary shares were issued at deemed market value at that time to Rakon ESOP Trustee Limited to hold on behalf of the participating employees. Following a share split on 13 April 2006, the resulting number of shares under this plan was 859,137. As at 31 March 2021, balance of shares held was 321,972 (31 March 2020: 321,972). All shares have been allocated and rank equally in all respects with all other ordinary shares issued by the Company. The outstanding loan balance, provided on an interest free basis by Rakon Limited to participating employees in respect of these shares, totals $195,000 (2020: $195,000). A participant may repay all or part of the loan at any time, and may request share transfer upon full repayment. No repayments were due at 31 March 2021 (2020: nil). The Trust Deed makes provision for the Company to require repayment of the loans in certain circumstances. The Company may remove and appoint trustees at any time. The Directors and shareholders of Rakon ESOP Trustee Limited are Keith Oliver and Bruce Irvine. Shares held by the share plan represent approximately 0.14% of the Company's total shares on issue as at balance date (2020: 0.14%).

31. Contingencies

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

Income taxes

- 2011/12 – an increase in taxable income of $1.4m (tax value $900,000)
- 2013/14 – no increase in taxable income (tax value $520,000)

Indirect taxes

- December 2010/August 2012 – excess input credit availed (tax value $390,000). Penalty applicable at 100% of tax value.

32. Subsequent events

b. Debt funding

On 30 April 2021, a $20m NZD debt facility was agreed with Tanarra Credit Partners. An initial $10m was drawn down immediately and used to repay the existing ASB Bank working capital facility which was reduced to nil. The debt facility is repayable at the end of five years and is secured by a general security deed over all the present and after-acquired property of the guaranteeing group comprising Rakon Limited, Rakon Financial Services Limited and Rakon International Limited.

Rakon has agreed to certain conditions in relation to other indebtedness, financial accommodation and distributions. The financial covenants include debt to total tangible assets, net debt to Underlying EBITDA and cash available for debt servicing to interest. The interest rate is based on the New Zealand bank bill reference rate, margin and line fees as applicable.

a. Crédit Agricole Provence Côte D'Azur

In May 2021, the Company exercised its option to extend this loan for a further five years. Repayment of the loan is spread equally over the final four years to June 2026, refer note 19.

b. Covid-19 – India

During April 2021 there was a significant increase in the number of Covid-19 cases in India. This has led to government-imposed lockdown measures which has impacted the Indian manufacturing facility. The operation in India is able to continue manufacturing at a lower capacity due to the availability of labour; additional social distancing and other safety measures have been put in place; and restrictions around the geographical movement of people. Management is closely monitoring the situation and at this stage does not expect the overall Group to be impacted materially.

The Directors are not aware of any material events subsequent other than disclosed above to the balance date 31 March 2021.

Independent auditor's report

To the Shareholders of Rakon Limited

Our opinion

In our opinion, the accompanying financial statements of Rakon Limited (the Company), including its subsidiaries (the Group), present fairly, in all material respects, the financial position of the Group as at 31 March 2021, its financial performance and its cash flows for the year then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS) and International Financial Reporting Standards (IFRS).

What we have audited

The Group's financial statements comprise:

- the balance sheet as at 31 March 2021;
- the statement of comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include significant accounting policies and other explanatory information.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (New Zealand) (ISAs (NZ)) and International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report.

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

Independence

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

Our firm carried out services in the area of providing market survey data relating to executive remuneration levels, treasury related financial markets risk analysis and commentary, from which we resigned in December 2020 and provided a Certificate of expenditure for the purpose of the European Union subsidy for community projects in France. The provision of these other services has not impaired our independence as auditor of the Group.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current year. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

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Description of the key audit matter	How our audit addressed the key audit matter
Initial recognition and valuation of research and development costs associated with the development of new products Note 15 of the financial statements provide details of the costs incurred by the Group with respect to developing new products that were capitalised as at 31 March 2021. This is included within the product development and assets under construction categories of the Note and amounts to $5.0 million at 31 March 2021. Note 7 of the financial statements disclosed the research and development expenditure in the Statement of Comprehensive Income during the year of $16.0 million. There is judgement involved in assessing whether the costs that are being capitalised for development meet the criteria for capitalisation as an intangible asset under NZ IAS 38 *Intangible Assets*, or whether they should be expensed. There is also judgement and often uncertainty around the potential for success of new products as well as the technical feasibility and probable future economic benefits associated with new and existing projects primarily with respect to new telecommunications infrastructure products. Our audit focused on this area due to the value of the capitalised development costs and the judgement involved in the application of the accounting standards. The Directors have assessed the future income generating ability of capitalised development expenditure by referring to current demand for the new products in production and to the business case for future sales of products not yet in production.	Our procedures included the the following: ● Updating our understanding of how the costs for research and development are captured and, where appropriate, are approved for capitalisation and the controls over these processes; ● Obtaining an understanding of the projects which have been capitalised during the year; ● Assessing overall costs capitalised for compliance with Group policies and the requirements defined in the accounting standards for capitalisation of product development costs; ● Challenging the Director’s assessment of the future income expected from products in production, where costs were capitalised and are now being amortised, by comparing the estimate with the level of sales currently being achieved; ● Challenging the Director's assessment of the future income expected from new telecommunications infrastructure products not yet in production, by comparing the estimate with the level of sales of previous generations of telecommunications infrastructure products and with market forecast reports; and ● Assessing the adequacy of disclosures in the financial statements to ensure that this is compliant with the requirements of the accounting standards. We have no matters to report as a result of our procedures.

Valuation of the investment in Thinxtra Limited

The carrying value of the Group's investment in Thinxtra Limited is $3.1 million as at 31 March 2021 and is disclosed in Note 18 to the financial statements. The investment is carried at fair value with gains and losses accounted for in other comprehensive income.

The Directors used a range of valuation techniques with individual assigned weightings. The techniques applied include discounted cash flows and the share price of the last successful capital raise. Weightings were assigned to each technique based on the Directors' available information and judgement. The valuation techniques used and weightings assigned to each technique is consistent with the prior year.

The Directors also considered sensitivity of the key inputs in the valuation by determining other reasonably possible scenarios and assessing its impact on the valuation.

Based on the information available to the Directors, Thinxtra Limited's performance is in line with the Information Memorandum issued in the prior year.

The results of the Directors' assessment and sensitivity analysis is disclosed in Note 18.

We considered the valuation of the investment in Thinxtra Limited a key audit matter because of the uncertainty involved in the estimation process and the significant judgements the Directors made in determining fair value. Changes in the assumptions applied as part of the estimation process can lead to significant movements in the fair value of the investment.

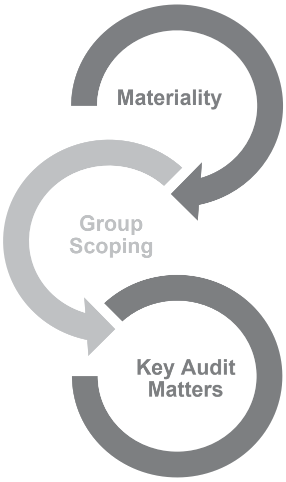
Our procedures in relation to the fair value determination of the investment in Thinxtra Limited included the following:

- Obtaining an understanding of the valuation techniques used by the Directors and the key assumptions applied in determining the fair value of the investment in Thinxtra Limited as at 31 March 2021;
- Testing the mathematical accuracy of the discounted cash flow model and agreeing the inputs to the Information Memorandum issued by Thinxtra Limited;
- Considering the discounted cash flow model approach which formed part of the Director's basis of valuation. We determined the underlying forecasts used in the model were consistent with the prior year, however are not sufficiently reliable due to Thinxtra Limited's business being at an early stage of development, the history of not meeting budgeted results and the disclosures made around the impact of Covid-19 on its business. Accordingly, and in line with our conclusion in the prior year, this required us to take a different valuation approach based wholly on using observable inputs from the recent capital raise;
- Agreeing the capital raise inputs to the information provided by Thinxtra Limited;
- Engaging our valuation expert to assist in the valuation of the investment as at 31 March 2021. Our expert concluded that the share price achieved in the February 2020 capital raise, which was concluded in August 2020, provided the best evidence of the fair value as at 31 March 2021. Using this price results in a lower fair value than determined by the Directors. The difference between the Directors' assessment of fair value and our valuation, was reported to the Directors who determined that this judgemental difference was not material in the context of the financial statements. This difference is below our overall Group materiality; and
- Assessing the adequacy of disclosures in the financial statements to ensure that this is compliant with the requirements of the accounting standards.

We have no matters to report as a result of our procedures.

Our audit approach

Overview



Overall group materiality: $1,200,000, which represents approximately 1% of total revenues.

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

Following our assessment of the risk of material misstatement, we:

- Performed full scope audits for the two principal businesses in New Zealand and France based on their financial significance;
- Specified audit procedures and analytical review procedures over the business in India;
- Specified audit procedures over the business in the UK; and
- Analytical review procedures over the investment in Timemaker.

As reported above, we have two key audit matters, being:

- Initial recognition and valuation of research and development costs associated with the development of new products
- Valuation of the investment in Thinxtra Limited

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance about whether the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

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

How we tailored our group audit scope

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

We have applied group materiality apportioned to the business units based on relative scale of the business concerned. The group materiality applied determines the nature, timing and extent of audit procedures performed.

Other information

The Directors are responsible for the other information. The other information comprises the information included in the Annual report, but does not include the financial statements and our auditor's report thereon. The Annual report is expected to be made available to us after the date of this auditor's report.

Our opinion on the financial statements does not cover the other information and we will not express any form of audit opinion or assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

When we read the other information not yet received, if we conclude that there is a material misstatement therein, we are required to communicate the matter to the Directors and use our professional judgement to determine the appropriate action to take.

Responsibilities of the Directors for the financial statements

The Directors are responsible, on behalf of the Company, for the preparation and fair presentation of the financial statements in accordance with NZ IFRS and IFRS, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Group’s ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditor’s responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements, as a whole, are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (NZ) and ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

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

This description forms part of our auditor’s report.

Who we report to

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

The engagement partner on the audit resulting in this independent auditor's report is Indumin Senaratne (Indy Sena).

For and on behalf of:

PricewaterhouseCoopers

Chartered Accountants
27 May 2021

Auckland

PwC

Directors and Directors' remuneration

The names of the current Directors of Rakon, together with short biographies for each of them, are set out in the 2021 Annual Review and on the Company's website.

Subject to approval by shareholders of the total pool for non-executive Directors' remuneration, non-executive Directors of Rakon receive fees determined by the Board on the recommendation of the People Committee plus payment or reimbursement of reasonable travelling, accommodation and other expenses incurred in the course of performing their duties as Directors. Shareholders approved a total pool of $360,000 for the remuneration of non-executive Directors of Rakon in September 2012.

The following people held office as Directors of Rakon during the year ended 31 March 2021; their independence status and the remuneration they received during that period are set out below:

Name	Category	Remuneration
Bruce Robertson Irvine	Independent (Chair since 7 August 2018)	$105,000
Brent John Robinson[1]	Executive (Managing Director)	$766,857
Keith William Oliver	Independent	$52,500
Yin Tang Tseng	Non-Executive	$55,856
Roger Yao	Non-Executive (alternate Director of Yin Tang Tseng until 2 July 2020)	
Lorraine Mary Witten	Independent	$52,500
Robert Keith Hamilton (Keith) Watson	Independent	$52,500

[1] Employed by Rakon as Managing Director and Chief Executive Officer and receives salary and other benefits in respect of his employment.

Directors of subsidiaries

Directors of the Company's subsidiaries do not receive any remuneration or other benefits in respect of their appointments. The remuneration and other benefits of any such Directors (not being Directors of Rakon Limited) who are employees of the Group totalling $100,000 or more during the year ended 31 March 2021 are included in the relevant bandings for remuneration disclosed in this Shareholder Information section of the 2021 Annual Report.

The following people held office as Directors of subsidiary companies at 31 March 2021:

Entity	Director (or authorised representative where noted)
Rakon America LLC	John Mundschau (authorised representative)
Rakon Singapore (Pte) Limited	Brent Robinson, Darren Robinson, Damian Boon
Rakon Financial Services Limited	Brent Robinson, Darren Robinson
Rakon International Limited	Brent Robinson
Rakon UK Holdings Limited	Brent Robinson, Darren Robinson, Sinan Altug
Rakon UK Limited	Brent Robinson, Darren Robinson, Sinan Altug
Rakon France SAS	Brent Robinson
Rakon (Mauritius) Limited	Brent Robinson, Darren Robinson, Neernaysingh Madhour, Kamalam Pillay Rungapadiachy
Rakon Investment HK Limited	Brent Robinson
Rakon Crystal Electronic International Limited	Daryoush Shahidi (authorised representative)
Rakon HK Limited	Brent Robinson, Darren Robinson, Zhuzhi Ye, Rongguo Chen
Rakon ESOP Trustee Limited	Bruce Irvine, Keith Oliver
Rakon PPS Trustee Limited	Bruce Irvine, Keith Oliver
Rakon India (Private) Limited	Brent Robinson, P.M. Unnikrishnan, Arun Parasnis

Directors' interests

As permitted by the Companies Act 1993 and the Company's constitution, all Directors received the benefit of an indemnity from Rakon Limited and the benefit of Directors and Officers liability insurance cover maintained by the Company.

The Company maintains an interests' register in accordance with the Companies Act 1993 and the Financial Markets Conduct Act 2013. The following are particulars of entries, including the date of disclosure shown in brackets, made in the Company's interests' register for the year ended 31 March 2021.

Bruce Robertson Irvine

- Appointed Director and Chair of Original Foods NZ Limited (June 2020)
- Ceased to be a Director and Chair of Original Foods NZ Limited in November 2020 (May 2021)

Keith Watson

- Ceased as Director of Taska Prosthetics Limited (June 2020)
- Ceased as Director of 5th Element Limited June 2020)
- Appointed Director of Counties Power Limited (June 2020)
- Appointed Director of ECL Group Limited (September 2020)
- Appointed Director of Acumen Trust Limited (March 2021)

Lorraine Witten

- Ceased as Chair of Correction Department Audit and Risk Committee (October 2020)

Roger Yao

- Ceased as a Director of Rakon Limited (2 July 2020) and continues as an observer for Yin Tang Tseng.

Directors' shareholdings

Directors' shareholdings in Rakon Limited as recorded in the interests' register of the Company as at 31 March 2021 are set out below:

Name	Category	Shareholding
Brent Robinson	shares held with beneficial interest	34,846,237
Bruce Irvine	shares held with beneficial interest	454,278
Bruce Irvine	shares held with non-beneficial interest[1]	2,093,299
Bruce Irvine	shares held with non-beneficial interest	289,824
Lorraine Witten	shares held with beneficial interest	120,000
Keith Watson	shares held with beneficial interest	100,000
Keith Oliver	shares held with non-beneficial interest[1]	2,093,299

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

Employees' remuneration

During the year ended 31 March 2021, the number of employees or former employees of Rakon Limited and its subsidiaries, not being Directors of Rakon Limited received remuneration including the value of other benefits in excess of $100,000 in the following bands:

Remuneration	Number of employees	Remuneration	Number of employees
$100,000 - $110,000	15	$230,001 - $240,000	2
$110,001 - $120,000	11	$240,001 - $250,000	1
$120,001 - $130,000	16	$250,001 - $260,000	2
$130,001 - $140,000	15	$260,001 - $270,000	6
$140,001 - $150,000	9	$290,001 - $300,000	4
$150,001 - $160,000	6	$310,001 - $320,000	1
$160,001 - $170,000	9	$320,001 - $330,000	1
$170,001 - $180,000	4	$330,001 - $340,000	1
$180,001 - $190,000	5	$340,001 - $350,000	1
$190,001 - $200,000	7	$360,001 - $370,000	1
$200,001 - $210,000	5	$370,001 - $380,000	1
$210,001 - $220,000	2	$450,001 - $460,000	1
$220,001 - $230,000	6	$480,001 - $490,000	1
		$650,001 - $660,000	1

Substantial Quoted Financial Product holders

The following information is given pursuant to Section 293 of the Financial Markets Conduct Act 2013.

According to the notices given under Financial Markets Conduct Act 2013 (or its predecessor the Securities Markets Act 1988), the following persons were substantial product holders in the Company as at 31 March 2021 in respect of the number of voting products below. As at 31 March 2021, the Company had one share class on issue, comprising of 229,055,272 voting shares:

Name	Relevant Interest	Number Held	%
Siward Crystal Technology Co. Limited	registered holder	38,016,681	16.60
Brent John Robinson	registered holder	9,915,414	4.33
Brent John Robinson	registered holder and beneficial owner	24,930,823	10.88
Darren Paul Robinson	registered holder	9,914,180	4.33
Darren Paul Robinson	registered holder and beneficial owner	24,930,823	10.88
Wairahi Investments Limited	registered holder	11,941,506	5.21

Spread of Quoted Financial Product holders and holdings as at 24 May 2021

Size of holding	Number of holders	%	Total number held	%
1 – 99	25	0.53	1277	0.00
100 – 199	65	1.39	8,493	0.00
200 – 499	213	4.56	64,716	0.03
500 – 999	295	6.31	190,687	0.08
1,000 – 4,999	1,865	39.89	4,498,535	1.91
5,000 – 9,999	699	14.95	4,498,535	1.96
10,000 – 49,999	1,146	24.51	22,766,923	9.94
50,000 – 99,999	173	3.70	11,433,207	4.99
100,000 – 499,999	154	3.29	29,643,643	12.94
500,000 – 999,999	12	0.26	8,311,872	3.63
1,000,000 – 99,999,999	28	0.60	147,749,755	64.50
Total	**4,675**	**100.00**	**229,055,272**	**100.00**

Twenty largest Quoted Financial Product holders as at 24 May 2021

Name	Shareholding	%
Siward Crystal Technology Co. Limited	38,016,681	16.60
Brent John Robinson and Darren Paul Robinson as trustees of Ahuareka Trust	24,930,823	10.88
Wairahi Investments Limited	12,000,000	5.24
Brent John Robinson	9,915,414	4.33
Darren Paul Robinson	9,914,180	4.33
Accident Compensation Corporation[1]	6,338,377	2.77
New Zealand Depositary Nominee Limited <A/C 1 Cash Account>	5,004,618	2.18
Etimes Group International Limited	3,697,716	1.61
Forsyth Barr Custodians Limited <1-Custody>	3,436,607	1.50
Fergus David Elliott Brown	3,000,000	1.30
F B Trustee Limited	3,000,000	1.30
Nicholas Theobald Sibley & Sally Gay Sibley	2,575,000	1.12
Forsyth Barr Custodians Limited <Account 1E>	2,280,004	0.99
Hobson Wealth Custodians Limited <Resident Cash Account>	2,127,399	0.92
Rakon ESOP Trustee Limited	2,093,289	0.91
Michael Murray Benjamin	2,000,000	0.87
Craig John Thompson	1,959, 829	0.85
Iconic Investments Limited	1,740,078	0.75
FNZ Custodians Limited	1,638,630	0.71
HLR Holdings Company Limited	1,584,736	0.69

[1] Held through New Zealand Central Securities Depository Limited, which is a depository that allows electronic trading of securities by members.

NZX waivers

For the purposes of Rakon's disclosure obligation under Rule 3.7.1(g) Rakon confirms:

- That it relied on NZX Regulation Class Waiver from NZX Listing Rules 3.5.1 and 3.5.3, dated 3 April 2020, superseding the waiver made on 19 March 2020 permitting an extension of 30 days to the requirement that a Reporting Issuer release it results announcement through MAP no later than 60 days after the end of the Qualifying Financial Year
- That it relied on NZX Regulation Class Waiver from Rule 3.6.1 dated 3 April 2020, superseding the waiver made on 19 March 2020 permitting an additional two months to the date after the end of the Qualifying Financial Year by which the Reporting Issuer is required to prepare an annual report and deliver, subject to Rule 3.6.2, the annual report to NZX by release through MAP and make the annual report available to each Quoted Financial Product Holder in accordance with Rule 3.6.3.

There were no other NZX waivers granted or published by NZX within or relied upon in the 12 months ending 31 March 2021.

Credit rating

The Company does not currently have an external credit rating status.

Exercise of disciplinary powers

Neither the NZX nor the Financial Market Authority took any disciplinary action against the Company during the financial year ended 31 March 2021.

Introduction

The Board of Rakon Limited is committed to conducting business in the right way and maintaining the highest standards of corporate behaviour and accountability. The Board regularly reviews Rakon's corporate governance framework and supports best practice reporting.

In this 2021 Corporate Governance Report, the Board explains the extent to which the Rakon corporate governance framework meets the principles and recommendations of the NZX Corporate Governance Code 1 January 2019 (**NZX Code**). Where applicable it provides an explanation of why a NZX Code recommendation has not been followed and the alternative practices followed in lieu of that recommendation and indicates areas that will be a focus during the year ahead.

The information in this Corporate Governance Report is current as at 27 May 2021 and has been approved by the Board. The key corporate governance documents referred to in this report are available on Rakon's website at: **www.rakon/investors/corporate-governance**

Rakon is listed on the NZX Main Board and is subject to regulatory control and monitoring by both the NZX and the Financial Markets Authority (**FMA**).

Principle 1 – Code of ethical behaviour

Directors should set high standards of ethical behaviour, model this behaviour and hold management accountable for these standards being followed throughout the organisation.

Rakon is committed to ensuring the highest ethical standards are maintained by its Directors, employees and suppliers, contractors and consultants to the Company in all activities conducted by or in the interests of the Company.

Recommendation 1.1 The board should document minimum standards of ethical behaviour to which issuer's directors and employees are expected to adhere (a code of ethics).

Ethical standards and guiding principles are set out in Rakon's Business Code of Conduct which is available on the Company's website. The high standards of honesty, integrity and ethical conduct which Directors are required to maintain are set out in the Board Charter which is regularly reviewed by the Board and which is available on the Company's website.

The Business Code of Conduct requires Directors and employees to promptly report material breaches of the Code. Rakon's Protected Disclosure (whistle blowing) Policy provides a framework and process for safe reporting which supports the expectation that employees should report breaches of the Business Code of Conduct, as well as other wrongdoing or suspected wrongdoing. The Protected Disclosure Policy is accessible by all employees on the in-house portal and is available on the Company's website.

Rakon has processes in place to enable training for all new and existing employees to ensure awareness and understanding of the Business Code of Conduct and other Company policies. An Employee Handbook is regularly reviewed and updated and is available on the in-house portal along with all human resources and governance policies and procedures. Rakon carries out training sessions with managers and team leaders to ensure they are well equipped to guide and support their teams. Rakon continues to investigate new and effective processes for promoting awareness and for receiving assurance of understanding and compliance.

Recommendation 1.2 An issuer should have a financial product dealing policy which applies to directors and employees.

Rakon's Financial Product Trading Policy addresses the risk of insider trading in Rakon securities by Directors and employees. A copy of this policy is available on Rakon's website and is circulated to Directors and employees along with further guidance on the application of the policy and where it can be accessed on the in-house portal. Additional trading restrictions apply to Restricted Persons as defined in the policy, including Directors and certain employees. Details of Directors' shareholdings as at 31 March 2021 are set out in the Shareholder Information section of the 2021 Annual Report. Additional reminders about the rules regarding financial product trading and related policies are provided to employees.

Principle 2 – Board composition and performance

To ensure an effective board, there should be a balance of independence, skills, knowledge, experience and perspectives.

The Board has ultimate responsibility for the strategic direction of Rakon and oversight of the management of Rakon, with the aim of increasing shareholder value and ensuring the obligations of the Company are met.

Recommendation 2.1 The board of an issuer should operate under a written charter which sets out the roles and responsibilities of the board. The board charter should clearly distinguish and disclose the respective roles and responsibilities of the board and management.

The Board operates under a written charter which: sets out the structure of the Board and the procedures for the nomination, resignation and removal of Directors; outlines the respective responsibilities and roles of the Directors and management; and identifies procedures to ensure that the Board meets regularly, conducts its meetings in an efficient and effective manner and that each Director is fully empowered to perform his or her duties as a Director of the Company and to fully participate in meetings of the Board.

The day-to-day management and operation of Rakon is undertaken by the executive team members and their reports under the leadership of the Managing Director. Delegation of the day-to-day management and operation of Rakon is subject to financial controls and limitations delegated from time to time by the Managing Director as set out in detailed Delegated Authorities Schedules. A delegation of authority policy will further record the over-arching philosophy of the general and specific delegations of authority made to the Managing Director and the specific powers reserved to the Board.

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

Recommendation 2.2 Every issuer should have a procedure for the nomination and appointment of directors.

While the appointment of new Directors is the responsibility of the whole board, the People Committee Charter outlines the Committee's particular duties and responsibilities in relation to the selection and appointment of new Directors and succession planning.

The People Committee is responsible for identifying and recommending candidates for the role of Director, taking into account such factors as it deems appropriate, including tenure, capability, skill sets, experience, diversity, qualifications, judgement and the ability to work with other Directors.

The Committee recognises a skills matrix is one of the tools that can assist with identifying and assessing existing Directors' skills and competencies and the new skills and competencies which may be needed to meet the Company's future governance requirements.

The number of elected Directors and the procedure for their appointment, retirement and re-election at annual meetings is set out in the Constitution of the Company and the NZX Listing Rules.

All Directors, including any executive Director must retire by rotation and if eligible may stand for re-election at the third annual meeting or three years after their last election, whichever is longer. Any Director appointed since the previous annual meeting must also retire and is eligible for election.

Recommendation 2.3 An issuer should enter into written agreements with each newly appointed director establishing the terms of their appointment.

The Board has adopted the form of a letter of appointment for new Directors, which sets out the key terms and conditions of their appointment or election as Directors of Rakon. The content of the letter of appointment is supported by general rules and practice including appointment, tenure, duties and responsibilities and requirements outlined in relevant legislation, the NZX Listing Rules, the Company's Constitution and the Board Charter.

Recommendation 2.4 Every issuer should disclose information about each director in its annual report or on its website, including a profile of experience, length of service, independence and ownership interest and director attendance at board meetings.

Information about each Director of Rakon is available on the Rakon website and in the 2021 Annual Review, made available to shareholders on the Company's website in June along with the 2021 Annual Report. The Company maintains an interests' register and particulars of the entries made in the interests' register during the year ended 31 March 2021 in relation to Directors' interests are disclosed in the Shareholder Information section of the 2021 Annual Report.

Board meetings and attendance

The Board meets as often as it deems appropriate, including sessions to review the performance of the business against agreed plans and to consider the strategic direction of Rakon and Rakon's forward-looking business plans. Video and/or phone conferences are also used as required.

The table below sets out Directors' attendances at the Board, Audit and Risk Committee and the People Committee meetings during the year ended 31 March 2021. In total, there were 16 Board meetings, six Audit and Risk Committee meetings and two People Committee meetings. Four of the Board meetings were attributable to the extra governance and oversight exercised by the Board in relation to the Covid-19 pandemic.

	Board Meetings	Audit & Risk Committee	People Committee
Total number of meetings held	**16**	**6**	**2**
Bruce Irvine	16	6	2
Keith Oliver	16	-	2
Brent Robinson	16	6	2
Lorraine Witten	16	6	2
Roger Yao: Alternate Director appointment for Yin Tang Tseng[1]	16	-	-
Keith Watson	16	6	-

[1] Roger Yao was appointed as alternate Director by Yin Tang (Tony) Tseng, with the consent of the Board, in June 2017. Roger resigned as a Director of Rakon on 2 July 2020 but continues to attend Rakon Board meetings and provide support for Tony who continues to be actively engaged in the activities of the Board. Tony is the current Chair of Siward Crystal Technology Co. Limited, a substantial shareholder (16.6%) in Rakon.

Recommendation 2.5 An issuer should have a written diversity policy which includes requirements for the board or a relevant committee of the board to set measurable objectives for achieving diversity (which, at a minimum, should address gender diversity) and to assess annually both the objectives and the progress in achieving them. The issuer should disclose the policy or a summary of it.

Rakon has recognised the value of diversity of thinking and skills in its recruitment practices and its management and governance and has sought to create inclusive work environments where all of its people are valued and respected. Rakon recognises diversity means one or more of a number of different characteristics and factors including but not limited to gender, ethnic background, religion, age, marital status, culture, disability, economic background, education, language, physical appearance and sexual orientation. Rakon considers the different backgrounds, communication styles, life-skills and interpersonal skills of Directors and employees are of value in building diverse teams.

Rakon's Diversity and Inclusion Policy is available on the Company's website. As required under that policy, Rakon has set objectives for measuring and promoting diversity and inclusion within the Company. Progress on these objectives is required to be monitored and assessed by the People Committee and the Board at least annually.

The Board set two key diversity and inclusion objectives for the year beginning 1 April 2020, which were aimed at reflecting the undertakings and intentions of the Diversity and Inclusion Policy in Rakon's planning, recruitment and remuneration practices:

- Ensure succession plans for critical business roles are aligned to Rakon's Diversity and Inclusion Policy and represent the diversity in the Rakon business
- Collect and analyse data based on gender with a view to designing and implementing a three to five year plan to achieve gender pay equality.

In setting these objectives, Rakon recognised that alignment with its Diversity and Inclusion Policy is an important factor to be addressed in the ongoing development of succession plans for its critical business roles and that gender pay equality is a key indicator for demonstration of a diverse and inclusive organisation.

As at 31 March 2021, females represented 20% (FY20: 20%) of Rakon's Directors and Officers (as defined in NZX Listing Rule 3.8.1(c)). A quantitative breakdown of the number of male and female Directors and the number of male and female Officers as at 31 March 2021 and as at 31 March 2020 is set out in the table below. In that table the Chief Executive Officer who is the Managing Director is included as a Director, and Officers are the direct reports of the Chief Executive Officer having key functional responsibilities.

Date of determination		31 March 2021	31 March 2020
Directors			
	Females	1	1
	Males	5	5
Officers			
	Females	2	2
	Males	7	7

Recommendation 2.6 Directors should undertake appropriate training to remain current on how best to perform their duties as directors of an issuer.

The Company encourages all Directors to undertake appropriate training and education to build on their governance and directorship skills. Appropriate training and education includes attending presentations on changes in governance, legal and regulatory frameworks; attending technical and professional development courses; and attending presentations from industry experts and key Rakon advisers. Updates are provided to the Board by management on relevant industry and Company issues. A number of Rakon's Directors are members of the Institute of Directors.

Recommendation 2.7 The board should have a procedure to regularly assess director, board and committee performance.

The Board regularly considers individual and collective performance, together with the skill sets, training and development and succession planning required to govern the business. In FY2021 the Chair engaged directly with each Director to discuss Board performance and evaluate individual performance referencing a Review and Evaluation plan developed for Rakon. The results of the Board performance evaluation were shared with the full Board and with senior managers to implement new or enhanced practices and reporting where these had been identified and agreed.

The charters of the Board's Committees also require the Committees to undertake a self-review process, including receiving feedback from the Board as a whole and reporting to the Board on the outcome of the reviews. For the year ended 31 March 2021, Review and Evaluation checklists prepared for each Committee were used for the review and evaluation exercise.

Recommendation 2.8 A majority of the board should be independent directors.

The Board currently comprises of six Directors: five non-executive Directors, four of whom are independent including the independent Chair, and one executive Director who is the Managing Director and Chief Executive Officer. In order for a Director to be independent, the Board has determined, among other things, he or she must not be an executive of Rakon and must have no disqualifying relationships. The Board provides guidance for determining independence in its Charter and follows the guidelines in the NZX Listing Rules.

The Board recognises that from time to time it is appropriate for the Board to confer without executive Directors or other senior management present and for there to be separate meetings of independent Directors.

Recommendation 2.9 An issuer should have an independent chair of the board. If the chair is not independent then the chair and the CEO should be different people.

The Chair of Rakon is an independent Director. While the Board Charter does not require the chair of the Board to be an independent Director, if the Directors appoint a fellow Director as Chair who is not independent then they are required to disclose this fact in the Company's annual report, along with reasons justifying such a decision. The Rakon Board Charter records the Board's intention that the Chair and the Managing Director or Chief Executive Officer shall not be the same person.

Principle 3 – Committees

The Board should use committees where this will enhance its effectiveness in key areas, while still retaining board responsibility.

The Board has delegated a number of its responsibilities to committees to assist in the execution of the Board's responsibilities.

The current committees of the Board are the Audit and Risk Committee and the People Committee (Committees).

The Committees meet as required and have terms of reference (charters), which are approved and reviewed by the Board. Copies of the Audit and Risk Committee Charter and the People Committee Charter are on the Rakon website and were last reviewed in March 2021.

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

All members of the Board receive the minutes of each Committee meeting and all Directors are entitled to attend any Committee meeting. In pursuing its duties and responsibilities, each Committee is empowered to seek any information it requires from employees and to obtain independent legal or other professional advice. Each Committee is required to report to the Board after each meeting of the Committee.

From time to time, special purpose committees may be formed to review and monitor specific projects with senior management.

Recommendation 3.1 An issuer's audit committee should operate under a written charter. Membership on the committee should be majority independent and comprise solely of non-executive directors of the issuer. The chair of the audit committee should be an independent director and not the chair of the board.

The Audit and Risk Committee's purpose and key objectives are to ensure oversight of all matters related to the financial accounting and reporting of the Company, monitoring the processes undertaken by external auditors and internal audit activity, operational risk management and compliance with all financial corporate governance requirements. Its duties and responsibilities include:

- Reviewing the consolidated financial statements and making recommendations on financial and accounting policies
- Reviewing the performance of the external auditor and recommending to the Board their appointment and removal if required
- Overseeing the adequacy and effectiveness of internal controls and operational risk management including insurance.

The Audit and Risk Committee's Charter provides that the Committee must be comprised solely of Directors of Rakon, have a minimum of three members, have a majority of independent Directors and have at least one Director with an accounting or financial background. The current member composition of this Committee complies with these requirements.

Members of the Audit and Risk Committee as at the date of this report are Lorraine Witten (Chair), Bruce Irvine and Keith Watson. The Chair of the Audit and Risk Committee is not the Chair of the Board. Currently two of the members have accounting and financial backgrounds.

Recommendation 3.2 Employees should only attend audit committee meetings at the invitation of the audit committee.

Management may attend meetings at the invitation of the Audit and Risk Committee and the Committee routinely has committee member-only time with the external auditor without management present.

Recommendation 3.3 An issuer should have a remuneration committee which operates under a written charter (unless this is carried out by the whole board). At least a majority of the remuneration committee should be independent directors. Management should only attend committee meetings at the invitation of the remuneration committee.

The Board has combined the duties and responsibilities of a remuneration committee and a nomination committee under one committee known as the People Committee, as reflected in the People Committee's charter. The People Committee's work plan reflects duties and responsibilities that would otherwise be covered by separate remuneration and nomination committees.

The People Committee's purpose and key objective is to assist the Board in establishing coherent human resources, remuneration and Director nomination policies and practices. Its duties and responsibilities include:

- Overseeing, reviewing and making recommendations to the Board in relation to human resources strategy, management succession planning, employee incentive schemes, remuneration arrangements for the Managing Director, senior management and Directors and compliance with applicable human resources legislation
- Overseeing, reviewing and making recommendations to the Board in relation to the selection and appointment of new Directors, processes for identifying and assessing skills and competencies, Director succession planning and effective induction and training programmes for new and existing Directors in order that the Board comprises Directors who contribute to the successful management of the Rakon Group.

The People Committee Charter requires that a majority of its membership shall be independent Directors and that the Chair shall be independent. Currently, the Chair and all other members of the Committee are independent Directors.

Members of the People Committee as at the date of this report are Keith Oliver (Chair), Bruce Irvine, and Lorraine Witten. Management may attend meetings at the invitation of the Committee.

Recommendation 3.4 An issuer should establish a nomination committee to recommend director appointments (unless this is carried out by the whole board), which should operate under a written charter. At least a majority of the nomination committee should be independent directors.

As reported in respect of Recommendation 3.3 the Board combines the usual responsibilities of a remuneration committee and a nomination committee into one People Committee. This approach is sensible from an administrative and resourcing perspective and facilitates regular oversight of both remuneration and nomination matters through the year.

Recommendation 3.5 An issuer should consider whether it is appropriate to have any other board committees. All committees should operate under written charters. An issuer should identify the members of each of its committees and periodically report member attendance.

The Board Charter specifically requires the Board to assess regularly whether there is a need for any further standing committees and the Board acknowledges that any committee established should operate under a written charter. The charters of the Audit and Risk Committee and the People Committee are available on the Rakon website and their members are identified on the Rakon website and in the Company's annual reports along with a record of their attendance at the Committees' meetings.

Currently Rakon health and safety matters are the responsibility of the full Board with oversight of legislative compliance and policy by the People Committee.

The independent Directors meet as a committee from time to time as required.

Recommendation 3.6 The board should establish appropriate protocols that set out the procedure to be followed if there is a takeover offer for the issuers including any communications between insiders and the bidder. The board should disclose the scope of independent advisory reports to shareholders. These protocols should include the option of establishing an independent takeover committee, and the likely composition and implementation of an independent takeover committee.

Rakon has not developed a specific policy governing the Board's response to a takeover situation. Current legal advice on process that should be followed in the event of a takeover offer is readily accessible by Directors in their online Resource Centre. In the case of a takeover offer, Rakon will form an Independent Takeover Committee to oversee disclosure and response, and engage expert legal and financial advisers to provide advice on procedure.

Principle 4 – Reporting and disclosure

The Board should demand integrity in financial and non-financial reporting, and in the timeliness and balance of corporate disclosures.

Rakon's Directors are committed to keeping investors and the market informed of all material information about the Company and its performance, in a timely manner.

Recommendation 4.1 An issuer's board should have a continuous disclosure policy.

Rakon has a Continuous Disclosure Policy to ensure that material information is identified, reported, assessed and disclosed promptly and without delay to the market. This policy is regularly reviewed and circulated to Directors and employees, along with further guidance on the application of the policy. The Rakon Continuous Disclosure Policy and additional guidance is accessible to all staff and Directors on internal portals. Additional reminders about continuous disclosure requirements and related policies are circulated to employees.

In addition to all information required by law, Rakon also seeks to provide sufficient meaningful information, including financial and non-financial information, to ensure stakeholders and investors are well-informed of all material information.

Recommendation 4.2 An issuer should make its code of ethics, board and committee charters and the policies recommended in the NZX Code, together with any other key governance documents available on its website.

The key corporate governance documents referred to in this Corporate Governance Report are available on Rakon's website:
www.rakon.com/investors/corporate-governance

Recommendation 4.3 Financial reporting should be balanced, clear and objective. An issuer should provide non-financial disclosure at least annually, including considering environmental, economic and social sustainability factors and practices. It should explain how operational or non-financial targets are measured. Non-financial reporting should be informative, include forward looking assessments, and align with key strategies and metrics monitored by the board.

Financial information

Rakon's business management teams are responsible for implementing and maintaining appropriate accounting and financial reporting principles, policies and internal controls designed to ensure compliance with accounting standards and applicable laws and regulations.

The Board's Audit and Risk Committee oversees the quality and integrity of external financial reporting, including the accuracy, completeness, clarity, balance and timeliness of financial statements. It reviews Rakon's full and half-year financial statements and makes recommendations to the Board concerning accounting policies, areas of judgement, compliance with accounting standards, stock exchange and legal requirements, and the results of the external audit. All matters required to be addressed, and for which the Committee has responsibility, were addressed for the reporting period ended 31 March 2021.

For the financial year ended 31 March 2021, the Directors believe that proper accounting records have been kept which enable, with reasonable accuracy, the determination of the financial position of the Company and facilitate the compliance of the financial statements with the Financial Markets Conduct Act 2013. The Chief Executive Officer and Chief Financial Officer have confirmed in writing to the Board that Rakon's external financial reports present a true and fair view of the Company's financial position in all material aspects.

Rakon's full and half-year financial statements are available on the Company's website. In addition to the financial statements for the current year, copies of statements from the past seven years are also accessible on the Company's website.

Non-financial information

Governance:

Rakon discusses its strategic objectives and its progress towards achieving these in the Chair and Chief Executive Officer's commentary in its full and half year reports to shareholders. The Board is committed to conducting business in the right way and maintaining the highest standards of corporate behaviour and accountability in the interests of Rakon's employees, the communities in which it operates, its customers and its investors.

Environmental:

Rakon is committed to playing its part in the protection of the world's environment and natural resources. As part of this commitment, Rakon has achieved ISO14001 certification at its two largest manufacturing sites in Auckland, New Zealand and Bengaluru, India.

Across its global facilities, Rakon aims to deliver continuous improvement in its environmental practices and use of natural resources. Rakon measures its carbon emissions at its global operating sites and as discussed more fully in the 2021 Annual Review, Rakon reports into CDP (formerly the Carbon Disclosure Project).

Details of Rakon's policies and statements evidencing commitment to the environment and human rights can be viewed on the Company's website: **www.rakon.com/investors/corporate-governance**.This includes the Company's policy on the restriction of hazardous substances (RoHS/RoHS2) and lead; and Rakon's positions on Conflict Minerals and Slavery and Human Trafficking.

Social:

The Company maintains a strong and consistent focus on the health and safety and well-being of its employees across its global operations and requires reporting against critical risks and significant incidents from each manufacturing site.

Rakon is committed to maintaining a diverse and inclusive culture in which all of its employees are valued.

The Company invests in a number of social responsibility initiatives that support employees and the communities in which it operates.

Framework:

To date Rakon has not adopted a specific framework for Environmental Social and Governance (**ESG**) reporting. Rakon continues to focus on enhancing its ESG practices and data collection and developing a more structured framework for setting targets and metrics and reporting.

Principle 5 – Remuneration

The remuneration of directors and executives should be transparent, fair and reasonable.

Oversight of policy and processes in relation to the remuneration of Directors and executives is a key responsibility of the People Committee.

Recommendation 5.1 An issuer should recommend director remuneration to shareholders for approval in a transparent manner. Actual director remuneration should be clearly disclosed in the issuer's annual report.

The total remuneration available for Directors is approved by shareholders. The Board determines the level of remuneration paid to Directors from the approved collective pool. Directors also receive reimbursement for reasonable travelling, accommodation and other expenses incurred in the course of performing their duties.

The annual fee pool limit is $360,000 and was approved by shareholders at the 2012 Annual Shareholders' Meeting.

Any proposed increases in non-executive Directors' fees and remuneration will be put to shareholders for approval.

If the Board seeks advice in relation to Directors' remuneration, the consultants will be required to declare their independence. If the Board elects to state publicly that it is relying on such advice in respect of its remuneration proposal, a summary of the findings will be disclosed to shareholders as part of the approval process.

Effective from 1 April 2020 to 30 June 2020, Rakon Directors elected to reduce their fees by 50% due to the uncertainties facing the business as a result of the global Covid-19 pandemic and the impact of actions taken by governments across the world to control the pandemic.

Recommendation 5.2 An issuer should have a remuneration policy for remuneration of directors and officers which outlines the relative weightings of remuneration components and relevant performance criteria.

Rakon's Remuneration (Directors and Executives) Policy recognises that investors have a particular interest in director and executive remuneration and that the remuneration of directors and executives should be transparent, fair and reasonable. The policy outlines the framework within which Rakon determines remuneration for its Directors and executives.

Rakon applies a fair and equitable approach to remuneration having regard to the financial position of the Company and the external environment.

The Remuneration (Directors and Executives) Policy records that Rakon and its People Committee may obtain independent advice and relevant market data and benchmarking in New Zealand and other regions in which it operates from appropriately qualified consultants to assist in setting remuneration for its executives, Chief Executive and Directors. External advice is sought on a regular basis to ensure remuneration is benchmarked to the market.

Director remuneration

Board role	Approved remuneration
Chair	$120,000
Non-executive Director	$60,000

Details of individual Directors' remuneration are set out in the Shareholder Information section of the 2021 Annual Report.

Executive remuneration

In general, executive remuneration comprises of a fixed base salary and an at-risk short-term incentive (STI) being a percentage of executives' fixed remuneration determined annually. Some executives also receive fringe benefits. Performance targets for at-risk incentives are set at the commencement of the period and are generally based on financial measures including Company earnings targets, progress against objectives related to the strategic plan, business unit objectives and personal objectives. At-risk incentives for Company performance are subject to agreement with the Board and determination of achievement and payment is at the discretion of the Board. The Chief Executive Officer is responsible for agreeing and assessing achievement of his direct reports' personal objectives.

Recommendation 5.3 An issuer should disclose the remuneration arrangements in place for the CEO in its annual report. This should include disclosure of the base salary, short-term incentives and long-term incentives and the performance criteria used to determine performance based payments.

CEO remuneration

The review and approval of the Chief Executive Officer's remuneration is the responsibility of the People Committee and the Board.

External advice is sought on the remuneration of the Chief Executive Officer.

The Chief Executive Officer's remuneration comprises a fixed base salary, fringe benefits, and an at-risk STI. The Chief Executive Officer's STI for FY2021 was set at 30% of Base Salary with performance measures linked 50% to achievement of certain Company performance targets for earnings and progress against objectives related to the strategic plan and linked 50% to achievement of certain personal objectives. Payment of at-risk incentives is at the discretion of the Board.

The remuneration detailed in the table below relates to payments made to Chief Executive Officer Brent Robinson in the year ended 31 March 2021 (FY2021) and does not include any STI payments in relation to FY2021 performance awarded and paid in the 2022 financial year (FY2022).

Actual Payments made to CEO in FY2021

				At risk incentive for previous year		
	Base salary payments	Benefits	subtotal	STI	% STI achieved	Total remuneration
FY2021	$648,112	$32,682	$680,794	$86,063	45%	$766,857
FY2020	$637,500	$34,456	$671,956	$165,376	86%	$837,332

Principle 6 – Risk management

Directors should have a sound understanding of the material risks faced by the issuer and how to manage them. The board should regularly verify that the issuer has appropriate processes that identify and manage potential and material risks.

The Board has overall responsibility for the Company's system of risk management and internal control.

Recommendation 6.1 An issuer should have a risk management framework for its business and the issuer's board should receive and review regular reports. An issuer should report the material risks facing the business and how these are being managed.

The Board delegates day-to-day management of risk to the Chief Executive Officer. The Audit and Risk Committee provides additional and more specialised oversight of the Company's risks to support the Board's oversight. As recorded in the Audit and Risk Committee's Charter, the Board delegates specific responsibilities to the Committee in regard to risk assurance. The Committee's work plan and meeting schedule provide dedicated time for review of the Company's risk management framework, financial risks, operational risk registers and review of the Company's risk appetite. The Committee is required to report its findings to the full Board. The Board maintains a strategic risks register which is reviewed and updated as required at each meeting.

In the year ended 31 March 2021, management engaged with the Audit and Risk Committee to further document Rakon's risk management framework and policy. Managers are required to regularly review the key risks in their areas of responsibility and to assess, rate, control, mitigate or monitor such risks. Key operational and strategic risks are required to be reviewed by the executive team to assess whether appropriate risk management actions are being taken and the key risks are presented to the Audit and Risk Committee and Board for further oversight.

Each half year the Chief Financial Officer reports to the Audit and Risk Committee about the management of risks including but not limited to fraud, cyber security and business continuity and related risk management, including insurances.

Rakon maintains insurance policies that it considers adequate to meet its insurable risks.

Details of Rakon's financial risk management are available in section 26 of the Notes to the Financial Statements in the 2021 Annual Report.

Recommendation 6.2 An issuer should disclose how it manages its health and safety risks and should report on its health and safety risks, performance and management.

Health and safety matters are the responsibility of the full Board with oversight of policy and legislative compliance by the People Committee.

The Rakon Board recognises that effective management of health and safety is essential for the operation of a successful business, and its intent is to prevent harm and promote well-being for employees, contractors and customers. The Board is responsible for governance and oversight of the Company's health and safety framework. The Board is responsible for ensuring that the systems used to identify and manage health and safety risks, foster an effective health and safety culture, set clear expectations, are fit for purpose, and are effectively implemented, properly resourced, regularly reviewed and continuously improved.

Rakon has a number of operational subsidiary businesses outside New Zealand in India, France and the United Kingdom, each of which is responsible for managing its own health and safety framework. Each business prepares monthly reports which are submitted to Rakon's General Manager Global People & Capability, with a monthly report to the Board, providing up-to-date information on key performance indicators, activities and key events. The Board receives reports of Incident Rates including Lost Time Incidents and Near Misses, analysis of each reported incident, schedules recording the timing and completion of health and safety meetings, drills, training and audits and the Company's Critical Risk Register. The Board is satisfied that there is a comprehensive health and safety framework in place.

The Company's Lost Time Injuries recorded in its New Zealand operations in the year to 31 March 2021 numbered seven (FY2020: two). Lost Time is recorded as any time away from work including periods of less than a day. Each Lost Time injury is the subject of an investigation to identify the cause of the incident and to implement actions to prevent or mitigate the risk of the incident occurring again.

Rakon is continuing its process of reviewing its health and safety policy and practices to achieve consistency of behaviour, processes and expectations across its global businesses.

Principle 7 – Auditors

The board should ensure the quality and independence of the external audit process.

The Board is committed to ensuring audit independence, both in fact and appearance, in order that Rakon's external financial reporting is viewed as being highly objective and without bias.

Recommendation 7.1 The board should establish a framework for the issuer's relationship with its external auditors.

The Audit and Risk Committee reviews the quality and cost of the audit undertaken by the Company's external auditor and provides a formal channel of communication between the Board, senior management and external auditor. For the financial year ended 31 March 2021, PricewaterhouseCoopers (**PwC**) was the external auditor for Rakon. PwC has been the external auditor for Rakon since 2006.

As outlined in the Audit and Risk Committee Charter, the Committee regularly meets with the external auditor to approve the terms of engagement, audit partner rotation (at least every five years) and audit fee, and to review and provide feedback in respect of the annual audit plan. A new PwC partner commenced working with Rakon for the FY2021 audit, replacing by rotation the audit partner for the previous five years. A comprehensive review and formal assessment of the independence and effectiveness of the external auditor is undertaken periodically. The Committee routinely allows time to meet with the external auditor without management present. The Audit and Risk Committee also assesses the auditor's independence on an annual basis.

All audit work at Rakon is fully separated from non-audit services, to ensure that appropriate independence is maintained. Other services provided by PwC in FY2021 were non-audit related and involved the provision of advice. These services were deemed to have no effect on the independence or objectivity of the auditor in relation to audit work. The fees paid to PwC for audit and non-audit work are identified at section 7 in the Notes to the Financial Statements in the 2021 Annual Report.

Rakon's External Auditor Independence Policy was reviewed in FY2021. The policy provides comprehensive and current guidance to Directors and management to assist them in determining the services that may or may not be performed by the external auditor.

PwC has provided the Audit and Risk Committee with written confirmation that, in their view, they were able to operate independently during FY2021.

Recommendation 7.2 The external auditor should attend the issuer's annual meeting to answer questions from shareholders in relation to audit.

The audit partner of the Company's external auditor, PwC, is asked to attend the Company's annual meetings, and to be available to answer questions from shareholders at those meetings. The PwC audit partner attended Rakon's 2020 Annual Shareholders' Meeting and is expected to be in attendance at the 2021 Annual Shareholders' Meeting.

Recommendation 7.3 Internal audit functions should be disclosed.

Rakon has a number of internal controls overseen by the Audit and Risk Committee and/or the Board, which are supported by policy, processes and procedures and regular reporting. These include controls for computerised information and management systems, cyber risk and information security, business continuity management, insurance, health and safety, conflicts of interest, prevention and identification of fraud and legislative compliance. The Company does not have a permanent internal audit function. From time to time and as required, the Company engages external audit services to review its systems and internal controls. To maintain its ISO accreditation for a number of its management systems Rakon is subject to rigorous, regular independent audits.

Principle 8 – Shareholder rights and relations

The board should respect the rights of shareholders and foster constructive relationships with shareholders that encourage them to engage with the issuer.

The Board is committed to open and regular dialogue and engagement with shareholders. Rakon seeks to ensure that investors understand its activities by communicating effectively with them and giving them access to clear and balanced information. The Board regularly reviews its shareholder communications strategy.

As a matter of good governance practice and in light of feedback from some of its shareholders, the Board undertook a comprehensive review of Rakon's shareholder communications strategy in FY2021 resulting in a number of new communication initiatives, including more regular updates and providing shareholders the ability to opt in to receive individual email notice of all investor news.

Recommendation 8.1 Issuers should have a website where investors and interested stakeholders can access financial and operational information and key corporate governance information.

Rakon maintains a website: **www.rakon.com** where shareholders and other stakeholders may obtain up-to-date financial and operational information and key governance information along with other information about the Company and its products.

The Company's annual Corporate Governance Report is available on the Company's website in the relevant annual report and as a separate document.

Rakon has undertaken a review of its website to enhance its communications with all of its stakeholders.

Recommendation 8.2 An issuer should allow investors the ability to easily communicate with the issuer, including providing the option to receive communications from the issuer electronically.

Rakon has a calendar of communications and events for shareholders, including but not limited to:

- Annual and interim reports
- Annual and interim results announcements
- Annual and interim business update and results presentations
- Annual meetings
- Ad hoc investor presentations to institutional investors and retail brokers
- Easy access to information through the Rakon website: **www.rakon.com**
- Access to management and the Board via a dedicated email address: **investors@rakon.com**
- Option to sign-up via website to receive email notification of investor news
- Option to sign-up via website to receive product updates.

Shareholders are actively encouraged to attend the Company's annual meetings and vote on major decisions, which affect Rakon. Voting is by poll, upholding the 'one share, one vote' philosophy. Shareholders may raise matters for discussion at these events.

All shareholders have the option to elect to receive electronic communications from the Company through the Company's share registrar (Computershare) and by electing to receive notification of investor news from the Company.

In addition to shareholders, Rakon has a wide range of stakeholders and maintains open channels of communication for all audiences, including brokers, the investing community and the New Zealand Shareholders' Association and regulators, as well as Rakon employees, customers and suppliers.

Recommendation 8.3 Quoted equity security holders should have the right to vote on major decisions which may change the nature of the issuer in which they are invested.

In accordance with the Companies Act 1993, Rakon's Constitution and the NZX Listing Rules, Rakon will refer major decisions which may change the nature of Rakon to shareholders for approval.

Recommendation 8.4 If seeking additional equity capital, issuers of quoted securities should offer further equity securities to existing security holders of the same class on a pro rata basis, and no less favourable terms before further equity securities are offered to other investors.

The Board notes the NZX Code recommendation in relation to considering the interests of all existing financial product holders. The Board will take account of the recommendation in the event of a capital raise, as well as the expectation that it should explain why any capital raising method other than pro-rata was preferred when reporting against the NZX Code.

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