

Rakon Limited
Preliminary Financial Statements
FY2017

rakon



Table of Contents

Table of Contents	1
Directors' Report	2
Statement of Comprehensive Income	3
Statement of Changes in Equity	4
Balance Sheet	5
Statement of Cash Flows	6
Statement of Cash Flows	7
Notes to the Financial Statements	8
Independent Auditors Report	50

Directors' Report

The Directors are responsible for ensuring that the financial statements present fairly the financial position of the Group as at 31 March 2017 (FY2017) and their financial performance and cash flows for the year ended on that date.

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

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

During the year the Company increased its investment in Thinxtra Pty. Limited, an Internet of Things company, with the Company investing to initiate Thinxtra's start-up. The Directors note that there were no other material changes in the nature of the business undertaken by the Company and the Group in the past year.

The Directors present the financial statements set out in pages 3 – 49, of Rakon Limited and subsidiaries for the year ended 31 March 2017.

The Board of Directors of Rakon Limited authorised these financial statements for issue on 18 May 2017.

Financial results

Rakon Limited has reported a full year net loss after tax of \$13.6 million (2016: net loss after tax of \$1.7 million).

Sales revenue for the year was \$94.7 million, down \$18.0 million or 16% on the prior year. The Group's sales revenue reduced as a result of a decline in revenues from the telecommunications market as equipment manufacturers reduced spend. Revenues declined also in the Global Positioning market due to a decline in sales of consumer products for which Rakon's products are embedded. Gross profit for the year was \$33.7 million, down \$14.3 million or 30% on the prior year. Gross profit declined in line with revenue and was also negatively impacted as the Company increased its obsolescence provisions. Share of losses from associates and joint venture was \$2.1 million as expected losses were reported for Thinxtra in its start-up period. Operating expenses for the year of \$41.9 million are down \$5.9 million compared to the prior year, as the Group completed initiatives to reduce costs.

Net debt as at 31 March 2017 was \$4.5 million, down \$8.1 million on the prior year. During the year the Company reduced net debt as cash proceeds were generated from a share placement and technology license arrangement to Taiwan company Siward Crystal Technology Co., Limited. As at 31 March 2017 Rakon's shareholders' equity stood at \$74.6 million, funding 72% of total assets.

The Board maintains a dividend policy, such that a dividend will be paid of up to 50% of the after tax profit, if considered fiscally appropriate by the Directors. The Board has determined that no dividend will be paid for FY2017.

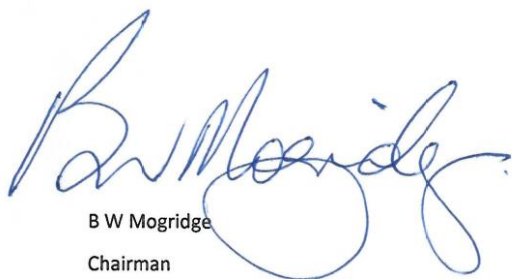
Donations and audit fees

The Group made donations totalling \$4,000 during the year. Amounts paid to PricewaterhouseCoopers for audit and other services are shown in section B2 b) of the financial statements.

Other statutory information

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

On behalf of the Directors



B W Mogridge
Chairman



B J Robinson
CEO, Managing Director

Statement of Comprehensive Income

For the year ended 31 March 2017

	Note	2017 \$000s	2016 \$000s
Continuing operations			
Revenue	B2 a)	94,738	112,737
Cost of sales		(61,063)	(64,797)
Gross profit		33,675	47,940
Other operating income	B2 b)	4,363	125
Operating expenses	B2 c)	(41,888)	(47,766)
Other gains - net	D1 a)	439	871
Impairment	B2 d)	(6,594)	-
Operating (loss)/profit		(10,005)	1,170
Finance income	D1 c)	3	3
Finance costs	D1 c)	(1,435)	(1,128)
Share of loss of associates and joint venture	B4 b)	(2,054)	(902)
Loss before income tax		(13,491)	(857)
Income tax expense	D1 d)	(67)	(874)
Net loss for the year		(13,558)	(1,731)
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss			
Increase in fair value cash flow hedges		1,018	932
(Decrease)/increase in fair value currency translation differences		(3,567)	4,998
Income tax relating to components of other comprehensive income		40	(261)
Other comprehensive (losses)/income for the year, net of tax		(2,509)	5,669
Total comprehensive (losses)/income for the year		(16,067)	3,938
Loss attributable to equity holders of the Company		(13,558)	(1,731)
Total comprehensive (losses)/profit attributable to equity holders of the Company		(16,067)	3,938
Earnings per share for losses attributable to the equity holders of the Company from continuing operations			
		Cents	Cents
Basic losses/earnings per share	D10 a)	(6.9)	(0.9)
Diluted losses/earnings per share	D10 b)	(6.8)	(0.9)

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

Statement of Changes in Equity

For the year ended 31 March 2017

	Note	Share capital \$000s	Retained earnings \$000s	Other reserves \$000s	Total equity \$000s
Balance at 31 March 2015		173,881	(67,929)	(26,543)	79,409
Net profit after tax for the year ended 31 March 2016		-	(1,731)	-	(1,731)
Currency translation differences	D5	-	-	4,998	4,998
Cash flow hedges, net of tax	D5	-	-	671	671
Total comprehensive (losses)/income for the year		-	(1,731)	5,669	3,938
Employee share schemes					
Value of employee services	D5	-	-	81	81
Balance at 31 March 2016		173,881	(69,660)	(20,793)	83,428
Net loss after tax for the year ended 31 March 2017		-	(13,558)	-	(13,558)
Currency translation differences	D5	-	-	(3,567)	(3,567)
Cash flow hedges, net of tax	D5	-	-	1,058	1,058
Total comprehensive losses for the year		-	(13,558)	(2,509)	(16,067)
Contribution of equity net of transaction costs	B6	7,154	-	-	7,154
Employee share schemes					
Value of employee services	D5	-	-	42	42
Balance at 31 March 2017		181,035	(83,218)	(23,260)	74,557

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

Balance Sheet

As at 31 March 2017

	Note	2017 \$000s	2016 \$000s
Assets			
Current assets			
Cash and cash equivalents	D2 a)	3,305	3,370
Trade and other receivables	B3 c)	28,249	28,812
Assets classified as held for sale	B5 d)	1,969	-
Derivatives – held for trading	D2 b)	2	227
Derivatives – cash flow hedges	D2 b)	179	459
Inventories	B5 a)	24,286	29,830
Current income tax asset		96	212
Total current assets		58,086	62,910
Non-current assets			
Derivatives – cash flow hedges	D2 b)	115	1,466
Trade and other receivables	B3 c)	1,365	1,165
Property, plant and equipment	D3 a)	12,745	17,234
Intangible assets	B5 b)	9,467	14,850
Investment in associate	B4 b)	12,004	10,315
Interest in joint venture	B4 b)	3,722	6,798
Deferred tax asset	D4	6,692	6,538
Total non-current assets		46,110	58,366
Total assets		104,196	121,276
Liabilities			
Current liabilities			
Bank overdraft	B3 d)	3,229	3,931
Borrowings	B3 d)	4,530	15
Trade and other payables	B3 e)	15,246	17,526
Derivatives – held for trading	D2 b)	1	3
Derivatives – cash flow hedges	D2 b)	225	1,143
Provisions	D3 b)	910	414
Deferred revenue	B2 b)	2,534	-
Total current liabilities		26,675	23,032
Non-current liabilities			
Derivatives – cash flow hedges	D2 b)	-	421
Borrowings	B3 d)	31	12,000
Provisions	D3 b)	2,909	2,361
Deferred tax liabilities	D4	24	34
Total non-current liabilities		2,964	14,816
Total liabilities		29,639	37,848
Net assets		74,557	83,428
Equity			
Share capital	B6	181,035	173,881
Other reserves	D5	(23,260)	(20,793)
Accumulated losses		(83,218)	(69,660)
Total equity		74,557	83,428

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

Statement of Cash Flows

For the year ended 31 March 2017

	Audited year ended 31 March 2017 \$000s	Audited year ended 31 March 2016 \$000s
Note		
Operating activities		
Cash provided from		
Receipts from customers	98,179	119,026
Income tax refund	231	205
Dividend received from joint venture	-	1,253
R&D grants received	1,327	3,064
Siward technology license agreement	B2 b) 6,877	-
Other income received	41	147
Cash provided from operating activities	106,655	123,695
Cash was applied to		
Payment to suppliers and others	(54,112)	(70,217)
Payment to employees	(41,174)	(44,478)
Interest paid	(1,449)	(1,081)
Income tax paid	(417)	(634)
Cash was applied to operating activities	(97,152)	(116,410)
Net cash flow from operating activities	9,503	7,285
Investing activities		
Cash was provided from		
Sale of property, plant and equipment	8	-
Cash was provided from investing activities	8	-
Cash was applied to		
Purchase of property, plant and equipment	(2,586)	(3,377)
Purchase of intangibles	(1,157)	(1,954)
Investment in shares & associates	(4,629)	(1,663)
Cash was applied to investing activities	(8,372)	(6,994)
Net cash flow from investing activities	(8,364)	(6,994)
Financing activities		
Cash was provided from		
Issuance of share capital	7,195	-
Proceeds from borrowings	6,911	-
Cash was provided from financing activities	14,106	-
Cash was applied to		
Share issuance cost	(41)	-
Repayment of principal on borrowings	(14,411)	-
Cash was applied to financing activities	(14,452)	-
Net cash flow from financing activities	(346)	-
Net increase in cash and cash equivalents	793	291
Effects of exchange rate changes on cash and cash equivalents	(156)	378
Cash and cash equivalents at the beginning of the year	(561)	(1,230)
Cash and cash equivalents at the end of the period	76	(561)
Composition of cash and cash equivalents		
Cash and cash equivalents	D2 a) 3,305	3,370
Bank overdraft	B3 d) (3,229)	(3,931)
Total cash and cash equivalents	76	(561)

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

Statement of Cash Flows

For the year ended 31 March 2017

		Audited year ended 31 March 2017 \$000s	Audited year ended 31 March 2016 \$000s
	Note		
Reconciliation of net (loss)/profit to net cash flows from operating activities			
Reported net (loss)/profit after tax		(13,558)	(1,731)
Depreciation expense	D3 a)	3,491	3,945
Amortisation expense	B5 b)	2,118	2,675
Impairment	B2 d)	6,594	-
(Decrease)/increase in estimated doubtful debts		(69)	(24)
Provision for restructure	D3 b)	3,043	195
Employee share based expense	D5	42	81
Movement in foreign currency		418	(68)
Monetised cash flow hedge, net of tax		1,096	-
Deferred revenue - Siward technology license agreement	B2 b)	2,534	-
Share of profit and dividends from joint venture and associates	B4 b)	2,054	2,131
Deferred tax		294	160
Loss on disposal of property, plant and equipment	D1 a)	330	115
Loss on disposal of intangibles	D1 a)	-	1
Total items cash flow adjusted for		21,945	9,211
Impact of changes in working capital items			
Trade and other receivables		363	5,464
Provision for restructure		(2,402)	(850)
Inventories		5,544	(1,114)
Trade and other payables		(2,505)	(4,060)
Tax provisions		116	365
Total impact of changes in working capital items		1,116	(195)
Net cash flow from operating activities		9,503	7,285

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

Notes to the Financial Statements

- A. General information** _____ **9**

- B. Calculation of key numbers** _____ **9**
 - B1. *Segment information* _____ 9
 - B2. *Profit & loss information* _____ 11
 - B3. *Financial assets and liabilities* _____ 13
 - B4. *Interests in associates and joint venture* _____ 17
 - B5. *Non-financial assets & liabilities* _____ 21
 - B6. *Contributed equity* _____ 26

- C. Risk** _____ **27**
 - C1. *Critical accounting estimates and assumptions* _____ 27
 - C2. *Financial risk management* _____ 27
 - C3. *Capital management* _____ 32

- D. Other information** _____ **33**
 - D1. *Other profit and loss information* _____ 33
 - D2. *Other financial assets and liabilities* _____ 35
 - D3. *Other non-financial assets and liabilities* _____ 37
 - D4. *Deferred income tax* _____ 39
 - D5. *Other reserves* _____ 41
 - D6. *Contingencies* _____ 41
 - D7. *Commitments* _____ 41
 - D8. *Related party information* _____ 42
 - D9. *Events after balance date* _____ 43
 - D10. *Earnings per share* _____ 44
 - D11. *Share based payments* _____ 44
 - D12. *Summary of other significant accounting policies* _____ 45
 - D13. *Imputation balances* _____ 49
 - D14. *Principal subsidiaries* _____ 49

A. General information

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

The financial statements of the Group have been presented in New Zealand dollars unless otherwise indicated.

The financial statements have been approved for issue by Rakon's Board of Directors ('the Board') on 18 May 2017.

B. Calculation of key numbers

B1. Segment information

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

"Earnings before interest, tax, depreciation, amortisation, impairment, employee share schemes, non-controlling interests, adjustments for associates and joint ventures' 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 non-cash charges and before cash impacts relating to the capital structure and tax position. Underlying EBITDA is considered by the Directors to be the closest measure of how each operating segment within the Group is performing. Management uses the non-GAAP measure of Underlying EBITDA internally, to assess the underlying operating performance of the Group and each operating segment.

Underlying EBITDA as non-GAAP financial information has been extracted from the financial statements for the period. Except for Underlying EBITDA, other information provided to the chief operating decision maker is measured in a manner consistent with GAAP. The Directors provide a reconciliation of Underlying EBITDA to net profit or loss for the year, refer note B1 c).

B1 a) Accounting policy

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

B1 b) Segment results

	NZ	UK	France	China - T'maker ¹	India - Centum Rakon ²	Other ³	Total
	\$000s	\$000s	\$000s	\$000s	\$000s	\$000s	\$000s
Sales to external customers	61,297	-	33,441	-	-	-	94,738
Inter-segment sales	111	-	7	-	-	(23)	95
Segment revenue	61,408	-	33,448	-	-	(23)	94,833
Underlying EBITDA ⁶	4,579	1,952	(4,149)	1,101	956	(407)	4,032
Depreciation and amortisation	3,484	638	1,646	-	-	(159)	5,609
Impairment	789	160	635	-	3,164	1,846	6,594
Income tax (expense)/credit	313	(264)	28	-	-	(144)	(67)
Total assets ⁴	52,292	6,452	30,248	7,930	3,722	3,552	104,196
Investment in associates	-	-	-	7,930	-	4,074	12,004
Investment in joint venture	-	-	-	-	3,722	-	3,722
Additions of property, plant, equipment and intangibles	2,795	449	569	-	-	-	3,813
Total liabilities ⁵	18,918	432	8,241	-	-	2,048	29,639

31 March 2016

	NZ	UK	France	China - T'maker ¹	India - Centum Rakon ²	Other ³	Total
	\$000s	\$000s	\$000s	\$000s	\$000s	\$000s	\$000s
Sales to external customers	74,661	5	38,071	-	-	-	112,737
Inter-segment sales	162	-	-	-	-	55	217
Segment revenue	74,823	5	38,071	-	-	55	112,954
Underlying EBITDA	9,526	1,873	(4,481)	217	1,026	847	9,008
Depreciation and amortisation	4,436	745	1,237	-	-	202	6,620
Income tax (expense)/credit	342	(253)	(1,006)	-	-	43	(874)
Total assets ⁴	60,931	10,144	31,279	8,689	6,798	3,435	121,276
Investment in associates	-	-	-	8,689	-	1,626	10,315
Investment in joint venture	-	-	-	-	6,798	-	6,798
Additions of property, plant, equipment and intangibles	3,440	729	1,378	-	-	-	5,547
Total liabilities ⁵	27,185	671	9,457	-	-	535	37,848

¹ Includes Rakon Limited's 40% share of investment in Chengdu Shen-Timemaker Crystal Technology Co. Limited, Chengdu Timemaker Crystal Technology Co. Limited and Shenzhen Taixiang Wafer Co. Limited, refer note B4.

² Includes Rakon Limited's 49% share of investment in Centum Rakon India Private Limited, refer note B4.

³ Includes investments in subsidiaries, Rakon Financial Services Limited, Rakon UK Holdings Limited, Rakon Investment HK Limited, Rakon HK Limited and Rakon Limited's 42% interest in Thinextra Pty Limited refer note B4 d).

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

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

⁶ for 2017 this includes; one off restructure costs in New Zealand of \$817,000 and in France of \$2,242,000 (refer also note D3 b) and income from technology license agreement with Siward of \$4,343,000 (refer note B2 b) also in the New Zealand segment.

B1 c) Reconciliation of Underlying EBITDA to net (loss)/profit for the year

	2017 \$000s	2016 \$000s
Continuing operations		
Underlying EBITDA ⁶	4,032	9,008
Depreciation and amortisation	(5,609)	(6,620)
One off cash gains realised on derivatives closed out	(1,096)	-
Employee share schemes	(42)	(81)
Finance costs - net	(1,432)	(1,125)
Adjustment for associates and joint venture share of interest, tax & depreciation	(2,079)	(2,118)
Impairment	(6,594)	-
Loss on asset sales/disposal	(296)	(120)
Other non-cash items	(375)	199
Loss before income tax	(13,491)	(857)
Income tax expense	(67)	(874)
Net loss for the year	(13,558)	(1,731)

B2. Profit & loss information

B2 a) Revenue

Accounting policy

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

Breakdown of revenue by goods and services

Revenue from all sources is as follows:

	2017 \$000s	2016 \$000s
Sales of goods	93,283	111,587
Revenue from services	1,455	1,150
Total revenue	94,738	112,737

Breakdown of revenue by region

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

	2017 \$000s	2016 \$000s
Asia	41,046	48,725
North America	18,583	23,927
Europe	32,914	37,217
Others	2,195	2,868
Total revenue by region	94,738	112,737

Breakdown of revenue by market segment

	2017 \$000s	2016 \$000s
Telecommunications	42,381	53,289
Global Positioning	24,142	31,311
Space and Defence	21,776	20,764
Other	6,440	7,373
Total revenue by market segment	94,738	112,737

B2 b) Other operating income

Breakdown of other operating income

	2017 \$000s	2016 \$000s
Dividend income	1	1
Rental income	-	23
Other income	19	101
Income from technology license agreement with Siward	4,343	-
Total other operating income	4,363	125

Accounting policy

Dividend income is recognised when the right to receive payment is established. Royalty income is recognised on an accruals basis in accordance with the substance of the relevant agreements.

Investment by Siward Crystal Technology Company Limited ("Siward") and attribution of proceeds

Siward is a Taiwan based crystal manufacturer which is listed on the Taiwan Stock Exchange. In February 2017 Siward paid US\$10m cash in return for 38,016,681 new fully paid ordinary shares of Rakon and rights arising from a technology license agreement. Siward has taken up one new appointment to Rakon's board.

Critical accounting estimates and assumptions

Apportionment of proceeds

Of the US\$10m proceeds, NZ\$7.2m has been attributed to the new fully paid ordinary shares based on an independent valuation report. The balance of NZ\$6.9m is allocated to the technology license agreement. Key judgements and assumptions include:

Rakon's volume weighted average share price immediately before the agreement was executed	\$0.18
Premium to reflect the ability of Siward to influence strategy and direction	5% - 10%

Recognition of technology license agreement revenue

The implied royalty rate of 5.2% for the technology license agreement is close to the median royalty rate for licensing of GPS and tracking technologies.

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

This resulted in 63% being completed during the year, accordingly, revenue of \$4,343,000 is recognised in 2017 with \$2,534,000 expected to be recognised in 2018 (refer also note B6).

B2 c) Operating expenses

	2017	2016
	\$000s	\$000s
Operating expense by function		
Selling and marketing	8,723	10,377
Research and development	9,947	12,059
General and administration	23,218	25,330
Total operating expenses	41,888	47,766
Operating expenses include		
Depreciation – inclusive of depreciation included in cost of sales (note D3 a)	3,491	3,945
Amortisation (note B5 b)	2,118	2,675
Research and development expense	10,805	14,779
Research and development government grant	(858)	(1,301)
Research and development tax credit	(1,240)	(1,419)
Restructure costs - inclusive of restructure costs included in cost of sales (note D3 b)	3,043	195
Rental expense on operating leases	2,172	2,281
Costs of offering credit		
Bad debt write-offs	(8)	(131)
Governance expenses		
Directors' fees	321	360
Auditors' fees		
Principal auditors		
Audit fees for current year	374	382
Government R&D credits reviews	47	-
Share registry audit	-	3
Treasury advisory services	25	25
Audit services other auditors	20	20
Sundry expenses		
Donations	4	3

Restructure costs

Significant reorganisations which took place during the year are explained below:

- a reorganisation of the New Zealand operation, including a reduction in headcount. Restructure costs of \$817,000 were incurred and paid out by 31 March 2017
- a proposal for reorganisation was discussed with the Work Inspection Administration and Workers Council in France and communicated to the employees of Rakon France SAS as a plan to restructure. Restructure related costs of \$2,242,000 were incurred, refer also note D3 b).

B2 d) Summary of impairments

The Group, as required by NZ IFRS, has assessed as at 31 March 2017 whether any indicators of impairment exist. In undertaking such an assessment indicators of impairment were identified and as a result of a detailed consideration of asset values the following impairments were made:

	2017 \$000s	2016 \$000s
Property, plant & equipment (note D3 a)	760	-
Intangible assets excluding goodwill (note B5 b)	824	-
Goodwill (note B5 c)	1,846	-
Investment in CRI (note B4 c)	3,164	-
	6,594	-

Property, plant & equipment

During the year specific equipment spare parts were deemed to be no longer useful due to technical obsolescence or age. As a result, these spare parts were fully impaired. These spare parts are included in the plant and equipment category and form part of the New Zealand cash generating unit, refer also note D3 a).

Intangible assets excluding goodwill

During the year specific product development projects and projects in progress were reviewed for recoverability. This was based on the expected cash flows to be generated by the projects. It was found the expected cash flows on specific items had reduced and were unlikely to support the carrying values. As a result, these specific projects were fully impaired. The impairment was within the New Zealand and France cash generating units, refer also note B5 b).

Goodwill and investment in CRI

The future cash flow projections for the specific products manufactured in India are lower than at the time of the previous review. This is due to revenue forecasts from these specific products reducing as they are replaced by newer technology products which are expected to be manufactured in other locations within the Group. This results in an impairment of goodwill held in the France CGU (refer note B5 c) and an impairment to the Group's investment in CRI (refer note B4 c).

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

B3. Financial assets and liabilities

B3 a) Financial instruments

Financial instruments comprise of cash and cash equivalents, trade and other receivables, trade and other payables, borrowings and derivative financial instruments (forward foreign exchange contracts, collar options, interest rate swaps). Refer also note D12 b).

B3 b) Financial instruments by category

	Loans and receivables	At fair value through profit and loss	Derivatives used for hedging	Total
	\$000s	\$000s	\$000s	\$000s
31 March 2017				
Assets per balance sheet				
Derivative financial instruments (note D2 b)	-	2	294	296
Trade and other receivables	28,527	-	-	28,527
Cash and cash equivalents (note D2 a)	3,305	-	-	3,305
Total assets per balance sheet	31,832	2	294	32,128

	Liabilities at fair value through the profit and loss	Derivatives used for hedging	Other financial liabilities	Total
	\$000s	\$000s	\$000s	\$000s
31 March 2017				
Liabilities per balance sheet				
Borrowings	-	-	7,790	7,790
Derivative financial instruments (note D2 b)	1	225	-	226
Trade and other payables	-	-	9,175	9,175
Total liabilities per balance sheet	1	225	16,965	17,191

	Loans and receivables	At fair value through profit and loss	Derivatives used for hedging	Total
	\$000s	\$000s	\$000s	\$000s
31 March 2016				
Assets per balance sheet				
Derivative financial instruments (note D2 b)	-	227	1,925	2,152
Trade and other receivables	28,524	-	-	28,524
Cash and cash equivalents (note D2 a)	3,370	-	-	3,370
Total assets per balance sheet	31,894	227	1,925	34,046

	Liabilities at fair value through the profit and loss	Derivatives used for hedging	Other financial liabilities	Total
	\$000s	\$000s	\$000s	\$000s
31 March 2016				
Liabilities per balance sheet				
Borrowings	-	-	15,946	15,946
Derivative financial instruments (note D2 b)	3	1,564	-	1,567
Trade and other payables	-	-	9,837	9,837
Total liabilities per balance sheet	3	1,564	25,783	27,350

The line items in the tables above only include financial instruments. Trade and other receivables in note B3 c) and trade and other payables in note B3 e) include both financial and non-financial items.

B3 c) Trade and other receivables

Accounting policy

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

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

Breakdown of trade and other receivables

	2017	2016
	\$000s	\$000s
Trade receivables	25,271	25,416
Less: provision for impairment of trade receivables	(79)	(148)
Net trade receivables	25,192	25,268
Prepayments	767	1,084
GST/VAT receivable	320	369
Receivables from related parties (note D8 b)	214	342
Other receivables ¹	3,121	2,914
Total trade and other receivables	29,614	29,977
Less non-current other receivables ¹	1,365	1,165
Current trade and other receivables	28,249	28,812

¹ Other receivables includes research and development tax credits and government grants.

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

Included in trade and other receivables as at 31 March 2017, \$19,536,000 (2016: \$22,028,000) were fully performing. None of the financial assets that are fully performing have been renegotiated.

Included in trade and other receivables, as at 31 March 2017, \$5,110,000 (2016: \$4,987,000) were past due but not impaired. These relate to a number of customers for whom there is no recent history of default.

Ageing

The ageing analysis of trade receivables is as follows:

	2017	2016
	\$000s	\$000s
Up to 3 months	4,327	4,778
3 to 6 months	518	34
Over 6 months	265	175
Total overdue trade receivables	5,110	4,987

As of 31 March 2017, trade receivables of \$79,000 (2016: \$148,000) were impaired and provided for. These receivables mainly relate to customers who are in financial difficulty or dispute.

Currencies

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

	2017	2016
	\$000s	\$000s
NZD	1,521	2,861
USD	17,956	18,684
EUR	9,726	7,687
GBP	366	734
Other	45	11
Total trade and other receivables	29,614	29,977

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.

B3 d) Borrowings

Accounting policy

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

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

Breakdown of borrowings

	2017	2016
	\$000s	\$000s
Current		
Obligations under finance lease	30	15
Bank overdrafts	3,229	3,931
Bank borrowings	4,500	-
Current borrowings	7,759	3,946
Non-current		
Obligations under finance lease	31	-
Bank borrowings	-	12,000
Non-current borrowings	31	12,000

Bank borrowings

During the year the Company reduced its borrowings after application of proceeds from Siward related to the investment in Rakon and rights arising from a technology license agreement. Refer note B2 b) and note B6.

Prior to expiry the Directors anticipated renewing the facilities on similar terms and conditions. The average interest rate during the year on this facility was 6.91%.

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

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

	2017	2016
	\$000s	\$000s
6 months or less	7,759	3,931
6 – 12 months	-	-
1 – 5 years	31	12,000
Over 5 years	-	-
Total bank borrowings including overdraft	7,790	15,931

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

	Carrying amount		Fair value	
	2017	2016	2017	2016
	\$000s	\$000s	\$000s	\$000s
Bank borrowings	-	12,000	-	12,000

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

The carrying amounts of the Group's non-current bank borrowings are denominated in NZD.

Subsequent event

The \$6.1m debt facility with ASB was renewed on 8 May 2017 with a new maturity date of 31 May 2018. Additional to this, the Group has agreed a reduction of \$1.5m of its overdraft facility (from \$9.3m to \$7.8m) that was assessed as surplus to the Group's requirements.

As described in note B5 d) the land and buildings at Argenteuil, France is held for sale. The funds from the sale once complete, are to be applied to reduce the debt facility under the renewed facility.

Facilities are secured by a general security deed over all the present and future assets and undertakings of the Group and the Group has agreed to certain capital requirements, restrictions on dividend distributions and capital expenditure. The financial covenants include net tangible assets to total tangible assets, net debt to EBITDA and EBITDA to interest. Interest is based on wholesale market interest rates, bank margin and applicable line fee. Refer also to note C3 b).

B3 e) Trade and other payables

Accounting policy

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

Breakdown of trade and other payables

	2017	2016
	\$000s	\$000s
Trade payables	3,917	5,632
Amounts due to related parties (note D8 b)	3,788	2,622
Employee entitlements	5,978	7,113
Accrued expenses	1,563	2,159
Total trade and other payables	15,246	17,526

The carrying amounts of trade and other payables are assumed to be the same as their fair values due to their short term nature.

B4. Interests in associates and joint venture

B4 a) Accounting policy

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

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

Under the equity method of accounting, the investments are initially recognised at cost and adjusted thereafter to recognise the Group's share of the post-acquisition profits or losses of the investee in profit or loss, and the Group's share of movements in other comprehensive income of the investee in other comprehensive income. Dividends received or receivable from associates and joint ventures are recognised as a reduction in the carrying amount of the investment. When the Group's share of losses in an equity-accounted investment equals or exceeds its interest in the entity, including any other unsecured long-term receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the other entity. Unrealised gains on transactions between the Group and its associates and joint ventures are eliminated to the extent of the Group's interest in these entities. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of equity accounted investees have been changed where necessary to ensure consistency with the policies adopted by the Group. The carrying amount of equity-accounted investments is tested for impairment in accordance with the policy described in note D12 e).

B4 b) Breakdown of interest in associates & joint venture

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

Name of entity	Country of incorporation	% of ownership interest		Nature of relationship	Measurement method	Net investment		Equity accounted (loss)/profit	
		2017	2016			2017	2016	2017	2016
		\$000s	\$000s			\$000s	\$000s		
Chengdu Shen-Timemaker Crystal Technology Co. Ltd ¹	China	40%	40%	Associate	Equity method	5,370	6,842		
Chengdu Timemaker Crystal Technology Co. Ltd ¹	China	40%	40%	Associate	Equity method	2,157	1,411		
Shenzhen Taixiang Wafer Co. Ltd ¹	China	40%	40%	Associate	Equity method	403	436		
Total Timemaker Group						7,930	8,689	24	(704)
Thinextra Pty Limited ³	Australia	42%	40%	Associate	Equity method	4,074	1,626	(2,123)	(95)
Total carrying amount of associates						12,004	10,315	(2,099)	(799)
Centum Rakon India Private Ltd ²	India	49%	49%	Joint Venture	Equity method	3,722	6,798	45	(103)
Total carrying amount of equity accounted associates and joint venture						15,726	17,113	(2,054)	(902)

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

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

³ The Group has a 42% interest in Thinextra Pty Limited ('Thinextra'), an 'Internet of Things' business, refer note B4 d).

B4 c) Impairment of investment in CRI

Accounting policy

The carrying amounts of the investment in CRI is reviewed at each balance date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated being the higher of an asset's fair value less costs to sell and the asset's value in use. An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognised in the statement of comprehensive income. This calculation requires the use of estimates which are outlined in note B5 c).

Impairment

The future cash flow projections for the products manufactured in India are lower than at the time of the previous review due to the long range revenue forecast which has reduced as a result of expected technology replacement resulting in products being manufactured in other CGUs within the Group. This results in an impairment of \$3,164,000 (2016: nil). The carrying value is equivalent to the recoverable amount determined on a value in use basis.

B4 d) Investment in Thinextra

Thinextra Pty Limited ('Thinextra') is an 'Internet of Things' (or "IoT") business that started in 2016. Thinextra'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. Thinextra'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.thinextra.com.

During the year Rakon invested a further AU\$4.2m in Thinextra. Rakon's shareholding would reduce from 42.3% to 37.6% in the event that Thinextra's founding shareholders chose to exercise all their outstanding options. The Directors have concluded that Rakon does not have control over Thinextra and continues to be accounted for as an associate.

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

B4 e) Merger within the Timemaker Group

During the prior year the operations of Chengdu Shen-Timemaker Crystal Technology Co. Limited were closed down, with all manufacturing transferred to Chengdu Timemaker Crystal Technology Co. Limited. A process for merger of these two entities is underway and expected to be completed during 2018.

B4 f) Commitments and contingent liabilities in respect of associates and joint venture

There are no other commitments or contingent liabilities in respect of the Group's investment in associates and the joint venture.

Joint venture

CRI has received income tax assessments for the 2010 to 2014 years which are being appealed. The assessments show:

- a decrease in tax losses of \$1.0m (tax value \$346,000) for the 2010 year compared with the return filed,
- an increase in taxable income of \$2.2m (tax value \$761,000) and \$2.1m (tax value \$726,000) for the 2011 and 2012 years respectively.

The directors of CRI believe the positions are likely to be upheld, accordingly no provision was made in CRI's financial statements.

B4 g) Summarised financial information for associates and joint venture

The tables below provide summarised financial information for the associates and joint venture of the Group. The information disclosed reflects the amounts presented in the financial statements of the relevant associates and joint venture 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. Figures for the total Timemaker group are an aggregate of Chengdu Shen-Timemaker Crystal Technology Co. Limited, Chengdu Timemaker Crystal Technology Co. Limited and Shenzhen Taixiang Wafer Co. Limited.

	Centum Rakon India Private Ltd		Thinextra Pty Ltd	
	2017	2016	2017	2016
	\$000s	\$000s	\$000s	\$000s
Summarised balance sheet				
Current assets				
Cash & cash equivalents	3,131	2,700	3,792	1,432
Other current assets	10,416	9,233	1,586	44
Total current assets	13,547	11,933	5,378	1,476
Non-current assets	6,468	7,842	6,058	542
Current liabilities				
Financial liabilities (excluding trade payables)	2,843	2,480	341	-
Other current liabilities	2,972	3,275	2,059	100
Total current liabilities	5,815	5,755	2,400	100
Non-current liabilities				
Other non-current liabilities	146	146	-	-
Total non-current liabilities	146	146	-	-
Net assets	14,054	13,874	9,036	1,918
	Centum Rakon India Private Ltd		Thinextra Pty Ltd	
	2017	2016	2017	2016
	\$000s	\$000s	\$000s	\$000s
Summarised statement of comprehensive income				
Revenue	15,523	17,868	369	81
Interest Income	137	91	31	1
Depreciation and amortisation	(2,044)	(2,275)	55	-
Interest expenses	(102)	(244)	-	-
(Loss)/profit for the period	97	(181)	(4,586)	(255)

	Centum Rakon India Private Ltd		Thinextra Pty Ltd	
	2017	2016	2017	2016
	\$000s	\$000s	\$000s	\$000s
Reconciliation of net assets to carrying amount				
Rakon's share in %	49%	49%	42%	40%
Rakon's share of associates' and joint venture's net assets	6,886	6,798	3,821	767
Goodwill	-	-	960	955
Translation movement	-	-	(40)	(96)
Gain on share price dilution not recognised	-	-	(667)	-
Carrying amount	6,886	6,798	4,074	1,626
Movement in carrying amount				
Opening net assets 1 April	6,798	7,015	1,626	-
Equity accounted (loss)/profit	45	(103)	(2,123)	(95)
Foreign exchange movement	43	1,139	(58)	-
Additional capital contribution during the year	-	-	4,629	1,721
Dividend received	-	(1,253)	-	-
Carrying amount	6,886	6,798	4,074	1,626
Impairment booked for the year ended 31 March 2017	(3,164)	-	-	-
Net carrying amount	3,722	6,798	4,074	1,626

	Chengdu Shen-Timemaker Crystal Technology Co. Ltd		Chengdu Timemaker Crystal Technology Co. Ltd		Shenzhen Taixiang Wafer Co. Ltd		Total Timemaker Group	
	2017	2016	2017	2016	2017	2016	2017	2016
	\$000s	\$000s	\$000s	\$000s	\$000s	\$000s	\$000s	\$000s
Summarised balance sheet								
Current assets								
Cash & cash equivalents	-	29	1,947	2,404	2	3	1,949	2,436
Other current assets	13,339	17,052	9,982	9,664	1,113	1,215	24,434	27,931
Total current assets	13,339	17,081	11,929	12,068	1,115	1,218	26,383	30,367
Non-current assets	1,389	2,239	18,068	19,571	1	2	19,458	21,812
Current liabilities								
Financial liabilities (excluding trade payables)	-	448	6,621	8,192	-	-	6,621	8,640
Other current liabilities	1,303	1,768	17,410	19,811	109	129	18,822	21,708
Total current liabilities	1,303	2,216	24,031	28,003	109	129	25,443	30,348
Non-current liabilities								
Other non-current liabilities	-	-	-	108	-	-	-	108
Total non-current liabilities	-	-	-	108	-	-	-	108
Net assets	13,425	17,104	5,966	3,528	1,007	1,091	20,398	21,723

	Chengdu Shen-Timemaker Crystal Technology Co. Ltd		Chengdu Timemaker Crystal Technology Co. Ltd		Shenzhen Taixiang Wafer Co. Ltd		Total Timemaker Group	
	2017	2016	2017	2016	2017	2016	2017	2016
	\$000s	\$000s	\$000s	\$000s	\$000s	\$000s	\$000s	\$000s
Summarised statement of comprehensive income								
Revenue	959	1,787	18,692	15,245	-	-	19,651	17,032
Depreciation and amortisation	(640)	(328)	(1,388)	(1,281)	-	-	(2,028)	(1,609)
Interest expenses	(15)	(166)	(629)	(671)	-	-	(644)	(837)
(Loss)/profit for the period	(2,413)	(1,964)	2,445	294	-	-	32	(1,670)

	Chengdu Shen-Timemaker Crystal Technology Co. Ltd		Chengdu Timemaker Crystal Technology Co. Ltd		Shenzhen Taixiang Wafer Co. Ltd		Total Timemaker Group	
	2017	2016	2017	2016	2017	2016	2017	2016
	\$000s	\$000s	\$000s	\$000s	\$000s	\$000s	\$000s	\$000s
Reconciliation of net assets to carrying amount								
Rakon's share in %	40%	40%	40%	40%	40%	40%	40%	40%
Rakon's share of associates' and joint venture's net assets	5,370	6,842	2,386	1,411	403	436	8,159	8,689
Other comprehensive income prior year adjustment	-	-	(229)	-	-	-	(229)	-
Carrying amount	5,370	6,842	2,157	1,411	403	436	7,930	8,689
Movement in carrying amount								
Opening net assets 1 April							8,689	8,697
Equity accounted (loss)/profit							24	(704)
Foreign exchange movement							(783)	696
Carrying amount							7,930	8,689

B5. Non-financial assets & liabilities

B5 a) Inventories

Accounting policy

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

Breakdown of inventories

	2017	2016
	\$000s	\$000s
Raw materials	7,167	10,523
Work in progress	12,551	15,049
Finished goods	4,568	4,258
Total inventories	24,286	29,830

Obsolescence

An inventory obsolescence provision of \$8,181,000 (2016: \$6,154,000) is included in the inventory figures above. Significant judgements made in determining the provision include:

- Ageing of inventory
- Forecast revenue and likely consumption of inventory

- Historical revenue and actual consumption of inventory
- Specific identification of items of inventories for which the net realisable value is deemed to be lower than cost

During the year inventory of \$2,077,000 (2016: \$1,244,000) was scrapped of which \$1,618,000 (2016: \$799,000) was provided for in the prior year. The net amount included in cost of sales from the movement in the obsolescence provision was \$3,645,000 (2016: \$2,091,000).

B5 b) Intangible assets

Accounting policy

Amortisation

Amortisation is charged to the statement of comprehensive income on a straight line basis over the estimated useful lives below:

Goodwill	Nil
Patents	20 years
Software	1 – 10 years
Product development	1 – 5 years
Assets under course of construction	Nil

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.

Patents and software

Identifiable intangible assets that are acquired by the Group are stated at cost less accumulated amortisation and impairment losses. Subsequent expenditure on intangible assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

Research and development

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

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

Impairment

During the year specific product development projects and projects in progress were reviewed for recoverability. This was based on the expected cash flows to be generated by the projects. It was found the expected cash flows had reduced and were unlikely to support the carrying values. As a result, these specific projects were fully impaired. The impairment was within the New Zealand and France cash generating units. Impairment of goodwill which relates to the same subset of products manufactured in India for the telecommunications market segment is outlined in note B5 c).

Breakdown of intangible assets

	Goodwill \$000s	Patents \$000s	Software \$000s	Product development \$000s	Assets under construction \$000s	Total \$000s
At 31 March 2015						
Cost	2,209	3,226	8,247	5,863	5,518	25,063
Accumulated amortisation & impairment	-	(2,393)	(6,802)	(1,321)	-	(10,516)
Net book value	2,209	833	1,445	4,542	5,518	14,547
Year ended 31 March 2016						
Opening net book value	2,209	833	1,446	4,542	5,518	14,548
Foreign exchange differences	126	73	54	228	415	896
Additions - acquired separately	-	-	142	-	-	142
Additions - internally developed	-	-	-	339	1,600	1,939
Disposals	-	-	-	(94)	-	(94)
Amortisation charge	-	(368)	(685)	(1,622)	-	(2,675)
Amortisation reversal on disposals	-	-	-	94	-	94
Transfers	-	-	7	3,538	(3,545)	-
Closing net book amounts	2,335	538	964	7,025	3,988	14,850
At 31 March 2016						
Cost	2,335	3,409	8,584	9,486	3,988	27,802
Accumulated amortisation & impairment	-	(2,871)	(7,620)	(2,461)	-	(12,952)
Net book value	2,335	538	964	7,025	3,988	14,850
Year ended 31 March 2017						
Opening net book value	2,335	538	964	7,025	3,988	14,850
Foreign exchange differences	(489)	(80)	(27)	(866)	(280)	(1,742)
Additions - acquired separately	-	-	26	-	-	26
Additions - internally developed	-	-	141	29	1,061	1,231
Disposals	-	-	(5)	(534)	-	(539)
Amortisation charge	-	-	(498)	(1,620)	-	(2,118)
Amortisation reversal on disposals	-	-	5	424	-	429
Impairment	(1,846)	-	-	(824)	-	(2,670)
Transfers	-	-	154	822	(976)	-
Closing net book amounts	-	458	760	4,456	3,793	9,467
At 31 March 2017						
Cost	1,846	2,900	8,780	8,781	3,793	26,100
Accumulated amortisation & impairment	(1,846)	(2,442)	(8,020)	(4,325)	-	(16,633)
Net book value	-	458	760	4,456	3,793	9,467

Assets under construction includes \$2.7m relating to a product development project which is expected to be completed and commence amortisation in the coming year.

B5 c) Goodwill

Accounting policy

Goodwill acquired in a business combination is initially measured at cost and is the excess of the consideration transferred over the fair value of the Group's net identifiable assets acquired and liabilities assumed. If this consideration transferred is lower than the fair value of the net identifiable assets of the acquired subsidiary, associate or joint venture, the difference is recognised in profit or loss. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill on acquisition of associates and joint ventures is included in 'interest in associates/interest in joint venture' and is tested for impairment as part of the overall balance.

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

Goodwill is allocated to cash generating units ("CGUs") for the purpose of impairment testing. The allocation is made to those cash generating units or groups of cash generating units that are expected to benefit from the business combination in which the goodwill arose. Goodwill is allocated to the Group's cash generating units identified according to country of operation.

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

Geographical summary

A geographical level summary of the goodwill allocation is presented below and relates to the same subset of products manufactured in India for the telecommunications market segment.

	2017 \$000s	2016 \$000s
France	-	594
India –OCXO products transferred from France	-	1,741
Goodwill recognised in intangible assets (note B5 b)	-	2,335

Impairment

The future cash flow projections for the specific products manufactured in India for the France CGU are lower than at the time of the previous review. This is due to revenue forecasts from these specific products reducing as they are replaced by newer technology products which are expected to be manufactured in other locations within the Group. This result is an impairment to goodwill of \$1,846,000 (being the carrying value of goodwill as at 31 March 2017).

The investment in CRI was also impaired by \$3,164,000, refer note B4 c).

Critical accounting estimates and assumptions

The Group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated in note D12 e). The recoverable amounts of cash generating units have been forecasted based on 'value in use' calculations. These calculations require the use of estimates.

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

Key assumptions used in 'value in use' calculations

CGU	Assumption	Range	5 Year CAGR
New Zealand	Annual sales growth rate ¹	2% to 10%	6.5%
	Gross margin % ²	47% to 52%	n/a
France	Annual sales growth rate ¹	-3% to 9%	4.3%
	Gross margin % ²	34% to 43%	n/a
China	Annual net profit growth rate ³	0% to 15%	3.4%
	Free cash flow ³	0% to 249%	81.1%
India	Annual net profit growth rate ⁴	-104% to 55%	-89%
	Free cash flow ⁴	-40% to 49%	-11.6%

¹ Sales growth – Management have 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 operates, future product innovation and estimations of its own share of the market reflective of the quality of its product range and technology advantages. Management have forecast a future increase in revenues for the NZ and France CGUs specifically as a result of its product positioning which is expected to meet the future increased technology specification that will be demanded in the telecommunications segment.

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.

³ *China, net profit* – Management forecasted net profit based on combination of factors including industry forecasts for the key market segments, future product innovation and estimations of its own share of the market reflective of the quality of its product range and technology advantages.

⁴ *India, net profit* – Management forecasted net profit based on combination of factors including industry forecasts for the key market segments, future product innovation and estimations of its own share of the market reflective of the quality of its product range and technology advantages.

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

Significant estimate: impact of possible changes in key assumptions

New Zealand CGU

If the sales used in the value-in-use calculation had been 2.5% lower than management’s estimates the Group would have recognised an impairment against the carrying amount of net assets of \$3.8m.

If the gross margin used in the value-in-use calculation had been 2.5% lower than management’s estimates the Group would have recognised an impairment against the carrying amount of net assets of \$4.0m.

If the pre-tax discount rate applied to the cash flow projections was 16.3% instead of 15.7%, the recoverable amount of the CGU would equal its carrying amount.

France CGU

The recoverable amount is estimated to be \$15.5m (2016: \$56.6m).

If the sales used in the value-in-use calculation had been 4.5% lower than management’s estimates the Group would have recognised an impairment against the carrying amount of net assets of \$349,000.

If the gross margin used in the value-in-use calculation had been 2.5% lower than management’s estimates the Group would have recognised an impairment against the carrying amount of net assets of \$1.8m.

If the pre-tax discount rate applied to the cash flow projections was 18.7% instead of 14.0%, the recoverable amount of the CGU would equal its carrying amount.

China CGU

The recoverable amount is estimated to be \$23.1m (2016: \$10.3m). This exceeds the carrying amount of the CGU at balance date by \$15.5m (2016: \$1.7m). There are no reasonably possible changes in any of the key assumptions that would have caused the carrying amount to exceed its recoverable amount.

India CGU

The recoverable amount is estimated to be \$3.7m (2016: \$10.5m). This exceeds the carrying amount of the CGU at balance date by \$3,000 (2016: \$2.3m). Any changes to the key assumptions would likely cause the carrying amount to exceed its recoverable amount.

Cash flows beyond the five year period are extrapolated using the estimated growth rates stated below.

	Growth rate		Discount rate	
	2017	2016	2017	2016
New Zealand	2.5%	2.5%	15.7%	15.0%
United Kingdom	2.5%	2.5%	12.7%	13.7%
France	2.5%	2.5%	14.0%	14.7%
China	2.5%	2.5%	15.3%	14.3%
India	2.5%	2.5%	27.0%	27.4%

B5 d) Assets classified as held for sale

Accounting policy

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

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

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

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

Land and buildings at Argenteuil, France

	2017 \$000s	2016 \$000s
Current asset held for sale		
Land & building	1,969	-
	1,969	-

During the year a conditional agreement for the sale of land and buildings at Argenteuil, France was entered into. In March 2017 the Directors consider the contract was sufficiently progressed to consider the sale highly likely and expected to be completed before September 2017. At this time the land and buildings were reclassified as held for sale and measured at the lower of their carrying amount and fair value less costs to sell. The fair value of the land was based on the sale price in the agreement which was higher than carrying amount therefore no change to the carrying amount was made.

B6. Contributed equity

B6 a) Share capital

Accounting policy

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.

Breakdown of share capital

	Number of shares	Ordinary shares \$	\$ per share
At 1 April 2015	191,038,591	173,881,000	\$0.91
<i>Shares issued</i>			
Ordinary shares – cash	-	-	-
At 31 March 2016	191,038,591	173,881,000	\$0.91
<i>Shares issued</i>			
Ordinary shares – cash	38,016,681	7,154,000	\$0.19
At 31 March 2017	229,055,272	181,035,000	\$0.79

At 31 March 2017 the total number of ordinary shares, including treasury shares, is 229,055,272 shares (2016: 191,038,591) made up as follows:

- 226,961,983 are fully paid shares (2016: 188,945,302).
- 321,972 unpaid ordinary shares were on issue and held in trust on behalf of participants in the Rakon Share Plan (2016: 462,411).
- 1,771,317 unpaid ordinary shares were on issue and held by Rakon ESOP Trustee Limited for future allocation to participants (2016: 1,630,878).

Investment by Siward

Siward is a Taiwan based crystal manufacturer which is listed on the Taiwan Stock Exchange. In February 2017 Siward paid US\$10m cash in return for 38,016,681 new fully paid ordinary shares of Rakon and rights arising from a technology license agreement. Siward has taken up one new appointment to Rakon's board. Refer also note B2 b).

C. Risk

C1. Critical accounting estimates and assumptions

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, rarely equal the related actual results. The estimates and assumptions that involved a higher degree of judgement or complexity, and of items which are more likely to be materially adjusted due to estimates and assumptions turning out to be wrong are included in section B and C. Specifically these are:

- Investment by Seward, attribution and apportionment of proceeds (note B2 b)
- Impairment of investment in CRI (note B4 c)
- Calculation of inventory obsolescence (note B5 a)
- Estimated useful life of intangible assets (note B5 b)
- Estimated goodwill impairment (note B5 c)
- Going concern (note C3 c)

Estimate and judgements not included above are detailed below.

C1 a) Impairment

The Group, as required by NZ IFRS, has assessed as at 31 March 2017 whether any indicators of impairment exist. In doing so management and the Directors have considered factors including the current profitability of the Group and the market capitalisation value of the Company in comparison to the Group's net asset value. In undertaking such an assessment, impairments were taken up as detailed in note B2 d). No other impairment were identified and the Directors consider the net asset value of the Group to be appropriate.

C1 b) Income taxes

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

C2. Financial risk management

The Group has exposure to the following risks:

- Credit risk
- Liquidity risk
- Market risk

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

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

The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls and to monitor risk adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

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

C2 a) Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arises principally from the Group's receivables from customers.

Trade and other receivables

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The demographics of the Group's customer base, including the default risk of the industry and country, in which customers operate, has less influence on credit risk. The Group's most significant customer accounts for 10% (2016: 13%) of external revenue with the next most significant customer accounting for 8% (2016: 9%) of external revenue. The Group's most significant customer accounts for \$9.5m (2016: \$14.6m) revenue, is in the positioning segment and is supplied out of New Zealand.

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

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

Credit quality of financial assets

Exposure to credit risk

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at 31 March is set out below other than for derivatives which is shown in note D2 b).

	Carrying amount	
	2017	2016
	\$000s	\$000s
Financial assets at fair value through profit or loss (note D2 b)	2	227
Trade and other receivables (note B3 c)	29,614	29,977
Cash and cash equivalents (note D2 a)	3,305	3,370
Forward exchange contracts and collar options used for hedging (note D2 b)	294	1,925
Total exposure to credit risk	33,215	35,499

The maximum exposure to credit risk for trade receivables at 31 March by currency of denomination is set out in note B3 c).

C2 b) Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

Typically the Group ensures that it has sufficient cash on demand to meet expected operational expenses for a period of 60 days, including the servicing of financial obligations; this excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters. In addition, the Group maintains the following lines of credit:

Current year

- \$6.1m cash advance facility with ASB. The interest rate is reset every 30 – 90 days and interest is payable based on the bank bill rate for that interest period, the term funding premium and the applicable margin. The drawn down balance at balance date was \$4.5m and the facility expiry date is May 2017.
- \$9.3m overdraft limit. Interest is payable at the ASB Corporate Indicator Rate plus applicable margin. Also refer to note B3 d).

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

During the year the Company reduced its cash advance facilities after application of proceeds from the investment by Siward. Refer note B2 b) and note B6.

On 8 May 2017 Rakon renewed its facilities with ASB, refer also notes B3 d) and C3 b).

Prior year

- \$15.1m cash advance facility with ASB. The interest rate is reset every 30 – 90 days and interest is payable based on the bank bill rate for that interest period, the term funding premium and the applicable margin. The drawn down balance at balance date was \$12m and the facility expiry date is May 2017.
- \$8.6m cash advance facility with ASB. The interest rate is reset every 30 – 90 days and interest is payable based on the bank bill rate for that interest period, the term funding premium and the applicable margin. The facility expiry date is September 2017.
- \$9.3m overdraft limit. Interest is payable at the ASB Corporate Indicator Rate plus applicable margin. Also refer to note B3 d).

Facilities are secured by a general security deed over all the present and future assets and undertakings of the Group.

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

31 March 2017	Carrying amount \$000s	6 months or less \$000s	6 – 12 months \$000s	1 – 2 years \$000s	2 – 5 years \$000s
<i>Financial liabilities</i>					
Secured bank loans (note B3 d)	4,500	4,558	-	-	-
Derivatives (note D2 b)	226	(42)	(39)	(145)	-
Trade and other payables (note B3 e)	15,246	(15,246)	-	-	-
Bank overdraft (note B3 d)	3,229	(3,229)	-	-	-
Finance leases (note B3 d)	61	(30)	-	(31)	-
Total financial liabilities	23,262	(13,989)	(39)	(176)	-

31 March 2016	Carrying amount \$000s	6 months or less \$000s	6 – 12 months \$000s	1 – 2 years \$000s	2 – 5 years \$000s
<i>Financial liabilities</i>					
Secured bank loans (note B3 d)	12,000	(336)	(336)	(12,112)	-
Derivatives (note D2 b)	1,567	(484)	(332)	(268)	(483)
Trade and other payables (note B3 e)	17,526	(17,526)	-	-	-
Bank overdraft (note B3 d)	3,931	(3,931)	-	-	-
Finance leases (note B3 d)	15	(15)	-	-	-
Total financial liabilities	35,039	(22,292)	(668)	(12,380)	(483)

C2 c) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, whilst optimising the return on risk.

The Group enters into derivatives in the ordinary course of business and also incurs financial liabilities, in order to manage market risks. All such transactions are carried out within the guidelines set by the Board and Audit and Risk Management Committee. Generally the Group seeks to apply hedge accounting in order to manage volatility in the statement of comprehensive income.

Currency risk

The Group is exposed to currency risk on sales and purchases that are denominated in a currency other than the respective functional currencies of the Group's entities, primarily New Zealand Dollars (NZD), Sterling (GBP) and the Euro (EUR). The currencies in which these sales and purchases transactions are primarily denominated are US Dollars (USD), Japanese Yen (JPY), NZD, GBP and EUR.

The Group uses foreign currency forward exchange contracts and collar options to hedge its currency risk. Under the Group's Treasury Management Policy, minimum hedging of 50% and 25% of estimated foreign currency exposure in respect of forecast sales and purchases is required over the next 0 – 12 and 13 – 24 months respectively, subject to any variation approved by the Board. At 31 March 2017 61% and 37% of currency exposures over the next 0 – 12 and 13 – 24 months respectively are hedged with outstanding foreign currency forward exchange contracts and collar options.

Exposure to currency risk

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

	USD	EUR	GBP	JPY
	\$000s	\$000s	\$000s	\$000s
31 March 2017				
Rakon Limited	13,017	229	370	(1,550)
Rakon UK Limited	(47)	10	-	2
Rakon France SAS	7,039	-	(223)	(390)
Rakon Group	20,009	239	147	(1,938)

	USD	EUR	GBP	JPY
	\$000s	\$000s	\$000s	\$000s
31 March 2016				
Rakon Limited	13,216	244	435	(1,554)
Rakon UK Limited	(48)	10	-	2
Rakon France SAS	7,147	-	(262)	(390)
Rakon Group	20,315	254	173	(1,942)

The following significant exchange rates applied during the year:

	Average rate		Reporting date rate	
NZD	2017	2016	2017	2016
USD	0.7022	0.6808	0.7017	0.6911
EUR	0.6567	0.6165	0.6504	0.6105
GBP	0.5687	0.4532	0.5647	0.4803
JPY	79.3065	81.5911	77.9300	77.7505

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 2016.

31 March 2017	Equity \$000s	Profit or loss \$000s
USD	2,223	2,223
EUR	27	27
GBP	16	16
JPY	(215)	(215)

31 March 2016	Equity \$000s	Profit or loss \$000s
USD	2,257	2,257
EUR	28	28
GBP	19	19
JPY	(216)	(216)

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 2016.

	Fair value \$000s	Equity \$000s	Profit or loss \$000s
31 March 2017			
Forward foreign exchange contracts – cash flow hedges			
Net buy NZD sell USD	211	(2,534)	-
Net buy GBP sell USD	-	-	-
Forward foreign exchange contracts – held for trading			
Net buy NZD sell USD	-	-	-
Net buy AUD sell NZD	-	-	-
Net buy GBP sell USD	-	-	-
31 March 2016			
Forward foreign exchange contracts – cash flow hedges			
Net buy NZD sell USD	518	(2,399)	-
Net buy GBP sell USD	(37)	(303)	-
Forward foreign exchange contracts – held for trading			
Net buy NZD sell USD	-	-	-
Net buy AUD sell NZD	227	(876)	(876)
Net buy GBP sell USD	(3)	(16)	(16)

A 10% strengthening 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 2016.

	Fair value \$000s	Equity \$000s	Profit or loss \$000s
31 March 2017			
Forward foreign exchange contracts – cash flow hedges			
Net buy NZD sell USD	211	2,074	-
Net buy GBP sell USD	-	-	-
Forward foreign exchange contracts – held for trading			
Net buy NZD sell USD	-	-	-
Net buy AUD sell NZD	-	-	-
Net buy GBP sell USD	-	-	-
31 March 2016			
Forward foreign exchange contracts – cash flow hedges			
Net buy NZD sell USD	518	1,963	-
Net buy GBP sell USD	(37)	248	-
Forward foreign exchange contracts – held for trading			
Net buy NZD sell USD	-	-	-
Net buy AUD sell NZD	227	716	716
Net buy GBP sell USD	(3)	13	13

Interest rate risk

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 rate interest rate swap agreements.

Profile

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

	2017	2016
	\$000s	\$000s
Variable rate instruments		
Financial assets (note D2 a)	3,305	3,370
Financial liabilities	(3,229)	(11,077)
Net variable rate instruments	76	(7,707)
Fixed rate instruments		
Financial assets	-	-
Financial liabilities	(3,061)	(6,015)
Net fixed rate instruments	(3,061)	(6,015)

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 2017 was performed on the same basis as 2016.

	Equity	Profit or loss
	\$000s	\$000s
31 March 2017		
Variable rate instruments	1	1
Fixed rate instruments	85	-
31 March 2016		
Variable rate instruments	(77)	(77)
Fixed rate instruments	171	-

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

C3. Capital management

The Board's policy is to maintain a capital base (made up of debt and equity) so as to sustain future development of the business. There were no changes to the Group's approach to capital management during the year.

C3 a) Current year

For the year ended 31 March 2017 the Group reported a net loss after tax for the year of \$13.6m (2016: loss of \$1.7m) and net operating cash inflows of \$9.5m (2016: inflow of \$7.3m). As at 31 March 2017 the Group had net assets of \$74.6m (2016: \$83.4m), working capital of \$31.4m (2016: \$39.9m) and cash balances of \$76,000 (2016: -\$561,000).

In the 2017 year the Group was adversely impacted by a challenging market, particularly reduced spend in telecommunications infrastructure resulting in a decline in revenues of \$10.8m in the telecommunication segment. The Group results have also been adversely impacted from restructures that were carried out in the New Zealand and France cash generating units. This resulted in non-recurring costs negatively impacting the current year earnings.

The Group ensured funding was in place to assist with operational cash requirements and the ongoing strategic plan for the business through the arrangement of bank facilities and equity injection from Seward of \$7.2m

The Group is reliant on its bank facility (refer note B3 d) 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.

C3 b) Subsequent event – renewal of bank facilities

The \$6.1m debt facility with ASB was renewed on 8 May 2017 with a new maturing date of May 2018. Additional to this, the Group has agreed a reduction of \$1.5m of its overdraft facility (from \$9.3m to \$7.8m) that was assessed as surplus to the Group's requirements. At 30 April (the last management reporting date), the Group's net debt taking into account these facilities and the cash on hand is \$280,000 and additional facilities of \$8.0m was available.

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

Compliance with bank covenants is dependent on the Group's financial performance. The Directors have approved a five year forecast and business valuation impairment model. The Directors forecast that the Group will trade at levels appropriate to manage its working capital requirements and meet its bank covenants for the period of 12 months from the date of authorisation of these financial statements, under its new facility agreement signed on 8 May 2017 as detailed in note B3 d). The Directors have considered the achievability of the assumptions underlying those forecasts including forecast sales and positioning the business for the future. Forecasts indicate that the Group will meet all covenants and net cash requirements for the 12 months from the date of authorisation of these financial statements and that there is sufficient headroom to allow for downward sensitivities should the actual revenue and margin levels be lower than forecast.

As described in note B5 d) the land and buildings at Argenteuil, France is held for sale. The funds from the sale once complete, will be applied to reduce the debt facility under the renewed facility.

C3 c) Going concern

While current financial forecasts for the Group show continued compliance with its obligations under its bank facility agreement, the Directors consider there are potential uncertainties within the forecast assumptions required to meet profitability forecasts related predominantly to achieving forecast sales and margins.

In assessing the going concern assumption the Directors have considered the risk and mitigating actions that can be taken if the Group was unable to continue meeting its obligations under its bank facility agreement, and was unable to renegotiate the facility, meet profitability forecasts or obtain alternative sources of funding. The Directors believe that the options set out below are available to address any risk associated with doubt over the ability to continue as a going concern should they be required:

- the planned sale of the land and buildings at Argenteuil, France (where covenant calculations do not rely on the proceeds)
- reducing operating costs (providing immediate benefit in earnings and cash flow)
- reducing the level of planned capital expenditure relating to investment for longer term benefit (providing a potential immediate benefit in cash flow of \$2m annually)
- trade debtor financing (due to the quality of debtors and history of recoverability)
- raising of new capital
- sale of investments
- license of intellectual property

After assessing the uncertainties and options described above, the Directors reached the conclusion that the Group is a going concern.

D. Other information

D1. Other profit and loss information

D1 a) Other gains – net

	2017	2016
	\$000s	\$000s
Loss on disposal of property, plant, equipment and intangibles	(330)	(116)
Foreign exchange gains/(losses) – net		
Forward foreign exchange contracts		
Held for trading	798	275
(Losses)/gains on revaluation of foreign denominated monetary assets and liabilities ¹	(29)	712
Total foreign exchange gains – net	769	988
Total other gains – net	439	871

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

During the year derivatives were closed out to take advantage of favourable exchange rates resulting in a gain of \$905,000 which related to forecast sales expected to occur during 2017. Additional derivatives closed out related to forecast sales expected to occur during 2018. At balance date a gain of \$1,096,000 (2016: nil) is held within the 'cash flow hedge reserve – realised' on the balance sheet in relation to these. This is expected to be recognised in the statement of comprehensive income during 2018 as the original forecast transactions occur.

D1 b) Employee benefits expenses

Accounting policy

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 entity expects to pay.

Breakdown of employee benefits expenses

	2017	2016
	\$000s	\$000s
Wages and salaries	37,223	41,870
Contributions to defined contribution plans	583	576
(Decrease)/increase in liability for French retirement indemnity plan (note D3 b)	(74)	248
Increase in liability for long service leave (note D3 b)	15	102
Redundancy cost (note D3 b)	3,043	195
Employee share scheme (note D5)	42	81
Total employee benefits expenses	40,832	43,072

D1 c) Net finance (costs)/income

Accounting policy

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

Breakdown of finance (costs)/income

	2017	2016
	\$000s	\$000s
Financial income		
Interest income	3	3
Financial expenses		
Interest expense on bank borrowings	(1,416)	(1,128)
Unwinding of provision discount	(19)	-
Total financial expenses	(1,435)	(1,128)
Net finance costs	(1,432)	(1,125)

D1 d) Income tax expense

	2017	2016
	\$000s	\$000s
Current tax	(525)	(713)
Deferred tax credit/(expense) (note D4)	458	(161)
Income tax expense	(67)	(874)

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.

	2017	2016
	\$000s	\$000s
Reconciliation of income tax expense		
Loss before tax	(13,491)	(857)
Tax calculated at domestic tax rates applicable to profits in the respective countries	3,904	459
Foreign exchange difference in income tax calculation	(8)	(10)
Expenses not deductible	(119)	(47)
Non-taxable income	157	-
Expenses deductible for tax purposes	-	41
Income taxable for tax purposes	-	(83)
Prior year adjustment	(193)	(447)
Associate and joint venture results reported net of tax	(586)	(153)
Forfeited non resident withholding tax and branch foreign tax	-	-
Recognition and utilisation of previously unrecognised tax losses	-	1,148
Tax losses for which no deferred income tax asset was recognised	(3,222)	(1,782)
Income tax expense	(67)	(874)

The weighted average applicable tax rate was -0.5% (2016: -86%).

D2. Other financial assets and liabilities

D2 a) Cash and cash equivalents

Accounting policy

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

Breakdown of cash and cash equivalents

	2017	2016
	\$000s	\$000s
Cash at bank and on hand	3,305	3,370
Cash, cash equivalents and bank overdrafts include the following for the purposes of the cash flow statement		
Cash and cash equivalents	3,305	3,370
Bank overdrafts (note B3 d)	(3,229)	(3,931)
Total cash and cash equivalents	76	(561)

D2 b) Derivative financial instruments

	2017 Assets \$000s	2017 Liabilities \$000s	2016 Assets \$000s	2016 Liabilities \$000s
Interest rate swaps – cash flow hedge	-	145	-	330
Forward foreign exchange contracts – held for trading	2	1	227	3
Forward foreign exchange contracts – cash flow hedges	211	-	749	268
Forward foreign exchange collar option – cash flow hedges	83	80	1,176	966
Forward foreign exchange collar option – held for trading	-	-	-	-
Total derivative financial instruments	296	226	2,152	1,567
Less: non-current forward foreign exchange – cash flow hedges	115	-	1,466	421
Current - derivative financial instruments	181	226	686	1,146

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

Forward foreign exchange contracts

The notional principal amounts of the outstanding forward foreign exchange contracts at 31 March 2017 were \$23,087,000 (2016: \$32,527,000).

The hedged highly probable forecast transactions denominated in foreign currency are expected to occur at various dates during the next 24 months. Gains and losses recognised in the hedging reserve in equity on forward foreign exchange contracts as of 31 March 2017 will be recognised in the statement of comprehensive income in the period or periods during which the hedged forecast transaction affects the statement of comprehensive income.

Interest rate swap contracts

At balance date one interest rate swap was in place with \$3m of borrowings fixed at 7.17% expiring June 2020. The interest rate swap, with a fair value of -\$145,000 (2016: -\$330,000), is exposed to fair value movements if interest rates change.

D2 c) Recognised fair value measurements

The Group considers the below methods in estimating the fair value of a financial instrument:

- Level 1 – the fair value is calculated using quoted prices in active markets.
- Level 2 – the fair value is estimated using inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices).
- Level 3 – the fair value is estimated using inputs for the asset or liability that are not based on observable market data. Investments in unlisted equity shares for which there is currently no active market are valued at cost less impairment.

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

If all significant inputs required to fair value an instrument are observable, the instrument is included in Level 2. The Group's foreign exchange contracts, collar options and interest rate swaps are Level 2 at 31 March 2017 and 31 March 2016.

	Year ended 31 March 2017 \$000s	Year ended 31 March 2016 \$000s
<i>Financial assets – derivative instruments</i>		
Foreign exchange contracts and collar options – held for trading	2	227
Foreign exchange contracts and collar options – cash flow hedges	294	1,925
	296	2,152
<i>Financial liabilities – derivative instruments</i>		
Interest rate swaps	145	330
Foreign exchange contracts and collar options – held for trading	1	3
Foreign exchange contracts and collar options – cash flow hedges	80	1,234
	226	1,567

Specific valuation techniques include the fair value of forward foreign exchange contracts and collar options determined using forward exchange rates at the balance date, with the resulting value discounted back to present value.

There were no transfers between categories during the year.

D3. Other non-financial assets and liabilities

D3 a) Property, plant and equipment

Accounting policy

Initial recording and subsequent measurement

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

Subsequent costs

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.

Depreciation

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

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

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

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

Impairment

During the year specific equipment spare parts were deemed to be no longer useful due to technical obsolescence or age. As a result, these spare parts were fully impaired. These spare parts are included in the plant and equipment category and form part of the New Zealand cash generating unit.

Breakdown of property, plant and equipment

The following table includes land and buildings at Argenteuil, France which have been reclassified as held for sale, refer note B5 d).

	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 2015							
Cost	6,449	9,369	78,259	5,213	2,516	2,766	104,572
Accumulated depreciation & impairment	(4,068)	(7,392)	(69,377)	(4,786)	(2,037)	-	(87,660)
Net book value	2,381	1,977	8,882	427	479	2,766	16,912
Year ended 31 March 2016							
Opening net book value	2,381	1,977	8,882	427	479	2,766	16,912
Foreign exchange differences	402	95	145	(2)	28	258	926
Additions	-	126	2,148	160	10	1,021	3,465
Disposals	(29)	(29)	(719)	(468)	(39)	-	(1,284)
Depreciation charge	(98)	(502)	(2,954)	(266)	(125)	-	(3,945)
Depreciation reversal on disposals	29	29	613	456	33	-	1,160
Transfers	-	186	471	57	-	(714)	-
Closing net book amounts	2,685	1,882	8,586	364	386	3,331	17,234
At 31 March 2016							
Cost	7,304	10,116	82,251	5,132	2,654	3,331	110,788
Accumulated depreciation & impairment	(4,619)	(8,234)	(73,665)	(4,768)	(2,268)	-	(93,554)
Net book value	2,685	1,882	8,586	364	386	3,331	17,234
Year ended 31 March 2017							
Opening net book value	2,685	1,882	8,586	364	386	3,331	17,234
Foreign exchange differences	(164)	(25)	(10)	17	42	17	(123)
Additions	-	640	858	180	7	728	2,413
Disposals	-	(38)	(1,566)	(89)	(130)	-	(1,823)
Assets classified as held for sale	(1,969)	-	-	-	-	-	(1,969)
Depreciation charge	(23)	(554)	(2,579)	(266)	(69)	-	(3,491)
Depreciation reversal on disposals	-	19	1,055	61	129	-	1,264
Impairment	-	(10)	(736)	-	(14)	-	(760)
Transfers	-	141	1,938	6	-	(2,085)	-
Closing net book amounts	529	2,055	7,546	273	351	1,991	12,745
At 31 March 2017							
Cost	4,887	10,281	82,083	5,119	2,376	1,991	106,737
Accumulated depreciation & impairment	(4,358)	(8,226)	(74,537)	(4,846)	(2,025)	-	(93,992)
Net book value	529	2,055	7,546	273	351	1,991	12,745

D3 b) Provisions for other liabilities and charges

Accounting policies

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

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 of the time served, probability of attainment and discount rates. An actuarial valuation was performed at 31 March 2017.

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 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.

Lease make good

Rakon is required to restore the leased premises at Mt Wellington, Auckland, New Zealand to their original condition at the end of the respective lease terms. A provision has been 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.

Restructure provision

France restructure

In September 2013 the proposal for reorganisation was accepted by the Work Inspection Administration and the Workers Councils in France and communicated to the employees of Rakon France SAS as a plan to restructure.

During 2017 a proposal for re-organisation was discussed with the Work Inspection Administration and Workers Council in France and communicated to the employees of Rakon France SAS as a plan to restructure. Restructure related costs of \$2,242,000 were incurred.

At 31 March 2017 the balance of the restructuring provision represents the estimated costs to complete the Rakon France September 2013 and November 2016 plans to restructure.

Breakdown of provisions for other liabilities and charges

	Retirement provision \$000s	Long service leave \$000s	Restructure provision \$000s	Lease make good \$000s	Total \$000s
At 31 March 2015	1,895	427	847	-	3,169
Charged/(credited) to the statement of comprehensive income	248	102	195	-	545
Used during the year	(34)	(55)	(850)	-	(939)
At 31 March 2016	2,109	474	192	-	2,775
Charged/(credited) to the statement of comprehensive income	(74)	15	3,043	628	3,612
Used during the year	(94)	(72)	(2,402)	-	(2,568)
At 31 March 2017	1,941	417	833	628	3,819
Represented by					
Current portion	67	128	715	-	910
Non-current portion	1,874	289	118	628	2,909
Total provisions for other liabilities and charges	1,941	417	833	628	3,819

D4. Deferred income tax

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and current tax liabilities and when the deferred income taxes relate to the same fiscal authority. The offset amounts are as follows:

	2017	2016
	\$000s	\$000s
Deferred tax assets		
Deferred tax assets to be recovered after more than 12 months	5,340	5,528
Deferred tax assets to be recovered within 12 months	1,352	1,010
Total deferred tax assets	6,692	6,538
Deferred tax liabilities		
Deferred tax liabilities to be recovered after more than 12 months	(19)	(27)
Deferred tax liabilities to be recovered within 12 months	(5)	(7)
Total deferred tax liabilities	(24)	(34)
Net deferred tax asset	6,668	6,504

	2017	2016
	\$000s	\$000s
<i>The gross movement in the deferred income tax account is as follows:</i>		
At 31 March 2016	6,504	7,026
Foreign exchange differences	(186)	143
Losses transferred to subsidiaries	(148)	(245)
Deferred tax on cash flow hedge	40	(259)
Deferred tax on net investment hedge	-	-
Income statement credit/(expense) (note D1 d)	458	(161)
At 31 March 2017	6,668	6,504

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

	Property, plant & equipment	Intangibles	Employee benefits	Other ¹	Future income tax benefit	Total
	\$000s	\$000s	\$000s	\$000s	\$000s	\$000s
At 31 March 2015	625	(259)	519	2,721	3,420	7,026
(Charged)/credited to income statement	62	279	19	(528)	7	(161)
Losses transferred to subsidiaries	-	-	-	-	(245)	(245)
Credited to equity	-	-	-	(259)	-	(259)
Foreign exchange difference	-	(20)	-	163	-	143
At 31 March 2016	687	-	538	2,097	3,182	6,504
(Charged)/credited to income statement	(464)	-	(124)	1,061	(15)	458
Losses transferred to subsidiaries	-	-	-	-	(148)	(148)
Charged to equity	-	-	-	40	-	40
Foreign exchange difference	-	-	-	(186)	-	(186)
At 31 March 2017	223	-	414	3,012	3,019	6,668

¹ Includes deferred tax arising from financial arrangements and inventory provisioning.

Deferred income tax assets are recognised for tax losses to the extent the related tax benefit is expected to be realised through future taxable profits. At balance date Rakon Limited had tax losses of \$23,897,000 (2016: \$28,455,000) which have not been recognised in deferred income tax assets and have no expiry date. During the year a New Zealand IRD tax audit was completed for the years 2011 to 2015 resulting in the forfeiture of \$4,101,000 of tax losses.

During the prior year Rakon Limited recognised tax losses of \$4,540,000 not previously recognised in deferred income tax assets. These were utilised against prior year taxable income.

D5. Other reserves

	Foreign currency translation reserve	Hedging reserve	Share option reserve	Total
	\$000s	\$000s	\$000s	\$000s
At 31 March 2015	(28,909)	(567)	2,933	(26,543)
Cash flow hedges				
Fair value gains/(losses) in year	-	2,751	-	2,751
Tax on fair value gains	-	(770)	-	(770)
Transfers to sales	-	(1,819)	-	(1,819)
Tax on transfers to income tax expense	-	509	-	509
Currency translation differences				
Subsidiaries	6,833	-	-	6,833
Associates and joint venture	(1,835)	-	-	(1,835)
Net investment hedge – gross	-	-	-	-
Net investment hedge – tax	-	-	-	-
Other				
Fair value of share options issued	-	-	81	81
At 31 March 2016	(23,911)	104	3,014	(20,793)
Cash flow hedges				
Fair value gains/(losses) in year	-	999	-	999
Tax on fair value gains	-	45	-	45
Transfers to sales	-	19	-	19
Tax on transfers to income tax expense	-	(5)	-	(5)
Currency translation differences				
Subsidiaries	(4,365)	-	-	(4,365)
Associates and joint venture	798	-	-	798
Other				
Fair value of share options issued	-	-	42	42
At 31 March 2017	(27,478)	1,162	3,056	(23,260)

D6. Contingencies

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

D7. Commitments

D7 a) Capital commitments

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

	2017 \$000s	2016 \$000s
Property, plant and equipment	98	102
Intangible assets	36	49
Total capital commitments	134	151

D7 b) Leases

Accounting policy

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

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

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

Finance lease – Group as lessee

The Group has one finance lease for photocopiers with a carrying amount of \$65,000 (2016: \$7,000). This lease contract expires in 2019.

	2017	2016
	\$000s	\$000s
No later than 1 year	30	15
Later than 1 year and no later than 5 years	31	-
Total minimum lease payments	61	15
Less amounts representing finance charges	(3)	-
Present value of minimum lease payments	58	15
Included in the financial statements as		
Current borrowings (note B3 d)	30	15
Non-current borrowings (note B3 d)	31	-
Total finance lease included in borrowings	61	15

Operating lease commitments – Group as lessee

The Group leases various factories, offices and warehouses under non-cancellable operating lease agreements. The lease terms are between 1 and 9 years and the majority of lease agreements are renewable at the end of the lease period at market rate.

The Group also leases motor vehicles under operating lease agreements. The lease terms are for 3 years. The lease expenditure charged to the statement of comprehensive income during the year is disclosed in note B2 c)B2 b).

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

	2017	2016
	\$000s	\$000s
No later than 1 year	1,755	1,539
Later than 1 year and no later than 5 years	4,566	3,686
Later than 5 years	2,228	2,023
Total non-cancellable operating leases	8,549	7,248

D8. Related party information

During the prior year Rakon Limited leased premises from Trident Investments Limited ("Trident"). Trident is owned by three Directors of Rakon Limited (Warren Robinson, Brent Robinson and Darren Robinson). Normal commercial lease agreements were in place for the premises. The lease costs charged by Trident to Rakon Limited for the prior year were \$464,000. Trident sold the leased premises in February 2016 to an unrelated party; no amounts are outstanding and payable to Trident at 31 March 2017 (2016: nil).

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

D8 a) Key management compensation

	2017	2016
	\$000s	\$000s
Salaries and other short term employee benefits	3,081	3,541
Share based payments	26	51
	3,107	3,592

D8 b) Year end balances arising from sale/purchases of goods/services and plant, equipment and intangibles

	2017	2016
	\$000s	\$000s
Intangible, plant and equipment sales to joint venture	4	-
Sales to joint venture	297	688
Purchases from joint venture	(13,534)	(16,397)
Purchases from associates	(189)	(258)
Engineering support charges to joint venture	68	174
Net income statement impact	(13,354)	(15,793)
Receivables from joint venture, Centum Rakon India Private Limited, to		
Rakon Limited	14	27
Rakon France SAS	48	241
Rakon UK Limited	-	-
Total receivables from joint venture, Centum Rakon India Private Limited	62	268
Receivables from joint venture, Rakon HK Limited, to		
Rakon Limited	148	121
Rakon Investment HK Limited	4	4
Total receivables from joint venture, Rakon HK Limited	152	125
Payables to joint venture, Centum Rakon India Private Limited, from		
Rakon Limited	-	42
Rakon France SAS	3,256	2,515
Total payables to joint venture, Centum Rakon India Private Limited	3,256	2,557
Payables to associate, Chengdu Shen-Timemaker Crystal Technology Co. Limited, from		
Rakon Limited	31	31
Total payables to associate, Chengdu Shen-Timemaker Crystal Technology Co. Limited	31	31
Receivables from investment, ECEC Rakon Crystal (Chengdu) Limited, to		
Rakon Limited	-	74
Total receivables from investment, ECEC Rakon Crystal (Chengdu) Limited	-	74
Payables to investment, ECEC Rakon Crystal (Chengdu) Limited, from		
Rakon Limited	496	23
Rakon France SAS	5	11
Total payables to investment, ECEC Rakon Crystal (Chengdu) Limited	501	34

During the year Siward Crystal Technology Co. Limited became a related party, refer note B2 b).

D9. Events after balance date

In May 2017 the \$6.1m debt facility with ASB was renewed with a new maturing date of May 2018. Additional to this, the Group has agreed a reduction of \$1.5m of its overdraft facility (from \$9.3m to \$7.8m) that was assessed as surplus to the Group's requirements, refer also to note C3 b).

As described in note B5 d) the land and buildings at Argenteuil, France is held for sale. The funds from the sale once complete, are to be applied to reduce the debt facility under the renewed facility.

There have been no other subsequent events after 31 March 2017.

D10. Earnings per share

D10 a) Basic

Basic earnings per share is calculated by dividing the profit or loss attributable to equity holders of the Group, by the weighted average number of ordinary shares on issue during the year. During the year 38,016,681 ordinary shares were issued, refer note B6 a) and note B6.

	2017 000s	2016 000s
Weighted average number of ordinary shares on issue	195,281	188,945
Continuing operations		
Loss attributable to equity holders of the Group	(\$13,558)	(\$1,731)
Basic losses per share (cents per share)	(6.9)	(0.9)

D10 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. The Group has two categories of dilutive potential ordinary shares: restricted ordinary shares and share options. During the year 38,016,681 ordinary shares were issued, refer note B2 b) and note B6.

	2017 000s	2016 000s
Weighted average number of ordinary shares on issue	195,281	188,945
Adjustments for dilutive potential ordinary shares (restricted ordinary shares and share options)	3,903	5,162
Weighted average number of ordinary shares for diluted earnings per share	199,184	194,107
Continuing operations		
Loss attributable to equity holders of the Group	(\$13,558)	(\$1,731)
Diluted losses per share (cents per share)	(6.8)	(0.9)

D11. Share based payments

D11 a) Accounting policy

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. At each balance date the estimate of the number of options expected to vest and the number of redeemable ordinary shares expected to transfer is revised and the impact of any change in this estimate is recognised in the statement of comprehensive income with a corresponding entry to equity. The proceeds received net of any directly attributable transaction costs are credited to share capital when the options are exercised, or the conditional rights to redeemable ordinary shares are transferred.

D11 b) Rakon Share Plan

In March 2006, Rakon Limited established a share plan to enable selected employees of Rakon Limited to acquire shares in the Company through the plan trustee, Rakon ESOP Trustee Limited.

Under the terms of the share plan, 2,759 ordinary shares were issued at deemed market value at that time to Rakon ESOP Trustee Limited to hold on behalf of the participating employees. Following a share split on 13 April 2006, the resulting number of shares under this plan was 859,137. All shares issued to Rakon ESOP Trustee Limited have been allocated. The shares rank equally in all respects with all other ordinary shares issued by the Company. The outstanding loan balance provided by Rakon Limited to participating employees in respect of these shares totals \$195,000 (2016: \$280,000). Loans are provided on an interest free basis and the employee may repay all or part of the loan at any time. No repayments were due at 31 March 2017 (2016: nil). The Trust Deed makes provision for the Company to require repayment of the loans in certain circumstances.

As at 31 March 2017, 321,983 (31 March 2016: 462,422) shares were held by Rakon ESOP Trustee Limited.

Shares issued under the share plan are held on trust by Rakon ESOP Trustee Limited. A participating manager may request the trustee to transfer the relevant shares to him or her provided the loan to that manager has been repaid in full.

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

Shares held by the share plan represent approximately 0.19% of the Company's total shares on issue as at balance date (2016: 0.15%).

D11 c) Rakon Employee Share Option Scheme (2015)

In July 2014 Rakon Limited established an employee share option scheme with 4,800,000 options issued to selected employees. Each option granted will convert to one ordinary share on exercise. A participant may exercise up to half of his or her options any time after the second and third anniversaries subject to the weighted average share price on the 10 days preceding the date of exercise exceeding a benchmark share price. Options lapse on their fourth anniversary.

	Option price	2017 Number of options	2016 Number of options
Opening balance	-	4,700,000	4,700,000
Granted	0.25	-	-
Cancelled	0.25	(1,400,000)	-
Balance outstanding	0.25	3,300,000	4,700,000

Share options outstanding at 31 March 2017 and expiring in the year to 31 March 2019:

	Exercise price	Benchmark price	2017 Number of options	2016 Number of options
	0.25	0.30	3,300,000	4,700,000

The weighted average fair value of options granted of \$0.018 per option was determined using the Black-Scholes valuation model. The significant inputs into the model were the following: weighted average share price of \$0.25 at the grant date, exercise price shown above, volatility of 15%, dividend yield of 0%, an average expected option life of 2 years and an annual risk-free interest rate of 4.0%. The volatility was measured at the standard deviation of continuously compounded share returns, based on statistical analysis of daily share prices from the 12 months preceding July 2014.

During the year 1,400,000 options were cancelled due to participants ceasing employment. There have been no allocations since July 2014.

D12. Summary of other significant accounting policies

The principal accounting policies adopted in the preparation of these consolidated financial statements have been set out in sections B to D along with the associated sections. Additional relevant policies are detailed below and have been consistently applied to all the years presented unless otherwise stated.

D12 a) Basis of preparation

The Company is registered under the Companies Act 1993 and is an 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.

These consolidated financial statements for the year ended 31 March 2017 have been prepared in accordance with New Zealand Generally Accepted Accounting Practice (NZ GAAP). They comply with New Zealand equivalents to International Financial Reporting Standards (NZ IFRS), other New Zealand accounting standards and authoritative notices that are applicable to entities that apply NZ IFRS. The consolidated financial statements also comply with International Financial Reporting Standards (IFRS). The Group is a profit-oriented entity for the purposes of complying with NZ GAAP. These financial statements comprise Rakon and its subsidiaries.

The financial statements have been prepared on a historical cost basis, except for: derivative financial instruments - measured at fair value, and assets held for sale - measured at cost.

The preparation of financial statements in accordance with NZ IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates, refer to section C1.

D12 b) Financial assets and financial liabilities

Financial assets and financial liabilities are recognised on the Group's balance sheet when the Group becomes a party to the contractual provisions of the instrument. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership.

Fair value estimates

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement, or for disclosure purposes.

The fair value of financial instruments that are not traded in an active market is determined using valuation techniques. The Group uses a variety of methods and makes assumptions that are based on market conditions existing at each balance date. Techniques, such as estimated discounted cash flows, are used to determine fair value for financial instruments. The fair value of forward exchange contracts and collar options is determined using forward exchange market rates at the balance date.

The nominal value less estimated credit adjustments of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes, is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

Classification of financial assets

The Group classifies its financial assets in the following categories: financial assets at fair value through profit or loss or loans and receivables. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition and re-evaluates this designation at each reporting date.

Financial assets at fair value through profit or loss

This category has two subcategories: financial assets held for trading and those designated at fair value through profit or loss on initial recognition. For accounting purposes, derivatives are categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if they are either held for trading or are expected to be realised within 12 months of the balance date.

Financial assets at fair value through profit and loss are carried at fair value. Realised and unrealised gains and losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are included in the statement of comprehensive income in the period in which they arise.

The Group establishes fair value by using valuation techniques. These include reference to the fair values of recent arm's length transactions, involving the same instruments or other instruments that are substantially the same and discounted cash flow analysis.

The Group assesses at each balance date whether there is objective evidence that a financial asset or group of financial assets is impaired. Impairment testing of trade receivables is described in note B3 c).

Loans and receivables

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

Purchases and sales of financial assets are recognised on trade date (the date on which the Group commits to purchase or sell the asset). Loans and receivables are carried at amortised cost using the effective interest method.

Derivative financial instruments

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

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

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

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

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

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

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the statement of comprehensive income. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity, is immediately transferred to the statement of comprehensive income within other gains/(losses) – net.

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

D12 c) Changes in accounting policy and disclosures

New standards, amendments and interpretations adopted by the Group as of 1 April 2016

There are no new standards, amendments and interpretations adopted by the Group as of 1 April 2016.

New standards, amendments and interpretations not yet adopted

Certain new accounting standards and interpretations have been published that are not mandatory for 31 March 2017 reporting periods and have not been early adopted by the Group. The Group's assessment of the impact of these new standards and interpretations is set out below.

NZ IFRS 9 Financial instruments

NZ IFRS 9 addresses the classification, measurement and de-recognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets.

The Group has yet to undertake a detailed assessment of the classification and measurement of financial assets and liabilities. Financial assets not in a hedge relationship appear to satisfy the conditions for classification as fair value through profit or loss and hence there would be no change to the accounting for these. Financial assets in a hedge relationship would continue to be accounted for under the hedge accounting rules. Financial liabilities not in a hedge relationship appear to satisfy the conditions for classification as fair value through profit or loss or amortised cost and hence there would be no change to the accounting for these. Financial liabilities in a hedge relationship would continue to be accounted for under the hedge accounting rules. The Group does not expect the new guidance to have a significant impact on the classification and measurement of its financial assets or financial liabilities.

The new hedge accounting rules will align the accounting for hedging instruments more closely with the Group's risk management practices. As a general rule, more hedge relationships might be eligible for hedge accounting, as the standard introduces a more principles-based approach. While the Group is yet to undertake a detailed assessment, it would appear that the Group's current hedge relationships would qualify as continuing hedges upon the adoption of IFRS 9. Accordingly, the Group does not expect a significant impact on the accounting for its hedging relationships.

The new impairment model requires the recognition of impairment provisions based on expected credit losses rather than only incurred credit losses as is the case under IAS 39. It applies to financial assets classified at amortised cost, debt instruments measured at fair value through other comprehensive income, contract assets under IFRS 15 Revenue from Contracts with Customers, lease receivables, loan commitments and certain financial guarantee contracts. While the Group has not yet undertaken a detailed assessment of how its impairment provisions would be affected by the new model, it does not expect a significant impact on the recognition of credit losses.

The new standard also introduces expanded disclosure requirements and changes in presentation. These are expected to change the nature and extent of the Group's disclosures about its financial instruments particularly in the year of the adoption of the new standard.

NZ IFRS9 must be applied for financial years commencing on or after 1 January 2018. Based on the transitional provisions in the completed NZ IFRS 9, early adoption in phases was only permitted for annual reporting periods beginning before 1 February 2015. After that date, the new rules must be adopted in their entirety. The Group does not intend to adopt IFRS 9 before its mandatory date.

NZ IFRS 15 Revenue from contracts with customers

The IASB has issued a new standard for the recognition of revenue. This will replace IAS 18 which covers contracts for goods and services and IAS 11 which covers construction contracts. The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer. The standard permits either a full retrospective or a modified retrospective approach for the adoption.

Management is currently assessing the effects of applying the new standard on the Group's financial statements. As the significant portion of the Group's revenue is from the sale of goods where the customer takes immediate control, the Group does not expect the new standard to have a significant impact on the financial statements.

The new standard must be applied for financial years commencing on or after 1 January 2018. The Group does not intend to adopt IFRS 15 before its mandatory date.

NZ IFRS 16 Leases

NZ IFRS 16 was issued in January 2016. It will result in almost all leases being recognised on the balance sheet, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases. The accounting for lessors will not significantly change.

The standard will affect primarily the accounting for the Group's operating leases. As at the reporting date, the Group has non-cancellable operating lease commitments of \$8.5m, refer note D7 b). Whilst underlying cash flows will be no different, amounts paid in respect of leases will be reclassified from operating to financing in the cash flow statement. Further, interest and depreciation expense is expected to increase offset by a similar reduction in rental cost. The Group has not yet quantified the impact to net profit and equity however based on preliminary assessments the Group has determined that NZ IFRS 16 will have a significant impact on the Group's balance sheet and income statement disclosures. The balance sheet will be impacted by the recognition of a right of use asset and a corresponding lease liability. The income statement will be impacted by the recognition of an interest expense and an amortisation expense and the removal of the current rental expense. The full impact on these statements has yet to be finalised.

Some of the commitments may be covered by the exception for short-term and low-value leases and some commitments may relate to arrangements that will not qualify as leases under IFRS 16.

The new standard must be applied for financial years commencing on or after 1 January 2019. At this stage, the Group does not intend to adopt the standard before its effective date.

There are no other standards that are not yet effective and that would be expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

D12 d) Foreign currency translation

Functional and presentation currency

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

Transactions and balances

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

Group companies

The assets and liabilities of all of the group companies (none of which have a currency of a hyper-inflationary economy) that have a functional currency that differs from the presentation currency, including goodwill and fair value adjustments arising on consolidation, are translated to New Zealand dollars at foreign exchange rates, ruling at the balance date. The revenues and expenses of these foreign operations are translated to New Zealand dollars at rates approximating to the foreign exchange rates ruling at the dates of the transactions.

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

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

D12 e) Impairment of non-financial assets

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

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

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

D12 f) Employee entitlements

Superannuation schemes

The Group's New Zealand and overseas operations participate in their respective government superannuation schemes whereby the Group is required to pay fixed contributions into a separate entity. The Group has no legal or constructive obligations to pay further contributions if the fund does not have sufficient assets to pay all employees the benefits relating to the employee service in the current and prior periods. The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as an employee benefit expense when they are due.

D12 g) Income tax

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

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

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

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

D13. Imputation balances

	2017 \$000s	2016 \$000s
Imputation credit available for use in subsequent periods	11,202	11,201

D14. Principal subsidiaries

D14 a) Accounting policy

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

Business combinations are accounted for using the acquisition method. The consideration transferred in a business combination shall be measured at fair value, which shall be calculated as the following: the total of the acquisition date fair values of the assets transferred by the Group, the liabilities incurred by the Group to former owners, the equity issued by the Group and the amount of any non-controlling interest in the acquiree either at fair value or at the proportional share of the acquiree's identifiable net assets. Acquisition related costs are expensed as incurred.

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.

Disposal of subsidiaries

When the Group ceases to have control, any retained interest in the entity is re-measured to its fair value at the date when control is lost, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

D14 b) Subsidiaries at balance date:

Name of entity	Principal activities	Country of incorporation	Balance date	% interest held by group	
				2017	2016
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	Manufacturing and sales	France	31-Mar	100	100
Rakon HK Limited	Holding company	Hong Kong	31-Mar	50	85
Rakon (Mauritius) Limited	Holding company	Mauritius	31-Mar	100	100
Rakon Investment HK Limited	Holding company	Hong Kong	31-Mar	100	100
Rakon Crystal Electronic International Limited	Marketing support	China	31-Mar	100	100

In April 2016, a share transfer from the Company to the minority shareholders of Rakon HK Limited (RHK) resulted in the Group's interest of RHK reducing from 85% to 50%. The share transfer results from a delayed completion of a prior agreement between the shareholders of RHK and has no impact on the financial results for the year.



Independent Auditor's Report to the shareholders of Rakon Limited

Rakon Limited's consolidated financial statements comprise:

- the consolidated statement of financial position as at 31 March 2017;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which includes significant accounting policies.

Our opinion

In our opinion, the consolidated 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 2017, 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).

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 consolidated 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.

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

Our firm carries out other services for the Group in the areas of other assurance and treasury advisory services. The provision of these other services has not impaired our independence as auditors of the Group.

Our audit approach

Overview



An audit is designed to obtain reasonable assurance whether the financial statements are free from material misstatement.

Overall Group materiality: \$947,000, which represents 1% of revenue.

Given the changes in the business during the year, in our judgement, revenue provided a more stable measure for establishing our materiality benchmark because the Group is operating near break-even.

- Going concern assessment.
- Impairment risk of goodwill, intangible assets and property, plant and equipment.
- Valuation of research and development costs associated with the development of new products, included within product development and assets under construction categories of intangible assets.
- Accounting for the Siward investment in Rakon and technology transfer agreement.

Materiality

The scope of our audit was influenced by our application of materiality.

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

Audit Scope

We designed our audit by assessing the risks of material misstatement in the consolidated financial statements and our application of materiality. 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.

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated 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 conducted full scope audit work over the two segments which make up 100% of external revenue New Zealand and France. We conducted specific audit procedures over the investments in the Timemaker, Centum Rakon India and Thinextra, including analytical review, enquiry and testing key balances and reconciliations. In performing our risk assessment of the remaining entities in the Group against our materiality, in our judgement, the other entities in aggregate do not represent a material risk of error.

Key audit matters

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

<i>Key audit matter</i>	<i>How our audit addressed this matter</i>
<p>Going concern assessment</p> <p>Going concern was a key focus area for the audit because of the judgements and assumptions applied by management in preparing their forecasts, as well as the judgements underlying the alternative options available to them.</p> <p>As disclosed in the financial statements, the Company has reported a current year net loss of \$13.6 million, total equity of \$74.6 million, positive working capital of \$31.4 million and positive net cash flows from operating activities of \$9.5 million for the year to 31 March 2017. The Group has reported net losses after tax throughout its recent history.</p> <p>As at 31 March 2017 there was \$3.3 million of cash on hand and no secured funding facilities in place.</p> <p>Management are responsible for monitoring performance against budgets and preparing cash flow forecasts. Management prepared a cash flow forecast that supported their conclusion that the Group has sufficient cash to continue to operate for at least one year from the date of signing the financial statements. This included considering sensitivities to the key assumptions of revenue and margin growth. The forecasts were approved by the Board on 24 April 2017.</p> <p>In the event that the forecast results do not eventuate, management also considered alternative options that could provide ongoing funding that would enable the Company to continue its operations. These options are listed in note C3.</p> <p>The Capital Management disclosures in note C3 reflect the Directors' considerations and conclusions.</p>	<p>Our audit procedures included:</p> <ul style="list-style-type: none"> Assessing and evaluating management's processes and controls over preparing cash flow forecasts used in support of the financial statements. Assessing the disclosures in the financial statements against the requirements of the accounting standards. Comparing the trends in cash flow forecasts against actual Group performance, including results to date for the 2018 financial year. In particular, we obtained an understanding of the factors driving the increase in revenues and gross profit margin and the decline in operating expenses in the last year. We performed a look back at historical performance and compared this to the expected revenues. We also assessed the confirmed and pipeline contracts with respect to the anticipated revenues for these that had been included in the forecasts. <p>Our procedures indicated that the forecast revenue growth was most susceptible to volatility. We considered the potential cash flow impact by reducing the growth assumptions and the overall impact on the cash flows of the Group for the next 12 months.</p> <p>Our analysis of the historical accuracy of forecasts prepared by management identified that actual results did not closely align to those forecasts. Our audit response to this was to challenge the alternative cash flow options detailed in note C3. Subsequent to balance date, the Directors have renewed the Company's bank funding and are continuing to monitor the need to implement alternative options.</p> <p>Our procedures did not identify matters that were inconsistent with the Directors' conclusions on going concern.</p>

Key audit matter

Impairment risk of goodwill, intangible assets and property, plant and equipment

As noted in note B5c, the Directors assess assets annually for impairment. The Directors look initially for indicators of impairment which requires a level of judgement.

When the market capitalisation is lower than the net asset value of the Group this can be an indicator of potential impairment risk to non-financial assets held by the Group. Market capitalisation of the Group was \$45.8 million at 31 March 2017 compared to net assets of \$74.6 million.

The Directors performed an assessment of impairment indicators on an asset by asset basis, as well as performing a business valuation, using a discounted cash flow model to support the valuation of the Group as a whole on a value in use basis.

The key assumptions used by the Directors and management in creating their business valuation model are included in note B5c of the financial statements.

The key judgements in performing this assessment include:

- Revenue and margin growth rates;
- Terminal growth rates; and
- Discount rates.

As detailed in note B2d, as a result of these impairment assessments the Directors have recognised certain impairments.

How our audit addressed this matter

Our audit procedures included the following:

- We updated our understanding of the processes and controls around identifying indicators of impairment and assessing the level of impairment, if any.
- As noted above, due to market volatility, management have not been able to accurately forecast performance results. Our response to this was to complete alternative procedures to assess the overall recoverable values of assets recorded on the balance sheet compared to the asset values recorded.

Specifically we performed the following alternative audit procedures to assess the difference between the market capitalisation and reported net assets value in the balance sheet:

- Accounts Receivable and Inventory: We considered the historical recoverability and whether there was any indication of any current recoverability restrictions.
- Intangibles – R&D which has been discussed in the KAM below.
- PP&E & Investments: We considered the market recoverability of investments and land held for sale using external data and whether there were any specific indicators of impairment on property plant and equipment.
- Deferred tax: Audit considered the impact should there be no recovery of deferred tax for the purposes of the impairment analysis.

As a result of these procedures we did not propose any adjustments to management's reported results.

Key audit matter

Valuation of research and development costs associated with the development of new products

Rakon incurs costs with respect to developing new products which is included within product development and assets under construction categories of intangible assets. There is the risk that the costs that are being capitalised for development may not meet the criteria for capitalisation.

In particular, there is often judgement and uncertainty around the potential or success of new projects and the validity of capitalised costs in terms of the technical feasibility and probable future economic benefits associated with new and existing projects related primarily to:

- Telecommunications infrastructure products
- Global positioning products
- Space and defence products.

The Directors assessed the future income generating ability of capitalised development expenditure by referring to current demand for the products now in production and to the business case for future sales of products not yet in production, including management forecasts. Refer to note B5b, Intangible assets, in the financial statements.

How our audit addressed this matter

Our audit procedures included the following:

- We updated our understanding of how the costs for research and development are captured and approved for capitalisation and the controls over these processes.
- We obtained an understanding of the projects which have been capitalised during the year and on a sample basis, we agreed costs incurred to supporting documentation and approval.
- We assessed overall costs capitalised for compliance with Group policies and the requirements defined in the financial reporting standard for recognition of the research and development costs.
- For those products in production, where costs have been capitalised we challenged the Directors' assessment of the future income expected from those products by looking at and comparing the level of sales being achieved.
- We challenged the Directors' assessment of the future income expected from new products by looking at and comparing the level of sales currently generated from previous generations of telecommunications infrastructure products with the products currently in production.
- With respect to the valuation of R&D associated with development of new products, we challenged management's forecasts with respect to the assumptions applied to those specific forecasted revenues. Bearing in mind the challenges in forecasting referred to above, our procedures included:
 - Direct contact with customers on extent of new product development
 - Confirmation of stage of development with customers
 - Future orders in place confirmed with customers.

As a result of these procedures we did not propose any further impairments than those recorded.

Key audit matter

Accounting for the Siward investment in Rakon and technology transfer agreement

As described in note B2b, during the year there was a significant transaction undertaken with Siward Crystal Technology Company Limited, whereby Siward made a payment of USD10 million to Rakon.

The payment from Siward to Rakon is in respect of two contracts. Firstly, for the issuance of 38 million shares, and secondly, providing an indefinite licence to certain technology through the transfer of intellectual property.

This was a significant focus area because the two components of these linked contracts need to be valued separately in order to determine the amount that relates to the sale of technology and the amount that relates to the value of the shares.

The timing of the recognition of revenue related to the sale of Rakon technology also requires judgement as to when Rakon has fulfilled its obligations in transferring the knowledge needed to use the technology to Siward. This requires consideration of the completion status of key phases of the technology transfer and related training.

The Directors have determined the fair value of each component of the transaction and the extent that revenue should be recognised for the technology transfer. The key assumptions used by the Directors and management are included in note B2b of the financial statements.

The most significant judgements in valuing each component of the transaction include:

- Rakon's share price
- Premium related to influence based on the number of shares subscribed and gaining a board seat
- Implied royalty rate for the indefinite licence to the technology sold.

How our audit addressed this matter

Our audit procedures included the following:

- We assessed the requirements of financial reporting standards to account for the two components of the transaction, specifically; splitting out, valuing and recognising revenue and equity at the appropriate time.
- We utilised our internal specialists to assist us in the review of the methodology and assumptions and in challenging the key inputs to the valuation of the equity and revenue components of the transaction, including; Rakon's share price, the premium paid and the implied royalty rate and compared this to our own market research and experience.
- We challenged the Directors' assessment relating to when revenue is recognised for the sale of technology by understanding and validating the key milestones of the technology transfer through discussing the phases of the transfer with the engineering team – these phases or milestones relate to providing documentation and training Siward's engineers. We further confirmed with Siward personnel when documentation was provided and the stage of completion of training.

Based on our analysis of the contracts and underlying assumptions, our results did not require any significant adjustments.



Information other than the financial statements and auditor's report

The Directors are responsible for the annual report. Our opinion on the consolidated financial statements does not cover the other information and we do not and will not express any form of assurance conclusion on the other information.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors for the consolidated financial statements

The Directors are responsible on behalf of the Company for the preparation and fair presentation of these consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated 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 consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated 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 consolidated 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://xrb.govt.nz/Site/Auditing_Assurance_Standards/Current_Standards/Page1.aspx

This description forms part of our auditors' 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 Lisa Crooke.

For and on behalf of:

A handwritten signature in blue ink that reads 'PricewaterhouseCoopers'.

Chartered Accountants
18 May 2017

Auckland