rakon

Rakon Limited Interim Report

September 2010

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Unaudited Consolidated Interim Statement of Comprehensive Income

	Note	Unaudited Six Months ended 30 September 2010 ($000s)	Unaudited Six Months ended 30 September 2009 ($000s)	Audited Year ended 31 March 2010 ($000s)
Continuing operations				
Revenue	4	94,597	72,212	144,513
Cost of sales		(63,918)	(49,317)	(97,058)
Gross profit		**30,679**	**22,895**	**47,455**
Other operating income		559	536	1,615
Operating expenses		(26,558)	(26,256)	(51,798)
Other gains/(losses) – net	6	529	(4,763)	(4,198)
Operating profit (loss)		**5,209**	**(7,588)**	**(6,926)**
Net finance income/(costs)	7	311	(755)	(298)
Share of profit of associates and joint venture		2,179	724	2,542
Profit/(loss) before income tax		**7,699**	**(7,619)**	**(4,682)**
Income tax (expense)/credit	5	(2,117)	1,463	(679)
Net profit/(loss) after tax		**5,582**	**(6,156)**	**(5,361)**
Other comprehensive income:				
Cash flow hedges		2,048	3,776	1,376
Net investment hedge		11	3,365	3,338
Currency translation differences		(1,095)	(12,463)	(15,777)
Income tax relating to components of other comprehensive income		(609)	(2,143)	(1,413)
Other comprehensive income/(losses) for the period, net of tax		**355**	**(7,465)**	**(12,476)**
Total comprehensive income/(losses) for the period		**5,937**	**(13,621)**	**(17,837)**
Profit/(losses) attributable to:				
Equity holders of the company		5,718	(6,031)	(5,212)
Minority interests		(136)	(125)	(149)
		5,582	(6,156)	(5,361)
Total comprehensive income/(loss) attributable to:				
Equity holders of the company		6,109	(13,500)	(17,752)
Minority interest		(172)	(121)	(85)
		5,937	(13,621)	(17,837)

Earnings per share for profit/(loss) attributable to the equity holders of the Company:			
Basic earnings/(losses) per share (continuing operations)	*3.0*	*(4.7)*	*(3.3)*
Diluted earnings/(losses) per share (continuing operations)	*3.0*	*(4.7)*	*(3.3)*

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

Unaudited Consolidated Interim Statement of Changes in Equity

	Note	Share Capital ($000s)	Retained Earnings ($000s)	Other ($000s)	Equity ($000s)	Minority Interests ($000s)	Total Equity ($000s)
Balance at 1 April 2009	8	**103,301**	**36,732**	**(1,748)**	**138,285**	**1**	**138,286**
Net loss after tax for the half year ended 30 September 2009		-	(6,031)	-	(6,031)	(125)	(6,156)
Currency translation differences		-	-	(12,467)	(12,467)	4	(12,463)
Cash flow hedges, net of tax		-	-	2,643	2,643	-	2,643
Net investment hedge		-	-	2,355	2,355	-	2,355
Total comprehensive income for the half year		**-**	**(6,031)**	**(7,469)**	**(13,500)**	**(121)**	**(13,621)**
Employee share schemes							
- value of employee services		-	-	115	115	-	115
Issue of ordinary shares	8	29,426	-	-	29,426	-	29,426
Share issuance cost	8	(532)	-	-	(532)	-	(532)
Balance at 30 September 2009	8	**132,195**	**30,701**	**(9,102)**	**153,794**	**(120)**	**153,674**
Net profit after tax for the half year ended 31 March 2010		-	819	-	819	(24)	795
Currency translation differences		-	-	(3,374)	(3,374)	60	(3,314)
Cash flow hedges, net of tax		-	-	(1,679)	(1,679)	-	(1,679)
Net Investment hedge		-	-	(18)	(18)	-	(18)
Total comprehensive income for the half year		**-**	**819**	**(5,071)**	**(4,252)**	**36**	**(4,216)**
Minority interest on additional investment in subsidiary		-	-	-	-	1,720	1,720
Employee share schemes							
- value of employee services		-	-	115	115	-	115
Issue of ordinary shares	8	42,757	-	-	42,757	-	42,757
Share issuance costs	8	(1,106)	-	-	(1,106)	-	(1,106)
Balance at 31 March 2010	8	**173,846**	**31,520**	**(14,058)**	**191,308**	**1,636**	**192,944**
Net profit after tax for the half year ended 30 September 2010		-	5,718	-	5,718	(136)	5,582
Currency translation differences		-	-	(1,059)	(1,059)	(36)	(1,095)
Cash flow hedges, net of tax		-	-	1,442	1,442	-	1,442
Net Investment hedge		-	-	8	8	-	8
Total comprehensive income for the half year		**-**	**5,718**	**391**	**6,109**	**(172)**	**5,937**
Minority interest on additional investment in subsidiary		-	-	-	-	1,147	1,147
Employee share schemes							
- value of employee services		-	-	389	389	-	389
Balance at 30 September 2010	8	**173,846**	**37,238**	**(13,278)**	**197,806**	**2,611**	**200,417**

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

Unaudited Consolidated Interim Balance Sheet

	Note	Unaudited as at 30 September 2010 ($000s)	Unaudited as at 30 September 2009 ($000s)	Audited year as at 31 March 2010 ($000s)
Assets				
Current assets				
Cash and cash equivalents		31,450	13,781	46,559
Trade and other receivables		46,031	30,580	34,064
Derivatives – held for trading		653	-	102
Derivatives – cash flow hedges		2,162	2,971	242
Inventories		54,061	36,438	40,732
Current income tax asset	5	1,139	1,819	1,886
Total current assets		**135,496**	**85,589**	**123,585**
Non-current assets				
Trade and other receivables		2,877	3,202	2,941
Investment in shares		-	743	743
Property, plant and equipment	10	44,451	43,639	41,712
Intangible assets	11	36,791	34,314	33,766
Investment in associates		19,146	16,679	17,762
Interest in joint venture		4,508	3,959	4,142
Deferred tax asset	5	-	-	931
Total non-current assets		**107,773**	**102,536**	**101,997**
Total assets		**243,269**	**188,125**	**225,582**
Liabilities				
Current liabilities				
Bank overdraft		98	-	678
Borrowings		-	189	522
Trade and other payables		34,186	24,287	24,200
Derivatives – held for trading		-	151	12
Derivatives – cash flow hedges		-	78	138
Provisions		166	152	75
Current income tax liabilities	5	1,462	-	1,102
Other liabilities		3,106	5,910	4,193
Total current liabilities		**39,018**	**30,767**	**30,920**
Non-current liabilities				
Provisions		3,100	2,339	1,718
Deferred tax liabilities	5	734	1,345	-
Total non-current liabilities		**3,834**	**3,684**	**1,718**
Total liabilities		**42,852**	**34,451**	**32,638**
Net assets		**200,417**	**153,674**	**192,944**
Equity				
Share capital	8	173,846	132,195	173,846
Reserves		(13,278)	(9,102)	(14,058)
Retained earnings		37,238	30,701	31,520
		197,806	153,794	191,308
Minority interest		2,611	(120)	1,636
Total equity		**200,417**	**153,674**	**192,944**

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

Unaudited Consolidated Interim Statement of Cash Flows

	Note	Unaudited Six Months ended 30 September 2010 ($000s)	Unaudited Six Months ended 30 September 2009 ($000s)	Audited Year ended 31 March 2010 ($000s)
Operating activities				
Cash was provided from				
Receipts from customers		79,249	68,250	137,298
Interest received		480	93	777
Other income received		561	703	328
Income tax refund		1,306	1,728	1,638
		81,596	**70,774**	**140,041**
Cash was applied to				
Payments to suppliers and others		(63,974)	(41,985)	(99,540)
Payments to employees		(22,646)	(23,678)	(37,385)
Interest paid		(221)	(897)	(1,069)
Income tax paid		(746)	(544)	(1,037)
		(87,587)	**(67,104)**	**(139,031)**
Net cash flow from operating activities		**(5,991)**	**3,670**	**1,010**
Investing activities				
Cash was provided from				
Sale of property, plant and equipment		92	313	193
		92	313	193
Cash was applied to				
Purchase of property, plant and equipment	10	(4,860)	(4,027)	(6,705)
Purchase of intangibles		(1,137)	(467)	(1,807)
Issuance of loan to joint venture		-	-	(629)
Business acquisition	3	(717)	-	-
		(6,714)	**(4,494)**	**(9,141)**
Net cash flow from investing activities		**(6,622)**	**(4,181)**	**(8,948)**
Financing activities				
Cash was provided from				
Issue of ordinary shares	8	-	23,351	66,108
Proceeds from borrowings		309	218	276
		309	**23,569**	**66,384**
Cash was applied to				
Repayment of principal on borrowings		(522)	(9,847)	(10,668)
Share issuance costs		-	(532)	(1,638)
		(522)	**(10,379)**	**(12,306)**
Net cash flow from financing activities		**(213)**	**13,190**	**54,078**
Net (decrease)/increase in cash and cash equivalents		**(12,826)**	**12,679**	**46,140**
Foreign currency translation adjustment		(1,703)	(892)	(2,253)
Cash and cash equivalents at the beginning of the period		45,881	1,994	1,994
Cash and cash equivalents at the end of the period		**31,352**	**13,781**	**45,881**
Composition of cash and cash equivalents				
Cash and cash equivalents		31,450	13,781	46,559
Bank overdraft		(98)	-	(678)
		31,352	**13,781**	**45,881**

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

Unaudited Consolidated Interim Statement of Cash Flows

	Unaudited Six Months ended 30 September 2010 ($000s)	Unaudited Six Months ended 30 September 2009 ($000s)	Audited Year ended 31 March 2010 ($000s)
Reconciliation of net profit/(loss) to net cash flows from operating activities			
Reported net profit/(loss) after tax	**5,582**	**(6,156)**	**(5,361)**
Items not involving cash flow			
Depreciation expense	3,705	3,295	7,418
Amortisation expense	620	516	1,005
(Decrease)/increase in estimated doubtful debts	(29)	(108)	(16)
Employee share based payments	389	115	230
Movement in foreign currency	277	75	878
(Gain)/loss on disposal of property, plant and equipment	-	-	206
Share of profit of associate and joint venture	(2,179)	(724)	(2,542)
	2,783	3,169	7,179
Impact of changes in working capital items			
Trade and other receivables	(14,321)	(2,320)	(7,759)
Inventories	(9,134)	2,349	(1,593)
Trade and other payables	7,072	6,907	8,097
Tax provisions	2,027	(279)	447
	(14,356)	6,657	(808)
Net cash flow from operating activities	**(5,991)**	**3,670**	**1,010**

Notes to the Unaudited Consolidated Interim Financial Statements

1. General information

Rakon Limited ("the Company") and its subsidiaries (together "the Group") is a world leader in the development of frequency control solutions for a wide range of applications. Rakon has leading market positions in the supply of crystal oscillators to the GPS, telecommunications network timing/synchronisation, and aerospace markets.

The Company is a limited liability company incorporated and domiciled in New Zealand. It is registered under the Companies Act 1993 and is an issuer in terms of the Securities Act 1978. The Company is listed on the New Zealand Stock Exchange. These consolidated interim financial statements have been approved for issue by the Board of Directors on 11 November 2010.

2. Summary of significant accounting policies

2.1. Basis of preparation

This condensed consolidated interim financial information for the six months ended 30 September 2010 has been prepared in accordance with NZ IAS 34, Interim Financial Statements ("NZ IAS 34"). The condensed consolidated interim financial information should be read in conjunction with the annual financial statements for the year ended 31 March 2010, which have been prepared in accordance with NZ IFRS.

2.2. Accounting policies

The accounting policies applied are consistent with those of the annual financial statements for the year ended 31 March 2010 with the addition of the following:

The Group has adopted the following new and amended IFRSs as of 1 April 2010:

NZ IFRS 3 (revised): Business combinations (effective for annual periods beginning on or after 1 July 2009)

The revised standard continues to apply the acquisition method to business combinations, with some significant changes. For example, there is a choice on an acquisition by acquisition basis to measure the non-controlling interest in the acquiree at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. All acquisition related costs are now expensed.

NZ IAS 38 (amendment): Intangible assets

The amendment is part of the Accounting Standards Review Board's ('ASRB') annual improvements project and has been applied by the Group and Company from 1 April 2010. The amendment clarifies guidance in measuring the fair value of an intangible asset acquired in a business combination and it permits the grouping of intangible assets as a single asset if each asset has similar useful economic lives.

Consolidation

Subsidiaries

Subsidiaries are entities that are controlled, either directly or indirectly, by the Group. Control exists when the Group has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable or convertible are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries, associates, joint ventures and businesses by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the statement of comprehensive income.

All material transactions between subsidiaries or between the Parent Company and subsidiaries are eliminated on consolidation.

3. Business combinations

On 6 August 2010, the Group acquired selected assets and liabilities (through Rakon Temex SAS) of Temex SAS, a French based business, for cash consideration of €400,000. Prior to the sale of these selected assets and liabilities to the Group Temex SAS was operating under French bankruptcy law and had a court appointed administrator. On 19 July 2010 the French Bankruptcy court approved the acquisition by Rakon for €400,000, this purchase price was substantially lower than the fair value of the assets and liabilities acquired, resulting in the Group recognising a preliminary bargain purchase gain of NZ$1,590,000.

A net loss after tax of $86,000 has been recognised since acquisition. Disclosure of the revenue and net assets of the business as if the acquisition had been effected on 1 April 2010 has not been provided due to the purchase not including the entire Temex SAS business.

The Group's share of assets and liabilities arising from the acquisition were as follows:

Consideration at 6 August 2010

Cash	717
Total consideration	**717**
Acquisition related costs (included in other gains/(losses) in the consolidated income statement for the period ended 30 September 2010)	(721)
Recognised amounts of identifiable assets and liabilities assumed	
Inventories	5,001
Property, plant and equipment	1,582
Intangibles	111
Employee liabilities	(1,786)
Warranty provisions	(627)
Advances from customers	(985)
Onerous lease provision	(193)
Deferred tax	(796)
Total identifiable net assets	**2,307**
Bargain gain on acquisition	1,590
	717

These values have been determined provisionally based on the current available information.

4. Segment Information

The chief operating decision maker assesses the performance of the operating segments based on a measure of adjusted earnings before interest, tax, depreciation and amortisation (EBITDA). Interest income and expenditure are not included in the result for each operating segment that is reviewed by the chief operating decision maker. Except as noted below, other information provided to the chief operating decision maker is measured in a manner consistent with that in the financial statements.

During the current period EBITDA for reportable segments was extended to include Rakon's share of the EBITDA from associates and joint venture. The EBITDA for the year ended 31 March 2010 and the half year ended 30 September 2009 has been restated to align with this change.

The segment information provided to the chief operating decision maker for the reportable segments for the half year ended 30 September 2010 is as follows:

	Unaudited Six Months ended 30 September 2010					
	NZ (000's)	**UK (000's)**	**France[5] (000's)**	**China (000's)**	**Other[1] (000's)**	**Total (000's)**
Sales to external customers	49,489	25,920	18,537	-	651	94,597
Inter-segment sales	1,216	888	-	-	-	2,104
Segment revenue	**50,705**	**26,808**	**18,537**	**-**	**651**	**96,701**
EBITDA excluding FX & associates & joint venture & net acquisition gain	1,356	10,926	(1,796)	-	(1,347)	9,139
Foreign exchange (losses)/gains [2]	(4)	72	(383)	-	230	(85)
Share of EBITDA from associates & joint venture	-	-	-	2,432	1,163	3,595
Net acquisition gain	-	-	869	-	-	869
EBITDA (look through)	**1,352**	**10,998**	**(1,310)**	**2,432**	**46**	**13,518**
Depreciation and amortisation	(3,441)	(429)	(273)	-	(182)	(4,325)
Income tax credit/(expense)	986	(2,753)	(367)	-	17	(2,117)
Total assets[3]	**118,060**	**47,442**	**31,930**	**19,146**	**26,691**	**243,269**
Investment in associates	-	-	-	19,146	-	19,146
Investment in joint venture	-	-	-	-	4,508	4,508
Capital expenditure	5,788	940	1,993	-	1,134	9,855
Total liabilities[4]	**16,327**	**7,184**	**16,691**	**3,105**	**(455)**	**42,852**

	Audited year ended 31 March 2010					
	NZ (000's)	**UK (000's)**	**France (000's)**	**China (000's)**	**Other[1] (000's)**	**Total (000's)**
Segment revenue (Sales to external customers)	**77,414**	**39,728**	**26,630**	**-**	**741**	**144,513**
EBITDA excluding FX & associates & joint venture	2,943	12,114	(6,082)	-	(2,753)	6,222
Foreign exchange (losses)/gains [2]	(3,524)	(903)	(361)	-	293	(4,495)
Share of EBITDA from associates & joint venture	-	-	-	3,006	1,207	4,213
EBITDA (look through)	**(581)**	**11,211**	**(6,443)**	**3,006**	**(1,253)**	**5,940**
Depreciation and amortisation	(6,589)	(851)	(564)	-	(419)	(8,423)
Income tax credit/(expense)	775	(2,796)	4	-	1,338	(679)
Total assets[3]	**120,288**	**39,517**	**21,324**	**17,762**	**26,691**	**225,582**
Investment in associates	-	-	-	17,762	-	17,762
Investment in joint venture	-	-	-	-	4,142	4,142
Capital expenditure	6,053	2,071	430	-	-	8,554
Total liabilities[4]	**12,098**	**5,297**	**10,393**	**4,193**	**657**	**32,638**

	NZ (000's)	UK (000's)	France (000's)	China (000's)	Other[1] (000's)	Total (000's)
	Unaudited Six Months ended 30 September 2009					
Segment revenue (Sales to external customers)	**40,149**	**18,643**	**12,323**	**-**	**1,097**	**72,212**
EBITDA excluding FX & associates & joint venture	(558)	4,846	(2,893)	-	(333)	1,062
Foreign exchange gains/(losses) [2]	(3,032)	(1,495)	(413)	-	216	(4,724)
Share of profit/ (loss) from associates & joint venture	-	-	-	1,446	223	1,669
EBITDA	**(3,590)**	**3,351**	**(3,306)**	**1,446**	**106**	**(1,993)**
Depreciation and amortisation	(3,060)	(217)	(292)	-	(242)	(3,811)
Income tax credit/(expense)	1,371	(745)	(18)	-	855	1,463
Total assets[3]	**96,364**	**36,229**	**22,770**	**16,679**	**16,083**	**188,125**
Investment in associates	-	-	-	16,679	-	16,679
Investment in joint venture	-	-	-	-	3,959	3,959
Capital expenditure	3,268	985	241	-	-	4,494
Total liabilities[4]	**15,283**	**4,752**	**7,572**	**5,910**	**934**	**34,451**

[1] Includes Investments in subsidiaries, Rakon Financial Services Ltd, Rakon UK Holdings Ltd, Rakon Europe Limited, Rakon Mauritius Ltd (including investment in Centum Rakon India Private Ltd) and Rakon HK Ltd

[2] Does not include foreign exchange gains or losses recognised directly in sales and costs of sales.

[3] Excludes intercompany receivable balances eliminated on consolidation.

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

[5] Includes Investment in subsidiary, Rakon Temex SAS.

A reconciliation of revenue is provided as follows:

	Unaudited Six Months ended 30 September 2010 ($000s)	Unaudited Six Months ended 30 September 2009 ($000s)	Audited Year ended 31 March 2010 ($000s)
Total revenue for reportable segments	96,050	71,115	143,772
Other segments revenue	651	1,097	741
Inter-segment revenue	(2,104)	-	-
Revenue	**94,597**	**72,212**	**144,513**

A reconciliation of adjusted EBITDA to profit /(loss) before tax is provided as follows:

	Unaudited Six Months ended 30 September 2010 ($000s)	Unaudited Six Months ended 30 September 2009 ($000s)	Audited Year ended 31 March 2010 ($000s)
EBITDA for reportable segments	13,472	(2,099)	7,193
Other segments EBITDA	46	106	(1,253)
Depreciation and amortisation	(4,325)	(3,811)	(8,423)
Employee share schemes	(389)	(115)	(230)
Finance costs – net	311	(755)	(298)
Adjustment for associates and joint venture share of interest, tax & depreciation	(1,416)	(945)	(1,671)
Profit /(Loss) before tax	**7,699**	**(7,619)**	**(4,682)**

Breakdown of the revenue from all sources is as follows:

	Unaudited Six Months ended 30 September 2010 ($000s)	Unaudited Six Months ended 30 September 2009 ($000s)	Audited Year ended 31 March 2010 ($000s)
Sales of goods	94,597	71,708	143,178
Revenue from services	-	504	1,335
	94,597	72,212	144,513

The Group's trading revenue is derived in the following regions.

Total Revenues by destination	Unaudited Six Months ended 30 September 2010 ($000s)	Unaudited Six Months ended 30 September 2009 ($000s)	Audited Year ended 31 March 2010 ($000s)
Region			
Asia	55,552	41,388	80,044
North America	15,668	14,448	32,448
Europe	19,466	13,943	29,002
Others	3,911	2,433	3,019
	94,597	72,212	144,513

Revenue is allocated above based on the country in which the customer is located.

5. Income Taxes

Current tax

Current tax expense for the interim periods presented is the expected tax payable on the taxable income for the period, calculated as the estimated average annual effective income tax rate applied to the pre-tax income of the interim period.

Deferred tax

The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amounts of the assets and liabilities, using the estimated average annual effective income tax rate for the interim periods presented.

6. Other gains/(losses) – net

	Unaudited Six Months ended 30 September 2010 ($000s)	Unaudited Six Months ended 30 September 2009 ($000s)	Audited Year ended 31 March 2010 ($000s)
Loss on disposal of intangibles, plant and equipment	(27)	47	399
Cost attributable to investment in joint venture and sale of intangibles, plant and equipment	(128)	(83)	(102)
Cost attributable to investments in associates and subsidiaries	(100)	(3)	-
Bargain purchase gain on acquisition	1,590	-	-
Acquisition costs	(721)	-	-
	614	(39)	297
Foreign exchange gains/(losses) - net			
Forward foreign exchange contracts			
- held for trading	145	(151)	69
- net foreign exchange gains	-	(391)	(389)
(Losses)/gains on revaluation of foreign denominated monetary assets and liabilities[1]	(230)	(4,182)	(4,175)
	(85)	(4,724)	(4,495)
	529	(4,763)	(4,198)

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

7. Net Finance income/(costs)

	Unaudited Six Months ended 30 September 2010 ($000s)	Unaudited Six Months ended 30 September 2009 ($000s)	Audited Year ended 31 March 2010 ($000s)
Financial income			
Interest income on current and short-term bank accounts	524	142	847
Financial expenses			
Interest expense on bank borrowings	(75)	(371)	(439)
Interest expense on other borrowings	(138)	(526)	(706)
	311	(755)	(298)

8. Share Capital

At 30 September 2010 the total authorised number of ordinary shares is 191,038,591 shares (31 March 2010: 190,707,110, 30 September 2009:152,508,652):

- 188,868,455, are fully paid shares (31 March 2010: 188,868,455, 30 September 2009: 126,100,654);
- 820,136 unpaid ordinary shares were on issue and held in trust on behalf of participants in the Rakon Share Plan (31 March 2010: 820,136, 30 September 2009: 820,136);
- 1,350,000 fully paid restricted ordinary shares were on issue and held in trust on behalf of participants in the Rakon Restricted Share Plan (31 March 2010: nil, 30 September 2009: nil);

Rakon Restricted Share Plan

Rakon Limited established a Restricted Share Plan in July 2010 to enable selected employees of Rakon Limited and its subsidiaries to acquire shares in the Company through the Plan Trustee, Rakon ESOP Trustee Limited.

Under the terms of the Restricted Share Plan on 23 July 2010 1,350,000 shares were issued at $1 each to Rakon ESOP Trustee Limited, all shares issued have been allocated. The shares rank equally in all respects with all other ordinary shares issued by the Company. A loan facility provided by Rakon Financial Services Limited to participating employees in respect of these shares totals $1,350,000. Loans are provided on an interest free basis. The participating employee must repay the loan from the proceeds of specific bonuses paid by Rakon Limited, dividends received or from the sale of the Restricted Shares by the Trustee.

The Plan rules provide for the transfer of these shares over a five year period provided the loans are repaid in full and the Group has met the exercise hurdles based on earnings before interest and tax to shares ratio. The Board has the discretion to review these targets and annual transfers.

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 Restricted Share Plan represent approximately 0.70% of the Company's total shares on issue as at balance date (31 March 2009: nil, 30 September 2009: nil).

Rakon Share Plan

There have been no changes to the Rakon Share Plan during the period.

Rakon Share Growth Plan

On 15 May 2010 all the redeemable ordinary shares under the Rakon Share Growth Plan were redeemed and cancelled pursuant with the Trust Deed. The partial payments received totalling $153,000 will be repaid to participants.

Rakon Employee Share Option Scheme

As at 30 September 2010 there were 2,394,340 outstanding options (March 2010: 3,199,965 options, 30 September 2009: 3,392,765 options). 850,000 options (31 March 2010: nil, 30 September 2009: nil) were issued to selected employees and nil options (31 March 2010: nil, 30 September 2009: nil) were exercisable. The weighted average fair value of options granted during 2010 determined using the Black-Scholes valuation model was $0.11 per option. Share options totalling 172,000 (31 March 2010: 217,466, 30 September 2009: 24,666) were cancelled due to holders leaving employment and share options totalling 1,484,000 lapsed during the period (31 March 2010: nil, 30 September 2009: nil).

9. Dividends

The Directors reviewed the dividend policy and no dividend will be paid.

10. Capital expenditure

	Unaudited Six Months Ended 30 September 2010 ($000s)	Unaudited Six Months Ended 30 September 2009 ($000s)	Audited Year Ended 31 March 2010 ($000s)
Opening net book value	41,712	44,535	44,535
Additions	4,860	4,027	6,747
Additions from business combinations	1,582	-	-
Disposals	(92)	(313)	(2,896)
Depreciation	(3,705)	(3,295)	(7,418)
Other movements	94	(1,315)	744
Closing net book value	44,451	43,639	41,712

Amounts committed to capital expenditure subsequent to the end of the interim period total $21,314,000 (31 March 2010: $1,900,000, 30 September 2009: $802,000), which includes $17, 992,000 in relation to capital commitments for Rakon Crystal Chengdu.

11. Intangible assets

	Goodwill ($000s)	Trademarks ($000s)	Patents ($000s)	Order backlogs ($000s)	Software ($000s)	Product development ($000)	Assets under construction ($000)	Total ($000s)
At 1 April 2009								
Cost	30,872	656	4,145	1,191	4,745	2,052	377	44,038
Accumulated amortisation	-	(656)	(913)	(1,191)	(3,391)	(56)	-	(6,207)
Net book value	**30,872**	**-**	**3,232**	**-**	**1,354**	**1,996**	**377**	**37,831**
Half year ended 30 September 2009								
Opening net book value	30,872	-	3,232	-	1,354	1,996	377	37,831
Foreign exchange differences	(3,152)	-	(172)	-	(4)	(140)	-	(3,468)
Additions	-	-	-	-	-	282	185	467
Amortisation charge	-	-	(167)	-	(304)	(45)	-	(516)
Closing net book amounts	**27,720**	**-**	**2,893**	**-**	**1,046**	**2,093**	**562**	**34,314**
At 30 September 2009								
Cost	27,720	656	3,973	1,191	4,741	2,194	562	41,037
Accumulated amortisation	-	(656)	(1,080)	(1,191)	(3,695)	(101)	-	(6,723)
Net book value	**27,720**	**-**	**2,893**	**-**	**1,046**	**2,093**	**562**	**34,314**
Half year ended 31 March 2010								
Opening net book value	27,720	-	2,893	-	1,046	2,093	562	34,314
Foreign exchange differences	(1,137)	-	(132)	-	(21)	(109)	-	(1,399)
Additions	-	-	-	-	887	321	132	1,340
Amortisation charge	-	-	(152)	-	(361)	24	-	(489)
Transfer of finished goods	-	-	-	-	69	174	(243)	-
Closing net book amounts	**26,583**	**-**	**2,609**	**-**	**1,620**	**2,503**	**451**	**33,766**
At 31 March 2010								
Cost	26,583	656	3,841	1,191	5,676	2,580	451	40,978
Accumulated amortisation	-	(656)	(1,232)	(1,191)	(4,056)	(77)	-	(7,212)
Net book value	**26,583**	**-**	**2,609**	**-**	**1,620**	**2,503**	**451**	**33,766**
Half year ended 30 September 2010								
Opening net book value	26,583	-	2,609	-	1,620	2,503	451	33,766
Foreign exchange differences	211	-	25	-	(5)	1	-	232
Additions	-	-	-	-	84	273	2,945	3,302
Additions from business combinations	-	-	-	-	111	-	-	111
Amortisation charge	-	-	(177)	-	(367)	(76)	-	(620)
Transfers to finished assets	-	-	-	-	11	109	(120)	-
Closing net book amounts	**26,794**	**-**	**2,457**	**-**	**1,454**	**2,810**	**3,276**	**36,791**
At 30 September 2010								
Cost	26,794	656	3,866	1,191	5,877	2,963	3,276	44,623
Accumulated amortisation	-	(656)	(1,409)	(1,191)	(4,423)	(153)	-	(7,832)
Net book value	**26,794**	**-**	**2,457**	**-**	**1,454**	**2,810**	**3,276**	**36,791**

12. Impairment tests for goodwill

Goodwill is allocated to the Group's cash generating units (CGUs) identified according to country of operation.

A geographical-level summary of the goodwill allocation is presented below:

	Unaudited as at 30 September 2010 ($000s)	Unaudited as at 30 September 2009 ($000s)	Audited as at 31 March 2010 ($000s)
New Zealand	8,306	8,573	8,221
United Kingdom	16,344	16,891	16,169
France	536	564	548
India – OCXO products transferred from France	1,608	1,692	1,645
Goodwill recognised in Intangible assets	**26,794**	**27,720**	**26,583**
Goodwill recognised in Investment in associates – China	10,764	10,860	10,966
Goodwill recognised in Investment in joint venture – India	3,499	3,860	3,577

The recoverable amount of a CGU is determined based on value-in-use calculations.

At 30 September 2010 goodwill was reviewed for indicators of impairment; the results for the period for New Zealand are lower than predicted due to the slightly slower ramp up in demand in the Smartphone market, and tight supply for some key components, resulting in lower margins realised. The outlook for the New Zealand business beyond this financial year remains unchanged due to the growth in the Smartphone and Femtocell markets and cost reductions flowing through from sourcing crystals from Rakon Crystal Chengdu Co Limited. The Directors do not consider that these events indicate impairment in the carrying value of goodwill at 30 September 2010. A full impairment test will be performed at the year end.

During the 2009 year the Group adopted NZ IFRS 8 and changed its operating segments. As a result France is considered to be a separate cash generating unit. Goodwill has been reallocated based on a relative value approach.

13. Contingent liabilities

The Group has contingent liabilities in respect of legal claims arising in the ordinary course of business.

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

14. Subsequent events

There have been no subsequent events after 30 September 2010.

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Accountants' Report

To the shareholders of Rakon Limited

We have reviewed the interim condensed consolidated financial statements ("financial statements") on pages 2 to 15. The financial statements provide information about the past financial performance and cash flows of the Group, comprising Rakon Limited and its subsidiaries, for the half year ended 30 September 2010 and its financial position as at that date. This information is stated in accordance with the accounting policies set out on page 7.

This report is made solely to the Company's shareholders, as a body, Our review work has been undertaken so that we might state to the Company's shareholders 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 review procedures, for this report, or for the opinions we have formed.

Directors' responsibilities

The Company's Directors are responsible for the preparation and presentation of the financial statements that present fairly the financial position of the Group as at 30 September 2010 and its financial performance and cash flows for the period ended on that date.

Accountants' responsibilities

We are responsible for reviewing the financial statements presented by the Directors in order to report whether, in our opinion and on the basis of the procedures performed by us, anything has come to our attention that would indicate that the financial statements do not present fairly the matters to which they relate.

Basis of opinion

A review is limited primarily to enquiries of company personnel and analytical review procedures applied to financial data and thus provides less assurance than an audit. We have not performed an audit on the financial statements and, accordingly, we do not express an audit opinion.

We have reviewed the financial statements of the Group for the period ended 30 September 2010 in accordance with the Review Engagement Standards issued by the Institute of Chartered Accountants of New Zealand.

We have no relationship with or interests in the Company or its subsidiaries other than in our capacities as accountants conducting this review, auditors under the Companies Act 1993 and providers of other assurance services.

Review opinion

Based on our review, nothing has come to our attention that causes us to believe that the financial statements which have been prepared in accordance with International Accounting Standard 34 and New Zealand Equivalent to International Accounting Standard 34: Interim Financial Reporting do not present fairly the financial position of the Group as at 30 September 2010 and its financial performance and cash flows for the period ended on that date.

Our review was completed on 11 November 2010 and our review opinion is expressed as at that date.

PricewaterhouseCoopers

Chartered Accountants Auckland

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