



Results for announcement to the market

Date: 15 November 2018

Rakon Limited (RAK)

Rakon Limited	
Results for announcement to the market	
Reporting period	6 months to 30 th September 2018
Previous reporting period	6 months to 30 th September 2017

Unaudited	Amount NZ\$000	% Change
Revenue from ordinary activities	53,309	+10%
Underlying EBITDA^c (Earnings before interest, tax, depreciation, amortisation, impairment, employee share schemes, non-controlling interests, adjustments for associates and joint ventures share of interest, tax & depreciation and other cash & non-cash items)	5,879 ^a	+55%
Profit/(loss) from ordinary activities after tax attributable to security holders	9,199 ^b	+913%
Net profit/(loss) attributable to security holders	9,199 ^b	+913%

Note a: includes share of Underlying EBITDA from associates and joint ventures of \$1,190,000 (September 2017: \$488,000).

b: includes equity accounted earnings from associates and joint ventures of \$570,000 (September 2017: -\$543,000).

c: Further information regarding the disclosure and use of non-GAAP financial information is disclosed at Note B1 (Notes to the Unaudited Consolidated Interim Financial Statements) in this results announcement.

	Amount per security	Imputed amount per security
Interim / Final Dividend	Nil dividend proposed	Nil dividend proposed
Record Date	Not Applicable	Not Applicable
Dividend Payment Date	Not Applicable	Not Applicable

COMMENTS

15 NOVEMBER 2018 (RAK)

Strong first half performance

Global high tech company Rakon Limited ('Rakon') continues its positive performance, having posted a net profit after tax of \$9.2m¹ (HY2018: \$0.9m) and Underlying EBITDA of \$5.9m (HY2018: \$3.8m) for the six months to 30 September 2018. Included in net profit after tax is a one off gain of \$7.2m from a change in the classification of the company's investment in Thinxtra Pty Limited ('Thinxtra').

Managing Director Brent Robinson said that, disregarding the Thinxtra gain, it was pleasing to see the growth in Rakon's core business with higher sales and margin from the Telecommunications and Defence market segments.

Mr Robinson noted, in particular, the increase in forecast demand from the Telecommunications market with the continuing roll out of 4/4.5G and 5G infrastructure. The challenge for Rakon is to capture the demand and deliver to customers' requirements.

"The acquisition of Centum Rakon India ('CRI') which is a key part of the Group's manufacturing strategy, was completed in May 2018 and it was pleasing to see the turnaround in its profit performance under Rakon's control," he said.

Net debt was \$3.9m at 30 September 2018 with increases in inventory and capital expenditures. These increases have been predominantly to:

- meet higher forecast demand from the Telecommunications market
- enable the launch of key new products for the Telecommunications market
- put in place infrastructure to allow CRI to operate independently from Rakon's previous joint venture partner
- purchase electronic components to mitigate supply risk due to industry shortages

Mr Robinson said the appointments of a new Chair, Director and Company Secretary have refreshed the leadership and governance group.

In June 2018 the accounting treatment of Rakon's investment in Thinxtra changed with the effect that it is now recognised at fair value. Fair value was calculated on the basis of an independent external valuation report, resulting in the one-off gain of \$7.2m.

The company reports total equity of \$96.0m and net asset backing per share of \$0.42.

The Directors confirm that the HY2019 preliminary results announcement is based on unaudited results.

¹ All amounts are in NZD unless otherwise indicated.

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About Rakon

Rakon is a global high technology company that designs and manufactures world-leading frequency control and timing solutions. Its products enable connectivity for a wide range of applications. The company's three core markets are telecommunications, global positioning and space & defence. Rakon has a global footprint including five manufacturing plants, six research and development centres and 16 customer support locations. Rakon is proud of its New Zealand heritage; it was founded in Auckland in 1967. It is a public company listed on the New Zealand stock exchange, NZSX, ticker code RAK.

www.rakon.com

Unaudited Consolidated Interim Statement of Comprehensive Income

For the period ended 30 September 2018

		Unaudited six months ended 30 September 2018 \$000s	Unaudited six months ended 30 September 2017 \$000s	Audited year ended 31 March 2018 \$000s
	Note			
Continuing operations				
Revenue	B1 d)	53,309	48,278	101,127
Cost of sales		(28,715)	(28,137)	(57,828)
Gross profit		24,594	20,141	43,299
Other operating income	B3 a)	1	688	2,421
Other gains – net		645	492	4,624
Re-measurement on change in treatment - Thinextra shares	B5 c)	7,172	-	-
Net loss from business combination	B4 b)	(69)	-	-
Operating expenses	B2	(23,492)	(19,490)	(41,626)
Impairment		-	-	(120)
Operating profit		8,851	1,831	8,598
Finance income		9	-	3
Finance costs		(186)	(227)	(504)
Share of net profits/ (losses) of associates and joint venture	B5 b)	570	(543)	(1,915)
Net dilution gain on Thinextra shares		-	-	4,815
Profit before income tax		9,244	1,061	10,997
Income tax expense		(45)	(153)	(998)
Net profit for the period		9,199	908	9,999
Other comprehensive income				
Items that may be reclassified subsequently to profit or loss				
Decrease in fair value cash flow hedges		(3,454)	(313)	(372)
Cost of hedging		154	-	-
Increase in fair value currency translation differences		2,125	1,467	2,766
Income tax credit relating to components of other comprehensive income		967	88	104
Other comprehensive (losses)/income for the period, net of tax		(208)	1,242	2,498
Total comprehensive income for the period		8,991	2,150	12,497
Profit attributable to equity holders of the Company		9,199	908	9,999
Total comprehensive profit attributable to equity holders of the Company		8,991	2,150	12,497
Earnings per share for profit attributable to the equity holders of the Company from continuing operations				
		Cents	Cents	Cents
Basic earnings per share		4.1	0.4	4.4
Diluted earnings per share		4.0	0.4	4.3

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

Unaudited Consolidated Interim Statement of Changes in Equity

For the period ended 30 September 2018

	Share capital \$000s	Retained earnings \$000s	Other reserves \$000s	Total equity \$000s
Balance at 31 March 2017	181,035	(83,218)	(23,260)	74,557
Net profit after tax for the half year ended 30 September	-	908	-	908
Contribution of equity, transaction cost	(11)	-	-	(11)
Currency translation differences	-	-	1,467	1,467
Cash flow hedges, net of tax	-	-	(225)	(225)
Total comprehensive loss for the half year	(11)	908	1,242	2,139
Employee share schemes				
Value of employee services	-	-	8	8
Balance at 30 September 2017	181,024	(82,310)	(22,010)	76,704
Net profit after tax for the half year ended 31 March 2018	-	9,091	-	9,091
Currency translation differences	-	-	1,299	1,299
Cash flow hedges, net of tax	-	-	(43)	(43)
Total comprehensive income for the half year	-	9,091	1,256	10,347
Balance at 31 March 2018	181,024	(73,219)	(20,754)	87,051
Net profit after tax for the half year ended 30 September	-	9,199	-	9,199
Currency translation differences	-	-	2,125	2,125
Cash flow hedges, net of tax	-	-	(2,333)	(2,333)
Total comprehensive income for the half year	-	9,199	(208)	8,991
Balance at 30 September 2018	181,024	(64,020)	(20,962)	96,042

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

Unaudited Consolidated Interim Balance Sheet

As at 30 September 2018

	Unaudited six months ended 30 September 2018	Unaudited six months ended 30 September 2017	Audited year ended 31 March 2018
Note	\$000s	\$000s	\$000s
Assets			
Current assets			
Cash and cash equivalents	2,629	3,566	10,364
Trade and other receivables	34,973	22,824	28,395
Financial asset at fair value through profit and loss	11	65	211
Derivative financial instruments	69	676	1,078
Inventories	37,444	26,281	24,171
Current income tax asset	820	10	146
Assets classified as held for sale	-	2,090	-
Total current assets	75,946	55,512	64,365
Non-current assets			
Trade and other receivables	2,959	2,166	2,716
Property, plant and equipment	17,243	11,113	13,481
Intangible assets	10,276	10,780	9,115
Derivative financial instruments	278	673	334
Financial asset at fair value through other comprehensive income	B5 c) 12,176	-	-
Investment in associates	B5 b) 9,954	11,602	14,640
Interest in joint venture	B5 b) -	3,451	2,876
Deferred tax asset	8,209	6,560	5,906
Total non-current assets	61,095	46,345	49,068
Total assets	137,041	101,857	113,433
Liabilities			
Current liabilities			
Bank overdraft	6,201	1,362	2,824
Borrowings	294	2,526	98
Trade and other payables	26,169	15,652	19,107
Derivative financial instruments	1,550	168	235
Provisions	354	464	961
Deferred consideration	B4 a) 1,832	-	-
Deferred revenue	101	1,847	101
Total current liabilities	36,501	22,019	23,326
Non-current liabilities			
Derivative financial instruments	1,154	159	78
Borrowings	-	19	-
Provisions	3,100	2,922	2,734
Deferred tax liabilities	244	34	244
Total non-current liabilities	4,498	3,134	3,056
Total liabilities	40,999	25,153	26,382
Net assets	96,042	76,704	87,051
Equity			
Share capital	181,024	181,024	181,024
Other reserves	(20,962)	(22,010)	(20,754)
Accumulated losses	(64,020)	(82,310)	(73,219)
Total equity	96,042	76,704	87,051

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

Unaudited Consolidated Interim Statement of Cash Flows

For the period ended 30 September 2018

	Unaudited six months ended 30 September 2018 \$000s	Unaudited six months ended 30 September 2017 \$000s	Audited year ended 31 March 2018 \$000s
Note			
Operating activities			
Cash provided from			
Receipts from customers	54,754	52,124	101,691
Income tax refund	29	-	-
R&D grants received	305	1,405	1,726
Other income received	9	-	3
	55,097	53,529	103,420
Cash was applied to			
Payment to suppliers and others	(34,598)	(29,622)	(57,998)
Payment to employees	(23,680)	(18,668)	(36,735)
Interest paid	(140)	(248)	(536)
Income tax paid	(107)	(62)	(247)
	(58,525)	(48,600)	(95,516)
Net cash flow from operating activities	(3,428)	4,929	7,904
Investing activities			
Cash was provided from			
Net proceeds from sale of Thinextra shares	-	-	3,178
Sale of property, plant and equipment	16	-	4,754
	16	-	7,932
Cash was applied to			
Purchase of property, plant and equipment	(2,115)	(255)	(3,236)
Purchase of intangibles	(223)	(688)	(840)
Investment in shares and associates	(5,848)	-	-
	(8,186)	(943)	(4,076)
Net cash flow from investing activities	(8,170)	(943)	3,856
Financing activities			
Cash was applied to			
Share issuance cost	-	(11)	(11)
Repayment of principal on borrowings	-	(2,016)	(4,500)
Finance lease payments	(13)	-	(31)
	(13)	(2,027)	(4,542)
Cash was applied to financing activities	(13)	(2,027)	(4,542)
Net (decrease)/increase in cash and cash equivalents	(11,611)	1,959	7,218
Effects of exchange rate changes on cash and cash equivalents	499	169	246
Cash and cash equivalents at the beginning of the year	7,540	76	76
Cash and cash equivalents at the end of the period	(3,572)	2,204	7,540
Composition of cash and cash equivalents			
Cash and cash equivalents	2,629	3,566	10,364
Bank overdraft	(6,201)	(1,362)	(2,824)
Total cash and cash equivalents	(3,572)	2,204	7,540

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

Unaudited Consolidated Interim Statement of Cash Flows

For the period ended 30 September 2018

		Unaudited six months ended 30 September	Unaudited six months ended 30 September	Audited year ended 31 March
	Note	2018	2017	2018
Reconciliation of net profit to net cash flows from operating activities				
Reported net profit after tax		9,199	908	9,999
Following adjustments:				
Depreciation expense		1,716	1,336	2,504
Amortisation expense		1,065	971	1,838
Impairment		-	-	120
Increase/(decrease) in estimated doubtful debts		-	7	7
Provision for restructure		-	-	159
Employee share based expense		-	8	8
Movement in foreign currency		(32)	(16)	(590)
Monetised cash flow hedge, net of tax		-	(941)	(1,096)
Deferred revenue – Siward technology license agreement		-	(687)	(2,351)
Share of net profits/ (losses) of associates and joint venture	B5 b)	(570)	543	1,915
Deferred tax		-	-	382
(Gain)/loss on disposal of property, plant and equipment		(16)	12	(2,155)
Thinextra shares - fair value adjustment	B5 c)	(7,172)	-	(1,852)
Net Dilution gain on Thinextra shares		-	-	(4,815)
Net loss from business combination	B4 b)	69	-	-
Total items cash flow adjusted for		(4,940)	1,233	(5,926)
Impact of changes in working capital items				
Trade and other receivables		(2,268)	5,424	(146)
Provision for restructure		(252)	(420)	(645)
Inventories		(7,404)	(1,995)	115
Trade and other payables		2,278	(307)	4,557
Tax provisions		(41)	86	(50)
Total impact of changes in working capital items		(7,687)	2,788	3,831
Net cash flow from operating activities		(3,428)	4,929	7,904

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

Notes to the Unaudited Consolidated Interim Financial Statements

A. General information

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

The financial statements of the Group have been presented in New Zealand dollars unless otherwise indicated and have been approved for issue by Rakon's Board of Directors ('the Board') on 15 November 2018.

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)", refer note B1 c).

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

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

B1 a) Accounting policy

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

B1 b) Segment results

Unaudited six months ended 30 September 2018

	NZ	UK	France	India ⁷	China-- T'maker ¹	India-- Centum Rakon ²	Australia-- Thinextra ⁶	Other ³	Total
	\$000s	\$000s	\$000s	\$000s	\$000s	\$000s	\$000s	\$000s	\$000s
Sales to external customers	32,726	-	18,603	1,980	-	-	-	-	53,309
Inter-segment sales	174	-	104	8,288	-	-	-	-	8,566
Segment revenue	32,900	-	18,707	10,268	-	-	-	-	61,875
Underlying EBITDA	6,186	848	(3,457)	1,294	1,355	124	(289)	(182)	5,879
Depreciation and amortisation	1,138	258	900	484	-	-	-	1	2,781
Income tax (expense)/credit	-	43	16	-	-	-	-	(104)	(45)
Total assets ⁴	56,323	3,373	32,591	21,177	9,954	-	-	13,623	137,041
Investment in associates	-	-	-	-	9,954	-	-	-	9,954
Investment in joint venture	-	-	-	-	-	-	-	-	-
Additions of property, plant, equipment and intangibles	1,130	271	547	109	-	-	-	-	2,057
Total liabilities ⁵	19,631	471	12,743	8,019	-	-	-	135	40,999

Unaudited six months ended 30 September 2017

	NZ	UK	France	India ⁷	China– T'maker ¹	India– Centum Rakon ²	Australia– Thinextra ⁶	Other ³	Total
	\$000s	\$000s	\$000s	\$000s	\$000s	\$000s	\$000s	\$000s	\$000s
Sales to external customers	32,072	-	16,206	-	-	-	-	-	48,278
Inter-segment sales	90	-	-	-	-	-	-	19	109
Segment revenue	32,162	-	16,206	-	-	-	-	19	48,387
Underlying EBITDA	3,953	815	(1,327)	-	1,389	371	(1,272)	(129)	3,800
Depreciation and amortisation	1,297	251	675	-	-	-	-	84	2,307
Income tax expense	-	(91)	14	-	-	-	-	(76)	(153)
Total assets ⁴	48,275	3,164	29,828	-	8,798	3,451	5,608	2,733	101,857
Investment in associates	-	-	-	-	8,798	-	-	2,804	11,602
Investment in joint venture	-	-	-	-	-	3,451	-	-	3,451
Additions of property, plant, equipment and intangibles	690	164	198	-	-	-	-	-	1,052
Total liabilities ⁵	13,004	482	11,197	-	-	-	-	470	25,153

Audited year ended 31 March 2018

	NZ	UK	France	India ⁷	China– T'maker ¹	India– Centum Rakon ²	Australia– Thinextra ⁶	Other ³	Total
	\$000s	\$000s	\$000s	\$000s	\$000s	\$000s	\$000s	\$000s	\$000s
Sales to external customers	63,812	-	37,315	-	-	-	-	-	101,127
Inter-segment sales	163	-	5	-	-	-	-	33	201
Segment revenue	63,975	-	37,320	-	-	-	-	33	101,328
Underlying EBITDA	7,611	1,591	1,334	-	2,115	(9)	(430)	(118)	12,094
Depreciation and amortisation	2,517	508	1,408	-	-	-	-	(91)	4,342
Impairment	120	-	-	-	-	-	-	-	120
Income tax credit/(expense)	(623)	(129)	29	-	-	-	-	(275)	(998)
Total assets ⁴	51,819	3,255	37,326	-	9,350	2,876	5,290	3,517	113,433
Investment in associates	-	-	-	-	9,350	-	5,290	-	14,640
Investment in joint venture	-	-	-	-	-	2,876	-	-	2,876
Additions of property, plant, equipment and intangibles	2,463	441	1,255	-	-	-	-	4	4,163
Total liabilities ⁵	11,987	462	13,459	-	-	-	-	474	26,382

¹ Includes Rakon Limited's 40% share of investment in Chengdu Timemaker Crystal Technology Co. Limited and Shenzhen Taixiang Wafer Co. Limited, refer note B5.

² Included Rakon Limited's 49% share of investment in Centum Rakon India Private Limited, refer note B5.

³ Includes investments in subsidiaries, Rakon Financial Services Limited, Rakon UK Holdings Limited, Rakon Investment HK Limited, and Rakon HK Limited, and the reclassified equity investment in Thinextra Pty Limited.

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

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

⁶ On 1 June 2018, share equity investment in Thinextra Pty Limited was reclassified as financial instrument fair value through other comprehensive income, now reported under Other, refer to note B5 c).

⁷ On 2 May 2018, the Group acquired the remaining 51% of the issued shares it did not own in Centum Rakon India Private Limited ('CRI'), a previously held joint venture, refer to note B4 b).

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

	Unaudited six months ended 30 September 2018 \$000s	Unaudited six months ended 30 September 2017 \$000s	Audited year ended 31 March 2018 \$000s
Continuing operations			
Underlying EBITDA	5,879	3,800	12,094
Depreciation and amortisation	(2,781)	(2,307)	(4,342)
One off cash gains realised on derivatives closed out	-	941	1,096
Employee share schemes	-	(8)	(8)
Finance costs – net	(177)	(227)	(501)
Adjustment for associates and joint venture share of interest, tax and depreciation	(648)	(1,032)	(1,751)
Net dilution gain on Thinextra shares	-	-	4,815
Impairment	-	-	(120)
Loss on asset sales/disposal	(20)	(12)	(25)
Remeasurement on change in treatment - Thinextra shares	7,172	-	-
Other non – cash items	(181)	(94)	(261)
Profit before income tax	9,244	1,061	10,997
Income tax expense	(45)	(153)	(998)
Net profit for the period	9,199	908	9,999

B1 d) Breakdown of revenue by goods and services

	Unaudited six months ended 30 September 2018 \$000s	Unaudited six months ended 30 September 2017 \$000s	Audited year ended 31 March 2018 \$000s
Sales of goods	52,783	47,868	99,916
Revenue from services	526	410	1,211
Total revenue	53,309	48,278	101,127

B1 e) Breakdown of revenue by market segment

	Unaudited six months ended 30 September 2018 \$000s	Unaudited six months ended 30 September 2017 \$000s	Audited year ended 31 March 2018 \$000s
Telecommunications	24,289	21,384	40,457
Global Positioning	11,424	13,065	25,999
Space and Defence	14,204	10,677	27,984
Other	3,392	3,152	6,687
Total revenue by market segment	53,309	48,278	101,127

B1 f) Breakdown of revenue by region

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

	Unaudited six months ended 30 September 2018 \$000s	Unaudited six months ended 30 September 2017 \$000s	Audited year ended 31 March 2018 \$000s
Asia	25,259	20,390	41,330
North America	12,704	10,809	23,940
Europe	14,030	15,989	33,069
Others	1,316	1,090	2,788
Total revenue by region	53,309	48,278	101,127

B2. Operating expenses

	Unaudited six months ended 30 September 2018 \$000s	Unaudited six months ended 30 September 2017 \$000s	Audited year ended 31 March 2018 \$000s
Operating expense by function			
Selling and marketing costs	4,945	4,439	9,905
Research and development	5,556	5,292	9,712
General and administration	12,991	9,759	22,009
Total operating expenses	23,492	19,490	41,626

B3. Other operating income

B3 a) Breakdown of other operating income

	Unaudited six months ended 30 September 2018 \$000s	Unaudited six months ended 30 September 2017 \$000s	Audited year ended 31 March 2018 \$000s
Dividend income	-	1	1
Other income	1	-	69
Income from technology license agreement with Siward	-	687	2,351
Total other operating income	1	688	2,421

B4. Business combination – acquisition of Centum Rakon India Private Limited

B4 a) Current period

On 2 May 2018, the Group acquired the remaining 51% of the issued shares it did not own in Centum Rakon India Private Limited ('CRI'), a previously held joint venture which provides products and services to the frequency control industry. Consideration was US\$5.5m and the acquisition is part of the Group's overall manufacturing strategy, providing a low cost manufacturing platform and in addition, access to the local Indian market in the longer term. Consideration of US\$4,125,000 was paid on 2 May 2018 with US\$1,375,000 payable within 18 months of acquisition date. The fair value of the US\$1,375,000 was estimated based on a discount rate of 5.90%.

B4 b) Details of the purchase consideration, the provisional fair value of net assets acquired and goodwill are as follows:

Purchase Price consideration	\$000s
Cash paid	5,848
Deferred consideration	1,789
Less: deemed settlement of pre-existing net trade payables	(1,249)
Total purchase price consideration	6,388

	Provisional fair value
The fair value of the assets and liabilities recognised as a result of the acquisition are as follows	\$000s
Cash and cash equivalents	1,500
Property, plant and equipment	3,750
Inventories	5,869
Trade and other receivables	5,002
Trade and other payables	(4,510)
Overdraft	(1,320)
Employee benefit obligations	(343)
Net deferred tax assets	1,379
Less deemed settlement of pre-existing net trade balances	(1,249)
Net identifiable assets acquired	<u>10,078</u>

As a result of acquisition, the pre-existing 49% share of equity which was acquired on 25 March 2008 was re-measured to fair value and the currency translation reserve relating to pre-existing 49% share of equity was recycled through profit and loss component of Statement of Comprehensive Income.

	Unaudited six months ended 30 September 2018
Re-measurement of previously held 49% equity interest	\$000s
Carrying value of equity interest prior to acquisition	2,994
Gain on re-measurement	1,944
Re-measured previously held equity interest	<u>4,938</u>
Net loss in business combination on previously held equity interest	
Gain on re-measurement of previously held equity interest	1,944
Loss on reclassification of currency translation reserve	(2,013)
Net loss in business combination on previously held equity interest	<u>(69)</u>
Goodwill on acquisition	\$000s
Net assets acquired	10,078
Less previously held 49% equity interest	(4,938)
Goodwill on acquisition	<u>1,248</u>
Total purchase consideration	<u>6,388</u>

The goodwill is attributable to synergies expected to arise. None of the goodwill is expected to be deductible for tax purposes.

Deferred tax asset of \$530,000 has been recognised in relation to the fair value adjustments.

The acquisition accounting has been determined on provisional basis. If new information obtained within one year of the date of acquisition about facts and circumstances that existed at the date of acquisition identifies adjustments to the above amounts, or any additional provisions that existed at the date of acquisition, then the accounting for the acquisition will be revised.

Acquisition-related costs

Acquisition-related costs of \$205,000 are included in administrative expenses in profit or loss.

Revenue and profit contribution

The acquired business contributed revenues of \$1,980,000 and net profit of \$780,000 to the Group for the period from 2 May 2018 to 30 September 2018. If the acquisition had occurred on 1 April 2018, consolidated revenue and consolidated profit after tax for the half-year ended 30 September 2018 would have been \$2,130,000 and \$660,000 respectively. For April 2018, the Group recorded \$76,000 equity accounted profit for the owned 49% equity interest.

B5. Interests in associates and joint venture

B5 a) Accounting policy

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

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

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

B5 b) Breakdown of associates and joint venture

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

Name of entity	Nature of relationship	Country of incorporation	% of ownership interest		
			Unaudited six months ended 30 September 2018	Unaudited six months ended 30 September 2017	Audited year ended 31 March 2018
Chengdu Timemaker Crystal Technology Co. Ltd ¹	Associate	China	40%	40%	40%
Shenzhen Taixiang Wafer Co. Ltd ¹	Associate	China	40%	40%	40%
Thinextra Pty Limited (ceased being an associate June 18) ³	Associate	Australia	-	33%	21.5%
Centum Rakon India Private Ltd (ceased being a joint venture May 18) ²	Joint venture	India	-	49%	49%

	Net investment			Equity accounted profits/(losses)		
	Unaudited six months ended 30 September 2018	Unaudited six months ended 30 September 2017	Audited year ended 31 March 2018	Unaudited six months ended 30 September 2018	Unaudited six months ended 30 September 2017	Audited year ended 31 March 2018
	\$000s	\$000s	\$000s	\$000s	\$000s	\$000s
Chengdu Timemaker Crystal Technology Co. Limited ¹	9,531	8,383	8,925			
Shenzhen Taixiang Wafer Co. Limited ¹	423	416	425			
Total Timemaker Group	9,954	8,799	9,350	781	769	908
Thinextra Pty Limited ³	-	2,803	5,290	(287)	(1,271)	(2,273)
Total carrying amount of associates	9,954	11,602	14,640	494	(502)	(1,365)
Centum Rakon India Private Limited ²	-	3,451	2,876	76	(41)	(550)
Total carrying amount of equity accounted associates and joint venture	9,954	15,053	17,516	570	(543)	(1,915)

¹ The Group has a 40% interest in two related companies: Chengdu Timemaker Crystal Technology Co. Limited and Shenzhen Taixiang Wafer Co. Limited, which provide products and services to the frequency control products industry. In June 2017, Chengdu Shen-Timemaker Crystal Technology Co. Limited, a company in the Timemaker Group, was merged with Chengdu Timemaker Crystal Technology Co. Limited.

² On 2 May 2018, the Group assumed full ownership of Centum Rakon India Private Limited ('CRI') by acquiring the remaining 51% interest of shares, refer note B4. Prior to the acquisition, CRI, was a joint venture.

³ Due to loss of significant influence, on 1 June 2018, the Group has reclassified the investment in Thinxtra Pty Limited ('Thinxtra'), as a financial asset at fair value through other comprehensive income, refer note B5 c).

B5 c) Investment in Thinxtra

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

The Group commenced equity accounting its investment in Thinxtra from December 2015 and ceased this treatment on 31 May 2018. On 1 June 2018, Rakon irrevocably waived its right to appoint a director to Thinxtra's board and concurrently Rakon's appointed director resigned. Accordingly, it was concluded that Rakon lost significant influence in Thinxtra on 1 June 2018 and therefore ceased equity accounting the investment. On this day, the investment was measured at to fair value in accordance with NZ IAS 28 *Investments in Associates and Joint Ventures*. The fair value was determined by an independent valuation report that provided a price range per share. The lowest price in the range was used to measure the investment to fair value which resulted in a gain of \$7,172,000 being recognised in the profit and loss component of the Statement of Comprehensive Income. The fair value of Rakon's 21.4% of equity holding as at 1 June 2018 is \$12,176,000. The Directors have determined that the fair value has not materially changed between 1 June 2018 and 30 September 2018.

To provide an indication about the reliability of the inputs used in determining fair value, the Group classified the fair valuation of Thinxtra investment as a level 3 investment. This is the prescribed method of grouping under the accounting standards which states that the instruments are classified as level 3 only if one or more of the significant inputs for the valuation is not based on observable market data. The valuation of Thinxtra was based on an independent valuation report which included the following key judgement and assumptions:

- In October 2017 Thinxtra undertook a significant capital raising where demand exceeded supply
- In November 2017 Rakon sold 199,763 shares for A\$3.0m to applicants who missed out on the October 2017 capital raising
- The outlook for Thinxtra between October 2017 and June 2018 has not materially changed
- A new capital raising is expected to take place in late 2018.

Further, effective 1 June 2018, the Group elected to present subsequent changes in fair value of its investment in Thinxtra in other comprehensive income, refer B8 a) for accounting policy, NZ IFRS 9 *Financial Instruments*.

A 10% strengthening of the fair value of investment will result in an increase in other comprehensive income component of the Statement of Comprehensive Income by \$1,217,600. A 10% weakening will have a equal but opposite effect.

B6. Contingencies

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

B7. Events after reporting date

There have been no other subsequent events after 30 September 2018.

B8. Basis of preparation

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

These consolidated interim financial statements for the half year reporting period ended 30 September 2018 have been prepared in accordance with New Zealand Generally Accepted Accounting Practice (NZ GAAP). They comply with New Zealand equivalents to International Financial Reporting Standards (NZ IFRS), other New Zealand accounting standards and authoritative notices that are applicable to entities that apply NZ IFRS, in particular IAS 34 Interim Financial Reporting. The consolidated financial statements also comply with International Financial Reporting Standards (IFRS). The Group is a profit-oriented entity for the purposes of complying with NZ GAAP. These financial statements comprise Rakon and its subsidiaries.

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

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

The preparation of financial statements in accordance with NZ IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates. This interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report should be read in conjunction with the annual report for the year ended 31 March 2018 and any public announcements made by the Company during the interim reporting period. The accounting policies applied are consistent with those of the annual report for the year ended 31 March 2018.

The accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period, except for the adoption of new and amended standards as set out below.

B8 a) New and amended standards adopted by the Group

A number of new or amended standards became applicable for the current reporting period and the Group had to change its accounting policies:

- NZ IFRS 9 Financial Instruments, and
- NZ IFRS 15 Revenue from Contracts with Customers.

The Group has performed the assessment and concluded that there is no material adjustment from adoption of these standards and no retrospective adjustments are required in the consolidated interim financial statements.

NZ IFRS 9 Financial Instruments

Classification

From 1 January 2018, the Group classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through other comprehensive income (OCI), or through profit and loss), and
- those to be measured at amortised cost.

The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows. For assets measured at fair value, gains and losses will either be recorded in profit or loss or OCI. For investments in equity instruments that are not held for trading, this will depend on whether the Group has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income (FVOCI).

Measurement

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss (FVPL), transaction costs that are directly attributable to the acquisition of the financial asset.

Equity instruments

The Group subsequently measures all equity investments at fair value. Where the Group's management has elected to present fair value gains and losses on equity investments in OCI, there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment. Dividends from such investments continue to be recognised in profit or loss as other income when the Group's right to receive payments is established. Changes in the fair value of financial assets at FVPL are recognised in other gains/(losses) in the statement of profit or loss as applicable. Impairment losses (and reversal of impairment losses) on equity investments measured at FVOCI are not reported separately from other changes in fair value.

Derivatives and hedging

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in the cash flow hedge reserve within equity. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss, within other income (expenses). When option contracts are used to hedge forecast transactions, the Group designates only the intrinsic value of the options as the hedging instrument. Until 31 March 2018, the Group classified foreign currency options as held-for-trading derivatives and accounted for them at FVPL. Gains or losses relating to the effective portion of the change in intrinsic value of the options are recognised in the cash flow hedge reserve within equity. The changes in the time value of the options that relate to the hedged item ('aligned time value') are recognised within OCI in the costs of hedging reserve within equity. When forward contracts are used to hedge forecast transactions, the Group generally designates only the change in fair value of the forward contract related to the spot component as the hedging instrument. Gains or losses relating to the effective portion of the change in the spot component of the forward contracts are recognised in the cash flow hedge reserve within equity. The change in the forward element of the contract that relates to the hedged item ('aligned forward element') is recognised within OCI in the costs of hedging reserve within equity. In some cases, the entity may designate the full change in fair value of the forward contract (including forward points) as the hedging instrument. In such cases, the gains or losses relating to the effective portion of the change in fair value of the entire forward contract are recognised in the cash flow hedge reserve within equity.

Amounts accumulated in equity are reclassified in the periods when the hedged item affects profit or loss, as follows:

Where the hedged item subsequently results in the recognition of a non-financial asset (such as inventory), both the deferred hedging gains and losses and the deferred time value of the option contracts or deferred forward points, if any, are included within the initial cost of the asset. The deferred amounts are ultimately recognised in profit or loss as the hedged item affects profit or loss (for example through cost of sales).

The gain or loss relating to the effective portion of the interest rate swaps hedging variable rate borrowings is recognised in profit or loss within finance cost at the same time as the interest expense on the hedged borrowings.

When a hedging instrument expires, or is sold or terminated, or when a hedge no longer meets the criteria for hedge accounting, any cumulative deferred gain or loss and deferred costs of hedging in equity at that time remains in equity until the forecast transaction

occurs, resulting in the recognition of a non-financial asset such as inventory. When the forecast transaction is no longer expected to occur, the cumulative gain or loss and deferred costs of hedging that were reported in equity are immediately reclassified to profit or loss.

B8 b) Impact of standards issued but not yet applied

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. Although the full impact of this standard has not yet been determined, it will result in additional assets and liabilities when the current operating leases are brought on to the balance sheet; with interest and depreciation replacing the current operating lease expense when the standard is adopted.

The standard is mandatory for first interim periods within annual reporting periods beginning on or after 1 January 2019. The Group does not intend to adopt the standard before its effective date.

Other Information

A. Dividends (NZX Listing Rules Appendix 1: 2.3(d))

The Board of Directors has declared that no dividend is to be paid for the interim period to 30 September 2018.

Rakon maintains a dividend policy such that residual cash flows after investment will be available for distribution to shareholders on the basis that net debt remains at a level viewed as comfortable by the Board, following distribution. Any declaration and payment of dividends including the amount, will be at the discretion of the Board of Directors.

B. Net Tangible Assets per Security (NZX Listing Rules Appendix 1: 2.3(f))

	30 September 2018	30 September 2017
Net tangible assets \$000	85,766	65,924
Number of ordinary securities 000	229,055	229,055
Net tangible asset backing per ordinary security \$	0.37	0.29

C. Control gained and lost over Entities (NZX Listing Rules Appendix 1: 2.3(g))

Rakon Limited has gained or lost control over the following entities during the period:

On 2 May 2018, Rakon Limited gained control of Centum Rakon India Private Limited "CRI" through acquiring the remaining 51% of the issued shares it did not own. CRI was previously held as a joint venture. CRI contributed net profit after tax of \$856,000 to the Group (30 September 2017: net loss after tax of \$41,000).

During the period Rakon did not gain or lose control over any other entities.

D. Associates & Joint Ventures (NZX Listing Rules Appendix 1: 2.3(h))

Rakon Limited has the following associate entities and joint venture arrangements.

	Shareholding
Chengdu Timemaker Crystal Technology Co. Limited	40%
Shenzhen Taixiang Wafer Co, Limited	40%

The contribution of Chengdu Timemaker Crystal Technology Co. Limited and Shenzhen Taixiang Wafer Co, Limited to Rakon Limited's net results from ordinary activities is a net profit after tax of \$781,000 (30 September 2017: \$769,000).

For the period to 31 May 2018 Thinextra Pty Limited ('Thinextra') was an associate entity. From 1 June 2018 Thinextra ceased to be an associate entity and the investment was re-measured to fair value accordingly. The contribution of Thinextra to Rakon Limited's net results from ordinary activities is a net loss after tax of \$287,000 for the two months to 31 May 2018 (30 September 2017: loss \$1,271,000).

E. Audit (NZX Listing Rules Appendix 1: 1.3(l))

The financial statements are unaudited.

F. Business Changes (NZX Listing Rules Appendix 1: 1.3(m))

There have been no major changes or trends in Rakon Limited's business subsequent to the half year end.

G. Directors Declaration (NZX Listing Rules Appendix 1, 3.1 & 3.2)

The Directors declare that the selected consolidated financial information on pages 4 to 17 have been prepared in compliance with applicable Financial Reporting Standards and extracted from the unaudited interim financial statements. The accounting policies the Directors consider critical to the portrayal of the company's financial condition and results which require judgements and estimates about matters which are inherently uncertain are disclosed in each note of the unaudited consolidated interim financial statements that form part of this announcement.