



rakon

Rakon Limited Interim Report
September 2011

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Unaudited Consolidated Interim Statement of Comprehensive Income

| | Note | Unaudited Six Months ended 30 September 2011 (\$000s) | Unaudited Six Months ended 30 September 2010 (\$000s) | Audited Year ended 31 March 2011 (\$000s) |
|--|------|--|--|--|
| Continuing operations | | | | |
| Revenue | 3 | 94,610 | 94,597 | 189,314 |
| Cost of sales | | (69,757) | (66,251) | (131,329) |
| Gross profit | | 24,853 | 28,346 | 57,985 |
| Other operating income | | 2,057 | 559 | 2,525 |
| Operating expenses | 4 | (27,082) | (24,225) | (49,326) |
| Other (losses)/gains – net | 5 | (417) | 529 | (1,905) |
| Operating (loss)/profit | | (589) | 5,209 | 9,279 |
| Finance income | 6 | 143 | 524 | 616 |
| Finance costs | 6 | (434) | (213) | (521) |
| Share of profit of associates and joint venture | | 688 | 2,179 | 2,911 |
| (Loss)/profit before income tax | | (192) | 7,699 | 12,285 |
| Income tax credit/(expense) | 7 | (67) | (2,117) | (3,805) |
| Net (loss)/profit after tax | | (259) | 5,582 | 8,480 |
| Other comprehensive income: | | | | |
| Cash flow hedges | | (1,449) | 2,048 | 631 |
| Net investment hedge | | 563 | 11 | 508 |
| Currency translation differences | | (2,616) | (1,095) | (1,970) |
| Income tax relating to components of other comprehensive income | | 240 | (609) | (333) |
| Other comprehensive (losses)/income for the period, net of tax | | (3,262) | 355 | (1,164) |
| Total comprehensive (losses)/income for the period | | (3,521) | 5,937 | 7,316 |
| (Losses)/profit attributable to: | | | | |
| Equity holders of the company | | (179) | 5,718 | 8,826 |
| Non-controlling interests | | (80) | (136) | (346) |
| | | (259) | 5,582 | 8,480 |
| Total comprehensive (loss)/income attributable to: | | | | |
| Equity holders of the company | | (3,456) | 6,109 | 7,687 |
| Non-controlling interest | | (65) | (172) | (371) |
| | | (3,521) | 5,937 | 7,316 |
| Earnings per share for (loss)/profit attributable to the equity holders of the Company: | | | | |
| Basic (losses)/earnings per share (continuing operations) | | <i>(0.1)</i> | 3.0 | 4.7 |
| Diluted (losses)/earnings per share (continuing operations) | | <i>(0.1)</i> | 3.0 | 4.6 |

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) | Non-controlling Interests (\$000s) | Total Equity (\$000s) |
|---|------|---------------------------|-------------------------------|-------------------|--------------------|---------------------------------------|--------------------------|
| Balance at 1 April 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 |
| Non-controlling 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 |
| Net profit after tax for the half year ended 31 March 2011 | | - | 3,108 | - | 3,108 | (210) | 2,898 |
| Currency translation differences | | - | - | (886) | (886) | 11 | (875) |
| Cash flow hedges, net of tax | | - | - | (992) | (992) | - | (992) |
| Net Investment hedge | | - | - | 348 | 348 | - | 348 |
| Total comprehensive income for the half year | | - | 3,108 | (1,530) | 1,578 | (199) | 1,379 |
| Non-controlling interest on additional investment in subsidiary | | - | - | - | - | 2,935 | 2,935 |
| Employee share schemes | | | | | | | |
| - value of employee services | | - | - | 235 | 235 | - | 235 |
| Balance at 31 March 2011 | 8 | 173,846 | 40,346 | (14,573) | 199,619 | 5,347 | 204,966 |
| Net loss after tax for the half year ended 30 September 2011 | | - | (179) | - | (179) | (80) | (259) |
| Currency translation differences | | - | - | (2,631) | (2,631) | 15 | (2,616) |
| Cash flow hedges, net of tax | | - | - | (1,052) | (1,052) | - | (1,052) |
| Net Investment hedge | | - | - | 406 | 406 | - | 406 |
| Total comprehensive income for the half year | | - | (179) | (3,277) | (3,456) | (65) | (3,521) |
| Non-controlling interest on additional investment in subsidiary | | - | - | - | - | - | - |
| Employee share schemes | | | | | | | |
| - proceeds from shares issued | | 35 | - | - | 35 | - | 35 |
| - value of employee services | | - | - | 238 | 238 | - | 238 |
| Balance at 30 September 2011 | 8 | 173,881 | 40,167 | (17,612) | 196,436 | 5,282 | 201,718 |

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

Unaudited Consolidated Interim Balance Sheet

| | | Unaudited as at 30 September 2011 | Unaudited as at 30 September 2010 | Audited Year as at 31 March 2011 |
|--------------------------------------|------|--------------------------------------|--------------------------------------|-------------------------------------|
| | Note | (\$'000s) | (\$'000s) | (\$'000s) |
| Assets | | | | |
| Current assets | | | | |
| Cash and cash equivalents | | 11,539 | 31,450 | 22,775 |
| Trade and other receivables | | 53,637 | 46,031 | 45,875 |
| Derivatives – held for trading | | 181 | 653 | 199 |
| Derivatives – cash flow hedges | | 294 | 2,162 | 757 |
| Inventories | | 55,693 | 54,061 | 54,924 |
| Current income tax asset | 7 | 556 | 1,139 | 128 |
| Total current assets | | 121,900 | 135,496 | 124,658 |
| Non-current assets | | | | |
| Trade and other receivables | | 3,606 | 2,877 | 3,748 |
| Property, plant and equipment | 10 | 91,338 | 44,451 | 79,035 |
| Intangible assets | 11 | 35,277 | 36,791 | 35,955 |
| Investment in associates | | 20,146 | 19,146 | 19,548 |
| Interest in joint venture | | 4,200 | 4,508 | 4,475 |
| Deferred tax asset | 7 | 2,443 | - | 1,674 |
| Total non-current assets | | 157,010 | 107,773 | 144,435 |
| Total assets | | 278,910 | 243,269 | 269,093 |
| Liabilities | | | | |
| Current liabilities | | | | |
| Bank overdraft | | 6,186 | 98 | 784 |
| Trade and other payables | | 32,729 | 34,186 | 38,991 |
| Derivatives – held for trading | | 360 | - | - |
| Derivatives – cash flow hedges | | 1,023 | - | 24 |
| Provisions | | 182 | 166 | 281 |
| Current income tax liabilities | 7 | - | 1,462 | 797 |
| Other liabilities | | - | 3,106 | - |
| Total current liabilities | | 40,480 | 39,018 | 40,877 |
| Non-current liabilities | | | | |
| Bank Borrowings | | 33,500 | - | 20,000 |
| Provisions | | 3,212 | 3,100 | 3,250 |
| Deferred tax liabilities | 7 | - | 734 | - |
| Total non-current liabilities | | 36,712 | 3,834 | 23,250 |
| Total liabilities | | 77,192 | 42,852 | 64,127 |
| Net assets | | 201,718 | 200,417 | 204,966 |
| Equity | | | | |
| Share capital | 8 | 173,881 | 173,846 | 173,846 |
| Reserves | | (17,612) | (13,278) | (14,573) |
| Retained earnings | | 40,167 | 37,238 | 40,346 |
| | | 196,436 | 197,806 | 199,619 |
| Non-controlling interest | | 5,282 | 2,611 | 5,347 |
| Total equity | | 201,718 | 200,417 | 204,966 |

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 2011 (\$000s) | Unaudited Six Months ended 30 September 2010 (\$000s) | Audited Year ended 31 March 2011 (\$000s) |
|---|--|--|--|
| Operating activities | | | |
| Cash was provided from | | | |
| Receipts from customers | 90,173 | 79,249 | 172,215 |
| Interest received | 10 | 480 | 578 |
| Other income received | 1,777 | 561 | 1,685 |
| Income tax refund | - | 1,306 | 1,534 |
| | 91,960 | 81,596 | 176,012 |
| Cash was applied to | | | |
| Payments to suppliers and others | (63,468) | (63,974) | (130,362) |
| Payments to employees | (27,773) | (22,646) | (45,428) |
| Interest paid | (845) | (221) | (336) |
| Income tax paid | (1,278) | (746) | (3,967) |
| | (93,364) | (87,587) | (180,093) |
| Net cash flow from operating activities | (1,404) | (5,991) | (4,081) |
| Investing activities | | | |
| Cash was provided from | | | |
| Sale of property, plant and equipment | 2 | 92 | 237 |
| | 2 | 92 | 237 |
| Cash was applied to | | | |
| Purchase of property, plant and equipment | (21,799) | (4,860) | (36,303) |
| Refundable duties paid on plant and equipment | (3,667) | - | - |
| Purchase of intangibles | (826) | (1,137) | (1,764) |
| Issuance of loan to joint venture | - | - | (210) |
| Business acquisition | - | (717) | (717) |
| | (26,292) | (6,714) | (38,994) |
| Net cash flow from investing activities | (26,290) | (6,622) | (38,757) |
| Financing activities | | | |
| Cash was provided from | | | |
| Proceeds from borrowings | 13,500 | 309 | 20,309 |
| | 13,500 | 309 | 20,309 |
| Cash was applied to | | | |
| Repayment of principal on borrowings | - | (522) | (522) |
| | - | (522) | (522) |
| Net cash flow from financing activities | 13,500 | (213) | 19,787 |
| Net (decrease)/increase in cash and cash equivalents | (14,194) | (12,826) | (23,051) |
| Foreign currency translation adjustment | (2,444) | (1,703) | (839) |
| Cash and cash equivalents at the beginning of the period | 21,991 | 45,881 | 45,881 |
| Cash and cash equivalents at the end of the period | 5,353 | 31,352 | 21,991 |
| Composition of cash and cash equivalents | | | |
| Cash and cash equivalents | 11,539 | 31,450 | 22,775 |
| Bank overdraft | (6,186) | (98) | (784) |
| | 5,353 | 31,352 | 21,991 |

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 2011 (\$000s) | Unaudited Six Months ended 30 September 2010 (\$000s) | Audited Year ended 31 March 2011 (\$000s) |
|--|--|--|--|
| Reconciliation of net (loss)/profit to net cash flows from operating activities | | | |
| Reported net (loss)/profit after tax | (259) | 5,582 | 8,480 |
| Items not involving cash flow | | | |
| Depreciation expense | 3,516 | 3,705 | 7,641 |
| Amortisation expense | 932 | 620 | 1,486 |
| Increase /(decrease) in estimated doubtful debts | 20 | (29) | 45 |
| Employee share based payments | 238 | 389 | 624 |
| Movement in foreign currency | 802 | 277 | 283 |
| Loss/(gain) on disposal of property, plant and equipment | 22 | - | (291) |
| Share of profit of associate and joint venture | (688) | (2,179) | (2,911) |
| | 4,842 | 2,783 | 6,877 |
| Impact of changes in working capital items | | | |
| Trade and other receivables | (6,673) | (14,321) | (14,193) |
| Inventories | 110 | (9,134) | (11,371) |
| Trade and other payables | 1,917 | 7,072 | 5,871 |
| Tax provisions | (1,341) | 2,027 | 255 |
| | (5,987) | (14,356) | (19,438) |
| Net cash flow from operating activities | (1,404) | (5,991) | (4,081) |

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

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 15 November 2011.

2. Summary of significant accounting policies

2.1. Basis of preparation

This condensed consolidated interim financial information for the six months ended 30 September 2011 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 2011, 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 2011 with the addition of the following:

The Group has adopted the following new and amended IFRSs as of 1 April 2011:

NZ IAS 1 (amendment): Presentation of financial statements

The amendments clarify that disaggregation of changes in each component of equity arising from transactions recognised in other comprehensive income is also required to be presented, but may be presented either in the statement of changes in equity or in the notes.

NZ IAS 24 Related party disclosures (Revised 2009) (effective for annual periods beginning on or after 1 January 2011)

The amendment simplifies the definition of a related party and provides a partial exemption from the disclosure requirements for government-related entities.

3. 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.

The segment information provided to the chief operating decision maker for the reportable segments for the half year ended 30 September 2011 is as follows:

Unaudited Six Months ended 30 September 2011

| | NZ (000s) | UK (000s) | France ⁵ (000s) | China RCC ⁶ (000s) | China T'maker ⁷ (000s) | India Centum Rakon ⁸ (000s) | Other ¹ (000s) | Total (000s) |
|--|----------------|---------------|-------------------------------|-------------------------------------|---|---|------------------------------|-----------------|
| Sales to external customers | 45,105 | 19,608 | 29,897 | - | - | - | - | 94,610 |
| Inter-segment sales | 357 | 14 | - | - | - | - | - | 371 |
| Segment revenue | 45,462 | 19,622 | 29,897 | - | - | - | - | 94,981 |
| EBITDA excluding FX & associates & joint venture | (812) | 6,415 | 30 | (928) | - | - | (212) | 4,493 |
| Foreign exchange (losses)/gains ² | (1,050) | 68 | (109) | 434 | - | - | 260 | (397) |
| Share of EBITDA from associates & joint venture | - | - | - | - | 1,256 | 835 | - | 2,091 |
| EBITDA (look through) | (1,862) | 6,483 | (79) | (494) | 1,256 | 835 | 48 | 6,187 |
| Depreciation and amortisation | (3,506) | (404) | (331) | (59) | - | - | (148) | (4,448) |
| Income tax credit/(expense) | 1,562 | (1,546) | (20) | (3) | - | - | (60) | (67) |
| Total assets³ | 108,638 | 49,516 | 34,486 | 54,487 | 20,146 | 5,787 | 5,850 | 278,910 |
| Investment in associates | - | - | - | - | 20,146 | - | - | 20,146 |
| Investment in joint venture | - | - | - | - | - | 4,200 | - | 4,200 |
| Capital expenditure | 3,071 | 856 | 352 | 13,600 | - | - | - | 17,879 |
| Total liabilities⁴ | 56,256 | 7,892 | 17,665 | 2,039 | - | - | (6,660) | 77,192 |

Audited Year ended 31 March 2011

| | NZ (000s) | UK (000s) | France ⁵ (000s) | China RCC ⁶ (000s) | China T'maker ⁷ (000s) | India Centum Rakon ⁸ (000s) | Other ¹ (000s) | Total (000s) |
|---|----------------|---------------|-------------------------------|-------------------------------------|---|---|------------------------------|-----------------|
| Sales to external customers | 91,759 | 51,300 | 45,595 | - | - | - | 660 | 189,314 |
| Inter-segment sales | 1,978 | 1,285 | - | - | - | - | - | 3,263 |
| Segment revenue | 93,737 | 52,585 | 45,595 | - | - | - | 660 | 192,577 |
| EBITDA excluding FX & associates & joint venture & net acquisition gain | 5,160 | 19,976 | (2,137) | (764) | - | - | (1,529) | 20,706 |
| Foreign exchange gains/(losses) ² | (674) | (597) | (589) | (361) | - | - | 40 | (2,181) |
| Share of EBITDA from associates & joint venture | - | - | - | - | 4,018 | 1,792 | - | 5,810 |
| Net acquisition gain | - | - | 505 | - | - | - | - | 505 |
| EBITDA (look through) | 4,486 | 19,379 | (2,221) | (1,125) | 4,018 | 1,792 | (1,489) | 24,840 |
| Depreciation and amortisation | (7,264) | (836) | (663) | (34) | - | - | (330) | (9,127) |
| Income tax credit/(expense) | 1,358 | (5,329) | 508 | 189 | - | - | (531) | (3,805) |
| Total assets³ | 106,619 | 49,238 | 36,235 | 45,323 | 19,548 | 4,475 | 7,655 | 269,093 |
| Investment in associates | - | - | - | - | 19,548 | - | - | 19,548 |
| Interest in joint venture | - | - | - | - | - | 4,475 | - | 4,475 |
| Capital expenditure | 13,652 | 1,573 | 864 | 31,601 | - | - | - | 47,690 |
| Total liabilities⁴ | 36,519 | 9,324 | 17,146 | 6,913 | - | (5,775) | - | 64,127 |

Unaudited Six Months ended 30 September 2010

| | NZ | UK | France⁵ | China RCC⁶ | China T'maker⁷ | India Centum Rakon⁸ | Other¹ | Total (000s) |
|---|----------------|---------------|---------------------------|----------------------------------|--------------------------------------|---|--------------------------|-------------------------|
| | (000s) | (000s) | (000s) | (000s) | (000s) | (000s) | (000s) | (000s) |
| 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) | (373) | - | - | (974) | 9,139 |
| Foreign exchange (losses)/gains ² | (4) | 72 | (383) | 17 | - | - | 213 | (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) | (356) | 2,432 | 1,163 | (761) | 13,518 |
| Depreciation and amortisation | (3,441) | (429) | (273) | (17) | - | - | (165) | (4,325) |
| Income tax credit/(expense) | 986 | (2,753) | (367) | - | - | - | 17 | (2,117) |
| Total assets³ | 118,060 | 47,442 | 31,930 | 8,712 | 19,146 | 4,508 | 13,471 | 243,269 |
| Investment in associates | - | - | - | - | 19,146 | - | - | 19,146 |
| Investment in joint venture | - | - | - | - | - | 4,508 | - | 4,508 |
| Capital expenditure | 5,788 | 940 | 1,993 | 1,123 | - | - | 11 | 9,855 |
| Total liabilities⁴ | 16,327 | 7,184 | 16,691 | 9 | 3,105 | - | (464) | 42,852 |

¹ Includes Investments in subsidiaries, Rakon Financial Services Ltd, Rakon UK Holdings Ltd, Rakon Europe Limited, Rakon Mauritius 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. As at 30 September 2011 Rakon Temex SAS was amalgamated into Rakon France SAS.

⁶ Includes Investment in Rakon HK Limited and Rakon Crystal (Chengdu) Co Limited.

⁷ Includes Rakon Limited's 40% share of investment in Shenzhen Timemaker Crystal Technology Co, Limited, Chengdu Timemaker Crystal Technology Co, Limited and Shenzhen Taixaing Wafer Co, Limited.

⁸ Includes Rakon Limited's 49% share of investment in Centum Rakon India Private Limited.

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

| | Unaudited Six Months ended 30 September 2011 | Unaudited Six Months ended 30 September 2010 | Audited Year ended 31 March 2011 |
|---|--|--|--|
| | (\$000s) | (\$000s) | (\$000s) |
| EBITDA for reportable segments | 6,139 | 13,472 | 24,537 |
| Other segments EBITDA | 48 | 46 | 303 |
| Depreciation and amortisation | (4,448) | (4,325) | (9,127) |
| Employee share schemes | (238) | (389) | (624) |
| Finance costs – net | (291) | 311 | 95 |
| Adjustment for associates and joint venture share of interest, tax & depreciation | (1,402) | (1,416) | (2,899) |
| (Loss)/Profit before tax | (192) | 7,699 | 12,285 |

Breakdown of the revenue from all sources is as follows:

| | Unaudited Six Months ended 30 September 2011 | Unaudited Six Months ended 30 September 2010 | Audited Year ended 31 March 2011 |
|-----------------------|--|--|--|
| | (\$000s) | (\$000s) | (\$000s) |
| Sales of goods | 94,249 | 94,597 | 187,691 |
| Revenue from services | 361 | - | 1,623 |
| | 94,610 | 94,597 | 189,314 |

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

| | Unaudited Six Months ended 30 September 2011 | Unaudited Six Months ended 30 September 2010 | Audited Year ended 31 March 2011 |
|--------------------------------------|--|--|--|
| | (\$000s) | (\$000s) | (\$000s) |
| Total Revenues by destination | | | |
| Region | | | |
| Asia | 45,647 | 55,552 | 96,651 |
| North America | 15,891 | 15,668 | 33,948 |
| Europe | 31,068 | 19,466 | 53,709 |
| Others | 2,004 | 3,911 | 5,006 |
| | 94,610 | 94,597 | 189,314 |

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

4. Operating expenses

| | Unaudited Six Months ended 30 September 2011 (\$000s) | Unaudited Six Months ended 30 September 2010 (\$000s) | Audited Year ended 31 March 2011 (\$000s) |
|--------------------------------|--|--|--|
| Operating expense by function: | | | |
| Selling and marketing costs | 8,012 | 7,938 | 15,260 |
| Research and development | 7,630 | 5,245 | 13,177 |
| General and administration | 11,440 | 11,042 | 20,889 |
| | 27,082 | 24,225 | 49,326 |

General and administration costs and Cost of Sales have been decreased and increased respectively by \$2,333,000 for the 6 months ended 30 September 2011 and \$4,784,000 for the year ended 31 March 2011 in order to more accurately reflect the classification of these costs in a manner consistent with the current year.

5. Other (losses)/gains – net

| | Unaudited Six Months ended 30 September 2011 (\$000s) | Unaudited Six Months ended 30 September 2010 (\$000s) | Audited Year ended 31 March 2011 (\$000s) |
|---|--|--|--|
| Loss on disposal of intangibles, plant and equipment | (20) | (27) | - |
| Cost attributable to investment in joint venture and sale of intangibles, plant and equipment | - | (128) | (129) |
| Cost attributable to investments in associates and subsidiaries | - | (100) | (100) |
| Bargain purchase gain on acquisition | - | 1,590 | 1,226 |
| Acquisition costs | - | (721) | (721) |
| | (20) | 614 | 276 |
| Foreign exchange (losses)/gains - net | | | |
| Forward foreign exchange contracts | | | |
| - held for trading | 215 | 145 | 70 |
| - net foreign exchange gains | 636 | - | - |
| (Losses)/gains on revaluation of foreign denominated monetary assets and liabilities ¹ | (1,248) | (230) | (2,251) |
| | (397) | (85) | (2,181) |
| | (417) | 529 | (1,905) |

¹ Includes realised and unrealised (losses)/gains 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.

6. Net Finance (costs)/income

| | Unaudited Six Months ended 30 September 2011 (\$000s) | Unaudited Six Months ended 30 September 2010 (\$000s) | Audited Year ended 31 March 2011 (\$000s) |
|---|--|--|--|
| Financial income | | | |
| Interest income on current and short-term bank accounts | 143 | 524 | 616 |
| Financial expenses | | | |
| Interest expense on bank borrowings | (380) | (75) | (199) |
| Interest expense on other borrowings | (9) | (138) | (194) |
| Unwinding discount on deferred settlement | (45) | - | (128) |
| | (291) | 311 | 95 |

7. 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.

8. Share Capital

At 30 September 2011 the total authorised number of ordinary shares is 191,038,591 shares (31 March 2011: 191,038,591, 30 September 2010: 191,038,591):

- 188,868,455, are fully paid shares (31 March 2011: 188,868,455, 30 September 2010: 188,868,455);
- 743,289 unpaid ordinary shares were on issue and held in trust on behalf of participants in the Rakon Share Plan (31 March 2011: 801,208, 30 September 2010: 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 2011: 1,350,000, 30 September 2010: 1,350,000);

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 2011: 0.70%, 30 September 2010: 0.70%).

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 \$450,000 (31 March 2011: \$485,000, 30 September 2010: \$485,000). 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 30 September 2011 (31 March 2010: \$nil, 30 September 2010: \$nil). The Trust Deed makes provision for the Company to require repayment of the loans in certain circumstances.

On 18 May 2011 the loan pertaining to 57,919 shares was fully repaid and these shares were transferred to an employee under this plan. As at 30 September 2011, 743,289 (31 March 2011: 801,208, 30 September 2010: 820,136) 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.

Rakon Employee Share Option Scheme

As at 30 September 2011 there were 1,329,600 outstanding options (March 2011: 2,299,340 options, 30 September 2010: 2,394,340 options). No options (31 March 2011: 850,000 options, 30 September 2010: 850,000 options) were issued to selected employees and nil options (31 March 2011: nil, 30 September 2010: nil) were exercisable. Share options totalling 20,000 (31 March 2011: 267,000, 30 September 2010: 172,000) were cancelled due to holders leaving employment and share options totalling 949,740 lapsed during the period (31 March 2011: 1,484,000, 30 September 2010: 1,484,000).

9. Dividends

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

10. Capital expenditure

| | Unaudited Six Months ended 30 September 2011 (\$000s) | Unaudited Six Months ended 30 September 2010 (\$000s) | Audited Year ended 31 March 2011 (\$000s) |
|--------------------------------------|--|--|--|
| Opening net book value | 79,035 | 41,712 | 41,712 |
| Additions | 16,726 | 4,860 | 43,908 |
| Additions from business combinations | - | 1,582 | 1,582 |
| Disposals | (37) | (92) | (1,941) |
| Depreciation | (4,112) | (3,705) | (7,641) |
| Other movements | (274) | 94 | 1,415 |
| Closing net book value | 91,338 | 44,451 | 79,035 |

Amounts committed to capital expenditure subsequent to the end of the interim period total \$2,306,000 (31 March 2011: \$12,601,000, 30 September 2010: \$21,314,000).

11. Intangible assets

| | Goodwill (\$000s) | Patents (\$000s) | Software (\$000s) | Product development (\$000s) | Assets under construction (\$000s) | Total (\$000s) |
|--------------------------------------|----------------------|---------------------|----------------------|------------------------------------|--|-------------------|
| At 1 April 2010 | | | | | | |
| Cost | 26,583 | 3,841 | 5,676 | 2,580 | 451 | 40,978 |
| Accumulated amortisation | - | (1,232) | (4,056) | (77) | - | (7,212) |
| Net book value | 26,583 | 2,609 | 1,620 | 2,503 | 451 | 33,766 |
| 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 | 3,866 | 5,877 | 2,963 | 3,276 | 42,776 |
| Accumulated amortisation | - | (1,409) | (4,423) | (153) | - | (5,985) |
| Net book value | 26,794 | 2,457 | 1,454 | 2,810 | 3,276 | 36,791 |
| | Goodwill (\$000s) | Patents (\$000s) | Software (\$000s) | Product development (\$000s) | Assets under construction (\$000s) | Total (\$000s) |
| At 1 October 2010 | | | | | | |
| Opening net book value | 26,794 | 2,457 | 1,454 | 2,810 | 3,276 | 36,791 |
| Foreign exchange differences | (424) | (18) | 9 | (17) | - | (450) |
| Additions | - | - | 283 | 197 | - | 480 |
| Disposals | - | - | (821) | - | - | (821) |
| Amortisation charge | - | (170) | (617) | (79) | - | (866) |
| Amortisation reversal on disposals | - | - | 821 | - | - | 821 |
| Transfer to finished assets | - | - | 2,669 | (17) | (2,652) | - |
| Closing net book amounts | 26,370 | 2,269 | 3,798 | 2,894 | 624 | 35,955 |
| At 31 March 2011 | | | | | | |
| Cost | 26,370 | 3,848 | 8,017 | 3,126 | 624 | 41,985 |
| Accumulated amortisation | - | (1,579) | (4,219) | (232) | - | (6,030) |
| Net book value | 26,370 | 2,269 | 3,798 | 2,894 | 624 | 35,955 |
| At 1 April 2011 | | | | | | |
| Opening net book value | 26,370 | 2,269 | 3,798 | 2,894 | 624 | 35,955 |
| Foreign exchange differences | (716) | (81) | (26) | (76) | - | (899) |
| Additions | - | - | 137 | 276 | 740 | 1,153 |
| Amortisation charge | - | (161) | (690) | (81) | - | (932) |
| Transfers to finished assets | - | - | 517 | - | (517) | - |
| Closing net book amounts | 25,654 | 2,027 | 3,736 | 3,013 | 847 | 35,277 |
| At 30 September 2011 | | | | | | |
| Cost | 25,654 | 3,767 | 8,645 | 3,326 | 847 | 42,239 |
| Accumulated amortisation | - | (1,740) | (4,909) | (313) | - | (6,962) |
| Net book value | 25,654 | 2,027 | 3,736 | 3,013 | 847 | 35,277 |

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 2011 (\$000s) | Unaudited as at 30 September 2010 (\$000s) | Audited as at 31 March 2011 (\$000s) |
|--|--|--|--|
| New Zealand | 7,934 | 8,306 | 8,156 |
| United Kingdom | 15,605 | 16,344 | 16,040 |
| France | 528 | 536 | 543 |
| India – OCXO products transferred from France | 1,587 | 1,608 | 1,631 |
| Goodwill recognised in Intangible assets | 25,654 | 26,794 | 26,370 |
| Goodwill recognised in Investment in associates – China | 10,283 | 10,764 | 10,608 |
| Goodwill recognised in Investment in joint venture – India | 3,345 | 3,499 | 3,502 |

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

At 30 September 2011 goodwill was reviewed for indicators of impairment. The New Zealand CGU achieved strong volume and underlying revenue growth but the significant strengthening of the NZ\$ and product mix reduced earnings below that predicted. The outlook for the business is for continued revenue growth derived from growth in sales of smart wireless devices and associated infrastructure required to handle the increased volume of electronic data and improved margins due to manufacturing gains and lower production costs. The United Kingdom CGU achieved sales volume flat to the comparative period in the prior year which was lower than predicted. This is considered to be due to market adjustments following the Japan earthquake and the timing of deployment of new telecommunications networks. The earnings generated by the business continue to be strong and are expected to increase due to growth driven by investment in new infrastructure required to handle the increased volume of electronic data. The China Associate CGU were lower than predicted due to slightly lower than forecast demand and tighter margins as a consequence of softer global demand for general consumer electronic products. The outlook for this business is for continued growth driven by overall demand and the continued development of high value products. The Directors do not consider that these results and events indicate impairment in the carrying value of goodwill at 30 September 2011. A full impairment test will be performed at the year end.

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 2011.

Directory

Registered Office

Rakon Limited
8 Sylvia Park Road
Mt Wellington
Auckland 1060

Telephone: +64 9 573 5554
Facsimile: +64 9 573 5559
Website: www.rakon.com

Mailing Address

Rakon Limited
Private Bag 99943
Newmarket
Auckland 1149

Directors

Bryan Mogridge
Brent Robinson
Bruce Irvine
Peter Maire
Darren Robinson
Warren Robinson

Principal Lawyers

Bell Gully
PO Box 4199
Auckland 1140

Auditors

PricewaterhouseCoopers
Private Bag 92162
Auckland 1142

Share Registrar

Computershare Investor Services Limited
Private Bag 92119
Auckland 1142

Managing your shareholding online:

To change your address, update your payment instructions
and to view your investment portfolio including transactions,
please visit; www.investorcentre.com/nz

General enquiries can be directed to:

enquiry@computershare.co.nz
Telephone: +64 9 488 8777
Facsimile: +64 9 488 8788
Website: www.computershare.com

Bankers

ASB Bank
PO Box 35
Shortland Street
Auckland 1140

