RAKON
ANNUAL REPORT

20
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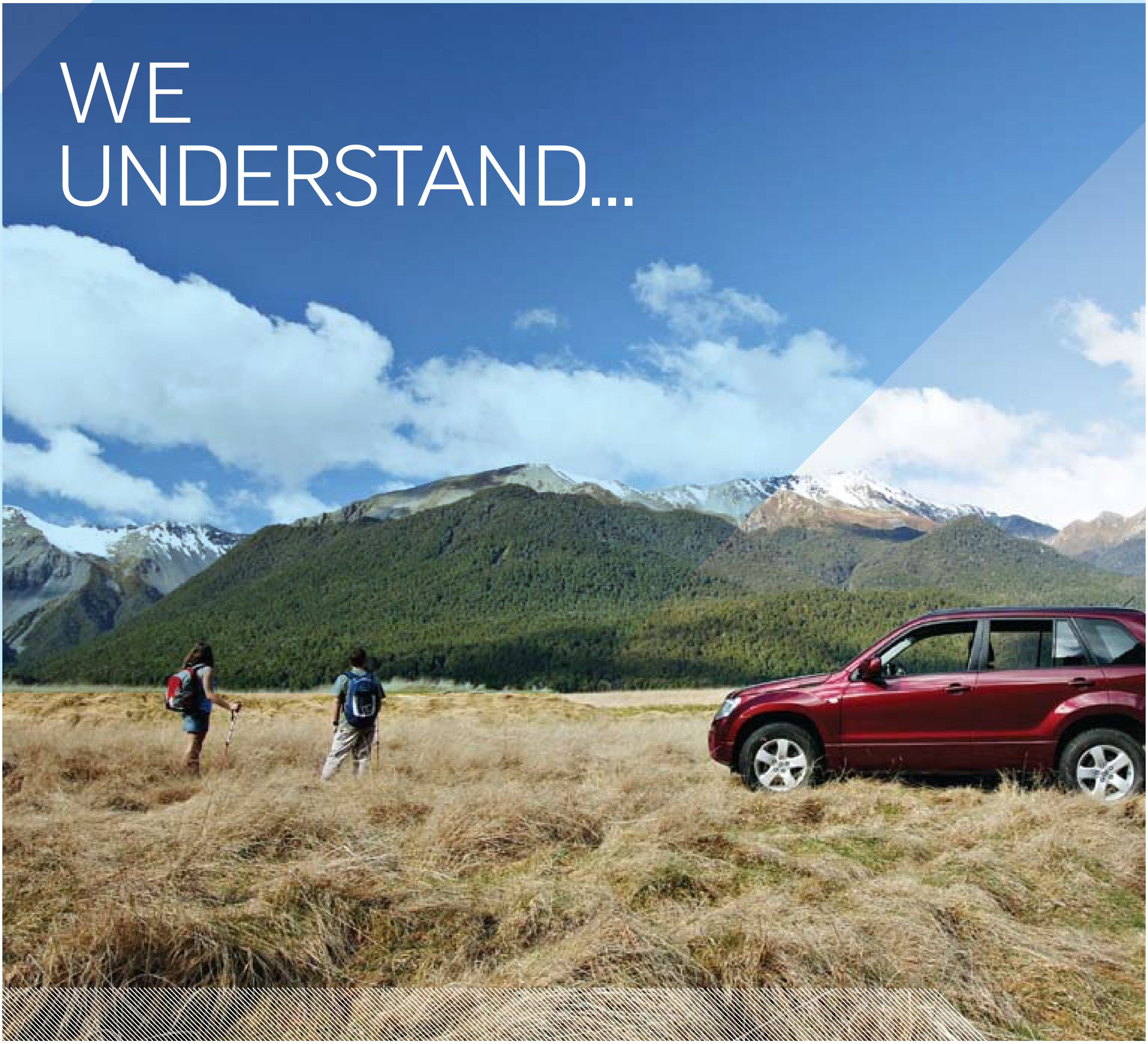


WE UNDERSTAND...

PERSONAL NAVIGATION DEVICES: RAKON PIONEERED THE 0.5PPM FREQUENCY STANDARD WHICH IS USED IN MOST MODERN PND SYSTEMS.

PRECISELY.

At Rakon we are constantly achieving new levels of performance. How do we get there? Through our precise understanding of our customers and their issues. By looking from both the outside in and the inside out, we have a unique perspective on problems, allowing us to create breakthroughs that are ahead of their time.

WE UNDERSTAND...

IN CAR NAVIGATION:
RAKON HAS BEEN THE NUMBER ONE FREQUENCY CONTROL SOLUTIONS PROVIDER TO GPS SYSTEMS SINCE 1991.

POSITIONING.

As the only frequency control company to specialise in solutions for GPS and positioning, Rakon has led the way in the GPS industry since commercialisation in the early 1990s. We maintain a technology and market leadership position with over 50% market share in GPS and 80% in EPIRB. Higher performance and lower costs mean volumes are continuing to grow and more uses are emerging with applications such as geotagging and location based social networking.

Rakon first entered the positioning market in 1991 with what was, at the time, the world's smallest 1ppm (part per million) stability oscillator for emerging handheld and marine GPS applications.

Through close partnerships with our customers, Rakon quickly learnt just how critical the frequency reference (oscillator) was to GPS. Its stability affected the system's ability to locate, track, maintain lock and acquire weak satellite signals. Through many years of collaboration with leading manufacturers in the industry, Rakon has found the optimal way to design and manufacture oscillators that address the unique requirements of GPS systems.

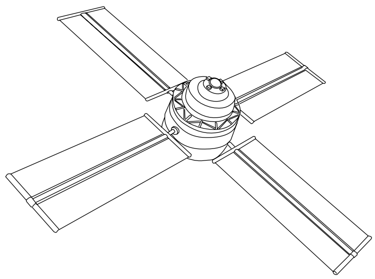
Even with GPS volumes growing from a few thousand to tens of millions a month, Rakon continues to lead the world in the supply of specialised GPS oscillators. We do this through carefully listening and developing an innate understanding of the application's requirements, and backing this with unique proprietary processes, innovations and technology.

Rakon continues to work closely with the industry and continues to develop next generation solutions for both conventional and emerging applications for positioning. For example, the integration of GPS into cellular phones and cameras is posing interesting challenges for GPS designers and Rakon is well positioned to assist them.

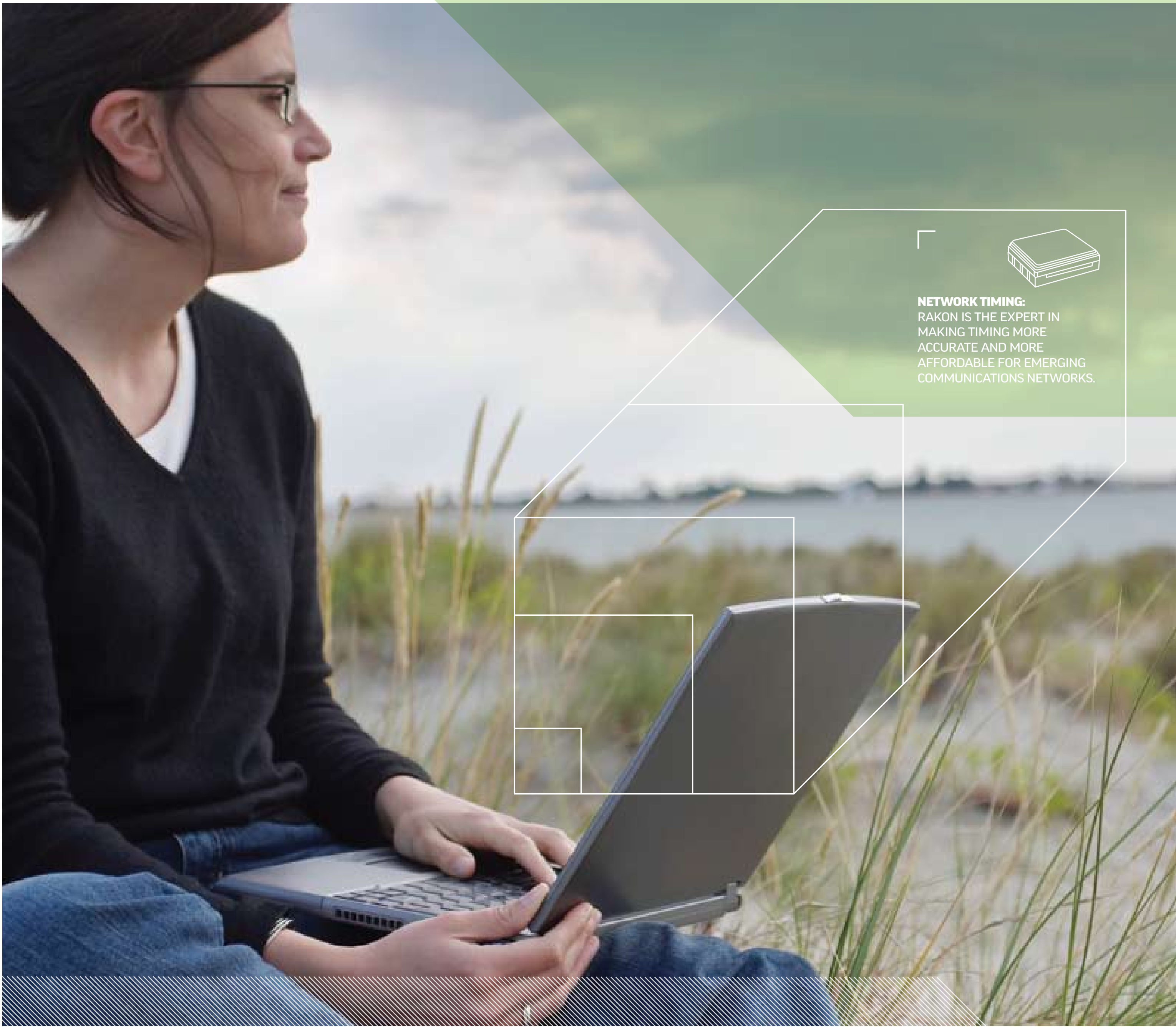
Rakon is the only frequency control company to specialise in GPS solutions and still has the world's smallest GPS oscillator. These days, it is more than twice as stable and measures about 0.25% of the size of the original GPS oscillator from the 1990s.

Main applications:

PND, SURVEYING & AGRICULTURE, RESCUE BEACONS, ASSET TRACKING, MILITARY & AEROSPACE



WE UNDERSTAND...



NETWORK TIMING:
RAKON IS THE EXPERT IN MAKING TIMING MORE ACCURATE AND MORE AFFORDABLE FOR EMERGING COMMUNICATIONS NETWORKS.

TELECOMMUNICATIONS.

In an environment where people are demanding faster, cheaper and more reliable communications, Rakon continues to provide some of the most advanced timing solutions for telecommunications applications.

The world's telecommunications infrastructure is in a constant state of change. Modern, fast-paced lifestyles are changing the way we communicate; people are demanding higher data speeds and connectivity anywhere, any time.

New technologies such as 3G, 4G, WiMAX, and femtocells are being deployed, all with the goal of giving us better access to communications with faster and more reliable connections anywhere we want them.

At the heart of all telecommunications is the need for timing. Accurate and reliable time gives the network the speed and reliability it needs. Rakon is the expert in delivering this and has been working with telecommunications providers for many years to offer some of the most advanced timing solutions for communications applications.

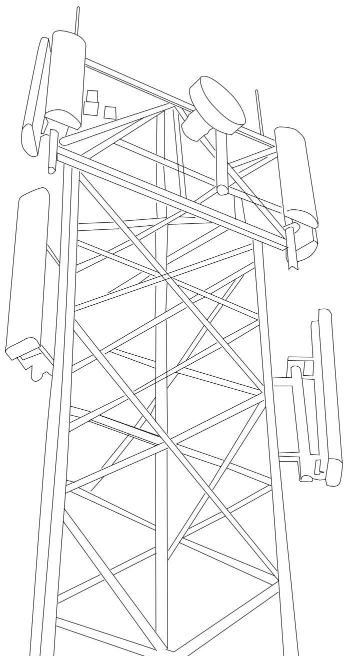
Rakon has developed several unique and world leading solutions to address the needs of the telecoms market, with single Oven Controlled Crystal Oscillators (OCXOs) which perform better than much more expensive competitor's double oven solutions, through to Ultra Stable Temperature Controlled Crystal Oscillators (TCXOs) that push the boundaries of conventional performance limits.

Rakon's Pluto® TCXO products are at the heart of many of the stratum 3 timing networks and are the TCXO of choice for most of the emerging femtocell applications.

Rakon continues to stay at the forefront of technology with solutions for this continually evolving industry, precisely understanding the market requirements, developing innovative product designs and combining this with a cost effective global manufacturing base.

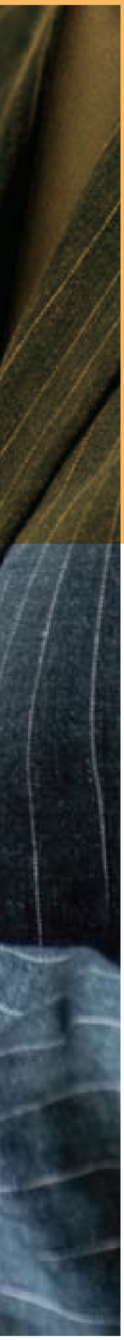
Main applications:

BASE STATIONS
& NETWORK TIMING



WE UNDERSTAND...

GPS OSCILLATORS: RAKON LEADS THE WORLD WITH THE SMALLEST AND MOST ACCURATE GPS OSCILLATORS FOR MOBILE PHONE APPLICATIONS.



MOBILE.

With an increasing number of services being delivered to the phone, including GPS, solutions are required to enable cellular phones to perform as well, or better than current models for little or no extra cost. Rakon is the expert in taking high performance solutions and making them affordable for high volume manufacturing.

Rakon first entered the cellular phone market in the 1990s supplying TCXOs to some of the original mass market cell phones. Since those days, Rakon has turned its focus to the more demanding and booming GPS market, although it has always kept a presence in the phone market.

The introduction of Location Based Services (LBS) into the cellular phone signals an ideal time for Rakon to re-enter the market in a stronger way.

Rakon is the leader in creating high volume, low cost, high performance solutions that enable GPS to work in difficult environments. The cellular phone is one of the most difficult environments in which GPS can operate with high interference, small antennae and challenging operating environments.

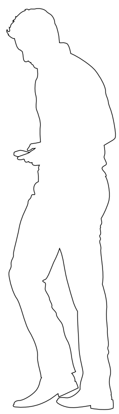
Rakon has taken the understanding and expertise we possess in GPS applications and developed solutions designed specifically to address the unique needs of GPS in the handset market.

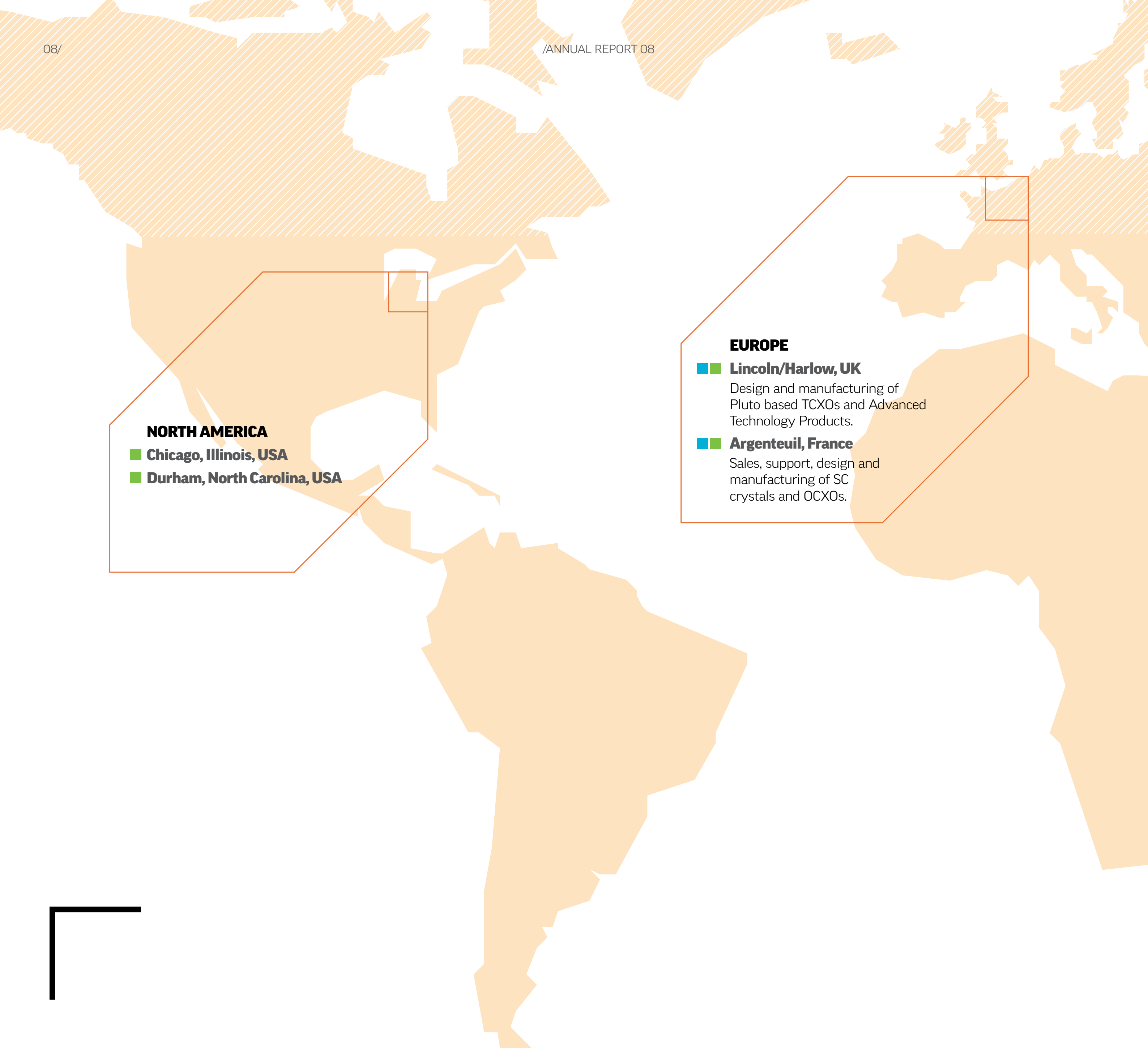
Although available now, GPS phones will require higher performance in order to be widely adopted; people want their location to be available anywhere they use their phone. However, this must be achieved without impacting cost. Rakon has proven expertise in taking high performance solutions and making them viable for mass volume manufacturing.

Rakon's Mako™ IC, being released this year, enables TCXOs with up to five-times better performance than conventional cellular phone oscillators and is designed to ensure minimal cost implications for the handset developer. Technology like the Mako™ ASIC is enabling GPS to be more accessible, more reliable and more useful for consumers.

There is no doubt that having a location based service available on your phone is a valuable feature. Rakon is working with the industry to ensure that features such as these can become a reality for as many people as possible.

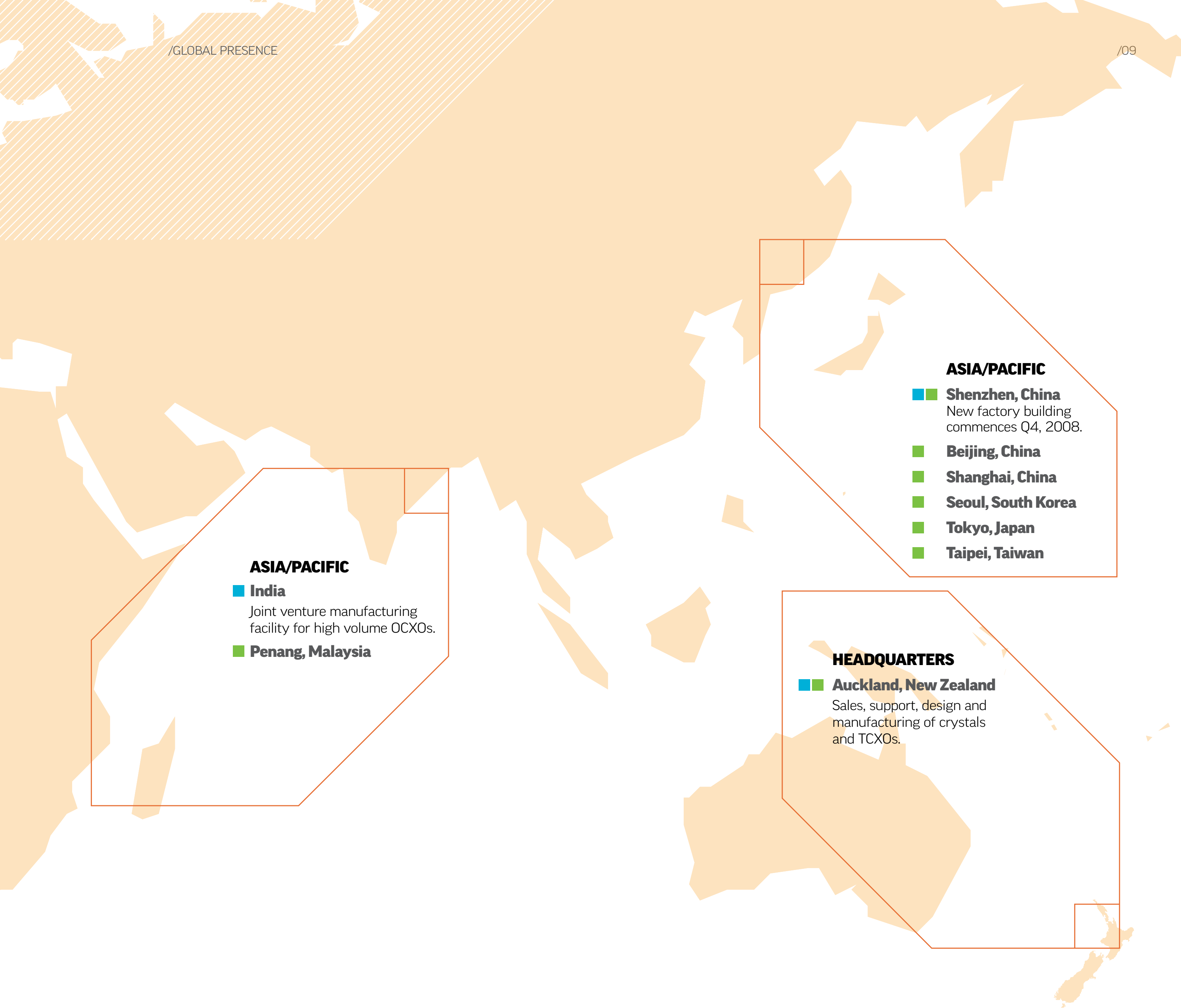
Main applications:
CELLULAR PHONES,
GPS ENABLED PHONES





GLOBAL PRESENCE

By partnering with our customers and maintaining world class design and manufacturing operations around the globe, Rakon has the ability to not only understand but deliver what our customers need when and where they need it.



800 STAFF

005 MANUFACTURING PLANTS

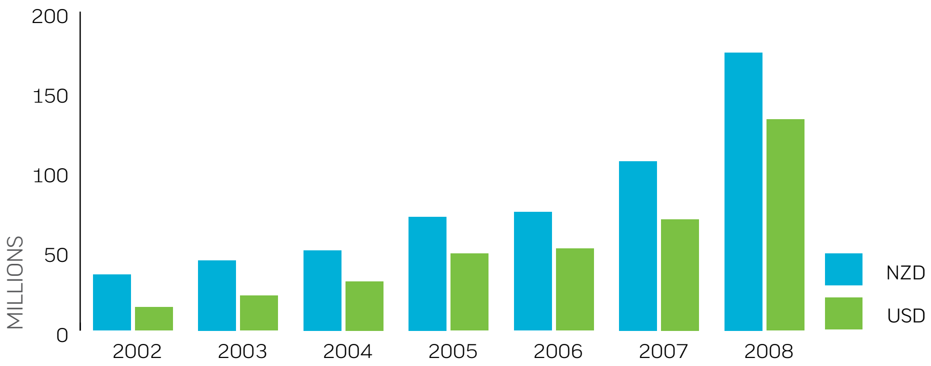
012 SALES OFFICES & CUSTOMER SUPPORT

KEY

- Sales and Customer Support
- Manufacturing

HIGHLIGHTS FOR THE YEAR

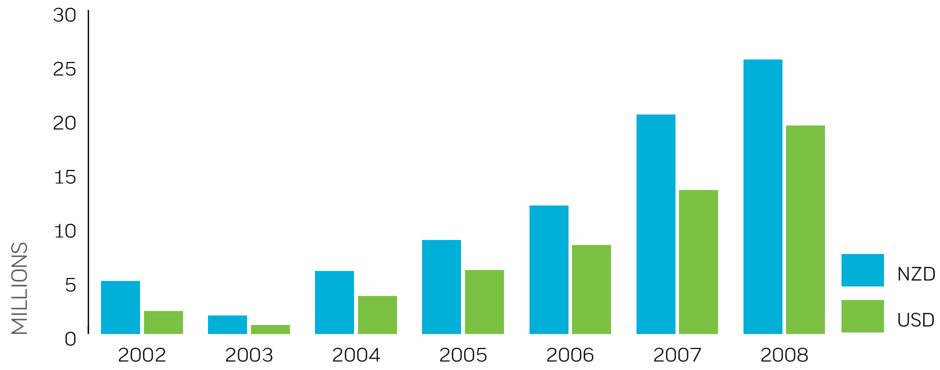
REVENUE



REVENUE CAGR

NZD 30.6%
USD 44.2%

EBITDA



EBITDA CAGR

NZD 31.6%
USD 45.3%

Financial Highlights	2008 $000s	2007 $000s
Operating revenue	174,292	105,902
EBITDA	25,425	20,183
EBIT	**16,655**	**16,027**
Net surplus after tax	10,851	10,406
EPS	8.6cps	9.7cps
Total assets	174,444	144,006
Total equity	131,837	101,139

"The outlook for the future is strong for Rakon with plenty of new market and product opportunities."

CHAIRMAN'S LETTER

Dear shareholders

Welcome to the third annual report of your company, Rakon Ltd.

The financial result for the 2008 fiscal year fell short of what your Directors would have liked to report as the full year's financial result.

Rakon's EBITDA of $25.4 million was 26% ahead of last year but was below expectations as a result of a persistently high kiwi dollar and underperformance by the Rakon team in France.

At an EBIT of $16.7 million and NPAT of $10.9 million we were only 4% better than last year largely as a result of increased amortisation costs. Higher depreciation costs are the result of increased capital expenditure and higher amortisation costs are the result of the application of IFRS in relation to the intangible assets that relate to our European business acquired in 2007.

The over-inflated kiwi dollar has begun to retrace its position somewhat, but we are of the belief that it has further to go yet in this depreciation cycle and so we are remaining at the bottom end of our hedge policy limits.

The underperformance in France has been dealt with in two major ways: firstly, by shifting their higher volume OCXO business into a new joint venture with BSE listed Centum Electronics Ltd in India; and secondly, by focusing them on what they do well, and that is making very high quality and very high price OCXOs for aerospace and large telecommunications infrastructure applications.

There are many positive aspects of last year's business performance which will place Rakon in a strong position for the future.

The global team is working well together and building a strong culture of profit-focused innovation, designed to keep us ahead of any competitive threats.

The New Zealand team was able to cope with an increase of 50% in volumes while maintaining their world-leading quality.

The UK teams also increased their volumes and are beginning to develop some very interesting prototypes for market expansion.

Our anticipated venture into China has taken us longer to begin than first thought, due largely to local politics and finding suitable land. We are beyond that stage now and feel confident that we will have a plant operating within the 2009 calendar year.

The outlook for the future is strong for Rakon with plenty of new market and product opportunities. They won't all occur in the 2009 fiscal year, but we will see the beginning of significant emerging opportunities, such as the use of GPS into mobile phones, which we anticipate will gather strength in FY 2010 and beyond. There are many opportunities for us in the telecom infrastructure market but the profit impact of these will depend upon the relevance of any economic slow-downs in each operator's market place.

As Directors, we value highly the efforts of our worldwide team and thank them on behalf of ourselves and our shareholders for their dedication and effort over the past 12 months.

To our shareholders, thank you for your investment. You own a share in a truly unique New Zealand business, one that is at the leading edge of its technology space and market penetration. We thank you for your support and look forward to meeting you at the Annual Shareholders' Meeting on 11 September 2008.

B W Mogridge
Chairman

"Volumes out of Auckland were up nearly 50% in the 2008 financial year when compared to 2007."

MANAGING DIRECTOR'S REPORT

The 2008 financial year has been one filled with many new exciting opportunities as well as challenges for Rakon. It was our first full year with our acquired European operations and with that have come new markets and opportunities. We have also been working hard to keep up with the rapidly developing and expanding GPS market which continues to account for over half of our business.

Markets

As we expand our sales into new markets, notably the telecommunications arena, Rakon is remaining fully committed to maintaining our position in the GPS market and over this last year we have seen some excellent growth in that area. With new applications for GPS emerging all the time, such as geotagging, network timing, tracking devices and location based services in cellular phones, there are plenty of exciting new avenues to generate further growth for Rakon.

Currently over 60% of our revenue is still generated from GPS sales, with almost our entire New Zealand production output going into these applications. In particular over the last year, the Personal Navigation Device (PND) market has grown strongly and our major customers expect solid growth in the coming year, despite fears of consumer spending tightening.

The potential for emerging telecom markets such as femtocells, which address a number of the capacity and coverage issues network providers face, are exciting for us. Our Pluto and Triton product families are ideally suited to these demanding applications and we currently estimate the vast majority of femtocell trials are deployed using Rakon based solutions.

Operations

Our New Zealand factory has done exceptionally well to keep up with the increased volumes being demanded by GPS manufacturers. Volumes out of Auckland were up nearly 50% in the 2008 financial year when compared to 2007. Significant effort by the production and engineering teams has meant we were able to meet all of our customer demand, and remain very well positioned to ensure we can meet our expected 2009 demand. We also continue to drive our costs down through new product designs, increased productivity and material cost savings.

Our UK plant has had a good year and has been a solid contributor to the group result. The excellent product designs manufactured in the UK have enabled us to continue to capture business in a wide variety of highly demanding applications, such as emergency rescue beacons and network timing solutions.

Our French facility has faced challenges with a very sudden increase in demand, resulting in a disappointing financial result from this business. However, we have a great range of product designs developed by our staff in France which will enable us to capitalise on the opportunities in the telecom sector going forward. We have also moved to make sure there are no barriers stopping us from realising those opportunities.

As part of this we have formed a joint venture (JV) with BSE listed Centum Electronics in Bangalore, India, which has been a business partner of ours for more than seven years. This JV is well under way and takes the pressure off our French operation to meet high volume demand as experienced over the past year. It also provides us with an ongoing world-leading cost and technology base for our OCXO production. This will enable us to address several volume markets that were previously closed to us due to our high manufacturing costs.

We continue our work on the establishment of a facility in China to support our very high volume consumer targeted products. We expect that this plant will be operational in the 2009 calendar year and will build on the capability of our New Zealand operations, which will remain integral to our GPS product manufacturing.

We have recently concluded the sale of our commodity trading business based in Crewkerne, UK. After a strategic review of operations following the acquisition last year, we decided that this business was not core to Rakon and was best served by owners who could focus on the specific needs of a commodity business.

The weak USD and strong NZD have been external factors affecting our reported results and mask some of the excellent growth we have seen in USD terms this year. This is disappointing for us but we are continuing to focus on what we can control. We have a highly competitive cost base for our operations, excellent product designs and, where possible, we spread our exposure to these external factors.

Investment

During the 2008 financial year, we made a number of key investments, both to increase our productivity and position ourselves for future growth.

Our 4th generation test system, designed to enhance the capabilities of our 3rd generation system has been in the pipeline for a number of years now. It is very pleasing to have this now on the factory floor and operational. The new 4G system is capable of testing 23,000 units per hour and gives a significant lift in production volumes when coupled with our existing 3G systems, which remain an important part of our manufacturing process. This new system, based in Auckland, is integral to our strategy of maintaining our strong market share in the GPS industry as that market continues to expand.

We have also increased our global sales and business development teams over the last 12 months. One of Rakon's key strengths is our ability to partner with our customers, to understand their markets' long-term requirements and to invest in what is necessary to capture new business as it develops. Our expanded business now means that in order to continue to do this we need more highly skilled people on the ground, closer to our customers. Our business development and applications engineering teams are actively working with our customers' engineers on next generation products, and ensuring that we have an innate understanding of our markets.

Our enhanced engineering team continues to make great progress in refining our product and process designs to ensure we remain cost competitive in our expanding markets. The continued release of new versions of existing products, with enhanced features and reduced costs, is an important part of our ongoing strategy.

Products

Our investment in ASIC (Application Specific Integrated Circuit) development is also bearing fruit. We are in the process of releasing our Mako ASIC which will enable us to produce a TCXO with up to five times better performance than existing products.

The release of our Charon product in the UK is also positive. The Charon is based on our high performance Pluto® TCXO product and designed to be used in low power mobile or other battery powered applications.

We are pleased to have been awarded a patent on our Gravity-hardened quartz crystal design. This HiG™ family of products is many times more resistant to shock and vibration than are conventional designs. We have been supplying them into GPS surveying applications for some time now and are working with other companies with equally demanding applications to incorporate our unique technology.

> "...we believe there are plenty of opportunities for Rakon to grow by increasing our market share with new and existing products."

New versions of our GPS RF module have also been released in order to support a number of new applications. One of the most interesting is the potential to incorporate GPS into digital still cameras which we see as an exciting potential market.

Also, we have recently released our IT2200 series of products. These are the world's smallest GPS grade TCXOs with a package footprint of just 2.5 x 2.0mm and stabilities better than 0.5ppm. As GPS manufacturers continue to either shrink product sizes or incorporate new features in their products, we expect the IT2200 will become the mainstay of our GPS business in the near future.

Outlook

Our outlook is very positive. Although there is currently uncertainty in many markets as to what impact talk of recession will have, most of our customers remain very positive about the prospects. Continued reduction in GPS costs and the emergence of GPS in phones and other applications are expected to continue to drive volumes up. While we are cautious that there may be some slow-down in telecommunications spending, we believe there are plenty of opportunities for Rakon to grow by increasing our market share with new and existing products. There are also potential new applications, such as femtocells, that may offer some additional opportunities in the coming year.

BOARD OF DIRECTORS

Bryan Mogridge Bsc ONZM

Independent Chairman

Bryan Mogridge was appointed Chairman in November 2005.

Bryan has been a public company Director since 1984. He is currently Chairman of Enterprise Waitakere, Waitakere City Holdings Limited, Guardian Healthcare Group Limited, Momentum Energy Limited and The Starship Foundation. Additionally, Bryan sits on the Board of Mainfreight Limited and Pyne Gould Corporation Limited. Bryan has also chaired the New Zealand Wine Institute, the New Zealand Food and Beverage Exporters Council and the Tourism Board. Bryan was appointed Vice Chairman of UBS New Zealand Limited in April 2007.

Bruce Irvine

Independent Non-executive Director

Bruce Irvine was appointed as a Director of Rakon in November 2005.

Bruce is currently the Chairman of House of Travel Limited and Christchurch City Holdings Limited. He is also a Director of Vbase Limited, Pyne Gould Corporation Limited, Marac Limited, Godfrey Hirst Limited, Perpetual Trust Ltd, Market Gardeners Co-operative Limited, Skope Limited, Ravensdown Co-operative Limited, Scenic Circle Limited and Canterprise Limited.

In a voluntary capacity, he serves as a trustee of the Christchurch Symphony Trust and the Christchurch Art Gallery Trust.

Peter Maire

Non-executive Director

Peter Maire was appointed as a Director of Rakon in November 2005.

Peter is the co-founder and former President of Navman NZ Limited. He sold his shareholding to Brunswick Corporation in 2004 and resigned from his position as Chairman at the end of 2005.

Peter is a member of the Government's Growth and Innovation Advisory Board, New Zealand Trade and Enterprise and is an Honorary Fellow of the Institution of Professional Engineers New Zealand. Peter has made significant investment into New Zealand Technology companies. He is a Shareholder and Director of Provenco Cadmus Limited Orion Systems Limited and Fusion Electronics Limited.

Brent Robinson
Executive Director

Brent Robinson was first appointed Managing Director at Rakon Industries Limited in 1986 and continues in that role at Rakon.

Brent has over 25 years' experience in the design and manufacture of crystals and oscillators. Since his appointment, Brent has led and driven the development of Rakon's core TCXO business, which is the basis of the company's success today, supplying over 50% of the world GPS market for TCXOs. Since assuming leadership in 1986, Rakon has grown from sales of approximately $1.7 million to $174 million.

Darren Robinson
Executive Director

Darren Robinson has over 25 years' sales and marketing experience and was appointed Sales and Marketing Director for Rakon in 1990.

Darren has driven sales for Rakon through exploring new markets and applications, and building and maintaining relationships with many top Fortune 500 companies. Since his appointment, sales revenue has grown on average by 25% per annum.

Warren Robinson
Non-executive Director

Warren Robinson founded the Rakon business in the basement of his Howick home in 1967. He successfully grew and operated the business until 1986 when Brent Robinson became the Managing Director. In subsequent years, Warren has continued to maintain an active role within Rakon and was Chairman until November 2005.

Warren received a First Class Certificate in Radio Technology and is a member of the Institute of Electrical and Electronics Engineers, a senior member of the New Zealand Electronics Institute and is a member of The Royal Society of New Zealand.

MANAGEMENT TEAM

Rakon has a strong management team and expert staff across all functions. Three of these individuals are profiled here.

"New markets and applications will fuel this very exciting time and our team is poised in anticipation of this next wave of market expansion."

Dean Ransom
Regional Manager – Americas

Dean is a sales and marketing veteran of the component electronics industry for over 30 years, with almost 25 years in the frequency industry. He started as a local salesperson affiliated with a US mid-western sales rep company back in the 70s, and has progressed through a variety of roles including Sales Engineer, Marketing Manager and Sales Management, and was VP of Sales and Marketing with a leading Chicago-based VCXO manufacturer, before helping Rakon found Rakon America LLC in 2002. His knowledge and background cover a wide variety of quartz-based products, ranging from discrete crystals, clock oscillators, VCXOs, TCXOs and OCXOs. His experience set includes the far reaches of the global markets, spanning Asia, Europe and the Americas. Dean was appointed Regional Manager of Rakon America's sales and applications support team upon the acquisition of CMAC FCP in March 2007.

"The last six years at Rakon have been very gratifying: being part of a company that has seen enormous change and growth, virtually exploding upon the global quartz scene. We are about to enter another era of growth. New markets and applications will fuel this very exciting time and our team is poised in anticipation of this next wave of market expansion.

"Our management has been excellent at anticipating our growth and providing a platform for our success. The next few years will be truly an exciting time for our company and our team here in the USA."

Dean has a BA in History from Indiana University. He and his wife have three children. He enjoys recreational walking and is an avid soccer (the 'real football') fan.

“Rakon has the technological and production support that we need to compete.”

David Grant

General Manager – NZ Operations

David has been involved in the quartz industry with Rakon for 10 years and has 35 years’ experience in electronics manufacturing and design, in both New Zealand and Europe. In his current role, David is responsible for the operational parts of the business in New Zealand (Production, Purchasing, Stores and Production Planning, as well as Quality and Facilities Engineering). Earlier roles also saw him responsible for Product Engineering, Finance, Information Systems and Human Resources. David’s broad experience in the business has helped him to contribute to the rapid growth of Rakon.

“What I have enjoyed most at Rakon, is the challenge of building the company’s capability to meet our customer demand, both in terms of production capacity and business processes. Rakon has evolved from a relatively small scale manufacturer, into an eminently successful high-volume component supplier. There are not many companies that can claim to have successfully managed year-on-year volume growth that is commonly 20% to 50% per annum.

“For somebody with a technological bent, there could be no better place to work than Rakon – there is just such a breadth of technologies to be involved in, from mechanical, electrical, electronic and systems engineering to materials science, thermodynamics and software. There is a lot of fun in bringing these technologies together to satisfy our customers’ rapidly evolving product needs.”

David holds a Bachelor of Engineering degree in Electronics, is a Fellow of IPENZ and a Member of the Institute of Directors. In his spare time, David enjoys fishing and cruising on the Hauraki Gulf.

Dee Shahidi

Regional Manager – Asia

Dee has 19 years’ experience in the electronics industry. He began his career as a Production Engineer at Navstar Ltd (UK). Since then he has progressed through Rakon. He joined the company in 1992 as QA Manager and certified Rakon to International Quality Standards by obtaining ISO9001 and ISO9002. In 1997, he became General Manager for Rakon Singapore and remained in that position until 2003. Since 2004, Dee has been Regional Manager for Asia; he is based in Taiwan.

Dee credits the drive, support and understanding of the team at Rakon as key contributors to Rakon’s success to date.

“The multicultural sales teams are driven to meet the opportunities and challenges arising from the dynamic growth in the Asian markets. Rakon has the technological and production support that we need to compete in these ever evolving markets and ultimately achieve continued growth. By being based in Asia, we have a better understanding of our customers’ requirements, with our diligent team striving to meet their demands and needs.”

Dee holds a BSc (Hons) in Technology from the United Kingdom. When he is not at work he enjoys keeping up to date with current affairs and going swimming.

CORPORATE GOVERNANCE

The role of the Board

The Board has ultimate responsibility for the strategic direction of Rakon and oversight of the management of Rakon for the benefit of Shareholders. Specifically, the responsibilities of the Board include:

- working with management to establish the strategic direction of Rakon;
- monitoring management and financial performance;
- monitoring compliance and risk management;
- establishing and monitoring the health and safety policies of Rakon;
- establishing and ensuring implementation of succession plans for senior management; and
- ensuring effective disclosure policies and procedures.

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

The Board comprises six Directors: a non-executive Chairman, two executive Directors and three non-executive Directors. Under the Constitution, the Independent Chairman holds a casting vote at Board meetings. Board members have an appropriate range of proficiencies, experience and skills to ensure that all governance responsibilities are fulfilled and to achieve the best possible management of resources.

In accordance with the Constitution, the Board has resolved that the Managing Director will not be required to retire by rotation.

Directors' meetings

The Board plans to meet not less than nine times during any financial year including sessions to consider the strategic direction of Rakon and Rakon's forward-looking business plans. Video and/or phone conferences are also used as required. For the year ended 31 March 2008 there were ten Board and Strategic Planning meetings held and an additional three Board meetings associated with the approval of full year and half year financial statements.

Director	Meetings held	Meetings attended
Bryan Mogridge	13	13
Brent Robinson	13	13
Darren Robinson	13	13
Warren Robinson	13	11
Peter Maire	13	9
Bruce Irvine	13	13

Board committees

The Board has three formally constituted committees of Directors. Committees established by the Board review and analyse policies and strategies, usually developed by management, which are within their terms of reference. They examine proposals and, where appropriate, make recommendations to the full Board. Committees do not take action or make decisions on behalf of the Board unless specifically mandated by prior Board authority to do so.

The Committees are as follows:

Audit and Risk Management Committee

The Audit and Risk Management Committee is responsible for overseeing the risk management (including treasury and financing policies), treasury, insurance, accounting and audit activities of Rakon and reviewing the adequacy and effectiveness of internal controls, meeting with and reviewing the performance of external auditors, reviewing the consolidated financial statements and making recommendations on financial and accounting policies.

The members of the Audit and Risk Management Committee are Bruce Irvine (Chairman), Bryan Mogridge and Warren Robinson.

Director	Meetings held	Meetings attended
Bruce Irvine	2	2
Bryan Mogridge	2	2
Warren Robinson	2	2

Remuneration Committee

The Remuneration Committee is responsible for overseeing management succession planning, establishing employee incentive schemes, reviewing and approving the compensation arrangements for the executive Directors and senior management, and recommending to the full Board the compensation of Directors.

The members of the Remuneration Committee are Bryan Mogridge (Chairman), Peter Maire and Warren Robinson.

Director	Meetings held	Meetings attended
Bryan Mogridge	1	1
Peter Maire	1	1
Warren Robinson	1	1

Nomination Committee

The Nomination Committee is responsible for ensuring the Board is composed of Directors who contribute to the successful management of the company, ensuring formal review of the performance of the Board, individual Directors and the Board's committees and ensuring effective induction and training programmes are in place for new and existing Directors.

The members of the Nomination Committee are Bryan Mogridge (Chairman), Peter Maire and Warren Robinson.

Director	Meetings held	Meetings attended
Bryan Mogridge	1	1
Peter Maire	1	1
Warren Robinson	1	1

FINANCIAL REPORT

DIRECTORS' REPORT

The Directors are responsible for ensuring that the financial statements give a true and fair view of the financial position of the Company and the Group as at 31 March 2008 and their financial performance and cash flows for the period ended on that date.

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

The Directors believe that proper accounting records have been kept which enable, with reasonable accuracy, the determination of the financial position of the Company and the Group and facilitate compliance of the financial statements with the Financial Reporting Act 1993.

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

The Directors note there has not been any material change in the nature of the business undertaken by the Company and the Group in the past year.

The Directors have pleasure in presenting the financial statements, set out in pages 26 to 79, of Rakon Limited and subsidiaries for the period 1 April 2007 to 31 March 2008.

The Board of Directors of Rakon Limited authorised these financial statements for issue on 22 May 2008.

Financial results

Sales revenue for the year was $174.3 million, up $68.4 million or 65% on the prior year. The increase in revenue was due to the contribution for the full year from the European acquisition completed in early March 2007 and despite the significant strengthening of the NZD, which adversely impacts continued revenue and earnings growth from the New Zealand business.

Earnings before Interest, Tax, Depreciation and Amortisation (EBITDA) was $25.4 million, up 26% on the prior year. Sales volume growth and reduced manufacturing costs due to new product designs, material costs savings and labour efficiencies more than offset the impact of the strong NZD and the expected reduction in sales price. Net surplus was $10.9 million, up 4% on the prior year as higher depreciation and amortisation charges offset the growth in EBITDA.

Rakon further improved its financial position with Shareholders' equity of $131.8 million, funding 76% of total assets as at 31 March 2008.

The Board has determined that no dividend will be paid and that, consistent with the Company's policy, cash will be retained in order to capitalise on immediate and future growth opportunities.

Donations and audit fees

The Group made donations totalling $5,000 during the past year. Amounts paid to PricewaterhouseCoopers for audit and other services are shown in note 6 of the Financial Statements.

Other statutory information

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

Retirement of Directors

Mr Bryan Mogridge and Mr Darren Robinson retire by rotation and, being eligible, offer themselves for re-election.

On behalf of the Directors

B W Mogridge
Chairman

B J Robinson
Managing Director

INCOME STATEMENTS

For the year ended 31 March 2008

		GROUP		PARENT	
	Note	2008 $000s	2007 $000s	2008 $000s	2007 $000s
Revenue	4	174,292	105,902	109,658	100,393
Cost of sales		(107,847)	(63,874)	(68,465)	(60,116)
Gross profit		66,445	42,028	41,193	40,277
Other operating income	5	273	7	834	7
Operating expenses	6	(53,201)	(25,634)	(28,421)	(24,073)
Other gains/(losses) – net	7	3,138	(374)	(848)	(407)
Operating profit before financing costs		16,655	16,027	12,758	15,804
Net finance (costs)/income	9	(262)	(218)	534	(202)
Profit before income tax		16,393	15,809	13,292	15,602
Income tax expense	10	(5,542)	(5,403)	(4,426)	(5,379)
Net profit after tax (attributable to equity holders of the Company)		10,851	10,406	8,866	10,223
Earnings per share					
Basis earnings (in cents)	12	8.6	9.7		
Diluted earnings (in cents)	12	8.4	9.5		

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

STATEMENTS OF CHANGES IN EQUITY

For the year ended 31 March 2008

GROUP		Note	Share Capital $000s	Retained Earnings $000s	Other $000s	Total Equity $000s
Balance at 1 April 2006			13,136	10,955	-	24,091
Net profit after tax for the year ended 31 March 2007			-	10,406	-	10,406
Currency translation differences			-	-	(1,544)	(1,544)
Total recognised income for the year			-	10,406	(1,544)	8,862
Employee share schemes	– value of employee services		-	-	489	489
Issue of ordinary shares			70,000	-	-	70,000
Share issuance costs			(2,303)	-	-	(2,303)
Balance at 31 March 2007			80,833	21,361	(1,055)	101,139
Net profit after tax for the year ended 31 March 2008			-	10,851	-	10,851
Currency translation differences			-	-	(4,049)	(4,049)
Total recognised income for the year			-	10,851	(4,049)	6,802
Employee share schemes	– value of employee services		-	-	875	875
	– proceeds from shares issued		297	-	-	297
Cash flow hedges, net of tax			-	-	693	693
Issue of ordinary shares			22,097	-	-	22,097
Share issuance costs			(66)	-	-	(66)
Balance at 31 March 2008			103,161	32,212	(3,536)	131,837
PARENT						
Balance at 1 April 2006			13,136	10,826	-	23,962
Net profit after tax for the year ended 31 March 2007			-	10,223	-	10,223
Total recognised income for the year			-	10,223	-	10,223
Employee share schemes	– value of employee services		-	-	489	489
Issue of ordinary shares			70,000	-	-	70,000
Share issuance costs			(2,303)	-	-	(2,303)
Balance at 31 March 2007			80,833	21,049	489	102,371
Net profit after tax for the year ended 31 March 2008			-	8,866	-	8,866
Currency translation differences			-	-	-	-
Net income recognised directly in equity			-	-	-	-
Total recognised income for the year			-	8,866	-	8,866
Employee share schemes	– value of employee services		-	-	875	875
	– proceeds from shares issued		297	-	-	297
Cash flow hedges, net of tax			-	-	693	693
Issue of ordinary shares			22,097	-	-	22,097
Share issuance costs			(66)	-	-	(66)
Balance at 31 March 2008			103,161	29,915	2,057	135,133

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

BALANCE SHEETS

As at 31 March 2008

	Note	GROUP 2008 $000s	GROUP 2007 $000s	PARENT 2008 $000s	PARENT 2007 $000s
Assets					
Current assets					
Cash and cash equivalents	13	7,168	2,333	6,466	1,128
Trade and other receivables	14	38,811	32,736	25,730	16,995
Derivatives – held for trading	15	115	1,258	115	1,258
Derivatives – cash flow hedges	15	1,063	-	1,063	-
Inventories	16	44,731	34,798	25,983	23,394
Current income tax asset		1,144	-	1,144	153
Total current assets		93,032	71,125	60,501	42,928
Non-current assets					
Property, plant and equipment	18	36,675	31,172	26,554	21,711
Intangible assets	19	39,226	41,709	2,048	1,079
Investments in subsidiaries	32	-	-	66,304	58,040
Investment in joint ventures	20	5,511	-	-	-
Total non-current assets		81,412	72,881	94,906	80,830
Total assets		174,444	144,006	155,407	123,758
Liabilities					
Current liabilities					
Bank overdraft	21	673	30	-	30
Borrowings	21	3,288	853	-	-
Trade and other payables	22	23,573	26,946	11,197	12,569
Derivatives – held for trading	15	339	170	339	170
Derivatives – cash flow hedges	15	31	-	31	-
Current income tax liabilities		3,654	3,052	-	-
Total current liabilities		31,558	31,051	11,567	12,769
Non-current liabilities					
Borrowings	21	8,000	8,000	8,000	8,000
Provisions	23	1,623	1,894	189	151
Deferred tax liabilities	24	1,426	1,922	518	467
Total non-current liabilities		11,049	11,816	8,707	8,618
Total liabilities		42,607	42,867	20,274	21,387
Net assets		131,837	101,139	135,133	102,371
Equity					
Share capital	26	103,161	80,833	103,161	80,833
Reserves	28	(3,536)	(1,055)	2,057	489
Retained earnings	27	32,212	21,361	29,915	21,049
Total equity		131,837	101,139	135,133	102,371

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

STATEMENTS OF CASH FLOWS

For the year ended 31 March 2008

	Note	GROUP 2008 $000s	GROUP 2007 $000s	PARENT 2008 $000s	PARENT 2007 $000s
Operating activities					
Cash was provided from:					
Receipts from customers		165,802	101,248	107,777	96,274
Interest received		891	324	880	325
Other income received		88	57	88	57
		166,781	101,629	108,745	96,656
Cash was applied to:					
Payments to suppliers and others		(107,855)	(62,344)	(67,627)	(59,766)
Payments to employees		(51,141)	(22,450)	(28,040)	(20,384)
Interest paid		(904)	(635)	(570)	(620)
Income tax paid		(5,478)	(5,368)	(5,362)	(5,368)
		(165,378)	(90,797)	(101,599)	(86,138)
Net cash flow from operating activities		1,403	10,832	7,146	10,518
Investing activities					
Cash was applied to:					
Purchase of property, plant and equipment		(10,987)	(10,595)	(9,036)	(10,359)
Purchase of intangibles		(2,748)	(1,028)	(1,674)	(1,028)
Purchase of subsidiaries		-	(58,051)	(8,228)	(58,040)
Investment in joint venture	20	(8,228)	-	-	-
Net cash flow from investing activities		(21,963)	(69,674)	(18,938)	(69,427)
Financing activities					
Cash was provided from:					
Issue of ordinary shares		22,394	70,000	22,394	70,000
Proceeds from borrowings		2,378	853	-	-
Inter-company loans		-	-	1,344	-
		24,772	70,853	23,738	70,000
Cash was applied to:					
Repayment of principal on borrowings		-	(1,314)	-	(1,314)
Share issuance costs		(66)	(1,811)	(66)	(1,811)
Inter-company loans		-	-	(6,852)	(1,020)
		(66)	(3,125)	(6,918)	(4,145)
Net cash flow from financing activities		24,706	67,728	16,820	65,855
Net increase in cash and cash equivalents		4,146	8,886	5,028	6,946
Foreign currency translation adjustment		46	(535)	340	250
Cash and cash equivalents at the beginning of the period		2,303	(6,048)	1,098	(6,098)
Cash and cash equivalents at the end of the period		6,495	2,303	6,466	1,098
Composition of cash and cash equivalents					
Cash and cash equivalents		7,168	2,333	6,466	1,128
Bank overdraft		(673)	(30)	-	(30)
		6,495	2,303	6,466	1,098

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

STATEMENTS OF CASH FLOWS

For the year ended 31 March 2008

		GROUP		PARENT	
	Note	2008 $000s	2007 $000s	2008 $000s	2007 $000s
Reconciliation of net profit to net cash flows from operating activities					
Reported net profit after tax		10,851	10,406	8,866	10,223
Items not involving cash flow					
Depreciation expense		5,436	2,961	4,165	2,894
Amortisation expense		2,459	706	705	585
Increase in estimated doubtful debts		(197)	135	(240)	132
Employee share-based payments		875	489	400	489
Movement in foreign currency		321	(823)	(609)	(794)
Movement in interest rate swap fair value		123	(143)	123	(143)
Deferred tax		390	475	299	561
(Gain)/loss on disposal of property, plant and equipment		3	(2)	3	(2)
		9,410	3,798	4,846	3,722
Impact of changes in working capital items					
Trade and other receivables		(7,260)	(4,151)	(915)	(3,521)
Inventories		(9,706)	(3,936)	(2,562)	(3,660)
Trade and other payables		(2,080)	5,122	(1,849)	4,308
Tax provisions		188	(407)	(1,240)	(554)
		(18,858)	(3,372)	(6,566)	(3,427)
Net cash flow from operating activities		1,403	10,832	7,146	10,518

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

NOTES TO THE FINANCIAL STATEMENTS

1. General information

Rakon Limited ('the Company') and its subsidiaries (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 financial statements have been approved for issue by the Board of Directors on 22 May 2008.

2. Summary of significant accounting policies

2.1. Basis of preparation

These financial statements of the Group and Parent, profit oriented entities, are for the year ended 31 March 2008. They have been prepared in accordance with the requirements of the Financial Reporting Act 1993, the Companies Act 1993 and in accordance with New Zealand Equivalents to International Financial Reporting Standards ('NZ IFRS'), and are covered by NZ IFRS1 First-time Adoption of New Zealand Equivalents to International Financial Reporting Standards ('NZ IFRS 1').

NZ IFRS 1 requires an entity to use the same accounting policies in its opening NZ IFRS balance sheet and throughout all the periods presented in its first NZ IFRS financial statements. The Group has adjusted amounts reported previously in financial statements prepared in accordance with their previous basis of accounting ('previous NZ GAAP'), except where NZ IFRS 1 has allowed exemptions from full retrospective application of NZ IFRS.

Reconciliations and descriptions of the effect of transition from previous NZ GAAP to NZ IFRS on the Group's equity and its net income are given in note 34. This note includes reconciliations of equity and profit for the comparative periods reported under previous NZ GAAP to those reported under NZ IFRS.

Accounting policies applied in these financial statements comply with NZ IFRS and New Zealand equivalents to International Financial Reporting Interpretations Committee ('NZ IFRIC') interpretations issued and effective or issued and early adopted as at the time of preparing these financial statements as applicable to Rakon Limited as a profit oriented entity. The Group and Parent, in complying with NZ IFRS are simultaneously in compliance with International Financial Reporting Standards ('IFRS').

The accounting principles recognised as appropriate for the measurement and reporting of profit and loss and financial position on a historical cost basis have been applied, except as modified by the revaluation of financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss.

The preparation of financial statements in accordance with NZ IFRS requires management to make judgments, 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.

2.2. Consolidation

(a) Subsidiaries

Subsidiaries are entities that are controlled, either directly or indirectly, by the Parent Company. Control exists when the Parent 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, plus costs directly attributable to the acquisition. 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 income statement.

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

(b) Associates

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.

The Group's investment in associates includes goodwill identified on acquisition, net of any accumulated impairment loss.

The Group's share of its associates' post acquisition profits or losses is recognised in the income statement, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

(c) Joint ventures

The Group's interests in jointly controlled entities are accounted for using the equity method of accounting and are initially recognised at cost. The Group's investment in jointly controlled entities includes goodwill identified on acquisition, net of any accumulated impairment loss.

The Group's share of its joint ventures' post acquisition profits or losses is recognised in the income statement, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment.

Unrealised gains on transactions between the Group and its joint ventures are eliminated to the extent of the Group's interest in the joint venture. Unrealised losses are also eliminated unless the transaction provides evidence of impairment of the asset transferred. Accounting policies of joint ventures have been changed where necessary to ensure consistency with the policies adopted by the Group.

2.3. Foreign currency translation

(a) Functional and presentation currency

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

(b) Transactions and balances

Transactions in foreign currencies are translated at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to New Zealand dollars at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to New Zealand dollars at foreign exchange rates ruling at the dates the fair value was determined.

(c) Group companies

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

Exchange differences arising from the translation of foreign operations are recognised in the foreign currency translation reserve.

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

2.4. Share capital

Ordinary shares and redeemable ordinary shares are classified as equity.

Partial payments received in respect of redeemable ordinary shares issued under the Rakon Share Growth Plan are classified as liabilities in the Group financial statements. When employees exercise their conditional rights to the redeemable ordinary shares, these shares convert to ordinary shares with the proceeds credited to equity.

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

2.5. Property, plant and equipment

(a) Initial recording

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

(b) Subsequent costs

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

(c) Depreciation

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

Land	Nil
Buildings	10%
Leasehold improvements	3–20%
Computer hardware	36%
Plant and equipment	5–10%
Motor vehicles	20–25%
Furniture and fittings	6–50%
Assets under course of construction	Nil

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

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

2.6. Leases

The entity is the lessee

Leases of property, plant and equipment where the Group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's inception at the lower of the fair value of the leased property and the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of finance charges, are included in other long-term payables. The interest element of the finance charge is charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. Property, plant and equipment acquired under finance leases is depreciated over the shorter of the asset's useful life and the lease term.

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

2.7. Intangible assets

(a) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary, associate or joint venture at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets.

Goodwill on acquisition of associates and joint ventures is included in 'investment in associates/joint ventures' and is tested for impairment as part of the overall balance.

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

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose.

(b) Patents, trademarks, licences, order backlogs and software

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

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

Amortisation is charged to the income statement on a straight-line basis over the estimated useful lives of intangible assets unless such lives are indefinite. Acquired patents and licences are amortised over their anticipated useful lives of seven to 10 years. Trademarks are amortised over their contractual lives of 18 months. Order backlogs are amortised over their anticipated useful lives of 13 to 18 months.

Software assets, licences and capitalised costs of developing systems are recorded as intangible assets and amortised over a period of three to five years unless they are directly related to a specific item of hardware and recorded as property, plant and equipment.

(c) Research and development

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognised in the income statement as an expense as incurred.

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

2.8. Inventories

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

2.9. Impairment of non-financial assets

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

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

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

2.10. Financial instruments

Financial instruments comprise cash and cash equivalents, trade and other receivables, trade and other payables, borrowings and derivative financial instruments (forward foreign exchange contracts, forward foreign exchange options and interest rate swaps).

Financial assets and financial liabilities are recognised on the Group's balance sheet when the Group becomes a party to the contractual provisions of the instrument.

(a) Cash and cash equivalents

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

(b) Trade and other receivables

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

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

Rakon France SAS has a trade receivable financing facility with Société Générale. The trade receivables continue to be recognised in the balance sheet at their estimated realisable value as the credit risk is retained by Rakon France SAS.

(c) Financial assets

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

1. Financial assets at fair value through profit or loss

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

2. Loans and receivables

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

Purchases and sales of financial assets are recognised on trade-date – the date on which the Group commits to purchase or sell the asset. Financial assets at fair value through profit and loss are carried at fair value. Loans and receivables are carried at amortised cost using the effective interest method. Realised and unrealised gains and losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are included in the income statement in the period in which they arise.

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

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

(d) Trade and other payables

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

(e) Interest-bearing borrowings

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

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

(f) Derivative financial instruments

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

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

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

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

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

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

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

Derivatives that do not qualify for hedge accounting

Certain derivative instruments do not qualify for hedge accounting. Changes in the fair value of any derivative instrument that does not qualify for hedge accounting are recognised immediately in the income statement.

2.11. Fair value estimates

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

The fair value of financial instruments that are not traded in an active market is determined using valuation techniques. The Group uses a variety of methods and makes assumptions that are based on market conditions existing at each balance date. Techniques, such as estimated discounted cash flows, are used to determine fair value for financial instruments. The fair value of forward exchange contracts is determined using forward exchange market rates at the balance sheet date. The fair value of interest rate swaps is the estimated amount that the Group would receive or pay to terminate the swap at the reporting date.

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

2.12. Employee entitlements

(a) Long term employee benefits

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

(b) Short term employee benefits

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

(c) Share based plans

The Group's management awards qualifying employees bonuses in the form of share options and conditional rights to redeemable ordinary shares, from time to time, on a discretionary basis. These are subject to vesting conditions and their fair value is recognised as an employee benefit expense with a corresponding increase in other reserve equity over the vesting period. The fair value determined at grant date excludes the impact of any non-market vesting conditions, such as the requirement to remain in employment with the entity. Non-market vesting conditions are included in the assumptions about the number of options that are expected to vest and the number of redeemable ordinary shares that are expected to transfer. At each balance sheet date the estimate of the number of options expected to vest and the number of redeemable ordinary shares expected to transfer is revised and the impact of any change in this estimate is recognised in the income statement with a corresponding adjustment to equity. The proceeds received net of any directly attributable transaction costs are credited to share capital when the options are exercised or the conditional rights to redeemable ordinary shares are transferred.

(d) Overseas government superannuation schemes

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

2.13. Provisions

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

2.14. Revenue

(a) Goods sold and services rendered

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

(b) Interest income

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

(c) Dividend income

Dividend income is recognised when the right to receive payments is established.

2.15. Income tax

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

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

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

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

2.16. Segmental reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environments.

2.17. Critical accounting estimates and assumptions

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, rarely equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are outlined below.

(a) Estimated impairment of goodwill

The Group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated in note 2.9. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates.

(b) Income taxes

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

(c) Provisions for inventory obsolescence

The Group makes estimates and assumptions regarding the value of inventory obsolescence; these are based on the existing available information.

2.18. New accounting standards and IFRIC interpretations

At the date of authorisation of these financial statements, the following standards and interpretations were on issue but not yet effective but which the Group has not early adopted:

NZ IAS 1 (Amendment) Presentation of Financial Statements (effective from annual periods beginning on or after 1 January 2009)

The amendment affects the presentation of owner changes in equity and of comprehensive income. The Group will apply the amendment from 1 April 2009. Recognised income and expenses will be presented separately from changes in equity due to transactions with equity holders.

Puttable Financial Instruments and Obligations Arising on Liquidation (amends NZ IAS 1 Presentation of Financial Statements and NZ IAS 32 Financial Instruments: Presentation) (effective for annual periods beginning on or after 1 January 2009)

These amendments are not relevant to the Group's operations.

NZ IFRS 2 Amendments to Share Based Payments: vesting conditions and cancellations (effective for annual periods beginning on or after 1 July 2009)

The Directors anticipate that the adoption of amendments to this standard in future periods will have no material impact on the financial statements of the Group.

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

The Directors anticipate that the adoption of amendments to this in future periods will impact the value of acquisitions recognised in the financial statements as transaction and acquisition costs are expensed instead of capitalised.

NZ IFRS 4 Insurance Contracts – amendments (effective for annual periods beginning on or after 1 January 2009)

The Directors anticipate that the adoption of this standard in future periods will have no material impact on the financial statements of the Group.

NZ IFRS 8 Operating segments (effective for annual periods beginning on or after 1 January 2009)

The Directors anticipate that the adoption of this standard in future periods will have no material impact on the financial statements of the Group, except for disclosures.

NZ IAS 23 Borrowing costs (revised) (effective for annual periods beginning on or after 1 January 2009)

The Directors anticipate that the adoption of this standard in future periods will have no material impact on the financial statements of the Group.

NZ IAS 27 Consolidated and Separate Financial Statements (amended) (effective for annual periods beginning on or after 1 July 2009)

The Directors anticipate that the adoption of this standard in future periods will have no material impact on the financial statements of the Group.

NZ IFRIC 12 Service concession arrangements (effective for annual periods beginning on or after 1 January 2008)

NZ IFRIC 13 Customer loyalty programmes (effective for annual periods beginning on or after 1 July 2008)

NZ IFRIC 14 The limit on a defined benefit asset, minimum funding requirement and their interaction (effective for annual periods beginning on or after 1 January 2008)

NZ IFRIC 12, NZ IFRIC 13 and NZ IFRIC 14 are not applicable to the Group and will therefore not affect the Group's financial statements.

3. Financial risk management

Overview

The Group has exposure to the following risks from its use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk.

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

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

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

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

Credit risk

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

Trade and other receivables

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The demographics of the Group's customer base, including the default risk of the industry and country in which customers operate, has less influence on credit risk. The Group does not currently have any customers that account for greater than 10% of Rakon's total revenue.

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

More than 85% of the Group's customers have been transacting with the Group for over four years and losses have occurred infrequently. In monitoring customer credit risk, customers are grouped according to their credit characteristics. Customers that are graded as 'high risk' are placed on a restricted customer list, and future sales are made on a prepayment basis only.

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

Liquidity risk

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

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

- NZD 8 million term loan. Interest is payable at the rate of the bank bill rate plus 70 basis points.
- NZD 4 million interchangeable overdraft limit. Interest is payable at the ASB Corporate Indicator Rate.
- NZD 3 million unallocated limit. Once allocated, interest is payable based on the allocation.
- NZD 6.45 million committed cash advance facility. Interest is payable based on the 90 day bank bill rate plus 70 basis points.

  All New Zealand facilities are secured by first mortgage over all the undertakings of Rakon Limited and any wholly owned present and future subsidiaries.
- Société Générale provides a discounted receivables credit line up to €760,000 to Rakon France SAS. Interest is charged at the Euro OverNight Index Average ('eonia') plus 100 basis points.
- GBP 200,000 multi-currency overdraft facility. Interest is payable at National Westminster Bank Plc's base lending rate plus 100 basis points. This facility is secured by a debenture over the assets and undertaking of Rakon UK Limited and Rakon Europe Limited.

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

31 March 2008	Carrying amount $000s	Contractual cash flows $000s	6 months or less $000s	6–12 months $000s	1–2 years $000s	2–5 years $000s
GROUP						
Non-derivative financial liabilities						
Secured bank loans	8,000	(8,000)	-	-	-	(8,000)
Collateralised borrowings	3,288	(3,288)	(3,288)	-	-	-
Trade and other payables	23,573	(23,573)	(23,573)	-	-	-
Bank overdraft	673	(673)	(673)	-	-	-
Derivative financial liabilities						
Forward exchange contracts used for hedging						
– inflows	31	1,906	1,586	320	-	-
– outflows	-	(1,903)	(1,587)	(316)	-	-
Other forward exchange contracts						
– inflows	339	11,604	11,604	-	-	-
– outflows	-	(11,957)	(11,957)	-	-	-
	35,904	(35,884)	(27,888)	4	-	(8,000)
PARENT						
Non-derivative financial liabilities						
Secured bank loans	8,000	(8,000)	-	-	-	(8,000)
Trade and other payables	11,197	(11,197)	(11,197)			
Derivative financial liabilities						
Forward exchange contracts used for hedging						
– inflows	31	1,906	1,586	320	-	-
– outflows	-	(1,903)	(1,587)	(316)	-	-
Other forward exchange contracts						
– inflows	339	11,604	11,604	-	-	-
– outflows	-	(11,957)	(11,957)	-	-	-
	19,567	(19,547)	(11,551)	4	-	(8,000)

31 March 2007	Carrying amount $000s	Contractual cash flows $000s	6 months or less $000s	6–12 months $000s	1–2 years $000s	2–5 years $000s
GROUP						
Non-derivative financial liabilities						
Secured bank loans	8,000	(8,000)	-	-	-	(8,000)
Collateralised borrowings	853	(853)	(853)	-	-	-
Trade and other payables	26,946	(26,946)	(26,946)	-	-	-
Bank overdraft	30	(30)	(30)	-	-	-
Derivative financial liabilities						
Other forward exchange contracts						
– inflows	170	5,637	5,637	-	-	-
– outflows	-	(5,853)	(5,853)	-	-	-
	35,999	(36,045)	(28,045)	-	-	(8,000)
PARENT						
Non-derivative financial liabilities						
Secured bank loans	8,000	(8,000)	-	-	-	(8,000)
Trade and other payables	12,569	(12,569)	(12,569)	-	-	-
Bank overdraft	30	(30)	(30)	-	-	-
Derivative financial liabilities						
Other forward exchange contracts						
– inflows	170	5,637	5,637	-	-	-
– outflows	-	(5,853)	(5,853)	-	-	-
	20,769	(20,815)	(12,815)	-	-	(8,000)

Market risk

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

The Group enters into derivatives in the ordinary course of business and also incurs financial liabilities, in order to manage market risks. All such transactions are carried out within the guidelines set by the Board of Directors. Generally the Group seeks to apply hedge accounting in order to manage volatility in profit or loss.

Currency risk

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

The Group hedges 15% to 60% of its estimated foreign currency exposure in respect of forecast sales and purchases over the following 12 months. The Group uses forward exchange contracts and options to hedge its currency risk, most with a maturity of less than one year from the reporting date. When necessary, forward exchange contracts are rolled over at maturity.

Exposure to currency risk

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

31 March 2008	USD $000s	EUR $000s	GBP $000s	JPY $000s
Rakon Limited	10,986	21	(18)	(1,318)
Rakon UK Limited	4,600	(325)	-	(353)
Rakon Europe Limited	974	625	-	(305)
Rakon France SAS	1,056	-	-	-
Rakon Group	17,616	321	(18)	(1,976)
31 March 2007				
Rakon Limited	10,669	45	(361)	(1,394)
Rakon UK Limited	4,122	492	-	(173)
Rakon Europe Limited	2,148	412	-	(442)
Rakon France SAS	989	-	-	-
Rakon Group	17,928	949	(361)	(2,009)

The following significant exchange rates applied during the year:

	Average rate		Reporting date mid-spot rate	
NZD	2008	2007	2008	2007
USD	0.7596	0.6578	0.7920	0.7143
EUR	0.5365	0.5124	0.5018	0.5358
GBP	0.3783	0.3471	0.3965	0.3641
JPY	86.72	76.99	78.98	84.26

Sensitivity analysis

Underlying exposures

A 10% weakening of the NZD against the following currencies at 31 March would have increased (decreased) equity and profit or loss by the amounts shown below. Based on historical movements a 10% increase or decrease in the NZD is considered to be a reasonable estimate. This analysis assumes that all other variables, in particular interest rates remain constant. The analysis is performed on the same basis for 2007.

	GROUP		PARENT	
31 March 2008	Equity $000s	Profit or loss $000s	Equity $000s	Profit or loss $000s
USD	1,180	1,180	736	736
EUR	22	22	1	1
GBP	(1)	(1)	(1)	(1)
JPY	(132)	(132)	(88)	(88)
31 March 2007				
USD	1,201	1,201	715	715
EUR	64	64	3	3
GBP	(24)	(24)	(24)	(24)
JPY	(135)	(135)	(93)	(93)

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

Forward foreign exchange contracts

A 10% weakening of the NZD against the following forward foreign exchange contracts outstanding at 31 March would have increased (decreased) equity and profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular interest rates remain constant. The analysis is performed on the same basis for 2007.

		GROUP		PARENT	
31 March 2008	**Net fair value $000s**	**Equity $000s**	**Profit or loss $000s**	**Equity $000s**	**Profit or loss $000s**
Forward foreign exchange contracts held for trading					
Net buy USD sell EUR	(240)	630	630	630	630
Forward foreign exchange contracts – cash flow hedges					
Net buy NZD sell USD	430	(641)	-	(641)	-
Net buy JPY sell USD	602	48	-	48	-
31 March 2007					
Forward foreign exchange contracts held for trading					
Net buy NZD sell USD	1,064	(724)	(724)	(724)	(724)
Net buy JPY sell USD	(99)	2	2	2	2

A 10% strengthening of the NZD against the following forward foreign exchange contracts outstanding at 31 March would have increased (decreased) equity and profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular interest rates remain constant. The analysis is performed on the same basis for 2007.

		GROUP		PARENT	
31 March 2008	**Net fair value $000s**	**Equity $000s**	**Profit or loss $000s**	**Equity $000s**	**Profit or loss $000s**
Forward foreign exchange contracts held for trading					
Net buy USD sell EUR	(240)	(472)	(472)	(472)	(472)
Forward foreign exchange contracts – cash flow hedges					
Net buy NZD sell USD	430	523	-	523	-
Net buy JPY sell USD	602	(39)	-	(39)	-
31 March 2007					
Forward foreign exchange contracts held for trading					
Net buy NZD sell USD	1,064	591	591	591	591
Net buy JPY sell USD	(99)	(2)	(2)	(2)	(2)

Interest rate risk

Where Group borrowings exceed NZD 15 million, dependent on the time to maturity, the Group adopts a policy to manage its exposure to interest rates by entering into fixed rate interest rate swap agreements.

Other market price risk

The Group does not enter into commodity contracts other than to meet the Group's expected usage and sale requirements; such contracts are not settled net.

Profile

At the reporting date the interest rate profile of the Group's interest-bearing financial instruments was:

	GROUP		PARENT	
Variable rate instruments	**2008 $000s**	**2007 $000s**	**2008 $000s**	**2007 $000s**
Financial assets	7,184	2,456	6,482	1,251
Financial liabilities	(11,961)	(8,883)	(8,000)	(8,030)
	(4,777)	(6,427)	(1,518)	(6,779)

Sensitivity analysis

An increase of 100 basis points in interest rates at the reporting date would have increased (decreased) equity and profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular foreign exchange rates, remain constant. The analysis is performed on the same basis for 2007.

	GROUP		PARENT	
31 March 2008	**Equity $000s**	**Profit or loss $000s**	**Equity $000s**	**Profit or loss $000s**
Variable rate instruments	(48)	(48)	(15)	(15)
Interest rate swap	3	3	3	3
31 March 2007				
Variable rate instruments	(66)	(66)	(69)	(69)
Interest rate swap	45	45	45	45

A decrease of 100 basis points in interest rates at the reporting date would have the opposite impact as shown above except for the interest rate swap which would have had the following impact:

	GROUP		PARENT	
31 March 2008	**Equity $000s**	**Profit or loss $000s**	**Equity $000s**	**Profit or loss $000s**
Interest rate swap	(6)	(6)	(6)	(6)
31 March 2007				
Interest rate swap	(46)	(46)	(46)	(46)

Capital management

The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The Board of Directors monitors both the demographic spread of shareholders, as well as the return on capital, which the Group defines as total shareholders' equity.

There were no changes to the Group's approach to capital management during the year.

The Group is subject to externally imposed capital requirements which it has complied with for the entire year reported (2007: complied). The Parent has a facility agreement in place with ASB Bank Ltd as described previously.

4. Segmental information

4.1. Primary reporting format – business segments

At 31 March 2008, the Group is organised on a worldwide basis into one business segment: namely, the development and manufacture of electronic components for timing reference and frequency control. The segment result is reflected in the financial statements.

4.2. Secondary reporting format – geographical segments

The Group's business segment operates in four main geographical areas, even though it is managed on a worldwide basis.

The home country of the company, which is also the main operating company, is New Zealand. The Group's revenue is generated mainly from the manufacture of products in New Zealand and Europe for sales into global markets.

GROUP	2008 $000s	2007 $000s
Revenue by origin		
New Zealand	109,555	100,393
Europe	64,737	5,509
	174,292	105,902

Revenue is allocated above based on the country from which the products were distributed.

GROUP	2008 $000s	2007 $000s
Revenue by destination		
Asia	93,286	64,594
North America	37,911	26,786
Europe	37,599	11,684
Other countries	5,496	2,838
	174,292	105,902

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

GROUP	2008 $000s	2007 $000s
Total assets		
New Zealand	80,513	65,937
Europe	88,366	77,991
Other countries	54	78
	168,933	144,006
Joint venture	5,511	-
	174,444	144,006

Total assets are allocated based on where the assets are located.

GROUP	2008 $000s	2007 $000s
Capital expenditure		
New Zealand	10,710	11,387
Europe	3,208	58,468
Other countries	8,228	-
	22,146	69,855

Capital expenditure includes property, plant and equipment, intangible assets and assets acquired in a business combination and is allocated based on where the assets are located.

GROUP	2008 $000s	2007 $000s
Analysis of revenue by category		
Sale of goods	173,338	105,902
Revenue from services	954	-
	174,292	105,902

5. Other operating income

	GROUP		PARENT	
	2008 $000s	2007 $000s	2008 $000s	2007 $000s
Other dividend income	2	2	2	2
Rental income	19	-	19	-
Management fee received from subsidiaries	-	-	746	-
Other income	252	5	67	5
	273	7	834	7

6. Operating expenses

	GROUP		PARENT	
	2008 $000s	2007 $000s	2008 $000s	2007 $000s
Operating expense by function:				
Selling and marketing costs	12,555	5,713	6,229	5,120
Research and development	7,956	2,908	4,357	2,764
General and administration	32,690	17,013	17,835	16,189
	53,201	**25,634**	**28,421**	**24,073**
Operating expenses include:				
Net loss on sale of property, plant and equipment	3	(2)	3	(2)
Depreciation	5,436	2,961	4,165	2,894
Amortisation	2,459	706	705	585
Research and development	7,956	2,908	4,357	2,764
Rental expense on operating leases	2,761	1,074	1,206	919
Costs of offering credit				
Impairment loss on trade receivables	(68)	135	(133)	132
Bad debt write-offs	107	-	107	-
Governance expenses				
Directors' fees	304	207	304	207
Auditors' fees				
Audit services for current year – principal auditors	403	203	161	128
Audit services for completion of prior year overseas subsidiaries audits – principal auditors	111	-	-	-
Audit services – other auditors	4	5	-	-
Other services provided by principal auditors*	20	-	20	-
Sundry expenses				
Donations	5	1	5	1

*In addition to the audit fees noted above, fees paid to the company's auditors for due diligence activity amounted to $111,000 which was deferred pending project completion and included in prepayments (2007: $302,000, included within goodwill as directly attributable acquisition costs).

7. Other (losses)/gains – net

	GROUP		PARENT	
	2008 $000s	2007 $000s	2008 $000s	2007 $000s
Gain on disposal of intangibles, plant and equipment	3,058	-	-	-
Costs attributable to investment in joint venture and sale of intangibles, plant and equipment	(1,066)	-	-	-
Net gain of disposal of intangibles, plant and equipment	1,992	-	-	-
Foreign exchange (losses)/gains – net				
Forward foreign exchange contracts				
– held for trading	156	1,166	156	1,166
– net foreign exchange gains (note 11)	210	-	210	-
Trading foreign exchange	780	(1,540)	(1,214)	(1,573)
	1,146	(374)	(848)	(407)
	3,138	(374)	(848)	(407)

8. Employee benefits expenses

	GROUP		PARENT	
	2008 $000s	2007 $000s	2008 $000s	2007 $000s
Wages and salaries	47,935	26,161	28,534	25,172
Contributions to defined contribution plans	176	49	46	49
(Decrease)/increase in liability for French retirement indemnity plan (note 23)	(336)	-	-	-
(Decrease)/increase in liability for long service leave (note 23)	38	31	38	31
Employee share schemes	875	489	400	489
	48,688	26,730	29,018	25,741

9. Net finance (costs)/income

	GROUP		PARENT	
	2008 $000s	2007 $000s	2008 $000s	2007 $000s
Financial income				
Interest income on current and short-term bank accounts	920	330	912	331
Interest received on inter-company balances	-	-	344	-
	920	330	1,256	331
Fair value gains on interest rates swaps	(123)	143	(123)	143
Financial expenses				
Interest on bank borrowings	(1,059)	(691)	(599)	(676)
Net finance (costs)/income	(262)	(218)	534	(202)

10. Income tax expense

	GROUP		PARENT	
	2008 $000s	**2007 $000s**	**2008 $000s**	**2007 $000s**
Current tax	5,828	4,884	4,334	4,818
Deferred tax (note 24)	(286)	519	92	561
	5,542	5,403	4,426	5,379

The tax on the Group's profit before tax differs from the theoretical amount that would arise using the weighted average tax rate applicable to profits of the consolidated entities as follows:

	GROUP 2008 $000s	GROUP 2007 $000s	PARENT 2008 $000s	PARENT 2007 $000s
Profit before tax	16,393	15,809	13,292	15,602
Tax calculated at domestic tax rates applicable to profits in the respective countries	5,550	5,164	4,386	5,149
Impact of change in New Zealand tax rate	(28)	-	(28)	-
Expenses not deductible for tax purposes	384	143	384	158
Prior year adjustment	(142)	72	(142)	72
Utilisation of previously unrecognised tax losses	(222)	-	-	-
Tax losses transfers in	-	-	(174)	-
Tax losses for which no deferred income tax asset was recognised	-	24	-	-
Tax charge	5,542	5,403	4,426	5,379

The weighted average applicable tax rate was 34% (2007: 33%), Parent 33% (2007: 33%). The increase is caused by the elimination of the gain on disposal of intangibles and plant and equipment.

11. Net foreign exchange gains/(losses)

The total exchange differences arising on forward foreign exchange contracts used for hedge accounting (charged)/credited to the income statement are included as follows:

	GROUP		PARENT	
	2008 $000s	**2007 $000s**	**2008 $000s**	**2007 $000s**
Revenue	2,304	-	2,304	-
Cost of sales	(23)	-	(23)	-
Other (losses)/gains – net (note 7)	210	-	210	-
	2,491	-	2,491	-

12. Earnings per share

12.1. Basic

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the company by the weighted average number of ordinary shares on issue during the year.

GROUP	2008 $000s	2007 $000s
Profit attributable to equity holders of the Company	10,851	10,406
Weighted average number of ordinary shares on issue (thousands)	126,575	107,265
Basic earnings per share (cents per share)	8.6	9.7

12.2. Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Company has two categories of dilutive potential ordinary shares: redeemable ordinary share plan and share options. Both the redeemable ordinary shares and the share options are reviewed to determine the number of shares/options which would be exercisable based on comparing the benchmark price for each respective issue to the market share price.

GROUP	2008 $000s	2007 $000s
Profit attributable to equity holders of the Company	10,851	10,406
Weighted average number of ordinary shares on issue (thousands)	126,575	107,265
Adjustments for:		
Assumed conversion of redeemable ordinary shares (thousands)	1,081	964
Share options (thousands)	1,763	1,758
Weighted average number of ordinary shares for diluted earnings per share (thousands)	129,419	109,987
Diluted earnings per share (cents per share)	8.4	9.5

13. Cash and cash equivalents

	GROUP		PARENT	
	2008 $000s	2007 $000s	2008 $000s	2007 $000s
Cash at bank and on hand	1,157	2,333	455	1,128
Short term bank deposits	6,011	-	6,011	-
	7,168	2,333	6,466	1,128
Cash, cash equivalents and bank overdrafts include the following for the purposes of the cash flow statement:				
Cash and cash equivalents	7,168	2,333	6,466	1,128
Bank overdrafts (note 21)	(673)	(30)	-	(30)
	6,495	2,303	6,466	1,098

14. Trade and other receivables

	GROUP		PARENT	
	2008 $000s	2007 $000s	2008 $000s	2007 $000s
Trade receivables	27,555	28,848	14,111	14,325
Less: provision for impairment of trade receivables	(652)	(827)	(50)	(290)
Net trade receivables	26,903	28,021	14,061	14,035
Prepayments	4,668	3,934	2,126	890
GST receivable	471	781	469	765
Receivables from related parties (note 33)	6,769	-	1,611	13
Loans to related parties (note 33)	-	-	7,463	1,292
	38,811	**32,736**	**25,730**	**16,995**
Less non-current portion: loans to related parties	-	-	-	-
Current portion	**38,811**	**32,736**	**25,730**	**16,995**

The fair values of trade and other receivables are as follows:

	GROUP		PARENT	
	2008 $000s	2007 $000s	2008 $000s	2007 $000s
Trade receivables	26,903	28,021	14,061	14,035
Prepayments	4,668	3,934	2,126	890
GST receivable	471	781	469	765
Receivables from related parties	6,769	-	1,611	13
Loans to related parties	-	-	7,463	1,292
	38,811	**32,736**	**25,730**	**16,995**

At 31 March 2008, Rakon France SAS transferred receivable balances amounting to €1.4 million (2007: €0.5 million) to a bank in exchange for cash. The transactions have been accounted for as collateralised borrowing (note 21). In case the entities default under the loan agreement, the borrower has the right to receive the cash flows from the receivables transferred. Without default, the entities will collect the receivables and allocate new receivables as collateral.

As of 31 March 2008, trade receivables of Group: $21,952,000 (2007: $20,328,000), Parent: $11,627,000 (2007: $9,428,000) were fully performing.

As of 31 March 2008, trade receivables of Group: $4,905,000 (2007: $7,651,000), Parent: $2,389,000 (2007: $4,564,000) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default.

The aging analysis of these trade receivables is as follows:

	GROUP		PARENT	
	2008 $000s	2007 $000s	2008 $000s	2007 $000s
Up to 3 months	4,446	6,241	2,117	3,198
3 to 6 months	424	1,374	272	1,366
Over 6 months	35	36	-	-
	4,905	**7,651**	**2,389**	**4,564**

None of the financial assets that are fully performing have been renegotiated.

As of 31 March 2008, trade receivables of Group: $698,000 (2007: $869,000), Parent: $95,000 (2007: $333,000), were impaired and provided for. The amount of the provision was Group: $652,000 (2007: $827,000), Parent $50,000 (2007 $290,000). The impaired receivables relate mainly to customers who are in financial difficulty or dispute. It was assessed that a portion of the receivables is expected to be recovered.

The aging of these receivables is as follows:

	GROUP		PARENT	
	2008 $000s	2007 $000s	2008 $000s	2007 $000s
Up to 3 months	121	146	-	-
3 to 6 months	175	268	26	205
Over 6 months	402	455	69	128
	698	869	95	333

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

	GROUP		PARENT	
	2008 $000s	2007 $000s	2008 $000s	2007 $000s
NZ dollar	4,197	2,842	4,197	2,841
US dollar	22,724	23,327	14,057	13,908
Euro	10,303	4,834	7,465	66
UK pound	1,576	1,676	-	80
Other currencies	11	57	11	100
	38,811	32,736	25,730	16,995

Movements on the Group provision for impairment of trade receivables are as follows:

	GROUP		PARENT	
	2008 $000s	2007 $000s	2008 $000s	2007 $000s
At 1 April	827	158	290	158
Provision for receivables impairment	290	669	-	132
Receivables written off during the year as uncollectible	(107)	-	(107)	-
Unused amounts reversed	(360)	-	(133)	-
Foreign exchange movements	2	-	-	-
At 31 March	652	827	50	290

The creation and release of provision for impaired receivables have been included in 'costs of offering credit' in the income statement (note 6). Amounts charged to the allowance account are generally written off, when there is no expectation of recovering additional cash.

The other classes within trade and other receivables do not contain impaired assets.

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

15. Derivative financial instruments

GROUP AND PARENT	2008 Assets $000s	2008 Liabilities $000s	2007 Assets $000s	2007 Liabilities $000s
Interest rate swaps – held for trading	16	-	123	-
Forward foreign exchange contracts – held for trading	99	339	1,135	170
Forward foreign exchange contracts – cash flow hedges	1,063	31	-	-
	1,178	370	1,258	170

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

No ineffective portion was recognised in the profit and loss.

a) Forward foreign exchange contracts

The notional principal amounts of the outstanding forward foreign exchange contracts at 31 March 2008 were $38,615,000 (2007: $22,057,000).

The hedged highly probable forecast transactions denominated in foreign currency are expected to occur at various dates during the next 12 months. Gains and losses recognised in the hedging reserve in equity (note 28) on forward foreign exchange contracts as of 31 March 2008 will be recognised in the income statement in the period or periods during which the hedged forecast transaction affects the income statement.

b) Interest rate swaps

The notional principal amount of the outstanding interest rate swap contract at 31 March 2008 is $5,000,000 (2007: $5,000,000).

At 31 March 2008, the fixed interest rate was 5.84% (2007: 5.84%), and the floating rate was 8.85% (2007: 7.77%). Gains are recognised directly in the income statement.

The maximum exposure to credit risk at the reporting date is the value of the derivative assets' receivable portion of $30,602,000 (2007: $21,687,000).

16. Inventories

	GROUP		PARENT	
	2008 $000s	2007 $000s	2008 $000s	2007 $000s
Raw materials	22,079	17,402	15,939	13,979
Work in progress	15,872	10,149	6,516	6,488
Finished goods	6,780	7,247	3,528	2,927
	44,731	34,798	25,983	23,394

The cost of inventories recognised as expense and included in 'cost of sales' amounted to $81,214,000 (2007: $48,673,000), Parent $52,274,000 (2007: $46,258,000).

During the year, an inventory obsolescence expense totalling Group: $705,000 (2007: ($1,207,000)), Parent: $705,000 (2007: ($1,207,000)) was recognised and included in 'cost of sales'. An inventory obsolescence provision of Group: $2,068,000 (2007: $1,363,000), Parent: $2,032,000 (2007: $1,327,000), was included in the inventory figures above. This provision has been calculated on specific identification of items of inventories for which it is highly probable that the fair value is deemed to be lower than cost.

17. Financial instruments by category

The accounting policies for financial instruments have been applied to the line items below:

GROUP	Loans and receivables $000s	Assets at fair value through profit and loss $000s	Derivatives used for hedging $000s	Total $000s
31 March 2008				
Assets per balance sheet				
Derivative financial instruments	-	115	1,063	1,178
Trade and other receivables	34,143	-	-	34,143
Cash and cash equivalents	7,168	-	-	7,168
Total	41,311	115	1,063	42,489

	Liabilities at fair value through profit and loss $000s	Derivatives used for hedging $000s	Other financial liabilities $000s	Total $000s
Liabilities as per balance sheet				
Borrowings	-	-	8,673	8,673
Trade finance facility	-	-	3,288	3,288
Derivative financial instruments	339	31	-	370
Trade and other payables	-	-	14,705	14,705
	339	31	26,666	27,036

	Loans and receivables $000s	Assets at fair value through profit and loss $000s	Derivatives used for hedging $000s	Total $000s
31 March 2007				
Assets per balance sheet				
Derivative financial instruments	-	1,258	-	1,258
Trade and other receivables	28,802	-	-	28,802
Cash and cash equivalents	2,333	-	-	2,333
	31,135	1,258	-	32,393

	Liabilities at fair value through profit and loss $000s	Derivative used for hedging $000s	Other financial liabilities $000s	Total $000s
Liabilities as per balance sheet				
Borrowings	-	-	8,030	8,030
Collateralised borrowings	-	-	853	853
Derivative financial instruments	170	-	-	170
Trade and other payables	-	-	15,895	15,895
	170	-	24,778	24,948

PARENT	Loans and receivables $000s	Assets at fair value through profit and loss $000s	Derivatives used for hedging $000s	Total $000s
31 March 2008				
Assets per balance sheet				
Derivative financial instruments	-	115	1,063	1,178
Trade and other receivables	23,604	-	-	23,604
Cash and cash equivalents	6,466	-	-	6,466
	30,070	115	1,063	31,248

	Liabilities at fair value through profit and loss $000s	Derivatives used for hedging $000s	Other financial liabilities $000s	Total $000s
Liabilities as per balance sheet				
Borrowings	-	-	8,000	8,000
Derivative financial instruments	339	31	-	370
Trade and other payables	-	-	7,280	7,280
	339	31	15,280	15,650

	Loans and receivables $000s	Assets at fair value through profit and loss $000s	Derivatives used for hedging $000s	Total $000s
31 March 2007				
Assets per balance sheet				
Derivative financial instruments	-	1,258	-	1,258
Trade and other receivables	16,105	-	-	16,105
Cash and cash equivalents	1,128	-	-	1,128
	17,233	1,258	-	18,491

	Liabilities at fair value through profit and loss $000s	Derivative used for hedging $000s	Other financial liabilities $000s	Total $000s
Liabilities as per balance sheet				
Borrowings	-	-	8,030	8,030
Derivative financial instruments	170	-	-	170
Trade and other payables	-	-	6,542	6,542
	170	-	14,572	14,742

Credit quality of financial assets

Exposure to credit risk

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was as set out below other than for derivatives which is shown in note 15:

	GROUP		PARENT	
	Carrying amount 2008 $000s	Carrying amount 2007 $000s	Carrying amount 2008 $000s	Carrying amount 2007 $000s
Financial assets at fair value through profit or loss	115	1,258	115	1,258
Loans and receivables	34,143	28,802	23,604	16,105
Cash and cash equivalents	7,168	2,333	6,466	1,128
Forward exchange contracts used for hedging	1,063	-	1,063	-
	42,489	32,393	31,248	18,491

The maximum exposure to credit risk for trade receivables at the reporting date by geographic region is set out in note 14.

18. Property, plant and equipment

GROUP	Land and buildings $000s	Leasehold improvements $000s	Plant and equipment $000s	Computer hardware $000s	Other $000s	Assets under construction $000s	Total $000s
At 1 April 2006							
Cost	28	2,755	29,905	2,140	832	1,120	36,780
Accumulated depreciation	(1)	(1,761)	(18,452)	(1,711)	(611)	-	(22,536)
Net book value	**27**	**994**	**11,453**	**429**	**221**	**1,120**	**14,244**
Year ended 31 March 2007							
Opening net book value	27	994	11,453	429	221	1,120	14,244
Foreign exchange differences	15	1	2	-	4	-	22
Additions	-	540	6,322	626	72	2,825	10,385
Additions from business combinations	4,955	425	3,380	481	75	251	9,567
Disposals	-	-	(129)	(13)	-	-	(142)
Depreciation charge	(17)	(197)	(2,346)	(334)	(67)	-	(2,961)
Depreciation reversal on disposals	-	-	44	13	-	-	57
Transfer to finished assets	-	-	1,120	-	-	(1,120)	-
Closing net book amounts	**4,980**	**1,763**	**19,846**	**1,202**	**305**	**3,076**	**31,172**
At 31 March 2007							
Cost	4,998	3,720	40,600	3,234	983	3,076	56,611
Accumulated depreciation	(18)	(1,957)	(20,754)	(2,032)	(678)	-	(25,439)
Net book value	**4,980**	**1,763**	**19,846**	**1,202**	**305**	**3,076**	**31,172**
Year ended 31 March 2008							
Opening net book value	4,980	1,763	19,846	1,202	305	3,076	31,172
Foreign exchange differences	(350)	(219)	922	(416)	80	(37)	(20)
Additions	29	779	7,120	1,025	124	1,910	10,987
Disposals	-	(507)	(132)	(1,248)	(269)	-	(2,156)
Depreciation charge	(142)	(277)	(4,416)	(486)	(115)	-	(5,436)
Depreciation reversal on disposals	-	507	116	1,236	269	-	2,128
Transfer to finished assets	-	24	2,219	-	-	(2,243)	-
Closing net book amounts	**4,517**	**2,070**	**25,675**	**1,313**	**394**	**2,706**	**36,675**
At 31 March 2008							
Cost	4,677	3,797	50,729	2,595	918	2,706	65,422
Accumulated depreciation	(160)	(1,727)	(25,054)	(1,282)	(524)	-	(28,747)
Net book value	**4,517**	**2,070**	**25,675**	**1,313**	**394**	**2,706**	**36,675**

PARENT	Land and buildings $000s	Leasehold improvements $000s	Plant and equipment $000s	Computer hardware $000s	Other $000s	Assets under construction $000s	Total $000s
At 1 April 2006							
Cost	28	2,751	29,905	2,109	829	1,120	36,742
Accumulated depreciation	(1)	(1,758)	(18,452)	(1,678)	(610)	-	(22,499)
Net book value	**27**	**993**	**11,453**	**431**	**219**	**1,120**	**14,243**
Year ended 31 March 2007							
Opening net book value	27	993	11,453	431	219	1,120	14,243
Additions	-	540	6,322	620	72	2,808	10,362
Disposals	-	-	(44)	(8)	-	-	(52)
Depreciation charge	(2)	(196)	(2,305)	(328)	(63)	-	(2,894)
Depreciation reversal on disposals	-	-	44	8	-	-	52
Transfer to finished assets	-	-	1,120	-	-	(1,120)	-
Closing net book amounts	**25**	**1,337**	**16,590**	**723**	**228**	**2,808**	**21,711**
At 31 March 2007							
Cost	28	3,291	37,303	2,721	901	2,808	47,052
Accumulated depreciation	(3)	(1,954)	(20,713)	(1,998)	(673)	-	(25,341)
Net book value	**25**	**1,337**	**16,590**	**723**	**228**	**2,808**	**21,711**
Year ended 31 March 2008							
Opening net book value	25	1,337	16,590	723	228	2,808	21,711
Additions	29	779	5,705	866	124	1,533	9,036
Disposals	-	(507)	(132)	(1,128)	(269)	-	(2,036)
Depreciation charge	(7)	(259)	(3,409)	(425)	(65)	-	(4,165)
Depreciation reversal on disposals	-	507	116	1,116	269	-	2,008
Transfer to finished assets	-	24	1,916	-	-	(1,940)	-
Closing net book amounts	**47**	**1,881**	**20,786**	**1,152**	**287**	**2,401**	**26,554**
At 31 March 2008							
Cost	57	3,587	44,792	2,459	756	2,401	54,052
Accumulated depreciation	(10)	(1,706)	(24,006)	(1,307)	(469)	-	(27,498)
Net book value	**47**	**1,881**	**20,786**	**1,152**	**287**	**2,401**	**26,554**

The latest independent valuation of land and buildings at 44 Glaciére Avenue, Argenteuil, prepared by a registered independent valuer, in May 2008 records a value of €1,175,000. Government valuations are not performed in France.

The latest government valuation of land and buildings at Sadler Road, Lincoln, issued in 2005, records a value of £91,500. National Westminster Bank Plc holds a debenture over the assets and undertakings of Rakon UK Limited and Rakon Europe Limited.

19. Intangibles

GROUP	Goodwill $000s	Trademarks $000s	Patents $000s	Order backlogs $000s	Software $000s	Product development $000s	Assets under construction $000s	Total $000s
At 1 April 2006								
Cost	-	-	-	-	2,614	-	-	2,614
Accumulated amortisation	-	-	-	-	(1,979)	-	-	(1,979)
Net book value	**-**	**-**	**-**	**-**	**635**	**-**	**-**	**635**
Year ended 31 March 2007								
Opening net book value	-	-	-	-	635	-	-	635
Foreign exchange differences	(881)	(21)	(132)	(36)	-	-	-	(1,070)
Additions	-	-	-	-	1,033	-	-	1,033
Additions from business combination	35,060	731	4,630	1,278	118	-	-	41,817
Amortisation charge	-	(8)	(37)	(73)	(588)	-	-	(706)
Closing net book amounts	**34,179**	**702**	**4,461**	**1,169**	**1,198**	**-**	**-**	**41,709**
At 31 March 2007								
Cost	34,179	710	4,498	1,242	3,765	-	-	44,394
Accumulated amortisation	-	(8)	(37)	(73)	(2,567)	-	-	(2,685)
Net book value	**34,179**	**702**	**4,461**	**1,169**	**1,198**	**-**	**-**	**41,709**
Year ended 31 March 2008								
Opening net book value	34,179	702	4,461	1,169	1,198	-	-	41,709
Foreign exchange differences	(2,445)	(57)	(346)	(56)	(51)	-	-	(2,955)
Additions	-	-	-	-	779	1,587	565	2,931
Disposals	-	-	-	-	(628)	-	-	(628)
Amortisation charge	-	(456)	(433)	(842)	(728)			(2,459)
Amortisation reversal on disposals	-	-	-	-	628	-	-	628
Closing net book amounts	**31,734**	**189**	**3,682**	**271**	**1,198**	**1,587**	**565**	**39,226**
At 31 March 2008								
Cost	31,734	653	4,152	1,186	3,865	1,587	565	43,742
Accumulated amortisation	-	(464)	(470)	(915)	(2,667)	-	-	(4,516)
Net book value	**31,734**	**189**	**3,682**	**271**	**1,198**	**1,587**	**565**	**39,226**

PARENT	Goodwill $000s	Trademarks $000s	Patents $000s	Order backlogs $000s	Software $000s	Product development $000s	Assets under construction $000s	Total $000s
At 1 April 2006								
Cost	-	-	-	-	2,614	-	-	2,614
Accumulated amortisation	-	-	-	-	(1,979)	-	-	(1,979)
Net book value	-	-	-	-	635	-	-	635
Year ended 31 March 2007								
Opening net book value	-	-	-	-	635	-	-	635
Foreign exchange differences	-	-	-	-	-	-	-	-
Additions	-	-	-	-	1,028	-	-	1,028
Amortisation charge	-	-	-	-	(584)	-	-	(584)
Closing net book amounts	-	-	-	-	1,079	-	-	1,079
At 31 March 2007								
Cost	-	-	-	-	3,642	-	-	3,642
Accumulated amortisation	-	-	-	-	(2,563)	-	-	(2,563)
Net book value	-	-	-	-	1,079	-	-	1,079
Year ended 31 March 2008								
Opening net book value	-	-	-	-	1,079	-	-	1,079
Foreign exchange differences	-	-	-	-	-	-	-	-
Additions	-	-	-	-	596	513	565	1,674
Disposals	-	-	-	-	(626)	-	-	(626)
Amortisation charge	-	-	-	-	(705)	-	-	(705)
Amortisation reversal on disposals	-	-	-	-	626	-	-	626
Closing net book amounts	-	-	-	-	970	513	565	2,048
At 31 March 2008								
Cost	-	-	-	-	3,612	513	565	4,690
Accumulated amortisation	-	-	-	-	(2,642)	-	-	(2,642)
Net book value	-	-	-	-	970	513	565	2,048

The remaining amortisation period is:

- Trademarks five months
- Patents six years
- Order backlogs six months
- Software three years
- Product development five to seven years

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:

GROUP	2008 $000s	2007 $000s
New Zealand	9,520	10,254
United Kingdom	19,675	21,191
France/India	2,539	2,734
	31,734	34,179

The recoverable amount of a CGU is determined based on value-in-use calculations. In addition, fair value less costs of sale basis has been considered for Rakon Europe Limited which is included as part of the United Kingdom CGU.

These calculations use post-tax cash flow projections based on financial budgets and models approved by management covering a ten year period. Cash flows beyond the ten year period are extrapolated using the estimated growth rates stated below. The growth rates do not exceed the long-term average growth rate for the frequency control products business in which the CGU operates.

Key assumptions used in value-in-use calculations

The calculations are most sensitive to the following key assumptions:

	New Zealand	United Kingdom	France
Growth rate	3%	2.5%	2%
Discount rate	12.6%	10.7%	9.7%

Gross margin – Management determined budgeted gross margin based on past performance and its expectations of market development. Gross margins are assumed to reduce over the period of the cash flow projection reflecting the continuing reduction in selling prices in alignment with current trends. Anticipated efficiency and raw material costs improvements have also been factored into these gross margins.

Discount rates – Discount rates reflect management's estimate of the risks specific to each unit. This is the benchmark used by management to assess operating performance and to evaluate future investment proposals. In determining appropriate discount rates for each unit, regard has been given to the yield on a ten-year government bond at the beginning of the budgeted year.

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

Sensitivity to changes in assumptions

With regard to the assessment of value in use of the New Zealand and UK business units, management believes that no reasonably possible change in any of the above key assumptions would cause the carrying value of the unit to materially exceed its recoverable amount.

For the France/India business unit, there are reasonably possible changes in key assumptions which could cause the carrying value of the unit to exceed its recoverable amount. The value in use amount for the France/India business unit exceeds its carrying amount by $1.6 million using the base assumptions.

The implications of the key assumptions on the recoverable amount are discussed below.

Gross margin assumptions – Management recognises that the transfer of high volume production items from France to India can have a significant impact on gross margin assumptions. The effect of this is not expected to impact adversely on forecasts included in the budget, but could yield a reasonably possible alternative to the estimated long-term profitability. A reduction of 80 percentage points in gross margin on the Group's share of profits from the Indian operations would give a value in use equal to the carrying amount of the France/India business unit.

20. Interest in joint venture

	GROUP		PARENT	
	2008 $000s	2007 $000s	2008 $000s	2007 $000s
Beginning of year	-	-	-	-
Acquisition of joint venture	8,228	-	-	-
Elimination of gain realised by Rakon France	(2,938)	-	-	-
Share of (loss)/profit	-	-	-	-
Foreign exchange differences	221	-	-	-
End of year	5,511	-	-	-

The Group has a 49% interest in a joint venture, Centum Rakon India Private Limited, which provides products and services to the frequency control products industry. The Group invested $8,228,000 into the joint venture on 25 March 2008. A portion of this funding was used to purchase intangibles and plant and machinery from Rakon France SAS resulting in a gain on sale. From a Group perspective, 49% of this gain is unrealised and therefore this has been eliminated from the Group's profit.

The interest in joint venture at 31 March 2008 includes goodwill of $3,672,000 (2007: $Nil).

2008	Country of incorporation	Assets	Liabilities	Revenues	Profit/(loss)	% interest held
Name						
Centum Rakon India Private Limited	India	21,002	(11,625)	-	-	49%

Capital commitments

At 31 March 2008, Rakon had committed to invest a further €1.76 million, by way of a loan, in the joint venture.

Centum Rakon India Private Limited had capital expenditure contracted for at balance sheet date but not yet incurred totalling €2.6 million, including assets to be acquired from Rakon France SAS.

Contingencies

There are no contingent liabilities relating to the Group's interest in the joint venture, and no contingent liabilities of the venture itself.

21. Borrowings

	GROUP		PARENT	
	2008 $000s	2007 $000s	2008 $000s	2007 $000s
Current				
Bank overdrafts	673	30	-	30
Collateralised borrowings	3,288	853	-	-
Bank borrowings	-	-	-	-
	3,961	883	-	30
Non-current				
Bank borrowings	8,000	8,000	8,000	8,000

Bank borrowings

Bank borrowings mature in 2010 and bear average interest rates of 8.71% annually (2007: 8.30% annually).

Total borrowings include secured liabilities (bank and collateralised borrowings) of $11,961,000 (2007: $8,883,000). Bank borrowings are secured by first mortgage over all the undertakings of Rakon Limited and any other wholly owned present and future subsidiaries. Collateralised borrowings are secured by trade receivables (note 14). The collateralised borrowings bear average interest rates of 4.16% annually (2007: 3.90%).

The exposure of the Group's borrowings to interest rate changes and the contractual repricing dates at the balance sheet dates are as follows:

	GROUP		PARENT	
	2008 $000s	**2007 $000s**	**2008 $000s**	**2007 $000s**
6 months or less	3,961	883	-	30
6–12 months	-	-	-	-
1–5 years	8,000	8,000	8,000	8,000
Over 5 years	-	-		-
	11,961	8,883	8,000	8,030

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

GROUP AND PARENT	**Carrying amount 2008 $000s**	**Carrying amount 2007 $000s**	**Fair value 2008 $000s**	**Fair value 2007 $000s**
Bank borrowings	8,000	8,000	8,000	8,000

The fair value of current borrowings equals the carrying amount, as the impact of discounting is not significant. The fair value of the non-current bank borrowings equals the carrying amount as interest is charged at market rates.

The carrying amounts of the Group's borrowings are denominated in the following currencies:

	GROUP		PARENT	
	2008 $000s	**2007 $000s**	**2008 $000s**	**2007 $000s**
NZ dollar	8,000	8,030	8,000	8,030
Euro	3,288	853	-	-
UK pound	673	-	-	-
	11,961	8,883	8,000	8,030

22. Trade and other payables

	GROUP		PARENT	
	2008 $000s	2007 $000s	2008 $000s	2007 $000s
Trade payables	14,170	15,895	6,527	6,139
Amounts due to related parties	-	-	218	402
Employee entitlements	5,929	4,998	2,875	2,213
Accrued expenses	3,474	6,053	1,577	3,815
	23,573	26,946	11,197	12,569

23. Provisions for other liabilities and charges

GROUP	Long service leave $000s	Retirement provision $000s	Total $000s
At 1 April 2007	151	1,743	1,894
Charged/(credited) to the income statement:			
– additional provisions	62	-	62
– unused amount reversed	-	(336)	(336)
Used during the year	(24)	(161)	(185)
Foreign exchange differences	-	188	188
At 31 March 2008	189	1,434	1,623

PARENT	Long service leave $000s	Retirement provision $000s	Total $000s
At 1 April 2007	151	-	151
Charged/(credited) to the income statement:			
– additional provisions	62	-	62
Used during the year	(24)	-	(24)
At 31 March 2008	189	-	189

Long service leave

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

The amount to be settled within the next 12 months cannot be determined.

France provision for retirement

French employees are entitled to a retirement pay-out once they have met specific criteria. This is a one-off payment based on service time at retirement date. A provision has been created to recognise this cost, taking into consideration the time served, probability of attainment and discount rates. An actuarial valuation was preformed by ADP in March 2008.

The amount to be settled within the next 12 months cannot be determined.

24. Deferred income tax

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

	GROUP		PARENT	
	2008 $000s	2007 $000s	2008 $000s	2007 $000s
Deferred tax assets:				
Deferred tax asset to be recovered within 12 months	(949)	(898)	(949)	(898)
Deferred tax liabilities:				
Deferred tax liability to be recovered after more than 12 months	2,368	2,558	1,467	1,365
Deferred tax liability to be recovered within 12 months	7	262	-	-
Net deferred tax liabilities	1,426	1,922	518	467

The gross movement on the deferred income tax account is as follows:

	GROUP 2008 $000s	GROUP 2007 $000s	PARENT 2008 $000s	PARENT 2007 $000s
Beginning of year	1,922	(94)	467	(94)
Foreign exchange differences	(169)	(61)	-	-
Change of tax rate	(41)	-	(41)	-
Acquisition of subsidiaries (note 31)	-	1,558	-	-
Income statement charge (note 10)	(286)	519	92	561
End of year	1,426	1,922	518	467

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

GROUP	Property, plant and equipment $000s	Intangibles $000s	Employee benefits $000s	Other $000s	Total $000s
At 1 April 2006	1,145	-	(403)	(836)	(94)
Credited/(charged) to income statement	265	(38)	(87)	379	519
Acquired in business combination	(95)	1,991	(45)	(293)	1,558
Foreign exchange differences		(54)	(1)	(6)	(61)
At 31 March 2007	1,315	1,899	(536)	(756)	1,922
Change in tax rate	(126)	-	43	42	(41)
Credited/(charged) to income statement	485	(413)	(116)	(242)	(286)
Foreign exchange differences	(8)	(155)	(5)	(1)	(169)
At 31 March 2008	1,666	1,331	(614)	(957)	1,426

PARENT	Property, plant and equipment $000s	Intangibles $000s	Employee benefits $000s	Other $000s	Total $000s
At 1 April 2006	1,145	-	(403)	(836)	(94)
Credited/(charged) to income statement	262	-	(72)	371	561
At 31 March 2007	1,407	-	(475)	(465)	467
Change in tax rate	(126)	-	43	42	(41)
Credited/(charged) to income statement	449	-	(129)	(228)	92
At 31 March 2008	1,730	-	(561)	(651)	518

Deferred income tax assets are recognised for tax loss carry-forwards to the extent that the realisation of the related tax benefit through the future tax profits is probable. The Group did not recognise deferred income tax assets of €3.2 million (2007: €8.9 million) in respect of losses amounting to €9.5 million (2007: €26.1 million) that can be carried forward against future taxable income. During the current year, the Rakon France companies were amalgamated into Rakon France Holdings SAS (subsequently renamed Rakon France SAS). The amalgamation may have an impact on the tax losses available; the figures above are the minimum amounts which can be carried forward. We are awaiting confirmation from the French Tax Authorities of the actual losses to be carried forward which may be higher than those currently disclosed. These losses have no expiry date.

25. Imputation balances

	GROUP		PARENT	
	2008 $000s	2007 $000s	2008 $000s	2007 $000s
Imputation credit account				
Balance at beginning of year	5,368	5,382	5,368	5,382
Loss of imputation credits due to shareholding change	-	(5,382)	-	(5,382)
Tax payments, net of refunds	5,362	5,368	5,362	5,368
Imputation credits attached to dividends paid	-	-	-	-
Balance at end of year	10,730	5,368	10,730	5,368

26. Share capital

	Number of shares	GROUP Ordinary shares $000s	PARENT Ordinary shares $000s
At 1 April 2006[1]	100,000,000	13,136	13,136
Shares issued:			
– ordinary shares	21,064,815	70,000	70,000
Share issuance costs	-	(2,303)	(2,303)
At 31 March 2007	121,064,815	80,833	80,833
Shares issued:			
– ordinary shares	5,456,006	22,097	22,097
– redemption of redeemable ordinary shares to ordinary shares	22,537	35	35
– employee share option scheme	248,059	262	262
Share issuance costs	-	(66)	(66)
At 31 March 2008	126,791,417	103,161	103,161

1 On 13 April 2006, Rakon undertook a share split of 311.394549 to 1. The figure above is post this split.

On 10 April 2007, Rakon issued 5,456,006 ordinary shares under the Rakon Share Purchase Plan. Eligible shareholders were able to purchase shares up to a value of $5,000 at a share price of $4.05 per share.

At 31 March 2008, the total authorised number of ordinary shares is 127,868,880 shares (2007: 122,164,812):

- 125,971,281 are fully paid (2007: 120,205,675);
- 820,136 unpaid ordinary shares were on issue and held in trust on behalf of participants in the Rakon Share Plan (2007: 859,137);
- 1,077,463 redeemable ordinary shares were on issue and held in trust on behalf of participants in the Rakon Share Growth Plan (31 March 2007: 1,100,000).

Partial payments received from Rakon Share Growth Plan participants of $108,000 at 31 March 2008 are recorded within trade and other payables (31 March 2007: $55,000).

Rakon Share Plan

Rakon Limited has 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 on 17 March 2006. Following the 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. A loan facility provided by Rakon Limited to participating employees in respect of these shares totals $520,000 (2007: $520,000). Loans are provided on an interest free basis and the employee may repay all or part of the loan at any time. In June 2007, the loan pertaining to 39,001 shares was fully repaid and these shares were transferred to an employee under this plan. No repayments were due at 31 March 2008 (31 March 2007: $Nil). The Trust Deed makes provision for the Company to require repayment of the loans in certain circumstances. As at 31 March 2008, 820,136 (31 March 2007: 859,137) shares were held by Rakon ESOP Trustee Limited.

Shares issued under the Share Plan are held on trust by Rakon ESOP Trustee Limited. Following completion of an 18 month restrictive period, which concluded on 8 September 2007, a participating manager may request the Trustee to transfer the relevant shares to him or her. The Trustee will not transfer the shares to a participating manager until the loan to that manager has been repaid in full.

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

Shares held by the Share Plan represent approximately 0.65% of the Company's total shares on issue as at balance date (2007: 0.70%).

Rakon Share Growth Plan

Rakon Limited has established a Share Growth Plan to enable selected senior executives of Rakon Limited to acquire shares in the Company through the Plan Trustee, Rakon PPS Trustee Limited. On 5 May 2006 Rakon issued 1.1 million Plan Shares; the shares had an issue price of $1.60, with $0.05 per share being received from participating executives on issuance. While the Plan Shares remain held by the Trustees, an annual payment of $0.05 per share is required.

The Plan rules provide for the transfer of these shares over a three year period provided they are paid in full and the share price equals or exceeds a benchmark price at the time of transfer. The benchmark price requires that Rakon's share price increases by a compound rate of 14% per annum from the date of issue of the shares. An executive will cease to be entitled to require the Trustee to transfer any relevant shares to the executive if the request is not made before the fourth anniversary of the issue date or if they cease to be an employee of the Company other than by reason of death or total and permanent disablement. In either of these instances, the Trustee will redeem the shares.

The Plan Shares do not carry any voting rights until such time as the holder elects for the relevant shares to carry voting rights to the extent of the proportion of the issue price paid up on the shares. No such elections have been made.

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

In May 2007, 22,537 redeemable ordinary shares were fully paid up and converted to ordinary shares in the name of the participant. At 31 March 2008, 1,077,463 redeemable ordinary shares (31 March 2007: 1,100,000) were held by Rakon PPS Trustee Limited.

	31 March 2008		31 March 2007	
	Share price*	Number of shares 000s	Share price*	Number of shares 000s
Opening balance	1.60	1,100	-	-
Granted	-	-	1.60	1,100
Exercised	1.60	(23)	-	-
Balance outstanding	**1.60**	**1,077**	**1.60**	**1,100**

* Weighted average

Participants have until May 2010 to convert the redeemable ordinary shares to ordinary shares.

No redeemable ordinary shares were granted during the period. The weighted average fair value of redeemable ordinary shares granted during 2007 using the Black-Scholes valuation model was $0.28. The significant inputs into the model were weighted average share price of $1.60 at the grant date, exercise price shown above, volatility of 35%, dividend yield of 0%, an average expected option life of two years and an annual risk-free interest rate of 6.5%. The volatility was measured at the standard deviation of continuously compounded share returns based on statistical analysis of daily share prices since listing. See note 8 for the total expense recognised in the income statement for redeemable ordinary shares granted to employees.

There have been no allocations since year-end.

Rakon Employee Share Option Scheme

In May 2006 Rakon established an employee share option scheme. Each option granted will convert to one ordinary share on exercise. A participant may exercise a third of his or her options any time after the first, second and third anniversaries subject to the weighted average share price on the 10 days preceding the date of exercise exceeding a benchmark price. The benchmark price requires that Rakon's share price increases by a compound rate of 14% per annum from the date of issue of the option. Options lapse on their fourth anniversary. Participants also have the option to cancel options whereby they will be issued shares to the value of the gain that would have been received had the options been exercised.

During the year to 31 March 2008, 1,483,620 (year to 31 March 2007: 2,034,000) options were issued to selected employees.

	31 March 2008		31 March 2007	
	Option price*	Number of options 000s	Option price*	Number of options 000s
Opening balance	1.66	2,034	-	-
Granted	4.39	1,483	1.66	2,034
Exercised	1.68	(302)	-	-
Cancelled	1.60	(53)	-	-
Balance outstanding	**2.94**	**3,162**	**1.66**	**2,034**

* Weighted average

Out of 3,162,160 outstanding options (2007: 2,034,000 options), 351,000 options (2007: nil) were exercisable. Options exercised in 2008 resulted in 248,059 shares (2007: 0 shares) being issued; 141,813 options were exercised at a weighted average price of $1.60 each and 160,317 options were converted into 106,246 shares for nil consideration. The related weighted average share price at the time of exercise was $5.16 per share. Share options totalling 53,330 were cancelled due to holders leaving employment.

Share options outstanding at the end of the year have the following expiry date and exercise prices:

Expiry date	Exercise price	Share options 2008	Share options 2007
Year ended 31 March 2011	1.60-2.85	1,678,540	2,034,000
Year ended 31 March 2012	4.31-4.44	1,483,620	-
		3,162,160	2,034,000

The weighted average fair value of options granted during the period determined using the Black-Scholes valuation model was $0.72 per option (2007: $0.32). The significant inputs into the model were weighted average share price of $4.85 (2007: $1.69) at the grant date, exercise price shown above, volatility of 32% (2007: 35%), dividend yield of 0% (2007: 0%), an average expected option life of two years and an annual risk-free interest rate of 7.2% (2007: 6.5%). The volatility was measured at the standard deviation of continuously compounded share returns based on statistical analysis of daily share prices since listing. See note 8 for the total expense recognised in the income statement for share options granted to employees.

There have been no allocations since year end.

27. Retained earnings

	GROUP $000s	PARENT $000s
At 1 April 2006	10,955	10,826
Profit for the year	10,406	10,223
At 31 March 2007	21,361	21,049
Profit for the year	10,851	8,866
At 31 March 2008	32,212	29,915

28. Other reserves

GROUP	Hedging reserve $000s	Translation $000s	Other $000s	Total $000s
Balance at 1 April 2006	-	-	-	-
Currency translation differences				
– Group	-	(1,544)	-	(1,544)
Other				
– fair value of share options issued	-	-	489	489
Balance at 31 March 2007	-	(1,544)	489	(1,055)
Cash flow hedges:				
– fair value gains in year	3,271	-	-	3,271
– tax on fair value gains	(1,050)	-	-	(1,050)
– transfers to sales	(2,304)	-	-	(2,304)
– transfers to cost of sales	23	-	-	23
– tax on transfers to income tax expense	753	-	-	753
Currency translation differences				
– Group	-	(4,049)	-	(4,049)
Other				
– fair value of share options issued	-	-	875	875
Balance at 31 March 2008	693	(5,593)	1,364	(3,536)

PARENT	Hedging reserve $000s	Translation $000s	Other $000s	Total $000s
Balance at 1 April 2006	-	-	-	-
Other				
– fair value of share options issued	-	-	489	489
Balance at 31 March 2007	-	-	489	489
Cash flow hedges:				
– fair value gains in year	3,271	-	-	3,271
– tax on fair value gains	(1,050)	-	-	(1,050)
– transfers to sales	(2,304)	-	-	(2,304)
– transfers to cost of sales	23	-	-	23
– tax on transfers to income tax expense	753	-	-	753
Other				
– fair value of share options issued	-	-	875	875
Balance at 31 March 2008	693	-	1,364	2,057

29. Contingencies

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

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

30. Commitments

Capital commitments

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

	GROUP		PARENT	
	2008 $000s	2007 $000s	2008 $000s	2007 $000s
Property, plant and equipment	3,736	720	3,625	286
	3,736	720	3,625	286

Operating lease commitments – Group company as lessee

The Group leases various factories, offices and warehouses under non-cancellable operating lease agreements. The lease terms are between two and 10 years and the majority of lease agreements are renewable at the end of the lease period at market rate.

The Group also leases motor vehicles under operating lease agreements. The lease terms are between three and four years. The lease expenditure charged to the income statement during the year is disclosed in note 6.

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

	GROUP		PARENT	
	2008 $000s	2007 $000s	2008 $000s	2007 $000s
No later than 1 year	1,345	1,468	1,290	984
Later than 1 year and no later than 5 years	4,102	3,408	3,905	2,542
Later than 5 years	2,407	3,011	2,230	1,841
	7,854	7,887	7,425	5,367

31. Business combinations

Current year

On 25 March 2008, the Group acquired 49% of the shares (through Rakon (Mauritius) Limited) of Centum Frequency Products Private Limited for cash consideration of $8.2 million. Centum Frequency Products Private Limited was subsequently renamed on 15 April 2008 to Centum Rakon India Private Limited.

No operating profit after taxation has been equity accounted into the Group financial statements.

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

	Acquiree's carrying amount $000s	Preliminary fair value $000s
Cash and cash equivalents	100	100
Short term deposits	4,018	4,018
Trade and other receivables	1,015	1,015
Inventories	903	903
Property, plant and equipment	788	788
Intangibles	5	5
Order backlog	-	54
Borrowings	(1,773)	(1,773)
Trade and other payables	(554)	(554)
Net identifiable assets acquired	**4,502**	**4,556**

These values have been determined provisionally based on the current available information. At the approval date of these financial statements, the income tax liabilities for Centum Rakon India Private Limited were not available.

Details of net assets acquired and goodwill were as follows:

Purchase consideration:	**$000s**
– cash paid	8,228
Total purchase consideration	**8,228**
– fair value of net identifiable assets acquired (see above)	4,556
Goodwill included in the Interest in joint venture (note 20)	**3,672**

The goodwill is attributable to the workforce of Centum Rakon India Private Limited and the significant synergies expected to arise from the joint venture.

Prior year

On 2 March 2007, the Group acquired 100% of the shares (through Rakon UK Holdings Limited) of:

- C-MAC Frequency Products Limited (renamed Rakon Europe Limited);
- C-MAC Quartz Crystals Limited (renamed Rakon UK Limited); and
- C-MAC Holdings SAS (renamed Rakon France Holdings SAS),

for cash consideration of $58 million.

The operating result of Rakon UK Holdings Limited Group, consisting of an operating deficit after taxation of $237,068 for the period from 2 March 2007, was included in the Group statement of financial performance for the year ended 31 March 2007.

Details of net assets acquired and goodwill were as follows:

Purchase consideration:	**$000s**
– cash paid	53,848
– direct costs relating to the acquisition	4,220
Total purchase consideration[1]	58,068
– fair value of net identifiable assets acquired (see below)	23,008
Goodwill	**35,060**

1 The total purchase consideration included net cash and cash equivalents and borrowings of ($182,000); resulting in total net cash consideration of $58,250,000.

The goodwill is attributable to C-MAC's strong product technology and innovations and the significant synergies expected to arise after its acquisition by the Group.

The assets and liabilities arising from the acquisition were as follows:

	Acquiree's carrying amount $000s	**Preliminary fair value $000s**	**Final fair value $000s**
Cash and cash equivalents	114	114	295
Trade and other receivables	17,918	17,918	15,874
Inventories	11,125	11,125	11,125
Property, plant and equipment	9,567	9,567	9,567
Intangible assets	118	118	118
Patents	-	4,630	4,630
Trademarks	-	731	731
Order backlogs	-	1,278	1,278
Borrowings	(296)	(296)	(296)
Trade and other payables	(14,158)	(14,158)	(13,761)
Provision	(1,778)	(1,778)	(1,778)
Current income tax liabilities	(3,217)	(3,217)	(3,217)
Net deferred tax	434	(1,558)	(1,558)
Net identifiable assets acquired	19,827	24,474	23,008

Finalisation of the working capital completion process and revision of the preliminary amounts was completed on 2 March 2008, and no further exchange of monies was made; however, the finalisation resulted in the following adjustments being made:

	Adjustments $000s
Increase to cash and cash equivalents	181
Decrease to trade and other receivables	(2,044)
Decrease to trade and other payables	397
Increase to goodwill	1,466
	-

32. Investments in subsidiaries

PARENT	2008 $000s	2007 $000s
Cost of investments		
Rakon Financial Services Limited	26,924	26,924
Rakon UK Holdings Limited	31,152	31,116
Rakon (Mauritius) Limited	8,228	-
	66,304	58,040

Significant subsidiaries comprise:

Name of entity	Principal activities	Country of incorporation	Balance date	Interest held by Group (%) 2008	2007
Rakon America LLC	Marketing support	USA	31 March	100	100
Rakon Singapore (Pte) Limited	Marketing support	Singapore	31 March	100	100
Rakon Financial Services Limited	Financing	New Zealand	31 March	100	100
Rakon ESOP Trustee Limited	Share trustee	New Zealand	31 March	-	-
Rakon PPS Trustee Limited	Share trustee	New Zealand	31 March	-	-
Rakon International Limited	Marketing support	New Zealand	31 March	100	100
Rakon UK Holdings Limited	Holding company	United Kingdom	31 March	100	100
Rakon UK Limited	Manufacturing and sales	United Kingdom	31 March	100	100
Rakon Europe Limited	Sales	United Kingdom	31 March	100	100
Rakon France Holdings SAS (renamed Rakon France SAS)	Manufacturing and sales (formerly holding company)	France	31 March	100	100
Rakon France SAS (merged)	Manufacturing and sales	France	31 March	-	100
Argenteuil SAS (merged)	Property holding	France	31 March	-	100
Rakon HK Limited	Holding company	Hong Kong	31 March	100	-
Rakon (Mauritius) Limited	Holding company	Mauritius	31 March	100	-

On 28 March 2008, the three French companies, Rakon France Holdings SAS, Rakon France SAS and Argenteuil SAS, were merged into the parent entity Rakon France Holdings SAS which was renamed Rakon France SAS.

On 25 February 2008, Rakon (Mauritius) Limited was incorporated in Mauritius. On 25 September 2007, Rakon HK Limited was incorporated in Hong Kong.

On 6 April 2006, Rakon International Limited was incorporated in New Zealand, with a United Kingdom branch established on 5 June 2006; this was subsequently closed in April 2007. On 29 November 2007, a Malaysian branch of Rakon International Limited was established and, on 17 March 2008, a Korean branch was established. On 30 November 2006, Rakon UK Holdings Limited was incorporated in the United Kingdom. On 27 February 2007, Rakon Financial Services Limited was incorporated in New Zealand.

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

33. Related party information

Rakon Limited leases premises from Trident Investments Limited ('Trident'). Trident is owned by three directors of Rakon Limited (Warren Robinson, Brent Robinson and Darren Robinson). Normal commercial lease agreements are in place for the premises. The lease costs charged by Trident Investments Limited to Rakon Limited for the year are $587,000 (31 March 2007: $581,817). Lease charges are payable in advance on the first day of each month; no amounts are outstanding at 31 March 2008 (31 March 2007: $Nil).

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

On 25 March 2008, Rakon Limited obtained a 49% share in Centum Rakon India Private Limited; Rakon Limited's subsidiaries, Rakon UK Limited and Rakon France SAS will sell and purchase goods and services from Centum Rakon India Private Limited. For the period from 25 March 2008 to 31 March 2008, there were no sales of goods and services between these entities. On 25 March 2008, Rakon France SAS sold intangibles and plant and equipment to Centum Rakon India Private Limited; some further plant and equipment will be sold in the 2009 financial year.

Goods are sold based on the price lists in force and terms that would be available to third parties. Sales of goods and services are negotiated with related parties on a cost-plus basis, allowing a margin ranging from 10% to 35%.

Key management compensation

	GROUP		PARENT	
	2008 $000s	**2007 $000s**	**2008 $000s**	**2007 $000s**
Salaries and other short-term employee benefits	2,723	1,904	1,679	1,645
Share based payments	171	125	74	111
	2,894	2,029	1,753	1,756

Year-end balances arising from sale/purchase of goods/services and plant, equipment and intangibles

	2008 $000s	**2007 $000s**
Receivables from Centum Rakon India Private Limited:		
Rakon France SAS for sale of intangibles and plant and equipment	6,769	-
Net payable to Centum Rakon India Private Limited		
Rakon UK Limited payable	767	-
Rakon UK Limited receivable	(93)	-
	674	-

The receivable from Centum Rakon India Private Limited arises from the sale of plant, equipment and intangibles. The receivable is unsecured in nature and bears no interest. This amount was received by Rakon France in May 2008.

The payable to Centum Rakon India Private Limited arises from purchase transactions and are all due two months after the date of purchase. The payable bears no interest.

PARENT	2008 $000s	2007 $000s
Sales to related parties	975	-
Purchases from related parties	(38)	-
Marketing support charges	(2,260)	(2,045)
Interest charges	367	-
Management charges	746	-
Employee share schemes	475	-
Net income statement impact	**265**	**(2,045)**
Receivables from subsidiaries:		
Rakon France SAS	551	-
Rakon France SAS for funding	7,463	-
Rakon Europe Limited	664	-
Rakon Europe Limited for working capital funding	-	386
Rakon UK Limited	376	-
Rakon UK Limited for working capital funding	-	906
Rakon (Mauritius) Limited	20	-
Rakon International Limited	-	13
	9,074	**1,305**
Payables to subsidiaries:		
Rakon Singapore (Pte) Limited	136	49
Rakon America LLC	30	161
Rakon UK Limited	34	-
Rakon Europe Limited	12	-
Rakon France SAS	6	192
	218	**402**

Inter-company funding is repayable on demand and incurs interest at the relevant three-month LIBOR rate plus a margin applicable for a BB+ rates security.

Inter-company charges, sales and purchases bear no interest and are repayable on 90 day payment terms.

34. Explanation of transition to NZ IFRS

The Group's financial statements for the year ending 31 March 2008 are the Group's first annual financial statements that comply with NZ IFRS. They are also covered by NZ IFRS 1 First-time Adoption of New Zealand Equivalents to International Financial Reporting Standards.

The adoption of these new and revised standards and interpretations has resulted in changes to the Group's accounting policies in the following areas that have affected the amounts reported for the current and prior periods:

- Deferred tax NZ IAS 12
- Business combinations NZ IFRS 3
- Financial instruments NZ IAS 39
- Share based payments NZ IFRS 2
- Employee benefits NZ IAS 19.

The impact of these changes in accounting policies is described in detail below.

In adopting NZ IFRS, the Group has applied NZ IFRS 1 which requires an entity to use the same accounting policies in its opening NZ IFRS balance sheet and throughout all periods presented in its first NZ IFRS financial statements. As such, prior year comparatives have been restated.

There have been no NZ IFRS 1 optional exemptions applied. The only mandatory exception applicable is estimates; estimates have been applied consistently with those made for the same date under previous GAAP.

The adoption of NZ IFRS has not resulted in any material adjustments to the cash flow statement for the years presented.

Reconciliation of net profit

	31 March 2007 12 months $000s					
	Previous	Effect of transition to NZ IFRS				
GROUP	**GAAP**	**i**	**ii**	**iii**	**iv**	**NZ IFRS**
Profit before tax	**16,180**	(520)	38	111	-	**15,809**
Income tax expense	(5,533)	-	-	-	130	**(5,403)**
Net profit after tax (attributable to equity holders)	**10,647**	**(520)**	**38**	**111**	**130**	**10,406**
Basic earnings per share	9.9					9.7
Diluted earnings per share	9.7					9.5
PARENT						
Profit before tax	16,085	(520)	38	-	-	15,602
Income tax expense	(5,411)	-	-	-	32	(5,379)
Net profit after tax (attributable to equity holders)	**10,674**	**(520)**	**38**	**-**	**32**	**10,223**

i Employee entitlements, see notes a and e

ii Derivative fair value adjustments, see note a

iii Amortisation expense reversal, see note b

iv Income tax adjustment, see note c

Reconciliation of equity

GROUP	Note	Previous GAAP $000s	Effect of transition to NZ IFRS 1 April 06 $000s	NZ IFRS $000s	Previous GAAP $000s	Effect of transition to NZ IFRS 31 Mar 07 $000s	NZ IFRS $000s
Total net assets		24,045	46	24,091	100,900	239	101,139
Line items impacted							
Cash and cash equivalents	d	853	-	853	2,157	176	2,333
Trade and other receivables	d	13,614	-	13,614	34,722	(1,986)	32,736
Derivative assets	a	-	-	-	-	1,258	1,258
Property, plant and equipment	b	14,880	(635)	14,245	32,370	(1,198)	31,172
Intangible assets	b	-	635	635	37,023	4,686	41,709
Deferred tax assets/(liabilities)	c	118	(24)	94	(37)	(1,885)	(1,922)
Trade and other payables and provisions	a	(8,533)	892	(7,641)	(28,198)	(642)	(28,840)
Derivative liabilities	a	-	(822)	(822)	-	(170)	(170)
Total equity		(24,045)	(46)	(24,091)	(100,900)	(239)	(101,139)
Line items impacted							
Share capital	e	(13,136)	-	(13,136)	(80,888)	55	(80,833)
Other reserves	e	-	-	-	1,544	(489)	1,055
Retained earnings	e	(10,909)	(46)	(10,955)	(21,556)	195	(21,361)

PARENT	Note	Previous GAAP $000s	Effect of transition to NZ IFRS 1 April 06 $000s	NZ IFRS $000s	Previous GAAP $000s	Effect of transition to NZ IFRS 31 Mar 07 $000s	NZ IFRS $000s
Total net assets		23,916	46	23,962	102,342	28	102,370
Line items impacted							
Derivative assets	a	-	-	-	-	1,258	1,258
Property, plant and equipment	b	14,879	(635)	14,244	22,790	(1,079)	21,711
Intangible assets	b	-	635	635	-	1,079	1,079
Deferred tax assets/(liabilities)	c	118	(24)	94	(475)	8	(467)
Trade and other payables and provisions	a	(8,593)	892	(7,701)	(11,653)	(1,068)	(12,721)
Derivative liabilities	a	-	(822)	(822)	-	(170)	(170)
Total equity		(23,916)	(46)	(23,962)	(102,342)	(28)	(102,370)
Line items impacted							
Share capital	e	(13,136)	-	(13,136)	(80,888)	55	(80,833)
Other reserves	e	-	-	-	-	(489)	(489)
Retained earnings	e	(10,780)	(46)	(10,826)	(21,454)	405	(21,049)

(a) Derivative assets/liabilities and trade and other payables and provisions

	GROUP		PARENT	
	1 Apr 06 $000s	31 Mar 07 $000s	1 Apr 06 $000s	31 Mar 07 $000s
Derivatives assets				
Fair value of derivatives (current asset)	-	1,258	-	1,258
Derivative liabilities				
Fair value of derivatives (current liability)	(822)	(170)	(822)	(170)
Trade and other payables and provisions				
Reclassification of trade and other payables to derivative assets and derivative liabilities	1,079	(794)	1,079	(794)
Employee benefits adjustment	(187)	(218)	(187)	(218)
Redeemable ordinary shares	-	(55)	-	(55)
Finalisation of business acquisition	-	425	-	-
	892	(642)	892	(1,067)
Income statement impact				
Derivative fair value adjustments		38		38
Employee benefits adjustments		(31)		(31)

In accordance with NZ IAS 39, all derivative financial instruments have been recognised as assets or liabilities at fair value. Previously, forward foreign exchange contracts were valued in accordance with taxation requirements (which differed from NZ IFRS) and were recorded in trade and other payables.

Under NZ IAS 19, an accrual for accumulating sick leave is required; this was not accounted for under previous GAAP. In addition to this, long service leave is required to be accounted for from employee commencement; this was not accounted for by the Parent under previous GAAP.

Under IFRS, Rakon PPS Trustee Limited is classified as an in-substance subsidiary and has to be consolidated into the Group financial statements. Rakon PPS Trustee Limited holds redeemable ordinary shares of Rakon Limited on behalf of participants; these may only be transferred by the participants provided the market price is above a benchmark price (reset semi-annually).

In accordance with NZ IFRS 3, there is a 12 month period from acquisition date to finalise the acquisition fair values. In accordance with NZ IFRS 3, any adjustments made to the acquisition amounts disclosed are adjusted in the year the acquisition was made. An adjustment of $397,000 at acquisition date ($425,000 when translated at year-end exchange rates) was made in finalising the acquisition accounting.

(b) Property, plant and equipment and intangible assets

	GROUP		PARENT	
	1 Apr 06 $000s	31 Mar 07 $000s	1 Apr 06 $000s	31 Mar 07 $000s
Property, plant and equipment				
Reclassification of software assets to intangibles	(635)	(1,198)	(635)	(1,079)
Intangible assets				
Reclassification of software assets to intangibles	635	1,198	635	1,079
Reversal of goodwill amortisation	-	111	-	-
Additional goodwill arising from business acquisition	-	1,992	-	-
Additional goodwill arising from finalising the fair values for the business acquisition	-	1,385	-	-
	635	4,686	635	1,079
Income statement impact				
Amortisation expense reversal		111		-

As stated in note 2, all software assets have been reclassified as intangibles. NZ IFRS 3 requires that goodwill is not amortised but is instead subject to an impairment review and accordingly goodwill amortisation for March 2007 has been reversed. NZ IAS 12 requires deferred taxation to be accounted for on identifiable intangible assets at acquisition date.

In accordance with NZ IFRS 3, there is a 12 month period from acquisition date to finalise the acquisition fair values. In accordance with NZ IFRS 3, any adjustments made to the acquisition amounts disclosed are adjusted in the year the acquisition was made. An adjustment to goodwill of $1,467,000 at acquisition date ($1,385,000 when translated at year-end exchange rates) was made in finalising the acquisition accounting.

(c) Deferred tax assets/(liabilities)

	GROUP		PARENT	
	1 Apr 06 $000s	31 Mar 07 $000s	1 Apr 06 $000s	31 Mar 07 $000s
Derivatives	(85)	(65)	(85)	(65)
Intangible assets – on acquisition	-	(1,992)	-	-
Trade and other payables	61	72	61	72
Change due to foreign exchange rate movements	-	100	-	-
(Increase)/decrease in deferred tax	(24)	(1,885)	(24)	7
Income statement impact				
Income tax adjustment		130		32

Temporary differences arise from the derivative valuations being prepared in accordance with NZ IAS 39. NZ IAS 12 requires a deferred tax liability to be recorded in relation to the identifiable intangible assets that were acquired by the Group in a business combination to reflect the future taxable income embodied in the asset's carrying value. Under previous GAAP, no deferred tax liability was recorded for these items. Under NZ IAS 19, an accrual for accumulating sick leave is required; this was not accounted for under NZ GAAP.

(d) Cash and cash equivalents and trade and other receivables

	GROUP		PARENT	
	1 Apr 06 $000s	**31 Mar 07 $000s**	**1 Apr 06 $000s**	**31 Mar 07 $000s**
Cash and cash equivalents				
Finalisation of business acquisition	-	176	-	-
Trade and other receivables				
Finalisation of business acquisition	-	(1,986)	-	-

In accordance with NZ IFRS 3, there is a 12 month period from acquisition date to finalise the acquisition fair values. In accordance with NZ IFRS 3, any adjustments made to the acquisition amounts disclosed are adjusted in the year the acquisition was made.

An adjustment of $181,000 at acquisition date ($176,000 when translated at year-end exchange rates) was made to cash and cash equivalents and a fair value adjustment of ($2,044,000) (($1,986,000) when translated at year-end exchange rate) was made to trade and other receivables in finalising the acquisition accounting. See note 31 for details.

(e) Share capital, other reserves and retained earnings

	GROUP		PARENT	
	1 Apr 06 $000s	**31 Mar 07 $000s**	**1 Apr 06 $000s**	**31 Mar 07 $000s**
Share capital				
Redeemable ordinary shares	-	55	-	55
Other reserves				
Employee share based payments	-	(489)	-	(489)
Retained earnings				
Derivative financial instruments	(257)	(294)	(257)	(294)
Employee benefits	187	218	187	218
Employee share based payments	-	489	-	489
Deferred tax	24	(107)	24	(8)
Goodwill amortisation	-	(111)	-	-
	(46)	195	(46)	405
Total adjustment to equity	(46)	(239)	(46)	(29)

In accordance with NZ IFRS 2, the fair value of employee share based payments is required to be determined at grant date and recognised in the income statement over their vesting period; this was not recognised under previous GAAP.

35. Events after balance sheet date

On 16 May 2008, Rakon Limited announced its plan to sell the assets of Rakon Europe Limited to IQD Frequency Products Limited. The proceeds from the sale are expected to realise the carrying value of the net assets being sold.

AUDITORS' REPORT

PRICEWATERHOUSECOOPERS

To the shareholders of Rakon Limited

We have audited the financial statements on pages 26 to 79. The financial statements provide information about the past financial performance and cash flows of the Company and Group for the year ended 31 March 2008 and their financial position as at that date. This information is stated in accordance with the accounting policies set out on pages 31 to 38.

Directors' responsibilities

The Company's Directors are responsible for the preparation and presentation of the financial statements which give a true and fair view of the financial position of the Company and Group as at 31 March 2008 and their financial performance and cash flows for the year ended on that date.

Auditors' responsibilities

We are responsible for expressing an independent opinion on the financial statements presented by the Directors and reporting our opinion to you.

Basis of opinion

An audit includes examining, on a test basis, evidence relevant to the amounts and disclosures in the financial statements. It also includes assessing:

(a) the significant estimates and judgments made by the Directors in the preparation of the financial statements; and

(b) whether the accounting policies are appropriate to the circumstances of the Company and Group, consistently applied and adequately disclosed.

We conducted our audit in accordance with generally accepted auditing standards in New Zealand. We planned and performed our audit so as to obtain all the information and explanations which we considered necessary to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatements, whether caused by fraud or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

We have no relationship with or interests in the Company or any of its subsidiaries other than in our capacities as auditors and providers of other assurance services.

Unqualified opinion

We have obtained all the information and explanations we have required.

In our opinion:

(a) proper accounting records have been kept by the Company as far as appears from our examination of those records; and

(b) the financial statements on pages 26 to 79:

- (i) comply with generally accepted accounting practice in New Zealand;
- (ii) comply with International Financial Reporting Standards; and
- (iii) give a true and fair view of the financial position of the Company and Group as at 31 March 2008 and their financial performance and cash flows for the year ended on that date.

Our audit was completed on 22 May 2008 and our unqualified opinion is expressed as at that date.

PricewaterhouseCoopers

Chartered Accountants
Auckland

SHAREHOLDER INFORMATION

Directors

Non-executive Directors receive fees determined by the Board on the recommendation of the Remuneration Committee plus reasonable travelling, accommodation and other expenses incurred in the course of performing duties or exercising powers as Directors. Shareholders approved a total pool of $300,000 for the remuneration of non-executive Directors in August 2007. Annual Directors' fees were set at $120,000 for the Chairman and $60,000 for each non-executive director with effect from 1 April 2007.

Brent Robinson and Darren Robinson are employed by Rakon as Managing Director and Marketing Director respectively and receive salary and other remuneration and benefits in respect of their employment.

The following people held office as a Director during the year and received the following remuneration including benefits during the year. Executive Directors' remuneration includes the fair value of shares granted under the Rakon Share Growth Plan and incentive payments pertaining to the 2007 financial year.

Name	Category	Remuneration
Bryan Mogridge	Independent Chairman	$120,000
Brent Robinson	Executive	$801,594
Darren Robinson	Executive	$688,102
Warren Robinson	Non-executive	$60,000
Peter Maire	Non-executive	$60,000
Bruce Irvine	Independent	$60,000

Directors' interests

Trident Investments Limited, a company associated with Warren Robinson, Brent Robinson and Darren Robinson, has leased premises to Rakon on arm's length, commercial terms under Deeds of Lease dated 23 August 2005 between Rakon and Trident Investments Limited and receives rental payments from Rakon.

As permitted by the Companies Act 1993, the Company has granted certain indemnities to the Directors and specified employees of the Company or any related company in respect of liability and legal costs incurred by those Directors and specified employees in their capacity as Directors and/or employees of the Company or any related company. As permitted by the Companies Act 1993, the Company has arranged a policy of Directors' and Officers' Liability Insurance which insures those persons indemnified for certain liabilities and costs.

In association with Rakon's initial public offering of shares, Ahuareka Trustee Limited (as trustee for the Ahuareka Trust), Tahia Investments Limited, Brent Robinson and Darren Robinson (the Shareholders) entered into a Shareholder Restriction Deed (the Deed) with Rakon Limited and UBS New Zealand Limited. Each of the Shareholders agreed that shares held by each of them would not be transferred (except in limited circumstances) until 30 days after the date Rakon made its preliminary announcement to NZSX for the financial year ending 31 March 2007 (i.e. 14 June 2007).

In August 2006, in accordance with the Deed, Rakon and UBS consented to the transfer of shares by Ahuareka Trustee Limited to Warren John Robinson and Trusts Limited, reflecting a change only in the trustee of Ahuareka Trust. In May 2007, in accordance with the Deed, Rakon Limited and UBS consented to the sale of 1.6 million shares by Tahia Investments Limited.

In accordance with Section 140(2) of the Companies Act 1993 and Section 19(U) of the Securities Markets Act 1988, the Directors named below have made a general disclosure of interest during the period 1 April 2007 to 31 March 2008 by a general notice disclosed to the Board and entered in the Company's interests register:

Bryan William Mogridge

Chairman of:

- Resigned as Chairman and Director of Designworks Enterprise IG Limited.

Vice-chairman of:

- UBS New Zealand Limited, a company that has provided advisory services to Rakon Limited during the period.

Director of:

- Resigned as Director of West Auckland Trust Services Limited.

Shareholder in:

- Beneficial interest in 401,234 ordinary shares in Rakon Limited held by Bryan Mogridge following the purchase of 1,234 shares under the Rakon Limited Shareholder Purchase Plan.
- Non-beneficial interest in 820,136 ordinary shares in Rakon Limited, as director of trustee company Rakon ESOP Trustee Limited following the transfer of 39,001 shares.
- Non-beneficial interest in 1,077,463 redeemable ordinary shares in Rakon Limited, as director of trustee company Rakon PPS Trustee Limited following the redemption of 22,537 shares.

Brent John Robinson

Shareholder in:

- Beneficial interest in 9,915,414 ordinary shares in Rakon Limited following the purchase of 1,234 shares under the Rakon Limited Shareholder Purchase Plan.
- Beneficial interest in 24,061,258 ordinary shares in Rakon Limited held by Warren John Robinson and Trusts Limited following the purchase of 1,234 shares under the Rakon Limited Shareholder Purchase Plan. Trusts Limited is the registered holder.
- Beneficial interest in 270,449 redeemable ordinary shares in Rakon Limited (Rakon PPS Trustee Limited as registered holder).

Darren Paul Robinson

Shareholder in:

- Beneficial interest in 9,914,180 ordinary shares in Rakon Limited.
- Beneficial interest in 24,061,258 ordinary shares in Rakon Limited held by Warren John Robinson and Trusts Limited following the purchase of 1,234 shares under the Rakon Limited Shareholder Purchase Plan. Trusts Limited is the registered holder.
- Beneficial interest in 234,043 redeemable ordinary shares in Rakon Limited (Rakon PPS Trustee Limited as registered holder).

Warren John Robinson

Shareholder in:

- Beneficial and non-beneficial interest in 24,061,258 ordinary shares in Rakon Limited held by Warren John Robinson and Trusts Limited following the purchase of 1,234 shares under the Rakon Limited Shareholder Purchase Plan. Trusts Limited is the registered holder.

Charles Peter Maire

Chairman of:

- Cadmus Technology Limited.

Director of:

- Non-beneficial interest as director of Tahia Investments Limited which holds 14,923,218 ordinary shares in Rakon Limited following the sale of 1,600,000 shares.
- Non-beneficial interest as director of Tahia Investments Limited which holds 14,863,218 ordinary shares in Rakon Limited following the sale of 60,000 shares.
- Orion Corporation Limited.
- Fusion Electronics Limited.

Shareholder in:

- Non-beneficial interest in 14,923,218 ordinary shares in Rakon Limited held by Tahia Investments Limited following the sale of 1,600,000 shares.
- Non-beneficial interest in 14,863,218 ordinary shares in Rakon Limited held by Tahia Investments Limited following the sale of 60,000 shares.

Bruce Robertson Irvine

Chairman of:

- House of Travel Holdings Limited.
- Christchurch City Holdings Limited.

Director of:

- Ravensdown Limited.

Shareholder in:

- Beneficial interest in 41,234 ordinary shares in Rakon Limited held by Bruce Irvine following the purchase of 1,234 shares under the Rakon Limited Shareholder Purchase Plan.
- Non-beneficial interest in 820,136 ordinary shares in Rakon Limited, as director of trustee company Rakon ESOP Trustee Limited following the transfer of 39,001 shares.
- Non-beneficial interest in 1,077,463 redeemable ordinary shares in Rakon Limited, as director of trustee company Rakon PPS Trustee Limited following the redemption of 22,537 shares.

Directors' Shareholdings

Directors' shareholdings are shown as at balance date.

Name	31 March 2008
Bryan Mogridge	
– shares held with beneficial interest	401,234
– shares held with non-beneficial interest[1]	820,136
– shares held with non-beneficial interest[2]	1,077,463
Brent Robinson	
– shares held with beneficial interest	33,976,672
– shares held with beneficial interest[3]	270,449
– held by associated persons	10,365,408
– held by associated persons[3]	234,043
Darren Robinson	
– shares held with beneficial interest	33,975,438
– shares held with beneficial interest[3]	234,043
– held by associated persons	10,344,829
– held by associated persons[3]	270,449
Warren Robinson	
– shares held with beneficial interest	24,061,258
– held by associated persons	20,255,259
– held by associated persons[3]	504,492
Peter Maire	
– shares held with beneficial interest	14,863,218
Bruce Irvine	
– shares held with beneficial interest	41,234
– shares held with non-beneficial interest[1]	820,136
– shares held with non-beneficial interest[2]	1,077,463

1 Bryan Mogridge and Bruce Irvine jointly hold the same parcel of 820,136 ordinary shares as trustees of the Rakon ESOP Trustee Limited.

2 Bryan Mogridge and Bruce Irvine jointly hold the same parcel of 1,077,463 partly paid redeemable ordinary shares as trustees of the Rakon PPS Trustee Limited. As at 31 March 2008, $0.10 of the $1.60 issue price was paid up on each of these securities.

3 Partly paid redeemable ordinary shares currently held by the Rakon PPS Trustee Limited. As at 31 March 2008, $0.10 of the $1.60 issue price was paid up on each of these securities.

Employees' remuneration

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

Remuneration	Number of employees
$100,000 – $110,000	17
$110,001 – $120,000	16
$120,001 – $130,000	7
$130,001 – $140,000	7
$140,001 – $150,000	8
$150,001 – $160,000	6
$170,001 – $180,000	6
$180,001 – $190,000	4
$190,001 – $200,000	1
$200,001 – $210,000	2
$210,001 – $220,000	2
$220,001 – $230,000	1
$230,001 – $240,000	2
$240,001 – $250,000	2
$260,001 – $270,000	2
$280,001 – $290,000	1
$290,001 – $300,000	1
$300,001 – $310,000	1
$400,001 – $410,000	2

The remuneration above includes the fair value attributable to employee share schemes; 24 employees are employed by the Parent, and the remainder are employed by overseas subsidiaries.

Substantial security holders

The following information is given pursuant to Section 26 of the Securities Markets Act 1988.

The following are recorded by the Company as at 15 May 2008 as Substantial Security Holders in the Company, and have declared the following relevant interest in voting securities under the Securities Markets Act 1988:

Name	Shareholding	%
Trusts Limited		
– non-beneficial relevant interest	24,061,258	18.98
Warren John Robinson		
– beneficial relevant interest	24,061,258	18.98
Tahia Investments Limited		
– beneficial relevant interest	14,863,218	11.72
Charles Peter Maire		
– non-beneficial relevant interest	14,863,218	11.72
Brent John Robinson		
– direct beneficial relevant interest	9,915,414	7.82
– direct beneficial relevant interest[1]	270,449	0.21
– beneficial relevant interest	24,061,258	18.98
Darren Paul Robinson		
– direct beneficial relevant interest	9,914,180	7.82
– direct beneficial relevant interest[1]	234,043	0.18
– beneficial relevant interest	24,061,258	18.98

1 Partly Paid Redeemable Ordinary Shares: 1,077,463 partially paid securities were on issue as at 15 May 2008. These partly paid securities entitle the holder (Rakon PPS Trustee Limited) to proportionate voting rights to the extent of the issue price paid where the employee member elects for the shares to carry voting rights. As at 15 May 2008, $0.15 of the $1.60 issue price was paid up on each of these securities and no election for the shares to carry voting rights had been made.

Spread of security holders as at 15 May 2008

Size of Shareholding	Number of holders	%	Total number held	%
1–999	767	14.90	361,465	0.29
1,000–4,999	3,085	59.93	7,551,782	5.96
5,000–9,999	743	14.43	4,804,419	3.79
10,000–49,999	487	9.46	8,312,072	6.56
50,000–99,999	31	0.60	2,019,420	1.59
100,000–999,999	28	0.54	9,056,576	7.14
1,000,000 plus	7	0.14	94,685,683	74.68
Total	**5,148**	**100.00**	**126,791,417**	**100.00**

Largest security holders as at 15 May 2008

Name	Shareholding	%
New Zealand Central Securities Depository Limited	29,783,172	23.48
Warren John Robinson and Trusts Limited	24,061,258	18.98
Tahia Investments Limited	14,863,218	11.72
Brent John Robinson	9,915,414	7.82
Darren Paul Robinson	9,914,180	7.82
Zeus Zeta Limited	3,556,064	2.80
Custodial Services Limited	2,592,377	2.04
Rakon ESOP Trustee Limited	820,136	0.65
First NZ Capital Custodians Limited	817,147	0.64
Hubbard Churcher Trust Management Limited	770,000	0.61
Custodial Services Limited	751,988	0.59
Portfolio Custodian Limited	546,234	0.43
Masfen Securities Limited	502,468	0.40
Marjorie Susan Robinson	425,665	0.34
Bryan Mogridge and Philip Wells	401,234	0.32
Macquarie Equities Custodians Limited	341,234	0.27
Michele Susan Robinson and Simon Middleton Palmer	322,134	0.25
Custodial Services Limited	321,438	0.25
Custodial Services Limited	317,054	0.25
Custodial Services Limited	280,804	0.22

In addition, 1,077,463 partially paid securities were on issue as at 15 May 2008. These partly paid securities entitle the holder (Rakon PPS Trustee Limited) to proportionate voting rights to the extent of the issue price paid where the employee member elects for the shares to carry voting rights. As at 15 May 2008, $0.15 of the $1.60 issue price was paid up on each of these securities and no election for the shares to carry voting rights had been made.

New Zealand Central Securities Depository Limited (NZCSD) is a depository system which allows electronic trading of securities to members. As at 15 May 2008, the ten largest shareholdings in the Company held through the NZCSD were:

Name	Shareholding
TEA Custodians Limited	5,741,939
NZ Superannuation Fund Nominees Limited	5,018,122
HSBC Nominees (New Zealand) Limited	4,354,012
National Nominees New Zealand Limited	2,603,272
Accident Compensation Corporation	2,371,241
AMP Investments Strategic Equity Growth Fund	1,483,919
Citibank Nominees (New Zealand) Limited	1,456,607
NZGT Nominees Limited	1,397,975
Premier Nominees Limited	1,259,732
HSBC Nominees (New Zealand) Limited	1,243,000

NZX waiver

NZX granted a waiver from the requirements of NZSX Listing Rule 8.1.5 in relation to the non-voting partly paid shares held by Brent Robinson and Darren Robinson under the Employee Share Growth Plan. NZSX Listing Rule 8.1.5 provides for partly paid shares to have voting rights in proportion to the amount paid up and the waiver provides that Brent and Darren Robinson's shares can remain non-voting so as to avoid triggering Takeovers Code obligations.

CORPORATE DIRECTORY

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Brent Robinson
Bruce Irvine
Peter Maire
Darren Robinson
Warren Robinson

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Victoria Street West
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