



Results for announcement to the market

Date: 17 November 2016

Rakon Limited (RAK)

Rakon Limited	
Results for announcement to the market	
Reporting period	6 months to 30 th September 2016
Previous reporting period	6 months to 30 th September 2015

Unaudited	Amount NZ\$000	% Change
Revenue from ordinary activities	45,957	-21%
Underlying EBITDA^c (Earnings before interest, tax, depreciation, amortisation, impairment, employee share schemes, non-controlling interests, adjustments for associates and joint ventures share of interest, tax & depreciation and other cash & non-cash items)	647 ^a	-90%
Profit/(loss) from ordinary activities after tax attributable to security holders	-5,698 ^b	-628%
Net profit/(loss) attributable to security holders	-5,698 ^b	-628%

Note a: includes share of Underlying EBITDA from associates and joint ventures of \$419,000 (September 2015: \$343,000).

b: includes equity accounted earnings from associates and joint ventures of -\$531,000 (September 2015: -\$732,000).

c: Further information regarding the disclosure and use of non-GAAP financial information is disclosed at Note 3 (Notes to the Unaudited Consolidated Interim Financial Statements) in this results announcement.

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

COMMENTS

17 NOVEMBER 2016 (RAK)

Rakon posts Underlying EBITDA of NZ\$0.6 million for first half

High technology company Rakon has posted revenue of NZ\$46.0 million for the six months ended 30 September 2016, down NZ\$12.0 million on the previous corresponding period, as sales to global telecommunications network operators from Rakon's customers remained sluggish. The decline in revenue resulted in Rakon reporting Underlying EBITDA of NZ\$0.6 million and a net loss for the period of NZ\$5.7 million.

Managing Director Brent Robinson said network operators had continued during H1 to defer investment in infrastructure, affecting Rakon's sales to equipment manufacturers. With early H2 orders turning higher, the Company is forecasting H2 revenue to be up 12%-15% on H1.

Mr Robinson said initiatives to reduce Rakon's annual operating expenses by 20 percent, announced to shareholders ahead of the company's last Annual Shareholders' Meeting, were almost completed. While one-off costs associated with implementing this programme meant the full benefits would not flow through to the bottom line until the 2017-18 financial year, operating expenses for the six months ended 30 September 2016 were down 11.2 percent on the previous corresponding period.

Mr Robinson said Rakon was maintaining its commitment to R&D, with customer-led requirements and a particular focus on developing products for the future rollout of 4.5G and 5G network technology.

Mr Robinson also noted the success of Internet of Things network developer and operator Thinxtra, in which Rakon holds a cornerstone shareholding.

During the past six months, Thinxtra had extended the outdoor coverage of the network to 50 per cent of Australia & New Zealand's population and had signed its first significant network connections deal.

Thinxtra remained on track to provide network coverage to 85 percent of all Australians and New Zealanders by the end of June 2017.

Rakon is expecting an improved performance over the second half due to higher revenue. The directors confirm that they expect to report Underlying EBITDA of between NZ\$3 million and NZ\$5million for the full year, FY2017.

-ends-

Contact:

Brent Robinson

Chief Executive Officer

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***Disclosure of Non-GAAP Financial Information**

Rakon has used 'Underlying EBITDA' as a measure of non-GAAP financial information in this announcement and it is defined as:

"Earnings before interest, tax, depreciation, amortisation, impairment, employee share schemes, non-controlling interests, adjustments for associates and joint ventures' share of interest, tax & depreciation, loss on disposal of assets and other cash and non-cash items (Underlying EBITDA)."

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

The use of 'Underlying EBITDA' in this announcement **for the half year of FY2016 and FY2017** has been extracted from **unaudited financial statements**. The use of 'Underlying EBITDA' in this announcement for FY2016 has been extracted from audited financial statements.

About Rakon

Rakon is a global high technology company and a world leader in its field. The company designs and manufactures advanced frequency control and timing solutions for telecommunications, global positioning and space and defence applications. Rakon products are found at the forefront of communications where speed and reliability are paramount. The company's products create extremely accurate electric signals which are used to generate radio waves and synchronise time in the most demanding communication applications. Rakon has five manufacturing plants including two joint venture plants and has five research and development centres. Customer support centres are located in ten offices worldwide.

Rakon is proud of its New Zealand heritage; it was founded in Auckland in 1967. It is a public company listed on the New Zealand stock exchange, NZSX, ticker code RAK.

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

The Directors declare that the selected consolidated financial information on pages 4 to 15 have been prepared in compliance with applicable Financial Reporting Standards and extracted from the unaudited interim financial statements. The accounting policies the Directors consider critical to the portrayal of the company's financial condition and results which require judgements and estimates about matters which are inherently uncertain are disclosed in note 2 of the unaudited consolidated interim financial statements that form part of this announcement.

Unaudited Consolidated Interim Statement of Comprehensive Income

		Unaudited six months ended 30 September 2016	Unaudited six months ended 30 September 2015	Audited year ended 31 March 2016
	Note	\$000s	\$000s	\$000s
Continuing operations				
Revenue	4	45,957	57,990	112,737
Cost of sales		(29,282)	(33,942)	(64,797)
Gross profit		16,675	24,048	47,940
Other operating income		1	79	125
Operating expenses	6	(20,672)	(23,279)	(47,766)
Other (losses)/gains - net	5	(215)	1,726	871
Operating (loss)/ profit		(4,211)	2,574	1,170
Finance income		2	1	3
Finance costs		(689)	(606)	(1,128)
Share of (loss)/profit of associates and joint venture	7	(531)	(732)	(902)
(Loss)/profit before income tax		(5,429)	1,237	(857)
Income tax (expense)/credit		(269)	(157)	(874)
Net (loss)/profit for the period		(5,698)	1,080	(1,731)
Other comprehensive income				
Items that may be reclassified subsequently to profit or loss				
(Decrease)/increase in fair value cash flow hedges		(375)	(4,899)	932
Cash flow hedges – realised		1,361	-	-
(Decrease)/increase in fair value currency translation differences		(3,943)	9,780	4,998
Income tax relating to components of other comprehensive income		(276)	1,371	(261)
Other comprehensive (losses)/income for the period, net of tax		(3,233)	6,252	5,669
Total comprehensive (losses)/income for the period		(8,931)	7,332	3,938
(Loss)/profit attributable to equity holders of the Company		(5,698)	1,080	(1,731)
Total comprehensive (loss)/profit attributable to equity holders of the Company		(8,931)	7,332	3,938
Earnings per share for (loss)/profit attributable to the equity holders of the Company from continuing operations				
		Cents	Cents	Cents
Basic (losses)/earnings per share		(3.0)	0.6	(0.9)
Diluted (losses)/earnings per share		(2.9)	0.6	(0.9)

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

Unaudited Consolidated Interim Statement of Changes in Equity

	Share capital \$000s	Retained earnings \$000s	Cash flow hedge reserve -		Total equity \$000s
			realised \$000s	Other reserves \$000s	
Balance at 31 March 2015	173,881	(67,929)	-	(26,543)	79,409
Net profit after tax for the half year ended 30 September 2015	-	1,080	-	-	1,080
Currency translation differences	-	-	-	9,780	9,780
Cash flow hedges, net of tax	-	-	-	(3,528)	(3,528)
Total comprehensive income for the half year	-	1,080	-	6,252	7,332
Employee share schemes					
Value of employee services	-	-	-	40	40
Balance at 30 September 2015	173,881	(66,849)	-	(20,251)	86,781
Net loss after tax for the half year ended 31 March 2016	-	(2,811)	-	-	(2,811)
Currency translation differences	-	-	-	(4,782)	(4,782)
Cash flow hedges, net of tax	-	-	-	4,199	4,199
Total comprehensive income for the half year	-	(2,811)	-	(583)	(3,394)
Employee share schemes					
Value of employee services	-	-	-	41	41
Balance at 31 March 2016	173,881	(69,660)	-	(20,793)	83,428
Net loss after tax for the half year ended 30 September 2016	-	(5,698)	-	-	(5,698)
Currency translation differences	-	-	-	(3,943)	(3,943)
Cash flow hedges, net of tax	-	-	980	(270)	710
Total comprehensive loss for the half year	-	(5,698)	980	(4,213)	(8,931)
Employee share schemes					
Value of employee services	-	-	-	29	29
Balance at 30 September 2016	173,881	(75,358)	980	(24,977)	74,526

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

Unaudited Consolidated Interim Balance Sheet

		Unaudited six months ended 30 September 2016	Unaudited six months ended 30 September 2015	Audited year ended 31 March 2016
	Note	\$000s	\$000s	\$000s
Assets				
Current assets				
Cash and cash equivalents		3,111	7,609	3,370
Trade and other receivables		26,506	30,445	28,812
Derivatives – held for trading		-	20	227
Derivatives – cash flow hedges		334	90	459
Inventories		29,078	32,923	29,830
Current income tax asset		47	113	212
Total current assets		59,076	71,200	62,910
Non-current assets				
Derivatives – cash flow hedges		-	145	1,466
Trade and other receivables		1,812	1,549	1,165
Property, plant and equipment		16,038	17,471	17,234
Intangible assets		13,116	17,713	14,850
Investment in associate	7	13,528	9,827	10,315
Interest in joint venture	7	6,351	7,220	6,798
Deferred tax asset		6,471	9,136	6,538
Total non-current assets		57,316	63,061	58,366
Total assets		116,392	134,261	121,276
Liabilities				
Current liabilities				
Bank overdraft	8	3,799	5,273	3,931
Borrowings	8	18,921	12,032	15
Trade and other payables		15,356	20,103	17,526
Derivatives – held for trading		-	516	3
Derivatives – cash flow hedges		89	3,879	813
Derivatives – interest rate swaps		329	255	330
Provisions		639	516	414
Current income tax liability		134	-	-
Total current liabilities		39,267	42,574	23,032
Non-current liabilities				
Derivatives – cash flow hedges		-	1,954	421
Borrowings	8	64	15	12,000
Provisions		2,120	2,538	2,361
Deferred tax liabilities		415	399	34
Total non-current liabilities		2,599	4,906	14,816
Total liabilities		41,866	47,480	37,848
Net assets		74,526	86,781	83,428
Equity				
Share capital		173,881	173,881	173,881
Other reserves		(23,997)	(20,251)	(20,793)
Accumulated losses		(75,358)	(66,849)	(69,660)
Total equity		74,526	86,781	83,428

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

Unaudited Consolidated Interim Statement of Cash Flows

	Unaudited six months ended 30 September 2016	Unaudited six months ended 30 September 2015	Audited year ended 31 March 2016
Note	\$000s	\$000s	\$000s
Operating activities			
Cash provided from			
Receipts from customers	50,108	65,304	119,026
Interest received	-	-	-
Income tax refund	389	205	205
Dividend received from joint venture	-	1,253	1,253
R&D grants received	-	1,793	3,064
Other income received	1	39	147
Cash provided from operating activities	50,498	68,594	123,695
Cash was applied to			
Payment to suppliers and others	(28,868)	(40,147)	(70,217)
Payment to employees	(21,313)	(22,106)	(44,478)
Interest paid	(605)	(508)	(1,081)
Income tax paid	(324)	(504)	(634)
Cash was applied to operating activities	(51,110)	(63,265)	(116,410)
Net cash flow from operating activities	(612)	5,329	7,285
Investing activities			
Cash was provided from			
Sale of property, plant and equipment	16	-	-
Cash was provided from investing activities	16	-	-
Cash was applied to			
Purchase of property, plant and equipment	(838)	(2,023)	(3,377)
Purchase of intangibles	(861)	(1,054)	(1,954)
Investment in shares & associates	(4,629)	-	(1,663)
Cash was applied to investing activities	(6,328)	(3,077)	(6,994)
Net cash flow from investing activities	(6,312)	(3,077)	(6,994)
Financing activities			
Cash was provided from			
Proceeds from borrowings	6,911	-	-
Cash was provided from financing activities	6,911	-	-
Net cash flow from financing activities	6,911	-	-
Net (decrease)/increase in cash and cash equivalents	(13)	2,252	291
Effects of exchange rate changes on cash and cash equivalents	(114)	1,314	378
Cash and cash equivalents at the beginning of the year	(561)	(1,230)	(1,230)
Cash and cash equivalents at the end of the period	(688)	2,336	(561)
Composition of cash and cash equivalents			
Cash and cash equivalents	8	3,111	7,609
Bank overdraft	8	(3,799)	(5,273)
Total cash and cash equivalents	(688)	2,336	(561)

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

Unaudited Consolidated Interim Statement of Cash Flows

	Unaudited six months ended 30 September 2016 Note	Unaudited six months ended 30 September 2015 \$000s	Audited year ended 31 March 2016 \$000s
Reconciliation of net (loss)/profit to net cash flows from operating activities			
Reported net (loss)/profit after tax	(5,698)	1,080	(1,731)
Depreciation expense	1,730	2,029	3,945
Amortisation expense	1,070	1,084	2,675
(Decrease)/increase in estimated doubtful debts	-	(38)	(24)
Provision for restructure	6 322	-	195
Employee share based expense	29	40	81
Movement in foreign currency	(476)	1,821	(68)
Monetised cash flow hedge, net of tax	980	-	-
Share of profit and dividends from joint venture and associate	531	1,950	2,131
Deferred tax	381	(27)	160
Loss/(gain) on disposal of property, plant and equipment	(5)	3	115
Gain on disposal of intangibles	-	-	1
Total items not involving cash flow	4,562	6,862	9,211
Impact of changes in working capital items			
Trade and other receivables	1,659	3,787	5,464
Provision for restructure	(307)	(548)	(850)
Inventories	752	(4,207)	(1,114)
Trade and other payables	(1,879)	(1,244)	(4,060)
Tax provisions	299	(401)	365
Total impact of changes in working capital items	524	(2,613)	(195)
Net cash flow from operating activities	(612)	5,329	7,285

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

Notes to the Unaudited Consolidated Interim Financial Statements

1. General information

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

These financial statements of the Group are presented in New Zealand dollars and have been approved for issue by the Board of Directors on 17 November 2016.

2. Summary of significant accounting policies

2.1 Basis of preparation and accounting policies

The Company is registered under the Companies Act 1993 and is a Financial Markets Conduct reporting entity under Part 7 of the Financial Markets Conduct Act 2013. The financial statements of the Group have been prepared in accordance with the requirements of Part 7 of the Financial Markets Conduct Act 2013 and the NZX (Main Board/Debt Market) Listing Rules. In accordance with the Financial Markets Conduct Act 2013, group financial statements are prepared and presented for the Company and its subsidiaries; as a result separate financial statements for the Company are no longer required to be prepared and presented.

These interim financial statements of the Group, are for the six months ended 30 September 2016 and are not audited and should be read in conjunction with the annual report for the year ended 31 March 2016. The interim financial statements do not include all the information required for full financial statements prepared in accordance with NZ IFRS. Selected explanatory notes are included to assist understanding of the Group's financial position and performance for the period.

These interim financial statements comply with NZ IAS 34 Interim Financial Reporting and IAS 34 Interim Financial Reporting. They have been prepared in accordance with New Zealand equivalents to International Financial Reporting Standards ('NZ IFRS') and NZ GAAP.

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 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 for derivative financial instruments which have been measured at fair value. The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates. The accounting policies applied are consistent with those of the annual report for the year ended 31 March 2016. There are no new standards, amendments and interpretations adopted by the Group as of 1 April 2016.

2.2 Fair value of financial instruments

The Group uses various methods in estimating the fair value of a financial instrument. The methods comprise:

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

The fair value of forward foreign exchange contracts and collar options are determined using forward exchange rates at the balance date, with the resulting value discounted back to present value. The Group's foreign exchange contracts and collar options are Level 2 at 30 September 2016 and 31 March 2016.

The fair value of unlisted equity securities have been estimated by discounting the present value of the net cash inflows from expected future dividends or subsequent disposal of the securities. There were no transfers between categories during the period.

During the period derivatives were closed out with a \$1.4m benefit held within the 'cash flow hedge reserve – realised' on the balance sheet. This will be released to the statement of comprehensive income as the original forecast transactions occur, with \$322,000 released in the six month period to March 2017 and \$1,039,000 released in the year to March 2018.

3. Segment information

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

"Earnings before interest, tax, depreciation, amortisation, impairment, employee share schemes, non-controlling interests, adjustments for associates and joint ventures' share of interest, tax & depreciation, loss on disposal of assets and other cash and non-cash items (Underlying EBITDA)."

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

Management uses the non-GAAP measure of Underlying EBITDA internally, to assess the underlying operating performance of the Group and each operating segment.

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

3.1 Accounting policy

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

Unaudited six months ended 30 September 2016

	NZ \$000s	UK \$000s	France \$000s	China - T'maker ¹ \$000s	India - Centum Rakon ² \$000s	Other ³ \$000s	Total \$000s
Sales to external customers	30,270	-	15,687	-	-	-	45,957
Inter-segment sales	49	-	-	-	-	(7)	42
Segment revenue	30,319	-	15,687	-	-	(7)	45,999
Underlying EBITDA	292	1,039	(1,574)	809	531	(450)	647
Depreciation and amortisation	1,756	336	792	-	-	(84)	2,800
Income tax (expense)/credit	-	(136)	-	-	-	(133)	(269)
Total assets ⁴	58,730	6,884	28,993	8,268	6,351	7,166	116,392
Investment in associates	-	-	-	8,268	-	5,260	13,528
Investment in joint venture	-	-	-	-	6,351	-	6,351
Additions of property, plant, equipment and intangibles	1,208	277	247	-	-	-	1,732
Total liabilities ⁵	34,598	659	7,937	-	-	(1,328)	41,866

Unaudited six months ended 30 September 2015

	NZ \$000s	UK \$000s	France \$000s	China - T'maker ¹ \$000s	India - Centum Rakon ² \$000s	Other ³ \$000s	Total \$000s
Sales to external customers	39,204	5	18,774	-	-	7	57,990
Inter-segment sales	43	-	-	-	-	35	78
Segment revenue	39,247	5	18,774	-	-	42	58,068
Underlying EBITDA	7,896	755	(2,620)	(54)	397	(164)	6,210
Depreciation and amortisation	2,080	361	573	-	-	99	3,113
Income tax credit/(expense)	-	(75)	15	-	-	(97)	(157)
Total assets ⁴	69,107	10,497	36,185	9,827	7,220	1,425	134,261
Investment in associates	-	-	-	9,827	-	-	9,827
Investment in joint venture	-	-	-	-	7,220	-	7,220
Additions of property, plant, equipment and intangibles	2,013	374	787	-	-	-	3,174
Total liabilities ⁵	32,984	614	13,529	-	-	353	47,480

Audited year 31 March 2016

	NZ \$000s	UK \$000s	France \$000s	China - Timaker ¹ \$000s	India - Centum Rakon ² \$000s	Other ³ \$000s	Total \$000s
Sales to external customers	74,661	5	38,071	-	-	-	112,737
Inter-segment sales	162	-	-	-	-	55	217
Segment revenue	74,823	5	38,071	-	-	55	112,954
Underlying EBITDA	9,526	1,873	(4,481)	217	1,026	847	9,008
Depreciation and amortisation	4,436	745	1,237	-	-	202	6,620
Income tax (expense)/credit	342	(253)	(1,006)	-	-	43	(874)
Total assets ⁴	60,931	10,144	31,279	8,689	6,798	3,435	121,276
Investment in associates	-	-	-	8,689	-	1,626	10,315
Investment in joint venture	-	-	-	-	6,798	-	6,798
Additions of property, plant, equipment and intangibles	3,440	729	1,378	-	-	-	5,547
Total liabilities ⁵	27,185	671	9,457	-	-	535	37,848

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

² Includes Rakon Limited's 49% share of investment in Centum Rakon India Private Limited ("CRI").

³ Includes investments in subsidiaries, Rakon Financial Services Limited, Rakon UK Holdings Limited, Rakon Investment HK Limited, Rakon HK Limited and Rakon Limited's 46% interest in Thinxtra Pty Limited ("Thinxtra").

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

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

A reconciliation of Underlying EBITDA to net (loss)/profit is provided as follows:

	Unaudited six months ended 30 September 2016 \$000s	Unaudited six months ended 30 September 2015 \$000s	Audited year ended 31 March 2016 \$000s
Continuing operations			
Underlying EBITDA	647	6,210	9,008
Depreciation and amortisation	(2,800)	(3,113)	(6,620)
One off cash gains realised on derivatives closed out	(1,361)	-	-
Employee share schemes	(29)	(40)	(81)
Finance costs - net	(687)	(605)	(1,125)
Adjustment for associates and joint venture share of interest, tax & depreciation	(980)	(1,079)	(2,118)
Loss on asset sales/disposal	(4)	-	(120)
Other non-cash items	(215)	(136)	199
(Loss)/profit before income tax	(5,429)	1,237	(857)
Income tax (expense)/credit	(269)	(157)	(874)
Net (loss)/profit for the period	(5,698)	1,080	(1,731)

4. Revenue

4.1 Accounting policy

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

4.2 Breakdown of revenue by goods and services

Revenue from all sources is as follows:

	Unaudited six months ended 30 September 2016 \$000s	Unaudited six months ended 30 September 2015 \$000s	Audited year ended 31 March 2016 \$000s
Sales of goods	45,031	57,798	111,587
Revenue from services	926	192	1,150
Total revenue	45,957	57,990	112,737

4.3 Breakdown of revenue by region

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

	Unaudited six months ended 30 September 2016 \$000s	Unaudited six months ended 30 September 2015 \$000s	Audited year ended 31 March 2016 \$000s
Asia	21,460	25,806	48,725
North America	8,883	11,912	23,927
Europe	14,885	18,650	37,217
Others	729	1,622	2,868
Total revenue by region	45,957	57,990	112,737

4.4 Breakdown of revenue by market segment

	Unaudited six months ended 30 September 2016 \$000s	Unaudited six months ended 30 September 2015 \$000s	Audited year ended 31 March 2016 \$000s
Telecommunications	21,262	28,872	53,422
Global Positioning	12,048	16,501	31,451
Space and Defence	11,609	11,337	25,265
Other	1,038	1,280	2,599
Total revenue by market segment	45,957	57,990	112,737

5. Other gains - net

	Unaudited six months ended 30 September 2016 \$000s	Unaudited six months ended 30 September 2015 \$000s	Audited year ended 31 March 2016 \$000s
Gain/(loss) on disposal of property, plant, equipment and intangibles	1	3	(117)
Foreign exchange gains/(losses) – net			
Foreign exchange contracts and hedges ¹	424	(449)	275
Revaluation of foreign denominated monetary assets and liabilities	(640)	2,172	713
Total foreign exchange gains – net	(216)	1,723	988
Total other (losses)/gains – net	(215)	1,726	871

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

6. Operating expenses

	Unaudited six months ended 30 September 2016 \$000s	Unaudited six months ended 30 September 2015 \$000s	Audited year ended 31 March 2016 \$000s
Operating expense by function			
Selling and marketing costs	4,721	5,206	10,377
Research and development	5,696	6,956	12,059
General and administration	10,255	11,117	25,330
Total operating expenses	20,672	23,279	47,766

6.1 NZ restructure

During the period a partial restructure took place in the NZ business. Restructure related costs of \$737,000 are included in operating expenses for the six months to 30 September 2016. A provision of \$213,000 exists at 30 September 2016 for costs incurred but not yet settled. These are expected to be settled within the next six months.

7. Interests in associates and joint venture

7.1 Accounting policy

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

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

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

7.2 Breakdown of interest in associates & joint venture

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

Name of entity	Nature of relationship	Country of incorporation	% of ownership interest		
			Unaudited six months ended 30 September 2016	Unaudited six months ended 30 September 2015	Audited year ended 31 March 2016
			Chengdu Shen-Timemaker Crystal Technology Co. Ltd	Associate	China
Chengdu Timemaker Crystal Technology Co. Ltd	Associate	China	40%	40%	40%
Shenzhen Taixiang Wafer Co. Ltd	Associate	China	40%	40%	40%
Thinextra Pty Limited	Associate	Australia	46%	-	40%
Centum Rakon India Private Ltd	Joint venture	India	49%	49%	49%

	Net investment			Equity accounted (loss)/profit		
	Unaudited six months ended 30 September 2016	Unaudited six months ended 30 September 2015	Audited year ended 31 March 2016	Unaudited six months ended 30 September 2016	Unaudited six months ended 30 September 2015	Audited year ended 31 March 2016
	\$000s	\$000s	\$000s	\$000s	\$000s	\$000s
Chengdu Shen-Timemaker Crystal Technology Co. Ltd	6,219	8,010	6,842			
Chengdu Timemaker Crystal Technology Co. Ltd	1,647	1,359	1,411			
Shenzhen Taixiang Wafer Co. Ltd	402	458	436			
Total Timemaker Group	8,268	9,827	8,689	433	(212)	(704)
Thinextra Pty Limited	5,260	-	1,626	(938)	-	(95)
Total carrying amount of associates	13,528	9,827	10,315	(505)	(212)	(799)
Centum Rakon India Private Ltd	6,351	7,220	6,798	(26)	(520)	(103)
Total carrying amount of equity accounted associates and joint venture	19,879	17,047	17,113	(531)	(732)	(902)

The Timemaker and CRI entities provide products and services to the frequency control products industry.

7.3 Investment in Thinextra

Thinextra Pty Limited ("Thinextra") is an 'Internet of Things' business that started operations in Australia and New Zealand in 2016. Thinextra's focus is on establishing a network and providing products, services and solutions to customers who have Machine-to-Machine communication needs.

During the period Rakon invested a further A\$4.2m in Thinextra and at 30 September 2016 had a shareholding of 46%. Rakon's shareholding would reduce to 36% in the likely event that Thinextra's founding shareholders chose to exercise all their outstanding options. The Directors have concluded that Rakon does not have control over Thinextra and continues to be accounted for as an associate.

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

8. Borrowings

8.1 Accounting policy

Interest bearing borrowings are recognised initially at fair value, net of transaction costs incurred. Subsequent to initial recognition, interest bearing borrowings are measured at amortised cost with any difference between the proceeds (net of transaction costs) and the redemption amount, recognised in the statement of comprehensive income over the period of the borrowings using the effective interest method. Arrangement fees are amortised over the term of the loan facility. General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets (which are assets that necessarily take a substantial period of time to get ready for their intended use), are added to the cost of those assets until such time as the assets are substantially ready for their intended use. 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 balance date.

8.2 Breakdown of borrowings

	Unaudited six months ended 30 September 2016 \$000s	Unaudited six months ended 30 September 2015 \$000s	Audited year ended 31 March 2016 \$000s
Current			
Obligations under finance lease	10	32	15
Bank overdrafts	3,799	5,273	3,931
Bank borrowings	18,911	12,000	-
Current borrowings	22,720	17,305	3,946
Non-current			
Obligations under finance lease	64	15	-
Bank borrowings	-	-	12,000
Non-current borrowings	64	15	12,000

8.3 Bank borrowings

The Group maintains the following lines of credit:

- \$15.1m cash advance facility with ASB. The interest rate is reset every 30 – 90 days and interest is payable based on the bank bill rate for that interest period, the term funding premium and the applicable margin. The drawn down balance at balance date was \$13.5m and the facility expiry date is May 2017.
- \$5.4m cash advance facility with ASB. The interest rate is reset every 30 – 90 days and interest is payable based on the bank bill rate for that interest period, the term funding premium and the applicable margin. During the period \$5.4m was drawn down and used for the purchase of the Group's investment in Thinextra. The facility expiry date is September 2017.
- \$9.3m overdraft limit. Interest is payable at the ASB Corporate Indicator Rate plus applicable margin.

Facilities are secured by a general security deed over all the present and future assets and undertakings of the Group. In March 2016 Rakon renewed its facilities and in September 2016 Rakon amended some terms of its facilities. Prior to expiry the Directors anticipate renewing the cash advance facilities at reduced levels. The Directors anticipate renewing the overdraft facility on similar terms and conditions.

9. Contingencies

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

10. Events after reporting date

10.1 France restructure

A proposal for re-organisation has been discussed with the Work Inspection Administration and Workers Council in France and communicated to the employees of Rakon France SAS as a plan to restructure in November and December 2016. Restructure related costs are expected to be €1,414,000.

There have been no other subsequent events after 30 September 2016.

Other Information

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

The Board of Directors has declared that no dividend is to be paid for the interim period to 30 September 2016. Rakon maintains a dividend policy such that residual cash flows after investment will then be available for distribution to shareholders on the basis that net debt remains at a level viewed as comfortable by the Board, following distribution. Any declaration and payment of dividends including the amount, will be at the discretion of the Board of Directors.

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

	30 September 2016	30 September 2015
Net tangible assets \$000	61,410	69,068
Number of ordinary securities 000	191,039	191,039
Net tangible asset backing per ordinary security \$	0.32	0.36

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

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

During the period there was no change in control through new entities gained or existing entities lost.

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

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

	Shareholding
Centum Rakon India Private Limited	49%
Thinextra Pty Limited	46%
Chengdu Shen-Timemaker Crystal Technology Co. Limited	40%
Chengdu Timemaker Crystal Technology Co, Limited	40%
Shenzhen Taixiang Wafer Co, Limited	40%

The contribution of Centum Rakon to Rakon Limited's net results from ordinary activities is a net loss after tax of \$26,000 (30 September 2015: loss \$243,000). The contribution of Thinextra to Rakon Limited's net results from ordinary activities is a net loss after tax of \$938,000 (30 September 2015: nil). The contribution of Chengdu Shen-Timemaker, Chengdu Timemaker and Shenzhen Taixiang to Rakon Limited's net results from ordinary activities is a net profit after tax of \$433,000 (30 September 2015: loss \$489,000).

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

The financial statements are unaudited.

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

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