

Rakon Limited
Interim Report
2024

Table of Contents

Unaudited Consolidated Interim Statement of Comprehensive Income 3
Unaudited Consolidated Interim Statement of Changes in Equity 4
Unaudited Consolidated Interim Balance Sheet 5
Unaudited Consolidated Interim Statement of Cash Flows 6
Notes to the Financial Statements 8

Unaudited Consolidated Interim Statement of Comprehensive Income

For the period ended 30 September 2023

		Unaudited six months ended 30 September 2023 \$000s	Restated Unaudited six months ended 30 September 2022 \$000s	Audited year ended 31 March 2023 \$000s
	Note			
Continuing operations				
Revenue	4	61,254	87,164	180,334
Cost of sales		(35,133)	(43,641)	(91,542)
Gross profit		26,121	43,523	88,792
Other operating income		92	267	401
Operating expenses				
Selling and marketing		(5,827)	(5,620)	(10,626)
Research and development		(8,856)	(8,507)	(16,979)
General and administration		(14,135)	(14,223)	(31,214)
Total operating expenses		(28,818)	(28,350)	(58,819)
Other gains/(losses) – net	5	3,374	7,434	2,969
Operating profit		769	22,874	33,343
Finance income		280	95	371
Finance costs		(265)	(547)	(891)
Share of net losses of associate		(625)	(18)	(1,460)
Profit before income tax		159	22,404	31,363
Income tax credit/(expense)		340	(6,391)	(8,144)
Net profit after tax for the period attributable to equity holders of the Company		499	16,013	23,219
Other comprehensive income				
Items that may be reclassified subsequently to profit or loss				
Decrease in fair value cash flow hedges		(1,613)	(19,664)	(2,517)
Cost of hedging		(310)	(1,218)	(1,494)
Income tax relating to components of other comprehensive income		538	5,847	1,123
Exchange differences on translation of foreign operations		968	3,924	1,774
Long term incentive plan		176	163	347
Items that will not be reclassified subsequently to profit or loss				
Changes in fair value of equity investments – Thinextra		10	(628)	(753)
Other comprehensive income for the period, net of tax		(231)	(11,576)	(1,520)
Total comprehensive income for the period attributable to equity holders of the Company		268	4,437	21,699
Earnings per share attributable to the equity holders of the Company				
		Cents	Cents	Cents
Basic earnings per share		0.2	7.1	10.2
Diluted earnings per share		0.2	7.0	10.2

For the NZ segment, research and development expenses was previously aligned to the R&D grant claim. With the change in the grant scheme introduced by New Zealand Government (which was adopted for 31 March 2023 reporting), the research and development calculation was reassessed for the period ending 30 September 2022, resulting in a reclassification of \$2,010,000 from general and administration expenses to research and development expenses.

Change in classification of selling and marketing expenses in France HiRel led to the reassessment of prior year costs which resulted in a reclassification of \$1,138,000 from general and administration expenses to selling and marketing expenses.

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

Unaudited Consolidated Interim Statement of Changes in Equity

For the period ended 30 September 2023

	Share capital \$000s	Retained earnings \$000s	Other reserves \$000s	Total equity \$000s
Balance at 31 March 2022	181,024	(23,126)	(22,733)	135,165
Net profit after tax for the half year ended 30 September 2022	-	16,013	-	16,013
Currency translation differences	-	-	3,924	3,924
Cash flow hedges, net of tax	-	-	(15,035)	(15,035)
Changes in fair value of equity investments at fair value through other comprehensive income – Thinextra	-	-	(628)	(628)
Contribution of equity net of transaction costs				
Employee share schemes				
Value of employee services	-	-	163	163
Total comprehensive income for the half year	-	16,013	(11,576)	4,437
Balance at 30 September 2022	181,024	(7,113)	(34,309)	139,602
Net profit after tax for the half year ended 31 March 2023	-	7,206	-	7,206
Currency translation differences	-	-	(2,150)	(2,150)
Cash flow hedges, net of tax	-	-	12,147	12,147
Changes in fair value of equity investments at fair value through other comprehensive income – Thinextra	-	-	(125)	(125)
Contribution of equity net of transaction costs				
Employee share schemes				
Value of employee services	-	-	184	184
Total comprehensive income for the half year	-	7,206	10,056	17,262
Balance at 31 March 2023	181,024	93	(24,253)	156,864
Net profit after tax for the half year ended 30 September 2023	-	499	-	499
Currency translation differences	-	-	968	968
Cash flow hedges, net of tax	-	-	(1,385)	(1,385)
Changes in fair value of equity investments at fair value through other comprehensive income – Thinextra	-	-	10	10
Contribution and distribution of equity net of transaction costs				
Issue of shares	568	-	-	568
Dividends	-	(3,482)	-	(3,482)
Employee share schemes				
Value of employee services	-	-	176	176
Total comprehensive income for the half year	568	(2,983)	(231)	(2,646)
Balance at 30 September 2023	181,592	(2,890)	(24,484)	154,218

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

Unaudited Consolidated Interim Balance Sheet

As at 30 September 2023

	Note	Unaudited six months ended 30 September 2023 \$000s	Unaudited six months ended 30 September 2022 \$000s	Audited year ended 31 March 2023 \$000s
Assets				
Current assets				
Cash and cash equivalents		17,879	25,744	21,717
Trade and other receivables		45,848	50,595	51,421
Inventories		59,959	72,043	62,614
Derivative financial instruments		292	44	1,100
Financial asset at fair value through profit or loss		5	-	96
Current income tax asset		367	266	362
Total current assets		124,350	148,692	137,310
Non-current assets				
Property, plant and equipment		38,563	30,103	34,387
Intangible assets		8,594	6,883	7,671
Right-of-use assets		3,974	4,222	3,435
Interest in associates		13,525	16,460	14,154
Trade and other receivables		2,151	2,070	3,615
Financial asset at fair value through other comprehensive income – Thinextra	6	1,936	2,053	1,927
Derivative financial instruments		358	253	1,228
Deferred tax asset		4,065	7,687	3,543
Total non-current assets		73,166	69,731	69,960
Total assets		197,516	218,423	207,270
Liabilities				
Current liabilities				
Bank overdraft	7	-	1,417	-
Borrowings	7	1,374	1,323	1,635
Trade and other payables		24,843	36,222	29,978
Current income tax liabilities		(825)	3,289	1,688
Lease liabilities		1,577	2,139	1,562
Provisions		1,153	727	1,176
Derivative financial instruments		4,792	16,305	4,107
Total current liabilities		32,914	61,422	40,146
Non-current liabilities				
Borrowings	7	3,112	4,604	3,600
Trade and other payables		-	-	92
Provisions		3,096	2,940	3,057
Lease liabilities		2,903	2,713	2,507
Derivative financial instruments		1,273	7,142	940
Deferred tax liabilities		-	-	64
Total non-current liabilities		10,384	17,399	10,260
Total liabilities		43,298	78,821	50,406
Net assets		154,218	139,602	156,864
Equity				
Share capital		181,592	181,024	181,024
Other reserves		(24,484)	(34,309)	(24,253)
Accumulated losses		(2,890)	(7,113)	93
Total equity		154,218	139,602	156,864

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

Unaudited Consolidated Interim Statement of Cash Flows

For the period ended 30 September 2023

	Unaudited six months ended 30 September 2023 \$000s	Unaudited six months ended 30 September 2022 \$000s	Audited year ended 31 March 2023 \$000s
Operating activities			
Cash provided from			
Receipts from customers	75,679	85,497	173,137
R&D grants received	882	1,759	2,092
Other income received	339	207	506
	76,900	87,463	175,735
Cash was applied to			
Payment to suppliers and others	(35,346)	(51,366)	(95,749)
Payment to employees	(31,593)	(29,865)	(58,375)
Interest paid	(282)	(735)	(1,004)
Income tax paid	(2,369)	(5,480)	(9,495)
	(69,590)	(87,446)	(164,623)
Net cash inflow from operating activities	7,310	17	11,112
Investing activities			
Cash was applied to			
Purchase of property, plant and equipment	(6,015)	(9,420)	(17,342)
Purchase of intangibles	(46)	(306)	(1,356)
	(6,061)	(9,726)	(18,698)
Net cash outflow from investing activities	(6,061)	(9,726)	(18,698)
Financing activities			
Cash was applied to			
Dividends paid	(2,915)	-	-
Repayment of borrowings	-	(10,000)	(10,746)
Lease liabilities payments	(1,733)	(1,491)	(2,472)
	(4,648)	(11,491)	(13,218)
Net cash inflow from financing activities	(4,648)	(11,491)	(13,218)
Net increase in cash and cash equivalents	(3,399)	(21,200)	(20,804)
Effects of exchange rate changes on cash and cash equivalents	(439)	6,298	3,292
Cash and cash equivalents at the beginning of the year	21,717	39,229	39,229
Cash and cash equivalents at the end of the period	17,879	24,327	21,717
Composition of cash and cash equivalents			
Cash and cash equivalents	17,879	25,744	21,717
Bank Overdraft	-	(1,417)	-
Total Cash and cash equivalents	17,879	24,327	21,717
Breakdown of net debt (excluding lease liabilities) at the end of the period			
Cash and cash equivalents	17,879	24,327	21,717
Borrowings	(4,486)	(5,927)	(5,235)
Net cash (excluding lease liabilities) at the end of the period	13,393	18,400	16,482

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

Unaudited Consolidated Interim Statement of Cash Flows (continued)

For the period ended 30 September 2023

	Unaudited six months ended 30 September 2023 \$000s	Unaudited six months ended 30 September 2022 \$000s	Audited year ended 31 March 2023 \$000s
Reconciliation of net profit to net cash flows from operating activities			
Reported net profit after tax	499	16,013	23,219
Adjustments for			
Depreciation and amortisation expense	3,503	3,896	7,777
Net increase in allowance for expected credit loss	14	-	222
Provisions provided	-	209	1,103
Movement in foreign exchange rates	2,209	(673)	(1,333)
Share of net profits of associate	625	18	1,460
Deferred tax movement	-	-	(644)
Gain on disposal of property, plant and equipment	(88)	-	-
Employee share based expense	175	163	347
	6,438	3,613	8,932
Change in operating assets and liabilities			
Decrease/(Increase) in trade and other receivables	5,708	(6,202)	(8,794)
Decrease/(Increase) in inventories	2,654	(14,724)	(5,293)
Increase in provisions	17	219	785
(Decrease)/Increase in trade and other payables	(5,228)	213	(7,125)
Increase/(Decrease) in tax provisions and deferred tax	(2,778)	885	(612)
Total impact of changes in working capital items	373	(19,609)	(21,039)
Net cash flow from operating activities	7,310	17	11,112

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

Notes to the Financial Statements

1.	General information	9
2.	Statement of significant accounting policies.....	9
3.	Segment information.....	9
4.	Revenue	11
5.	Other gains/(losses) – net.....	12
6.	Financial asset at fair value through other comprehensive income – Thinextra	12
7.	Borrowings.....	13
8.	Contingencies	13
9.	Subsequent events	13

Notes to the Financial Statements (continued)

1. General information

Rakon Limited ('the Company') and its subsidiaries ('the Group') are a global technology company that design and manufacture advanced frequency control and timing solutions for a wide range of applications. Rakon's core markets are Telecommunications, Space & Defence, and Global Positioning. The Company is a limited liability company, incorporated and domiciled in New Zealand, and listed on the New Zealand Stock Exchange (NZX code: RAK). The address of the registered office is 8 Sylvia Park Road, Mt Wellington, Auckland.

The Company is registered under the Companies Act 1993 and is a FMC 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) Listing Rules.

The unaudited interim financial statements of the Group have been approved for issue by Rakon's Board of Directors on 22 November 2023.

2. Statement of significant accounting policies

These unaudited interim financial statements of the Group for the half-year reporting period ended 30 September 2023 have been prepared in accordance with New Zealand Generally Accepted Accounting Practice (NZ GAAP). They comply with New Zealand equivalents to International Financial Reporting Standards (NZ IFRS), other New Zealand accounting standards and authoritative notices that are applicable to entities that apply NZ IFRS, in particular NZ IAS 34 Interim Financial Reporting. The consolidated financial statements also comply with International Financial Reporting Standards (IFRS). The Group is a profit-oriented entity for the purposes of complying with NZ GAAP. These financial statements comprise Rakon and its subsidiaries, and have been prepared on a going concern basis.

The unaudited interim financial statements of the Group have been presented in New Zealand dollars and have been rounded to the nearest thousands unless otherwise indicated.

The preparation of financial statements in accordance with NZ IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates.

This unaudited interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report should be read in conjunction with the annual report for the year ended 31 March 2023 and any public announcements made by the Company during the interim reporting period.

3. Segment information

The chief operating decision maker (CODM), is responsible for allocating resources and assessing performance of the operating segments. CODM for the Group is the Chief Executive Officer.

The operating segments are presented in a manner consistent with the internal reporting provided to the CODM. Significant judgement has been applied in the determination of reportable operating segments. Ownership of products' intellectual property have been used as the key factor to identify reportable operating segment and aggregation criteria, based on synergies between the businesses not limited by geography.

The CODM assess the performance of the operating segments based on 'Underlying EBITDA', a non-GAAP measure, defined as: 'Earnings before interest, tax, depreciation, amortisation, impairment, employee share schemes, non-controlling interests, adjustments for associate's share of interest, tax & depreciation, loss on disposal of assets and other cash and non-cash items'. The CODM also receives information about the segments' revenue on monthly basis.

Notes to the Financial Statements (continued)

a. Segment results

Information relating to each reportable segment is set out below.

	Unaudited six months ended 30 September 2023					
	NZ \$000s	France/ India \$000s	France HiRel \$000s	T'maker \$000s	Other ¹ \$000s	Total \$000s
Segment revenue by market						
Telecommunications	23,393	13,323	152	-	(2,703)	34,165
Global Positioning	7,531	31	234	-	(618)	7,178
Space and Defence	6,245	756	8,864	-	(582)	15,283
Other	2,347	87	2,468	-	(274)	4,628
Total segment revenue by market	39,516	14,197	11,718	-	(4,177)	61,254
Underlying EBITDA	6,821	(1,503)	880	566	(1,509)	5,255
Total assets ²	102,388	51,209	28,700	13,914	1,305	197,516
Additions of property, plant and equipment, and intangibles	3,583	2,135	1,611	-	-	7,329
Total liabilities ³	21,932	14,345	5,968	-	1,053	43,298

	Unaudited six months ended 30 September 2022					
	NZ \$000s	France/ India \$000s	France HiRel \$000s	T'maker \$000s	Other ¹ \$000s	Total \$000s
Segment revenue by market						
Telecommunications	30,634	19,255	298	-	(2,660)	47,527
Global Positioning	17,198	97	63	-	(974)	16,384
Space and Defence	5,209	1,061	6,366	-	(346)	12,290
Other	8,906	47	2,636	-	(626)	10,963
Total segment revenue by market	61,947	20,460	9,363	-	(4,606)	87,164
Underlying EBITDA	32,149	2,998	(1,123)	1,050	(6,995)	28,079
Total assets ²	127,434	48,806	23,484	16,868	1,831	218,423
Additions of property, plant and equipment, and intangibles	2,606	6,617	502	-	-	9,725
Total liabilities ³	49,390	18,888	8,935	-	1,608	78,821

	Audited year ended 31 March 2023					
	NZ \$000s	France/ India \$000s	France HiRel \$000s	T'maker \$000s	Other ¹ \$000s	Total \$000s
Segment revenue by market						
Telecommunications	65,874	39,215	453	-	(4,961)	100,581
Global Positioning	35,287	112	233	-	(1,790)	33,842
Space and Defence	10,448	2,846	16,248	-	(640)	28,902
Other	12,223	234	5,390	-	(838)	17,009
Total segment revenue by market	123,832	42,407	22,324	-	(8,229)	180,334
Underlying EBITDA	39,117	7,580	1,642	622	(6,779)	42,182
Total assets ²	111,435	52,032	28,126	14,154	1,523	207,270
Additions of property, plant and equipment, and intangibles	5,935	10,905	1,858	-	-	18,698
Total liabilities ³	26,869	14,055	7,930	-	1,552	50,406

Notes to the Financial Statements (continued)

¹ Revenue is (losses)/gains on cash flow hedges apportioned to each segment based on hedged currency.

² Segment assets are measured in the same way as in the financial statements. These assets are presented as it is regularly provided to the CODM.

³ Segment liabilities are measured in the same way as in the financial statements. These liabilities are presented as it is regularly provided to the CODM.

b. Segment description and principal activities

The New Zealand (NZ) operating segment designs and manufactures products for Telecommunications, Global Positioning and Defence markets. The segment includes research and development (R&D) engineering teams located in NZ and UK which develop new products and process innovations.

The France/India operating segment designs and manufactures products for the Telecommunication market. Design and support services are in France and NZ, with manufacturing in India.

Rakon's India facility in Bengaluru contract manufacture products exclusively for the Group. They also design and manufacture products for the local Indian defence, aeronautics and space markets. Though there is potential for future growth in the domestic market, this business currently is not large enough for the CODM to view separately, therefore is aggregated with France Telecom.

The France HiRel operating segment designs and manufactures products for the Space & Defence markets. Design, support services and manufacturing are predominantly carried out in France.

The Timemaker Group (T' maker) produces crystal blanks and represents the Group's 37.07% (2022: 37.07%) ownership interest.

All other segments (Other) includes Rakon Financial Services Limited, Rakon UK Holdings Limited, and Rakon Investment HK Limited. These are not operating segments and are not separately included in reports provided to the CODM. Also included are the head office, and group sales and marketing services segments. These are reported separately to the CODM.

c. Reconciliation of Underlying EBITDA to net profit after tax for the year

	Unaudited six months ended 30 September 2023 \$000s	Unaudited six months ended 30 September 2022 \$000s	Audited year ended 31 March 2023 \$000s
Continuing operations			
Underlying EBITDA	5,256	28,079	42,182
Depreciation and amortisation	(3,503)	(3,877)	(7,777)
Adjustment for associate share of interest, tax and depreciation	(1,191)	(1,066)	(2,100)
Finance costs – net	15	(452)	(520)
Long term incentive scheme	(270)	-	(376)
Other non-cash items	(148)	(280)	(46)
Profit before income tax	159	22,404	31,363
Income tax credit/(expense)	340	(6,391)	(8,144)
Net profit after tax for the year	499	16,013	23,219

4. Revenue

The Group designs, manufactures and sells frequency control solutions for a wide range of applications. Revenue is derived from the transfer of goods over time and at a point in time at an amount that reflects the consideration the Group expects to be entitled to in exchange for products and services excluding any applicable taxes. Arrangements are agreed with the customers, set out in the terms and conditions which cover the pricing, settlement of liabilities, return policies and any other negotiated performance obligations.

a. Reportable segment revenue from contracts with customers

	Unaudited six months ended 30 September 2023				Total \$000s
	NZ \$000s	France/ India \$000s	France HiRel \$000s	Other \$000s	
Products transferred at a point in time	39,516	14,197	8,875	(4,177)	58,411
Products and services transferred over time	-	-	2,843	-	2,843
Sales to external customers	39,516	14,197	11,718	(4,177)	61,254

Notes to the Financial Statements (continued)

Unaudited six months ended 30 September 2022

	NZ \$000s	France/ India \$000s	France HiRel \$000s	Other \$000s	Total \$000s
Products transferred at a point in time	61,946	20,460	6,459	(4,605)	84,260
Products and services transferred over time	-	-	2,904	-	2,904
Sales to external customers	61,946	20,460	9,363	(4,605)	87,164

Audited year ended 31 March 2023

	NZ \$000s	France/ India \$000s	France HiRel \$000s	Other \$000s	Total \$000s
Products transferred at a point in time	123,832	42,407	19,437	(8,229)	177,447
Products and services transferred over time	-	-	2,887	-	2,887
Sales to external customers	123,832	42,407	22,324	(8,229)	180,334

b. Revenue by geography

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 2023 \$000s	Unaudited six months ended 30 September 2022 \$000s	Audited year ended 31 March 2023 \$000s
Asia	24,897	37,542	82,516
North America	22,593	35,306	61,892
Europe	12,881	12,028	30,750
Others	883	2,288	5,176
Total segment revenue by geography	61,254	87,164	180,334

5. Other gains/(losses) – net

	Unaudited six months ended 30 September 2023 \$000s	Unaudited six months ended 30 September 2022 \$000s	Audited year ended 31 March 2023 \$000s
Gain/(loss) on disposal of property, plant and equipment, intangible, and right-of-use assets	96	(7)	(33)
Foreign exchange gains/(losses) – net			
Forward foreign exchange contracts			
Financial asset at fair value through profit or loss	(745)	(3,116)	(880)
Revaluation of foreign denominated monetary assets and liabilities ¹	4,023	10,557	3,882
Total foreign exchange gains – net	3,278	7,441	3,002
Total other gains/(losses) – net	3,374	7,434	2,969

¹ Includes realised and unrealised gains arising from bank balances, accounts receivable and accounts payable.

6. Financial asset at fair value through other comprehensive income – Thinextra

Subsequent to losing significant influence in Thinextra and ceasing equity accounting of the investment on 1 June 2018, the Group elected to present changes in fair value of its investment in other comprehensive income (FVOCI).

The FVOCI are strategic investments which are not held for trading, and which the Group has irrevocably elected the classification at initial recognition, considering this to be more relevant. For assets measured at FVOCI, gains and losses on revaluation are recorded in OCI reserve. On disposal of these equity investments, any related balance within the OCI reserve is reclassified to retained earnings.

Notes to the Financial Statements (continued)

a. Thinxtra

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

Rakon was one of the founding members of Thinxtra in 2016, and has a 7.0% ownership interest at 30 September 2023 (March 2023: 7.0%). This is calculated on a fully diluted basis including the exercise of any existing options.

Based on the information and observations available, the valuation remains unchanged from 31 March 2023 at A\$1.8m or A\$2.29 per share.

7. Borrowings

The Group is reliant on its bank facilities and equity as the principal sources of capital management.

a. Line of credits

The Group maintains following line of credits.

	Unaudited six months ended 30 September 2023 \$000s	Unaudited six months ended 30 September 2022 \$000s	Audited year ended 31 March 2023 \$000s
Current			
French Government loan	1,307	1,258	1,513
Other borrowings	67	66	122
Current borrowings	1,374	1,323	1,635
Bank overdrafts	-	1,417	-
Total current borrowings	1,374	2,740	1,635
Non-current			
French Government loan	2,968	4,337	3,450
Other borrowings	144	267	150
Non-current borrowings	3,112	4,604	3,600

b. ASB

The Company maintains a working facility of \$10 million (2022: \$10 million). During the period Company operated within its required financial covenants.

c. Crédit Agricole Provence Côte D'Azur

The bank borrowings include a €2.4m French government backed loan that was made available to Rakon France (2022: €3.2m). In May 2021, the Company exercised its option to extend this loan for a further five years. Repayment of the loan is spread equally over the final four years to June 2026. The effective interest rate is 1.24% for the remaining term of five years. This loan has certain restrictions that limits it to be used for working capital/treasury support for the French business. There are no covenants on the loan and no additional security is required.

d. HDFC Bank

In June 2022, Rakon India secured a new credit facility with HDFC bank including ₹200m (NZ\$4,000,000) that can be used for funding working capital requirements. The facility is secured by inventories and debtors.

8. Contingencies

There are no material changes to contingent liabilities or assets from 31 March 2023.

9. Subsequent events

The Directors are not aware of any material events subsequent to 30 September 2023.