Rakon Limited

Financial Statements 2021

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Directors' Statement

The Directors are responsible for ensuring that the financial statements fairly present the financial position of the Group as at 31 March 2021 (FY2021) and the financial performance and cash flows for the year ended on that date.

The Directors consider that the financial statements of the Group have been prepared using appropriate accounting policies, consistently applied and supported by reasonable judgements 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 Markets Conduct Act 2013.

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 present the financial statements, set out in pages 4 – 38, of Rakon Limited and subsidiaries for the year ended 31 March 2021.

The Board of Directors of Rakon Limited authorised these financial statements for issue on 27 May 2021.

On behalf of the Directors

BR Irvine	BJ Robinson
Chair	CEO, Managing Director

Statement of Comprehensive Income

For the year ended 31 March 2021

	Note	2021 $000s	2020 $000s
Continuing operations			
Revenue	6	128,260	118,980
Cost of sales		(69,344)	(66,947)
Gross profit		**58,916**	**52,033**
Other operating income	8	2,604	28
Operating expenses			
Selling and marketing		(9,441)	(9,585)
Research and development	7	(13,644)	(12,842)
General and administration		(25,936)	(25,654)
Total operating expenses		**(49,021)**	**(48,081)**
Other (losses)/gains – net	9	(1,181)	(438)
Operating profit		**11,318**	**3,542**
Finance income	10	29	8
Finance costs	10	(1,628)	(1,063)
Share of net profits of associates	17	1,446	797
Profit before income tax		**11,165**	**3,284**
Income tax (expense)/ credit	22	(1,527)	696
Net profit after tax for the year attributable to equity holders of the Company		**9,638**	**3,980**
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss			
Decrease in fair value cash flow hedges		9,906	(7,247)
Cost of hedging		(105)	570
Exchange differences on translation of foreign operations		(4,826)	4,140
Income tax relating to components of other comprehensive income		(2,745)	2,029
Items that will not be reclassified subsequently to profit or loss			
Changes in fair value of equity investments – Thinxtra		203	(1,632)
Other comprehensive income for the year, net of tax		**2,433**	**(2,140)**
Total comprehensive income for the year attributable to equity holders of the Company		**12,071**	**1,840**
Earnings per share attributable to the equity holders of the Company		**Cents**	**Cents**
Basic earnings per share	24	4.2	1.8
Diluted earnings per share	24	4.2	1.8

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

Statement of Changes in Equity

For the year ended 31 March 2021

	Note	Share capital $000s	Retained earnings $000s	Other reserves $000s	Total equity $000s
Balance at 31 March 2019		**181,024**	**(69,855)**	**(21,153)**	**90,016**
Net profit after tax for the year		-	3,980	-	3,980
Currency translation differences	25	-	-	4,140	4,140
Cash flow hedges, net of tax	25	-	-	(4,648)	(4,648)
Changes in fair value of equity investments at fair value through other comprehensive income – Thinxtra	25	-	-	(1,632)	(1,632)
Total comprehensive income for the year		**-**	**3,980**	**(2,140)**	**1,840**
Balance at 31 March 2020		**181,024**	**(65,875)**	**(23,293)**	**91,856**
Net profit after tax for the year		-	9,638	-	9,638
Currency translation differences	25	-	-	(4,826)	(4,826)
Cash flow hedges, net of tax	25	-	-	7,056	7,056
Changes in fair value of equity investments at fair value through other comprehensive income – Thinxtra	25	-	-	203	203
Total comprehensive income for the year		**-**	**9,638**	**2,433**	**12,071**
Balance at 31 March 2021		**181,024**	**(56,237)**	**(20,860)**	**103,927**

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

Balance Sheet

As at 31 March 2021

	Note	2021 $000s	2020 $000s
Assets			
Current assets			
Cash and cash equivalents	11	15,073	5,086
Trade and other receivables	12	38,906	42,379
Inventories	13	37,699	37,624
Derivative financial instruments	26	2,521	27
Financial asset at fair value through profit or loss	26	333	2
Current income tax asset		478	889
Total current assets		**95,010**	**86,007**
Non-current assets			
Property, plant and equipment	14	18,296	18,924
Intangible assets	15	7,584	9,003
Right-of-use assets	16	7,195	9,730
Interest in associates	17	12,333	11,714
Trade and other receivables	12	3,843	2,702
Financial asset at fair value through other comprehensive income – Thinxtra	18	3,120	2,918
Derivative financial instruments	26	587	-
Deferred tax asset	22	6,398	9,246
Total non-current assets		**59,356**	**64,237**
Total assets		**154,366**	**150,244**
Liabilities			
Current liabilities			
Bank overdraft	19	3,599	12,848
Borrowings	19	6,433	145
Trade and other payables	20	26,026	22,252
Lease liabilities	16	2,272	2,741
Deferred income	12	2,806	2,000
Provisions	21	330	714
Derivative financial instruments	26	29	5,040
Total current liabilities		**41,495**	**45,740**
Non-current liabilities			
Provisions	21	3,134	2,918
Lease liabilities	16	5,418	6,704
Derivative financial instruments	26	260	2,840
Deferred tax liabilities	22	132	186
Total non-current liabilities		**8,944**	**12,648**
Total liabilities		**50,439**	**58,388**
Net assets		**103,927**	**91,856**
Equity			
Share capital	23	181,024	181,024
Other reserves	25	(20,860)	(23,293)
Accumulated losses		(56,237)	(65,875)
Total equity		**103,927**	**91,856**

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

Statement of Cash Flows

For the year ended 31 March 2021

	Note	2021 $000s	2020 $000s
Operating activities			
Cash provided from			
Receipts from customers		123,876	116,396
Advance from customers		2,806	-
R&D grants received		1,812	1,557
Covid-19 government assistance		2,517	-
Interest received		23	36
		131,034	**117,989**
Cash was applied to			
Payment to suppliers and others		(59,087)	(58,364)
Payment to employees		(50,060)	(48,860)
Interest paid		(534)	(918)
Income tax paid		(1,294)	(446)
		(110,975)	**(108,588)**
Net cash inflow from operating activities		**20,059**	**9,401**
Investing activities			
Cash was provided from			
Sale of property, plant and equipment		-	44
		-	**44**
Cash was applied to			
Purchase of property, plant and equipment		(4,194)	(3,753)
Purchase of intangibles		(882)	(774)
Purchase of shares in Centum Rakon India Private Limited		-	(2,148)
		(5,076)	**(6,675)**
Net cash outflow from investing activities		**(5,076)**	**(6,631)**
Financing activities			
Cash was provided from			
Proceeds from borrowings		6,450	-
		6,450	**-**
Cash was applied to			
Lease liabilities payments		(2,962)	(3,078)
Cash was applied to financing activities		**(2,962)**	**(3,078)**
Net cash inflow from financing activities		**3,488**	**(3,078)**
Net increase/(decrease) in cash and cash equivalents		**18,471**	**(308)**
Effects of exchange rate changes on cash and cash equivalents		765	(672)
Cash and cash equivalents at the beginning of the year		(7,762)	(6,782)
Cash and cash equivalents at the end of the period		**11,474**	**(7,762)**
Composition of cash and cash equivalents			
Cash and cash equivalents	11	15,073	5,086
Bank overdraft	19	(3,599)	(12,848)
Total cash and cash equivalents		**11,474**	**(7,762)**

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

Statement of Cash Flows (continued)

For the year ended 31 March 2021

	2021 $000s	2020 $000s
Reconciliation of net profit to net cash flows from operating activities		
Reported net profit after tax	**9,638**	**3,980**
Adjustments for		
Depreciation and amortisation expense	8,692	8,823
Net increase in allowance for expected credit loss	73	4
Interest expenses	17	164
Provisions provided	(338)	415
Movement in foreign currency	(961)	1,608
Share of net profits of associate	(1,446)	(797)
Deferred tax movement	(67)	(919)
	5,970	**9,298**
Change in operating assets and liabilities		
Decrease/ (increase) in trade and other receivables	1,498	(4,594)
(Increase)/decrease in inventories	(1,870)	3,020
(Decrease)/increase in provisions	(168)	171
Increase/(decrease) in trade and other payables	4,528	(2,146)
Decrease/(increase) in tax provisions	463	(328)
Total impact of changes in working capital items	**4,451**	**(3,877)**
Net cash flow from operating activities	**20,059**	**9,401**

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 ('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 financial statements of the Group have been presented in New Zealand dollars and have been rounded to the nearest thousand unless otherwise indicated.

2. Impact of Covid-19

At the start of the 2021 financial year the impact of Covid-19 on the Group was initially severe with the New Zealand, French and Indian operations curtailed due to government-imposed restrictions. After the initial period of restrictions, the operations were able to return to normal capacity with additional operating procedures in place. Demand from the telecommunications infrastructure segment continued at high levels as the need for reliable remote communications and higher network capacities became evident.

There remains a heightened level of uncertainty given the continued presence of Covid-19. The risks and uncertainties faced by the Group relate to (and are not limited to):

- The impact of wider global economic pressures and shift in market dynamics
- A potential outbreak at one of the Group's production facilities, significantly affecting site access, production and sales
- Supply chain disruptions

However, the management continuously monitors these risks and plans accordingly to reduce the impact of these on the Group.

3. Going concern

These financial statements have been prepared on a going concern basis. The Directors are not aware of material uncertainties related to events or conditions that may cast significant doubt upon the entity's ability to continue as a going concern. In making this assessment management and the Directors considered factors including the current profitability of the Group, the potential future impact of Covid-19, and the availability of short term funding, refer note 32.

4. Statement of significant accounting policies

a. Basis of preparation and measurement base

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 consolidated financial statements of the Group 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. The consolidated financial statements also comply with International Financial Reporting Standards (IFRS). The Group is a Tier 1 for-profit entity.

The financial statements have been prepared on a historical cost basis, with the exception of certain financial assets and liabilities, and equity instruments, which are measured at fair value.

The operating expenses previously disclosed in the notes to the financial statements have been re-presented in the Statement of Comprehensive Income to ensure consistency with the current year disclosures and to provide more meaningful comparison.

b. Basis of consolidation and equity accounting

The financial statements of the subsidiaries are included in the Group's financial statements from the date on which control commences until the date on which control ceases, refer note 28 or further information on subsidiaries. All material intercompany transactions, balances and unrealised gains on transactions between the subsidiaries are eliminated on consolidation. Interests in associates and joint ventures are accounted for by using the equity method, refer note 17.

c. Significant accounting estimates and judgements

The preparation of the 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. The estimates and assumptions that involved a higher degree of judgement or complexity, or are significant to the financial statements are listed below and disclosed within the specified notes:

- Calculation of inventory obsolescence (note 13)
- Valuation and estimated useful lives of product development assets (note 15)

- Valuation of the Group's investment in Thinxtra (note 18)
- Identification of reportable segment

Impairment of assets, calculations of right-of-use of assets and lease liabilities, estimation of year-end income tax and deferred tax, and estimation of contingent liabilities are no longer considered to be significant accounting estimates and judgement given the impact of these on the current financial result.

d. Significant accounting policies and new accounting standards

The significant accounting policies adopted in the preparation of these consolidated financial statements are disclosed within each of the applicable notes to the financial statements. The accounting policies have been consistently applied to all years presented with exception of the following new accounting standards.

Covid-19 Related Rent Concessions – Amendment to NZ IFRS 16 Leases

In June 2020, the New Zealand Accounting Standards Board provided a practical expedient to NZ IFRS 16 Leases. The expedient allows optional relief from applying NZ IFRS 16's guidance on lease modification accounting for rent concessions that occur as a direct consequence of the Covid-19 pandemic and meet specified conditions. The Group has elected to adopt the expedient for all rent concessions that meet the conditions of NZ IFRS 16 Leases.

The Group recorded $83,000 relating to rent concessions in the Statement of Comprehensive Income for which practical expedient applied.

e. New standards and interpretations not yet adopted

There are no new accounting standards issued that would have material impact on the Group.

f. Foreign currency translation

Functional and presentation currency

The financial statements of each of the Group's overseas operations are measured using the currency of the primary economic environment in which the overseas entity operates (the functional currency). The consolidated financial statements are presented in New Zealand dollars, (the presentation currency), which is also the functional currency of the Company.

Transactions and balances

Foreign currency transactions are translated into the relevant functional currency of the Group's overseas operations at the exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at balance date are translated to the functional currency at the foreign exchange rate at that date. Foreign exchange differences arising on translation are recognised in the Statement of Comprehensive Income, except for qualifying cash flow hedges which are recognised in other comprehensive income (OCI). 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 at foreign exchange rates at the dates the fair value was determined.

The assets and liabilities of all of the Group companies that have a functional currency that differs from the Group's presentation currency, including goodwill and fair value adjustments arising on consolidation, are translated to New Zealand dollars at foreign exchange rates at balance date. The revenues and expenses of these foreign operations are translated to New Zealand dollars at rates approximating to the foreign exchange rates at the dates of the transactions. Exchange differences arising from the translation of foreign operations are recognised in the foreign currency translation reserve, refer note 25.

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 at the balance date.

5. Segment information

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, Chief Operating Officer and Chief Financial Officer. The determination of reportable segments is a significant judgement. The chief decision maker uses a number of reports to make informed decisions on resource allocation. These include elements of and/or combination of: business unit reporting; geographical segment reporting; product profitability reporting; and customer profitability reporting.

The chief operating decision maker also assess 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 associate's 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 cash and non-cash items and before cash impacts relating to the capital structure and tax position. Underlying EBITDA is considered by the Directors to be the closest measure of how each operating segment within the Group is performing. Management uses the non-GAAP measure of Underlying EBITDA internally, to assess the underlying operating performance of the Group and each operating segment.

Except for Underlying EBITDA, other information provided to the chief operating decision maker is measured in a manner consistent with GAAP. This measure should not be viewed in isolation, nor considered as a substitute for measures reported in accordance with NZ IFRS. This non-GAAP financial measure may not be comparable to similarly titled amounts reported by other companies.

a. Segment results

Information relating to each reportable segment is set out below. Segment revenue information is disclosed in note 6.

31 March 2021

	NZ $000s	UK $000s	France $000s	India $000s	China – T'maker $000s	Other $000s	Total $000s
Underlying EBITDA	15,862	2,099	(4,260)	6,291	3,289	203	23,484
Total assets[1]	81,488	2,886	34,103	21,528	12,333	2,028	154,366
Interest in associate	-	-	-	-	12,333	-	12,333
Additions of property, plant and equipment, and intangibles	4,027	78	470	501	-	-	5,076
Total liabilities[2]	24,828	1,503	18,518	4,540	-	1,050	50,439

31 March 2020

	NZ $000s	UK $000s	France $000s	India $000s	China – T'maker $000s	Other $000s	Total $000s
Underlying EBITDA	9,634	1,813	(1,690)	3,169	2,214	(353)	14,787
Total assets[1]	71,021	3,130	36,364	25,341	11,714	2,674	150,244
Interest in associate	-	-	-	-	11,714	-	11,714
Additions of property, plant and equipment, and intangibles	2,587	480	635	920	-	-	4,622
Total liabilities[2]	36,131	1,385	12,426	7,544	-	902	58,388

[1] 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.

[2] 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.

b. Segment description and principal activities

The New Zealand (NZ) operations manufactures products for Telecommunications, Global Positioning and Space & Defence markets. The facility also contains a highly experienced design team and continues to develop products and process innovations used in other operations.

Rakon's Harlow design centre (UK) provides support to the Group with precision research and development (R&D) and design for high end products.

France designs high precision and high reliability frequency solutions for Telecommunications, Space & Defence applications. The telecommunications products are manufactured in India and the space & defence solutions manufactured in France.

Rakon’s India facility in Bengaluru is engaged in the contract manufacturing of telecommunications products that are sold by Rakon France (France-Telco) and the design and manufacturing of high performance frequency control products for the local Indian, defence, aeronautics and space markets.

The Timemaker Group (China T’maker) produces crystal blanks and represents the Group’s 40% ownership interest, refer note 17.

Other - Includes investments in subsidiaries, Rakon Financial Services Limited, Rakon UK Holdings Limited, and Rakon Investment HK Limited.

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

Continuing operations	Note	2021 $000s	2020 $000s
Underlying EBITDA		**23,484**	**14,787**
Depreciation and amortisation	7	(8,692)	(8,823)
Finance costs – net	10	(1,599)	(1,055)
Adjustment for associate share of interest, tax and depreciation		(1,848)	(1,447)
Other non-cash items		(180)	(178)
Profit before income tax		**11,165**	**3,284**
Income tax (expense)/ credit	22	(1,527)	696
Net profit after tax for the year		**9,638**	**3,980**

6. 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. 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.

Sale of goods – at a point in time

The Group recognises revenue when the performance obligations are satisfied by transferring control of products to the customer based on the specified contract price. Typically, control transfers to the customer at the same time as the legal title of the product is passed to the customer. This is usually on terms of delivery of the product. The transaction price includes all amounts that the Group expects to be entitled to, net of any sales taxes.

A receivable is recognised based on the delivery terms of the products as this is the point in time when the consideration is unconditional.

Products and services transferred over time – space & defence segment in France

The Group has contracts in the Space & Defence segment in France. For these contracts, the revenue is recognised over time as the Group's performance creates an asset, which does not have an alternative use to the Group, and the Group has an enforceable right to be paid for work completed to date. The Group uses the percentage-of-completion method to determine the appropriate amount to recognise in a given period. The stage of completion is measured by reference to the contract costs incurred up to the end of the reporting period as a percentage of total estimated costs for each contract.

In case of fixed price contracts, payments are received from the customer based on an agreed payment schedule. A contract liability is recognised when the payments exceed estimated work completed, and contract asset when estimated work completed exceeds payments.

a. Revenue by segment

FY2021	NZ $000s	France $000s	India $000s	Other $000s	Total $000s
Sales to external customers	**76,056**	**49,091**	**3,113**	**-**	**128,260**
Inter-segment sales	419	16	29,882	(112)	30,205
Segment revenue	**76,475**	**49,107**	**32,995**	**(112)**	**158,465**
Products transferred at a point in time	76,056	45,648	3,113	-	124,817
Products and services transferred over time	-	3,443	-	-	3,443
Sales to external customers	**76,056**	**49,091**	**3,113**	**-**	**128,260**

FY2020	NZ $000s	France $000s	India $000s	Other $000s	Total $000s
Sales to external customers	**70,382**	**45,764**	**2,834**	**-**	**118,980**
Inter-segment sales	499	-	21,923	(117)	22,305
Segment revenue	**70,881**	**45,764**	**24,757**	**(117)**	**141,285**
Products transferred at a point in time	70,382	42,816	2,834	-	116,032
Products and services transferred over time	-	2,948	-	-	2,948
Sales to external customers	**70,382**	**45,764**	**2,834**	**-**	**118,980**

b. Group revenue analysis

Market segment

The Group's products are used in the Telecommunications, Global Positioning, and Space & Defence markets.

	2021 $000s	2020 $000s
Telecommunications	77,103	65,167
Global Positioning	13,974	18,915
Space and Defence	30,203	28,230
Other	6,980	6,668
Total revenue by market segment	**128,260**	**118,980**

Geographical segment

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

	2021 $000s	2020 $000s
Asia	69,950	60,474
North America	29,035	26,959
Europe	26,970	29,073
Others	2,305	2,474
Total revenue by geographical segment	**128,260**	**118,980**

c. Assets and liabilities related to contract customers

	2021 $000s	2020 $000s
Total current contract assets	3,051	950
Total current contract liabilities	(1,573)	(392)
	1,478	**558**

Customer contracts liabilities are payments received in advance for subsequent delivery of services and goods to the customers. $392,000 recognised as customer contract liabilities in the prior year, was recognised as revenue in the year ended 31 March 2021. The remaining performance obligations at 31 March 2021 have an expected duration of less than a year.

The performance obligation of the products and services transferred over time which were in progress at 31 March 2020 were completed during the year. The remaining performance obligations at 31 March 2021 have an expected duration of less than a year.

7. Expenditure included in net profit

Additional information in respect of expenses included in the Statement of Comprehensive Income is as follows.

a. Breakdown of significant expenses by nature

	2021 $000s	2020 $000s
Employee benefit expenses		
Wages and salaries	46,292	45,253
One-off redundancy costs	1,092	-
Contributions to defined plans	671	666
Increase in liability for French retirement indemnity plan (note 21)	200	220
Increase in liability for long service leave (note 21)	150	179
Total employee benefit expenses	**48,405**	**46,318**
Depreciation on property, plant and equipment (note 14)	3,952	3,925
Amortisation on intangible assets (note 15)	2,064	2,200
Depreciation on right-of-use assets (note 16)	2,676	2,698
Total depreciation and amortisation	**8,692**	**8,823**
Research and development		
Research and development expenses	16,012	14,999
Research and development government grant	(939)	(961)
Research and development tax credit	(1,429)	(1,196)
Net research and development expense	**13,644**	**12,842**

	2021 $000s	2020 $000s

Fees to the auditors		
Audit and review of financial statements		
PwC	577	596
BDO Limited (Hong Kong) [1]	11	16
T S Tay Public Accounting Corporation (Singapore) [1]	9	9
Morison (Mauritius) [1]	4	5
MHA MacIntyre Hundson (UK) [1]	35	-
Total audit and review fees	**636**	**626**
Assurance and audit related services		
Performed by PwC France		
Certification of expenditure for the purposes of the European Union subsidy for community projects	8	-
Certification of expenditure on R&D activities	-	5
Total assurance and audit related services	**8**	**5**
Other services		
Performed by PwC New Zealand		
Other services [2]	14	26
Performed by PwC India		
Research and development expenses review	-	2
Total other services fees	**14**	**28**
Total fees paid to auditors	**658**	**659**

[1] The fee relates to the annual audit of the local territory financial statements.

[2] Other assurance services comprised provision of treasury related financial markets risk analysis and commentary, and market data relating to executive remuneration. The treasury related service was terminated effective 31 December 2020.

Employee benefits expenses

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

Superannuation schemes

The Group's New Zealand and overseas operations participate in their respective government superannuation schemes. Where 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 contributions are recognised as an employee benefit expense when they are due.

Redundancy

Part of the Group's strategic plan involves a realignment of global resources and resulted in redundancies in some business units and the creation of new positions in others. Once the strategy is fully implemented, the net change in staff is not expected to be significant.

Research and development

Expenditure on research activities has been undertaken with the prospect of gaining new scientific or technical knowledge and understanding. Any research and development taxation credits and government grant funding for research and development are recognised when eligibility criteria have been met and there is a reasonable assurance that tax credits and the grants will be received.

Grants and tax credits from governments are recognised at their fair value. The research and development grants and tax credits are recognised in trade and other receivables (note 12), and in the Statement of Comprehensive Income. Government grants are offset against the related expenses over the periods in which those costs are recognised.

8. Other operating income

	2021 $000s	2020 $000s
Other income	260	28
Covid-19 government assistance[1]	2,344	-
Total other operating income	**2,604**	**28**

[1] Eligible New Zealand wage subsidy, the UK Government funded furlough, and French Government assistance.

9. Other (losses)/gains – net

	2021 $000s	2020 $000s
(Loss)/gain on disposal of property, plant and equipment, and intangible assets	(24)	33
Foreign exchange (losses)/gains – net		
Forward foreign exchange contracts		
Financial asset at fair value through profit or loss	304	(29)
Revaluation of foreign denominated monetary assets and liabilities [1]	(1,461)	(442)
Total foreign exchange (losses) – net	**(1,157)**	**(471)**
Total other (losses) – net	**(1,181)**	**(438)**

[1] Includes realised and unrealised (losses)/gains arising from accounts receivable and accounts payable.

10. Net finance (costs)/income

Interest income and costs are recognised in the Statement of Comprehensive Income as it accrues, using the effective interest rate applicable.

	2021 $000s	2020 $000s
Finance income		
Interest income	29	8
Finance costs		
Interest expense on bank borrowings	(534)	(899)
Interest on deferred consideration on acquisition – Rakon India	-	(53)
Unwinding of lease make good provision	(17)	(16)
Interest on lease liabilities (note 16)	(1,077)	(95)
Total finance costs	(1,628)	(1,063)
Net finance costs	**(1,599)**	**(1,055)**

Overdraft interest rate

The average interest rate was as follows. Additional information on borrowings is presented in note 19.

- ASB facility in New Zealand 5.33% (2020: 6.53%)
- State Bank of India facility 9.15% (2020: 10.55%)
- Crédit Agricole Provence Côte D'Azur facility in France 0.25% (2020: nil)

11. Cash and cash equivalents

Cash and cash equivalents comprise of cash balances, call deposits, and 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 separately from borrowings on the balance sheet.

	2021	2020
	$000s	$000s
Cash at bank and on hand	15,073	5,086

Cash, cash equivalents and bank overdrafts include the following for the purposes of the Statement of Cash Flows		
Cash and cash equivalents	15,073	5,086
Bank overdrafts (note 19)	(3,599)	(12,848)
	11,474	**(7,762)**

12. Trade and other receivables

Trade and other receivables are recognised initially at the amount of consideration that is unconditional and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

a. Trade and other receivables balances

	2021	2020
	$000s	$000s
Trade receivables	31,378	35,083
Less: allowance for expected credit loss	(690)	(763)
Net trade receivables	30,688	34,320
Prepayments	953	987
GST/VAT receivable	1,085	1,406
Receivables from related parties (note 29)	266	201
Other receivables [1]	9,757	8,167
Total trade and other receivables	**42,749**	**45,081**
Less non-current other receivables [1]	3,843	2,702
Current trade and other receivables	**38,906**	**42,379**

[1] Other receivables includes research and development related tax credits and government grants. In 2020, this also included the Covid-19 government wage subsidies ($2.0m) with a corresponding deferred income also recorded. The wage subsidy was received in the current year and recorded in the Statement of Comprehensive Income, refer note 8.

Trade receivables are customers which are considered of acceptable credit quality. These are amounts due for goods sold or services performed in the ordinary course of business and are non-interest bearing. They are generally due for settlement within 30 to 120 days.

During the year an advance of US$2.0m was received from a customer for future supply of products. A corresponding deferred income was recorded.

The Group has established credit policies under which each new customer is analysed individually for credit-worthiness 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 represents the maximum open amount; these limits are reviewed periodically. Customers that fail to meet the Group's benchmark credit-worthiness may transact with the Group only on a prepayment basis.

The trade receivables balances included $8,700,000 (2020: $6,700,000) representing 28.0% (2020: 19.7%) due from the Group's three largest customers. The balances due from these customers are current and are considered a low credit risk to the Group.

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

b. Allowance for expected credit loss

Impairment losses on trade receivables are presented as net impairment losses within operating profit. Trade receivables are written off when considered to have become uncollectable. Subsequent recoveries of amounts previously written off are credited against the same line item.

The Group applies the NZ IFRS 9 Financial Instruments simplified approach to measure the expected credit loss provision that uses a lifetime expected loss allowance for all trade receivables and contract assets. This provision was based on the historical credit losses and adjusted to reflect the current and forward-looking information on factors affecting the ability of the customers to settle the receivables. The forward looking assumptions also included recent customer aging profile.

The loss allowance was determined as follows.

	Current	Less than 30 days past due	30 days to 180 days past due	More than 180 days past due	Total
	$000s	$000s	$000s	$000s	$000s
As at 31 March 2021					
Gross carrying amount of trade receivables	25,947	3,428	1,500	503	31,378
Expected loss rate	1.0%	2.3%	16.9%	20.0%	
Allowance for the expected credit loss	**257**	**79**	**253**	**101**	**690**
As at 31 March 2020					
Gross carrying amount of trade receivables	29,272	4,338	1,134	339	35,083
Expected loss rate	1.3%	2.6%	16.9%	20.0%	
Allowance for the expected credit loss	**390**	**113**	**192**	**68**	**763**

The reconciliation of the loss allowance is as follows.

	2021	2020
	$000s	$000s
Opening balance	763	816
Increase in allowance recognised in profit or loss during the year	220	4
Receivables written off during the year	(247)	-
Unused amount reversed	-	(77)
Foreign exchange difference	(46)	20
Allowance for expected credit loss as at 31 March 2021	**690**	**763**

Trade receivables are written-off where all reasonable effort to collect the overdue have been exhausted. Indicators that there is no expectation of recovery include failure of an overdue debtor to engage in an agreed repayment plan.

13. Inventories

Inventories are stated at the lower of cost (weighted average cost for raw materials, and standard costs for finished goods) or net realisable value. Standard costs comprise direct materials, direct labour and appropriate proportion of variable and fixed overhead expenditure, the latter being allocated on the basis of normal operating capacity. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

a. Inventory classification and balances

	2021	2020
	$000s	$000s
Raw materials	12,487	13,042
Work in progress	17,960	19,016
Finished goods	7,252	5,566
Total inventories	**37,699**	**37,624**

b. Obsolescence

An inventory obsolescence provision of $7,970,000 (2020: $8,713,000) is included in the inventory balances above. The carrying value of inventory items were reviewed in detail with adjustments to provisions made on an item-by-item basis.

Significant judgements made in determining the provision include:

- Forecast revenue and likely consumption of inventory
- Specific identification of inventory items for which the net realisable value is deemed lower than cost

The Group has not seen a material negative change in demand for its products due to Covid-19. Accordingly, Covid-19 is not expected to adversely impact the carrying value of inventory.

During the year inventory of $2,466,000 (2020: $1,437,000) was scrapped.

14. Property, plant and equipment

Property, plant and equipment are stated at cost, less accumulated depreciation and impairment losses.

a. Cost

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.

The Group 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 Group and the cost of the item can be measured reliably. All other costs are recognised in the Statement of Comprehensive Income as an expense when incurred.

	Land and buildings $000s	Leasehold improvements $000s	Plant and equipment $000s	Computer hardware $000s	Other $000s	Assets under construction $000s	Total $000s
At 31 March 2019							
Cost	4,883	8,479	86,601	5,751	2,596	4,270	112,580
Accumulated depreciation & impairment	(4,358)	(6,204)	(75,595)	(4,926)	(2,077)	(26)	(93,186)
Net book value	**525**	**2,275**	**11,006**	**825**	**519**	**4,244**	**19,394**
Year ended 31 March 2020							
Opening net book value	525	2,275	11,006	825	519	4,244	19,394
Foreign exchange differences	141	139	288	34	37	22	661
Additions	10	137	1,985	321	31	1,304	3,788
Disposals	-	-	(82)	(146)	(10)	(49)	(287)
Depreciation charge	(57)	(463)	(2,992)	(346)	(67)	-	(3,925)
Depreciation reversal on disposals	-	-	71	146	1	-	218
Transfers	811	43	617	29	-	(1,500)	-
Transfers to intangible assets	-	-	-	-	-	(925)	(925)
Closing net book amounts	**1,430**	**2,131**	**10,893**	**863**	**511**	**3,096**	**18,924**
At 31 March 2020							
Cost	5,845	8,798	89,409	5,989	2,654	3,122	115,817
Accumulated depreciation & impairment	(4,415)	(6,667)	(78,516)	(5,126)	(2,143)	(26)	(96,893)
Net book value	**1,430**	**2,131**	**10,893**	**863**	**511**	**3,096**	**18,924**
Year ended 31 March 2021							
Opening net book value	1,430	2,131	10,893	863	511	3,096	18,924
Foreign exchange differences	(126)	(145)	(497)	(30)	(38)	(31)	(867)
Additions	7	32	2,768	570	41	776	4,194
Disposals	-	-	(123)	(600)	(12)	-	(735)
Depreciation charge	(68)	(386)	(3,012)	(429)	(57)	-	(3,952)
Depreciation reversal on disposals	-	-	122	598	12	-	732
Transfers	-	-	2,089	28	-	(2,117)	-
Closing net book amounts	**1,243**	**1,632**	**12,240**	**1,000**	**457**	**1,724**	**18,296**
At 31 March 2021							
Cost	5,726	8,685	93,646	5,957	2,645	1,750	118,409
Accumulated depreciation & impairment	(4,483)	(7,053)	(81,406)	(4,957)	(2,188)	(26)	(100,113)
Net book value	**1,243**	**1,632**	**12,240**	**1,000**	**457**	**1,724**	**18,296**

b. Depreciation methods and useful lives

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

Land	Nil
Buildings	15 – 20 years
Leasehold improvements	3 – 25 years
Plant and equipment	1 – 20 years
Computer hardware	1 – 10 years
Furniture and fittings	2 – 20 years
Assets under construction	Nil

The assets' residual values and useful lives are reviewed, and adjusted if applicable 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 Statement of Comprehensive Income.

15. Intangible assets

Software assets and capitalised costs of developing systems are recorded as intangible assets and amortised unless they are directly related to a specific item of hardware, and in that case are recorded as property, plant and equipment.

a. Cost

Identifiable intangible assets that are acquired or developed 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.

	Goodwill	Patents	Software	Product development	Assets under construction	Total
At 31 March 2019	$000s	$000s	$000s	$000s	$000s	$000s
Cost	3,140	2,944	8,769	13,832	600	29,285
Accumulated amortisation & impairment	(1,846)	(2,442)	(8,478)	(7,370)	-	(20,136)
Net book value	**1,294**	**502**	**291**	**6,462**	**600**	**9,149**
Year ended 31 March 2020						
Opening net book value	1,294	502	291	6,462	600	9,149
Foreign exchange differences	-	33	7	272	13	325
Additions	-	-	265	355	214	834
Disposals	-	-	(8)	(5)	(28)	(41)
Amortisation charge	-	-	(398)	(1,802)	-	(2,200)
Amortisation reversal on disposals	-	-	8	3	-	11
Transfers	-	-	437	361	(798)	-
Transfers from property, plant & equipment	-	-	-	-	925	925
Closing net book amounts	**1,294**	**535**	**602**	**5,646**	**926**	**9,003**
At 31 March 2020						
Cost	3,140	2,977	9,470	14,815	926	31,328
Accumulated amortisation & impairment	(1,846)	(2,442)	(8,868)	(9,169)	-	(22,325)
Net book value	**1,294**	**535**	**602**	**5,646**	**926**	**9,003**

	Goodwill $000s	Patents $000s	Software $000s	Product development $000s	Assets under construction $000s	Total $000s
Year ended 31 March 2021						
Opening net book value	1,294	535	602	5,646	926	9,003
Foreign exchange differences	-	(25)	(27)	(175)	-	(227)
Additions – acquired separately	-	-	371	246	265	882
Disposals	-	-	(54)	-	(12)	(66)
Amortisation charge	-	-	(462)	(1,602)	-	(2,064)
Amortisation reversal on disposals	-	-	56	-	-	56
Transfers	-	-	33	117	(150)	-
Closing net book amounts	**1,294**	**510**	**519**	**4,232**	**1,029**	**7,584**
At 31 March 2021						
Cost	3,140	2,952	9,793	15,003	1,029	31,917
Accumulated amortisation & impairment	(1,846)	(2,442)	(9,274)	(10,771)	-	(24,333)
Net book value	**1,294**	**510**	**519**	**4,232**	**1,029**	**7,584**

b. Product development

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 based on significant judgement if the product or process is technically and commercially feasible and the Group has sufficient resources to complete development. Other development expenditure is recognised in the Statement of Comprehensive Income as an expense when incurred.

Total capitalised development costs are $5.0m (2020: $6.1m) at balance date, made up of product development assets and assets under construction. During the year, specific product development projects and projects in progress were reviewed for recoverability based on the expected cash flows to be generated by the projects. The expected cash flows supported the carrying values and no impairment was recorded.

The Group estimates the useful life of the new product development assets based on the significant judgement of the technical advancements of such assets and experiences with similar assets. The actual useful life may be shorter or longer depending on technical innovations and competitor actions.

c. Amortisation and useful lives

Amortisation is charged to the Statement of Comprehensive Income on a straight-line basis over the estimated useful lives as follows.

Goodwill	Nil
Patents	20 years
Software	2 –10 years
Product development	5 –10 years
Assets under construction	Nil

d. Impairment tests for goodwill and the cash generating units (CGUs)

Goodwill is attributed to business units acquired through business combination and represents the excess of the acquisition cost over the fair value of the acquired net assets. Goodwill is allocated to cash-generating units (CGU) and is, tested annually for impairment, or more frequently if there is an impairment indicator. The business units are determined to be the CGUs of the Group.

The current balance of goodwill was generated on 2 May 2018, when the Group acquired the remaining 51% of the issued shares it did not own in Centum Rakon India Private Limited, a previously held joint venture. Subsequent to acquisition, the name of the investment was changed to Rakon India Private Limited.

Impairment tests for CGUs within the Group

The carrying amounts of the Group's other non-financial assets are reviewed at each balance date to determine whether there is any indication of impairment. If an indicator of impairment exists, the asset's or CGU'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 (VIU). An impairment loss is recognised whenever the carrying amount of an asset or its CGU exceeds its recoverable amount. Impairment losses are recognised in the Statement of Comprehensive Income. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to CGUs and then, to reduce the carrying amount of the other assets in the unit 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. Accumulated impairment losses on goodwill are not reversed.

As at 31 March 2021, the Group concluded that there were no indicators of impairment relating to the New Zealand, France, India and China CGU. In the prior year, the Group concluded that indicators of impairment existed. In making this assessment management and the Directors considered factors including the current profitability of the Group, the market capitalisation value of the Company in comparison to the Group's net asset value and the impact of Covid-19 on the Group's operations (note 2).

Goodwill

The Directors have undertaken an impairment review and have concluded that the goodwill is not impaired based on the current and future expected trading performance of Rakon India. The recoverable amount for Rakon India is estimated to be $21.0m (2020: $21.0m) calculated on a VIU basis which exceeds the carrying amount of the CGU at balance date by $5.0m (2020: $2.1m). The calculation uses cash flow forecasts approved by the Board of Directors covering a five-year period. Cash flows beyond the five year period are extrapolated using estimated terminal growth rate which is consistent with the long term average growth rate observed by the Group. Based on the assumptions below no impairment of goodwill has been recognised in the Statement of Comprehensive Income.

The forecasts used in impairment testing require assumptions and judgements about the future which are inherently uncertain. Key assumptions are those to which the model is most sensitive to. No reasonable adverse changes in the key assumptions would result in the carrying amount to exceed the recoverable value.

Key assumptions used in the VIU calculation

CGU	Assumption	Range	5 Year CAGR
India	Annual sales growth rate[1]	5% to 13%	19.3%
	Gross margin %[2]	27% to 31%	n/a

[1] Sales growth – the management has forecasted sales to grow over the period of the cash flow projection, due to a combination of factors including industry forecasts for the key market segments in which Rakon India operates, future product innovation and estimations of its own share of the market reflective of the quality of its product range and technology advantages.

[2] Gross margin – Management forecasted gross margin based on past performance and its expectations of market development also taking into account gradual decline in average selling prices. Anticipated industry trends, product innovations, manufacturing efficiency and raw material cost improvements have also been factored into these gross margin assumptions.

Growth Rate and Discount Rate

The pre-tax discount rate used of 22.6% (2020: 22.7%). The terminal value within the VIU assessment has been calculated using a terminal growth rate assumption of 2.5% (2020: 3.5%).

16. Leases

The Group leases various properties, equipment and cars. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The leases do not impose any covenants, and leased assets are not used as security for borrowings. The Group adopted NZ IFRS 16 Leases from 1 April 2019, using the modified retrospective transition method, with no restatement of prior periods. This new standard recognises on-balance sheet accounting for leases. Right-of-use assets are recognised representing the Group's right to use the underlying assets, with lease liabilities representing the obligation for lease payments.

The Group's lease agreements are for 12 months to 12 years and may have extension options exercisable by the Group. Management applied judgement to determine the lease term for contracts that include renewal options. The lease term assessment may significantly affect the amounts recognised for lease liabilities and right-of-use assets. The Group has considered all facts and circumstances in their decisions relating to lease extension options and have included all extension options for the manufacturing facilities and offices in the calculations. The costs and business disruption was considered significant factors in this decision.

The lease term is reassessed if an option is exercised or terminated. No changes to lease options were recorded in the current year (2020: nil).

Assets and liabilities arising from a lease are initially measured at present value by discounting the future lease payments using the interest rate implicit to the lease. Where it is difficult to determine the implicit interest rate, the incremental borrowing rate is used. The incremental borrowing rate is determined by using where possible, a recent third-party financing received as a starting point and adjusted for any changes since finance was received. If not, a build-up approach is used where the risk-free interest rate is adjusted for credit risk for leases and specific to the lease terms.

The lease assets and liabilities do not include potential future increases in variable lease payments based on an index. The lease liability is reassessed when these increases occur and are adjusted against the right-of-use asset.

Lease payments are allocated between the principal and finance cost. Right-of-use assets are depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

The total cash outflow for leases was $2,962,000 (2020: $3,078,000).

a. Right-of-use assets

	Properties	Equipment	Motor vehicle	Total
	$000s	$000s	$000s	$000s
As at 31 March 2020				
Cost	11,011	1,095	395	12,501
Accumulated depreciation	(2,168)	(426)	(177)	(2,771)
Net book value	**8,843**	**669**	**218**	**9,730**
Year ended 31 March 2021				
Opening net book value	8,843	669	218	9,730
Foreign exchange differences	(253)	(97)	(40)	(390)
Additions	509	-	22	531
Disposals	-	(78)	(116)	(194)
Depreciation charge	(2,128)	(419)	(129)	(2,676)
Depreciation reversal on disposals	-	78	116	194
Closing net book amounts	**6,971**	**153**	**71**	**7,195**
As at 31 March 2021				
Cost	11,267	920	261	12,448
Accumulated depreciation	(4,296)	(767)	(190)	(5,253)
Net book value	**6,971**	**153**	**71**	**7,195**

b. Lease liabilities

	$000s
As at 1 April 2020	9,445
Movements during the year	
Additions	531
Accretion of interest	1,077
Payments	(2,962)
Foreign exchange differences	(401)
Closing amounts	**7,690**

Current and non-current lease liabilities:

	2021	2020
	$000s	$000s
Current	2,272	2,741
Non-current	5,418	6,704
	7,690	**9,445**

Maturity analysis of future undiscounted lease liability payments:

	$000s
Not longer than 1 year	2,660
Longer than 1 year and not longer than 5 years	6,088
Longer than 5 years	210
Total undiscounted lease liabilities	**8,958**

Under the Covid-19 Related Rent Concessions – Amendment to the NZ IFRS 16 Leases, the Group has recorded rent concessions of $83,000 in other operating income, refer note 8.

17. Interest in associate

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. The Group's associates are 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 associates in the Statement of Comprehensive Income. Dividends received or receivable from associates are recognised as a reduction in the carrying amount of the investment. Unrealised gains on transactions between the Group and its associates 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.

Set out below is the significant associate of the Group. The entities listed below have share capital consisting solely of ordinary shares, which are held directly by the Group. The proportion of ownership interest is the same as the proportion of voting rights held.

a. Timemaker Group

The Timemaker Group is the world's largest quartz wafer manufacturer and a key supplier to Rakon. The tables below provides summarised financial information for the Timemaker Group. The information disclosed reflects the amounts presented in the financial statements of the relevant associate and not the Group's share of those amounts. They have been amended to reflect adjustments made by the entity when using the equity method, including fair value adjustments and modifications for differences in accounting policy. The total Timemaker Group is an aggregate of Chengdu Timemaker Crystal Technology Co. Limited and Shenzhen Taixiang Wafer Co. Limited.

Name of entity	Country of incorporation	% of ownership interest		Nature of relationship	Measurement method	Net investment		Equity accounted profit	
		2021	2020			2021 $000s	2020 $000s	2021 $000s	2020 $000s
Chengdu Timemaker Crystal Technology Co. Ltd	China	40%	40%	Associate	Equity method	11,902	11,259		
Shenzhen Taixiang Wafer Co. Ltd	China	40%	40%	Associate	Equity method	431	455		
Total Timemaker Group						**12,333**	**11,714**	**1,446**	**797**

	Chengdu Timemaker Crystal Technology Co. Ltd		Shenzhen Taixiang Wafer Co. Ltd		Total Timemaker Group	
	2021 $000s	2020 $000s	2021 $000s	2020 $000s	2021 $000s	2020 $000s
Summarised Statement of Comprehensive Income						
Revenue	37,715	27,509	-	-	37,715	27,509
Depreciation and amortisation	(2,943)	(2,661)	-	-	(2,943)	(2,661)
Interest expenses	(1,034)	(491)	-	-	(1,034)	(491)
Profit for the period	**3,615**	**1,988**	-	-	**3,615**	**1,988**

	Chengdu Timemaker Crystal Technology Co. Ltd		Shenzhen Taixiang Wafer Co. Ltd		Total Timemaker Group	
	2021	2020	2021	2020	2021	2020
	$000s	$000s	$000s	$000s	$000s	$000s
Summarised Balance Sheet						
Current assets						
Cash & cash equivalents	2,326	3,567	9	3	2,335	3,570
Other current assets	33,967	26,890	1,067	1,212	35,034	28,102
Total current assets	**36,293**	**30,457**	**1,076**	**1,215**	**37,369**	**31,672**
Non-current assets	**27,140**	**26,178**	**-**	**-**	**27,140**	**26,178**
Current liabilities						
Financial liabilities (excluding trade payables)	16,349	13,456	-	-	16,349	13,456
Other current liabilities	15,617	13,119	-	78	15,617	13,197
Total current liabilities	**31,966**	**26,575**	**-**	**78**	**31,966**	**26,653**
Non-current liabilities						
Other non-current liabilities	1,712	1,912	-	-	1,712	1,912
Total non-current liabilities	**1,712**	**1,912**	**-**	**-**	**1,712**	**1,912**
Net assets	**29,755**	**28,148**	**1,076**	**1,137**	**30,831**	**29,285**

	Chengdu Timemaker Crystal Technology Co. Ltd		Shenzhen Taixiang Wafer Co. Ltd		Total Timemaker Group	
	2021	2020	2021	2020	2021	2020
	$000s	$000s	$000s	$000s	$000s	$000s
Reconciliation of net assets to carrying amount						
Rakon's share in %	**40%**	**40%**	**40%**	**40%**	**40%**	**40%**
Rakon's share of associate's net assets	11,902	11,259	431	455	12,333	11,714
Carrying amount	**11,902**	**11,259**	**431**	**455**	**12,333**	**11,714**
Movement in carrying amount						
Opening net assets 1 April					11,714	10,399
Equity accounted profit					1,446	797
Foreign exchange movement					(827)	518
Carrying amount					**12,333**	**11,714**

18. Financial asset at fair value through other comprehensive income – Thinxtra

Subsequent to losing significant influence in Thinxtra 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.

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 6.9% ownership interest at 31 March 2021 (March 2020: 7.1%). This is calculated on a fully diluted basis including the exercise of any existing options. Rakon had decided not to participate in additional capital raisings which resulted in Rakon’s ownership interest diluting.

The Directors have reviewed the information and observations available and concluded that the valuation of A$2.8m or A$3.57 per share as at 31 March 2021 is still appropriate (31 March 2020: A$2.9m).

b. Valuation of the investment in Thinxtra at 31 March 2021

It is recognised that there is a high level of volatility and judgement required in valuing Thinxtra given its early stage of business; the new and developing IoT market and ecosystem in which it operates; the volatility in prices achieved by historic capital raises, it being a private company investment not actively traded; and the track record of the Company in achieving its forecast performance. The Directors recognise there is a high risk of the valuation will change significantly over time and have chosen to adopt this consistent overall methodology for the valuations reported at 31 March 2019, 31 March 2020 and now 31 March 2021.

In forming the Directors' judgement, the Directors have taken into consideration whether there is an active market in Thinxtra as indicated by the last capital raise in February 2020 for A$9m, which concluded in August 2020 with an additional subscription of A$1m. The Directors concluded that there is not. If there is an active market, the fair value would be considered to be the recent share issue price as the investment would be treated as a Level 1 investment under the fair value hierarchy (refer to scenarios below).

The Directors reviewed the available information to date including Thinxtra's audited financial statements for the year ended 30 June 2020 and other shareholder communications. Whilst the impact of Covid-19 meant the short-term deferment of forecast revenue and a delay to the original IPO timeline, this was not expected to materially change the future realisation of Rakon's investment and therefore the carrying value of the investment.

Valuation methodology and key inputs

In undertaking the fair value assessment, given the range of potential outcomes, it was considered that one single valuation method would not provide an appropriate result. Accordingly, the Directors have used a range of valuation techniques which provide different scenario outcomes. These outcomes have then been assigned a probability based on the available information and Directors' judgement. The methodology, key inputs and overall outcome is summarised as follows, unchanged from prior period:

Valuation Technique	*Weighting Assigned*
A: Discounted cash flow (discount rate 15%)	30%
B: February 2020 capital raise of A$9m at A$2.29 per share	70%

The valuation was based on Rakon having a 6.9% shareholding which assumed any existing share options were exercised and all shares were issued under the capital raise offer that was open. No weighting was assigned to the additional A$1m raised as an extension of the February 2020 capital raise.

The resultant valuation of A$3.57 per share is adopted in the 31 March 2021 financial statements (2020: A$3.64).

Sensitivities on key inputs

The Directors recognise that the valuation outcomes under each technique are dependent on assumptions used. The following table provides an analysis of the impact on the final valuation where key assumptions:

Scenario	*Assumptions changes*	Valuation NZ$m	change
a) Base case valuation	base case	3.1	
b) Discounted cash flow	Cash flow is 50% lower than forecast	2.2	(0.8)
c) Discounted cash flow	Discount rate is 1% higher (ie 16%)	2.8	(0.2)

Sensitivities on probability weightings assigned

The Directors recognise that the final valuation is dependent on weightings assigned to each scenario/valuation technique combination. The following table provides an analysis of the impact on the final valuation where the weightings are changed.

Valuation Technique	**Base case**	**Alternate case A**	**Alternate case B**
Discounted cash flow	30%	70%	0%
A$9m capital raise	70%	30%	100%
	100%	100%	100%
Valuation NZ$m	3.1	4.5	2.0
change in valn NZ$m		+1.5	-1.1

To provide an indication about the reliability of the inputs used in determining fair value, the Directors classified the fair valuation of Thinxtra investment as a level 3 investment. Instruments are classified as level 3 only if one or more of the significant inputs for the valuation is not based on observable market data.

19. Borrowings

The borrowings are initially recognised at fair value and subsequently measured at amortised cost. Fees paid are recognised in the Statement of Comprehensive Income when the draw down occurs. Borrowings are removed from the balance sheet when the obligation specified in the contract is discharged, cancelled or expired. 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.

The Group is reliant on its bank facilities and equity as the principal sources of capital management. The ability of the Group to remain in compliance with its banking covenants has been considered by the Directors in the adoption of the going concern assumption during the preparation of these financial statements.

	2021 $000s	2020 $000s
Current		
French Government loan	5,894	-
Other borrowings	539	145
Current borrowings	**6,433**	**145**
Bank overdrafts	3,599	12,848
Total current borrowings	**10,032**	**12,993**

a. Line of credits

The Group maintains following line of credits.

ASB

At 31 March 2021 a $6.7m (2020: $15.2m) combined trade facility and a $3.3m (2020: $3.3m) overdraft was in place.

Facilities are secured by a general security deed over all the present and future assets and undertakings of the Group. The Group has agreed to certain capital requirements, restrictions on dividend distributions and capital expenditure. The financial covenants include net tangible assets to total tangible assets, net debt to Underlying EBITDA and Underlying EBITDA to interest. Interest is based on wholesale market interest rates, bank margin and the applicable line fee.

During the year the Company operated within its facility limits and was in compliance with all required financial covenants.

State Bank of India

Rakon India has an existing facility with the State Bank of India including ₹150m (NZ$3.2m) which can be used for cash based working capital requirements, unchanged from prior year.

Crédit Agricole Provence Côte D'Azur

As part of the French government's Covid-19 assistance program, a €3.5m loan was made available to Rakon France for an initial term of 12 months from 15 June 2020 with an option to extend for up to a further five years at the end of the first 12 months. This loan has certain restrictions that limits it to be used for working capital/treasury support for the French business. Interest is payable at zero percent for the initial 12 months along with a guarantee fee of 0.25%.There are no covenants on the loan and no additional security is required.

b. Borrowings balance

The exposure of the Group's bank borrowings to interest rate changes and the contractual re-pricing dates at the balance dates are as follows.

	2021 $000s	2020 $000s
6 months or less	10,032	12,848
Total bank borrowings including overdraft	**10,032**	**12,848**

c. Borrowings costs

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalised. Other borrowing costs are expensed in the period in which they incur, refer note 10.

d. Net debt reconciliation

	Other asset	Liabilities from financing activities		
	Cash/ bank overdraft $000s	Borrowings $000s	Leases $000s	Total $000s
Balance as at 1 April 2019	**(6,782)**	**(886)**	**-**	**(7,668)**
Cash flows to (increase)/decrease liabilities	(308)	-	3,078	2,770
Acquisitions	-	(71)	(688)	(759)
Impact from NZ IFRS 16 Leases adoption	-	812	(11,315)	(10,503)
Foreign exchange changes	(672)	-	(425)	(1,097)
Interest on lease liabilities	-	-	(95)	(95)
Balance as at 31 March 2020	**(7,762)**	**(145)**	**(9,445)**	**(17,352)**

	Other asset	Liabilities from financing activities		
	Cash/ bank overdraft	Borrowings	Leases	Total
	$000s	$000s	$000s	$000s
Balance as at 1 April 2020	**(7,762)**	**(145)**	**(9,445)**	**(17,352)**
Cash flows to (increase)/decrease liabilities	18,471	-	2,962	21,433
Acquisitions	-	(6,450)	(531)	(6,981)
Foreign exchange changes	765	162	401	1,328
Interest on lease liabilities	-	-	(1,077)	(1,077)
Balance as at 31 March 2021	**11,474**	**(6,433)**	**(7,690)**	**(2,649)**

20. Trade and other payables

Trade and other payables represent liabilities for goods and services provided to the Group prior to the end of the financial period, which are unpaid. These are unsecured and are usually paid within 60 days of recognition. The carrying amounts are considered to be the same as fair values, due to their short-term nature.

If the payments are due after 12 months, the trade and other payables are presented as non-current liabilities. The non-current liabilities are initially recognised at the fair value and subsequently measured at amortised cost using the effective interest method.

	2021	2020
	$000s	$000s
Trade payables	11,207	8,882
Amounts due to related parties (note 29)	890	628
Employee entitlements	10,737	9,330
Accrued expenses	3,192	3,412
Total trade and other payables	**26,026**	**22,252**

21. Provisions

A provision is recognised 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, which can be reliably estimated, will be required to settle the obligation. The carrying value is the best estimate of the management. 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.

	Retirement provision	Long service	Lease make good	Total
	$000s	$000s	$000s	$000s
At 31 March 2019	**2,331**	**463**	**667**	**3,461**
Charged to the Statement of Comprehensive Income				
Additional provisions recognised	220	179	-	399
Unwinding of discount	-	-	16	16
Unused amount reversed	(231)	(20)	-	(251)
Used during the year	(154)	(104)	-	(258)
Foreign exchange	265	-	-	265
At 31 March 2020	**2,431**	**518**	**683**	**3,632**
Charged to the Statement of Comprehensive Income				
Additional provisions recognised	200	150	-	350
Unwinding of discount	-	-	16	16
Unused amount reversed	-	(12)	-	(12)
Used during the year	(132)	(168)	-	(300)
Foreign exchange	(222)	-	-	(222)
At 31 March 2021	**2,277**	**488**	**699**	**3,464**
Current portion	228	102	-	330
Non-current portion	2,049	386	699	3,134
Total provisions	**2,277**	**488**	**699**	**3,464**

a. Retirement provision

The Group's net obligation in respect of 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.

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 in consideration the time served, probability of attainment and discount rates. An actuarial valuation was performed at 31 March 2021.

b. Long service leave

The Group's net obligation in respect of long service leave 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.

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

c. Lease make good

The Company is required to restore the leased premises at Mt Wellington, Auckland, New Zealand and Bengaluru, India to their original condition at the end of the respective lease terms. A provision is recognised for the present value of the estimated expenditure required to remove any leasehold improvements. These costs have been capitalised as part of the cost of leasehold improvements and are amortised over the lease terms.

22. Taxation

The Group is subject to income taxes in numerous jurisdictions. Judgement is required in determining the worldwide provision for income taxes and recognition of deferred tax. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will affect the income tax and deferred tax provisions in the period in which such determination is made.

The current and deferred tax is recognised in the Statement of Comprehensive Income, except to the extent that it relates to items recognised in Statement of Other Comprehensive Income (OCI), or directly in equity. In this case, the tax is recognised in the OCI or equity, respectively.

a. Income tax expense

Income tax expense is calculated on applicable income tax rate for each jurisdiction, and adjusted by the changes in deferred tax assets and liabilities attributable to temporary differences, unused tax losses and adjustments relating to the prior period.

	2021 $000s	2020 $000s
Current tax	(1,594)	(223)
Deferred tax expense	67	919
Income tax (expense)/ credit	**(1,527)**	**696**

The tax on the Group's result before tax differs from the theoretical amount that would arise using the weighted average tax rate applicable to the results of the consolidated entities.

Reconciliation of income tax expense	2021 $000s	2020 $000s
Profit before tax	11,165	3,284
Tax calculated at domestic tax rates applicable to profits in the respective countries	(2,312)	(580)
Non-deductibles	26	277
Prior year adjustment	(253)	109
Associate result reported net of tax	238	126
Recognition and utilisation of previously unrecognised tax losses	2,800	2,210
Tax losses for which no deferred income tax asset was recognised	(2,026)	(1,446)
Income tax (expense)/ credit	**(1,527)**	**696**

The weighted average applicable tax rate was 14% (2020: 21%).

b. Deferred tax

Deferred tax is recognised using the liability method on the temporary differences between the tax bases of assets and liabilities and their carrying amounts. Deferred tax assets are recognised only if management is certain that the future benefits of the taxable amount will be utilised. Judgement is required when deferred tax assets are reviewed at each reporting date. The management uses future forecasts to ascertain future benefits of deferred tax assets.

	Property, plant & equipment $000s	Employee benefits $000s	Other[1] $000s	Future income tax benefit $000s	Total $000s
At 31 March 2019	**(273)**	**651**	**3,404**	**2,501**	**6,283**
(Charged)/credited to profit or loss	(149)	10	984	74	919
Losses transferred to subsidiaries	-	-	-	(73)	(73)
Charged to equity	-	-	1,807	-	1,807
Foreign exchange difference	-	-	124	-	124
At 31 March 2020	**(422)**	**661**	**6,319**	**2,502**	**9,060**
(Charged)/credited to profit or loss	154	588	(731)	56	67
Losses transferred to subsidiaries	-	-	-	(37)	(37)
Charged to equity	-	-	(2,745)	-	(2,745)
Foreign exchange difference	(5)	-	(74)	-	(79)
At 31 March 2021	**(273)**	**1,249**	**2,769**	**2,521**	**6,266**

[1] Includes deferred tax arising from financial instruments (cash flow hedges) and inventory provisioning.

The Company recorded the remaining balance of unrecognised tax losses amounting to $10,896,000 (2020: $7,895,000) in deferred income tax asset. The carried forward balance of tax losses is $8,975,000 (2020: $19,171,000). There are no expiry dates on these tax losses. Deferred income tax assets are recognised for tax losses to the extent that the related tax benefit is expected to be realised through future taxable profits.

Deferred 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 taxation authority.

	2021 $000s	2020 $000s
Deferred tax assets	6,398	9,246
Deferred tax liabilities	(132)	(186)
Net deferred tax asset	**6,266**	**9,060**

c. Imputation balances

Imputation credit account with Inland Revenue.

	2021 $000s	2020 $000s
Imputation credit available for use in subsequent periods	11,205	11,204

23. Share capital

Ordinary shares are classified as 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.

At 31 March 2021 the total number of ordinary shares that were authorised and issued, including treasury shares, is 229,055,272 shares (2020: 229,055,272) made up as follows.

- 226,961,983 are fully paid shares (2020: 226,961,983)
- 321,972 unpaid ordinary shares were on issue and held in trust on behalf of participants in the Rakon Share Plan (2020: 321,972)
- 1,771,317 unpaid ordinary shares were held by Rakon ESOP Trustee Limited for future allocation to participants (2020: 1,771,317)

At 31 March 2021, the share capital remained unchanged at $181,024,000.

24. Earnings per share

a. Basic

	2021	2020
Weighted average number of ordinary shares on issue (000s) (note 23)	226,962	226,962
Continuing operations		
Earnings attributable to equity holders of the Group ($000s)	9,638	3,980
Basic earnings per share (cents per share)	**4.2**	**1.8**

b. 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.

At 31 March 2021, the Group did not have any dilutive options or potential dilutive ordinary shares that could be converted into ordinary shares (2020: nil). The diluted earnings per share and basic earnings per share were the same.

25. Other reserves

	Foreign currency translation reserve $000s	Hedging reserve $000s	Share option reserve $000s	OCI[1] revaluation $000s	Total $000s
At 31 March 2019	**(23,383)**	**(380)**	**3,064**	**(454)**	**(21,153)**
Cash flow hedges					
Fair value losses in year	-	(4,818)	-	-	(4,818)
Cost of hedge	-	570	-	-	570
Changes in fair value of equity investments at fair value through other comprehensive income – Thinxtra	-	-	-	(1,632)	(1,632)
Tax on fair value losses	-	1,349	-	-	1,349
Transfers to revenue	-	(2,429)	-	-	(2,429)
Income tax on transfers to revenue		680			680
Subsidiaries	3,967	-	-	-	3,967
Associate – Timemaker Group	173	-	-	-	173
At 31 March 2020	**(19,243)**	**(5,028)**	**3,064**	**(2,086)**	**(23,293)**
Cash flow hedges					
Fair value gains in year	-	9,461	-	-	9,461
Cost of hedge	-	(105)	-	-	(105)
Changes in fair value of equity investments at fair value through other comprehensive income – Thinxtra	-	-	-	203	203
Tax on fair value gains	-	(2,620)	-	-	(2,620)
Transfers to revenue	-	445	-	-	445
Income tax on transfers to revenue	-	(125)	-	-	(125)
Subsidiaries	(3,999)	-	-	-	(3,999)
Associate – Timemaker Group	(827)	-	-	-	(827)
At 31 March 2021	**(24,069)**	**2,028**	**3,064**	**(1,883)**	**(20,860)**

[1] OCI – Thinxtra revaluation through other comprehensive income.

a. Foreign currency translation reserve

Recognises exchange differences arising on translation of the foreign controlled entities, as described in note 4. The cumulative amount is reclassified to the Statement of Comprehensive Income when the investment is disposed.

b. Hedging reserve

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of hedging instruments and the cost of hedging used in cash flow hedges. The cost of hedging is subsequently recognised in the Statement of Comprehensive Income, or directly included in the initial cost or other carrying amount of a non-financial asset or non-financial liability.

c. Share option

The share-based payments reserve is used to recognise:

- the grant date fair value of options issued to employees but not exercised
- the grant date fair value of shares issued to employees
- the grant date fair value of deferred shares granted to employees but not yet vested.

d. Financial asset at fair value through other comprehensive income (FVOCI)

The Group has elected to recognise the change in fair value of investment in Thinxtra in other comprehensive income, refer note 18. These changes are accumulated within the FVOCI reserve, and transferred to retained earnings when investment is derecognised.

26. Financial risk and capital management

The Group's activities expose it to a variety of financial risks: credit risk, liquidity risk and market risk.

The Board has overall responsibility for the establishment and oversight of the Group's risk management framework. The Board has established the Audit and Risk 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's risk management is predominantly controlled at head office in New Zealand (Group treasury) under policies approved by the Board. The Group treasury identifies, evaluates and hedges financial risks in close co-operation with the Group's operating units. The Board provides written principles for overall risk management, as well as policies covering specific areas, such as foreign exchange risk, interest rate risk, and credit risk, use of derivative financial instruments and non-derivative financial instruments, and investment of excess liquidity.

Risk	Exposure arising from	Measurement	Management
Financial risk management and capital management	Cash and cash equivalents, trade receivables, derivative financial instruments	Aging analysis Credit ratings	Credit limits and terms
Liquidity risk	Borrowings and other liabilities	Rolling cash flow forecasts	Availability of committed credit lines and borrowing facilities
Market risk - foreign exchange	Recognised financial assets and liabilities not denominated in Group currency units	Cash flow forecasting Sensitivity analysis	Foreign currency forwards and foreign currency options
Market risk - interest rate	Bank overdraft at variable rates	Sensitivity analysis	Interest rate swaps

a. Derivatives

The Group is exposed to certain risks relating to its ongoing business operations. To mitigate the risks the Group uses derivative financial instruments such as foreign currency forward exchange contracts and foreign currency collar options. These instruments are held for risk and asset management purposes only and not for the purpose of speculation.

In accordance with its wider risk management, it is the Group's strategy to apply cash flow hedge accounting to keep its foreign currency revaluation fluctuations within its established limits. Applying cash flow hedge accounting enables the Group to reduce the cash flow fluctuations arising from foreign exchange risk on an instrument or group of instruments, or to hedge mismatches. A cash flow hedge is a hedge of the exposure to variability in cash flows that is attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction that could affect profit or loss.

Derivatives and hedge accounting

The Group designates certain derivatives to be part of a hedging relationship. These are classified as cash flow hedges. The Group enters into hedge relationships where the critical terms of the hedging instrument match exactly with the terms of the hedged item. The Group performs a qualitative assessment of effectiveness and maintains hedging documentation which describes the economic relationship, objective and strategy for the hedge transactions. The effectiveness of the hedged relationships are assessed on an ongoing basis.

The fair value changes to the effective portion of the cash flow hedges are recognised (including related tax impacts) through OCI in the cash flow hedge reserve in equity, refer note 25. The balance of the cash flow hedge reserve in relation to each particular hedge is transferred to the Statement of Comprehensive Income in the period when the hedged item affects Statement of Comprehensive Income. Hedge accounting is discontinued when a hedging instrument expires, is sold, terminated, or when a hedge no longer meets the criteria for hedge accounting.

If the maturity of the hedged item is less than 12 months, the full fair value of a hedging derivative is classified as a current asset or liability, otherwise non-current asset or liability. Derivatives that do not meet the hedge accounting criteria are classified as held for trading for accounting purposes and are accounted for at fair value through profit and loss.

The following table sets out the Group's derivative financial instruments in the Balance Sheet.

	2021 Assets $000s	2021 Liabilities $000s	2020 Assets $000s	2020 Liabilities $000s
Interest rate swaps — cash flow hedge	-	-	-	24
Forward foreign exchange contracts — cash flow hedges	2,711	39	2	6,178
Forward foreign exchange collar option — cash flow hedges	397	250	25	649
Total derivative financial instruments	**3,108**	**289**	**27**	**6,851**
Less: non-current forward foreign exchange — cash flow hedges	587	260	-	2,840
Current derivative financial instruments	**2,521**	**29**	**27**	**4,011**
Financial assets/liabilities at fair value through profit or loss	333	-	2	1,029
Total derivative financial instruments	**2,854**	**29**	**29**	**5,040**

Forward foreign exchange contracts

In hedges of foreign currency purchases, ineffectiveness may arise if the timing of the forecast transaction changes from what was originally estimated, or if there are changes in the credit risk of the derivative counterparty. The hedged highly probable forecast transactions denominated in foreign currency are expected to occur at various dates during the next 24 months.

Where option contracts are used as the hedging instrument, the Group designates only the intrinsic value. These are recognised in the cash flow hedge reserve within equity. The changes in time value of the options that related to the hedged item are recognised within OCI in the cost of hedging reserve with equity.

When forward contracts are used to hedge, the Group designates full change in fair value of the forward contract as the hedging instrument.

The following table summarises the Group's current hedging instruments.

	2021			2020		
	Foreign currency options	Foreign currency forwards	Interest rate swaps	Foreign currency options	Foreign currency forwards	Interest rate swaps
Notional amount ($'000s)	18,087	47,569	-	23,420	36,314	3,000
Maturity date	Nov-21 to Jan-23	Apr-21 to Oct-22	-	Apr-20 to May-21	Apr-20 to Feb-22	Jun-20
Hedge ratio	1:1	1:1		1:1	1:1	1:1
Change in intrinsic value of outstanding hedging instruments	148			(879)		
Weighted average strike rate on outstanding options						
GBP/USD	1.32			-		
NZD/USD	0.68			0.66		
Weighted average contract rate on forwards						
NZD/USD		0.65			0.66	
GBP/USD		1.28			1.29	
EUR/USD		-			1.14	
USD/INR		74.32			73.78	
JPY/USD		108.86			-	

b. Credit risk

The Group is exposed to credit risk arising from trade customers, financial instruments (note 18, 26a), and cash and cash equivalents (note 11). The maximum exposure to credit risk at the end of the period is represented by the carrying value of for these financial assets.

The Group has financial assets of trade receivables from sales of inventory that are subject to the expected credit loss model. The Group has established credit policies, and applies the NZ IFRS 9 Financial Instruments simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables, refer note 12. 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.

The Group only deals with institutions with high credit quality for banking and derivative counterparty.

c. Liquidity risk

The Group maintains committed credit facilities to ensure adequate cash is available to meet obligations when due. Management monitors rolling forecasts of the Group's liquidity position on the basis of expected cash flow. Forecasts indicate that the Group operate within its credit facilities.

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

31 March 2021	Carrying amount	6 months or less	6 – 12 months	1 – 2 years	2 – 5 years	5 – 10 years
	$000s	$000s	$000s	$000s	$000s	$000s
Financial liabilities						
Secured bank loans (note 19)	5,894	(5,900)	-	-	-	-
Derivatives (note 26)	289	(21)	(7)	(261)	-	-
Trade and other payables (note 20)	26,026	(26,026)	-	-	-	-
Other borrowings (note 19)	539	(179)	(49)	(98)	(213)	-
Bank overdraft (note 19)	3,599	(3,695)	-	-	-	-
Lease liabilities (note 16)	7,690	(1,346)	(1,314)	(2,092)	(3,996)	(210)
Total financial liabilities	**44,037**	**(37,167)**	**(1,370)**	**(2,451)**	**(4,209)**	**(210)**

31 March 2020	Carrying amount	6 months or less	6 – 12 months	1 – 2 years	2 – 5 years	5 – 10 years
	$000s	$000s	$000s	$000s	$000s	$000s
Financial liabilities						
Derivatives (note 26)	7,880	(2,734)	(2,320)	(1,946)	(880)	-
Trade and other payables (note 20)	22,252	(22,252)	-	-	-	-
Bank overdraft (note 19)	12,848	(13,305)	-	-	-	-
Lease liabilities (note 16)	9,445	(1,396)	(1,345)	(2,236)	(3,550)	(918)
Total financial liabilities	**52,425**	**(39,687)**	**(3,665)**	**(4,182)**	**(4,430)**	**(918)**

Information on bank overdraft interest rate is in note 19.

d. Market risk – foreign exchange

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 and Audit and Risk Committee. Generally, the Group seeks to apply hedge accounting in order to manage volatility in the Statement of Comprehensive Income.

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 New Zealand Dollars (NZD), Sterling Pounds (GBP), Euros (EUR) and Indian Rupees (INR). The currencies in which these sales and purchases transactions are primarily denominated are US Dollars (USD), Japanese Yen (JPY), INR, NZD, GBP and EUR. The Group uses foreign currency forward exchange contracts and collar options to hedge its currency risk. The table below summarises the foreign exchange exposure on the net monetary assets of the Group against its respective functional currency, expressed in NZD.

	USD	EUR	GBP	JPY
	$000s	$000s	$000s	$000s
31 March 2021	27,952	2,149	(72)	(2,053)
31 March 2020	15,749	3,603	(1,297)	(1,164)

The following significant exchange rates applied during the year.

	Average rate		Reporting date rate	
	2021	2020	2021	2020
NZD/USD	0.6695	0.6454	0.6994	0.6023
NZD/EUR	0.5739	0.5816	0.5939	0.5404
NZD/GBP	0.5112	0.5086	0.5072	0.4833
NZD/INR	49.4536	47.4790	50.8746	46.9870
NZD/JPY	70.8577	70.2392	76.7000	64.9600

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 was performed on the same basis for 2020.

	2021		2020	
	Equity	Profit or loss	Equity	Profit or loss
	$000s	$000s	$000s	$000s
USD	3,106	3,106	1,750	1,750
EUR	239	239	400	400
GBP	(8)	(8)	(144)	(144)
JPY	(228)	(228)	(129)	(129)

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 purchased currencies below against the 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 2020.

	2021			2020		
	Fair value	Equity	Profit or loss	Fair value	Equity	Profit or loss
	$000s	$000s	$000s	$000s	$000s	$000s
Forward foreign exchange contracts - Cash flow hedge						
Net buy NZD sell USD	5,172	(5,172)	-	8,013	(8,013)	-
Net buy GBP sell USD	187	(187)	-	-	-	-
Net buy JPY sell USD	72	(72)	-	-	-	-
Forward foreign exchange contracts - held for trading						
Net buy EUR sell USD	-	-	-	(47)	(63)	(63)
Net buy GBP sell USD	42	(60)	(60)	(70)	(96)	(96)
Net buy NZD sell USD	283	(278)	(278)	(862)	(1,761)	(1,761)
Net buy INR sell USD	8	(80)	(80)	89	54	54

e. Market risk – interest rate

Under the Group's Treasury Management Policy, a minimum of 50% of term debt is required to be on fixed interest rates. The Group adopts a policy to manage its exposure to interest rates by considering fixed interest rate swap agreements.

Interest rate swap contracts

The Group enters into interest rate swaps that have similar critical terms as the hedged item, such as reference rate, reset dates, payment dates, maturities and notional amount. The hedged item is identified as a proportion of the outstanding loans up to the notional amount of the swaps. Hedge ineffectiveness for interest rate swaps is assessed using the same principles as for hedges of foreign currency purchases. It may occur due to the credit value/debit value adjustment on the interest rate swaps which is not matched by the loan, and differences in critical terms between the interest rate swaps and loans.

At balance date, the Group did not have any interest rate swaps. In 2020, there was one outstanding interest rate swap contract valued at $3m of borrowings fixed at 4.17%. During the year $24,000 (2020: $3,000) net was charged to the Statement of Comprehensive Income.

Profile

At 31 March the interest rate profile of the Group's interest bearing financial instruments.

	2021	2020
Variable rate instruments	**$000s**	**$000s**
Financial assets (note 11)	15,073	5,086
Financial liabilities (note 11)	(3,599)	(12,848)
Net variable rate instruments	11,474	(7,762)
Fixed rate instruments		
Financial liabilities	(539)	(164)
Net fixed rate instruments	(539)	(164)

Sensitivity analysis

An increase of 100 basis points in interest rates 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 foreign exchange rates, remain constant. The analysis for 2021 was performed on the same basis as 2020.

	2021		2020	
	Equity	**Profit or loss**	**Equity**	**Profit or loss**
	$000s	**$000s**	**$000s**	**$000s**
Variable rate instruments	115	115	(78)	(78)
Fixed rate instruments	(1)	(1)	(2)	(2)

A decrease of 100 basis points in interest rates at 31 March would have the opposite impact to what is shown above.

f. Capital risk management

The Group's objective when managing capital is to maintain its ability to continue as a going concern, meet its debt obligations, maintain an appropriate capital structure and manage capital costs. The Group's capital comprises of all components of equity. The Group also maintains credit facilities with major banks, refer note 19 for details.

27. Commitments

a. Capital commitments

Capital expenditure contracted for at the balance date but not incurred is $721,000 (2020: $336,000).

28. Principal subsidiaries

Subsidiaries are all entities over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. The acquisition method of accounting is used to account for business combinations by the Group. They are deconsolidated from the date that control ceases.

All material transactions between subsidiaries or between the parent company and subsidiaries are eliminated on consolidation. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

The list of subsidiaries is as follows.

Name of entity	Principal activities	Country of incorporation	Balance date	% interest held by group 2021	2020
Rakon America LLC	Marketing support	USA	31-Mar	100	100
Rakon Singapore (Pte) Limited	Marketing support	Singapore	31-Mar	100	100
Rakon Financial Services Limited	Financing	New Zealand	31-Mar	100	100
Rakon International Limited	Marketing support	New Zealand	31-Mar	100	100
Rakon UK Holdings Limited	Holding company	United Kingdom	31-Mar	100	100
Rakon UK Limited	Research and development	United Kingdom	31-Mar	100	100
Rakon France SAS	R&D, manufacturing and sales	France	31-Mar	100	100
Rakon (Mauritius) Limited	Holding company	Mauritius	31-Mar	100	100
Rakon Investment HK Limited	Holding company	Hong Kong	31-Mar	100	100
Rakon Crystal Electronic International Limited	Marketing support	China	31-Mar	100	100
Rakon India Pvt Limited	Manufacturing, R&D and sales	India	31-Mar	100	100
Rakon ESOP Trustee Limited	Share trustee	New Zealand	31-Mar	-	-
Rakon PPS Trustee Limited	Share trustee	New Zealand	31-Mar	-	-

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

29. Related party transactions

No amounts owed by a related party have been written off or forgiven during the year. Related party transactions were transacted at arm's length. Following is the summary of transactions between related parties, and closing receivables and payables balance.

	2021 $000s	2020 $000s
Salaries and other short-term employee benefits	3,491	4,045
Directors' fee	318	360
Total key management compensation	3,809	4,405

	2021 $000s	2020 $000s
Transactions with associates		
Sales to associate, Chengdu Shen-Timemaker Crystal Technology Co. Limited	42	-
Purchases from associate, Chengdu Shen-Timemaker Crystal Technology Co. Limited	(1,625)	(940)
Net transactions	**(1,583)**	**(940)**
Payables to Chengdu Shen-Timemaker Crystal Technology Co. Limited	255	56
Receivables from Rakon HK Limited	160	163
Transactions with Siward Crystal Technologies Co. Limited		
Sales	683	502
Purchases	(2,003)	(2,218)
Net transactions	**(1,320)**	**(1,716)**
Payables to Siward Crystal Technologies Co. Limited	635	572
Receivables from Siward Crystal Technologies Co. Limited	106	38
Net transactions	**741**	**610**

30. Share based payments

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 Group. 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.

a. Rakon Share Plan

In March 2006, Rakon Limited established a share plan to enable selected employees of Rakon Limited to acquire shares in the Company through the plan trustee, Rakon ESOP Trustee Limited. Under the terms of the share plan, 2,759 ordinary shares were issued at deemed market value at that time to Rakon ESOP Trustee Limited to hold on behalf of the participating employees. Following a share split on 13 April 2006, the resulting number of shares under this plan was 859,137. As at 31 March 2021, balance of shares held was 321,972 (31 March 2020: 321,972). All shares have been allocated and rank equally in all respects with all other ordinary shares issued by the Company. The outstanding loan balance, provided on an interest free basis by Rakon Limited to participating employees in respect of these shares, totals $195,000 (2020: $195,000). A participant may repay all or part of the loan at any time, and may request share transfer upon full repayment. No repayments were due at 31 March 2021 (2020: nil). The Trust Deed makes provision for the Company to require repayment of the loans in certain circumstances. The Company may remove and appoint trustees at any time. The Directors and shareholders of Rakon ESOP Trustee Limited are Keith Oliver and Bruce Irvine. Shares held by the share plan represent approximately 0.14% of the Company's total shares on issue as at balance date (2020: 0.14%).

31. Contingencies

Prior to acquisition, Rakon India received income tax and indirect taxes assessments, which had been in dispute. The Directors of Rakon India believe the positions are likely to be upheld and accordingly no provision was made. The below summarises the potential impacts on Rakon India's tax balances if the assessments are upheld.

Income taxes

- 2011/12 – an increase in taxable income of $1.4m (tax value $900,000)
- 2013/14 – no increase in taxable income (tax value $520,000)

Indirect taxes

- December 2010/August 2012 – excess input credit availed (tax value $390,000). Penalty applicable at 100% of tax value.

32. Subsequent events

a. Debt funding

On 30 April 2021, a $20m NZD debt facility was agreed with Tanarra Credit Partners. An initial $10m was drawn down immediately and used to repay the existing ASB Bank working capital facility which was reduced to nil. The debt facility is repayable at the end of five years and is secured by a general security deed over all the present and after-acquired property of the guaranteeing group comprising Rakon Limited, Rakon Financial Services Limited and Rakon International Limited.

Rakon has agreed to certain conditions in relation to other indebtedness, financial accommodation and distributions. The financial covenants include debt to total tangible assets, net debt to Underlying EBITDA and cash available for debt servicing to interest. The interest rate is based on the New Zealand bank bill reference rate, margin and line fees as applicable.

b. Crédit Agricole Provence Côte D'Azur

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, refer note 19.

c. Covid-19 – India

During April 2021 there was a significant increase in the number of Covid-19 cases in India. This has led to government-imposed lock-down measures which has impacted the Indian manufacturing facility. The operation in India is able to continue manufacturing at a lower capacity due to the availability of labour; additional social distancing and other safety measures have been put in place; and restrictions around the geographical movement of people. Management is closely monitoring the situation and at this stage does not expect the overall Group to be impacted materially.

The Directors are not aware of any material events subsequent other than disclosed above to the balance date 31 March 2021.

Independent auditor's report

To the Shareholders of Rakon Limited

Our opinion

In our opinion, the accompanying financial statements of Rakon Limited (the Company), including its subsidiaries (the Group), present fairly, in all material respects, the financial position of the Group as at 31 March 2021, its financial performance and its cash flows for the year then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS) and International Financial Reporting Standards (IFRS).

What we have audited

The Group's financial statements comprise:

- the balance sheet as at 31 March 2021;
- the statement of comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include significant accounting policies and other explanatory information.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (New Zealand) (ISAs (NZ)) and International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group in accordance with Professional and Ethical Standard 1 *International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand)* (PES 1) issued by the New Zealand Auditing and Assurance Standards Board and the *International Code of Ethics for Professional Accountants (including International Independence Standards)* issued by the International Ethics Standards Board for Accountants (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Our firm carried out services in the area of providing market survey data relating to executive remuneration levels, treasury related financial markets risk analysis and commentary, from which we resigned in December 2020 and provided a Certificate of expenditure for the purpose of the European Union subsidy for community projects in France. The provision of these other services has not impaired our independence as auditor of the Group.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current year. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Description of the key audit matter	How our audit addressed the key audit matter
Initial recognition and valuation of research and development costs associated with the development of new products Note 15 of the financial statements provide details of the costs incurred by the Group with respect to developing new products that were capitalised as at 31 March 2021. This is included within the product development and assets under construction categories of the Note and amounts to $5.0 million at 31 March 2021. Note 7 of the financial statements disclosed the research and development expenditure in the Statement of Comprehensive Income during the year of $16.0 million. There is judgement involved in assessing whether the costs that are being capitalised for development meet the criteria for capitalisation as an intangible asset under NZ IAS 38 *Intangible Assets*, or whether they should be expensed. There is also judgement and often uncertainty around the potential for success of new products as well as the technical feasibility and probable future economic benefits associated with new and existing projects primarily with respect to new telecommunications infrastructure products. Our audit focused on this area due to the value of the capitalised development costs and the judgement involved in the application of the accounting standards. The Directors have assessed the future income generating ability of capitalised development expenditure by referring to current demand for the new products in production and to the business case for future sales of products not yet in production.	Our procedures included the the following: ● Updating our understanding of how the costs for research and development are captured and, where appropriate, are approved for capitalisation and the controls over these processes; ● Obtaining an understanding of the projects which have been capitalised during the year; ● Assessing overall costs capitalised for compliance with Group policies and the requirements defined in the accounting standards for capitalisation of product development costs; ● Challenging the Director’s assessment of the future income expected from products in production, where costs were capitalised and are now being amortised, by comparing the estimate with the level of sales currently being achieved; ● Challenging the Director's assessment of the future income expected from new telecommunications infrastructure products not yet in production, by comparing the estimate with the level of sales of previous generations of telecommunications infrastructure products and with market forecast reports; and ● Assessing the adequacy of disclosures in the financial statements to ensure that this is compliant with the requirements of the accounting standards. We have no matters to report as a result of our procedures.

Valuation of the investment in Thinxtra Limited

The carrying value of the Group's investment in Thinxtra Limited is $3.1 million as at 31 March 2021 and is disclosed in Note 18 to the financial statements. The investment is carried at fair value with gains and losses accounted for in other comprehensive income.

The Directors used a range of valuation techniques with individual assigned weightings. The techniques applied include discounted cash flows and the share price of the last successful capital raise. Weightings were assigned to each technique based on the Directors' available information and judgement. The valuation techniques used and weightings assigned to each technique is consistent with the prior year.

The Directors also considered sensitivity of the key inputs in the valuation by determining other reasonably possible scenarios and assessing its impact on the valuation.

Based on the information available to the Directors, Thinxtra Limited's performance is in line with the Information Memorandum issued in the prior year.

The results of the Directors' assessment and sensitivity analysis is disclosed in Note 18.

We considered the valuation of the investment in Thinxtra Limited a key audit matter because of the uncertainty involved in the estimation process and the significant judgements the Directors made in determining fair value. Changes in the assumptions applied as part of the estimation process can lead to significant movements in the fair value of the investment.

Our procedures in relation to the fair value determination of the investment in Thinxtra Limited included the following:

- Obtaining an understanding of the valuation techniques used by the Directors and the key assumptions applied in determining the fair value of the investment in Thinxtra Limited as at 31 March 2021;
- Testing the mathematical accuracy of the discounted cash flow model and agreeing the inputs to the Information Memorandum issued by Thinxtra Limited;
- Considering the discounted cash flow model approach which formed part of the Director's basis of valuation. We determined the underlying forecasts used in the model were consistent with the prior year, however are not sufficiently reliable due to Thinxtra Limited's business being at an early stage of development, the history of not meeting budgeted results and the disclosures made around the impact of Covid-19 on its business. Accordingly, and in line with our conclusion in the prior year, this required us to take a different valuation approach based wholly on using observable inputs from the recent capital raise;
- Agreeing the capital raise inputs to the information provided by Thinxtra Limited;
- Engaging our valuation expert to assist in the valuation of the investment as at 31 March 2021. Our expert concluded that the share price achieved in the February 2020 capital raise, which was concluded in August 2020, provided the best evidence of the fair value as at 31 March 2021. Using this price results in a lower fair value than determined by the Directors. The difference between the Directors' assessment of fair value and our valuation, was reported to the Directors who determined that this judgemental difference was not material in the context of the financial statements. This difference is below our overall Group materiality; and
- Assessing the adequacy of disclosures in the financial statements to ensure that this is compliant with the requirements of the accounting standards.

We have no matters to report as a result of our procedures.

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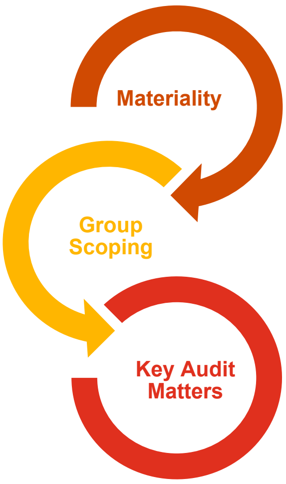
Our audit approach

Overview



Overall group materiality: $1,200,000, which represents approximately 1% of total revenues.

In our judgement, revenue provides a more stable measure for establishing our materiality benchmark and best reflects performance of the Group.

Following our assessment of the risk of material misstatement, we:

- Performed full scope audits for the two principal businesses in New Zealand and France based on their financial significance;
- Specified audit procedures and analytical review procedures over the business in India;
- Specified audit procedures over the business in the UK; and
- Analytical review procedures over the investment in Timemaker.

As reported above, we have two key audit matters, being:

- Initial recognition and valuation of research and development costs associated with the development of new products
- Valuation of the investment in Thinxtra Limited

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance about whether the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall Group materiality for the financial statements as a whole as set out above. These, together with qualitative considerations, helped us to determine the scope of our audit, the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate, on the financial statements as a whole.

How we tailored our group audit scope

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

We have applied group materiality apportioned to the business units based on relative scale of the business concerned. The group materiality applied determines the nature, timing and extent of audit procedures performed.

Other information

The Directors are responsible for the other information. The other information comprises the information included in the Annual report, but does not include the financial statements and our auditor's report thereon. The Annual report is expected to be made available to us after the date of this auditor's report.

Our opinion on the financial statements does not cover the other information and we will not express any form of audit opinion or assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

When we read the other information not yet received, if we conclude that there is a material misstatement therein, we are required to communicate the matter to the Directors and use our professional judgement to determine the appropriate action to take.

Responsibilities of the Directors for the financial statements

The Directors are responsible, on behalf of the Company, for the preparation and fair presentation of the financial statements in accordance with NZ IFRS and IFRS, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Group’s ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditor’s responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements, as a whole, are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (NZ) and ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located at the External Reporting Board’s website at:

https://www.xrb.govt.nz/assurance-standards/auditors-responsibilities/audit-report-1/

This description forms part of our auditor’s report.

Who we report to

This report is made solely to the Company's Shareholders, as a body. Our audit work has been undertaken so that we might state those matters which we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's Shareholders, as a body, for our audit work, for this report or for the opinions we have formed.

The engagement partner on the audit resulting in this independent auditor's report is Indumin Senaratne (Indy Sena).

For and on behalf of:

PricewaterhouseCoopers

Chartered Accountants   Auckland
27 May 2021