



4RF Limited

Annual report

For the year ended 31 March 2020

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For the year ended 31 March 2020

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Company directory

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Chief Executive's Report

4RF had an excellent year in the year ending 31 March 2020. Recent revenue growth accelerated, with sales reaching \$36m – up one third over the record sales achieved the previous year. Development-wise there was a major effort (and investment) towards the launch of the new Aprisa LTE cellular router which was launched in FY21. Its first sale was to a utility which serves 1.6 million customers.

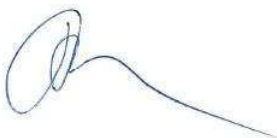
The 4RF focus on radio equipment for mission critical networks has provided some protection from the impact of COVID-19. While COVID-19 has clearly had a major impact on the global economy since March (when our FY20 ended), 4RF has shown its resilience – ensuring continuity of supply for our critical infrastructure customers and maintaining profitability throughout the pandemic period. The public safety organizations, energy and utility companies, transport operators that 4RF serve are essential services that countries rely on to provide critical services to their citizens. This fact has been underlined by the number of letters we received from customers in several countries to ensure we remained open and able to service their requirements at all times. I pay tribute to the hard work of 4RF staff and our global network of partners that made sure we continued to deliver in the difficult operating environment of the pandemic.

4RF routinely receives excellent feedback on the performance of its products. However we're acutely aware that it is the continued focus on design and build quality and extremely attentive customer service that makes customers want to continue to trust 4RF as their supplier of mission-critical communications. We're grateful for the deep customer relationships we've built over the years which means we've been able to keep sharing and learning even though we've been mostly unable to meet in person in recent times.

Now with four major product families – point-to-point, licensed point-to-multipoint, unlicensed point-to-multipoint and cellular – 4RF addresses a broad set of the communication requirements of our customers. Increasingly therefore we are seeing multiple product families deployed within the same customer. This portfolio diversity will be a major source of competitive advantage for 4RF in the years ahead.

Our long-term perspective, making strategic investments in R&D and the sales, service and support infrastructure required to service customers, continues to underpin our success which has seen our products deployed in over 150 countries. 4RF remains a private company – backed by Fortissimo Capital, a leading global technology and industrial investor with over \$1.5 billion in funds under management, and 4RF staff. This strategic, long-term focus has led to aggregate R&D investment since the business was founded exceeding \$60m.

The new Aprisa LTE cellular router considerably broadens the 4RF product portfolio which should lead to continued success in the fast-growing, global critical communications market in which 4RF has become an increasingly significant player since the business was established in 1998.



Ian Troughton

Director

10 December 2020



Note: LTE™ is a trademark of ETSI, used with permission for Aprisa products containing LTE functionality.

Directors' Report

For the year ended 31 March 2020

The Directors submit the report for the year ended 31 March 2020.

Financial statements

The financial statements for the year ended 31 March 2020 follow this report.

Financial result

The Net profit for the year for the Group was \$3,966,300

Directors

The following is a list of the Directors holding office at the balance date.

Eli Blatt
Yoav Hineman
Ian Troughton

Corporate governance statement

The Board is responsible for the proper direction and control of the Group's activities. This responsibility includes such areas of stewardship as the identification and control of the Group's business risks and the integrity of management information systems and reporting.

Dividend

No dividend has been proposed for the year ended 31 March 2020.

General

There has been no change in the main activities of the Company in the year under review.

For and on behalf of the board


_____ Director


_____ Director

10 December 2020 _____ Date

Independent Auditor's Report

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To the Shareholders of 4RF Limited

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of 4RF Limited (the "Company") and its controlled entities (the "Group") on pages 5 to 29 which comprise the statement of financial position as at 31 March 2020, and the statement of comprehensive income, statement of changes in equity, and statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 March 2020 and its financial performance and cash flows for the year then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards Reduced Disclosure Regime issued by the New Zealand Accounting Standards Board.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (New Zealand) (ISAs (NZ)) issued by the New Zealand Auditing and Assurance Standards Board. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. 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)* issued by the New Zealand Auditing and Assurance Standards Board, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other than in our capacity as auditor we have no relationship with, or interests in, the Group.

Other Information Other than the Financial Statements and Auditor's Report thereon

The Directors are responsible for the other information. The other information comprises of the Chief Executive's Report and the Directors' Report, but does not include the consolidated financial statements and our auditor's report thereon.

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Other Matter

The consolidated financial statements of the Group, for the year ended 31 March 2019, was audited by another auditor who expressed an unmodified opinion thereon on 28 February 2020.

Directors' Responsibilities for the Consolidated Financial Statements

The Directors are responsible on behalf of the Group for the preparation and fair presentation of these consolidated financial statements in accordance with New Zealand Equivalents to International Financial Reporting Standards Reduced Disclosure Regime issued by the New Zealand Accounting Standards Board, and for such internal control as those charged with governance determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, those charged with governance 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 Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated 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) 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 consolidated financial statements.

A further description of the auditor's responsibilities for the audit of the consolidated financial statements is located on the External Reporting Board's website at: <https://www.xrb.govt.nz/assurance-standards/auditors-responsibilities/audit-report-7/>

Restriction on use of our report

This report is made solely to the Company's shareholders, as a body. Our audit work has been undertaken so that we might state to the Company's shareholders, as a body, 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 its shareholders, as a body, for our audit work, for this report or for the opinion we have formed.

Grant Thornton New Zealand Audit Partnership



Wellington
11 December 2020

Statement of comprehensive income

For the year ended 31 March 2020

	Note	Group 2020 \$000	Group 2019 \$000
Revenue from contracts with customers	2,9	35,953	26,937
Operating expenses	3	(31,848)	(27,795)
Operating profit / (loss) before interest and income tax		4,105	(858)
Interest expense		(633)	(447)
Interest received		6	6
Operating profit / (loss) before tax expense		3,478	(1,300)
Income tax benefit/(expense)	4	692	(270)
Net profit / (loss) for the period		4,170	(1,569)
Other comprehensive income			
Translation of foreign operations		(204)	(7)
Total comprehensive income / (loss)		3,966	(1,577)

The notes on pages 9 to 29 are an integral part of these financial statements

Statement of changes in equity

For the year ended 31 March 2020

	Share Capital \$000	Retained Earnings / Losses \$000	FX Trans Reserve \$000		Total Equity \$000
Current year					
Balance 1 April 2019	25,586	(26,002)	(114)	-	(530)
Net profit for period		4,170			4,170
Translation of Foreign operations			(204)		(204)
Balance at 31 March 2020	25,586	(21,832)	(318)	-	3,436
					-
					-
Balance 1 April 2018	25,586	(24,433)	(106)		1,047
Net profit for period		(1,569)			(1,569)
Translation of Foreign operations			(8)		(8)
Balance at 31 March 2019	25,586	(26,002)	(114)	-	(530)

The notes on pages 9 to 29 are an integral part of these financial statements

Statement of financial position

As at 31 March 2020

	Note	Group 2020 \$000	Group 2019 \$000
Current assets			
Cash and cash equivalents	6	1,355	566
Trade and other receivables	7	5,275	4,945
Prepayments		476	413
Inventory	8	7,812	7,548
GST/VAT receivable		136	140
Other receivables		0	9
		15,054	13,621
Non current assets			
Other receivables	9	116	109
Property Plant and Equipment	10	989	943
Intangible assets	18	1,654	31
Deferred tax asset	4	1,043	0
Right of use asset	20	574	0
		4,376	1,083
Total assets		19,430	14,704
Current liabilities			
Trade and Other payables		5,855	5,701
Income tax payable		326	257
Contract liability		191	303
Provisions	11	165	188
Bank overdraft		6,324	6,454
Borrowings	12	1,556	1,528
Derivatives		96	15
Intercompany payables	9	889	739
Lease liability	20	452	0
		15,855	15,234
Non current liabilities			
Lease liability		139	0
	20	139	0
Total liabilities		15,994	15,234
Total net assets		3,436	(530)
Equity			
Share capital	5	25,586	25,586
Foreign currency translation reserve		(318)	(114)
Retained earnings / (losses)		(21,832)	(26,002)
Total equity		3,436	(530)

The notes on pages 9 to 29 are an integral part of these financial statements

Statement of cash flows

For the twelve months ended 31 March 2020

	Group 2020 \$000	Group 2019 \$000
Note		
Cash flows from operating activities		
Receipts from customers	35,207	25,518
Other Income		-
Payments to suppliers and employees	(31,768)	(26,543)
Income Tax paid	(281)	(112)
	3,158	(1,137)
Cash flows from investing activities		
(Purchase) / Disposal of fixed assets	(322)	(124)
Intangible asset additions	(1,623)	0
	(1,945)	(124)
Cash flows from financing activities		
Net receipt/(repayment) of borrowings	161	1,894
Interest income	1	-
Interest paid	(586)	(477)
	(424)	1,417
Net increase / (decrease) in cash held		
	789	156
Add: Opening cash balance	566	410
Closing cash carried forward	1,355	566
Closing cash comprises:		
Bank accounts	1,355	566

The notes on pages 9 to 29 are an integral part of these financial statements

Notes to the financial statements

For the year ended 31 March 2020

1. Statement of accounting policies

Reporting entity

4RF Limited (“the Company”) is engaged in the business of developing and selling communication equipment and is registered under the Companies Act 1993. The Company is domiciled in New Zealand and the financial statements have been prepared in accordance with the Financial Reporting Act 2013. The Company was incorporated on 2 April 2012.

The consolidated financial statements of 4RF Limited as at and for the year ended 31 March 2020 comprise the Company and its subsidiaries (together referred to as the “Group” and individually as “Group entities”). Consolidated financial statements have been prepared incorporating 4RF Communications (Europe) Limited, 4RF USA, Inc., 4RF Australia Pty Limited and 4RF Trustee Limited which are all wholly owned subsidiaries of 4RF Limited.

Subsidiaries are all entities (including structured entities) over which the group has control. The group controls an entity where 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 to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the group. They are deconsolidated from the date that control ceases. The acquisition method of accounting is used to account for business combinations by the group.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset.

Basis of preparation and functional and presentation currency

The financial statements 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 – Reduced Disclosure Regime (“NZ IFRS RDR”) and other applicable Financial Reporting Standards, as appropriate for “Tier 2” profit-oriented entities. 4RF can apply the NZ IFRS RDR regime as they are not publicly accountable. The Group has adopted the Reduced Disclosure Regime framework for the financial year end 31 March 2020.

These financial statements are presented in New Zealand dollars (\$), which is the Company’s functional and presentational currency. All financial information presented in New Zealand dollars has been rounded to the nearest thousand.

Measurement base

The financial statements are prepared on the basis of historical cost except for the following:

- (i) derivative financial instruments which are measured at fair value

Use of estimates and judgements

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amount of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected. The areas where significant estimates and assumptions are applied are estimation of stock obsolescence and provision for warranty repairs.

Notes to the financial statements

For the year ended 31 March 2020

Change in accounting policies note

This note explains the impact of the adoption of NZ IFRS 16 Leases on the financial statements

The Group has adopted NZ IFRS 16 retrospectively from 1 April 2019 but has not restated comparatives for the 2019 reporting period, as permitted under the specific transition provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening balance sheet on 1 April 2019.

On adoption of NZ IFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of NZ IAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 April 2019. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 April 2019 was 5.80%. The associated right-of-use assets were measured as equal to the liability at 1 April 2019.

(i) Practical expedients applied

In applying NZ IFRS 16 for the first time, the Group has used the following practical expedients permitted by the standard:

- accounting for operating leases with a remaining lease term of less than 12 months as at 1 April 2019 as short-term leases
- excluding initial direct costs for the measurement of the right-of-use asset at the date of initial application, and
- using hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The Group has also elected not to reassess whether a contract is or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date the group relied on its assessment made applying NZ IAS 17 and NZ IFRIC 4 Determining whether an Arrangement contains a Lease.

(ii) Measurement of lease liabilities

Operating lease commitments disclosed as at 31 March 2019	1,069
Discounted using the lessee's incremental borrowing rate at the date of initial application	(71)
Recognition of lease not previously included	
Differences in extension options	
Other adjustments	11
Lease liability recognised as at 1 April 2019	1,009
Of which are:	
Current lease liabilities	423
Non-current lease liabilities	587
	1,009

Notes to the financial statements

For the year ended 31 March 2020

(iii) Lessor accounting

The company did not need to make any adjustments to the accounting for assets held as lessor under operating leases as a result of the adoption of NZ IFRS 16.

Leasing policy

The Group rents property and equipment. Rental contracts are typically for a period of 3-12 years but may have extension options as described below.

Until the 2020 financial year, leases of property, plant and equipment were classified as either finance leases or operating leases. From 1 April 2019, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable
- variable lease payment that are based on an index or a rate, initially measured using the index or rate as at the commencement date
- amounts expected to be payable by the group under residual value guarantees
- the exercise price of a purchase option if the group is reasonably certain to exercise that option, and
- payments of penalties for terminating the lease, if the lease term reflects the group exercising that option.

Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases in the group, the lessee's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

To determine the incremental borrowing rate, the Company:

- where possible, uses recent third-party financing received by the individual lessee as a starting point, adjusted to reflect changes in financing conditions since third party financing was received, and
- makes adjustments specific to the lease, eg term, country, currency and security.

Lease payments are allocated between principal and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability
- any lease payments made at or before the commencement date less any lease incentives received
- any initial direct costs, and
- restoration costs.

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the group is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying asset's useful life. Right-of-use assets are not revalued.

Payments associated with leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less.

Notes to the financial statements

For the year ended 31 March 2020

Specific accounting policies

The following are the particular accounting policies which have a material effect on the measurement of results and financial position:

Inventory

Inventory is valued at the lower of cost or net realisable value. The cost is based on the first-in, first-out principle.

REVENUE RECOGNITION

Overview

Revenue arises mainly from sale of critical infrastructure communication equipment and after sales service.

To determine whether to recognise revenue, the Group follows a 5-step process:

- 1 Identifying the contract with a customer
- 2 Identifying the performance obligations
- 3 Determining the transaction price
- 4 Allocating the transaction price to the performance obligations
- 5 Recognising revenue when/as performance obligation(s) are satisfied.

The Group often enters into customer contracts to supply a bundle of products and services, for example hardware (the associated internal software) and related after-sales service. The contract is then assessed to determine whether it contains a single combined performance obligation or multiple performance obligations. If applicable the total transaction price is allocated amongst the various performance obligations based on their relative stand-alone selling prices. The transaction price for a contract excludes any amounts collected on behalf of third parties.

Revenue is recognised either at a point in time or over time, when (or as) the Group satisfies performance obligations by transferring the promised goods or services to its customers.

The Group recognises contract liabilities for consideration received in respect of unsatisfied performance obligations and reports these amounts as other liabilities in its consolidated statement of financial position. Similarly, if the Group satisfies a performance obligation before it receives the consideration, the Group recognises either a contract asset or a receivable in its consolidated statement of financial position, depending on whether something other than the passage of time is required before the consideration is due.

Product revenue

The Group develops and sells critical infrastructure communication equipment. Revenue is primarily recognised from the sale of hardware. Revenue from product sales is recognised when the products is made available to the customer for freight collection, this is the point that control passes to the customer.

Service and freight revenue

The Group provides limited pre and post-sales support / training and out of warranty repairs. Prices are agreed prior to service delivery and revenue is recognised as the service is provided to the customer, based on output of services provided to the customer. The services are generally short term in nature.

Shipping and freight services are also provided to customers for delivery of products. When this is the case the services are a separate performance obligation and the revenue is recognised when the freight service is complete (i.e. when the product reaches its destination).

The transaction price for freight revenue is fixed and there are no variable components.

Warranty arrangements

The Group provides a basic product warranty, the duration of which is dependent upon the region of sale and offers extended-period warranty options (for purchase by customers). Under either option, customers can return the product for repair or replacement if it fails to perform in accordance with published specifications. For warranties that form part of the product sale price (basic warranties) no revenue is allocated as they are not considered to be performance obligations. For extended warranties (i.e. that are purchased at additional cost to the product) revenue is recognised over time, as the performance obligation is met (i.e. the warranty term passes). The estimated costs of serving these warranties are recognised as provisions under IAS 37 'Provisions, Contingent Liabilities and Contingent Assets'.

Notes to the financial statements

For the year ended 31 March 2020

Trademarks

Trademarks are stated at cost and considered for impairment annually. No impairment event has occurred during the year. Trademarks are considered to have infinite life and so have not been amortised in the year ended 31 March 2020.

Internally generated intangible assets

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally generated intangible asset arising from development (or from the development phase of an internal project) is recognised if, and only if, all of the following conditions have been demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognised for internally generated intangible assets is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally generated intangible asset can be recognised, development expenditure is recognised in profit or

loss in the period in which it is incurred. Subsequent to initial recognition, internally generated intangible assets are reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

Internally generated intangible assets have a useful life of 10 years and are amortised on a straight-line basis. The useful life is reviewed annually.

Fixed assets

Fixed assets are stated at cost less accumulated depreciation.

Depreciation

Depreciation is provided on a Diminishing Value Basis using the following rates:

Computer Equipment	16 – 67% DV
Furniture & Fittings	8 – 67% DV
Production Equipment	10 – 67% DV
Test Equipment	16 – 67% DV

Depreciation methods, useful lives and residual values are reviewed at each financial year-end and adjusted if appropriate

Notes to the financial statements

For the year ended 31 March 2020

Impairment

Non financial assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The Group conducts an annual internal review of asset values, which is used as a source of information to assess for any indicators of impairment. External factors, such as changes in expected future processes, technology and economic conditions, are also monitored to assess for indicators of impairment. If any indication of impairment exists, an estimate of the asset's recoverable amount is calculated.

An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. Value in use is determined by estimating future cash flows from the use and ultimate disposal of the asset and discounting these to their present value using a pre-tax discount rate that reflects current market rates and the risks specific to the asset. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units). Impairment losses directly reduce the carrying amount of assets and are recognised in profit or loss.

Non-financial assets that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

Income Tax

Tax expense comprises current and deferred tax. Current tax and deferred tax are recognised in profit or loss except to the extent that it relates to items recognised directly in equity or in other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for:

- (i) temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss; and
- (ii) temporary differences related to investments in subsidiaries entities to the extent that it is probable that they will not reverse in the foreseeable future.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

Notes to the financial statements

For the year ended 31 March 2020

A deferred tax asset is recognised for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Goods and services tax

The consolidated financial statements have been prepared on a Goods and Services Tax exclusive basis, except for accounts receivable and accounts payable which are stated inclusive of GST where applicable.

The GST Refunds due at the end of the reporting period are included in current assets.

Foreign currency

(i) Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date.

(ii) Foreign operations

The assets and liabilities of foreign operations are translated to New Zealand dollars at exchange rates at the reporting date. The income and expenses of foreign operations are translated to New Zealand dollars at exchange rates at the dates of the transactions. Foreign currency differences are recognised in other comprehensive income and presented in the foreign currency translation reserve in equity.

Notes to the financial statements

For the year ended 31 March 2020

Financial instruments

(i) Non-derivative financial instruments

Non-derivative financial instruments comprise investments in equity and debt securities, trade and other receivables, cash and cash equivalents, loans and borrowings, and trade and other payables.

Non-derivative financial instruments are recognised initially at fair value plus, for instruments not at fair value through profit or loss, any directly attributable transaction costs. Subsequent to initial recognition non-derivative financial instruments are measured at amortised cost using the effective interest method, less any impairment losses.

Regular purchases and sales of financial assets are accounted for at trade date, i.e., the date that the Group commits itself to purchase or sell the asset. Financial liabilities are derecognised if the Group's obligations specified in the contract expire or are discharged or cancelled.

Cash comprises cash balances and highly liquid call deposits. Bank overdrafts that are repayable on demand and form an integral part of 4RF's cash management are included as a component of cash for the purpose of the statement of cash flows.

Trade and other receivables

Trade and other receivables are stated at their cost less an allowance for expected credit losses.

Interest-bearing borrowings

Interest-bearing borrowings are classified as other non-derivative financial instruments and are measured at amortised cost using the effective interest method.

Trade and other payables

Trade and other payables are stated at cost. This cost approximates their fair value due to the short-term nature.

(ii) Derivative financial instruments

The Group uses derivative financial instruments to hedge its exposure to foreign exchange risks arising from operational, financing and investment activities. In accordance with its treasury policy, the Group does not hold or issue derivative financial instruments for trading purposes. However, derivatives that do not qualify for hedge accounting are accounted for as trading instruments.

Derivative financial instruments are recognised initially at fair value and transaction costs are expensed immediately. Subsequent to initial recognition, derivative financial instruments are stated at fair value. The gain or loss on re-measurement to fair value is recognised immediately in profit or loss.

Notes to the financial statements

For the year ended 31 March 2020

(iii) Impairment of financial assets

Recognition of credit losses uses the 'expected credit loss (ECL) model'. The Group considers a broad range of information when assessing credit risk and measuring expected credit losses, including past events, current conditions, reasonable and supportable forecasts that affect the expected collectability of future cash flows of the instrument.

The Group makes use of a simplified approach in accounting for trade and other receivables as well as contract assets and records the loss allowance as lifetime expected credit losses. These are the expected shortfalls in contractual cash flows, considering the potential for default at any point during the life of the financial instrument.

Government grants

Government grants that compensate the Group for expenses incurred are recognised in profit or loss on a systematic basis in the same periods in which the expenses are recognised, where there is reasonable assurance that they will be received. Grants that compensate the Group for the cost of an asset are recognised in profit or loss on a systematic basis over the useful life of the asset.

Leases

The Group rents property and equipment. Rental contracts are typically for a period of 3-12 years but may have extension options as described below.

Until the 2020 financial year, leases of property, plant and equipment were classified as either finance leases or operating leases. From 1 April 2019, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable
- variable lease payment that are based on an index or a rate, initially measured using the index or rate as at the commencement date
- amounts expected to be payable by the group under residual value guarantees
- the exercise price of a purchase option if the group is reasonably certain to exercise that option, and
- payments of penalties for terminating the lease, if the lease term reflects the group exercising that option.

Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases in the group, the lessee's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

Notes to the financial statements

For the year ended 31 March 2020

To determine the incremental borrowing rate, the Group:

- where possible, uses recent third-party financing received by the individual lessee as a starting point, adjusted to reflect changes in financing conditions since third party financing was received, and
- makes adjustments specific to the lease, eg term, country, currency and security.

Lease payments are allocated between principal and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability
- any lease payments made at or before the commencement date less any lease incentives received
- any initial direct costs, and
- restoration costs.

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the group is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying asset's useful life. Right-of-use assets are not revalued.

Payments associated with leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise office equipment.

Employee Benefits

Short term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognised for the amount expected to be paid under short term cash bonus or profit sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably. The Group pays contributions to superannuation plans, such as Kiwisaver.

The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as an employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

Going Concern

The Group made a profit for the year of \$3,966,300 . The financial statements have been prepared on a going concern basis, which reflects the continuity of normal business activities and the realisation of assets and liabilities in the ordinary course of business. The directors believe it is appropriate for the following reasons:

- A cash flow forecast has been prepared for the next 12 months which demonstrates the ability of the Company to meet its debts as and when they become due;
- The Company has credit facilities with Kiwibank in place of which only a portion has been drawn down as at balance date.

Notes to the financial statements

For the year ended 31 March 2020

2. Revenue from contracts with customers

	Group 2020 \$000	Group 2019 \$000
At point of time		
Aprisa	34,442	25,375
Third party equipment	483	683
Freight and Service	794	184
Total at point of time	35,719	26,242
Over time		
Warranty revenue	234	695
	35,953	26,937

3. Operating expenses

	Group 2020 \$000	Group 2019 \$000
Auditor remuneration:		
Audit fees	40	32
Other services	0	4
Cost of goods sold - materials	18,449	14,695
Cost of sales - services	644	278
Employee benefits expense	6,431	5,849
Depreciation	707	235
Foreign exchange (gain) / loss	619	218
Rental expenses	15	437
Bad / Doubtful debts	162	137
Research and development expenses	2,167	2,672
Other	2,614	3,238
	31,848	27,795

Research & Development Expenses were reduced by the effect of government grants to the value of \$478,000 under a Technology Growth Grant (2019: \$571,000).

Notes to the financial statements

For the year ended 31 March 2020

4. Taxation

Income tax expense in the Income Statement

Reconciliation of tax expense:

	Group 2020 \$000	Group 2019 \$000
Operating losses before tax	3,478	(1,300)
Income tax using the parents domestic tax rate (28%)	(974)	364
Deferred tax on temporary differences	954	0
Effect of changes in recognised tax losses	728	(360)
Expenses non-deductible for tax purposes	115	(4)
Foreign tax credits	(132)	(270)
Total income tax expense / (income)	692	(270)
<i>Recognised in:</i>		
Current Income Tax Expense	(351)	(270)
Deferred Tax	1,043	0
	692	(270)
<i>Current tax</i>		
Current tax on profits for the year	(351)	(270)
Adjustments for current tax of prior periods	0	0
	(351)	(270)
Deferred tax balances		
The balance comprises		
Tax losses	0	0
Provisions and accruals	1,039	0
Leases	4	0
Total	1,043	0
Movements		
Opening balance	0	0
(Charged)/Credited to profit or loss	1,043	0
Closing balance	1,043	0

At 31 March 2020 the Parent had \$19,516,600 of tax losses available to carry forward (2019: \$20,611,000)

The tax losses and timing differences do not expire under current tax legislation.

Notes to the financial statements

For the year ended 31 March 2020

5. Share capital

The share capital of the Group consists of 30,369,505 shares which have been issued for a total consideration of \$25,585,895.

25,648,129 shares are fully paid, and 4,721,376 shares are partially paid. All shares have equal voting rights.

The Group has not paid out dividends on its shares.

	Group 2020	Group 2019
Number of shares brought forward	30,369,505	30,369,505
Number of shares issued	0	0
	<u>30,369,505</u>	<u>30,369,505</u>
Number of shares to carry forward	30,369,505	30,369,505

6. Cash and cash equivalents

Cash flows from certain items are disclosed net due to the short-term maturities and volume of transactions involved.

At balance date the Group had a net total of \$1,355,000 held in Bank Accounts (2019: \$566,000) which comprised the following:

	Group 2020 \$000	Group 2019 \$000
Bank Accounts		
NZD	-	-
AUD	219	217
EUR	87	30
GBP	2	14
USD	1,046	306
Total	<u>1,355</u>	<u>566</u>

Notes to the financial statements

For the year ended 31 March 2020

7. Accounts receivable

The Group has a Credit Insurance Policy in place for Accounts Receivable. For the majority of customers, if credit insurance is not obtainable, then either prepayment or a Letter of Credit is required. The provision for expected credit losses at 31 March 2020 is Nil (2019: \$136,000).

8. Inventory

At balance date the Group had Inventory of \$7,812,000 which comprised of the following:

	Group 2020 \$000	Group 2019 \$000
Raw materials and set up costs	4,099	5,185
Third party inventory	164	149
Work in Progress	907	1,261
Finished goods	2,642	953
	7,812	7,548

The obsolescence provision as at 31 March 2020 is \$1,470,000 (2019: \$1,235,000), representing a net change for the period ending 31 March 2020 of 235,000 (2019: increase of \$239,000).

9. Related parties

Parent and Ultimate Parent Company

The Parent company of 4RF Limited is 4RF Holdings Limited. The ultimate parent company is Fortissimo Capital 2 Management (GP) Limited. At 31 March 2020, the balance of loans from the ultimate parent company was \$889,385 including interest, repayable by 31 December 2020.

Transactions with key management personnel

Loans to Directors / Key personnel

No unsecured loans were issued to Directors or key personnel for the year ended 31 March 2020.

At 31 March 2020, the balance of loans to key personnel outstanding was \$116,000 (2019: \$109,000) and is included in Other Receivables in the Statement of Financial Position.

Interest on the loans is payable at the NZ Inland Revenue FBT prescribed rate of interest. The loans do not have a fixed maturity date.

Notes to the financial statements

For the year ended 31 March 2020

Key management personnel compensation

Key management personnel compensation comprised:

	2020	2019
	\$000	\$000
Short term employee benefits	1,236	1,176
	1,236	1,176

10. Fixed asset schedule

	Test equipment	WIP	Computer equipment	Furniture and fitting	Customer Service equipment	R&D Equipment	Production equipment	Plant	Total
At 1 April 2019									
Cost	2,187	201	1,721	360	261	592	2,813	53	8,189
Accumulated Depreciation	(2,024)	-	(1,681)	(261)	(251)	(573)	(2,409)	(46)	(7,245)
Net book value	164	201	40	99	11	19	404	7	943
At 31 March 2019									
Cost	2,192	196	1,767	369	261	597	3,064	53	8,498
Accumulate Depreciation	(2,066)	-	(1,712)	(268)	(253)	(583)	(2,580)	(47)	(7,510)
Net book value year ended 31 March 2020	126	196	55	100	8	14	484	5	989
Year ended 31 March 2020									
Opening net book value	164	201	40	99	11	19	404	7	943
Additions	4	180	46	14	-	4	258	-	506
Disposals	-	(184)	-	(5)	-	-	(7)	-	(196)
Depreciation	(42)	-	(30)	(7)	(3)	(10)	(171)	(1)	(264)
Impairment	-	-	-	-	-	-	-	-	-
Closing net book value 31 March 2020	126	196	55	100	8	14	484	5	989

Notes to the financial statements

For the year ended 31 March 2020

11. Provisions

Included in provisions at balance date is \$165,000 for warranty repairs which can be carried forward to off-set future costs (2019: \$188,000).

	2020 \$000	2019 \$000
Provision brought forward	188	195
Plus: current year provision	163	20
	351	215
Less: Provision costs incurred	(186)	(27)
Provision available to carry forward	165	188

12. Borrowings

Kiwibank Ltd provides facilities to the Company which total \$8.1m.

The table below reflects the position of all Kiwibank facilities at 31 March 2020.

Facility	Max \$000	2020 \$000	2019 \$000
Post shipment export facility	1,600	1,556	1,528

The Groups banking facilities are currently on a rolling basis and expected to be renewed in December 2020, after having been granted a COVID-19 related extension.

Notes to the financial statements

For the year ended 31 March 2020

13. Financial instruments

The group applies the NZ IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables and contract assets.

	2020	2019
	\$000	\$000
Financial instruments by category		
Assets		
At amortised cost		
Cash and cash equivalents	1,355	566
Loans	116	109
Trade receivables	5,276	4,945
Total Amortised cost	6,747	5,620
At fair value through profit and loss		
Derivatives		
Total fair value through profit and loss		
At amortised cost		
Trade payables	5,318	5,267
Loans and borrowings	8,770	8,771
Contract liabilities	191	303
Lease liabilities	591	0
Total Amortised cost	14,870	14,341
At fair value through profit and loss		
Derivatives	96	15
Total fair value through profit and loss	96	15

Notes to the financial statements

For the year ended 31 March 2020

14. Commitments and contingent liabilities

At balance date the Group had no commitments or contingent liabilities.

15. Commitments - leases

From 2020 operating leases were capitalised to the balance sheet on adoption of NZ IFRS 16. Non-cancellable operating lease rentals in 2019 were as follows

	Group 2020 \$000	Group 2019 \$000
Less than one year	0	465
Between one and five years	0	604
	0	1,069

16. Share Purchase Plan

On 31 January 2013 the Group established a key employee share purchase scheme. The scheme offered a number of its senior employees the opportunity to participate in an employee share purchase plan. Under the terms of the plan a proportion of the rights to the shares vest annually between the offer date and August 2020 either on a straight-line or individual performance basis. All of the shares are held in trust by 4RF Trustee Limited, a wholly owned subsidiary of 4RF Limited. The plan was extended in July 2014 and in December 2016.

The share price on issue is the equivalent to the current price paid of the shares in issue. Shares are allocated to the participants on a part paid basis, with the paid-up amount being due either at the end of the vesting period or following the sale of the majority shareholding or a change in control of the Group. As an equity-settled scheme there is no current or future expense to the Group.

The terms and conditions relating to the allocation of the shares are shown below.

Grant Date	Number of Shares (‘000)	Price per share	Vesting Conditions	Vesting Completion
Share purchase offer to key management prior to 31 March 2017	4,465	\$ 1.00	Maximum of 25% per annum	August 2020
Share purchase offer to key management after 31 March 2017	234	\$ 1.00	Maximum of 25% per annum	August 2020
Total Share Purchases	4,699	\$ 1.00		

Notes to the financial statements

For the year ended 31 March 2020

17. Subsequent Events

The Groups banking facilities are expected to be renewed in December 2020.

18. Intangible Assets

	2020	2019
	\$000	\$000
Opening net book value	0	0
Plus: current year additions	1,653	0
Closing net book value 31 March	<u>1,653</u>	<u>0</u>

The Group is developing software for use in various products. The Group has capitalised costs associated with the internal creation of software (\$1,653k). At 31 March the software was not yet complete, and no amortisation was charged during the period.

19. Covid-19

On 11 March 2020 the World Health Organisation declared a global pandemic in respect to the COVID-19 virus outbreak. Following establishment of a foothold within the New Zealand population, the New Zealand Government initiated a range of restrictions and measures in an attempt to eliminate the virus within New Zealand. As at the date of this report the impact of the pandemic is ongoing and is expected to have a significant long-lasting economic impact on New Zealand, with likely flow through to most businesses. Due to the inherent uncertainty of the duration and impact of the pandemic it is not practicable to determine the full impact that the virus will have on the Group going forward, however the Group's assessment is that it is unlikely to be significant to its operations and therefore the Directors continue to consider it appropriate to apply the going concern basis of accounting to the financial statements.

Notes to the financial statements

For the year ended 31 March 2020

20. Leases

(i) Amounts recognised in the balance sheet

The balance sheet shows the following amounts relating to leases:

	2020 \$000
Right-of-use assets	
Properties	568
Equipment	<u>5</u>
	<u>574</u>
Lease liabilities	
Current	452
Non-current	<u>139</u>
	<u>591</u>

Additions to the right-of-use assets during the 2020 financial year were nil

(ii) Amounts recognised in the statement of profit or loss

The statement of profit or loss shows the following amounts relating to leases:

Depreciation charge of right-of-use assets	
Properties	438
Equipment	<u>5</u>
	<u>443</u>
Interest expense (included in finance cost)	48
Expense relating to short-term leases (included in other expenses)	
Expense relating to low-value assets that are not shown above as short-term leases (included in other expenses)	

The total cash outflow for leases in 2020 was \$474,333

For and on behalf of the Board:

E.L. Burt Director 10, Dec 2020 Date

[Signature] Director 10, Dec 2020 Date