

# NERA TELECOMMUNICATIONS LTD

(Co. Reg. No. 197802690R)

## UNAUDITED FINANCIAL STATEMENTS AND DIVIDEND ANNOUNCEMENT FOR THE HALF YEAR ENDED 30 JUNE 2020

### PART I - INFORMATION REQUIRED FOR ANNOUNCEMENTS OF QUARTERLY (Q1, Q2 & Q3), HALF YEAR AND FULL YEAR RESULTS

1(a) An income statement and statement of comprehensive income or a statement of comprehensive income for the group together with a comparative statement for the corresponding period of the immediately preceding financial year.

	Group Half year ended 30 June		
	2020 S\$'000	2019 S\$'000	Increase/ (Decrease) %
<b>Revenue</b>	<b>66,436</b>	<b>70,187</b>	<b>(5.3)</b>
Cost of sales	(52,215)	(51,856)	0.7
<b>Gross profit</b>	<b>14,221</b>	<b>18,331</b>	<b>(22.4)</b>
<b>Gross margin %</b>	<b>21.4%</b>	<b>26.1%</b>	<b>(4.7) pt</b>
Distribution and selling expenses	(7,202)	(8,953)	(19.6)
Administrative expenses	(4,872)	(4,888)	(0.3)
Other income / (expenses) (Note (a))	1,985	(375)	nm
<b>Profit from operating activities</b>	<b>4,132</b>	<b>4,115</b>	<b>0.4</b>
Financial income	98	194	(49.5)
Financial expenses	(370)	(238)	55.5
<b>Profit before tax</b>	<b>3,860</b>	<b>4,071</b>	<b>(5.2)</b>
<i>% of revenue</i>	<b>5.8%</b>	<b>5.8%</b>	<b>0.0 pt</b>
Tax	(425)	(1,383)	(69.3)
<b>Profit after tax</b>	<b>3,435</b>	<b>2,688</b>	<b>27.8</b>
<i>% of revenue</i>	<b>5.2%</b>	<b>3.8%</b>	<b>1.4 pt</b>
<b>Other comprehensive income / (expense) :</b>			
<b>Items that may be reclassified subsequently to profit or loss:</b>			
Foreign currency translation of financial statements of foreign operations	88	807	(89.1)
<b>Items that may not be reclassified subsequently to profit or loss:</b>			
Re-measurement of defined benefit obligation	36	(123)	nm
	124	684	(81.9)
<b>Total comprehensive income for the period</b>	<b>3,559</b>	<b>3,372</b>	<b>5.5</b>

nm: not meaningful

	Note	Group Half year ended 30 June		
		2020 S\$'000	2019 S\$'000	Increase / (Decrease) %
Profit for the period is arrived after crediting / (charging) the following:				
Over / (under) provision of tax in respect of prior years		28	(296)	nm
Amortisation of intangible assets		(43)	(32)	34.4
Bad debts recovered		–	81	nm
Depreciation of property, plant and equipment		(345)	(367)	(6.0)
Depreciation of right-of-use assets	(1)	(491)	(290)	69.3
Net foreign exchange gain / (loss)	(2)	448	(432)	nm
Interest expense	(3)	(370)	(238)	55.5
Interest income	(4)	98	194	(49.5)
Net gain on disposal of property, plant and equipment		6	22	(72.7)
Net (allowance) / write-back for doubtful debts	(5)	(47)	246	nm
Net provision for warranty	(6)	(384)	(15)	2,460.0

### **Notes to Income Statement**

#### **(a) Other income / (expenses)**

	Group Half year ended 30 June	
	2020 S\$'000	2019 S\$'000
Amortisation of intangible assets	(43)	(32)
Government grants	1,440	47
Net foreign exchange gain / (loss)	448	(432)
Net gain on disposal property, plant and equipment	6	22
Others	134	20
<b>Total other income / (expenses)</b>	<b>1,985</b>	<b>(375)</b>

nm: not meaningful

**Notes:**

- (1) Increase in depreciation of right-of-use assets was mainly attributable to the new office lease for the subsidiary in Indonesia and the renewal of an existing office lease for a subsidiary in Thailand. The Group's subsidiary in Indonesia relocated to its new office premises in Q2 2020 while the renewal of the office lease for the subsidiary in Thailand took place in Q4 2019.
- (2) The net foreign exchange gain in 1H 2020 was mainly due to the strengthening of United States Dollar ("USD") against Singapore Dollar ("SGD") thus, resulting in an unrealised exchange gain upon revaluation of receivables to SGD.
- (3) Increase in interest expense was mainly due to higher bank borrowings.
- (4) Decrease in interest income was mainly due to lower placement in the fixed deposit account.
- (5) Net allowance for doubtful debts in 1H 2020 was mainly attributable to doubtful debts provided for customers in Indonesia and the Philippines. In comparison, the net write-back for doubtful debts in 1H 2019 was mainly attributable to doubtful debts recovered from customers in Malaysia and the Philippines, and over-provision in prior period.
- (6) The decrease in the provision for warranty for 1H 2019 was due to the reversal of warranty provision in view of the expiry of the warranty period.

**1(b)(i) A statement of financial position (for the issuer and group), together with a comparative statement as at the end of the immediately preceding financial year.**

Balance sheet as at	Group		Company	
	30/06/2020 S\$'000	31/12/2019 S\$'000	30/06/2020 S\$'000	31/12/2019 S\$'000
<b>Non-current assets</b>				
Property, plant and equipment	5,682	4,294	419	364
Right-of-use assets	4,587	4,696	3,006	3,120
Intangible asset	751	795	677	709
Investment in subsidiaries	–	–	3,971	3,971
Long term trade and other receivables	268	473	97	415
Deferred tax assets	1,338	1,494	567	567
	<b>12,626</b>	<b>11,752</b>	<b>8,737</b>	<b>9,146</b>
<b>Current assets</b>				
Stocks	9,100	9,728	2,443	3,375
Contract assets	39,629	40,121	15,661	12,671
Trade receivables	64,078	63,528	13,013	21,536
Other receivables, deposits and prepayments	22,652	20,384	16,184	15,469
Amounts due from subsidiaries				
- trade	–	–	19,377	17,821
- non-trade	–	–	17,897	8,901
Fixed deposits	651	2,259	–	–
Cash and bank balances	24,965	10,745	16,917	3,112
	<b>161,075</b>	<b>146,765</b>	<b>101,492</b>	<b>82,885</b>
<b>Current liabilities</b>				
Trade payables	34,507	38,592	8,780	13,398
Other payables and accruals	7,206	7,726	2,928	4,053
Contract liabilities	23,553	24,896	16,196	15,935
Amounts due to subsidiaries				
- trade	–	–	191	163
- non-trade	–	–	–	–
Short term borrowings	34,000	16,500	34,000	16,500
Lease liabilities	670	652	137	160
Provision for taxation	797	694	85	–
Provision for warranty	1,278	1,222	803	867
	<b>102,011</b>	<b>90,282</b>	<b>63,120</b>	<b>51,076</b>
<b>Net current assets</b>	<b>59,064</b>	<b>56,483</b>	<b>38,372</b>	<b>31,809</b>
<b>Non-current liabilities</b>				
Defined benefit obligation	460	470	–	–
Lease liabilities	3,907	4,001	2,947	3,013
	<b>4,367</b>	<b>4,471</b>	<b>2,947</b>	<b>3,013</b>
<b>Net assets</b>	<b>67,323</b>	<b>63,764</b>	<b>44,162</b>	<b>37,942</b>
<b>Equity attributable to the equity holders of the Company</b>				
Share capital	29,909	29,909	29,909	29,909
Revenue reserve	40,413	36,978	14,253	8,033
Translation reserve	(3,440)	(3,528)	–	–
Other reserve	441	405	–	–
	<b>67,323</b>	<b>63,764</b>	<b>44,162</b>	<b>37,942</b>

**1(b)(ii) Aggregate amount of group's borrowings and debt securities**

**Amount repayable in one year or less, or on demand**

As at 30/06/2020		As at 31/12/2019	
Secured	Unsecured	Secured	Unsecured
S\$'000	S\$'000	S\$'000	S\$'000
–	34,000	–	16,500

**Amount repayable after one year**

As at 30/06/2020		As at 31/12/2019	
Secured	Unsecured	Secured	Unsecured
S\$'000	S\$'000	S\$'000	S\$'000
–	–	–	–

**Details of any collateral**

Nil.

1(c) A statement of cash flows (for the group), together with a comparative statement for the corresponding period of the immediately preceding financial year.

	Group	
	Half year ended 30 June	
	2020 S\$'000	2019 S\$'000
<b>Cash flows from operating activities</b>		
Profit before tax	3,860	4,071
<u>Adjustments for :</u>		
Amortisation of intangible assets	43	32
Depreciation of property, plant and equipment	345	367
Depreciation of right-of-use assets	491	290
Interest expense	370	238
Interest income	(98)	(194)
Net fair value loss on derivatives	44	-
Net gain on disposal of property, plant and equipment	(6)	(22)
Net allowance / (write-back) for doubtful debts	47	(246)
Net provision for warranty	384	15
Pension income	-	(123)
<b>Operating profit before working capital changes</b>	5,480	4,428
(Increase) / Decrease in :		
Stocks	615	(2,488)
Contract assets	189	2,687
Trade receivables	1,038	(584)
Other receivables, deposits and prepayments	(2,276)	(3,500)
(Decrease) / Increase in :		
Trade payables	(3,111)	(1,461)
Other payables and accruals	(644)	2,908
Contract liabilities	(1,360)	(9,579)
Provision for warranty	(335)	(253)
Effect of exchange rate changes	(828)	295
<b>Cash flows used in operations</b>	(1,232)	(7,547)
Income taxes paid	(54)	(1,877)
Interest paid	(208)	(199)
<b>Net cash flows used in operating activities</b>	<b>(1,494)</b>	<b>(9,623)</b>
<b>Cash flows from investing activities</b>		
Purchase of property, plant and equipment	(2,887)	(285)
Proceeds from disposal of property, plant and equipment	6	-
Interest received	75	142
<b>Net cash flows used in investing activities</b>	<b>(2,806)</b>	<b>(143)</b>
<b>Cash flows from financing activities</b>		
Dividends paid to ordinary shareholders	-	(5,428)
Proceeds from bank loans	27,000	11,900
Repayment of bank loans	(9,500)	(5,500)
Repayment of lease liabilities	(562)	(456)
<b>Net cash flows from financing activities</b>	<b>16,938</b>	<b>516</b>
<b>Net increase / (decrease) in cash and cash equivalents</b>	12,638	(9,250)
Effect of exchange rate changes on cash and bank balances	(29)	62
Cash and cash equivalents at beginning of the year	12,914	21,463
<b>Cash and cash equivalents at end of the period</b>	<b>25,523</b>	<b>12,275</b>
<b>Cash and cash equivalents comprise :</b>		
Cash and bank balances	24,965	12,366
Fixed deposits	651	-
Deposits pledged	(93)	(91)
	<b>25,523</b>	<b>12,275</b>

- 1(d)(i) A statement (for the issuer and group) showing either (i) all changes in equity or (ii) changes in equity other than those arising from capitalisation issues and distributions to shareholders, together with a comparative statement for the corresponding period of the immediately preceding financial year.

For Second Quarter ended 30 June	Share Capital S\$'000	Revenue Reserve S\$'000	Translation Reserve S\$'000	Other Reserve S\$'000	Total S\$'000
<b>Group</b>					
<b>Balance as at 1 January 2020</b>	29,909	36,978	(3,528)	405	63,764
Total comprehensive income for the period	–	3,435	88	36	3,559
<b>Balance as at 30 June 2020</b>	<b>29,909</b>	<b>40,413</b>	<b>(3,440)</b>	<b>441</b>	<b>67,323</b>
<b>Balance as at 1 January 2019</b>	29,909	40,271	(3,932)	419	66,667
Total comprehensive income for the period	–	2,688	807	(123)	3,372
Dividend paid	–	(5,428)	–	–	(5,428)
<b>Balance as at 30 June 2019</b>	<b>29,909</b>	<b>37,531</b>	<b>(3,125)</b>	<b>296</b>	<b>64,611</b>
<b>Company</b>					
<b>Balance as at 1 January 2020</b>	29,909	8,033	–	–	37,942
Total comprehensive income for the period	–	6,220	–	–	6,220
<b>Balance as at 30 June 2020</b>	<b>29,909</b>	<b>14,253</b>	<b>–</b>	<b>–</b>	<b>44,162</b>
<b>Balance as at 1 January 2019</b>	29,909	11,957	–	–	41,866
Total comprehensive income for the period	–	2,498	–	–	2,498
Dividend paid	–	(5,428)	–	–	(5,428)
<b>Balance as at 30 June 2019</b>	<b>29,909</b>	<b>9,027</b>	<b>–</b>	<b>–</b>	<b>38,936</b>

- 1(d)(ii) Details of any changes in the company's share capital arising from rights issue, bonus issue, share buy-backs, exercise of share options or warrants, conversion of other issues of equity securities, issue of shares for cash or as consideration for acquisition or for any other purpose since the end of the previous period reported on. State the number of shares that may be issued on conversion of all the outstanding convertibles, if any, against the total number of issued shares excluding treasury shares and subsidiary holdings of the issuer, as at the end of the current financial period reported on and as at the end of the corresponding period of the immediately preceding financial year. State also the number of shares held as treasury shares and the number of subsidiary holdings, if any, and the percentage of the aggregate number of treasury shares and subsidiary holdings held against the total number of shares outstanding in a class that is listed, as at the end of the current financial period reported on and as at the end of the corresponding period of the immediately preceding financial year

There has been no change in the Company's share capital since 31 December 2019. As at 30 June 2020, there was no share options granted (30 June 2019: Nil). There was also no treasury share in issue as at the end of the current financial period (30 June 2019: Nil).

The Company does not have any subsidiary holdings as at 30 June 2020 (30 June 2019: Nil).

- 1(d)(iii) To show the total number of issued shares excluding treasury shares as at the end of the current financial period and as at the end of the immediately preceding financial year.

The total number of issued shares excluding treasury shares as at the end of the current financial period was 361,897,000 shares (31 December 2019: 361,897,000).

- (1)(d)(iv) A statement showing all sales, transfers, disposal, cancellation and / or use of treasury shares as at the end of the current financial period reported on.

Not applicable.

**(1)(d)(v) A statement showing all sales, transfers, cancellation and/or use of subsidiary holdings as at the end of the current financial period reported on.**

Not applicable.

**2. Whether the figures have been audited, or reviewed and in accordance with which standard or practice [e.g. the Singapore Standard on Auditing 910 (Engagements to Review Financial Statements), or an equivalent standard].**

The figures have not been audited nor reviewed by the Company's auditor.

**3. Where the figures have been audited or reviewed, the auditors' report (including any modifications or emphasis of matter).**

Not applicable.

**3(a) Where the latest financial statements are subject to an adverse opinion, qualified opinion or disclaimer of opinion:—**

**(a) Updates on the efforts taken to resolve each outstanding audit issue.**

**(b) Confirmation from the Board that the impact of all outstanding audit issues on the financial statements have been adequately disclosed.**

**This is not required for any audit issue that is a material uncertainty relating to going concern.**

Not applicable.

**4. Whether the same accounting policies and methods of computation as in the issuer's most recently audited annual financial statements have been applied.**

The Group has consistently applied the same accounting policies and methods of computation in the financial statements for the current reporting period as in the latest audited annual financial statements for the financial year ended 31 December 2019, except for those disclosed under paragraph 5 below.

**5. If there are any changes in the accounting policies and methods of computation, including any required by an accounting standard, what has changed, as well as the reasons for, and the effect of, the change.**

The Group has adopted the new Singapore Financial Reporting Standards (International) ("SFRS(I)", amendments and interpretations of SFRS(I)s that are effective for financial year beginning on or after 1 January 2020, where applicable. The adoption of these standards did not result in substantial changes to the Group's accounting policies, and there is no material impact to the Group as at 1 January 2020.



6. **Earnings per ordinary share of the group for the current financial period reported on and the corresponding period of the immediately preceding financial year, after deducting any provision for preference dividends.**

	<b>Group</b>	
	<b>Half year ended 30 June</b>	
	<b>2020</b>	<b>2019</b>
Earnings per Ordinary Share attributable to shareholders for the period:		
(i) Basic (cents)	0.95	0.74
(ii) Fully diluted (cents)	0.95	0.74
Weighted average number of shares for the period:		
(i) Basic ('000)	361,897	361,897
(ii) Fully diluted ('000)	361,897	361,897

7. **Net asset value (for the issuer and group) per ordinary share based on issued share capital of the issuer at the end of the (a) current financial period reported on and (b) immediately preceding financial year.**

	<b>Group</b>		<b>Company</b>	
	<b>30/06/2020</b>	<b>31/12/2019</b>	<b>30/06/2020</b>	<b>31/12/2019</b>
Net asset value per ordinary share based on issued share capital at the end of the financial period/year (in cents):	18.60	17.62	12.20	10.48

8. **A review of the performance of the group, to the extent necessary for a reasonable understanding of the group's business. It must include a discussion of the following:- (a) any significant factors that affected the revenue, costs, and earnings of the group for the current financial period reported on, including (where applicable) seasonal or cyclical factors; and (b) any material factors that affected the cash flow, working capital, assets or liabilities of the group during the current financial period reported on.**

#### **Consolidated Statement of Comprehensive Income**

##### **(a) Revenue**

On a year-on-year (“YOY”) basis, the Group’s revenue for 1H 2020 decreased by 5.3% (\$3.8 million) to \$66.4 million from \$70.2 million in 1H 2019. The decrease was due to lower revenue from the Service Provider and Enterprise customer segments.

##### **Network Infrastructure (“NI”)**

On a YOY basis, revenue for 1H 2020 increased by 1.3% (\$0.6 million) to \$49.5 million from \$48.9 million, mainly due to higher revenue from Indonesia and Malaysia, partially offset by lower revenue recorded in Singapore.

##### **Wireless Infrastructure Network (“WIN”)**

On a YOY basis, revenue for 1H 2020 decreased by 20.5% (\$4.4 million) to \$16.9 million from \$21.3 million, mainly due to lower revenue from Singapore and Malaysia, partially offset by higher revenue recorded in the EMEA markets.

**(b) Gross Profit**

On a YOY basis, gross profit for 1H 2020 decreased by 22.4% to \$14.2 million from \$18.3 million in tandem with the lower revenue. The gross profit margin decreased to 21.4% from 26.1% due to lower gross margin from hardware revenue and higher warranty provision. The warranty provision for 1H 2019 included the reversal of provision for the expired warranty period.

**(c) Other income / (expenses)**

On a YOY basis, other income for 1H 2020 increased by \$2.4 million. The increase was mainly attributable to the receipt of government grants and unrealised foreign exchange gain on USD receivables following the strengthening of USD against SGD.

**(d) Operating Expenses**

On a YOY basis, total operating expenses for 1H 2020 decreased by 12.8% (\$1.7 million) to \$12.1 million from \$13.8 million mainly due to lower distribution and selling expenses.

Distribution and selling expenses decreased by 19.6% (\$1.8 million) for 1H 2020 mainly due to lower payroll and staff related costs, and partially offset by the increase in net allowance for doubtful debts.

Administrative expenses is comparable to 1H 2019.

**(e) Profit before tax ("PBT")**

The Group registered a profit before tax of \$3.9 million for 1H 2020, a decrease of 5.2% (\$0.2 million) from \$4.1 million. The decrease in PBT was attributable to lower gross profit, and partially offset by higher other income and lower operating expenses.

PBT as a percentage of revenue for 1H 2020 is comparable to 1H 2019.

**(f) Tax**

On a YOY basis, tax expense decreased by 69.3% to \$0.4 million in 1H 2020 from \$1.4 million in the same period last year, largely due to lower net taxable profit for the Singapore entities. In addition, the Jobs Support Scheme pay out is not subject to tax. Tax expense was higher in 1H 2019 mainly due to differences in tax assessment and tax estimates made in prior years.

**(g) Profit after tax**

The Group's net profit increased by \$0.7 million or 27.8% from \$2.7 million in 1H 2019 to \$3.4 million in 1H 2020 largely due to lower operating expenses and the receipt of government grants. In addition, the Group's tax expense is lower as explained in Note (f) above.

**Statement of Financial Position**

**(h) Non-current assets**

The Group's non-current assets increased by \$0.9 million mainly due to equipment purchased for a government project in the Philippines.

**(i) Current assets**

The Group's current assets increased by \$14.3 million mainly due to higher cash and bank balances and trade and other receivables.

(j) **Current liabilities**

The Group's current liabilities increased by \$11.7 million mainly due to higher short-term borrowings. This is partially offset by the decrease in trade and payables, and contract liabilities.

(k) **Non-current liabilities**

The Group's non-current liabilities decreased by \$0.1 million due to payments on the lease liabilities.

(l) **Cash flow**

For 1H 2020, the increase in cash and cash equivalents of \$12.6 million was mainly due to:

- negative cash flow from operating activities of \$1.5 million as a result of negative change in working capital due to increase in other receivables as well as lower trade and other payables, and contract liabilities;
- negative cash flow from investing activities of \$2.8 million as a result of the purchase of plant and equipment; and partially offset by
- net proceeds from bank loans of \$17.5 million.

**9. Where a forecast, or a prospect statement, has been previously disclosed to shareholders, any variance between it and the actual results.**

Not applicable.

**10. A commentary at the date of the announcement of the significant trends and competitive conditions of the industry in which the group operates and any known factors or events that may affect the group in the next reporting period and the next 12 months.**

In 1H 2020, the Group secured approximately \$79.4 million in order intake, an increase of 1.5% (\$1.1 million) compared to \$78.3 million in 1H 2019, mainly due to the increase in orders from the Service Provider and Enterprise customers segments.

The Group's NI business segment contributed approximately \$56.2 million, or 70.8% of the total 1H 2020 order intake, a decrease of 1.6% (\$0.9 million) compared to \$57.1 million recorded in 1H 2019. The Group's WIN business segment contributed the remaining \$23.2 million in order intake, an increase of 9.7% (\$2.0 million) compared to \$21.2 million in 1H 2019 mainly attributable to the EMEA markets.

During this period of COVID-19 pandemic, the Group has actually seen more opportunities and leads especially from the Service Provider, as well as the Government, Transport and Utilities segments. However, the Group has deliberately taken a more conservative approach and has been more selective in the projects that it chooses to undertake. The objectives are to reduce risk exposures as well as to improve the Group's cash and cashflows positions. These have therefore led to just a modest increase in the Group's order intake.

Moving forward, the COVID-19 pandemic will likely continue to create uncertainties in terms of the Group's business outlook. On the other hand, with more people working from home, Operators around the world will continue to enhance their networks to cater to the surge of data originating from residential areas. In addition, there will also be an increase in demand for ICT solutions for work-from-home arrangements.

The Group will also continue to focus on growing the Cybersecurity business and widening its range of products and services in this domain.

**11. Dividend**

**(a) Current Financial Period Reported On**

Any dividend declared for the current financial period reported on?

None

**(b) Corresponding Period of the Immediately Preceding Financial Year**

Any dividend declared for the corresponding period of the immediately preceding financial year?

Name of Dividend	Interim (one-tier)
Dividend Type	Cash
Dividend Amount per Share (in cents)	0.5 cents
Tax Rate	Tax exempt

**(c) Date payable**

Not applicable.

**(d) Books closure date**

Not applicable.

**12. If no dividend has been declared/recommended, a statement to that effect.**

No interim dividend has been proposed or recommended as the management plans to conserve cash for the Group's working capital.

**13. If the Group has obtained a general mandate from shareholders for IPTs, the aggregate value of such transactions as required under Rule 920(1)(a)(ii). If no IPT mandate has been obtained, a statement to that effect.**

There is no IPT mandate obtained.

**14. Negative assurance confirmation on interim financial results under Rule 705(5) of the SGX-ST.**

To the best of our knowledge, nothing has come to the attention of the Board of Directors which may render the half year financial statements for the period ended 30 June 2020, to be false or misleading in any material respect.

**15. Confirmation that the issuer has procured undertakings from all its directors and executive officers (in the format set out in Appendix 7.7) under Rule 720(1).**

The Company has procured the revised undertakings from all directors and from executive officers in the format set out in Appendix 7.7 under Rule 720(1).

**BY ORDER OF THE BOARD**

Chan Wan Mei and Gan Lee Teng  
Joint Company Secretary

12 August 2020