NERA TELECOMMUNICATIONS LTD
(Co. Reg. No. 197802690R)

UNAUDITED FINANCIAL STATEMENTS AND DIVIDEND ANNOUNCEMENT FOR THE FIRST QUARTER ENDED 31 MARCH 2019

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 First Quarter		
	2019 S$'000	**2018 S$'000**	**Increase/ (Decrease) %**
Revenue	**36,845**	**41,603**	**(11.4)**
Cost of sales	(28,825)	(31,720)	(9.1)
Gross profit	**8,020**	**9,883**	**(18.9)**
Gross margin %	**21.8%**	**23.8%**	**(2.0) pt**
Other operating income	195	98	99.0
Distribution and selling expenses	(4,154)	(4,346)	(4.4)
Administrative expenses	(2,230)	(2,056)	8.5
Other operating expenses	(30)	(1,309)	(97.7)
Profit from operating activities	**1,801**	**2,270**	**(20.7)**
Financial income	111	36	208.3
Financial expenses	(92)	(69)	33.3
Profit before tax	**1,820**	**2,237**	**(18.6)**
% of revenue	**4.9%**	**5.4%**	**(0.5) pt**
Tax	(425)	(500)	(15.0)
Profit after tax	**1,395**	**1,737**	**(19.7)**
% of revenue	**3.8%**	**4.2%**	**(0.4) pt**
Other comprehensive income / (expense):			
Items that may be reclassified subsequently to profit or loss:			
Foreign currency translation of financial statements of foreign operations	114	761	(85.0)
Items that may not be reclassified subsequently to profit or loss:			
Re-measurement of defined benefit obligation	(124)	(8)	1450.0
	(10)	753	nm
Total comprehensive income for the period	**1,385**	**2,490**	**(44.4)**

nm: not meaningful

	Note	Group First Quarter 2019 S$'000	2018 S$'000	Increase / (Decrease) %
Profit for the period is arrived after crediting / (charging) the following:				
Over provision of tax in respect of prior years		76	74	2.7
Amortisation of intangible asset		(16)	(16)	0.0
Bad debts recovered		84	–	nm
Depreciation of property, plant and equipment and right-of-use assets	(1)	(413)	(153)	169.9
Foreign exchange gain / (loss)	(2)	105	(1,293)	nm
Interest expense	(3)	(92)	(69)	33.3
Interest income	(4)	111	36	208.3
Net gain on disposal of property, plant and equipment		6	–	nm
Net writeback for doubtful debts	(5)	237	25	848.0
Net provision for warranty	(6)	(100)	(153)	(34.6)

Notes to Income Statement

(a) Other operating income

	Group First Quarter 2019 S$'000	2018 S$'000
Government grants	47	66
Gain on foreign exchange	105	–
Others	43	32
Total other operating income	**195**	**98**

(b) Other operating expenses

	Group First Quarter 2019 S$'000	2018 S$'000
Amortisation of intangible assets	16	16
Loss on foreign exchange	–	1,293
Others	14	–
Total other operating expenses	**30**	**1,309**

nm: not meaningful

Notes:

(1) Increase in depreciation of property, plant and equipment was mainly due to additional depreciation charge incurred upon the recognition of right-of-use assets following the adoption of SFRS(I) 16 *Leases* and capital expenditure incurred on renovations with the relocation of office in Philippines in Q4 2018.

(2) Foreign exchange gain in Q1 2019 was mainly due to devaluation of USD against the EUR, thus resulting in an unrealised exchange gain upon revaluation of USD payables.

(3) Increase in interest expense was mainly due to interest expense recognised on the lease liabilities following the adoption of SFRS(I) 16 *Leases*.

(4) Increase in interest income was mainly due to higher interest accretion from long term receivables and interest income from bank.

(5) Increase in writeback for doubtful debts was due to doubtful debts recovered.

(6) Decrease in provision for warranty was due to reversal of warranty provision in view of the expiry of 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	
	31/03/2019 S$'000	31/12/2018 S$'000	31/03/2019 S$'000	31/12/2018 S$'000
Non-current assets				
Property, plant and equipment	2,123	2,147	456	403
Right-of-use assets	4,985	–	3,282	–
Intangible asset	757	774	757	774
Investment in subsidiaries	–	–	4,668	4,668
Long term trade and other receivables	1,740	1,727	1,698	1,687
Deferred tax assets	1,463	1,465	726	726
	11,068	**6,113**	**11,587**	**8,258**
Current assets				
Stocks	18,486	17,802	3,721	11,186
Contract assets	42,110	35,684	38,894	15,065
Trade receivables	59,952	59,974	15,650	17,832
Other receivables, deposits and prepayments	22,434	17,368	973	11,721
Amounts due from subsidiaries				
- trade	–	–	17,533	15,436
- non-trade	–	–	3,335	4,700
Fixed deposits	2,488	3,528	2,488	2,467
Cash and bank balances	17,013	18,028	3,577	6,531
	162,483	**152,384**	**86,171**	**84,938**
Current liabilities				
Trade payables	35,098	32,146	8,129	11,704
Other payables and accruals	14,009	12,009	5,068	5,257
Contract liabilities	41,452	37,691	29,092	24,287
Amounts due to subsidiaries				
- trade	–	–	1,037	1,692
- non-trade	–	–	–	581
Short term borrowings	5,500	5,500	5,500	5,500
Lease liabilities	824	–	180	–
Provision for taxation	2,196	2,178	1,494	1,251
Provision for warranty	1,910	1,996	1,111	1,058
	100,989	**91,520**	**51,611**	**51,330**
Net current assets	**61,494**	**60,864**	**34,560**	**33,608**
Non-current liabilities				
Defined benefit obligation	313	310	–	–
Lease liabilities	4,197	–	3,116	–
	4,510	**310**	3,116	–
Net assets	**68,052**	**66,667**	**43,031**	**41,866**
Equity attributable to the equity holders of the Company				
Share capital	29,909	29,909	29,909	29,909
Revenue reserve	41,666	40,271	13,122	11,957
Translation reserve	(3,818)	(3,932)	–	–
Other reserve	295	419	–	–
	68,052	**66,667**	**43,031**	**41,866**

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

Amount repayable in one year or less, or on demand

As at 31/03/2019		As at 31/12/2018	
Secured	Unsecured	Secured	Unsecured
S$'000	S$'000	S$'000	S$'000
–	6,324	–	5,500

Amount repayable after one year

As at 31/03/2019		As at 31/12/2018	
Secured	Unsecured	Secured	Unsecured
S$'000	S$'000	S$'000	S$'000
–	4,197	–	–

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 First Quarter	
	2019 S$'000	**2018 S$'000**
Cash flows from operating activities		
Profit before tax	1,820	2,237
Adjustments for :		
Amortisation of intangible assets	17	16
Depreciation of property, plant and equipment and right-of-use assets	413	153
Interest expense	92	69
Interest income	(111)	(36)
Net gain on disposal of property, plant and equipment	(6)	–
Net write-back for doubtful debts	(237)	(25)
Net provision for warranty	100	153
Pension income	(124)	(8)
Operating profit before working capital changes	1,964	2,559
(Increase) / Decrease in :		
Stocks	(684)	8
Contract assets	(6,426)	(1,654)
Trade receivables	259	5,553
Other receivables, deposits and prepayments	(5,066)	1,482
(Decrease) / Increase in :		
Trade payables	2,952	794
Other payables and accruals	2,000	1,581
Contract liabilities	3,761	–
Provision for warranty	(186)	(157)
Effect of exchange rate changes	29	852
Cash flows (used in) / from operations	(1,397)	11,018
Income taxes paid	(403)	(1,014)
Interest paid	(19)	(68)
Net cash flows (used in) / from operating activities	**(1,819)**	**9,936**
Cash flows from investing activities		
Purchase of property, plant and equipment	(147)	(41)
Interest received	61	21
Increase of deposit pledged	–	(4)
Net cash flows used in investing activities	**(86)**	**(24)**
Cash flows from financing activities		
Proceeds from bank loans	5,500	7,888
Repayment of bank loans	(5,500)	(9,020)
Repayment of lease liabilities	(194)	–
Net cash flows used in financing activities	**(194)**	**(1,132)**
Net (decrease) / increase in cash and cash equivalents	(2,099)	8,780
Effect of exchange rate changes on cash and bank balances	46	(66)
Cash and cash equivalents at beginning of the year	21,463	20,570
Cash and cash equivalents at end of the period	**19,410**	**29,284**
Cash and cash equivalents comprise :		
Cash and bank balances	17,013	25,791
Fixed deposits	2,488	3,626
Deposits pledged	(91)	(133)
	19,410	**29,284**

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 First Quarter ended 31 March	Share Capital S$'000	Revenue Reserve S$'000	Translation Reserve S$'000	Other Reserve S$'000	Total S$'000
Group					
Balance as at 1 January 2019	29,909	40,271	(3,932)	419	66,667
Total comprehensive income for the period	–	1,395	114	(124)	1,385
Balance as at 31 March 2019	**29,909**	**41,666**	**(3,818)**	**295**	**68,052**
Balance as at 1 January 2018 (FRS framework)	29,909	43,879	(4,167)	196	69,817
Effect of adoption of SFRS (I) 9	–	(160)	–	–	(160)
Balance as at 1 January 2018 (SFRS(I) framework)	29,909	43,719	(4,167)	196	69,657
Total comprehensive income for the period	–	1,737	761	(8)	2,490
Balance as at 31 March 2018	**29,909**	**45,456**	**(3,406)**	**188**	**72,147**
Company					
Balance as at 1 January 2019	29,909	11,957	–	–	41,866
Total comprehensive income for the period	–	1,165	–	–	1,165
Balance as at 31 March 2019	**29,909**	**13,122**	–	–	**43,031**
Balance as at 1 January 2018	29,909	9,720	–	–	39,629
Total comprehensive income for the period	–	1,703	–	–	1,703
Balance as at 31 March 2018	**29,909**	**11,423**	–	–	**41,332**

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 2018. As at 31 March 2019, there was no share options granted (31 March 2018: Nil). There was also no treasury share in issue as at the end of the current financial period (31 March 2018: Nil).

The Company does not have any subsidiary holdings as at 31 March 2019 (31 March 2018: 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 2018: 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 qualifications or emphasis of matter).

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 2018, 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 1 January 2019.

The adoption of the new SFRS(I)s, amendments and interpretations of SFRS(I)s did not have any significant impact on the financial statements of the Group except for the following:

SFRS(I) 16 *Leases*

SFRS(I) 16 requires lessees to recognise most leases on balance sheets. The standard includes two recognition exemptions for lessees – leases of 'low value' assets and short-term leases. SFRS(I) 16 is effective for annual periods beginning on or after 1 January 2019. At commencement date of a lease, a lessee will recognise a liability to make a lease payment (i.e. the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e. the right-of-use ("ROU") asset). Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

The Group adopted SFRS(I) 16 on 1 January 2019, using the modified retrospective approach, without restating prior years' information.

In compliance with SFRS(I) 16, the Group and the Company has applied the practical expedient to recognise the amount of ROU assets equal to the lease liabilities as at 1 January 2019. Subsequent to initial recognition, the Group and the Company depreciate the ROU assets over the shorter of the useful life of the ROU assets and the lease term, and recognise interest expenses on the lease liabilities.

The adoption of SFRS(I) 16 resulted in increase in total assets and total liabilities, Earnings before Interest, Tax, Depreciation and Amortisation ("EBITDA") and gearing ratio.

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.

	Group First Quarter	
	2019	2018
Earnings per Ordinary Share attributable to shareholders for the period:		
(i) Basic (cents)	0.38	0.48
(ii) Fully diluted (cents)	0.38	0.48
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.

	Group		Company	
	31/03/2019	31/12/2018	31/03/2019	31/12/2018
Net asset value per ordinary share based on issued share capital at the end of the financial period/year (in cents):	18.80	18.42	11.89	11.57

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 Q1 2019 decreased by 11.5% ($4.8 million) to $36.8 million in Q1 2019 from $41.6 million in Q1 2018. Both the Network Infrastructure and Wireless Infrastructure Network business segments reported lower revenue.

Network Infrastructure ("NI")

On a YOY basis, revenue for Q1 2019 decreased by 10.6% ($3.0 million) to $25.3 million from $28.3 million, mainly due to lower revenue booked in Malaysia and Australia.

Wireless Infrastructure Network ("WIN")

On a YOY basis, revenue for Q1 2019 decreased by 13.5% ($1.8 million) to $11.5 million from $13.3 million, mainly due to lower revenue in the Middle East and Africa markets.

(b) Gross Profit

On a YOY basis, gross profit for Q1 2019 decreased by 18.9% to $8.0 million from $9.9 million in tandem with the lower revenue. The gross profit margin decreased from 23.8% in Q1 2018 to 21.8% in Q1 2019.

(c) Other operating income

On a YOY basis, other operating income for Q1 2019 increased by 99.0% ($0.1 million) to $0.2 million from $0.1 million largely due to a one-off foreign exchange gain in Q1 2019.

(d) Operating Expenses

On a YOY basis, total operating expenses decreased by 16.8% ($1.3 million) to $6.4 million from $7.7 million mainly due to lower distribution and selling expenses and other operating expenses.

Distribution and selling expenses decreased by 4.4% ($0.2 million) mainly due to increase in writeback for doubtful debts arising from doubtful debts recovered.

Administrative expenses increased by 8.5% (0.2 million) mainly due to higher payroll-related costs.

Other operating expenses decreased by 97.7% ($1.3 million). Higher other operating expenses in Q1 2018 was mainly attributable to higher foreign exchange loss from the devaluation of the USD against the SGD and EUR, thus resulting in an unrealised exchange loss upon revaluation of USD receivables to SGD and EUR.

(e) Profit before tax ("PBT")

The Group registered a profit before tax of $1.8 million for Q1 2019, a decrease of 18.6% YOY, mainly due to lower gross profit as explained in (b) above. PBT as a percentage of revenue ("**PBT %**") for Q1 2019 was lower at 4.9% compared to 5.4% in Q1 2018.

(f) Tax

On a YOY basis, tax expenses decreased by 15.0% ($0.1 million) in Q1 2019. Tax expense was lower in Q1 2019 mainly due to lower taxable profits.

Statement of Financial Position

(g) Non-current assets

The Group's non-current assets increased by $5.0 million mainly due to the recognition of right-of-use of assets following the adoption of SFRS(I) 16 *Leases*.

(h) Current assets

The Group's current assets increased by $10.1 million mainly due to higher contract assets and other receivables. These were partially offset by lower of fixed deposit, cash and bank balances.

(i) Current liabilities

The Group's current liabilities increased by $9.5 million mainly due to higher trade and other payables, higher contract liabilities arising from advance payments from the customer, and higher lease liabilities following the adoption of SFRS(I) 16 *Leases*.

(j) Non-current liabilities

The Group's non-current liabilities increased by $4.2 million due to the recognition of lease liabilities following the adoption of SFRS(I) 16 *Leases*.

(k) Cash flow

For Q1 2019, the decrease in cash and cash equivalents of $2.1 million was mainly due to negative cash flow from operating activities of $1.8 million as a result of negative change in working capital from higher contract assets partially offset by higher contract liabilities.

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 Q1 2019, the Group secured approximately $37.8 million in order in-take, a decline of 25.4% ($12.9 million) compared to $50.7 million in Q1 2018. Of the $37.8 million of order in-take secured, $29.5 million, or 78.0%, was contributed by the Network Infrastructure ("**NI**") segment while $8.3 million, or 22.0%, was contributed by the Wireless Infrastructure Network ("**WIN**") segment. On a year-on-year basis, order in-take for NI decreased by 18.8% due mainly to lower order in-take from the Service Provider markets while WIN recorded a 42.2% decrease due mainly to intense competition as well as cancellation of some key projects in Middle East and Africa markets.

The relative slowdown in order in-take experienced reflects the industry-wide challenges the Group is navigating, as well as intense competition in the Europe, Middle East and African markets. In addition, the prolonged US-China trade talks have dampened global economic outlook and general market sentiments, resulting in increased caution by companies for capital expenditure.

While the operating environment remains challenging, the Group believes that digitisation will continue to be the Group's key growth driver. It has observed an increase in demand from its existing clients for services in complementary verticals such as cybersecurity, automation, data analytics and smart building technologies. The Group will continue to strengthen its offerings in these domains for sustainable future growth.

Backed by a strong team of certified engineers with the requisite experience and expertise in these domains, NeraTel is pleased to have made headway in developing its capabilities to address its customers' changing needs, particularly in the domains of cybersecurity and data analytics. While a gestation period is required for these business verticals, it is necessary for the Group to continuously evaluate and evolve its business model alongside changing customer requirements to remain competitive and relevant. The Group employs a prudent approach in deciding new business areas to enter into, in order to protect shareholders' long-term interests, taking into consideration the management's expertise and capabilities, and the Group's competitive strengths, amongst others. The Group seeks to strike a balance between financial performance and the long-term growth potential of its businesses.

Additionally, to strengthen its recurring income streams, the Group will also continue to seek opportunities to increase service and maintenance contracts.

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?

None.

(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 dividend has been declared or recommended for the financial period.

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 first quarter financial statements for the period ended 31 March 2019, to be false or misleading in any material respect.

On behalf of the Board

Wong Su-Yen Chairman	Beck Tong Hong Director

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

9 May 2019