NERA TELECOMMUNICATIONS LTD
Company Registration No. 197802690R
(Incorporated in the Republic of Singapore)

RESPONSES TO QUESTIONS RECEIVED FROM SECURITIES INVESTORS ASSOCIATION (SINGAPORE) ("SIAS")

The Board of Directors (the "**Board**") of Nera Telecommunications Ltd (the "**Company**" and together with its subsidiaries, the "**Group**") refers to some questions from the Securities Investors Association (Singapore) ("**SIAS**") pertaining to the Annual Report for the financial year ended 31 December 2023.

The Company would like to provide its responses to the questions received from the SIAS as below Appendix.

BY ORDER OF THE BOARD

Gn Jong Yuh Gwendolyn
Company Secretary

24 April 2024

Appendix

Question 1

In FY2023, revenue increased by 6.9% to $141.7 million compared to $132.5 million in the previous year. This growth was primarily driven by higher contributions from the Government, Transport, and Utility, as well as the Enterprise segments.

Gross profit for FY2023 rose to $31.2 million, marking a 5.6% increase from $29.6 million in FY2022 although gross profit margin for FY2023 was slightly lower at 22.0%, compared to the 22.3% profit margin recorded in FY2022.

The group achieved a profit after tax of $5.7 million for the year, from the loss after tax of $7.3 million recorded in FY2022.

(i) **Can management provide insight into the effectiveness of its strategy to secure high-value projects that yield improved margins?** As noted above, gross profit margin actually declined to 22.0% from 22.3%.

Over the past two years, NeraTel has embarked on a business transformation. A key strategy – to address legacy issues and expedite recovery – has been a major review of deal qualification with a view to achieve i) high-value projects; ii) improved risk management; and iii) cash collection.

In executing this transformation, the Group has already achieved an improvement in our cash collection processes and shortened our cash conversion cycle. This has been crucial in strengthening our financial base. For FY2023, the Group generated an operating cash flow of $7.9 million with a healthy balance sheet that includes $8.6 million net cash.

Since the transformation, fresh projects secured have contributed to financial performance. The Group has and will continue to improve its internal efficiencies while refining its risk management processes.

(ii) Has the board compared the group's profitability, particularly its profit margin, with that of its peers, and how does the group's performance fare in comparison? As a technology solutions provider, is the gross profit margin of approximately 22% consistent with market standards, and has the board provided any guidance in this regard?

To the Group's knowledge, there are no like-for-like listed comparable companies in Singapore.

The Group's Board and senior management have substantial combined industry experience. Based on their collective assessment of the current operating environment of the sector that NeraTel is involved in, the gross profit margin achieved in the last three years is considered healthy.

Since our business transformation in FY2022, gross profit margin has improved to 22.3% and 22.0% in FY2022 and FY2023 respectively, compared to FY2021's 19.0%.

(iii) **Does the group possess an optimised cost structure that aligns with its strategic objectives and operational efficiency goals? Specifically, has the board conducted a thorough analysis of the group's cost components, including fixed and variable expenses, to ensure alignment with industry benchmarks and best practices? What measures has the group implemented to streamline costs and enhance cost-effectiveness while maintaining operational excellence?**

As part of the Group's business transformation, the Group has been investing in new capabilities and resources to enhance our value proposition and expand our skill sets. These investments, while having a short-term impact on our cost metrics, will improve operational capabilities, add value to customers and position the Group to capture new opportunities in the longer term.

In line with the transformation, the Group is also investing for future growth. As such, it will continue to balance cost-effectiveness and investment in growth areas in its efforts to enhance shareholder value.

In their statement to shareholders, the chairman and CEO expressed their pride in announcing that the group achieved a profit after tax of $5.67 million. The group's strong full-year financial performance was attributed to the success of the turnaround strategies. In their statement, the chairman and CEO portrayed a positive picture and used terms like "a sharp reversal", "improved performance", "early fruits of our turnaround strategies", "our return to profitability".

To add context and perspective, the joint statement of the Chairman and CEO also stated that "new challenges have emerged" following the pandemic, and that "Demand remained subdued as clients maintained a cautious approach towards expenditure". This was due to macroeconomic challenges such as "higher interest rates, inflationary pressures and geopolitical uncertainties".

	WIN $'000	NI $'000	Adjustments $'000	Notes	Total $'000
2023					
Revenue	28,314	113,374			141,688
Cost of sales	(23,360)	(87,091)			(110,451)
Gross profit	4,954	26,283			31,237
Distribution and selling expenses	(3,587)	(12,950)			(16,537)
Administrative expenses	(2,008)	(11,812)			(13,820)
Other (expenses)/income	(1,469)	5,164			3,695
(Loss)/profit from operating activities	(2,110)	6,685			4,575
Finance income					262
Finance expenses					(1,155)
Profit before tax					3,682
Tax					1,989
Net profit for the year					5,671

(Source: company annual report; emphasis added)

(iv) **Can the board confirm that the net gain from the disposal of the group's former headquarters at 109 Defu Lane 10 amounted to $5.75 million, and without this one-time gain, the group would have incurred a loss?**

109 Defu Lane 10 had served as the Group's corporate headquarters for over 20 years. It was an aging property that was disposed in order to unlock value and facilitate relocation to new premises as part of our business transformation. This relocation required fitting out and rental costs which were incurred in FY2023.

In addition, the Company also used some of the proceeds for working capital and business expansion in FY2023.

The net gain from disposal of the property contributed to the pre-tax profit of S$3.7 million in FY2023.

(v) **If so, could the chairman and CEO elaborate on their optimism regarding the company's performance, considering the ongoing weak operating results?**
Based on the financial statements for the six months ended 31 December 2023[1], the group reported a loss from operating activities of $(4.1) million. Losses in the Wireless infrastructure networks (WIN) and Network infrastructure (NI) segments were $(1.6) million and $(2.5) million respectively.

Nera Telecommunications Ltd and its Subsidiaries

Notes to the Condensed Interim Consolidated Financial Statements
For the 12 months ended 31 December 2023

20. Segment information (cont'd)

6 months ended 31 Dec 2023	**WIN** $'000	**NI** $'000	**Adjustments** $'000	**Total** $'000
Revenue	15,154	46,163		61,317
Cost of sales	(13,128)	(34,273)		(47,401)
Gross profit	2,026	11,890		13,916
Distribution and selling expenses	(1,572)	(6,151)		(7,723)
Administrative expenses	(1,087)	(6,851)		(7,938)
Other expenses	(973)	(1,349)		(2,322)
Loss from operating activities	(1,606)	(2,461)		(4,067)
Finance income				138
Finance expenses				(538)
Loss before tax				(4,467)
Tax				2,919
Net loss for the period				(1,548)

(Source: company annual report; emphasis added)

The Group recorded a weaker second half in FY2023 on a sequential basis. This was primarily due to macroeconomic challenges which impacted broader customer sentiment. Several projects were delayed as clients held back on their IT capex due to ongoing uncertainty. These challenges continue to persist.

On a full-year basis, the Group's financial performance underscored the early success of our business transformation. For FY2023, gross profit increased 5.6% to $31.2 million while the net cash position improved to $8.6 million at the financial year end – a significant reversal from net debt of $2.8 million.

NeraTel's business foundation has been strengthened through the implementation of our corporate strategies, enhancing the Group's ability to capture new opportunities. Subsequent to the financial year, the Group secured two strategic projects which will contribute positively in the future.

1 https://links.sgx.com/FileOpen/NeraTel%20SGX%20Interim%20FS%20Ann%20FY2023.ashx?App=Announcement&FileID=790694

Question 2

The "Recoverability of trade receivables and contract assets" is a key audit matter (KAM) highlighted by the independent auditors in their report on the audit of the financial statements. Key audit matters are those matters that, in the professional judgement of the Independent Auditor, were of most significance in the audit of the financial statements of the current period.

As noted in the KAM, the group's trade receivables and contract assets amounted to $42.98 million and $22.06 million respectively as at 31 December 2023, against which an allowance for expected credit loss and impairment of $2.75 million and $3.73 million had been made respectively.

10. **Trade receivables (cont'd)**

Expected credit losses

The movement in allowance for expected credit losses of trade receivables computed based on lifetime ECL are as follows:

	Group		Company	
	2023 $'000	2022 $'000	2023 $'000	2022 $'000
Movement in allowance accounts:				
At 1 January	$\boxed{10,496}$	$\boxed{9,268}$	377	447
Charge for the year	1,242	2,715	34	–
Written back	(1,122)	(430)	(34)	(70)
Written off	(7,733)	(124)	(339)	–
Currency realignment	(133)	(933)	–	–
At 31 December	2,750	10,496	38	377

(Source: company annual report; emphasis added)

(i) **Can management elaborate on the reasons for the persistently high impairment losses recognised on trade receivables?**

The Group has lowered impairment charges to S$1.242 million in FY2023 from S$2.715 million recorded in FY2022 and recorded a write-back of S$1.122 million, compared to S$0.43 million in FY2022.

The write-off of S$7.733 million had already been impaired and the charge recognised in prior years.

Hence, there has been a reduction in impairment losses in FY2023, and not higher impairment losses on trade receivables.

(ii) The group has a policy to trade only with recognised and creditworthy third parties. **Can the company/audit and risk management committee (ARMC) provide shareholders with insights into the group's methods for assessing the creditworthiness of customers?**

The Group has a framework to evaluate the financial stability of our customers, which includes analysing the customer's cash flow and overall financial performance. Customers are also assessed based on their punctuality and reliability in settling past invoices.

The Group consistently reviews and updates assessments of customers to ensure our evaluations reflect new financial data or market conditions.

To address legacy issues, the changes in the deal qualification process include an alignment of the sales team's remuneration to reward actual cash collection based on agreed milestones. This places greater emphasis on securing financially stable customers and motivating sales personnel to go above and beyond conventional credit reports to evaluate creditworthiness.

In certain cases, for added security, the Group takes additional precautions, such as securing letters of credit to mitigate potential financial risks.

(iii) What specific measures is management undertaking to recover long outstanding debts?

For overdue payments, the Group has in place a procedure which includes regular reminders and internal letters of demand.

Where necessary, and acting on legal advice, the Group will take legal action to recover debts. This is reflected in several SGX announcements updating shareholders on the Group's legal actions.

(iv) What led the group to write-off $7.73 million in allowance in FY2023?

As mentioned earlier in Q2 (i), the $7.733 million write-off was impaired and the charge recognised in prior years relating to projects in two ASEAN countries. A substantial portion of the write-off was deemed unrecoverable, despite court rulings in favour of the Group, hence the Group decided to write-off $7.733 million in FY2023.

In addition, the auditors have noted that, as at 31 December 2023, 17% of the trade receivables are aged more than 90 days. It was as high as 34%-39% as at the end of the reporting periods in 2020, 2021 and 2022.

As highlighted, the aging of trade receivables has improved in FY2023 compared to prior years. This was driven by the Group's enhanced focus to regularly review customers' credit and macro conditions, as well as greater emphasis on receivables collections in FY2023.

(v) Did the ARMC monitor the group's compliance with its credit risk management framework and if so, were any deficiencies identified?

In line with the business transformation, the ARMC has been emphasising credit risk management. Various legacy deficiencies were identified and addressed. Collection status and aging summaries for new projects are thoroughly reviewed on a quarterly basis. These processes have led to an improvement in our collection process. The ARMC will continue to review and refine the process.

(vi) Will the group be implementing any additional measures to enhance its credit risk management framework?

As stated, it is an ongoing process of refinement and execution.

Question 3

Dr. Lim Puay Koon resigned as independent director, the chairman of the board, the chairperson of the remuneration committee and a member of the audit and risk management committee on 7 August 2023[2].

Dr. Lim Puay Koon was appointed to the board on 21 October 2021 and was designated as the chairman on 23 December 2022 to replace Ms Wong Su-Yen who stepped down from the board as chairman on the same date[3].

Following Dr. Lim Puay Koon's resignation, Mr Basil Chan was appointed as the chairman of the board with effect from 7 August 2023[4].

(i) Can the company provide more details on the abrupt cessation of Dr Lim Puay Koon as chairman of the board? Can the board offer assurance to shareholders regarding any concerns surrounding his departure given his short stint as chairman?

As stated in our announcement on 7 August 2023, Dr Lim resigned to pursue other business interests. As far as the Board is aware, it does not have any concerns regarding Dr Lim's departure.

(ii) What criteria did the nominating committee (NC) use in the search and nominating process for the chairman position?

As part of the Group's succession plan when Dr Lim stepped down, Mr Chan – an Independent Director since March 2020 – assumed the chairmanship.

No search was conducted externally.

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[2] https://links.sgx.com/1.0.0/corporate-announcements/6NLV8M8P7VRFA1FN/ae4f1f595373cba499902e825a5fef4496ef89870a7121749c288b1c 0fa4603d

[3] https://links.sgx.com/1.0.0/corporate-announcements/OQB66FVU5ZL7V1ZB/62e35854f7eabc2f84e5f39264fc3201a707571cf2e65baa4f4974bdb e6d2eb9

[4] https://links.sgx.com/FileOpen/NeraTel-Annc_Change_in_Board_Composition.ashx?App=Announcement&FileID=768036

(iii) **What was the total shareholder return (TSR) in the past 10 years?** A TSR over a 10-year period would cover the time when Ms Wong Su-Yen served as the chairman (from 30 April 2014 to 23 December 2022) and the short tenures of the two chairmen after her.

(Source: https://sg.finance.yahoo.com/quote/N01.SI/)
(Note: In 2016, the company paid out a special dividend of 15 cents following the disposal of its payment solutions business.)

NeraTel's TSR, from 2 January 2014 to 31 December 2023, is –40.85%.

(iv) **As Mr Basil Chan is seeking his re-election, would the director help shareholders better understand how he aims to contribute effectively as a director and chairman of the board, and what changes he envisions making to enhance shareholder value?**

Given Mr Chan's background, he will focus on Leadership and HR, strategy, governance and compliance, financials, and risk management amongst other Board responsibilities.

Mr Chan will work closely with the CEO and management to continue to improve the performance of the Group in order to enhance shareholder value.