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## RESPONSES TO QUESTIONS FROM THE SECURITIES INVESTORS ASSOCIATION (SINGAPORE) AND SHAREHOLDERS

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The Board of Directors (the "**Board**") of Nera Telecommunications Ltd (the "**Company**") refers to:

- (a) the annual report of the Company for the financial year ended 31 December 2019 (the "**Annual Report**");
- (b) the notice of annual general meeting ("**AGM**") issued on 14 May 2020 informing shareholders that the Company's AGM will be convened and held by way of electronic means on Friday, 29 May 2020 at 2.30 pm; and
- (c) the accompanying announcement issued by the Company on 14 May 2020 setting out, *inter alia*, the alternative arrangements relating to attendance at the AGM via electronic means.

The Company has received certain questions from the Securities Investors Association (Singapore) ("**SIAS**") in relation to the Annual Report. Please refer to the SIAS website at <https://sias.org.sg/qa-on-annual-reports/> for the list of questions received from SIAS, and **Annex A** hereto for the Management and the Board's responses to such questions.

The Company would like to thank shareholders for submitting their questions in advance of our AGM. Please refer to **Annex B** hereto for the list of questions received from shareholders, and the Management and the Board's responses to these questions.

By order of the Board

Chan Wan Mei and Gan Lee Teng  
Joint Company Secretaries  
28 May 2020

## ANNEX A

### RESPONSES TO QUESTIONS FROM SIAS

- Q1.** The group sold its Payments Solutions business in FY2016 and turned its attention to the core businesses in the telecommunications and infocomm space.

In the 2016 annual report, the group had stated that the group's "strong foothold positions" in the Telecommunications space will allow it to capture demand as mobile internet revolution gains steam in emerging economies.

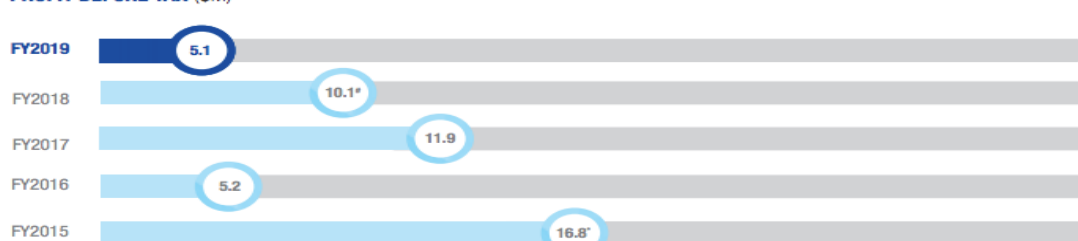
In the Infocomm space, the group correctly predicted the robust growth led by advances and innovations in mobile services, social networking, cloud and e-commerce, along with the need for better network security solutions given the occurrences of cyberattacks and network security breaches.

### FINANCIAL HIGHLIGHTS

#### REVENUE (\$M)



#### PROFIT BEFORE TAX (\$M)



*(Source: company annual report)*

However, for FY2019, the group reported the lowest revenue and the lowest profit before tax in the last 5 years. In fact, the group has gone from a net cash to a net debt position in FY2019. Shareholders' equity has slipped from \$66.28 million as at 31 December 2016 (after the completion of the sale of the Payments Solutions business) to \$63.76 million as at 31 December 2019. The total dividend proposed for FY2019 is \$0.01 per share, down 33% from \$0.015 per share declared in FY2018 and FY2017. Even at \$0.01 per share, the dividend payout ratio for FY2019 exceeds 90%. It is likely that the lowered dividend rate of \$0.01 per share may not be sustainable if the group's performance does not improve.

- (i) Can management help shareholders understand its competitive advantage in its business segments of Wireless infrastructure network ("WIN") and Network infrastructure ("NI")?

As a leading systems integrator and solution provider, our business enjoys a relatively high barrier to entry, given that the development of some of the specialised technical capabilities requires much expertise and investment. With over 40 years of established track record in this business, Nera Telecommunications Ltd (“**NeraTel**”) has built-up a strong level of trust through long-standing relationships with our customers. Additionally, with operations in 12 countries, we are geographically diversified, and that allows us to deploy expertise across the globe as well as to achieve economies of scale. To top it off, we possess one of the largest pool of over 300 highly-certified engineers and project management professionals in the region.

**(ii) What are the key value drivers? What is the group’s unique value proposition that would allow the group to differentiate itself from its competitors?**

With over four decades of established track record, we have built-up a strong level of trust with our long-standing customers. This is mainly built upon our technical capabilities and demonstrated by our highly-certified engineers and project management professionals, which is one of the largest pools in the region.

As a forward-looking company, we have anticipated the growing industry demand for security products. Currently, we offer a comprehensive suite of industry-leading security products, including Next Generation Firewall, Anti Distributed Denial-of-Service, Privileged Access Management, Data Loss Prevention, Encryption, Security Information and Event Management, and many more.

**(iii) How effective has the board been in providing entrepreneurial leadership to management?**

The Board has the appropriate mix of skills, knowledge, expertise and experience, and collectively possess the necessary core competencies for effective functioning and informed decision-making, to provide entrepreneurial leadership to the management.

The Group’s Chairman and Independent Director, Ms Wong Su-Yen, has extensive experience in the areas of business strategy, strategic talent development, organisation transformation, operation redesign and risk management. Appointed to the Board since 23 December 2013, Ms Wong has actively participated in the Group’s talent recruitment efforts.

Dr Lee Kwok Cheong, the Group’s Independent Director since 8 March 2013, has served on many boards and national committees in education, manpower and IT areas. With a 27-year successful career in IT consulting, Dr Lee has provided invaluable guidance and contributed significantly to the Group’s business development efforts.

Mr Tan Choon Hong and Mr Tommy Teo Zhi Zhuang, who are both Non-Executive Directors since 28 January 2013 and 27 February 2018 respectively, are specialists in the area of private equity. Through their respective networks in the sector, Mr Tan and Mr Teo have successfully connected NeraTel with potential business partners over the years, advancing the Group’s growth strategy.

- (iv) **Would the company consider incorporating a Value-Added statement to the annual report to show how the group creates and shares value with its stakeholders?**

Whilst there are currently no plans for a Value-Added statement, the Group will consider incorporating this statement to the annual report at the appropriate time.

- Q2. On 26 March 2020, the company announced that there are material variances between the unaudited results (first announced by the company on 29 February 2020) and the audited financial statements for FY2019 after the finalisation of audit.**

**As a result, earnings per share attributable to owners of the company for the financial year ended 31 December 2019 decreased from 1.21 cents to 1.09 cents.**

**The variances were as large as \$5.7 million. Reasons for the material variances included:**

- **reduction in the deferred tax assets of a subsidiary due to the uncertainty of its recoverability**
- **reclassification of advance from a customer initially netted off against stocks to contract liabilities**
- **reclassification of project accrued costs from other payables to trade payables**
- **reclassification of unearned income from other payables to contract liabilities**

- (i) **How can shareholders get assurance from management that the financial statements are prepared in accordance with the relevant Act and financial reporting standards?**

The financial statements are prepared in accordance with the provisions of the Companies Act, Chapter 50 (the Act) and Singapore Financial Reporting Standards (International) SFRS(I) so as to give a true and fair view of the consolidated financial position of the Group and the financial position of the Company as at financial reporting date and of the consolidated financial performance, consolidated changes in equity and consolidated cash flows of the Group and changes in equity of the Company for the year ended on that date.

The published financial statements are audited by the independent auditors, Ernst & Young LLP. In the auditor's opinion, the accounting and other records required by the Act to be kept by the Company and by its subsidiary corporations incorporated in Singapore have been properly kept in accordance with the provisions of the Act. Notably, the Group's appointed auditors have given unqualified audit reports yearly since the Group's listing on the Mainboard of SGX on 1 July 1999.

- (ii) **Has the audit and risk management committee ("ARMC") evaluated if the internal financial reporting/finance team is sufficiently resourced with experienced and qualified staff to ensure the integrity of the financial statements?**

Since December 2016, the Group's finance reporting team is headed by our Senior Financial Controller, Ms Jacqueline Tan, who has more than 20 years of working experience in finance and accounting in diverse industries. The average number of years of working experience for our core corporate and regional finance teams is over 10 years. All regional heads in the finance and accounting teams possess CPA qualifications.

As part of the our Group's efforts to develop our staff, we provide relevant training to ensure that our team is well-equipped with the up-to-date knowledge to handle

financial reporting, such as SFRS.

**(iii) What was the level of involvement by the ARMC in the preparation of the financial statements?**

The ARMC is actively involved in the quarterly review and finalisation of financial statements, often meeting beyond the scheduled ARMC meetings. To elaborate, key audit matters were discussed during the quarterly meetings as well as the Group's compliance status with SFRS and new accounting standards. In the event of any follow-up action required after these quarterly sittings, separate meetings were arranged with the management and auditor to ensure the closure of all outstanding matters.

The ARMC convened four meetings during the year with full attendance from all members. The ARMC has also met with internal and external auditors, without the presence of the Company's management, at least once a year.

**(iv) Can the ARMC update shareholders on the improvement made/to be made to the group's financial reporting systems and processes?**

The key improvement made for last year was the rolling out of the Customer Relationship Management ("CRM") system for the Group, which automates part of the financial reporting system and process.

Further enhancement of the Enterprise Resource Planning system for the Group is scheduled to be implemented in the next 18 months.

**Q3. Mr Basil Chan was appointed as an independent director and chairman of the audit and risk management committee on 18 March 2020. As noted in the director's profile, Mr Basil Chan is the Founder and Managing Director of MBE Corporate Advisory Pte Ltd.**

**Mr Chan is also an independent non-executive director on the boards of five other listed companies, namely Grand Banks Yachts Limited, AEM Holdings Ltd, Broadway Industrial Group Limited, Global Invacom Group Limited and Memories Group Ltd.**

**(i) With his current portfolio, how does Mr Chan ensure that he is able to devote sufficient time, energy and attention to the matters of the group?**

At the annual general meeting scheduled to be held on 29 May 2020, Mr Chan, retiring pursuant to Regulation 100 of the Company's Constitution, is seeking his appointment to the board.

Mr Chan has previously served on the Board of six listed companies concurrently in the course of his career and has demonstrated his ability to commit the time for all six companies.

**(ii) Should Mr Chan be appointed by shareholders, would Mr Chan be reviewing his other commitments?**

Prior to Mr Chan's appointment to the Board of NeraTel, Mr Chan had indicated that he will be stepping down from the Board of one of the abovementioned listed companies at the Annual General Meeting ("AGM") of the company. Due to the COVID-19 pandemic, the AGM of that company has been delayed to June 2020.

When Mr Chan was appointed to other boards previously, he had indicated “Yes” to questions (j)(i) and (j)(iv) in Appendix 7.4.1 that is required by the Exchange for directors seeking re-election/appointment.

**(iii) Would the board/director clarify if the responses to the (j)(i) and (j)(iv) should be “Yes” as indicated by Mr Chan previously or “No” as indicated on page 154 of the company’s annual report?**

Mr Chan had taken a time horizon of the past 10 years for his declaration and hence he indicated “No” as the events previously disclosed took place more than 10 years ago.

For the record, Mr Chan’s previous declarations were as follows:

Micropolis Group of Companies – Mr Chan was a director of the following companies which were the subject of insolvency petitions in court: a) Micropolis (USA) Inc.; b) Micropolis (UK) Limited; c) Micropolis (Deutschland) GmbH and d) Micropolis AB. These companies were part of the Micropolis Group of Companies which were placed in liquidation beginning in late 1997.

Stratech Systems Limited – Mr Chan was a non-executive independent director of Stratech Systems Limited that was investigated by the Commercial Affairs Department (“CAD”) in 2006 in relation to a possible breach of the Securities and Futures Act. As far as Mr Chan is aware, the matter has been closed and no charges were made against any director.

AEM Holdings Limited – Mr Chan was a non-executive independent director of AEM Holdings Limited which announced in May 2007 that seven of its employees (including its Chief Executive Officer) were under investigation by the Corrupt Practices Investigation Bureau (“CPIB”) and Mr Chan assisted the CPIB in their investigation. Mr Chan was appointed to the Board on 8 March 2006 and these events occurred prior to his appointment.

Lindeteves-Jacoberg Limited – In May 2007, Mr Chan attended as witness to assist an investigation by the CAD into an offence under the Securities and Futures Act in relation to Lindeteves-Jacoberg Limited in which he was a former non-executive independent director.

## **ANNEX B**

### **RESPONSES TO SUBSTANTIAL AND RELEVANT QUESTIONS FROM SHAREHOLDERS**

- Q1. After the sale of the POS business and the departure of former Chief Executive Officer, Samuel Ang, NeraTel's share price had been on a down-slope. The share price has dropped further with the on-going pandemic. Does management have anything up their sleeves to help raise the share price? Will NeraTel be able to return to the days like those in 2005 when its shares were in demand?**

The COVID-19 pandemic has severely impacted the financial markets and share price of many listed companies. The Group would like to highlight that it does not dictate capital market sentiment and that there will always be volatilities.

Nonetheless, the management believes in the Group's strong fundamentals and long-term growth prospects. With over 40 years of established track record, we have built-up a strong level of trust with our long-standing customers. This is mainly built upon our technical capabilities and demonstrated by our highly-certified engineers and project management professionals, which is one of the largest pools in the region.

As a forward-looking company, we have anticipated the growing industry demand for security products and will continue to actively look for opportunities to offer our comprehensive suite of industry-leading security products such as Next Generation Firewall, Anti Distributed Denial-of-Service, Privileged Access Management, Data Loss Prevention, Encryption, Security Information and Event Management.

- Q2. With the pick up in 5G rollout globally, has NeraTel been able to participate in new opportunities?**

The Group is keeping a close watch on the global 5G rollouts as well as the opportunities that they bring. Nationwide 5G rollouts in the various countries might have differing timelines. In Singapore, the nationwide 5G rollout is only expected to be fully completed by 2025. That said, the Group believes that 5G rollouts might also bring about opportunities related to cybersecurity, network automation as well as data analytics – all part of the Company's long term plan. As such, the Group is optimistic that it is well-positioned to ride on the 5G wave. In fact, the Group is now working on a number of 5G rollout-related opportunities.

- Q3. Please explain the substantial increase in trade receivables and contract assets despite falling revenue. As highlighted by the auditors, 38% of trade receivables are aged more than 90 days, has there been any action taken to reduce this number?**

Contract assets represent work performed under the contract but not yet billed to the customers in accordance with the milestones of various projects. Over the past few quarters, the Group had ongoing projects with longer billing milestones which resulted in an increase in contract assets.

The increase in the Group's trade receivables is due primarily from the Service Provider customer segment. As at 31 December 2019, 55% (2018: 56%) of the Group's trade receivables in Malaysia are due from a reputable telecommunication service provider and 36% (2018: 37%) of the Group's overall trade receivables are due from three major customers in the Telecommunication industry. The Group has a long-standing relationship with its customers, most of whom are reputable telecommunication service providers and government agencies. We maintain constant communication with our customers to resolve any documentation issues related to trade receivables.

As at 31 March 2020, the trade receivables aged more than 90 days has been brought down to 22%.

**Q4. Please explain whether the impairment made for contract assets related to project billings in the Philippines of S\$2.1million is related to the impairment of investment in Nera (Philippines) of S\$1.1 million.**

The impairment made for contract assets is related to a project in the Philippines. The project started in 2015 and was subsequently terminated by the end-user customer in 2019 and we are in the midst of Arbitration in respect of contractual disputes between the Company and Sandvine Corporation (“**Sandvine**”) for the provision of equipment and services by this vendor.

For this contractual dispute with Sandvine, we have fully impaired the trade receivables and contract assets that remain uncollected as at 31 December 2019.

**Q5. Please explain the substantial increase in short-term borrowings.**

The increase in borrowings is in the ordinary course of the Group’s business as we continue to optimise the Company’s balance sheet to fund part of our growth strategy with moderate bank financing. As at 31 December 2019, the Group has a low gearing ratio of 5%.

**Q6. Please explain why the gross and operating margin has decreased for the Network Infrastructure segment.**

Industry-wide challenges and increased competition persisted during the year, which especially impacted the Service Provider customer segment. This in turn led to a lower margin in this business segment.

While the Service Provider market declined, this was offset by a higher proportion of order in-take from the government, transport and utilities (“**GTU**”) sector at 27.0% in FY2019 as compared to 14.3% in FY2018.

The Group has been growing its non-service provider customer base to reduce dependency and is also transforming further by exploring new opportunities in new business verticals such as cybersecurity, network automation and data analytics. Apart from service providers, the Group’s key customers also include GTU entities, many of whom are also repeat customers.

**Q7. Please share more on how the company plans to grow its presence in 5G businesses and also the timeline, capital expenditure estimates for such plans.**

Nationwide 5G rollouts in the various countries might have differing timelines. In Singapore, the nationwide 5G rollout is only expected to be fully completed by 2025. The Group is not primarily involved in the rollout of the 5G networks and does not incur capital expenditure to support the 5G infrastructure. The Group bids for 5G-related projects and the timelines of these projects will vary. In fact, the Group is now working on a number of 5G rollout-related opportunities.

The Group believes that 5G rollouts might bring about opportunities related to cybersecurity, network automation as well as data analytics – all part of the Company’s long-term plan.

The Group will make the appropriate announcement when there is any material development.