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Issuer: Nera Telecommunications Ltd

Stock code: N01

Meeting details:

Date: 26 Apr 2024

Time: 10.00 a.m.

Venue: Temasek Club, Brani Room, 131 Rifle Range Road, Singapore 588406

Q1. 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%.
- (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?**
- (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?**

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".

	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

Compared to net gain from the disposal of \$5.75 million?

(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?**
- (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 2023¹, 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)

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

Q2. 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	10,496	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?**
- (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?**
- (iii) **What specific measures is management undertaking to recover long outstanding debts?**
- (iv) **What led the group to write-off \$7.73 million in allowance 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.

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

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

Q3. 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 2023².

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 date³.

Following Dr. Lim Puay Koon's resignation, Mr Basil Chan was appointed as the chairman of the board with effect from 7 August 2023⁴.

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

² <https://links.sgx.com/1.0.0/corporate-announcements/6NLV8M8P7VRFA1FN/ae4f1f595373cba499902e825a5fef4496ef89870a7121749c288b1c0fa4603d>

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



(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.)

- (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?**

Shareholders are welcome to use and/or adapt the questions prepared by SIAS and to forward them to the company.

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