

# NERA TELECOMMUNICATIONS LTD

## Second Quarter Financial Statement For the Period ended 30 June 2005

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

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

		Group 2nd Quarter			Group Period ended 30 June		
		2005 S\$'000	2004 S\$'000	Increase/ (Decrease) %	2005 S\$'000	2004 S\$'000	Increase/ (Decrease) %
<b>Turnover</b>		<b>71,122</b>	<b>53,529</b>	<b>32.9</b>	<b>132,584</b>	<b>87,898</b>	<b>50.8</b>
Cost of sales		(58,527)	(42,233)	38.6	(108,300)	(67,199)	61.2
<b>Gross profit</b>	1	<b>12,595</b>	<b>11,296</b>	<b>11.5</b>	<b>24,284</b>	<b>20,699</b>	<b>17.3</b>
Other operating income		121	222	(45.5)	537	512	4.9
Distribution and selling expenses	2	(4,298)	(5,183)	(17.1)	(9,743)	(9,270)	5.1
Administrative expenses	2, 3	(2,074)	(1,906)	8.8	(3,832)	(3,412)	12.3
Other operating expenses	2, 3	(238)	(467)	(49.0)	(663)	(596)	11.2
<b>Profit from operations</b>		<b>6,106</b>	<b>3,962</b>	<b>54.1</b>	<b>10,583</b>	<b>7,933</b>	<b>33.4</b>
Financial expenses		(108)	(71)	52.1	(194)	(126)	54.0
Financial income		370	331	11.8	620	566	9.5
<b>Profit after financial items</b>		<b>6,368</b>	<b>4,222</b>	<b>50.8</b>	<b>11,009</b>	<b>8,373</b>	<b>31.5</b>
Share of results of associated company	4	(101)	(123)	(17.9)	(214)	(212)	0.9
<b>Profit before taxation</b>		<b>6,267</b>	<b>4,099</b>	<b>52.9</b>	<b>10,795</b>	<b>8,161</b>	<b>32.3</b>
Taxation		(954)	(805)	18.5	(2,315)	(2,054)	12.7
<b>Profit after taxation</b>		<b>5,313</b>	<b>3,294</b>	<b>61.3</b>	<b>8,480</b>	<b>6,107</b>	<b>38.9</b>
Minority interests	5	(754)	(391)	92.8	(1,214)	(649)	87.1
<b>Net profit attributable to shareholders</b>		<b>4,559</b>	<b>2,903</b>	<b>57.0</b>	<b>7,266</b>	<b>5,458</b>	<b>33.1</b>
Depreciation and amortization		(803)	(629)	27.7	(1,621)	(1,336)	21.3
Writeback/(provision) for doubtful debts		478	(402)	NM	(209)	81	NM
(Provision)/writeback for stock obsolescence		(822)	(72)	1041.7	(1,181)	22	NM
Provision for warranty		(898)	(618)	45.3	(1,466)	(950)	54.3
Gross profit as a percentage of turnover		17.7%	21.1%	(16.1)	18.3%	23.5%	(22.2)
Profit after taxation as a percentage of turnover		7.5%	6.2%	21.4	6.4%	6.9%	(7.9)
Net profit after taxation as a percentage of issued capital and reserves at end of period		6.1%	4.1%	48.8	9.7%	7.7%	26.0

## Notes to the Income statement

1. On a quarter to quarter comparison (Q to Q), group gross profit increased 11.5%, from S\$11.3 million to S\$12.6 million due mainly to higher turnover in the Telecom and Contract Manufacturing ("CM") business segments and higher gross profit from all three business segments, in particular, the Telecom and CM business segments.

For 1H2005, group gross profit increased 17.3% from S\$20.7 million to S\$24.3 million, due to higher turnover in all three business segments and higher gross profit from the Telecom and CM business segments. Compared to 1H2004, higher gross profits were recorded for the Telecom and CM business segments while gross profit for the IT business segment was lower.

2. On a Q to Q comparison, the Group registered a 12.5% (S\$946,000) decrease in total operating expenses from S\$7.6 million to S\$6.6 million. Distribution and sales expenses decreased by 17.1% (S\$885,000) due mainly to the write-back of bad debts provision from the CM and Telecom business segments, amounting to S\$996,000. If not for the write-back of bad debts provision, the distribution and selling expenses would have been in line with the previous quarter.

Administrative expenses increased 8.8% (S\$168,000) due mainly to the increased operational cost in the Telecom and CM business segments. Other operating expenses decreased by 49% (S\$229,000) due to lower R&D cost.

For 1H2005, the Group registered a 7.2% (S\$960,000) increase in total operating expenses from S\$13.3 million to S\$14.2 million. Distribution and sales expenses increased by 5.1% (S\$473,000) due mainly to higher business activities in the CM business segments. Compared to 1H2004, Administrative expenses increased by 12.3% (S\$420,000) due mainly to the increased operational cost in the Telecom and CM business segments.

3. Arising from the adoption of the Financial Reporting Standard 102 Share-based Payment ("FRS 102"), the Trinomial Option Pricing Model ("TOPM") in the Bloomberg Executive Option Valuation Module ("BEOVM") has been applied to estimate the fair value of these options. Included in the Administrative expenses was share option expense of S\$28,000 for 2Q 2005.

As a result of the implementation of Financial Reporting Standard 39 Financial Instruments : Recognition and Measurement ("FRS 39") which became effective from 1 January 2005, for the period under review, the fair value of the hedged forward transactions have been determined pursuant to FRS 39 and the net amount of S\$205,000 which had been marked to market at closing was recorded in the accounts as an unrealised exchange loss under other operating expenses.

4. This relates to operating loss from an associated company, Nera (Malaysia) Sdn Bhd.
5. The Company has a 68.27% equity interest in Nera Electronics Ltd and the remaining 31.73% relates to the portion of profit attributed to minority shareholders.

NM = Not Meaningful

**1(b)(i) A balance sheet (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	
	30/6/2005 S\$'000	31/12/2004 S\$'000	30/6/2005 S\$'000	31/12/2004 S\$'000
<b>Share capital and reserves</b>				
Share capital	18,094	18,000	18,094	18,000
Share premium	11,812	11,383	11,812	11,383
Capital reserve	4,951	4,951	-	-
Share option reserve	2	74	2	74
Revenue reserve	54,120	55,177	28,924	30,414
Translation reserve	(1,214)	(1,428)	-	-
	87,765	88,157	58,832	59,871
Minority interest	13,658	13,282	-	-
	101,423	101,439	58,832	59,871
<b>Fixed assets</b>	9,062	10,080	4,083	4,434
<b>Subsidiaries</b>	-	-	9,580	9,580
<b>Associated company</b>	2,569	2,720	199	199
<b>Deferred tax assets</b>	1,734	1,630	810	787
<b>Current assets</b>				
Stocks	25,389	32,223	4,022	8,572
Contracts-works-in-progress	22,038	10,631	20,669	10,631
Trade debtors	34,600	38,526	19,379	20,348
Other debtors, deposits and prepayments	4,127	4,235	1,964	925
Due from associated company (trade)	7,336	6,482	7,336	6,482
Due from associated company (non-trade)	3,813	3,939	3,813	3,939
Due from related companies (trade)	6,188	8,150	1,166	4,992
Due from subsidiaries (trade)	-	-	5,839	4,052
Due from subsidiaries (non-trade)	-	-	1,040	969
Fixed deposits	9,530	17,000	9,530	17,000
Cash and bank balances	37,713	28,926	8,988	3,720
Total current assets	150,734	150,112	83,746	81,630
<b>Current liabilities</b>				
Trade creditors	29,678	28,797	16,567	14,350
Other creditors and accruals	13,667	17,578	5,862	8,437
Provision for warranty	4,781	3,748	2,583	2,286
Due to subsidiaries (trade)	-	-	1,849	1,757
Due to associated company (trade)	445	1,595	-	-
Due to related companies (trade)	10,017	6,956	9,947	6,895
Provision for taxation	4,038	4,373	2,778	3,034
Lease obligations (current portion)	14	14	-	-
Total current liabilities	62,640	63,061	39,586	36,759
<b>Net current assets</b>	88,094	87,051	44,160	44,871
<b>Non current liability</b>				
Lease obligations	(36)	(42)	-	-
	101,423	101,439	58,832	59,871

**Notes:**

1. This relates to the share option reserve recorded in the accounts in accordance with FRS 102 which became effective on 1 January 2005. The comparative figures for FY2004 for the Group and the Company have been correspondingly restated to show the effect of FRS 102 (see also item 5).  
The Share Option reserve of S\$2,000 relates to the unexercised employee share options as at 30 June 2005 at the exercise price of S\$0.22 each.
2. This relates to interest bearing advances to an associated company in Malaysia to fund its various projects.
3. The cash position has improved as a result of better collections.

**1(b)(ii) Aggregate amount of group's borrowings and debt securities****Amount repayable in one year or less, or on demand**

As at 30/6/2005		As at 31/12/2004	
Secured	Unsecured	Secured	Unsecured
S\$'000	S\$'000	S\$'000	S\$'000
14	-	14	-

**Amount repayable after one year**

As at 30/6/2005		As at 31/12/2004	
Secured	Unsecured	Secured	Unsecured
S\$'000	S\$'000	S\$'000	S\$'000
36	-	42	-

**Details of any collateral**

Fixed Assets (stated at net book value) acquired by way of finance lease arrangements as at 30 June 2005 were as follows:

Motor Vehicles : S\$51,000

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

	Group 2nd Quarter		Group Period ended 30 June	
	2005 S\$'000	2004 S\$'000	2005 S\$'000	2004 S\$'000
<b>Cash flows from operating activities</b>				
Profit before taxation	6,267	4,099	10,795	8,161
Adjustments for :				
Depreciation of fixed assets	803	629	1,621	1,336
Gain from disposal of fixed assets	(15)	1	(36)	(4)
Share option expenses	28	9	37	18
Provision for stock obsolescence	816	436	1,335	672
Write-back of provision for stock obsolescence	6	(364)	(154)	(694)
Provision for doubtful debts	518	404	1,205	640
Write-back of provision for doubtful debts	(996)	(2)	(996)	(721)
Provision for warranty	1,632	904	2,690	1,635
Write-back of provision for warranty	(734)	(286)	(1,224)	(685)
Interest expense	(13)	13	1	23
Interest income	(370)	(331)	(620)	(566)
Share of loss of associated company	101	123	214	212
<b>Operating profit before working capital changes</b>	<u>8,043</u>	<u>5,635</u>	<u>14,868</u>	<u>10,027</u>
Decrease/(increase) in :				
Trade debtors	3,460	(10,173)	3,717	(12,652)
Other debtors, deposits and prepayments	608	(1,657)	108	(2,197)
Stocks	(468)	(4,916)	5,653	(5,839)
Contracts-work-in-progress	(3,304)	(4,863)	(11,407)	(8,168)
Changes in related parties/associate balances	6,125	5,524	3,144	4,130
Decrease/(increase) in :				
Trade creditors	(1,482)	7,037	881	7,387
Other creditors and accruals	(1,819)	937	(3,911)	(511)
Provision for warranty	(193)	(506)	(433)	(679)
<b>Cash generated from/(used in) operations</b>	<u>10,970</u>	<u>(2,982)</u>	<u>12,620</u>	<u>(8,502)</u>
Income taxes paid	(1,454)	(932)	(2,754)	(1,644)
Interest paid	13	(13)	(1)	(23)
<b>Net cash flows generated from/(used in) operating activities</b>	<u>9,529</u>	<u>(3,927)</u>	<u>9,865</u>	<u>(10,169)</u>
<b>Cash flows from Investing activities</b>				
Proceeds from disposal of fixed assets	36	(1)	36	4
Purchase of fixed assets	(469)	(346)	(653)	(866)
Interest received	370	331	620	566
<b>Net cash flows (used in)/generated from investing activities</b>	<u>(63)</u>	<u>(16)</u>	<u>3</u>	<u>(296)</u>
<b>Cash flows from financing activities</b>				
Repayment of lease obligations	(4)	(161)	(6)	(284)
Dividend paid	(9,161)	(8,700)	(9,161)	(8,700)
<b>Net cash flows used in financing activities</b>	<u>(9,165)</u>	<u>(8,861)</u>	<u>(9,167)</u>	<u>(8,984)</u>
<b>Net increase/(decrease) in cash and bank balances</b>	301	(12,804)	701	(19,449)
Effect of exchange rate changes	497	(1)	616	(24)
Cash and bank balances at beginning of the period	<u>46,445</u>	<u>59,043</u>	<u>45,926</u>	<u>65,711</u>
<b>Cash and bank balances at end of the period</b>	<u>47,243</u>	<u>46,238</u>	<u>47,243</u>	<u>46,238</u>

**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 2nd Quarter ended 30 June 2005	Share Capital S\$'000	Share Premium S\$'000	Revenue Reserve S\$'000	Capital Reserve S\$'000	Share Option Reserve S\$'000	Translation Reserve S\$'000	Total S\$'000
<b>The Group</b>							
<b>Balance as at 1.4.2005</b>	18,000	11,383	57,884	4,951	83	(1,316)	<b>90,985</b>
Foreign currency translation difference	-	-	-	-	-	102	102
Share option	94	429	-	-	(81)	-	442
Net profit for the period	-	-	4,559	-	-	-	4,559
Dividends paid	-	-	(8,323)	-	-	-	(8,323)
<b>Balance as at 30.6.2005</b>	<b>18,094</b>	<b>11,812</b>	<b>54,120</b>	<b>4,951</b>	<b>2</b>	<b>(1,214)</b>	<b>87,765</b>
<b>Balance as at 1.4.2004</b>	18,000	11,383	51,638	4,951	47	(1,132)	<b>84,887</b>
Foreign currency translation difference	-	-	-	-	9	46	55
Share option	-	-	-	-	-	-	-
Net profit for the period	-	-	2,903	-	-	-	2,903
Dividends paid	-	-	(8,280)	-	-	-	(8,280)
<b>Balance as at 30.6.2004</b>	<b>18,000</b>	<b>11,383</b>	<b>46,261</b>	<b>4,951</b>	<b>56</b>	<b>(1,086)</b>	<b>79,565</b>
<b>The Company</b>							
<b>Balance as at 1.4.2005</b>	18,000	11,383	32,188	-	83	-	<b>61,654</b>
Share option	94	429	-	-	(81)	-	442
Net profit for the period	-	-	5,059	-	-	-	5,059
Dividends paid	-	-	(8,323)	-	-	-	(8,323)
<b>Balance as at 30.6.2005</b>	<b>18,094</b>	<b>11,812</b>	<b>28,924</b>	<b>-</b>	<b>2</b>	<b>-</b>	<b>58,832</b>
<b>Balance as at 1.4.2004</b>	18,000	11,383	30,639	-	47	-	<b>60,069</b>
Share option	-	-	-	-	9	-	9
Net profit for the period	-	-	3,138	-	-	-	3,138
Dividends paid	-	-	(8,280)	-	-	-	(8,280)
<b>Balance as at 30.6.2004</b>	<b>18,000</b>	<b>11,383</b>	<b>25,497</b>	<b>-</b>	<b>56</b>	<b>-</b>	<b>54,936</b>

For Period ended 30 June	Share Capital S\$'000	Share Premium S\$'000	Revenue Reserve S\$'000	Capital Reserve S\$'000	Share Option Reserve S\$'000	Translation Reserve S\$'000	Total S\$'000
<b>The Group</b>							
<b>Balance as at 1.1.2005, as restated *</b>	18,000	11,383	55,177	4,951	74	(1,428)	<b>88,157</b>
Foreign currency translation difference	-	-	-	-	-	214	214
Share option	94	429	-	-	(72)	-	451
Net profit for the period	-	-	7,266	-	-	-	7,266
Dividends paid	-	-	(8,323)	-	-	-	(8,323)
<b>Balance as at 30.6.2005</b>	<b>18,094</b>	<b>11,812</b>	<b>54,120</b>	<b>4,951</b>	<b>2</b>	<b>(1,214)</b>	<b>87,765</b>
<b>Balance as at 1.1.2004, as restated *</b>	18,000	11,383	49,083	4,951	38	(1,055)	<b>82,400</b>
Foreign currency translation difference	-	-	-	-	-	(31)	(31)
Share option	-	-	-	-	18	-	18
Net profit for the period	-	-	5,458	-	-	-	5,458
Dividends paid	-	-	(8,280)	-	-	-	(8,280)
<b>Balance as at 30.6.2004</b>	<b>18,000</b>	<b>11,383</b>	<b>46,261</b>	<b>4,951</b>	<b>56</b>	<b>(1,086)</b>	<b>79,565</b>
<b>The Company</b>							
<b>Balance as at 1.1.2005, as restated *</b>	18,000	11,383	30,414	-	74	-	<b>59,871</b>
Share option	94	429	-	-	(72)	-	451
Net profit for the period	-	-	6,833	-	-	-	6,833
Dividends paid	-	-	(8,323)	-	-	-	(8,323)
<b>Balance as at 30.6.2005</b>	<b>18,094</b>	<b>11,812</b>	<b>28,924</b>	<b>-</b>	<b>2</b>	<b>-</b>	<b>58,832</b>
<b>Balance as at 1.1.2004, as restated *</b>	18,000	11,383	28,653	-	38	-	<b>58,074</b>
Share option	-	-	-	-	18	-	18
Net profit for the period	-	-	5,124	-	-	-	5,124
Dividends paid	-	-	(8,280)	-	-	-	(8,280)
<b>Balance as at 30.6.2004</b>	<b>18,000</b>	<b>11,383</b>	<b>25,497</b>	<b>-</b>	<b>56</b>	<b>-</b>	<b>54,936</b>

\* Opening retained earnings had been restated to reflect the effect of the change in accounting policies as a result of the adoption of FRS 102 and FRS 39. The details of the changes in equity were reported in item 5 of this report.

**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 also the number of shares that may be issued on conversion of all the outstanding convertibles 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**

The Company's share capital has been increased from S\$18,000,000 to S\$18,094,000 as a result of 1,883,000 share options being exercised at S\$0.22 each in 2Q2005 under the Employees' Share Option Scheme. As at 30 June 2005, there were 2,232,000 (2,194,000 @ S\$0.625 and 38,000 @ S\$0.22) unexercised share options granted (2004: 4,128,000).

**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 or reviewed by the auditors.

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

N.A.

**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 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 except for the changes in accounting policies relating to FRS 102 and FRS 39.

**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**

With effect from 1 January 2005, the Group changed its accounting policy with respect to the treatment of share options to conform with the requirements of FRS 102 which applies to share options that were granted after 22 November 2002 and had not vested at the effective date of this FRS.

Similarly, the Group adopted FRS 39 Financial Instruments : Recognition and Measurement, where the fair value hedged accounting of forward foreign exchange transactions have been recorded in the financial statements for the period under review.

The change in accounting policy as a result of the adoption of FRS 102 resulted in a retrospective prior year adjustment to retained earnings as at 1 January 2004 and 1 January 2005 of S\$38,000 and S\$74,000 for the Group and the Company respectively.

The effect of the change in accounting policy as a result of the adoption of FRS 39 resulted in a prior year adjustment to retained earnings as at 1 January 2005 of S\$97,000 for the Group and the Company.

	<b>Group</b>		<b>Company</b>	
	<b>Period ended 30 June</b>		<b>Period ended 30 June</b>	
	<b>2005</b>	<b>2004</b>	<b>2005</b>	<b>2004</b>
	<b>S\$'000</b>	<b>S\$'000</b>	<b>S\$'000</b>	<b>S\$'000</b>
Opening retained earnings as previously reported	55,154	49,121	30,391	28,691
Effect on change in accounting policies - FRS 102	(74)	(38)	(74)	(38)
FRS 39	97	-	97	-
Opening retained earnings as restated	55,177	49,083	30,414	28,653
Profit for the period	7,266	5,458	6,833	5,124
Dividends paid	(8,323)	(8,280)	(8,323)	(8,280)
Ending retained earnings	54,120	46,261	28,924	25,497

**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 2nd Quarter		Group Period ended 30 June	
	2005	2004	2005	2004
Earnings per Ordinary Share for the year based on net profit attributable to shareholders:	(cents)	(cents)	(cents)	(cents)
(i) basic earnings per share	1.26	0.81	2.01	1.52
(ii) fully diluted earnings per share	1.26	0.81	2.01	1.51

Basic earnings per ordinary share for the financial period ended 30 June 2005 was calculated based on the weighted average number of shares in issue of 360,738,635 {2004: 360,000,000} ordinary shares of S\$0.05 each. Fully diluted earnings per ordinary share for the financial period ended 30 June 2005 was calculated based on the adjusted weighted average number of shares in issue (adjusted for the effects of dilutive options) of 360,754,635 ordinary shares of S\$0.05 each {2004 : based on weighted average number of shares in issue of 360,000,000 ordinary shares (adjusted for the effects of dilutive options ) of 361,237,811 ordinary shares of S\$0.05 each}.

**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	
	30/6/2005 (cents)	31/12/2004 (cents)	30/6/2005 (cents)	31/12/2004 (cents)
Net Asset Value per ordinary share based on issued share capital	24.25	24.49	16.26	16.63

Net asset value per ordinary share as at 30 June 2005 and 31 December 2004 respectively was calculated based on the number of shares in issue of 361,883,000 and 360,000,000 ordinary shares of S\$0.05 each respectively.

**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 turnover, 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**

**Turnover**

On a Q to Q comparison, turnover in 2Q2005 rose 32.9%, from S\$53.5 million to S\$71.1 million , due mainly to strong performance in the Telecom and CM business segments.

Compared to 1H2004, Group turnover increased 50.8%, from S\$87.9 million to S\$132.6 million, due mainly to higher turnover from all three business segments, in particular the Telecom and CM business segments.

## **Telecommunications (Telecom)**

On a Q to Q comparison, turnover increased 59.4%, from S\$23.4 million to S\$37.3 million due mainly to deliveries of microwave radio equipment to customers in Malaysia, Philippines, Indonesia and the Group's Compact IV PDH radios to USA, EMEA (Europe, Middle East and Africa) and Asia. Satellite sales showed better performance with increased sales of land and marine satellite terminals to customers in India, Japan, Korea and Taiwan.

Compared to 1H2004, turnover increased 62.7%, from S\$38.9m to S\$.63.3 million, due mainly to deliveries of microwave radio equipment to customers in Malaysia, Thailand Indonesia, Philippines, Australia and the Group's Compact IV PDH radios to USA, EMEA and Asia. Sales of land and marine satellite terminals to customers in Singapore, Taiwan, India, Australia, China, Hong Kong and Japan also contributed positively to the increase in turnover.

## **Information Technology (IT)**

On a Q to Q comparison, turnover decreased by 14.0% from S\$15.6 million to S\$13.4 million. Although the turnover for IT network infrastructure and Broadcasting increased due to the sales of networking equipment and DTT infrastructure equipment to customers in Singapore, it was unable to offset the reduction in turnover from the IT Retail System and IT businesses in Malaysia.

Compared to 1H2004, turnover increased 9.2% from S\$25.3 million to S\$27.7 million due mainly to the delivery of DTT (Digital Terrestrial TV) infrastructure equipment to a customer in Singapore.

## **Contract Manufacturing (CM)**

On a Q to Q comparison, turnover increased 41.9% from S\$19.0 million to S\$26.9 million, due to higher turnover recorded in the Telecommunications & Instrumentation ("T&I") market segment. The T&I market segment saw a 61% increase in turnover from S\$12.8 million to S\$20.6 million attributed to an increase in orders for microwave network transmission equipment and wireless mobile network equipment. Turnover from the Medical and Bioscience ("M&B") market segment increased by 7.0% from S\$5.5 million to S\$5.9 million due to an increase in repeat orders from existing customers.

Compared to 1H2004, turnover increased 71.1% from S\$31.3 million to S\$53.6 million, due mainly to the higher turnover from both the T&I and M&B market segments. Turnover from the T&I market segment improved significantly by 108% from S\$19.6 million to S\$40.8 million as a result of increased orders for Compact IV PDH radios, microwave network transmission equipment, wireless mobile network equipment, digital maritime communications equipment and broadband access routers for DvB RCS systems. Turnover from the M&B market segment increased by 13% from S\$10.6 million to S\$12 million due to an increase in repeat orders from existing customers.

The Group secured several new accounts and has started deliveries of small production series to these customers.

## **Gross Profit**

On a Q to Q comparison, gross profit improved by 11.5% from S\$11.3 million to S\$12.6 million due mainly to higher gross profits from all three business segments, in particular from the higher turnover in the Telecom and CM business segments. Gross profit as a percentage of turnover ("GM%") however declined from 21.1% to 17.7%, due mainly to lower GM% from the Telecom and CM business segments. The lower GM% was due to product/project mix and higher cost of goods as a result of a stronger Norwegian Kroner in the Telecom business segment. In addition, the higher warranty and stock provision for both the Telecom and CM business segment also contributed to the lower GM%.

Compared to 1H2004, Group gross profit improved 17.3%, from S\$20.7 million to S\$24.3 million due mainly to higher turnover from all three business segments. GM% however declined from 23.5% to 18.3% due to lower GM% from all three business segments as a result of product/project sales mix and higher cost of sales.

## Operating Expenses

On a Q to Q comparison, the Group registered a 12.5% decrease in total operating expenses from S\$7.6 million to S\$6.6 million.

Distribution and sales expenses decreased by 17.1% (S\$885,000) due mainly to the write-back of bad debts provision from the CM and Telecom business segments amounting to S\$996,000. If not for the write-back of bad debts provision, the distribution and selling expenses would have been in line with the previous quarter. Administrative expenses increased 8.8% (S\$168,000) due mainly to the increased operational cost in the Telecom and CM business segments.

Other operating expenses decreased by 49% (S\$229,000) due to lower R&D cost.

Compared to 1H2004, the Group registered a 7.2% increase in total operating expenses from S\$13.3 million to S\$14.2 million as a result of increased business activities and higher turnover.

Distribution and sales expenses increased by 5.1% (S\$473,000) due mainly to the CM business segments. Administrative expenses increased by 12.3% (S\$420,000) due mainly to the increased operational cost in the Telecom and CM business segments.

The effect of the change in accounting policies as a result of the adoption of FRS 102 and FRS 39 were reported in item 5 of this report.

## Profit Before Taxation (PBT)

On a Q to Q comparison, PBT increased 52.9% from S\$4.1 million to S\$6.3 million attributed to higher gross profit from all three business segments, lower operating expenses and better total PBT as percentage of turnover ("PBT%") in particular from the IT and CM business segments.

Compared to 1H2004, PBT increased 32.3% from S\$8.2 million to S\$10.8 million due to higher gross profit from the Telecom and CM business segments. However, PBT% declined from 9.3% to 8.1%, due mainly to lower PBT% from the Telecom and IT business segments.

## Cash flow

Despite the need for higher working capital to support the increase in business and the payment of dividends to shareholders amounting to S\$9.2 million during this quarter, the Group, had, as at 30 June 2005 maintained a cash balance of S\$47 million.

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

N.A.

### **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**

## **Telecommunications (Telecom)**

The demand for wireless transmission infrastructure from the mobile market continues to be positive with operators investing in their networks to increase coverage as well as value added services. Some mobile operators have also invested in 3G networks and services. During the first half of this year, the Group has managed to secure more than S\$44 million of radio transmission equipment orders from customers in Asia, Australia and Compact IV PDH radios from customers in Asia, Americas and EMEA.

In the satellite business area, the Group's sales and marketing activities of our Inmarsat land and marine satellite terminals had resulted in an increase in sales to distributors and customers in China, Taiwan, Japan, Korea and India. The Group will continue its sales efforts towards these customers and at the same time seek new customers.

During June 2005, the Group launched the world's smallest and lightest mobile broadband satellite terminal – Nera WorldPro 1000. The usage of this terminal will commence when Inmarsat launches its BGAN (Broadband Global Area Network) services around end of 2005. This product is expected to replace the older generation of satellite land terminals and is expected to provide a steady revenue stream for the Group from 2006.

On the DvB RCS business, the Group is actively working with a number of potential customers for its satellite hubs. It is also expected that the existing DvB RCS hub customers will increase their take up rate of its DvB satellite terminals.

Competition for business towards the telecom and satellite operators are intense, competitors at times are very aggressive in large or strategic bids and customers are also demanding high performances, lower price and shorter delivery time. The Group intends to stay focus on delivering high quality products and solution offerings to the selected market segments and concentrating on winning key customers.

## **Information Technology (IT)**

In the IT network infrastructure business, Telco customers continue to increase their broadband networks and capabilities. The Group has managed to continue to secure repeat networking equipment orders from its existing Telco customers. The Enterprise and Government IT network infrastructure market remains fairly stable with increased activities for network security products. The Group intends to focus on developing these businesses beyond its traditional Singapore and Malaysia markets.

In the IT Broadcasting business, the Group with its experiences in delivering Digital Terrestrial TV ("DTT") infrastructure projects in Singapore intends to offer similar projects to broadcasters in Asia. The Group will continue to promote its brand of mobile DvB Set Top Box ("STB") to countries where there are DTT services.

In the IT POS business, the Group has continued to secure new orders for EMV compliance POS terminals and maintenance business from retailers, banks and financial institutions in Thailand and the Philippines. Although these orders are currently small, the Group expects the demand for EMV compliance terminals to increase as banks and financial institutions will gradually migrate to such terminals and outsource their POS infrastructure.

## **Contract Manufacturing (CM)**

Outsourcing of manufacturing is expected to grow as OEMs continue to focus on their R&D, product branding and marketing activities. The Group believes that with its experiences and track records, it is in a good position to benefit from this growing outsourcing trend.

The market sentiment in the T&I industry is showing positive development, evident through higher demand from T&I customers for the first two quarters. The T&I customers are however cautious and not committing to long term orders but demanding short turnaround time and frequent changes to meet their market situations. The T&I market segment is highly competitive and subject to price pressure. To improve its overall margins, the Group is building up its other value added services and capabilities, such as product

development and buffer stocking program. The Group is in the process of investing in a new ERP system to enhance its supply chain to meet customers' demands.

The M&B market is also showing increasing demand in the first two quarters. Due to the nature of the M&B industry which is more resilient to economic swings, the Group does not expect much changes in the M&B demand and is confident to win repeat orders from its M&B customers.

The Group is actively working to broaden its current customer base and has managed to secure several new customers. In addition, the Group intends to expand into a new market segment, the avionics and communications sectors within the aerospace industry. The Group has obtained the AS9100 certification in 2004, a pre-requisite for entry into this industry,

The Group is constantly keeping abreast with the latest technology to ensure that there is necessary production capacity. Therefore, the Group will be replacing an existing SMT line as well as investing in other machineries. The cost of investment is expected to be S\$3 million and will be funded from its IPO proceeds.

The setting up of the manufacturing facility in India is according to plan and is expected to be ready by end of 2005. This facility will be able to support OEMs for the Indian market as well as offering customers with an alternative site to manufacture their products.

## **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/recommendeded, a statement to that effect**

N/A

## **PART II - ADDITIONAL INFORMATION REQUIRED FOR FULL YEAR ANNOUNCEMENT (This part is not applicable to Q1, Q2, Q3 or Half Year Results)**

### **13. Segmented revenue and results for business or geographical segments (of the group) in the form presented in the issuer's most recently audited annual financial statements, with comparative information for the immediately preceding year**

N/A

### **14. In the review of performance, the factors leading to any material changes in contributions to turnover and earnings by the business or geographical segments**

N/A

**15. A breakdown of sales**

N/A

**16. A breakdown of the total annual dividend (in dollar value) for the issuer's latest full year and its previous full year**

N/A

**17. Aggregate value of interested persons transactions conducted pursuant to a shareholders' general mandate for the year ended 31 March 2005.**

Pursuant to Rule 920(1)(a)(ii) of the Listing Manual, the details of the aggregate value of interested person transactions conducted pursuant to a shareholders' general mandate are as follows:

Name of Interested Person	Aggregate value of all interested person transactions conducted under a shareholders' mandate pursuant to Rule 920 (excluding transactions less than S\$100,000)	
	2QTR 2005	1H 2005
<b>Sales</b>		
Nera Networks AS	13,229	25,203
Nera Networks, Inc.	2,091	3,860
Nera Satcom AS	999	1,349
Nera Broadband Satellite	489	1,519
<b>Purchases</b>		
Nera Networks AS	13,137	18,838
Nera Satcom AS	5,109	6,778
Nera Broadband Satellite	152	346

**BY ORDER OF THE BOARD**

Tan Cher Liang  
Julie Koh Ngin Joo  
Company Secretaries

13/7/2005