

# NERA TELECOMMUNICATIONS LTD

(Co Regn. : 197802690R)

## Third Quarter Financial Statement For the Period ended 30 September 2004

### 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			Group		
		3rd Quarter			Period ended 30 September		
		2004	2003	Increase/ (Decrease)	2004	2003	Increase/ (Decrease)
		S\$'000	S\$'000	%	S\$'000	S\$'000	%
<b>Turnover</b>		<b>53559</b>	<b>34814</b>	<b>53.8</b>	<b>141,457</b>	<b>118,691</b>	<b>19.2</b>
Cost of sales		(42,323)	(25,602)	65.3	(109,522)	(90,527)	21.0
<b>Gross Profit</b>	1	<b>11,236</b>	<b>9,212</b>	<b>22.0</b>	<b>31,935</b>	<b>28,164</b>	<b>13.4</b>
Other operating income		781	23	3295.7	1,293	456	183.6
Distribution and selling expenses	2	(5,221)	(3,688)	41.6	(14,491)	(11,386)	27.3
Administrative expenses	2	(1,810)	(1,536)	17.8	(5,204)	(4,610)	12.9
Other operating expenses	2	(394)	(1,397)	(71.8)	(990)	(1,523)	(35.0)
<b>Profit from operations</b>		<b>4,592</b>	<b>2,614</b>	<b>75.7</b>	<b>12,543</b>	<b>11,101</b>	<b>13.0</b>
Financial expenses		(70)	(55)	27.3	(196)	(169)	16.0
Financial income	3	247	336	(26.5)	813	1,234	(34.1)
<b>Profit after financial items</b>		<b>4,769</b>	<b>2,895</b>	<b>64.7</b>	<b>13,160</b>	<b>12,166</b>	<b>8.2</b>
Gain on disposal of investment in an associate company	4	0	0	NM	-	1,500	NM
Share of results of associated company	5	(137)	22	(722.7)	(349)	(170)	105.3
<b>Profit before taxation</b>	6	<b>4,632</b>	<b>2,917</b>	<b>58.8</b>	<b>12,811</b>	<b>13,496</b>	<b>(5.1)</b>
Tax		(1,187)	(516)	130.0	(3,241)	(3,143)	3.1
<b>Profit after taxation</b>		<b>3,445</b>	<b>2,401</b>	<b>43.5</b>	<b>9,570</b>	<b>10,353</b>	<b>(7.6)</b>
Minority Interests	7	(461)	(259)	78.0	(1,110)	(973)	14.1
<b>Net profit attributable to shareholders</b>		<b>2,984</b>	<b>2,142</b>	<b>39.3</b>	<b>8,460</b>	<b>9,380</b>	<b>(9.8)</b>
Depreciation and amortization		(757)	(739)	2.4	(2,093)	(2,251)	(7.0)
(Provision)/write back for doubtful debts		(363)	97	NM	(282)	(21)	1242.9
(Provision)/write back for stock obsolescence		(408)	169	(341.4)	(386)	(317)	21.8
(Provision)/write back for warranty		(518)	385	NM	(1,468)	791	NM
Gross profit as a percentage of turnover		21.0%	26.5%	(20.8)	22.6%	23.7%	(4.6)
Profit after tax as a percentage of turnover		6.4%	6.9%	(7.2)	6.8%	8.7%	(21.8)
Net Profit after tax as a percentage of issued capital and reserves at end of period		4.2%	3.1%	35.5	11.6%	13.2%	(12.1)

## Notes to the Income statement

1. On a quarter to quarter comparison ("Q to Q"), Group gross profit increased 22.0%, from S\$9.2 million to S\$11.2 million, due mainly to higher gross profits as a result of higher turnover from all three business segments.  
  
In 3Q2004, Group gross profit increased 13.4%, from S\$28.2 million to S\$31.9 million, due mainly to higher turnover from all three business segments.
2. On a Q to Q comparison, the Group registered a total increase in operating expenses of 12.1% (or S\$0.8 million). Sales and distribution expenses increased 41.6% (or S\$1.5 million) due mainly to regional marketing and promotional activities as well as contract manufacturing activities in the US.  
  
Administrative expenses increased 17.8% (or S\$0.27 million) due mainly to higher sales activities. Other expenses declined 71.8% (or S\$1.0 million) due to the absence of the one-time expense for the Compact IV investment in 3Q03.  
  
Compared to 3Q2003, Group total operating expenses showed an increase of 18.1% (or S\$3.2 million), due mainly to increased regional business expansion and marketing activities as well as operational costs from the Group's offices in India, Australia and China which became operational in late 2003.
3. Interest income declined 34.1%, from S\$1.23 million to S\$813,000, due mainly to lower deposits and lower yields from financial institutions.
4. In 1Q2003, the Company recorded a gain of S\$1.5 million arising from the disposal of its entire 20% shareholding in TVMobile Pte Ltd ("TVMobile").
5. This relates to operating losses from an associated company, Nera (Malaysia) Sdn Bhd.
6. Compared to 3Q2003, PBIT declined 5.1%, from S\$13.5 million to S\$12.8 million, due to higher operating expenses incurred in 3Q2004. Operationally, excluding the one-off gain of S\$1.5 million from divestment of TVMobile in 1Q2003, PBIT would have increased 6.8% (or S\$815,000).
7. The Company has a 68.27% equity interest in Nera Electronics Ltd and minority interest relates to 31.73% 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	
	30/9/2004 S\$'000	31/12/2003 S\$'000	30/9/2004 S\$'000	31/12/2003 S\$'000
<b>Share capital and reserves</b>				
Share capital	18,000	18,000	18,000	18,000
Share premium	11,383	11,383	11,383	11,383
Capital reserve	4,951	4,951	-	-
Revenue reserve	49,301	49,121	27,173	28,691
Translation reserve	(1,221)	(1,055)	-	-
	82,414	82,400	56,556	58,074
Minority Interest	12,195	11,505	-	-
	94,609	93,905	56,556	58,074
<b>Fixed assets</b>	8,183	8,378	4,624	4,544
<b>Subsidiaries</b>	-	-	9,580	9,580
<b>Associated companies</b>	2,753	3,147	199	199
<b>Deferred tax asset</b>	1,450	1,595	659	784
<b>Current assets</b>				
Stocks	24,969	15,174	2,390	1,389
Contracts-works-in-progress	13,623	11,139	12,032	11,139
Trade debtors	37,770	23,413	22,284	10,003
Other debtors, deposits and prepayments	4,002	2,034	2,427	317
Due from associated company (trade)	3,750	2,995	5,619	2,992
Due from associated company (non-trade)	3,732	12,555	3,732	12,608
Due from related companies (trade)	4,402	7,620	4,572	3,840
Due from subsidiary (trade)	-	-	3,262	2,645
Due from subsidiary (non-trade)	-	-	1,063	4,953
Fixed deposits	20,000	26,000	20,000	26,000
Cash and bank balances	29,149	39,711	3,002	10,329
Total current assets	141,397	140,641	80,383	86,215
<b>Current liabilities</b>				
Trade creditors	33,799	27,704	15,857	19,365
Other creditors and accruals	10,602	12,767	5,503	7,484
Provision for warranty	3,860	3,033	1,983	1,588
Due to subsidiaries (trade)	-	-	3,374	808
Due to associated company (trade)	-	150	-	-
Due to related companies (trade)	7,323	12,668	10,004	11,682
Provision for taxation	3,530	3,119	2,168	2,321
Lease obligations (current portion)	14	359	-	-
Total current liabilities	59,128	59,800	38,889	43,248
<b>Net current assets</b>	82,269	80,841	41,494	42,967
<b>Non current liability</b>				
Lease obligations	(46)	(56)	-	-
	94,609	93,905	56,556	58,074

**Notes:**

1. This relates to interest bearing advances to an associated company in Malaysia to fund its various projects.
2. The reduction was due mainly to increased fundings for operations, payment of final and special dividends and working capital.

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

As at 30/9/2004		As at 31/12/2003	
Secured	Unsecured	Secured	Unsecured
S\$'000	S\$'000	S\$'000	S\$'000
14	-	359	-

**Amount repayable after one year**

As at 30/9/2004		As at 31/12/2003	
Secured	Unsecured	Secured	Unsecured
S\$'000	S\$'000	S\$'000	S\$'000
46	-	56	-

**Details of any collateral**

Fixed Assets (stated at net book value) acquired by way of finance lease arrangements as at 30 September 2004 were as follows:

Motor Vehicles : S\$78,000

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

	3rd Quarter		Period ended 30 Sept	
	2004	2003	2004	2003
	S\$'000	S\$'000	S\$'000	S\$'000
<b>Cash flows from operating activities</b>				
Profit before tax	4,632	2,917	12,811	13,496
Adjustments for :				
Depreciation of fixed assets	757	739	2,093	2,251
Gain on disposal of fixed assets	(13)	(13)	(17)	(21)
Gain on sale of investment in an associate	-	-	-	(1,500)

	3rd Quarter		Period ended 30 Sept	
	2004	2003	2004	2003
	S\$'000	S\$'000	S\$'000	S\$'000
<b>Cash flows from operating activities</b>				
Provision for stock obsolescence	406	229	1,078	778
Write-back of provision for stock obsolescence	2	(398)	(692)	(461)
Provision for doubtful debts	422	238	1,062	789
Write-back of provision for doubtful debts	(59)	(335)	(780)	(768)
Provision for warranty	1,086	647	2,721	2,365
Write-back of provision for warranty	(568)	(1,032)	(1,253)	(3,156)
Interest expense	6	16	29	41
Interest income	(247)	(336)	(813)	(1,234)
Share of (profit)/losses of associated companies	137	(22)	349	170
<b>Operating profit before working capital changes</b>	<b>6,561</b>	<b>2,650</b>	<b>16,588</b>	<b>12,750</b>
Decrease/(increase) in :				
Trade debtors	(1,987)	844	(14,639)	(451)
Other debtors, deposits and prepayments	229	(1,328)	(1,968)	(1,957)
Stocks	(4,342)	2,375	(10,181)	11,499
Contracts-work-in-progress	5,684	(4,667)	(2,484)	(3,622)
<b>Changes in related parties/associate balances</b>	<b>1,661</b>	<b>1,855</b>	<b>5,791</b>	<b>(1,955)</b>
Decrease/(increase) in :				
Trade creditors	(1,292)	(4,628)	6,095	(2,387)
Other creditors and accruals	(1,654)	1,947	(2,165)	180
Provision for warranty	38	(150)	(641)	(401)
<b>Cash generated from/(used in) operations</b>	<b>4,898</b>	<b>(1,102)</b>	<b>(3,604)</b>	<b>13,656</b>
Income taxes paid	(1,041)	(1,478)	(2,685)	(4,205)
Interest paid	(6)	(16)	(29)	(41)
<b>Net cash flows generated from/(used in) operating activities</b>	<b>3,851</b>	<b>(2,596)</b>	<b>(6,318)</b>	<b>9,410</b>
<b>Cash flows from Investing activities</b>				
Proceeds from disposal of fixed assets	13	21	17	21
Purchase of fixed assets	(1,057)	(697)	(1,923)	(1,403)
Interest received	247	336	813	1,234
Proceeds from disposal of investment in TVMobile	-	-	-	1,500
<b>Net cash (used in)/generated from investing activities</b>	<b>(797)</b>	<b>(340)</b>	<b>(1,093)</b>	<b>1,352</b>
<b>Cash flows from financing activities</b>				
Repayment of lease obligations	(71)	(163)	(355)	(443)
Dividends paid to shareholders	-	-	(8,280)	(2,106)
Dividends paid to minority interests	-	-	(420)	(408)
<b>Net cash flows used in financing activities</b>	<b>(71)</b>	<b>(163)</b>	<b>(9,055)</b>	<b>(2,957)</b>
<b>Net (decrease) increase in cash and bank balances</b>	<b>2,983</b>	<b>(3,099)</b>	<b>(16,466)</b>	<b>7,805</b>
Effect of exchange rate changes	(72)	(107)	(96)	(115)
Cash and bank balances at beginning of the period	46,238	58,998	65,711	48,102
<b>Cash and bank balances at end of the period</b>	<b>49,149</b>	<b>55,792</b>	<b>49,149</b>	<b>55,792</b>

**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**

<b>For 3rd Quarter ended 30 Sept The Group</b>	<b>Share Capital S\$'000</b>	<b>Share Premium S\$'000</b>	<b>Revenue Reserve S\$'000</b>	<b>Capital Reserve S\$'000</b>	<b>Translation Reserve S\$'000</b>	<b>Total S\$'000</b>
<b>Balance as at 1.7.2004</b>	18,000	11,383	46,317	4,951	(1,086)	79,565
Foreign currency translation reserve	-	-	-	-	(135)	(135)
Net profit for the period	-	-	2,984	-	-	2,984
Dividends paid	-	-	-	-	-	-
<b>Balance as at 30.9.2004</b>	<b>18,000</b>	<b>11,383</b>	<b>49,301</b>	<b>4,951</b>	<b>(1,221)</b>	<b>82,414</b>
<b>Balance as at 1.7.2003</b>	18,000	11,383	43,229	4,951	(955)	76,608
Foreign currency translation reserve	-	-	-	-	(192)	(192)
Net profit for the period	-	-	2,142	-	-	2,142
Dividends paid	-	-	-	-	-	-
<b>Balance as at 30.9.2003</b>	<b>18,000</b>	<b>11,383</b>	<b>45,371</b>	<b>4,951</b>	<b>(1,147)</b>	<b>78,558</b>
<b>The Company</b>						
<b>Balance as at 1.7.2004</b>	18,000	11,383	25,553	-	-	54,936
Net profit for the period	-	-	1,620	-	-	1,620
Dividends paid	-	-	-	-	-	-
<b>Balance as at 30.9.2004</b>	<b>18,000</b>	<b>11,383</b>	<b>27,173</b>	<b>-</b>	<b>-</b>	<b>56,556</b>
<b>Balance as at 1.7.2003</b>	18,000	11,383	24,453	-	-	53,836
Net profit for the period	-	-	1,675	-	-	1,675
Dividends paid	-	-	-	-	-	-
<b>Balance as at 30.9.2003</b>	<b>18,000</b>	<b>11,383</b>	<b>26,128</b>	<b>-</b>	<b>-</b>	<b>55,511</b>
<b>For the Period Ended 30 Sept The Group</b>						
<b>Balance as at 1.1.2004</b>	18,000	11,383	49,121	4,951	(1,055)	82,400
Foreign currency translation reserve	-	-	-	-	(166)	(166)
Net profit for the period	-	-	8,460	-	-	8,460
Dividends paid	-	-	(8,280)	-	-	(8,280)
<b>Balance as at 30.9.2004</b>	<b>18,000</b>	<b>11,383</b>	<b>49,301</b>	<b>4,951</b>	<b>(1,221)</b>	<b>82,414</b>

For the Period ended 30 Sept The Group	Share Capital S\$'000	Share Premium S\$'000	Revenue Reserve S\$'000	Capital Reserve S\$'000	Translation Reserve S\$'000	Total S\$'000
<b>Balance as at 1.1.2003</b>	18,000	11,383	38,097	4,951	(1,053)	71,378
Foreign currency translation reserve	-	-	-	-	(94)	(94)
Net profit for the period	-	-	9,380	-	-	9,380
Dividends paid	-	-	(2,106)	-	-	(2,106)
<b>Balance as at 30.9.2003</b>	<b>18,000</b>	<b>11,383</b>	<b>45,371</b>	<b>4,951</b>	<b>(1,147)</b>	<b>78,558</b>

#### The Company

<b>Balance as at 1.1.2004</b>	18,000	11,383	28,691	-	-	58,074
Net profit for the period	-	-	6,762	-	-	6,762
Dividends paid	-	-	(8,280)	-	-	(8,280)
<b>Balance as at 30.9.2004</b>	<b>18,000</b>	<b>11,383</b>	<b>27,173</b>	<b>-</b>	<b>-</b>	<b>56,556</b>

<b>Balance as at 1.1.2003</b>	18,000	11,383	19,882	-	-	49,265
Net profit for the period	-	-	8,352	-	-	8,352
Dividends paid	-	-	(2,106)	-	-	(2,106)
<b>Balance as at 30.9.2003</b>	<b>18,000</b>	<b>11,383</b>	<b>26,128</b>	<b>-</b>	<b>-</b>	<b>55,511</b>

**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**

There were no changes to the share capital since 31 March 2004. As at 30 September 2004, there were 4,138,000 unexercised share options granted (2003: 4,227,000).

**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.

**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**

N.A.

**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**

Earnings per Ordinary Share for the year based on net profit attributable to shareholders:

- (i) basic earnings per share
- (ii) fully diluted earnings per share

3rd Quarter		Period ended 30 September	
2004 (cents)	2003 (cents)	2004 (cents)	2003 (cents)
0.83	0.60	2.35	2.61
0.83	0.60	2.34	2.61

Basic earnings per ordinary share for the financial period ended 30 September 2004 was calculated based on the weighted average number of shares in issue of 360,000,000 (2003: 360,000,000) ordinary shares of S\$0.05 each. Fully diluted earnings per ordinary share for the financial period ended 30 September 2004 was calculated based on the adjusted weighted average number of shares in issue (adjusted for the effects of dilutive options) of 361,170,575 ordinary shares of S\$0.05 each (2003 : based on weighted average number of shares in issue of 360,000,000 ordinary shares of S\$0.05 each as there were no dilutive options).

**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**

Net Asset Value per ordinary share based on issued share capital

Group		Company	
30/09/2004 (cents)	31/12/2003 (cents)	30/09/2004 (cents)	31/12/2003 (cents)
22.89	22.89	15.71	16.13

Net asset value per ordinary share as at 30 September 2004 and 31 December 2003 respectively was calculated based on the number of shares in issue of 360,000,000 ordinary shares of S\$0.05 each.

**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**

Compared to the previous corresponding quarter (Q to Q), turnover rose 53.8%, from S\$34.8 million to S\$53.6 million, due mainly to strong performance in all three business segments.

Compared to 3Q2003, Group turnover increased 19.2%, from S\$118.7 million to S\$141.4 million, due to higher turnover from the three business segments.

## **Telecommunications (Telecom)**

On a Q to Q basis, turnover increased 73.2%, from S\$15.9 million to S\$27.5 million due mainly to deliveries of microwave radio equipment to customers in India, Indonesia, Philippines and Compact IV to USA and Asia. Satellite sales also showed better performance with higher sales of satellite terminals to distributors and customers in the region.

Compared to 3Q2003, turnover increased 4.5%, from S\$63.5 million to S\$66.4 million, due mainly to higher deliveries of microwave radio equipment and increased sales of satellite terminals.

## **Information Technology (IT)**

On a Q to Q basis, turnover increased 69.2%, from S\$8.3 million to S\$14.0 million, due mainly to sales and delivery of IT network infrastructure equipment to existing customers in Singapore and point-of-sales (POS/EMV) terminals to customers in Malaysia.

Compared to 3Q2003, turnover increased 59.0%, from S\$24.8 million to S\$39.4 million, due mainly to higher sales for the same reason.

## **Contract Manufacturing (CM)**

On a Q to Q basis, turnover improved by 68.3%, from S\$12.2 million to S\$20.5 million, due to higher turnover being recorded by the Telecommunications & Instrumentation ("T&I") market segment.

The T&I market segment saw a significant improvement of 129% in turnover, from S\$6.3 million to S\$14.4 million. This was due mainly to orders from Compact IV PDH system, radio transmission equipment and satellite communications equipment.

Compared to 3Q2003, turnover increased 38.8%, from S\$37.3 million to S\$51.8 million, due to an improvement in turnover for the T&I market segment. The T&I market segment registered a 80% increase in turnover, from S\$18.9 million to S\$34.0 million. This was due mainly to orders for Compact IV PDH system, radio transmission equipment, satellite communications equipment, satellite broadband access router and mobile set top boxes.

Turnover from the Medical and Bioscience ("M&B") market segment declined 6%, from S\$17.2 million to S\$16.2 million. This was attributable to delays in the introduction of new products by certain customers and the discontinuance of certain product models which were not replaced.

## **Gross Profit**

On a Q to Q basis, gross profit improved by 22.0%, from S\$9.2 million to S\$11.2 million, due mainly to higher turnover from all three business segments. Gross profit margin, however, declined from 26.5% to 21.0%, due mainly to lower margins for all three business segments.

Telecom and IT business segments experienced lower margins due to sales and project mix and sales of POS terminals. Margins from the CM business segment were lower due to keen competition in the T&I market and higher material costs as well as a lower writeback of warranty provision compared to the previous corresponding period.

Compared to 3Q2003, Group gross profit improved 13.4% , from S\$28.2 million to S\$31.9 million, due mainly to higher turnover from all three business segments. However, gross profit margin declined marginally from 23.7% to 22.6%, due mainly to lower margins from the IT and CM business segments for the same reasons in the Q to Q comparison. The Telecom business segment recorded higher margins due to sales mix.

### **Operating Expenses**

On a Q to Q comparison, the Group registered a total increase in operating expenses of 12.1% (or S\$0.8 million). Sales and distribution expenses increased 41.6% (or S\$1.5 million) due mainly to regional marketing and promotional activities as well as contract manufacturing activities in the US.

Administrative expenses increased 17.8% (or S\$0.27 million) due mainly to higher sales activities. Other expenses declined 71.8% (or S\$1.0 million) compared to 3Q03 as a one-time expense for the transfer of the Compact IV manufacturing was incurred in 3Q03.

Whilst the Group recognised the importance of expanding into new markets, it will continue with its efforts to constantly review and manage costs in line with potential business opportunities.

Compared to 3Q2003, Group total operating expenses showed an increase of 18.1% (or S\$3.2 million), due mainly to increased regional business expansion and marketing activities as well as operational costs from the Group's offices in India, Australia and China which became operational in late 2003

### **Profit Before IncomeTax (PBT)**

On a Q to Q comparison, PBT saw an increase of 58.8%, from S\$2.9 million to S\$4.6 million due mainly to the higher turnover.

Compared to 3Q2003, PBT declined 5.1%, from S\$13.5 million to S\$12.8 million, due mainly to lower margins and higher operating costs. Operationally, excluding the one-off gain of S\$1.5 million from the divestment of TVMobile in 1Q2003, PBT would have increased 6.8% (or S\$815,000).

### **Cash flow**

Despite increased business activities and dividend payment of S\$8.7 million to shareholders, the Group's cashflow remained healthy with a cash balance of S\$49 million as at 30 September 2004.

### **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 competition for greater market share and the demand for data services has resulted in many Asian cellular operators investing in their wireless infrastructure networks namely, building new infrastructure to extend coverage and increase transmission capacity. This has led to the Group's continuous success to secure new and repeat orders for its microwave radios from customers in India, Indonesia, Malaysia, Thailand, the Philippines, Korea and Mongolia. On the Group's Compact IV PDH radio products, new orders from customers in America, Asia and EMEA (Europe, Middle East and Africa) were also received. To increase our customer base, the Group plans to increase its sales and marketing activities towards non-Telco markets such as the Defence, Broadcast and Utilities sectors.

In the satellite business area, the Group is currently implementing the two (2) DvB RCS gateway contracts it has secured during 1H2004 - one from Singapore Telecommunications Ltd and the other from an Indonesian satellite operator. These systems are scheduled to be commissioned in 4Q 2004 and thereafter these satellite operators will begin to deploy DvB RCS satellite terminals. This will potentially increase the Group's DvB RCS satellite business and position the Group as a key DvB RCS systems player in Asia.

The Group has also been successful in selling various types of Inmarsat land and marine terminals to various customers via its resellers and distribution networks in Taiwan, Singapore, India, Japan, Korea and Australia. It also plans to appoint new resellers and distributors to handle other customer segments to further boost this business.

The Group will continue to increase its sales and marketing activities and deploy necessary resources to address the demand for microwave networks, satellite products and infrastructure, in particular, in the new markets of China, India and Australia. This has resulted in an increase in total operating expenses in the short term. However, the Group views this as an important investment to increase its local presence and develop long term customer relationships.

### **Information Technology (IT)**

The demand for broadband services, VPN, multi-platform services as well as network security has led to an improvement in IT network infrastructure spendings from Telcos and Carriers. The Group is currently deploying a major IP VPN infrastructure network for a global operator and with the experiences and successful rollout, it will strengthen the Group's position as a regional IT infrastructure provider.

The Group continues to work with various broadcasters in the region to offer total DTT infrastructure networks as well as head-end distribution system. In this connection, the Group has recently secured a contract from a cableTV operator to commission a DTT network infrastructure. On the DvB STBs, the Group will continue to focus on promoting its range of single and diversity DvB STB to various customers and distributors in Europe and Asia.

For the IT POS business, the migration of EMV compliance POS terminals has benefited the Group, the Group has secured new orders for EMV compliance POS terminals and line encryption from various financial institutions. The Group has also managed to secure new POS equipment, terminal leasing and maintenance business from new customers. We expect the demands for EMV compliance terminals to increase as more banks and financial institutions plan to migrate to such terminals.

Although Corporate IT infrastructure spendings have not improved, the Group believes that in the longer term, spendings will improve as more corporate network needs to be upgraded and/or replaced by more secure and cost effective corporate IP networks.

### **Contract Manufacturing (CM)**

Market sentiment in the T&I industry has shown signs of improvement. The Group received increasing orders from some of its T&I customers, both existing and new customers. The Group foresees further increase in production orders for such products.

Orders for Compact IV PDH system are encouraging and better than expected. The Group saw a strong demand for this product in 3Q2004 and expects the trend to continue.

Most of the Group's T&I customers experienced increasing competitive market conditions. Order commitments remain cautious, short delivery leadtime is required and with competitive prices. These, coupled with uncertainty in oil prices, increasing raw material costs, will put pressure on the Group's T&I gross margins. Nevertheless, the Group continued to secure several new customers. The Group's facilities when approved for production by the new customers will contribute positively to the business in the coming year.

For the M&B business segment, the Group is actively working with its existing customers as well as new customers. The US subsidiary is focusing its efforts to develop this segment and has since received more enquiries and visits cum audits to approve the Singapore facilities. New customers secure by the Group have yet to contribute positively due to the longer approval process for new M&B products.

The Group has successfully secured the certification of AS9100 for its manufacturing facilities which is a pre-requisite to service the aerospace industry. This has opened up a new market segment for the Group. The avionics and communications sectors within the aerospace industry have been identified by the Group as the main sectors to focus on.

The Group is also working on establishing alternative manufacturing facilities in India which is expected to be ready for production in 2H2005. With the new facilities, the Group will be able to further improve its competitiveness and offer its customers the benefits of lower cost of manufacturing in India.

The Group is expanding its networks and marketing activities in the US and Europe to increase its customer base. It will continue to focus on its efforts to be a one-stop solution provider in the high mix, high value-added contract manufacturing market segment and to increase its capabilities and resources to meet customers' needs. The outsourcing trend is expected to grow and the Group expects to benefit from this trend.

## **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 3rd quarter and the period ended 30 September 2004.**

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)	
	3rd Quarter S\$'000	Period ended 30 September S\$'000
<b>Sales</b>		
Nera Networks AS	4,992	13,306
Nera Networks, Inc.	2,810	4,130
Nera Satcom AS	537	1,339
Nera Broadband	715	1,440
Nera HK	-	167
Nera ASA	123	202
Nera Networks Pty Ltd (Aust)	115	115
<b>Purchases</b>		
Nera Networks AS	13,602	23,560
Nera Satcom AS	2,979	8,511
Nera Broadband	498	874
Nera Networks Inc	499	604
<b>Other Operating Income</b>		
Nera Networks Pty Ltd (Aust)	357	357

**ON BEHALF OF THE BOARD**

**Submitted by Ang Seong Kang Samuel, Director to the SGX on 18/10/2004.**