



Nera Telecommunications Ltd Annual Report 2002



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Broadening our Horizons and Turning Opportunities into Results...



Bjorn Ove Skjeie

Johan Fredrik Odfjell

Sverre Ording Fjeld

Bjorn Olafsson

Ang Seong Kang Samuel

S Chandra Das

Lau Ping Sum

Sitoh Yih Pin

...with our **Diverse Experiences**

Board of Directors:

S Chandra Das *
Chairman

Ang Seong Kang Samuel **
President & CEO

Bjorn Ove Skjeie ***

Bjorn Olafsson ***

Johan Fredrik Odfjell ***

Sverre Ordning Fjeld *

Lau Ping Sum *

Sitoh Yih Pin *

* *Independent Director*

** *Executive Director*

*** *Non-Executive Director*

Nominating Committee

S Chandra Das, Chairman

Bjorn Ove Skjeie

Sverre Ordning Fjeld

Audit Committee

Lau Ping Sum, Chairman

Sitoh Yih Pin

Sverre Ordning Fjeld

Compensation Committee

S Chandra Das, Chairman

Bjorn Ove Skjeie

Sitoh Yih Pin

Company Secretaries

Yvonne Choo, FCIS

Linda Law, FCIS

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Singapore 539225

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10 Collyer Quay #19-08

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Singapore 049315

Tel: 6536 5355

Fax: 6536 1360

Registrars And Share Transfer Office

Lim Associates (Pte) Ltd

10 Collyer Quay #19-08

Ocean Building

Singapore 049315

Tel: 6536 5355

Fax: 6536 1360

Auditors

Ernst & Young

10 Collyer Quay #21-01

Ocean Building

Singapore 049315

Partner-in-charge: Max Loh Khum Whai (since 2002)

Principal Banker

The Development Bank of Singapore Ltd

6 Shenton Way

DBS Building Tower One

Singapore 068809

FY2002 was a difficult year in which many unfavourable events occurred.

Although the Group turnover declined by 27.4% to S\$166.6 million compared to S\$229.5 million in FY2001, net profit registered a growth of 56.3% from S\$14.2 million in FY2001 to S\$22.2 million. This was attributable to the divestment of 31.75% interests in Nera Electronics Ltd ("Nera Electronics") that resulted in a gain of S\$15.2 million, effective cost control measures, improvement in product mix for the Telecommunications and Information Technology business segments, as well as the efficient use of material for Contract Manufacturing business segment.

Earnings per share on a fully diluted basis were recorded at 5.90 cents compared to 3.95 cents in FY2001, an increase of 49.4%. Net asset value per ordinary share based on the issued capital of 360,000,000 ordinary shares of S\$0.05 each is 19.83 cents compared to 16.19 cents in FY2001, an increase of 22.5%.

On 25 July 2002, our electronics contract manufacturing subsidiary, Nera Electronics, was successfully listed on the Singapore Exchange Securities Trading Limited. This exercise had enabled the Group to better channel its resources to its telecommunications and information technology businesses, thereby sharpening its business focus.

A special dividend of 4 cents per ordinary share less 22% tax in relation to the divestment of interests in Nera Electronics was paid to the shareholders in September 2002. In addition, the Board is pleased to recommend a second and final dividend of 15% or 0.75 cents per ordinary share less 22% tax (FY2001: 10% or 0.5 cents). The proposed dividend, if approved at the Annual General Meeting on 27 May 2003, will be paid on 18 June 2003.

I believe we had ended this difficult year stronger, leaner and in much better position for growth when the economy recovers. Going forward, we will rely on our strong position in the telecommunications business area to expand into the new markets of China, India and Australia. We will continue to focus on strategic alliances, as well as innovations in partnerships. To maintain our competitiveness, we will improve the efficiency of our operations and provide enhanced quality services to our customers. In addition, we will continue to upgrade the skills of our workforce to meet the increasingly challenging environment ahead.

On behalf of my fellow Directors, I would like to thank our shareholders, particularly Nera ASA, customers and business partners for their confidence and continued support. I would also like to express my appreciation to the management and staff for their dedication and commitment.



S Chandra Das
Chairman



S Chandra Das

Business Review

FY2002 was a challenging year - one that was characterised by a weak market. We managed to grow our Telecommunications (Telecom) business segment but the performance of our Information Technology (IT) and Contract Manufacturing (CM) business segments were lower than the previous year. As a result, the overall turnover declined by 27.4%, from S\$229.5 million in FY2001 to S\$166.6 million.

Although Group turnover declined by 27.4%, our net profit grew by 56.3% from S\$14.2 million in FY2001 to S\$22.2 million despite the Group's write down of S\$5.7 million investment in TVMobile. This was due to a number of factors. The divestment of 31.75% interests in Nera Electronics resulted in a gain of S\$15.2 million. In addition, the Group's effective cost control measures implemented during the year contained operating expenses. The improvement in our product mix for the Telecom and IT segments and the efficient use of materials for CM business segment also contributed to the improvement of the net profit.

Owing to our strong market position and the continued demand for microwave radio equipment by customers in the Philippines, Malaysia and Thailand, our Telecom business segment improved its turnover by 7.5% from S\$68.1 million in FY2001 to S\$73.2 million. Profit from operations grew by 21.1% from S\$3.8 million in FY2001 to S\$4.6 million. This increase was due to higher turnover as well as the improved margin from better product mix.

The "one-off" project sales of digital mobile equipment to TVMobile in FY2001 had affected the performance of our IT business segment as we had not secured a similar project for the year. Furthermore, lower corporate IT spending and weaker demand for new IT infrastructure network equipment and solutions resulted in a decline in turnover by 43.5% from S\$71.1 million in FY2001 to S\$40.2 million. Despite a 43.5% decline in turnover, profit from operations declined by a lower proportion of 16.2% from S\$3.7 million in FY2001 to S\$3.1 million as a result of improved margin from better product mix.

Likewise the lower demand for CM services by our customers in the Telecommunications and Instrumentation industry had resulted in a decline of turnover in our CM business segment by 32.8% from S\$98.3 million in FY2001 to S\$66.1 million. Despite the decline of 32.8% in turnover, profit from operations declined by a lower proportion of 16.5% from S\$11.5 million in FY2001 to S\$9.6 million. The improved margin was due to the more efficient use of material and lower material cost.



Ang Seong Kang Samuel

The Group generated approximately S\$17.5 million in cash from operations. As at 31 December 2002, the Group's cash position improved considerably to approximately S\$48.1 million compared to S\$20.4 million FY2001.

Business Outlook

Telecommunications

Competition among the Group's key customers, namely cellular operators, remains intense. Stronger and larger operators are expected to emerge and they are expected to invest in their wireless infrastructures and introduce new services to improve their market share. The continued liberalisation of the industry has led to the consolidation of some cellular operators in the Group's markets, as well as introduction of new services that will attract new players.

The Group also sees more consolidation among its competitors as the dynamics of the Telecom market changes.

The Telecom business segment is expected to remain strong, particularly, the demand for wire transmission infrastructure to support cellular operators' current 2/2.5G network expansion, new data services and future 3G deployment.

In the satellite communications business area, the Group has recently signed a Frame Supply Agreement with Isaiah 65 in the Philippines for the supply of 1,000 units of Inmarsat WorldCommunicator with MPDS (Mobile Packet Data Services) capabilities. This is expected to open new opportunities for the Group in the deployment of its satellite terminals for data related services such as financial transactions and SCADA (Supervisory Control and Data Acquisition) applications in the South East Asian region.

The Group's strong position in selected wireless telecom infrastructure and satellite communications equipment market, as well as its expansion into new markets such as China, India and Australia, is expected to benefit the Group's Telecom business in the short term and the current year.

Information Technology

Although more IT spending from the government sector is expected, corporate spending on new IT network infrastructure remains weak. Overall, IT network infrastructure spending is expected to be weak in FY2003. The Group intends to increase marketing activities on its IT products and solutions in selected markets, but expects a moderate growth for the current year.

Contract Manufacturing

The global electronics industry remains uncertain and this has affected our CM business. Major customers from the telecommunications and instrumentation sectors continue to be cautious in their prognosis and order forecasting.

The prolonged economic slowdown is expected to result in increased competition and price pressure. Therefore, the CM business is expected to remain weak for the current year.

Finally, I would like to thank our customers, business partners and shareholders for their continued support. I would also like to express my appreciation to my colleagues for their commitment and hard work. Together, we remain committed in reaching our goals.



Samuel Ang
President & CEO

Transmission Microwave Networks

Without having to dig up roads and lay cables, communications can be established quickly and cost-effectively with our Transmission Microwave Networks. Cellular phone operators



Nera Antennas

look towards microwave solutions to meet their increasing network traffic. We have a range of low and high capacity radios and microwave network solutions to suit different needs. The CompactLink is a cost-effective, low to medium capacity transmission network for voice, data and video traffic and the innovative features of the FlexLink make it an ideal choice for cellular base station. For long distance high capacity communication, we have the InterLink, the new generation of SDH radio-relay transmission equipment.

Wireless Broadband Access

Wireless Broadband Access (WBA) is set to further evolve communication services with its capacity, speed and reliability to support the Internet, digital TV and interactive services. As a leading solutions provider of fixed broadband wireless access, we provide the Netlink that allow carriers and service providers to offer their subscribers high-speed Internet and telephony access. We also offer the MultiLink for backhauling in cellular networks to meet the increasing demand for capacity and increased density of base stations.

Satellite Communications

Our range of Satellite Communications equipment enables communications anywhere in the world. They are manufactured for the use with the Inmarsat systems, the world's top mobile telecommunications satellite network for professional use. With that assurance, you can be sure of reliable communications anywhere in the world.

Nera WorldCommunicator



Our DVB-RCS Communication makes use of satellite to provide broadband access solutions for services such as video conferencing, high-speed Internet and interactive TV. Additionally, the F77 and F33 terminals for vessels enable a diverse range of applications such as Internet, email and fax to be used in the sea.



Nera F77



Optical Networks

The Optical Networks business unit offers high-speed connectivity using the Free Space Optical (FSO) technology that has been successfully deployed in several countries. In Singapore, we will continue to work with regulators, service providers, educational institutions and property developers on the strategic projects to implement the technology.

Security Solutions

The growing threats to information systems have led to businesses seeking ways to protect their intellectual property, customer data and vital business systems. With our expertise in IT security, we are able to provide reliable and cost effective solutions in the areas of Firewall, Virtual Private Network (VPN), Antivirus and Host Security Module to protect our customers' infrastructures.

Internet Appliances

Most businesses today are reliant on their IT infrastructures for their daily operations. To ensure smooth daily operations for clients, the Internet Appliance business unit provides a range of Traffic Management services such as Data Communication, Bandwidth Management, Internet Application Load Balancing and Site Redundancy.

Networking Solutions

To meet the ever-increasing multimedia communications challenges, we provide Networking Solutions based on advanced data transfer technologies such as Asynchronous Transfer Mode (ATM), Gigabit Ethernet and network maintenance. The focus of our telecommunication-based projects will be on ATM technology and IP core-routing technology.



Security Solutions

Retail Solutions

In addition to electronic receipt capture, credit card functions and loyalty programmes facilities, the IT Retail Systems business area also provides payment gateway, dynamic currency conversions gateway, instalment gateway, EMV gateway as well as Internet payment gateway which facilitates credit card payments for bills and fines



Point-of-Sale Terminals

With our after-sales service and maintenance excellence, we have become one of the market leaders in point-of-sale electronic payment systems. Our clients include major local banks, foreign banks, credit card companies, financial institutions and electronic fund transfer point-of-sale (EFTPOS) service providers.

Cables & Cabling Solutions

Cables remain one of the most fundamental elements in any IT, telecommunications and broadcasting networks. We specialise in cabling services for structure cabling systems and build infrastructure based on copper, fibre, coaxial as well as hybrid cables. Our other services include the delivery of cables to the oil/gas, marine/offshore industry, as well as fibre optic cables and cable ducts to telecommunications service provider.

Broadcasting Solutions

We have provided the first digital mobile TV hardware that made Singapore the first in the world to use Digital Video Broadcast (DVB) technology. This has brought quality and clear transmission of television programmes out of homes to public areas in shopping centres, cars and buses.



DVB-T Mobile Receiver

Our solutions also include the sales, installation, maintenance and servicing of Master Antenna TV Systems (MATV), Cable TV Systems (CATV) and Digital TV Networks for housing developers, government institutions, educational institutions, commercial enterprises, service providers and broadcasters. In addition, we also provide analogue TV and digital TV systems, broadcast-engineering solutions, digital set top boxes and video software management solutions.



Contract Manufacturing

Unlike other electronics manufacturing service providers, our subsidiary Nera Electronics Ltd offers many high value-added services such as test development and rapid prototyping to cater to customers who seek end-to-end solutions. It also offers a flexible manufacturing process that cost-effectively assembles products with high variation and in low to medium quantity.

As a niche player, we target mainly at businesses in the Telecommunication & Instrumentation and Medical & Bioscience segments. We have built a strong expertise to understand our customers' sophisticated requirements and to handle high-end industrial products such as telecommunications infrastructure and medical devices.

We are also known for our Radio Frequency engineering capabilities, which has enabled us to undertake contract manufacturing services of digital microwave products and systems.



To stay at the forefront of telecommunications technology, we constantly develop our most important asset – our people - to handle the challenges of tomorrow.

In Nera, everybody grows. Last year, our people from different levels attended diverse training programmes ranging from technical courses such as Certified Installer Training and Cisco Certified Network to non-technical ones such as Customer Service Skills, Project Management and ISO training.

The various training programmes have provided our people with the skills needed for growth within their existing jobs and opportunities for career development and succession planning. The trainings have led to the increase in our productivity and competitiveness.

Aside from work related activities, we held our Corporate Culture Day in December 2002 to foster stronger bonding among staff. It was a daylong programme organized at Sentosa for all employees. We provided a platform for employees to interact, develop team spirit through highly interactive activities and at the same time, identify the strengths of various groups within the organization.

Through these programmes, we believe our people will always be ahead.



Team Building



Corporate Culture Day

June 2002 CommunicAsia & BroadcastAsia 2002

June 2002 saw another year of our presence in both CommunicAsia and BroadcastAsia. Both exhibitions were held concurrently with CommunicAsia located at the Singapore Expo and BroadcastAsia in Suntec City. The four-day event, held from 18th to 21st of June 2002, resulted in new leads and business developments. A road show was held during CommunicAsia whereby our Satellite Communications business area hosted a series of seminars on Land Mobile and Maritime that was attended by participants from various industries.

August 2002 The Taipei International Telecommunications & Networking Show 2002

The show was held at the Taipei World Trade Centre Exhibition Hall from 23rd to 26th of August 2002. Products from Satellite Communications, Microwave Transmission Network, IT-Broadcasting, Cables & Cabling Solutions were exhibited during this event.

September 2002 Vietnam Telecomp 2002

We participated in Vietnam Telecomp 2002 - the 9th International Exhibition in Vietnam on Telecommunications, Electronics and Informatics from 17th to 21st of September 2002. The show attracted several visitors and industry players from both government and private sectors.



CommunicAsia 2002



BroadcastAsia 2002



The Taipei International Telecommunications & Networking Show 2002



Vietnam Telecomp 2002

Nera Telecommunications Ltd (“the Company”) is committed to continue its efforts in maintaining a high standard of corporate governance. Various mechanisms have been put in place for the internal review and regulation of the Company’s affairs.

This Report describes the Company’s corporate governance processes with specific reference to the Code of Corporate Governance (“the Code”) established by the committee on Corporate Governance in Singapore.

BOARD OF DIRECTORS

Principle 1 : Board’s Conduct of its Affairs

The principal functions of the Board are:

- (a) approving the Group’s key business strategies and financial objectives;
- (b) approving the annual budget, major investments and divestments, and funding proposals;
- (c) overseeing the processes for evaluating the adequacy of internal controls, risk management, financial reporting and compliance; and
- (d) assuming responsibility for corporate governance.

The Board discharges its responsibilities either directly or indirectly through various Board committees.

The Board conducts regular scheduled meetings four times a year. Ad-hoc meetings are convened as and when required. The Company’s Articles of Association allows a Board Meeting to be conducted by way of a tele-conference or any other electronic means of communications. The attendance of Directors at meetings of the Board and Board committees, as well as the frequency of such meetings, is disclosed in this Report.

An orientation programme will be organised for new Directors to ensure that incoming Directors are familiar with the Company’s key business and governance practices. Prior to their appointment, new Directors are also provided the relevant information on their duties as Directors, the Company’s governance processes as well as relevant statutory and regulatory compliance issues. Directors may request further explanations, briefings

and informal discussions on any aspects of the Company's operations or business issues.

Principle 2 : Board Composition and Balance

The Board comprises eight Directors. More than one third of the Board are independent Directors. The composition of the Board is as follows:

Executive Director

Ang Seong Kang Samuel (President & CEO)

Non-Executive Directors

S Chandra Das, Chairman *

Bjorn Ove Skjeie

Johan Fredrik Odfjell

Sverre Ording Fjeld *

Bjorn Olafsson

Lau Ping Sum *

Sitoh Yih Pin *

** Independent Directors*

The independence of each Director is reviewed annually by the Nominating Committee which has determined that no individual or small group of individuals dominate the Board's decision making.

The Directors bring with them invaluable business, professional and commercial experience and whose core competencies, skills, qualification and experience are extensive and complementary.

While there is no limit on the number of Directors that may be appointed under the Company's Articles of Associations, the Board is of the view that the current board size of eight Directors is appropriate, having regard to the impact of the number upon effectiveness and taking into account of the nature of the Company's operations. The current size of the Board allows free and uninhibited discussions and facilitates effective decision making.

Principle 3 : Role of Chairman and Chief Executive Officer

The functions of Chairman and the President & CEO are assumed by two individuals. The

Chairman, Mr S Chandra Das is an independent Director, while the President & CEO, Mr Samuel Ang is an executive Director.

The President & CEO is the most senior executive in the Company and assumes executive responsibility for the Company's business while the Chairman assumes responsibility for the management of the Board. The Chairman and the President & CEO are not related.

Principle 6 : Access To Information

To ensure that the Board is able to fulfil its responsibilities, a quarterly report of the Company's financial results and activities is provided to the Board. In addition, the Board is updated on business matters on an on-going basis. The Directors have also been provided with the contact numbers and email particulars of the Company's senior management and the company secretary to facilitate access to any required information.

In carrying out their duties, the Directors, whether as a group or individually, have access to professional advice both inside and outside of the Company. If external independent professional advice is sought, such cost will be borne by the Company.

The company secretary attends all board meetings and ensures that board procedures are followed and that applicable rules and regulations are complied with. The company secretary also attends the meetings of Board committees.

BOARD COMMITTEES

Nominating Committee (NC)

Principle 4 : Board Membership

The Nominating Committee comprises three members, a majority of whom are independent Directors. The composition of the NC is as follows:

S Chandra Das, Chairman *

Bjorn Ove Skjeie

Sverre Ording Fjeld *

* *Independent Director*

The principal functions of the NC are to:

- (a) identify candidates, review nominations for both appointment and re-appointment of the Directors to the Board for its approval. For the appointment of new candidates to the Board, the proposed appointee's background, experience and other board memberships will be taken into account;
- (b) review the Board structure and size including the composition of the Board generally and the balance between executive and non-executive Directors appointed to the Board, and make recommendation to the Board with regard to any adjustments that are deemed necessary;
- (c) review the independence of each Director annually; and
- (d) assess the contribution of each individual Director to the effectiveness of the Board.

The NC has adopted written terms of reference.

New Directors are at present appointed by way of a board resolution, after the NC recommends and supports their appointments. Such new Directors must submit themselves to re-election at the next Annual General Meeting of the Company. One third of the Directors must retire by rotation at each Annual General Meeting and are eligible for re-election.

The NC has recommended the nomination of Directors retiring by rotation under the Company's Articles of Association, namely S Chandra Das and Sverre Ording Fjeld for re-election at the forthcoming Annual General Meeting and has determined their independence.

S Chandra Das, a non-executive independent Director was appointed to the Board on 15 January 1988. He is Chairman of the Board, a position he has held since 1988. Mr Das also chairs the Nominating Committee and Compensation Committee and was last re-elected a Director on 15 June 2000.

Sverre Ording Fjeld has been a Director of the Company since 6 June 1991. He became an independent Director on 1 December 2002 when he retired from our holding company, Nera ASA. Mr Fjeld was the former Regional Director of the Company from 1991 to 1995. Mr Fjeld is also a member of both the Nominating Committee and Audit Committee and was last re-elected a Director on 15 June 2000.

S Chandra Das and Sverre Ording Fjeld duly abstained from making a recommendation on their own nominations.

Principle 5 : Board Performance

In reviewing the re-appointment of any Director, an evaluation on the performance of the Directors is done annually. Assessment on each Director's contribution to the Board includes his attendance and participation, time and effort devoted to the Company's business and affairs and any special contributions.

The NC will be initiating Board performance evaluation to assess the effectiveness of the Board as a whole in FY2003 and will be reviewing the performance criteria to be used.

Audit Committee (AC)**Principle 11 : Audit Committee****Principle 12 : Internal Controls**

The Audit Committee comprises three members, all of whom are independent Directors. The composition of the AC is as follows:

Lau Ping Sum, Chairman *
Sverre Ording Fjeld *
Sitoh Yih Pin *

* *Independent Director*

The members of the AC are appropriately qualified and have relevant accounting and related management expertise and experience to discharge their functions effectively.

The key functions of the AC are to :

- (a) consider the appointment or re-appointment of the external auditors, the audit fee and matters relating to the resignation and dismissal of the auditors;
- (b) review with the external auditors the audit plans, the evaluation of the system of internal accounting controls and the external auditors' audit report;
- (c) review the quarterly and audited annual financial statements for recommendation to the Board for approval, focusing in particular, on:

- (i) changes in accounting policies and practices
 - (ii) major risk areas
 - (iii) significant adjustments resulting from the audit
 - (iv) the going concern statement
 - (v) compliance with accounting standards
 - (vi) legal and regulatory matters that may have a material impact on the financial statements.
- (d) review interested person transactions;
- (e) review the assistance given by Management to the external auditors; and
- (f) review the scope and results of the internal audit procedures.

The AC has adopted written terms of reference.

The AC has the explicit authority to conduct investigations into any matters within its terms of reference, including having full access to and co-operation by Management and full discretion to invite any Director or executive officer to attend its meetings. The AC has reasonable resources to discharge its functions properly.

The AC has conducted an annual review of the volume of non-audit services to satisfy itself that the nature and extent of such services will not prejudice the independence and objectivity of auditors before confirming their re-nomination. The AC has also reviewed interested person transactions, the Company's material internal controls including financial, operational and compliance controls. Risk management is also conducted at least annually. The AC is satisfied that there are adequate internal controls in the Company.

The AC meets with the external and internal auditors, without the presence of management, at least once a year.

Principle 13 : Internal Audit (IA)

IA is an independent function that report to the Audit Committee and administratively to the President & CEO. The scope of work covers all business and support functions in the Company, its subsidiaries and an associated company. The AC reviews and approves the annual IA plans and resources to ensure that the IA unit has the necessary resources to adequately perform its functions. To ensure the adequacy of the internal audit function, the AC reviews the IA activities on a quarterly basis.

Compensation Committee (CC)

Principle 7 : Procedures for Developing Remuneration Policies

Principle 8 : Level and Mix of Remuneration

Principle 9 : Disclosure on Remuneration

The Compensation Committee comprises three members, a majority of whom are independent Directors. The composition of the CC is as follows:

S Chandra Das, Chairman *

Bjorn Ove Skjeie

Sitoh Yih Pin *

** Independent Director*

The principal responsibilities of the CC are to:

- (a) review and recommend to Chairman of the Board, a framework of remuneration and to determine the specific remuneration packages for executive Director. This covers all aspects of remuneration including the Director's fees, salaries, allowances, options and benefits in kind.
- (b) approve and administer the Employees' Share Option Schemes or any long term incentive schemes which may be set up from time to time and to do all acts necessary in connection therewith.

The CC has adopted written terms of reference.

The remuneration packages for executive Director includes variable cash bonus and long term incentive in the form of stock options. In determining the remuneration for executive Director, following factors were taken into account:

- (a) The level of remuneration should be of a level to attract, retain and motivate the leadership of the Group;
- (b) There should be an alignment of his interest with those of shareholders of the Company; and

- (c) Remuneration is linked to the performance of both the Company and individual.

Independent Directors are paid basic Directors' fees and additional fees for being members of the Audit Committee, Nominating Committee and Compensation Committee, subject to approval at Annual General Meeting. Non-Independent and non-executive Directors who are employed by our holding company (Nera ASA) will not receive Directors' fees.

The CC had also reviewed and recommended the quantum of fees to be paid to non-executive independent Directors which will be tabled for shareholders' approval at the Annual General Meeting.

The following table shows the makeup (in percentage terms) of the remuneration of the Directors for the year ended 31 December 2002:

Remuneration Bands / Name	Fees *** %	Salary* %	Bonus* %	Total %
S\$500,000 and above				
Ang Seong Kang Samuel	-	43	57	100
S\$250,000 to S\$499,999				
NIL	-	-	-	-
Below S\$250,000				
(Fees paid to non-executive Directors)				
S Chandra Das (S\$50,000)	100	-	-	100
Lau Ping Sum (S\$30,000)	100	-	-	100
Sitoh Yih Pin (S\$25,000)	100	-	-	100
Sverre Ording Fjeld (S\$2,500)**	100	-	-	100

* The salary and bonus are inclusive of CPF.

** Sverre Ording Fjeld is an independent Director effective 1 December 2002 when he retired from Nera ASA. Therefore, he will be paid a pro-rated fee of S\$2,500.

*** These fees are subject to approval by shareholders as a lump sum at the Annual General Meeting for FY2002.

- (a) No other Director, apart from those listed above, received Directors' remuneration during the period.
 (b) The table above excludes share options which are described in the Directors' Report.

As part of its review, the CC shall ensure that:

- (i) all aspects of remuneration including Directors' fees, salaries, allowances, bonuses, options and benefits-in-kind should be covered.

- (ii) the remuneration package should be comparable within the industry and comparable companies and shall include a performance-related element coupled with appropriate and meaningful measures of assessing the executive Directors' performance.

Key Executives' Remuneration

Key executives of the Company whose salaries were below the S\$250,000 band during the year are as follows:

Remuneration Band / Name and Position	Salary* %	Bonus* %	Total %	Share** Options
Below S\$250,00				
Senior Vice President				
Chan Lai Yoke Accounts, Administration, Human Resources & MIS	66	34	100	75,000
Chan Heng Chew Michael Investments & Business Development	70	30	100	64,000
Tay Kheng Seng Alvin North East Asia	73	27	100	64,000
Vice President				
Chiang Hock Chin Jessie Corporate Affairs	70	30	100	48,000
Lucy Phua Accounts	74	26	100	50,000
Yap Chei Leong Albert Telecommunications, Microwave Network	67	33	100	45,000
Goh Yoke Lim Telecommunications, Satellite Communications	68	32	100	45,000
Png Keng Geok Albert Information Technology, Network Infrastructure	67	33	100	48,000
Koh Seng Chye Roy Information Technology, Cables & Cabling Solutions	76	24	100	48,000
Phua Ai Geok Adeline Information Technology, Retail Systems	73	27	100	45,000
Moh Kah Ling Zoey Information Technology, Broadcasting	77	23	100	14,000

* Allowances are included in the salary. In addition, the salary and bonus are inclusive of CPF.

** The share options granted in FY2002 were at a subscription price of S\$0.625 each. The exercise period is from 1 March 2004 to 28 February 2012.

There were no employees who are immediate family members of a Director or the CEO and whose remuneration exceeded \$150,000 during the year.

Communication with Shareholders

Principle 10 : Accountability and Audit

Principle 14 : Communication with Shareholders

Principle 15 : Greater Shareholder Participation

The Company has adopted quarterly results reporting since its listing in July 1999, ahead of the regulatory timeline imposed by the SGX. News releases and quarterly results announcements are published through the MASNET and the Company's website.

The Company does not practise selective disclosure. Price sensitive information is first publicly released, either before the Company meets with any group of investors or analysts or simultaneously with such meetings.

The Company communicates with its shareholders, both institutional and retail, on a regular basis. The Annual Report and Notice of the Annual General Meeting are forwarded to all shareholders of the Company. The Notice of the Annual General Meeting is also advertised on the newspaper. At the Annual General Meeting, shareholders are given the opportunity to communicate their views to the Directors and Management on matters relating to the Company.

Dealing in Securities

The Company has adopted an internal compliance code pursuant to the SGX-ST Best Practices Guide in relation to dealings in the Company's securities. Directors and key employees within the Group are not allowed to deal in the Company's securities two weeks before the announcement of the Company's quarterly results and ending on the date of announcement of the results, and at all times when in possession of price-sensitive information. The Company has complied with the SGX-ST Best Practices Guide on dealings in the Company's securities in FY2002.

Interested Person Transactions

The Company's policy on transactions with interested persons is driven by compliance with statutory and regulatory requirements, namely Chapter 9 of the SGX Listing Manual on interested person transactions.

The followings are details of the aggregate value of interested person transactions for FY2002 undertaken pursuant to a shareholder's general mandate obtained at the last Annual General Meeting.

Name of Interested Person	Aggregate value of all interested person transactions conducted under shareholders' mandate pursuant to Rule 920 (excluding transactions less than S\$100,000) S\$'000
<u>Sales</u>	
Nera Networks AS	6,871
Nera Networks Inc	215
<u>Purchases</u>	
Nera Networks	39,535
Nera Satcom	8,663
Nera Mechatronics AS	554
Nera WBA AS	547

Note: All interested person transactions conducted during the financial year are under shareholders' mandate pursuant to Rule 920.

Directors' Attendance at Board and Board Committee Meetings

Name of Directors	Board Meetings		Audit Committee Meetings		Compensation Committee Meetings		Nominating Committee Meetings	
	No. of Meetings Held	No. of Meetings Attended	No. of Meetings Held	No. of Meetings Attended	No. of Meetings Held	No. of Meetings Attended	No. of Meetings Held	No. of Meetings Attended
S Chandra Das	4	4	-	-	1	1	1	1
Ang Seong Kang Samuel	4	4	-	-	-	-	-	-
Bjorn Ove Skjeie	4	4	-	-	1	1	1	1
Johan Fredrik Odfjell	4	2	-	-	-	-	-	-
Bjorn Olafsson	4	3	-	-	-	-	-	-
Sverre Ording Fjeld	4	4	4	4	-	-	1	1
Lau Ping Sum	4	4	4	4	-	-	-	-
Sitoh Yih Pin	4	4	4	4	1	1	-	-

Further Information on Directors

S Chandra Das

Academic and Professional Qualifications: BA (Hons) in Economics, University of Singapore

Current Occupation: Managing Director, NUR Investment & Trading Pte Ltd

Year of Appointment: 1988

Year of Last Re-election: 2000

Listed Companies:

Present Directorships

1. Nera Telecommunications Ltd
2. Nera Electronics Ltd
3. Provisions Suppliers Corporation Ltd (PSC)
4. The Ascott Group Limited
(formerly known as The Ascott Ltd)
5. Capital Mall Trust Management Ltd
6. Yeo Hiap Seng Ltd

Past Directorships

1. L & M Group Investments Limited

Ang Seong Kang Samuel

Academic and Professional Qualifications: BSc in Business Administration, Oklahoma City University, USA

Current Occupation: President & CEO, Nera Telecommunications Ltd

Year of Appointment: 1996

Year of Last Re-election: Nil (not applicable to CEO)

Listed Companies:

Present Directorships

1. Nera Telecommunications Ltd
2. Nera Electronics Ltd

Past Directorships

NIL

Bjorn Ove Skjeie

Academic and Professional Qualifications: Degree, Norwegian University of Economics and Business Administration

Current Occupation: President & CEO, Nera ASA

Year of Appointment: 1998

Year of Last Re-election: 2001

Listed Companies:

Present Directorships

1. Nera Telecommunications Ltd
2. Nera Electronics Ltd

Past Directorships

NIL

Johan Fredrik Odfjell

Academic and Professional Qualifications: (i) MBA, Harvard University
(ii) Degree, Norwegian University of Economics and Business Administration

Current Occupation: Business/Investment Adviser

Year of Appointment: 1999

Year of Last Re-election: 2001

Listed Companies:**Present Directorships**

1. Nera Telecommunications Ltd
2. Nera ASA
3. Orkla ASA
4. Amersham plc
5. Den norske Veritas

Past Directorships

1. Hafslund ASA
2. Bergesen ASA
3. Kvaerner ASA

Sverre Ording Fjeld

Academic and Professional Qualifications: Degree in Telecommunications, Institute of Technology, Stockholm, Sweden

Current Occupation: Business Consultant

Year of Appointment: 1991

Year of Last Re-election: 2000

Listed Companies:**Present Directorships**

1. Nera Telecommunications Ltd
2. Nera Electronics Ltd

Past Directorships

NIL

Bjorn Olafsson

Academic and Professional Qualifications: MBA, Norwegian School of Management

Current Occupation: Executive Vice President and CFO, Nera ASA

Year of Appointment: 2002

Year of Last Re-election: 2002

Listed Companies:**Present Directorships**

1. Nera Telecommunications
2. Nera Electronics Ltd

Past Directorships

1. Finansbanken ASA

Lau Ping Sum

Academic and Professional Qualifications: B. Economics, Australian National University

Current Occupation: Executive Director, People's Action Party/People's Action Party Community Foundation
Headquarters

Year of Appointment: 1999

Year of Last Re-election: 2002

Listed Companies:**Present Directorships**

1. Nera Telecommunications Ltd
2. Huan Hsin Holdings Ltd
3. KLW Holdings Ltd
4. New Wave Technologies Ltd
5. Cortina Holdings Ltd

Past Directorships

NIL

Sitoh Yih Pin

Academic and Professional Qualifications: Bachelor of Accountancy (Hons), National University of Singapore

Current Occupation: Certified Public Accountant & Partner, Nexia Tan & Sitoh

Year of Appointment: 1999

Year of Last Re-election: 2002

Listed Companies:**Present Directorships**

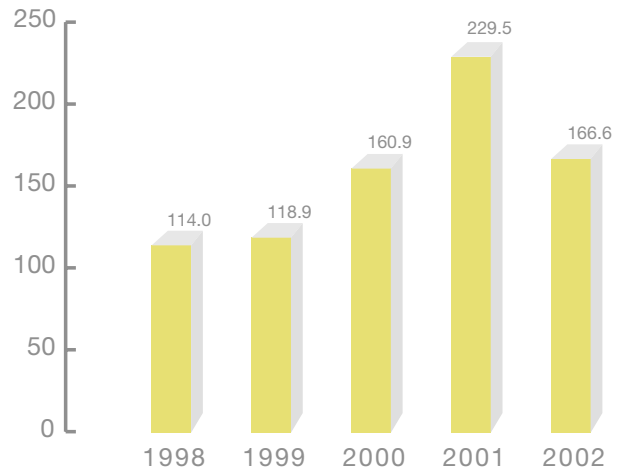
1. Nera Telecommunications Ltd
2. CWT Distribution Limited
3. Cytech Software Limited
4. Futuristic Image Builder Ltd
5. GKE International Limited
6. Hitchins Group Ltd
7. Labroy Marine Limited
8. Lian Beng Group Ltd
9. Meiban Group Ltd
10. PNE Micron Holdings Ltd
11. United Food Holdings Limited
12. WPG International Limited

Past Directorships

1. KS Tech Ltd

Turnover in FY2002 was S\$166.6 million compared to S\$229.5, a decrease of 27.4%

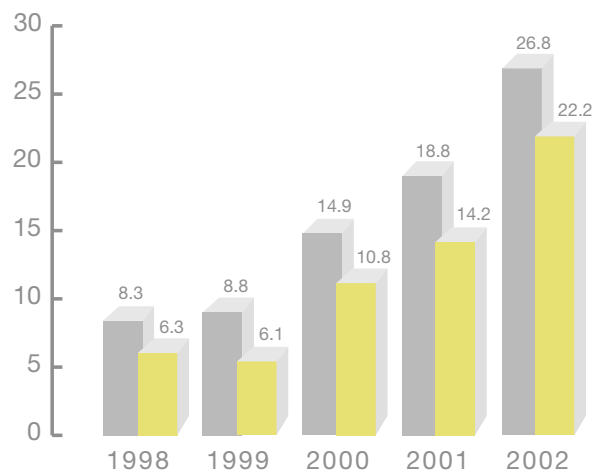
TURNOVER (S\$M)



Profit before tax in FY2002 was S\$26.8 million compared to S\$18.8 million in FY2001, an increase of 42.6%.

Profit after tax in FY2002 was S\$22.2 million compared to S\$14.2 million, an increase of 56.3%.

PROFIT (S\$M)



FY1998 is based on the Proforma Group's result.

■ Profit before tax ■ Profit after tax



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(Amounts in Singapore dollars unless otherwise stated)

The directors are pleased to present their report to the members together with the audited financial statements of the Company and the consolidated financial statements of the Company and its subsidiaries (the "Group") for the financial year ended 31 December 2002.

Directors

The directors of the Company in office at the date of this report are:

S Chandra Das
 Ang Seong Kang Samuel
 Bjorn Ove Skjeie
 Sverre Ording Fjeld
 Johan Fredrik Odfjell
 Lau Ping Sum
 Sitoh Yih Pin
 Bjorn Olafsson

Principal activities

The principal activities of the Company are to engage in the sale, distribution, design, engineering, servicing, installation and maintenance of telecommunication systems and products in transmission networks and satellite communications and information technology networks. The principal activities of the subsidiaries are as shown in Note 4 to the financial statements.

There have been no significant changes in the nature of these activities during the financial year.

Results for the financial year

	Group \$'000	Company \$'000
Net profit attributable to shareholders	21,248	19,434

Material movements in reserves and provisions

Except as shown in the financial statements, there were no other material transfers to or from reserves or provisions during the financial year.

Acquisition and disposal of subsidiary companies

During the financial year, the Group incorporated the following subsidiary:

Name of subsidiary	Interest	Paid-up capital
Held by subsidiary, Nera Electronics Ltd		
Nera Electronics, Inc.	100%	US\$2

34 Report of the Directors

(Amounts in Singapore dollars unless otherwise stated)

Acquisition and disposal of subsidiary companies (cont'd)

During the financial year, the Company disposed of part of its shareholdings in its subsidiary, Nera Electronics Ltd, pursuant to the subsidiary's initial public offering ("IPO") on the Singapore Exchange Securities Trading Limited ("SGX-ST") as follows:-

Consideration	Net tangible assets disposed of	Equity interest disposed of	Interest before and after disposal before	Interest before and after disposal after
\$'000	\$'000			
21,424	5,280	24.9%	100%	75.10%

In addition, Nera Electronics Ltd issued 30,000,000 ordinary shares, pursuant to its IPO on the SGX-ST. Thereafter, the Group's equity interest in Nera Electronics Ltd was diluted from 75.10% to 68.25%.

Issue of shares and debentures

During the financial year, the subsidiary, Nera Electronics Ltd:

- increased its authorised share capital from 875,000 ordinary shares of \$1 each to 40,000,000 ordinary shares of \$1 each by the creation of 39,125,000 ordinary shares of \$1 each;
- sub-divided each ordinary share of \$1 each in the authorised share capital into 20 ordinary shares of \$0.05 each;
- capitalised \$14,125,000 from accumulated profits by way of a bonus issue of 282,500,000 ordinary shares of \$0.05 each credited as fully paid to the existing shareholders; and
- issued 30,000,000 ordinary shares of \$0.05 each at \$0.33 per share pursuant to its initial public offering on the SGX-ST.

Apart from the above, no other shares or debentures of the Company or its subsidiaries were issued during the financial year.

Arrangements to enable directors to acquire shares and debentures

Except for the Employees' Share Option Scheme as disclosed in this report, neither at the end of nor at any time during the financial year was the Company a party to any arrangement whose object is to enable the directors of the Company to acquire benefits by means of the acquisition of shares or debentures of the Company or any other body corporate.

(Amounts in Singapore dollars unless otherwise stated)

Directors' interests in shares and debentures

According to the Register of Directors' Shareholdings required to be kept under Section 164 of the Companies Act, the interests of the directors holding office at the end of the financial year in the shares or debentures of the Company and related corporations were as follows:-

Name of Director	Held by director			Other shareholdings in which the director is deemed to have an interest		
	As at 1 January 2002	As at 31 December 2002	As at 21 January 2003	As at 1 January 2002	As at 31 December 2002	As at 21 January 2003
Ultimate holding company						
Nera ASA						
Ordinary shares of NOK2.00 each						
S Chandra Das	11,500	11,500	11,500	-	-	-
Ang Seong Kang Samuel	20,000	20,000	20,000	-	-	-
Bjorn Ove Skjeie	90,225	100,225	100,225	-	-	-
Johan Fredrik Odfjell	628	628	628	109,690	409,690	409,690
Sverre Ording Fjeld	2,000	2,000	2,000	-	-	-
Bjorn Olafsson	10,000	10,000	10,000	-	-	-
The Company						
Ordinary shares of \$0.05 each						
S Chandra Das	2,500,000	2,500,000	2,500,000	-	-	-
Ang Seong Kang Samuel*	2,420,000	2,470,000	2,470,000	-	25,000	25,000
Bjorn Ove Skjeie	80,000	80,000	80,000	-	-	-
Johan Fredrik Odfjell	400,000	400,000	400,000	-	-	-
Lau Ping Sum	450,000	450,000	450,000	-	-	-
Sitoh Yih Pin	400,000	400,000	400,000	-	-	-

*40,000 of the total ordinary shares are in United Overseas Bank Nominee Account under the Central Provident Fund share investment scheme.

Name of Director	Held by director as at		
	1 January 2002	31 December 2002	21 January 2003
Related Corporations			
Nera Electronics Ltd			
Ordinary shares of \$0.05 each			
Ang Seong Kang Samuel	-	5,290,000	5,290,000
S Chandra Das	-	1,500,000	1,500,000
Nera Infocom (M) Sdn Bhd			
Ordinary shares of RM 1 each			
Ang Seong Kang Samuel	1	1	1

36 Report of the Directors

(Amounts in Singapore dollars unless otherwise stated)

Directors' interests in shares and debentures (cont'd)

Name of Director	Held by director as at		
	1 January 2002	31 December 2002	21 January 2003
Related Corporations			
Nera Philippines Inc. Ordinary shares of Peso 100 each			
Ang Seong Kang Samuel	1	1	1
P.T. Nera Indonesia Ordinary shares of US\$2,000 each			
Ang Seong Kang Samuel	1	1	1
Nera Telecommunications (Taiwan) Co., Ltd. Ordinary shares of NT\$10 each			
Ang Seong Kang Samuel	1	1	1

Except as disclosed above, no other director had an interest in the shares or debentures of the Company or related corporations, either at the beginning or end of the financial year and on 21 January 2003.

Directors' contractual benefits

Except as disclosed in the financial statements, since the end of the previous financial year, no director of the Company has received or become entitled to receive a benefit by reason of a contract made by the Company or a related corporation with the director, or with a firm of which the director is a member, or with a company in which the director has a substantial financial interest.

Dividends

Dividends paid	\$'000
-----------------------	--------

A final dividend of 0.5 cents per share, less tax at 22%, paid in respect of the previous year and included in the directors' report of that financial year	1,404
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A special dividend of 4 cents per share, less tax at 22%, paid in respect of the year ended 31 December 2002	11,232
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	<u>12,636</u>
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Dividend proposed

A final dividend of 0.75 cents per share, less tax at 22%, in respect of the year ended 31 December 2002 proposed by the directors and subject to the approval at the Annual General Meeting of the Company	2,106
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	<u>2,106</u>
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Bad and doubtful debts

Before the profit and loss account and the balance sheet of the Company were prepared, the directors took reasonable steps to ascertain that proper action had been taken in relation to the writing off of bad debts and the making of provision for doubtful debts, and have satisfied themselves that all known bad debts had been written off and that adequate provision had been made for doubtful debts.

At the date of this report, the directors are not aware of any circumstances which would render any amount written off as bad debts and provided for as doubtful debts in the Group inadequate to any substantial extent.

Current assets

Before the profit and loss account and the balance sheet of the Company were prepared, the directors took reasonable steps to ascertain that any current assets which were unlikely to realise their book values in the ordinary course of business had been written down to their estimated realisable values or that adequate provision had been made for the diminution in value of such current assets.

At the date of this report, the directors are not aware of any circumstances which would render the values attributed to current assets in the consolidated financial statements misleading.

Charges on assets and contingent liabilities

Since the end of the financial year, and up to the date of this report, no charge on the assets of the Company or any corporation in the Group has arisen which secures the liabilities of any other person and no contingent liability of the Company or any corporation in the Group has arisen.

Ability to meet obligations

No contingent or other liability has become enforceable or is likely to become enforceable within the period of twelve months after the end of the financial year which, in the opinion of the directors, will or may substantially affect the ability of the Company and of the Group to meet their obligations as and when they fall due.

Other circumstances affecting the financial statements

At the date of this report, the directors are not aware of any circumstances not otherwise dealt with in this report or in the consolidated financial statements which would render any amount stated in the financial statements of the Company and the consolidated financial statements of the Group misleading.

Unusual items

In the opinion of the directors, the results of the operations of the Company and of the Group during the financial year have not been substantially affected by any item, transaction or event of a material and unusual nature.

Unusual items after the financial year

In the opinion of the directors, no item, transaction or event of a material and unusual nature has arisen in the interval between the end of the financial year and the date of this report which would affect substantially the results of the operations of the Company and of the Group for the financial year in which this report is made.

(Amounts in Singapore dollars unless otherwise stated)

Share options

The Employees' Share Option Scheme (the "Scheme") was approved and adopted at the Company's Extraordinary General Meeting held on 26 April 2002 to enable the eligible directors and eligible executives employed by the Group to participate in the equity of the Company.

The Scheme is administered by a compensation committee comprising independent and non-executive directors as follows:

- (i) S Chandra Das
- (ii) Bjorn Ove Skjeie
- (iii) Sitoh Yih Pin

The Scheme shall continue to be in force at the discretion of the Committee, subject to a maximum period of 10 years from 26 April 2002. However, the period may be extended with the approval of members at a general meeting of the Company and of any relevant authorities which may then be required.

The options granted by the Company to directors holding office at the end of the financial year were as follows:

	Options granted during the financial year	Aggregate options granted since commencement of Scheme to end of financial year	Aggregate options exercised/ cancelled since commencement of Scheme to end of financial year	Aggregate options outstanding as at end of financial year	Exercisable period
Options to subscribe for ordinary shares of \$0.05 each exercisable at \$0.625 per share					
S Chandra Das	150,000	150,000	-	150,000	1.3.2004 to 28.2.2007
Lau Ping Sum	100,000	100,000	-	100,000	1.3.2004 to 28.2.2007
Sitoh Yih Pin	100,000	100,000	-	100,000	1.3.2004 to 28.2.2007
Ang Seong Kang Samuel	200,000	200,000	-	200,000	1.3.2004 to 28.2.2012

Except for the above, no options have been granted to controlling shareholders of the Company, their associates or employees of related corporations and no employees have received 5% or more of the total options available under the Scheme.

During the financial year, no shares of the Company were issued by virtue of the exercise of options to take up unissued shares of the Company.

During the financial year, 1,803,000 share options were granted to and accepted by executives and employees under the Scheme of which, 88,000 share options were cancelled subsequently due to employees' retirement. As a result, there were 1,715,000 share options granted to and accepted by executives and employees under the Scheme outstanding as at 31 December 2002, of which 158,000 options are exercisable within the option period from 1 March 2004 to 28 February 2007 and 1,557,000 options are exercisable within the option period from 1 March 2004 to 28 February 2012. Each option entitles the holder to subscribe for 1 ordinary share of \$0.05 each in the Company at an exercise price of \$0.625 per share.

Except for the above, no options to take up unissued shares of the Company or any subsidiary were granted and no shares were issued by virtue of the exercise of options to take up unissued shares of the Company or any subsidiary.

(Amounts in Singapore dollars unless otherwise stated)

Audit Committee

The Audit Committee comprises three board members, all of whom are non-executive and independent. The members of the Audit Committee during the financial year and at the date of this report are:

Lau Ping Sum (Chairman)
Sitoh Yih Pin
Sverre Ording Fjeld

The Board of Directors supports the developments to improve corporate governance and confirms compliance with the Singapore Exchange's Best Practices Guide relating to Audit Committees.

The Audit Committee held four meetings since the last directors' report and performed the functions specified in the Companies Act. The Audit Committee may examine whatever aspect it deems appropriate of the Group's financial affairs, its internal and external audits and its exposures to risks of a regulatory or legal nature. It reviews the effectiveness of the Company's and the Group's system of accounting and internal financial controls, for which the directors are responsible. It also reviews the Company's program to monitor compliance with its legal, regulatory and contractual obligations.

In performing its functions, the Audit Committee reviewed the overall scope of both internal and external audits and the assistance given by the Company's officers to the auditors. The Audit Committee met with the external auditors to discuss the results of their audits and their evaluation of the Company and the Group's systems of accounting internal controls. The Audit Committee also reviewed the financial statements of the Company and the consolidated financial statements of the Group for the financial year ended 31 December 2002 as well as the external auditors' report thereon.

The Audit Committee has full access to and co-operation by the Company's management and has full discretion to invite any director or executive officer to attend its meetings. The Managing Director and Executive Director attend meetings of the Audit Committee. The auditors have unrestricted access to the Audit Committee. The Audit Committee has reasonable resources to enable it to discharge its functions properly.

In addition, the Audit Committee reviewed interested person transactions for the financial year ended 31 December 2002 conducted pursuant to the shareholders' mandate obtained in accordance with Chapter 9A of the Singapore Exchange's Listing Manual to satisfy itself that the transactions are on normal commercial terms.

The Audit Committee recommends to the Board of Directors the nomination of Ernst & Young as external auditors at the forthcoming Annual General Meeting of the Company.

Other information required by the Singapore Exchange Securities Trading Limited

No material contracts to which the Company is a party and which involve directors' interests subsisted at the end of the financial year, or have been entered into since the end of the previous financial year.

Auditors

Ernst & Young have expressed their willingness to accept re-appointment as auditors of the Company.

On behalf of the Board of Directors:

S CHANDRA DAS
Director

ANG SEONG KANG SAMUEL
Director

Singapore
10 April 2003

We, S Chandra Das and Ang Seong Kang Samuel, being two of the directors of Nera Telecommunications Ltd, do hereby state that, in the opinion of the directors,

- (i) the accompanying balance sheets, profit and loss accounts, statements of changes in equity and consolidated statement of cash flows together with the notes thereto set out on pages 42 to 71 are drawn up so as to give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2002 and of the results of the business and changes in equity of the Company and of the Group and cash flows of the Group for the year then ended; and
- (ii) at the date of this statement, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they fall due.

The Board of Directors has authorised these financial statements for issue on 10 April 2003.

On behalf of the Board of Directors:

S CHANDRA DAS
Director

ANG SEONG KANG SAMUEL
Director

Singapore
10 April 2003

We have audited the financial statements of Nera Telecommunications Ltd (the "Company") set out on pages 42 to 71. The financial statements comprise the balance sheets of the Company and of the Company and its subsidiaries (the "Group") as at 31 December 2002, the profit and loss accounts and the statements of changes in equity of the Company and of the Group and statement of cash flows of the Group for the year ended 31 December 2002, and notes thereto. These financial statements are the responsibility of the Company's directors. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements for the year ended 31 December 2001 were audited by other auditors, whose report dated 23 May 2002 expressed an unqualified opinion on those statements.

We conducted our audit in accordance with Singapore Standards on Auditing. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the directors, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion,

- (a) the financial statements are properly drawn up in accordance with the provisions of the Companies Act (the "Act") and Singapore Statements of Accounting Standard and so as to give a true and fair view of:-
 - (i) the state of affairs of the Company and of the Group as at 31 December 2002 and of the results and changes in equity of the Company and of the Group and the cash flows of the Group for the year then ended; and
 - (ii) the other matters required by section 201 of the Act to be dealt with in the consolidated financial statements;
- (b) the accounting and other records required by the Act to be kept by the Company and by those subsidiaries incorporated in Singapore of which we are the auditors have been properly kept in accordance with the provisions of the Act.

We have considered the financial statements and where they are required by the laws of the country of incorporation, the auditors' reports of all subsidiaries of which we have not acted as auditors, being financial statements included in the consolidated financial statements. The names of these subsidiaries are stated in Note 4 to the financial statements.

We are satisfied that the financial statements of the subsidiaries that have been consolidated with the financial statements of the Company are in form and content appropriate and proper for the purposes of the preparation of the consolidated financial statements and we have received satisfactory information and explanations as required by us for those purposes.

The auditors' reports on the financial statements of the subsidiaries were not subject to any qualification and in respect of subsidiaries incorporated in Singapore, did not include any comment made under Section 207(3) of the Act.

ERNST & YOUNG
Certified Public Accountants

Singapore
10 April 2003

42 **Balance Sheets as at 31 December 2002**

(Amounts in Singapore dollars)

	Note	Group		Company	
		2002 \$'000	2001 \$'000 (Note 33)	2002 \$'000	2001 \$'000 (Note 33)
Non-current assets					
Fixed assets	3	8,885	11,006	4,982	6,113
Investments in subsidiaries	4	–	–	8,413	10,157
Investments in associates	5	3,149	10,204	199	8,199
Deferred tax assets	25	2,192	1,640	1,011	427
Current assets					
Stocks	6	25,303	22,616	5,738	2,696
Contracts-work-in-progress	7	12,603	16,162	12,603	16,162
Trade debtors	8	19,358	22,605	8,142	13,379
Other debtors, deposits and prepayments	9	2,315	2,507	328	463
Amounts due from subsidiaries					
- trade		–	–	2,268	233
- non-trade	10	–	–	2,407	785
Amount due from associates					
- trade	10	3,269	6,541	3,261	6,541
- non-trade	10	13,743	1,701	13,743	1,701
Amount due from related companies (trade)		901	638	1	14
Cash and bank balances		48,102	20,374	24,931	13,398
		125,594	93,144	73,422	55,372
Current liabilities					
Trade creditors		29,102	22,281	20,329	16,401
Other creditors and accruals	11	9,574	18,967	5,271	14,762
Amounts due to subsidiaries					
- trade		–	–	347	527
- non-trade	10	–	–	42	–
Amounts due to an associate (trade)		378	1,129	–	–
Amounts due to related companies (trade)		8,984	3,633	8,602	2,682
Provision for taxation		4,720	5,763	2,341	1,902
Provision for warranty	12	3,997	4,235	1,830	1,527
Lease obligations, current portion	13	647	647	–	–
		57,402	56,655	38,762	37,801

Balance Sheets as at 31 December 2002

(43)

(Amounts in Singapore dollars)

	Note	Group		Company	
		2002 \$'000	2001 \$'000 (Note 33)	2002 \$'000	2001 \$'000 (Note 33)
Net current assets		68,192	36,489	34,660	17,571
Non-current liability					
Lease obligations, non-current portion	13	415	1,062	-	-
		82,003	58,277	49,265	42,467
		82,003	58,277	49,265	42,467
 EQUITY					
Share capital	14	18,000	18,000	18,000	18,000
Share premium	15	11,383	11,383	11,383	11,383
Capital reserves	15	4,951	-	-	-
Accumulated profits	16	38,097	29,485	19,882	13,084
Translation reserves		(1,053)	(591)	-	-
		71,378	58,277	49,265	42,467
Minority interest		10,625	-	-	-
		82,003	58,277	49,265	42,467
		82,003	58,277	49,265	42,467

The accompanying accounting policies and explanatory notes on pages 47 through 71 form an integral part of the financial statements.

Profit and Loss Accounts for the year ended 31 December 2002

(Amounts in Singapore dollars)

	Note	Group		Company	
		2002 \$'000	2001 \$'000 (Note 33)	2002 \$'000	2001 \$'000 (Note 33)
Turnover	17	166,646	229,545	96,667	124,163
Cost of sales		(125,514)	(185,167)	(78,612)	(105,289)
Gross profit		41,132	44,378	18,055	18,874
Other operating income	18	683	1,767	3,900	4,348
Distribution and selling expenses		(17,372)	(20,126)	(10,257)	(12,298)
Administrative expenses		(6,296)	(6,601)	(1,412)	(2,123)
Other operating expenses		(771)	(422)	-	-
Profit from operating activities	19	17,376	18,996	10,286	8,801
Financial income	22	1,181	794	1,030	877
Financial expenses	23	(222)	(241)	(82)	(132)
Exceptional items, net	24	9,535	-	10,806	-
		27,870	19,549	22,040	9,546
Share of losses of associates		(1,064)	(690)	-	-
Profit before tax		26,806	18,859	22,040	9,546
Tax	25	(4,634)	(4,632)	(2,606)	(2,377)
Profit after tax		22,172	14,227	19,434	7,169
Minority interests		(924)	-	-	-
Profit attributable to shareholders		21,248	14,227	19,434	7,169
Basic and fully diluted earnings per share (cents)	26	5.90	3.95		

The accompanying accounting policies and explanatory notes on pages 47 through 71 form an integral part of the financial statements.

Statements of Changes in Equity for the year ended 31 December 2002

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(Amounts in Singapore dollars)

	Note	Group		Company	
		2002 \$'000	2001 \$'000	2002 \$'000	2001 \$'000
Issued capital					
Balance at beginning and end of year		18,000	18,000	18,000	18,000
Share premium					
Balance at beginning and end of year		11,383	11,383	11,383	11,383
Translation reserves					
Balance at beginning of year		(591)	(826)	-	-
Currency translation differences		(462)	235	-	-
Balance at end of year		(1,053)	(591)	-	-
Accumulated profits					
Balance at beginning of year, as previously reported		27,845	15,460	12,657	6,867
Effect of change in accounting policy	2(b)	1,640	817	427	67
Balance at beginning of year, as restated		29,485	16,277	13,084	6,934
Net profit for the year		21,248	14,227	19,434	7,169
Dividends paid	27	(12,636)	(1,019)	(12,636)	(1,019)
Balance at end of year		38,097	29,485	19,882	13,084
Capital reserves					
Arising from dilution of interest in a subsidiary, representing balance at end of year		4,951	-	-	-
Total equity		71,378	58,277	49,265	42,467

The accompanying accounting policies and explanatory notes on pages 47 through 71 form an integral part of the financial statements.

(Amounts in Singapore dollars)

	2002 \$'000	2001 \$'000
Cash flows from operating activities		
Profit before tax	26,806	18,859
Adjustments for :		
Impairment loss of investment in an associate	3,819	–
Amortisation of goodwill	–	136
Impairment loss of goodwill arising from acquisition of an associate	1,900	–
Gain on partial disposal of a subsidiary	(15,254)	–
Depreciation of fixed assets	2,982	2,667
Gain on disposal of fixed assets	(1)	(178)
Provision for stock obsolescence	1,637	6,642
Provision for doubtful trade debts	1,583	2,864
Write-back of provision for doubtful trade debts	(79)	(3)
Provision for warranty	4,487	4,722
Write-back of provision for warranty	(3,740)	(3,593)
Unrealised exchange difference	503	(384)
Interest expense	66	64
Interest income	(1,181)	(794)
Share of losses of associates	1,064	690
Operating profit before working capital changes	24,592	31,692
Decrease/(increase) in :		
Stocks	(4,324)	683
Contracts-work-in-progress	3,559	(15,865)
Trade debtors	2,251	5,958
Other debtors, deposits and prepayments	188	2,120
Related parties	(4,821)	(10,666)
(Decrease)/increase in :		
Trade creditors	6,381	(7,336)
Other creditors and accruals	(9,382)	10,276
Provision for warranty	(985)	(1,344)
Cash generated from operations	17,459	15,518
Income tax paid	(6,229)	(3,648)
Interest paid	(66)	(64)
Net cash flows from operating activities	11,164	11,806
Cash flows from investing activities		
Proceeds from disposal of fixed assets	1	177
Purchase of fixed assets	(912)	(1,920)
Interest received	1,181	794
Investment in an associate	–	(8,000)
Investment in a subsidiary	3	–
Proceeds from partial disposal of a subsidiary	20,549	–
Proceeds from issue of shares of a subsidiary, net	9,352	–
Net cash generated from/(used in) investing activities	30,174	(8,949)
Cash flows from financing activities		
Repayment of lease obligations	(647)	(609)
Payment of dividends to shareholders	(12,636)	(1,019)
Net cash used in financing activities	(13,283)	(1,628)
Net increase in cash and bank balances	28,055	1,229
Effect of exchange rate changes	(327)	(51)
Cash and bank balances at beginning of year	20,374	19,196
Cash and bank balances at end of year	48,102	20,374

The accompanying accounting policies and explanatory notes on pages 47 through 71 form an integral part of the financial statements.

1. Corporate information

The financial statements of Nera Telecommunications Ltd (the "Company") and the consolidated financial statements of Nera Telecommunications Ltd and subsidiaries (the "Group") for the year ended 31 December 2002 were authorised for issue in accordance with a resolution of the directors passed on 10 April 2003.

The Company is a limited liability company incorporated and domiciled in Singapore. The ultimate holding company is Nera ASA, incorporated in Norway.

The registered office of the Company is 10 Collyer Quay, #19-08, Ocean Building, Singapore 049315. The address of the Company's principal place of business is 109 Defu Lane 10, Singapore 539225.

The principal activities of the Company are to engage in the sale, distribution, design, engineering, servicing, installation and maintenance of telecommunication systems and products in transmission networks and satellite communications and information technology networks. The principal activities of the subsidiaries are shown in Note 4 to the financial statements.

There have been no significant changes in the nature of these activities during the financial year.

The Group and Company employed 387 and 128 (2001: 387 and 139) employees respectively as at 31 December 2002.

2. Summary of significant accounting policies

(a) *Basis of preparation*

The financial statements are presented in Singapore dollars. The financial statements have been prepared on a historical cost convention in accordance with Singapore Statements of Accounting Standards ("SAS") and applicable requirements of Singapore law.

(b) *Change in accounting policy*

During the financial year, the Group changed its accounting policy for income taxes by adopting SAS 12 (2001), Income Taxes.

SAS 12 (2001) requires deferred tax to be calculated using the balance sheet liability method, for all temporary differences at balance sheet date between the carrying amounts of assets and liabilities and the amounts used for income tax purposes. Deferred tax assets should be recognised when it is probable that sufficient taxable profit will be available against which the deferred tax assets can be utilised.

As a result of the change in this accounting policy, the accumulated profits of the Company and the Group as at the beginning of the year increased by \$427,000 and \$1,640,000 (2001 : \$67,000 and \$817,000) respectively.

(c) *Principles of consolidation*

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries, after the elimination of all material intercompany transactions, balances and unrealised profit or loss on intercompany transactions. The equity and net profit attributable to minority shareholders are shown separately in the consolidated balance sheet and consolidated profit and loss account, respectively.

Subsidiaries are consolidated from the date on which control is transferred to the Group and cease to be consolidated from the date in which control is transferred out of the Group. Acquisitions of subsidiaries are accounted for using the purchase method of accounting.

(Amounts in Singapore dollars)

2. Summary of significant accounting policies (cont'd)

(c) *Principles of consolidation (cont'd)*

When a subsidiary is acquired, any difference between the consideration paid and the fair values of the net assets acquired is amortised on a straight-line basis to the consolidated profit and loss account over 5 years.

The consolidated financial statements are prepared using uniform accounting policies for like transactions and other events in similar circumstances. Assets, liabilities and results of foreign subsidiaries are translated into Singapore dollars on the basis outlined in paragraph (f) below.

(d) *Subsidiaries and associates*

A subsidiary is a company in which the Group, directly or indirectly, holds more than 50% of the issued share capital, or controls more than half of the voting power, or controls the composition of the board of directors.

An assessment of investments in subsidiaries is performed when there is indication that the asset has been impaired or the impairment losses recognised in the prior years no longer exist.

An associate is an entity, not being a subsidiary, in which the Group has a long-term interest of not less than 20% nor more than 50% of the equity and in whose financial and operating policy decisions the Group exercises significant influence.

The Group's investments in associates are accounted for under the equity method. Investments in associates are carried in the balance sheet at cost plus post-acquisition changes in the Group's share of net assets of associates, less any impairment loss. The Group's investments in associates include goodwill (net of accumulated amortisation) on acquisition, which is treated in accordance with the accounting policy for goodwill stated above.

When the Group's share of losses exceeds the carrying amount of the investment, the investment is reported at nil value and recognition of losses is discontinued except to the extent of the Group's commitment.

Intercompany balances and transactions, including intercompany profits and unrealised profits and losses are eliminated. Unrealised gains arising from transactions with associates are eliminated to the extent of the Group's interest in the associate, against the investment in the associate. Unrealised losses are eliminated similarly but only to the extent that there is no evidence of impairment of the asset transferred.

The Group's share of the results of associates is included in the consolidated profit and loss account. Where the audited financial statements are not co-terminous with those of the Group, the share of results is arrived at from the last audited financial statements available and unaudited management financial statements to the end of the accounting period. Investments in associates are stated at cost less any impairment loss in the Company's balance sheet. An assessment of investments in associates is performed when there is indication that the asset has been impaired or the impairment losses recognised in the prior years no longer exist.

(e) *Foreign currencies*

Transactions in foreign currencies during the year are recorded at exchange rates approximating those ruling at the transaction dates. Foreign currency denominated monetary assets and liabilities at balance sheet date are translated into the respective measurement currencies at exchange rates ruling at balance sheet date or at contracted short-term forward contract rates where they are covered by forward exchange contracts. All resultant exchange differences are recognised in the profit and loss account.

2. Summary of significant accounting policies (cont'd)**(f) Translation of foreign currency financial statements**

Assets and liabilities of the foreign entities are translated into Singapore dollars at exchange rates ruling at balance sheet date. The results of the foreign subsidiaries are translated into Singapore dollars at average exchange rates for the year. Foreign currency translation adjustments arising on consolidation are accumulated in translation reserve as a separate component of equity.

(g) Fixed assets

Fixed assets are stated at cost less accumulated depreciation and any impairment loss. The initial cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to working condition for its intended use. Expenditures incurred for repairs and maintenance are normally charged to the profit and loss account in the period in which the costs are incurred.

(h) Depreciation

Depreciation is computed on a straight-line basis over the estimated useful life of the assets as follows:-

Leasehold land and building	- 18 years
Leasehold improvements	- 10 years
Plant and other equipment	- 5 to 7 years
Furniture and fittings	- 5 to 10 years
Motor vehicles	- 5 years
Equipment held for leasing	- 3 to 7 years

(i) Cash and bank balances

Cash and bank balances are carried at cost.

(j) Trade and other debtors

Trade debtors, which generally have 30 to 90 day credit terms, are recognised and carried at original invoiced amount less an allowance for any uncollectible amounts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off as incurred.

Receivables from subsidiary, associates and related companies are recognised and carried at cost less an allowance for any uncollectible amounts.

(k) Stocks

Stocks are valued at the lower of cost and net realisable value. Costs are primarily determined using the weighted average method and include all costs in bringing the stocks to their present location and condition. In the case of manufactured products, cost includes all direct expenditure and production overheads based on the normal level of activity.

Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

Provision is made where necessary for obsolete, slow-moving and defective stocks.

(Amounts in Singapore dollars)

2. Summary of significant accounting policies (cont'd)

(l) *Contract work-in-progress*

Contract work-in-progress is stated at the aggregate of contract costs incurred to date plus profit recognised based on the value of work completed less progress billings and provisions for foreseeable losses.

Cost includes both variable and fixed costs directly related to specific contracts and those which can be attributed to contract activity in general and which can be allocated to specific contracts. Also included are any costs expected to be incurred under penalty clauses and rectification provisions.

The percentage of completion is measured by reference to the proportion that costs incurred to date bear to the estimated total costs of the contract.

Where it is probable that a loss will arise on completion of contracts entered into at the balance sheet date, the excess of total estimated costs over expected revenue is recognised as an expense immediately.

(m) *Trade and other payables*

Liabilities for trade and other amounts payable which are normally settled on 30 to 90 day terms, are carried at cost which is the fair value of the consideration to be paid in the future for goods and services received, whether or not billed to the Group.

Payables to related parties are carried at cost.

(n) *Impairment of assets*

Fixed assets and long-term investments are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. Whenever the carrying amount of the asset exceeds its recoverable amount, an impairment loss is recognised in the profit and loss account.

Reversal of impairment losses recognised in prior years is recorded when there is an indication that the impairment losses recognised for the asset no longer exist or have decreased. The reversal is recorded in the profit and loss account. However, the increased carrying amount of an asset due to a reversal of an impairment loss is recognised to the extent it does not exceed the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for that asset in prior years.

(o) *Provision for warranty*

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

The warranty provision represents the management's estimate of the Group's liability to repair or replace products under warranty at the balance sheet date. The provision is calculated based on past experience of the level of warranty claims and costs incurred for after sale services.

2. Summary of significant accounting policies (cont'd)

(p) *Leases*

i) *Finance lease*

Finance leases, which effectively transfer to the Group substantially all the risks and benefits incidental to ownership of the lease item, are capitalised at the present value of the minimum lease payments at the inception of the lease term. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to the profit and loss account.

Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset or the lease term.

ii) *Operating lease*

Leases where the lessor effectively retains substantially all the risks and benefits of ownership of the leased term are classified as operating leases. Operating lease payments are recognised as an expense in the profit and loss account on a straight-line basis over the lease term.

The aggregate benefit of incentives provided by the lessor is recognised as a reduction of rental expense over the lease term on a straight-line basis.

(q) *Employee benefits*

Defined contribution plan

As required by law, the Company makes contribution to the state pension scheme, the Central Provident Fund ("CPF"). CPF contributions are recognised as compensation expense in the same period as the employment that gives rise to the contribution.

Employee leave entitlement

Employee entitlements to annual leave are recognised when they accrue to employees. An accrual is made for estimated liability for annual leave as a result of services rendered by employees up to the balance sheet date.

Employee share incentive plan

The Company also has an employee share incentive plan for the granting of non-transferable options. No compensation cost is recognised upon granting or exercise of the options. When the options are exercised, the proceeds received net of any transaction cost are credited to share capital and share premium accordingly.

(r) *Revenue recognition*

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised.

(i) *Sale of goods*

Revenue is recognised upon the passing of title to the customer, which generally coincides with their delivery and acceptance of the goods sold.

(Amounts in Singapore dollars)

2. Summary of significant accounting policies (cont'd)

(r) *Revenue recognition (cont'd)*

(ii) *Rendering of services*

Revenue is recognised on an individual contract basis by reference to the stage of completion. Stage of completion is measured by reference to the cost incurred to date as a percentage of total estimated cost for each contract.

(iii) *Dividend income*

Revenue is recognised when dividends are declared payable.

(iv) *Interest income*

Revenue is recognised on an accrual basis unless collectibility is in doubt.

(s) *Income taxes*

Deferred income tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax assets and liabilities are measured using the tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled based on tax rates enacted or substantively enacted at the balance sheet date.

Deferred tax liabilities are recognised for all taxable temporary differences associated with investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

At each balance sheet date, the Group re-assesses unrecognised deferred tax assets and the carrying amount of deferred tax assets. The Group recognises a previously unrecognised deferred tax asset to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered. The Group conversely reduces the carrying amount of a deferred tax asset to the extent that it is no longer probable that sufficient taxable profit will be available to allow the benefit of part or all of the deferred tax asset to be utilised.

Deferred tax assets are recognised for all deductible temporary differences, carry-forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, carry-forward of unused tax assets and unused tax losses can be utilised.

Current tax and deferred tax are charged or credited directly to equity if the tax relates to items that are credited or charged, in the same or a different period, directly to equity.

(t) *Segments*

For management purposes, the Group is organised on a world-wide basis into three major operating businesses (divisions). The divisions are the basis on which the Group reports its primary segment information. Segment revenue, expenses and results include transfers between business segments and between geographical segments.

(u) *Financial instruments*

The Group uses derivative instruments, including foreign currency forward exchange contracts, to hedge its exposure to foreign exchange risk arising from operational activities. In accordance with Group policy, the Group does not hold or issue derivative financial instruments for trading purposes.

Derivative financial instruments used for hedging purposes are accounted for on an equivalent basis to the underlying assets or liabilities. Any profit or loss arising from the derivative financial instrument is recognised on the same basis as that arising from the related assets or liabilities.

(Amounts in Singapore dollars)

3. Fixed assets

	Leasehold land and building \$'000	Leasehold improvements \$'000	Plant and other equipment \$'000	Furniture and fittings \$'000	Motor vehicles \$'000	Equipment held for leasing \$'000	Total \$'000
Group							
Cost							
At beginning of year	5,150	1,961	12,160	1,065	2,211	2,527	25,074
Additions	–	24	326	64	33	465	912
Disposals	–	–	–	–	(236)	–	(236)
Currency realignment	–	(7)	(86)	(13)	(11)	–	(117)
At end of year	5,150	1,978	12,400	1,116	1,997	2,992	25,633
Accumulated depreciation							
At beginning of year	1,931	1,311	8,060	608	1,273	885	14,068
Additions	286	210	1,103	103	310	970	2,982
Disposals	–	–	–	–	(236)	–	(236)
Currency realignment	–	(9)	(46)	(5)	(6)	–	(66)
At end of year	2,217	1,512	9,117	706	1,341	1,855	16,748
Charge for 2001	286	175	990	96	309	811	2,667
Net book value							
As at 31.12.2002	2,933	466	3,283	410	656	1,137	8,885
As at 31.12.2001	3,219	650	4,100	457	938	1,642	11,006
Company							
Cost							
At beginning of year	5,150	730	619	404	1,802	2,525	11,230
Additions	–	–	8	5	33	465	511
Disposals	–	–	–	–	(236)	–	(236)
At end of year	5,150	730	627	409	1,599	2,990	11,505
Accumulated depreciation							
At beginning of year	1,931	455	491	182	1,174	884	5,117
Charge for the year	286	73	35	41	238	969	1,642
Disposals	–	–	–	–	(236)	–	(236)
At end of year	2,217	528	526	223	1,176	1,853	6,523
Charge for 2001	286	73	49	39	247	811	1,505
Net book value							
As at 31.12.2002	2,933	202	101	186	423	1,137	4,982
As at 31.12.2001	3,219	275	128	222	628	1,641	6,113

(Amounts in Singapore dollars)

3. Fixed assets (cont'd)

As at 31 December 2002, the leasehold land and building of the Group and the Company consists of the following:

Location	Purpose	Approximate land area	Approximate gross floor area	Tenure of lease
109 Defu Lane 10, Singapore 539225	Office, workshop cum warehouse	3,875 sq. metre	3,246 sq. metre	30 years expiring 20 September 2012 with option for a further term of 30 years

Plant and other equipment and motor vehicles of the Group with net book values of approximately \$1,490,000 and \$141,000 (2001 : \$1,917,000 and \$177,000) respectively, were acquired under finance leases.

4. Investments in subsidiaries

(a) *Subsidiaries comprise:*

	Company	
	2002 \$'000	2001 \$'000
Unquoted shares, at cost		
At beginning of year	10,220	9,328
Addition during the year	–	892
Disposal during the year	(1,744)	–
Reclassification*	(5,256)	–
	3,220	10,220
Quoted shares, at cost		
Reclassification*	5,256	–
	8,476	10,220
Impairment loss	(63)	(63)
Carrying amount after impairment loss	8,413	10,157

* On 25 July 2002, the subsidiary, Nera Electronics Ltd was admitted to the Official List of the Singapore Exchange Securities Trading Limited ("SGX – ST"). Accordingly, investment in the subsidiary has been reclassified as investment in quoted shares.

(b) The Company had the following subsidiaries as at 31 December 2002.

Name of company	Principal activities	Country of incorporation and principal place of business	Percentage of equity interest		Cost of investment	
			2002 %	2001 %	2002 \$'000	2001 \$'000
Nera Infocom Pte Ltd	Dormant	Singapore	100	100	^	^
Nera Electronics Ltd	To provide electronics contract manufacturing services of printed circuit boards assemblies, microwave, radios and complete products	Singapore	68.25	100	5,256	7,000

(Amounts in Singapore dollars)

4. Investments in subsidiaries (cont'd)

(b) The Company had the following subsidiaries as at 31 December 2002. (cont'd)

Name of company	Principal activities	Country of incorporation and principal place of business	Percentage of equity interest		Cost of investment	
			2002 %	2001 %	2002 \$'000	2001 \$'000
Nera (Thailand) Ltd*	Sales and distribution design, engineering, servicing, installation and maintenance of transmission networks and satellite communications and information technology networks	Thailand	100	100	975	975
Nera Philippines Inc.*	Sales and distribution design, engineering, servicing, installation and maintenance of transmission networks and satellite communications and information technology networks	Philippines	100	100	1,128	1,128
Nera Infocom (M) Sdn Bhd*	Sales, installation and maintenance of information technology equipment	Malaysia	100	100	225	225
Nera Telecommunications (Taiwan) Co., Ltd*	Sales and distribution design, engineering, servicing, installation and maintenance of transmission networks and satellite communications and information technology networks	Taiwan	100	100	545	545
P.T. Nera Indonesia#	Sales and distribution design, engineering, servicing, installation and maintenance of transmission networks and satellite communications and information technology networks	Indonesia	100	100	347	347
					8,476	10,220
Held by subsidiary						
Nera Electronics, Inc.® **	Marketing of electronics manufacturing services	United States of America	100	–		

** The subsidiary has not commenced operations as at 31 December 2002

* Audited by associated firms of Ernst & Young Singapore

Audited by Drs. Johan, Malonda & Rekan, Indonesia. The subsidiary is not considered to be a significant subsidiary to the Group as contribution from this subsidiary was not material due to its low volume of transactions during the year.

® Not required by laws of the country of incorporation to present audited financial statements for the financial year ended 31 December 2002.

^ Amounts smaller than \$1,000

(Amounts in Singapore dollars)

5. Investments in associates

(a) Associates comprise:

	Group		Company	
	2002 \$'000	2001 \$'000	2002 \$'000	2001 \$'000
Unquoted equity shares at cost				
At beginning of year	8,199	199	8,199	199
Addition during the year	–	8,000	–	8,000
At end of year	8,199	8,199	8,199	8,199
Goodwill amortisation and impairment	(2,036)	(136)	–	–
	6,163	8,063	8,199	8,199
Share of post-acquisition:				
- accumulated profits	1,432	2,580	–	–
- translation reserves	(627)	(439)	–	–
Impairment loss (Note 24)	6,968 (3,819)	10,204 –	8,199 (8,000)	8,199 –
	3,149	10,204	199	8,199

Movements in goodwill amortisation and impairment during the financial year were as follows:

	Group	
	2002 \$'000	2001 \$'000
At beginning of year	136	–
Amortisation during the year	–	136
Impairment loss (Note 24)	1,900	–
At end of year	2,036	136

(b) As at 31 December 2002, the Group had the following associates:

Name of company	Principal activities	Country of incorporation and place of business	Effective equity interest held by the Group	
			2002 %	2001 %
Nera (Malaysia) Sdn Bhd*	Sale, installation and maintenance of telecommunications equipment	Malaysia	30	30
TVMobile Pte Ltd#	Operation and maintenance of a digital mobile television network and channel	Singapore	20	20

* Audited by Ernst & Young Malaysia

Audited by Ernst & Young Singapore

(Amounts in Singapore dollars)

6. Stocks

	Group		Company	
	2002 \$'000	2001 \$'000	2002 \$'000	2001 \$'000
Raw materials, at net realisable value	7,161	7,297	-	-
Work-in-progress, at cost	4,896	8,194	-	-
Finished goods, at cost	2,600	3,617	-	-
Finished goods, at net realisable value	10,646	3,500	5,738	2,696
	<u>25,303</u>	<u>22,616</u>	<u>5,738</u>	<u>2,696</u>
Stocks are stated after deducting provision for stock obsolescence	<u>4,877</u>	<u>3,997</u>	<u>1,450</u>	<u>1,063</u>

Movements in provision for stock obsolescence during the financial year were as follows:

	Group		Company	
	2002 \$'000	2001 \$'000	2002 \$'000	2001 \$'000
At beginning of year	3,997	2,539	1,063	799
Provision for the year	1,637	6,642	666	1,185
Written off against provision	(735)	(5,187)	(279)	(921)
Currency realignment	(22)	3	-	-
At end of year	<u>4,877</u>	<u>3,997</u>	<u>1,450</u>	<u>1,063</u>

7. Contracts work-in-progress

	Group and Company	
	2002 \$'000	2001 \$'000
Contracts work in progress comprise:		
- costs incurred	45,176	51,880
- profits recognised to date	4,703	6,036
	<u>49,879</u>	<u>57,916</u>
- progress billings	(37,276)	(41,754)
	<u>12,603</u>	<u>16,162</u>

(Amounts in Singapore dollars)

8. Trade debtors

	Group		Company	
	2002 \$'000	2001 \$'000	2002 \$'000	2001 \$'000
Trade debtors	21,780	25,847	9,755	15,556
Less : provision for doubtful debts	(2,422)	(3,242)	(1,613)	(2,177)
	<u>19,358</u>	<u>22,605</u>	<u>8,142</u>	<u>13,379</u>

Included in trade debtors balances are retention amounts of \$48,000 (2001 : \$80,000).

Movements in provision for doubtful debts during the financial year were as follows :-

	Group		Company	
	2002 \$'000	2001 \$'000	2002 \$'000	2001 \$'000
At beginning of year	3,242	898	2,177	736
Provision for the year	940	2,864	146	1,737
Write-back of provision	(79)	(3)	-	-
Written off against provision	(1,672)	(523)	(710)	(296)
Currency realignment	(9)	6	-	-
At end of year	<u>2,422</u>	<u>3,242</u>	<u>1,613</u>	<u>2,177</u>

9. Other debtors, deposits and prepayments

	Group		Company	
	2002 \$'000	2001 \$'000	2002 \$'000	2001 \$'000
Prepayments	56	74	38	37
Deposits	390	218	40	94
Advances to suppliers	222	71	186	27
Staff advances	389	68	37	16
Dividend receivables	-	27	-	288
Other debtors	1,258	2,049	27	1
	<u>2,315</u>	<u>2,507</u>	<u>328</u>	<u>463</u>

10. Amount due from associates (trade and non-trade)/Amount due from (to) subsidiaries (non-trade)

The trade balance due from associates is stated after deducting provision for doubtful debts of \$643,000 (2001 : Nil).

The non-trade balances are unsecured, repayable within the next twelve months and interest free except for an amount due from a subsidiary and an associate of \$1,515,000 (2001: \$140,000) and \$13,743,000 (2001: \$1,701,000) respectively, which bear interest at 6.4% (2001:4.79% to 8.71%) per annum.

(Amounts in Singapore dollars)

11. Other creditors and accruals

	Group		Company	
	2002 \$'000	2001 \$'000	2002 \$'000	2001 \$'000
Accrued operating expenses	7,219	8,612	4,662	4,942
Other creditors	1,414	458	-	-
Customer advances	941	9,897	609	9,820
	<u>9,574</u>	<u>18,967</u>	<u>5,271</u>	<u>14,762</u>

12. Provision for warranty

Movements in provision for warranty during the financial year were as follows:

	Group		Company	
	2002 \$'000	2001 \$'000	2002 \$'000	2001 \$'000
At beginning of year	4,235	4,450	1,527	1,545
Provision for the year	4,487	4,722	1,872	2,622
Write-back of provision	(3,740)	(3,593)	(1,372)	(2,030)
Utilised during the year	(954)	(1,350)	(197)	(610)
Currency realignment	(31)	6	-	-
	<u>3,997</u>	<u>4,235</u>	<u>1,830</u>	<u>1,527</u>

The warranty provision relates to goods and services sold in the past 18 months. The majority of the warranty cost is expected to be incurred in the next financial year, with all costs expected to be incurred within 2 years of the balance sheet date.

13. Lease obligations

	Group					
	2002			2001		
	Minimum lease payments \$'000	Interest \$'000	Present value of payments \$'000	Minimum lease payments \$'000	Interest \$'000	Present value of payments \$'000
Between 2 to 5 years	455	(40)	415	1,120	(85)	1,035
Later than 5 years	-	-	-	32	(5)	27
	<u>455</u>	<u>(40)</u>	<u>415</u>	<u>1,152</u>	<u>(90)</u>	<u>1,062</u>
Not later than 1 year	698	(51)	647	698	(51)	647
	<u>1,153</u>	<u>(91)</u>	<u>1,062</u>	<u>1,850</u>	<u>(141)</u>	<u>1,709</u>

Lease terms range from 3 to 7 years and do not contain restrictions concerning dividends, additional debt or further leasing. The average discount rate implicit in the leases is 5% per annum.

60 **Notes to the Financial Statements - 31 December 2002**

(Amounts in Singapore dollars)

14. Share capital

	Group	
	2002 \$'000	2001 \$'000
Authorised		
800,000,000 (2001 : 800,000,000) ordinary shares of \$0.05 each	40,000	40,000
	<u>40,000</u>	<u>40,000</u>
Issued and fully paid		
360,000,000 (2001 : 360,000,000) ordinary shares of \$0.05 each	18,000	18,000
	<u>18,000</u>	<u>18,000</u>

The holders of ordinary shares are entitled to receive dividends as and when declared by the Company. All ordinary shares carry one vote per share without restriction.

15. Share premium and capital reserves

Share premium

The share premium may be applied only for the purposes specified in the Companies Act. The balance is not available for distribution of dividends except in the form of shares.

Capital reserves

Capital reserves arising from the dilution of interest in a subsidiary are derived at after deducting a non-audit fee paid to a firm of certified public accountants other than Ernst & Young of \$34,000 pertaining to the initial public offering of the subsidiary during the financial year.

16. Accumulated profits

	Group	
	2002 \$'000	2001 \$'000
Retained by:		
The Company	19,882	13,084
Subsidiaries	19,956	18,044
Associates	1,432	2,580
	<u>41,270</u>	<u>33,708</u>
Goodwill arising on acquisition of subsidiaries written off against accumulated profits	(3,173)	(4,223)
	<u>38,097</u>	<u>29,485</u>
Made up of :		
Distributable	23,972	29,485
Non-distributable	14,125	-
	<u>38,097</u>	<u>29,485</u>

(Amounts in Singapore dollars)

17. Turnover

	Group		Company	
	2002 \$'000	2001 \$'000	2002 \$'000	2001 \$'000
Sales of goods	147,890	211,473	80,202	106,266
Services rendered	18,756	18,072	16,465	17,897
	<u>166,646</u>	<u>229,545</u>	<u>96,667</u>	<u>124,163</u>

18. Other operating income

	2002	2001	2002	2001
	\$'000	\$'000	\$'000	\$'000
Commission income	158	309	-	79
Dividend income				
- quoted shares in a subsidiary	-	-	3,296	-
- unquoted shares in a subsidiary	-	-	189	3,199
- associate	-	-	37	38
Gain on disposal of fixed assets	1	178	1	1
Foreign exchange gain, net	492	1,280	377	1,031
Bad trade debts recovered	20	-	-	-
Sales of scrap	12	-	-	-
	<u>683</u>	<u>1,767</u>	<u>3,900</u>	<u>4,348</u>

19. Profit from operating activities

Profit from operating activities is stated after charging/(crediting) the following:

	Group		Company	
	2002 \$'000	2001 \$'000	2002 \$'000	2001 \$'000
Amortisation of goodwill on consolidation	-	136	-	-
Auditors' remuneration				
- auditors of the Company	90	90	50	50
- other auditors	38	29	-	-
Non-audit fees to auditors of the Company	25	13	16	4
Provision for doubtful trade debts	940	2,864	146	1,737
Provision for doubtful debts due from an associate	643	-	643	-
Provision for stock obsolescence	1,637	6,642	666	1,185
Provision for warranty	4,487	4,722	1,872	2,622
Depreciation of fixed assets (Note 3)	2,982	2,667	1,642	1,505
Gain on disposal of fixed assets	(1)	(178)	(1)	(1)
Directors' remuneration paid to				
- directors of the Company	858	576	193	115
- directors of the subsidiaries	230	213	-	-

62 **Notes to the Financial Statements - 31 December 2002**

(Amounts in Singapore dollars)

19. Profit from operating activities (cont'd)

	Group		Company	
	2002 \$'000	2001 \$'000	2002 \$'000	2001 \$'000
Directors' fees paid to				
- directors of the Company	140	115	107	105
- directors of the subsidiaries	34	2	-	-
Operating lease expenses	911	907	121	183
Personnel expenses (Note 20)	14,341	16,120	6,467	7,600
Write-back of provision for doubtful trade debts	(79)	(3)	-	-
Write-back of provision for warranty	(3,740)	(3,593)	(1,372)	(2,030)

20. Personnel expenses

	Group		Company	
	2002 \$'000	2001 \$'000	2002 \$'000	2001 \$'000
Wages, salaries and bonuses	12,261	13,744	5,336	6,312
Contribution to Central Provident Fund	1,641	1,786	791	836
Other social benefits	439	590	340	452
	14,341	16,120	6,467	7,600

Personnel expenses include directors' remuneration as shown in Note 19.

21. Directors' remuneration

The number of directors of the Company whose remunerations fall within the following bands:

	2002	2001
\$500,000 and above	1	1
\$250,000 to \$499,999	-	-
Below \$250,000	7	7
	8	8

(Amounts in Singapore dollars)

22. Financial income

	Group		Company	
	2002 \$'000	2001 \$'000	2002 \$'000	2001 \$'000
Interest income from				
- bank deposits	534	675	372	559
- subsidiary	-	-	37	199
- associate	621	119	621	119
- customers	26	-	-	-
	<u>1,181</u>	<u>794</u>	<u>1,030</u>	<u>877</u>

23. Financial expenses

	Group		Company	
	2002 \$'000	2001 \$'000	2002 \$'000	2001 \$'000
Interest expense for				
- short term loan	(6)	(15)	-	-
- bank overdrafts	-	(27)	-	(12)
- lease expense	(60)	(22)	-	-
Bank charges	(156)	(177)	(82)	(120)
	<u>(222)</u>	<u>(241)</u>	<u>(82)</u>	<u>(132)</u>

24. Exceptional items, net

	Group		Company	
	2002 \$'000	2001 \$'000	2002 \$'000	2001 \$'000
Impairment loss of investment in an associate	(3,819)	-	(8,000)	-
Impairment loss of goodwill arising from acquisition of an associate	(1,900)	-	-	-
Gain on partial disposal of a subsidiary	15,254	-	18,806	-
	<u>9,535</u>	<u>-</u>	<u>10,806</u>	<u>-</u>

Gain on partial disposal of a subsidiary is derived at after deducting a non-audit fee paid to a firm of certified public accountants other than Ernst & Young of \$67,000 (2001: Nil).

(Amounts in Singapore dollars)

25. Tax

Major components of income tax expense for the year ended 31 December were:

	Group		Company	
	2002 \$'000	2001 \$'000 (Note 33)	2002 \$'000	2001 \$'000 (Note 33)
Current tax				
- Current year	4,555	5,019	3,055	2,625
- Foreign tax	477	632	39	112
- Share of tax in associate	57	93	-	-
- Over provision in respect of prior years	(54)	(289)	(54)	-
Deferred tax				
- Current year	(523)	(823)	(445)	(360)
- Effect on prior years due to change in tax rate	122	-	11	-
	<u>4,634</u>	<u>4,632</u>	<u>2,606</u>	<u>2,377</u>

A reconciliation between the tax expense and the product of accounting profit multiplied by the applicable tax rate for the year ended 31 December is as follows:

	Group		Company	
	2002 \$'000	2001 \$'000	2002 \$'000	2001 \$'000
Accounting profit	26,806	18,859	22,040	9,546
Tax at 22% (2001 : 24.5%)	5,897	4,620	4,849	2,339
Tax effect on expenses that are not deductible in determining taxable profit	1,725	416	1,936	130
Tax effect on income of capital nature that is not subject to income tax	(3,356)	-	(4,137)	-
Double tax deduction	(12)	-	-	-
Tax exemption	(23)	(26)	(12)	(13)
Tax rebate	-	(262)	-	(99)
Additional tax on foreign income	35	20	13	20
Over provision in respect of prior years	(54)	(289)	(54)	-
Difference in tax rates applicable to subsidiaries and associates	129	135	-	-
Tax effect of reduction in tax rates	122	-	11	-
Deferred tax assets not recognised by subsidiaries	168	18	-	-
Others	3	-	-	-
	<u>4,634</u>	<u>4,632</u>	<u>2,606</u>	<u>2,377</u>

(Amounts in Singapore dollars)

25. Tax (cont'd)

	Group		Company	
	2002 \$'000	2001 \$'000	2002 \$'000	2001 \$'000
Deferred income taxes and liabilities				
Deferred tax as at 31 December related to the following:				
Deferred tax liability				
Excess of tax over book depreciation of fixed assets	(618)	(920)	(370)	(570)
Deferred tax assets				
General provisions	2,810	2,560	1,381	997
Net deferred tax assets	2,192	1,640	1,011	427

26. Earnings per share

Basic earnings per share is based on the Group's profit attributable to shareholders of \$21,248,000 (2001 : \$14,227,000) divided by the number of shares in issue during the year of 360,000,000 (2001 : 360,000,000).

For the purposes of calculating the diluted earnings per share, the weighted average number of ordinary shares in issue is adjusted to take into account the dilutive effect arising from all outstanding share options granted to employees where such shares would be issued at a price lower than the fair value (average share price during the financial year).

As current year earnings per share on a fully diluted basis is anti-dilutive in nature, the basic and fully diluted earnings per share are the same.

27. Dividends

	Group and Company	
	2002 \$'000	2001 \$'000
A final dividend paid in respect of the previous financial year of 0.5 cents (2001 : 0.375 cents) per share less tax at 24.5%	1,404	1,019
A special dividend paid in respect of the current financial year of 4.0 cents (2001 : Nil) per share less tax at 22%	11,232	-
	12,636	1,019

The directors propose a final dividend of 0.75 cents (2001 : 0.5 cents) per share less tax at 22% (2001 : 22%) amounting to \$2,106,000 (2001 : \$1,404,000) in respect of the year ended 31 December 2002 subject to the approval at the Annual General Meeting of the Company. The proposed dividend has not been recognised as a liability as at year end in accordance with SAS 10, Events after the Balance Sheet Date.

(Amounts in Singapore dollars)

28. Commitments and contingent liabilities**(a) Non-cancellable operating lease commitments**

As at 31 December 2002, the Group and Company have commitments under operating lease for office premises. The leases contain renewable options and do not contain escalation clauses or provide for contingent rentals. Lease terms do not contain restrictions on the Group and Company's activities concerning dividends, additional debt or further leasing.

Future minimum lease payments are as follows as at 31 December:

	Group		Company	
	2002 \$'000	2001 \$'000	2002 \$'000	2001 \$'000
No later than one year	977	821	205	232
1 year through 5 years	2,724	2,089	1,404	1,393
Later than five years	1,625	2,052	1,625	2,052
	<u>5,326</u>	<u>4,962</u>	<u>3,234</u>	<u>3,677</u>

(b) Foreign currency forward exchange contract commitments

As at 31 December 2002, the Group and the Company have outstanding foreign currency forward exchange contracts for hedging its trade receivables and payables and future purchase commitments denominated in Norwegian Kroner ("NOK"), Danish Kroner ("DKK") and United States Dollars ("USD"):

	Group		Company	
	2002 \$'000	2001 \$'000	2002 \$'000	2001 \$'000
Forward contracts to buy or sell NOK, DKK and USD	<u>3,466</u>	<u>1,576</u>	<u>2,617</u>	<u>937</u>

(c) Contingent liabilities

	Group	
	2002 \$'000	2001 \$'000
Unsecured contingent liabilities not provided for in the financial statements:		
- Bankers' guarantees	<u>4,298</u>	<u>10,940</u>

29. Related party disclosures

In addition to the related party information disclosed elsewhere in the financial statements, significant transactions with related parties, on terms agreed between the parties were as follows:

	Group		Company	
	2002 \$'000	2001 \$'000	2002 \$'000	2001 \$'000
Sales to related parties	7,184	11,683	99	234
Sales to subsidiaries	-	-	7,094	3,521
Sales to an associate	19,514	4,240	19,506	4,240
Purchases from related parties	49,359	68,319	45,636	65,946
Other income from related parties	<u>47</u>	<u>192</u>	<u>-</u>	<u>40</u>

30. Segment information

Business segments

The Group is organised on a worldwide basis into three main operating divisions, namely:

- Telecommunications
- Information technology
- Contract manufacturing

2002	Telecommunications \$'000	Information technology \$'000	Contract manufacturing \$'000	Eliminations \$'000	Group \$'000
Turnover					
External sales	66,883	38,839	60,924	-	166,646
Inter-segment sales	6,312	1,393	5,143	(12,848)	-
Total sales	<u>73,195</u>	<u>40,232</u>	<u>66,067</u>	<u>(12,848)</u>	<u>166,646</u>
Gross Profit	10,137	14,190	16,805		41,132
Other operating income	522	129	32		683
Distribution and selling expenses	(3,456)	(10,139)	(3,777)		(17,372)
Administrative expenses	(2,486)	(1,001)	(2,809)		(6,296)
Other operating expenses	(125)	(37)	(609)		(771)
Profit from operating activities	<u>4,592</u>	<u>3,142</u>	<u>9,642</u>		<u>17,376</u>
Interest expense					(66)
Interest income					1,181
Other financial expenses					(156)
Exceptional items, net					9,535
Share of losses of associates					(1,064)
Profit before tax					<u>26,806</u>
Tax					(4,634)
Net profit					<u>22,172</u>
Assets	28,465	17,433	22,118		68,016
Investment in associates					3,149
Unallocated assets					68,655
Total assets					<u>139,820</u>
Liabilities	24,437	8,914	1,982		35,333
Unallocated liabilities					22,484
Total liabilities					<u>57,817</u>
Capital expenditure	104	561	247		912
Depreciation and amortisation	484	1,548	950		2,982

(Amounts in Singapore dollars)

30. Segment information (cont'd)

Business segments (cont'd)

2001	Telecommunications \$'000	Information technology \$'000	Contract manufacturing \$'000	Eliminations \$'000	Group \$'000
Turnover					
External sales	67,130	67,872	94,543	–	229,545
Inter-segment sales	926	3,209	3,713	(7,848)	–
Total sales	<u>68,056</u>	<u>71,081</u>	<u>98,256</u>	<u>(7,848)</u>	<u>229,545</u>
Gross Profit	9,641	16,191	18,546		44,378
Other operating income	905	657	205		1,767
Distribution and selling expenses	(5,137)	(10,835)	(4,154)		(20,126)
Administrative expenses	(1,588)	(2,221)	(2,792)		(6,601)
Other operating expenses	–	(136)	(286)		(422)
Profit from operating activities	<u>3,821</u>	<u>3,656</u>	<u>11,519</u>		<u>18,996</u>
Interest expense					(64)
Interest income					794
Other financial expenses					(177)
Share of losses of associates					(690)
Profit before tax					<u>18,859</u>
Tax					(4,632)
Net profit					<u>14,227</u>
Assets	38,773	14,209	24,964		77,946
Investment in associates					10,204
Unallocated assets					27,844
Total assets					<u>115,994</u>
Liabilities	12,977	9,429	2,600		25,006
Unallocated liabilities					32,711
Total liabilities					<u>57,717</u>
Capital expenditure	876	782	2,580		4,238
Depreciation and amortisation	434	1,523	845		2,803

30. Segment information (cont'd)

Geographical segments

Turnover is based on the location of customers. Assets and additions to property, plant and equipment are based on the location of those assets.

	Turnover		Assets		Capital expenditure	
	2002 \$'000	2001 \$'000	2002 \$'000	2001 \$'000	2002 \$'000	2001 \$'000
Singapore	65,805	92,330	124,966	106,094	758	3,466
Others	113,689	145,063	14,854	9,900	154	772
Less : Inter-segment elimination	(12,848)	(7,848)	-	-	-	-
	<u>166,646</u>	<u>229,545</u>	<u>139,820</u>	<u>115,994</u>	<u>912</u>	<u>4,238</u>

31. Financial instruments

Financial risk management objectives and policies

The main risks arising from the Company and Group's financial instruments are foreign currency risk, interest rate risk, liquidity risk and credit risk. The Management reviews and agrees policies for managing each of these risks and they are summarised below.

Foreign currency risk

The Group uses foreign currency forward exchange contracts in managing its foreign currency risk resulting from cash flows from anticipated transactions and from payables and receivables denominated in foreign currencies, primarily the United States dollar and Norwegian Kroner. Transaction risk is calculated in each foreign currency and includes foreign currency denominated assets and liabilities and firm purchase and sale commitments.

As at balance sheet date, after taking into account the effects of foreign currency forward exchange contracts, the Group's currency exposures are insignificant.

Interest rate risk

The Group obtains additional financing through leasing arrangements. The Group's policy is to obtain the most favourable interest rates available without increasing its foreign currency exposure.

Surplus funds are placed with reputable banks.

Liquidity risk

In the management of liquidity risk, the Group monitors and maintains a level of cash and bank balances deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuation in cash flows.

(Amounts in Singapore dollars)

31. **Financial instruments (cont'd)**

Credit risk

Credit risk is limited to the risk arising from the inability of a debtor to make payments when due. It is the Group's policy to provide credit terms to creditworthy customers. These debts are continually monitored and therefore, the Group does not expect to incur material credit losses.

The carrying amount of trade and other debtors, and cash and bank balances represent the Group's maximum exposure to credit risk. No other financial assets carry a significant exposure to credit risk.

The Group has no significant concentration of credit risk. Cash is placed with reputable financial institutions.

Fair values

The following methods and assumptions are used to estimate the fair value of each class of financial instruments for which it is practicable to estimate that value:

Cash and bank balances, short term receivables and short term payables

The carrying amounts of these financial instruments approximate their fair values due to their short term nature.

Lease obligations

The fair values of the lease obligations are estimated based on the expected cash flows discounted to present value with reference to the current market interest rates applicable to the financial instruments. Based on the estimate, the fair values of lease obligations approximate their carrying amounts as at 31 December 2002.

Foreign currency forward exchange contracts

The fair value of foreign currency forward exchange contracts is estimated based on the difference between the applicable forward rates prevailing at the balance sheet date and the contracted forward rates, multiplied by the notional amounts.

As at 31 December 2002, the fair value of the outstanding foreign currency forward exchange contracts of the Company and of the Group with notional carrying amounts of \$2,617,000 and \$3,466,000 respectively was \$319,000 and \$289,000 respectively.

32. **Subsequent event**

Subsequent to the end of the financial year, the Company disposed of its entire shareholdings in an associate, TV Mobile Pte Ltd for a total consideration of \$1,500,000.

33. Comparative figures

Certain prior year comparatives in the profit and loss accounts and balance sheets have been restated by prior year adjustments to reflect the effects of the changes in accounting policies as disclosed in Note 2(b), and to conform with the current year's presentation as follows:

	Group		Company	
	2001 as restated \$'000	2001 as previously reported \$'000	2001 as restated \$'000	2001 as previously reported \$'000
<u>Balance sheet</u>				
Deferred tax asset	1,640	–	427	–
Accumulated profits	29,485	27,845	13,084	12,657
<u>Profit and loss account</u>				
Tax	(4,632)	(5,455)	(2,377)	(2,737)
Profit after tax	14,227	13,404	7,169	6,809

Certain comparatives in the profit and loss account of the Group have been reclassified to conform with current year's presentation as follows:

	Group	
	2001 as restated \$'000	2001 as previously reported \$'000
Cost of sales	(185,167)	(185,967)
Distribution and selling expenses	(20,126)	(19,326)

Prior year comparatives relate to the financial year ended 31 December 2001 and have been audited by a firm of certified public accountants other than Ernst & Young.

72 **Statistics of Shareholdings as at 24 April 2003**

Authorised share capital	:	\$40,000,000
Issued and fully paid-up capital	:	\$18,000,000
Class of shares	:	Ordinary share of \$0.05 each
Voting rights	:	One vote for each share

Distribution of Shareholdings

<u>Size of Shareholdings</u>	<u>No. of Shareholders</u>	<u>%</u>	<u>No. of Shares</u>	<u>%</u>
1 - 999	1	0.02	800	0.00
1,000 - 10,000	4,652	73.74	24,252,000	6.74
10,001 - 1,000,000	1,638	25.96	70,555,200	19.60
1,000,001 and above	18	0.28	265,192,000	73.66
Total	6,309	100.00	360,000,000	100.00

Twenty Largest Shareholders

<u>No.</u>	<u>Name</u>	<u>No. of Shares</u>	<u>%</u>
1.	Nera ASA	180,636,000	50.18
2.	United Overseas Bank Nominees Pte Ltd	18,537,000	5.15
3.	Capital Intelligence Limited	12,000,000	3.33
4.	Raffles Nominees Pte Ltd	10,456,000	2.90
5.	DBS Nominees Pte Ltd	9,087,000	2.52
6.	Citibank Nominees Singapore Pte Ltd	7,563,400	2.10
7.	Oversea-Chinese Bank Nominees Pte Ltd	6,886,000	1.91
8.	Pontirep Investment Pte Ltd	3,000,000	0.83
9.	Sitaram Chandra Das	2,500,000	0.69
10.	Phillip Securities Pte Ltd	2,445,400	0.68
11.	Ang Seong Kang Samuel	2,430,000	0.68
12.	UOB Kay Hian Pte Ltd	2,118,000	0.59
13.	DBS Vickers Securities (S) Pte Ltd	1,851,200	0.51
14.	OCBC Securities Private Ltd	1,245,000	0.35
15.	HL Bank Nominees (S) Pte Ltd	1,230,000	0.34
16.	Kim Eng Ong Asia Securities Pte Ltd	1,136,000	0.32
17.	Hong Leong Finance Nominees Pte Ltd	1,048,000	0.29
18.	DB Nominees (S) Pte Ltd	1,023,000	0.28
19.	NTUC Fairprice Co-operative Ltd	1,000,000	0.28
20.	Waterworth Pte Ltd	1,000,000	0.28
	TOTAL :	267,192,000	74.21

SUBSTANTIAL SHAREHOLDERS AS AT 24 APRIL 2003
(as recorded in the Register of Substantial Shareholders)

	<u>No. of shares of \$0.05 each fully paid</u>			
	<u>Direct Interest</u>	<u>%</u>	<u>Deemed Interest</u>	<u>%</u>
Nera ASA	180,636,000	50.18	-	-

PERCENTAGE OF SHAREHOLDING IN PUBLIC'S HANDS

48.1% of the Company's shares are held in the hands of public. Accordingly, the Company has complied with Rule 723 of the Listing Manual of the SGX-ST.

NOTICE IS HEREBY GIVEN that the Annual General Meeting of the Company will be held at 109 Defu Lane 10, Singapore 539225 on 27 May 2003 at 11:45 a.m. for the following purposes:

AS ORDINARY BUSINESS

1. To receive and adopt the Directors' Report and the Audited Accounts of the Company for the year ended 31 December 2002 together with the Auditors' Report thereon. **(Resolution 1)**

2. To declare a first and final dividend of 15% (or 0.75 cents per ordinary share) less income tax at 22% for the year ended 31 December 2002. **(Resolution 2)**

3. To re-elect the following Directors retiring by rotation pursuant to Article 87 of the Company's Articles of Association:

Mr S Chandra Das	(Retiring under Article 87)	(Resolution 3)
Mr Sverre Ording Fjeld	(Retiring under Article 87)	(Resolution 4)

Mr Sverre Ording Fjeld will, upon re-election as a Director of the Company, remain a member of the Audit Committee and will be considered independent for the purposes of Rule 704(8) of the Listing Manual of the Singapore Exchange Securities Trading Limited.

4. To re-appoint Messrs Ernst & Young as the Company's Auditors and to authorise the Directors to fix their remuneration. **(Resolution 5)**

5. To transact any other business that may be transacted at an Annual General Meeting.

AS SPECIAL BUSINESS

6. To approve the payment of Directors' fees of S\$107,500 for the year ended 31 December 2002. (2001: S\$105,000) **(Resolution 6)**

7. To consider and if thought fit, to pass the following resolutions as Ordinary Resolutions, with or without any modifications:
 - (a) **Authority to allot and issue shares and convertible securities up to 50 per centum (50%) of issued capital**

That pursuant to Section 161 of the Companies Act, Cap. 50 and Rule 806(2) of the Listing Manual of the Singapore Exchange Securities Trading Limited, the Directors be empowered to allot and issue shares and convertible securities in the capital of the Company at any time and upon such terms and conditions and for such purposes as the Directors may, in their absolute discretion, deem fit provided that the aggregate number of shares and convertible securities to be allotted and issued pursuant to this Resolution shall not exceed fifty per centum (50%) of the issued share capital of the Company at the time of the passing of this Resolution, of which the aggregate number of shares and convertible securities to be issued other than on a pro rata basis to all shareholders of the Company shall not exceed twenty per centum (20%) of the issued share capital of the Company and that such authority shall, unless revoked or varied by the Company in general meeting, continue in force until the conclusion of the Company's next Annual General Meeting or the date by which the next Annual General Meeting of the Company is required by law to be held, whichever is earlier. [See Explanatory Note (i)] **(Resolution 7)**

(b) Authority to allot and issue shares under the Nera Telecom Employees' Share Scheme

That pursuant to Section 161 of the Companies Act, Cap. 50, the Directors be authorised and empowered to allot and issue shares in the capital of the Company to all the holders of options granted by the Company, whether granted during the subsistence of this authority or otherwise, under the Nera Telecom Employees' Share Option Scheme ("the Scheme") upon the exercise of such options and in accordance with the terms and conditions of the Scheme, provided always that the aggregate number of additional ordinary shares to be allotted and issued pursuant to the Scheme shall not exceed fifteen per centum (15%) of the issued share capital of the Company from time to time. [See Explanatory Note (ii)] **(Resolution 8)**

By Order of the Board

Yvonne Choo
Company Secretary

Singapore, 9 May 2003

Explanatory Notes:

- (i) The Ordinary Resolution 7 proposed in item 7(a) above, if passed, will empower the Directors from the date of the above Meeting until the date of the next Annual General Meeting, to allot and issue shares and convertible securities in the Company. The number of shares and convertible securities that the Directors may allot and issue under this Resolution would not exceed fifty per centum (50%) of the issued share capital of the Company for the time being. For issue of shares and convertible securities other than on a pro rata basis to all shareholders, the aggregate number of shares and convertible securities to be issued shall not exceed twenty per centum (20%) of the existing issued share capital of the Company.

The percentage of issued share capital is based on the Company's issued share capital at the time the proposed Ordinary Resolution is passed (after adjusting for new shares arising from the conversion of convertible securities or employee share options on issue at the time the proposed Ordinary Resolution is passed, and any subsequent consolidation or subdivision of shares).

- (ii) The Ordinary Resolution 8 proposed in item 7(b) above, if passed, will empower the Directors of the Company, from the date of the above Meeting until the next Annual General Meeting, to allot and issue shares in the Company of up to a number not exceeding in total fifteen per centum (15%) of the issued share capital of the Company from time to time pursuant to the exercise of the options under the Scheme.

Notes:

1. A Member entitled to attend and vote at the Annual General Meeting (the "Meeting") is entitled to appoint a proxy to attend and vote in his/her stead. A proxy need not be a Member of the Company.
2. The instrument appointing a proxy must be deposited at 109 Defu Lane 10, Singapore 539225 not less than 48 hours before the time appointed for holding the Meeting.

NERA TELECOMMUNICATIONS LTD
(Incorporated In The Republic Of Singapore with limited liability)

PROXY FORM

(Please see notes overleaf before completing this Form)

I/We, _____

of _____

being a member/members of Nera Telecommunications Ltd (the "Company"), hereby appoint:

Name	NRIC/Passport No.	Proportion of Shareholdings	
		No. of Shares	%
Address			

and/or (delete as appropriate)

Name	NRIC/Passport No.	Proportion of Shareholdings	
		No. of Shares	%
Address			

or failing him/her, the Chairman of the Meeting as my/our proxy/proxies to vote for me/us on my/our behalf at the Annual General Meeting (the "Meeting") of the Company to be held on 27 May 2003 at 11:45 a.m. and at any adjournment thereof. I/We direct my/our proxy/proxies to vote for or against the Resolutions proposed at the Meeting as indicated hereunder. If no specific direction as to voting is given or in the event of any other matter arising at the Meeting and at any adjournment thereof, the proxy/proxies will vote or abstain from voting at his/her discretion.

(Please indicate your vote "For" or "Against" with a tick [✓] within the box provided.)

No.	Ordinary Resolutions relating to:	For	Against
1	Directors' Report and Audited Accounts for the year ended 31 December 2002		
2	Payment of proposed first & final dividend		
3	Re-election of Mr S Chandra Das as a Director		
4	Re-election of Mr Sverre Ording Fjeld as a Director		
5	Re-appointment of Messrs Ernst & Young as Auditors		
6	Approval of Directors' fees amounting to S\$107,500		
7	Authority to allot and issue new shares and convertible securities		
8	Authority to allot and issue shares under the Nera Telecom Employees' Share Option Scheme		

Dated this _____ day of _____ 2003

Signature of Shareholder(s)
or, *Common Seal of Corporate Shareholder*

Total number of Shares in:	No. of Shares
(a) CDP Register	
(b) Register of Members	

*Delete where inapplicable

Notes:

1. Please insert the total number of Shares held by you. If you have Shares entered against your name in the Depository Register (as defined in Section 130A of the Companies Act, Chapter 50 of Singapore), you should insert that number of Shares. If you have Shares registered in your name in the Register of Members, you should insert that number of Shares. If you have Shares entered against your name in the Depository Register and Shares registered in your name in the Register of Members, you should insert the aggregate number of Shares entered against your name in the Depository Register and registered in your name in the Register of Members. If no number is inserted, the instrument appointing a proxy or proxies shall be deemed to relate to all the Shares held by you.
2. A member of the Company entitled to attend and vote at a meeting of the Company is entitled to appoint one or two proxies to attend and vote in his/her stead. A proxy need not be a member of the Company.
3. Where a member appoints two proxies, the appointments shall be invalid unless he/she specifies the proportion of his/her shareholding (expressed as a percentage of the whole) to be represented by each proxy.
4. The instrument appointing a proxy or proxies must be deposited at 109 Defu Lane 10, Singapore 539225 not less than 48 hours before the time appointed for the Meeting.
5. The instrument appointing a proxy or proxies must be under the hand of the appointor or of his attorney duly authorised in writing. Where the instrument appointing a proxy or proxies is executed by a corporation, it must be executed either under its seal or under the hand of an officer or attorney duly authorised. Where the instrument appointing a proxy or proxies is executed by an attorney on behalf of the appointor, the letter or power of attorney or a duly certified copy thereof must be lodged with the instrument.
6. A corporation which is a member may authorise by resolution of its directors or other governing body such person as it thinks fit to act as its representative at the Meeting, in accordance with Section 179 of the Companies Act, Chapter 50 of Singapore.

General:

The Company shall be entitled to reject the instrument appointing a proxy or proxies if it is incomplete, improperly completed or illegible or where the true intentions of the appointor are not ascertainable from the instructions of the appointor specified in the instrument appointing a proxy or proxies. In addition, in the case of Shares entered in the Depository Register, the Company may reject any instrument appointing a proxy or proxies lodged if the member, being the appointor, is not shown to have Shares entered against his name in the Depository Register as at 48 hours before the time appointed for holding the Meeting, as certified by The Central Depository (Pte) Limited to the Company.



Nera Telecommunications Ltd

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