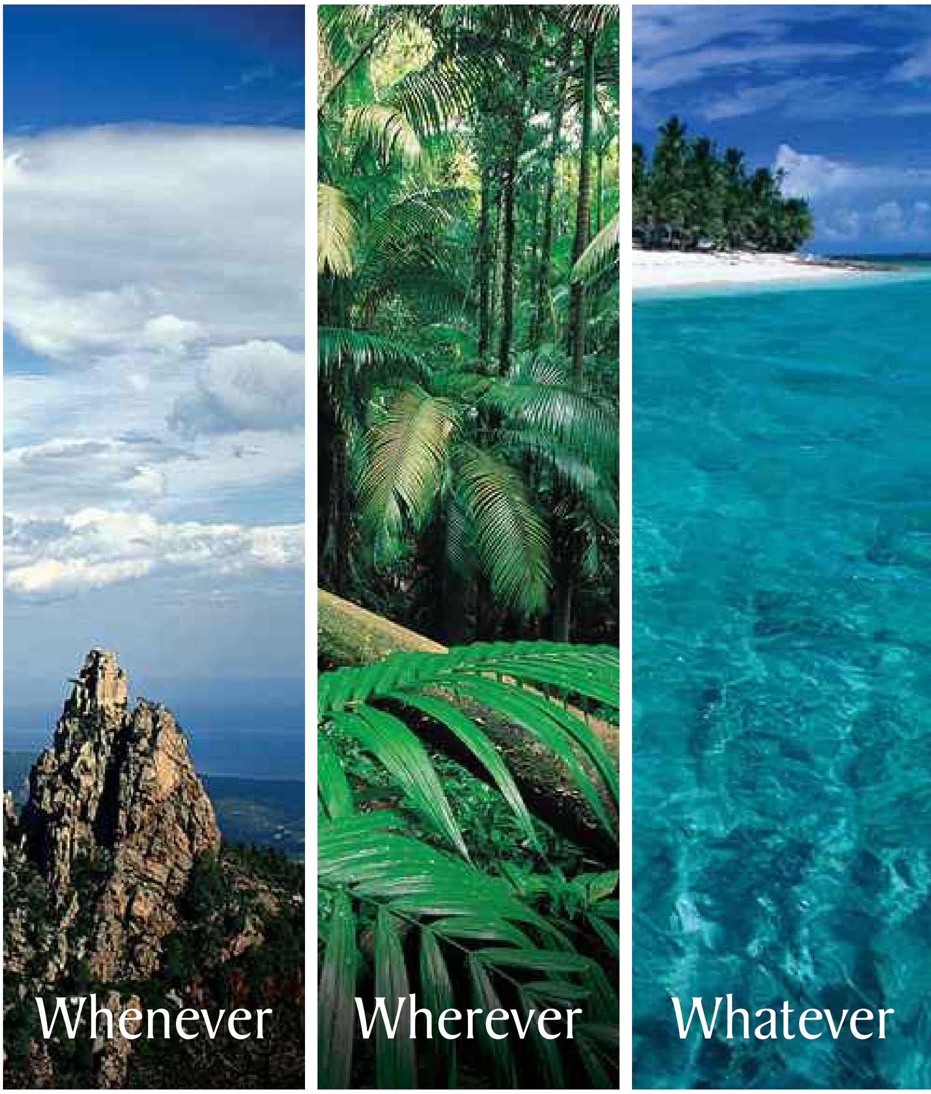


NERA TELECOMMUNICATIONS LTD
Annual Report 2005

contents

whenever wherever whatever

Tomorrow's information age demands a highly competent framework for global communications. It must be sophisticated yet rugged, innovative yet completely reliable. You totally trust it to maintain the flow of communication across the globe.

From vibrant metropolis to remote areas – be it mountain, dense rainforest or at the sea, there are no boundaries of time and space and no limitations to one's ability to communicate seamlessly. Our wireless technology and infocommunication network infrastructure link people together, whether it is business or leisure - *whenever you need to, wherever you may be and whatever you are doing.*

Profit after tax rose from S$16.4 million in FY2004 to S$18.3 million, representing an increase of 11.2%. The Group had ended the year with a healthy cash position of S$55.1 million compared to S$46.0 million in FY2004.

chairman's statement

On behalf of the Board, I am pleased to report that the NeraTel Group had a good year in FY2005 despite the intense competition. Supported by the strong performance of the Telecommunications and Contract Manufacturing business segments, the Group registered a growth of 30.0% in turnover from S$200.4 million in FY2004 to a new record of S$260.6million. Profit before tax increased by 16.0% from S$19.3 million in FY2004 to S$22.4 million. Profit after tax rose from S$16.5 million in FY2004 to S$18.3 million, representing an increase of 11.2%. The Group had ended the year with a healthy cash position of S$55.1 million compared to S$45.9 million in FY2004, up 20.0% from the previous year, representing 15.22 cents per share.

Basic earnings per ordinary share for the year based on net profit attributable to shareholders were recorded at 4.28 cents compared to 3.97 cents in FY2004, an increase of 7.8%. Net asset value per ordinary share based on issued capital of 361,883,000 ordinary shares was 26.52 cents compared to 24.46 cents in FY2004, representing an increase of 8.4%.

The Board is pleased to recommend a first and final dividend of 24.5% or 1.225 cents per ordinary share less 20% income tax and one tier tax exempt of 40.4% or 2.02 cents per ordinary share (FY2004: first and final dividend of 17.5% or 0.875 cents and special dividend of 40% or 2 cents). The proposed dividends, if approved at the Annual General Meeting on 27 April 2006, will be paid on 19 May 2006.

The mobile market is expected to grow further as a result of the investment by the mobile operators to upgrade their network infrastructure to increase their coverage, capacity and capabilities. This will lead to a demand for wireless transmission infrastructure. Coupled with the roll out of 3G mobile networks, we believe that the Group will benefit from these positive developments. The set-up of a contract manufacturing plant in India by a 68% owned subsidiary, Nera Electronics Ltd, will lower the cost of production, and therefore further increases its competitiveness. The plant was completed in the last quarter of 2005.

The Group has been focusing on developing new markets and business opportunities as well as strategic alliances and partnerships. The objectives remain unchanged going forward. To maintain our competitiveness, we will constantly review our operational efficiency to ensure that enhanced quality services will be delivered to our customers. The skills of our workforce will continuously be upgraded to meet the increasingly challenging business environment.

Finally, on behalf of the Board, I would like to express my deepest appreciation to Bjorn Ove Skjeie and Per Brekke, who left the Board on 1 July 2005, for their invaluable contributions. I would also like to thank our shareholders, particularly Nera ASA, customers and business partners for their support as well as the management and staff for their commitment and helping us stay ahead of the competition.

S Chandra Das
Chairman

Turnover for the Group grew by 30.0% from S$200.4 million in FY2004 to S$260.6 million. This set a new record for the turnover of the Group.

president & ceo's statement

BUSINESS REVIEW

FY2005 was another year of growth for the NeraTel Group. Turnover for the Group grew by 30.0% from S$200.4 million in FY2004 to S$260.6 million. This set a new record for the turnover of the Group.

As a result of the increase in turnover, profit before tax rose from S$19.3 million in FY2004 to S$22.4 million, representing an increase of 16.0%. This was attributed to the higher profit from the Telecommunications (Telecom) and Contract Manufacturing (CM) business segments. Profit after tax increased from S$16.5 million in FY2004 to S$18.3 million, up 11.2% from the previous year. As at end of the year, the Group registered a positive cash position of S$55.1 million compared to S$45.9 million in FY2004, representing an increase of 20.0% This was achieved despite the need for higher working capital to support the increase in business, investment in a new manufacturing subsidiary in India and the payment of dividends to the shareholders.

The Telecom business segment registered an increase of 32.4% in turnover from S$88.3 million in FY2004 to S$116.9 million. Profit from operations grew from S$6.9 million in FY2004 to S$7.8 million, an increase of 13.7%. This was attributed mainly to the deliveries of microwave radio equipment to customers in the Philippines, Indonesia, Malaysia, Thailand, Australia, Bangladesh as well as the Group's PDH Compact IV radios to the United States, EMEA (Europe, Middle East, Africa) and Asia. Sales of more than 2,000 units of land and marine satellite terminals to the distributors and customers in Singapore, Taiwan, India, Australia, China, Hong Kong, Korean and Japan and the delivery of Inmarsat gateway to India also contributed positively to the performance of this business segment.

The Information Technology (IT) business segment declined in turnover by 7.6% from S$53.4 million in FY2004 to S$49.4 million. Profit from operations decreased by 4.2% from S$5.5 million in FY2004 to S$5.3 million. The decrease in turnover was attributed to the decline in the sale of IT Retail Systems, where there were more delivery of point-of-sale terminals in Malaysia in FY2004 as a result of the implementation of EMV compliance terminals compared to FY2005. The turnover for IT Network Infrastructure and IT Broadcasting was fairly stable.

The Contract Manufacturing business segment recorded an increase of 60.8% in turnover from S$58.6 million in FY2004 to S$94.3 million. Profit from operations grew by 52.3% from S$6.3 million in FY2004 to S$9.6 million. Primarily, this was due to the improved performance in both the Telecommunications & Instrumentation (T&I) and Medical & Bioscience (M&B) business segments. For the T&I business segment, this was attributed mainly to the increased orders from customers in the wireless mobile networks equipment, digital test instrumentation, microwave networks transmission equipment and digital maritime satellite communications equipment. For the M&B business segment, it was due mainly to the increase in repeat orders from the existing customers. In addition, the Group had secured new accounts and started the delivery of production series to the new customers.

BUSINESS OUTLOOK

Telecommunications (Telecom)

Competition in the telecommunications industry remains intense as many operators are aggressively targeting at increasing their market share. Customers are demanding very competitive prices for volume purchase, short delivery time and attractive commercial terms.

In the Transmission business area, the mobile market continues to grow and the mobile operators are investing to increase their coverage, capacity and capabilities as well as upgrading their network infrastructure, resulting in the demand for wireless transmission infrastructure. There are also a number of new and existing operators planning to roll out 3G mobile networks. The Group has benefited from these positive developments and had secured more than S$80 million orders of SDH and PDH radio transmission equipment from customers in Asia, Americas and EMEA last year.

We will continue to increase the sales/marketing activities and customer participation programmes to promote the capabilities and benefits of our microwave radio transmission products and systems to the mobile operators. In addition, we plan to channel resources to the non-Telco markets such as the broadcasting and defence sectors to increase our customer base and mix.

In the Satellite business area, the Group has successfully launched the Nera WorldPro 1000, the world's smallest and lightest mobile broadband satellite terminal for Inmarsat BGAN (Broadband Global Area Network) in June 2005. Since then, we have received very positive response. Orders for more than 1,000 terminals worth a total of S$3.4 million had been secured. The WorldPro family range of product will gradually replace the older generation WorldPhone Inmarsat satellite land terminals.

Programmes are in place to promote our land and marine range of terminals together with our distribution channels to customers in Asia. The Group intends to strengthen its current distribution channels by developing new channels to better serve customers in various land and marine satellite terminal markets.

On the Inmarsat satellite gateway business, we do not see many new Inmarsat gateway opportunities. However, there are a number of Inmarsat gateways that the Group has delivered which will need enhancements and upgrading in due course.

Although the Group is working on a number of potential DVB-RCS (Digital Video Broadcasting Return Channel Satellite) customers, the satellite broadband business remains challenging and highly competitive. The Group will concentrate its effort to increase the sale of DVB-RCS satellite terminal to the existing customers and will improve the competitiveness of the DVB-RCS Hub.

Information Technology (IT)

For the IT Network Infrastructure business, the Group has managed to secure repeat orders for IP (Internet Protocol) network infrastructure equipment from Telco customers. In this regard, we believe that the IT network infrastructure spending by Telcos will continue to increase. The increase is driven primarily by Telco demand for high performances broadband and multi-service infrastructure networks. Furthermore, there is also a demand for security products and solutions from the Enterprise and Government sectors. However, corporate spending on IT infrastructure remains moderate. The Group intends to position itself as a regional IT infrastructure provider by strengthening its product portfolio management and concentrate on developing key customer segments and accounts in Singapore, Malaysia, Thailand, Indonesia, Vietnam and the Philippines.

For the IT Broadcasting business, three OEM agreements for more than 3,000 mobile Set-Top Box (STB) from two major European and one Asian auto-electronics companies were secured. Going forward, we will focus on promoting the mobile DVB STB to countries where there are Digital Terrestrial TV (DTT) services. More digital network infrastructure is expected to replace the current analogue systems. We believe that with our experience in the delivery of DTT infrastructure projects in Singapore, it puts us in good stead to deliver similar networks to the broadcasting industry in the region. However, these projects normally have a longer selling cycle.

For the IT Retail Systems business, the Group has successfully delivered thousands of EMV compliance POS (Point-of-Sale) terminals to various banks and financial institutions in South East Asia. More banks and financial institutions are expected to gradually migrate to EMV POS terminals. This gives the Group an opportunity to provide complete outsourcing of POS infrastructure to the banks. So far, there has been a gradual increase in POS terminals outsourcing from our customers. Marketing activities on EMV POS terminals migration will be increased. In this regard, we hope to expand our outsourcing and value-added services to the retailers, banks and financial institutions in the region. The Group has also managed to secure new service and maintenance business from the banks and financial institutions in the Philippines and Thailand.

Contract Manufacturing (CM)

Our CM business segment is operated by a 68% owned subsidiary, Nera Electronics Ltd (NEL). The trend for OEMs to outsource their manufacturing activities is expected to grow as OEMs continue to focus on their core activities such as R&D, product branding and marketing. The Group believes that with its high value added focused activities in its Singapore plant and the lower production cost in its India plant, it will be able to tap on the opportunities in the growing outsourcing trend.

President and CEO's Statement

The demand from the T&I (Telecommunication & Instrumentation) customers will continue to be strong in view that telecom operators are expanding their networks infrastructure and coverage. However, the T&I industry requires us to be highly flexible and have the ability to cope within short turnaround time. In this aspect, the Group is upgrading its ERP system with an e-portal to enhance the communications as well as to improve the inventory management with its strategic suppliers. The new ERP system is expected to be fully operational within 1H2006. The T&I segment remains highly competitive and will continue to put pressure on the margins. The Group intends to further develop its other value-added services, such as product development, new product introduction and buffer stocking programme to manage our margin mix.

The M&B (Medical and Bioscience) market is also showing increasing demand. Our effort on this segment has started to yield results. Two of the newly secured customers have started to place production orders though the contribution may not be significant in the short term. In addition, we expect to win more repeat orders from the existing M&B customers. To show our long-term commitment in the M&B market, the Group is working towards getting its Singapore facility to be ISO13485 (Quality Management System for Medical devices) certified within the year 2006.

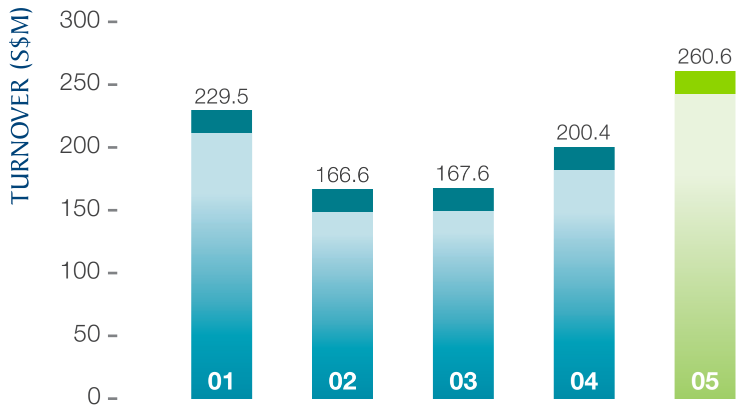
The requirements by some customers to deliver RoHS (Restriction of use of certain Hazardous Substances in Electrical and Electronics Equipment) compliant product in the market by 1 July 2006, an EU Directive ("Directive"), poses another challenge to the Group. More resources are dedicated to this area to work closely with both the customers and suppliers to comply with the Directive and to minimise any disruption in the delivery of the products.

The manufacturing facility in India was completed in the last quarter of 2005 as planned. It has since received positive response from some of the T&I customers on production in India. The Group is working to transfer some of the T&I production to its India facility within the first half of 2006. The facility will increase the Group's overall production capacity. It further provides customers an alternative site to manufacture their products. As the India plant becomes operational, the Group expects its expenses to rise due to the increase in fixed costs and operational costs related to business activities.

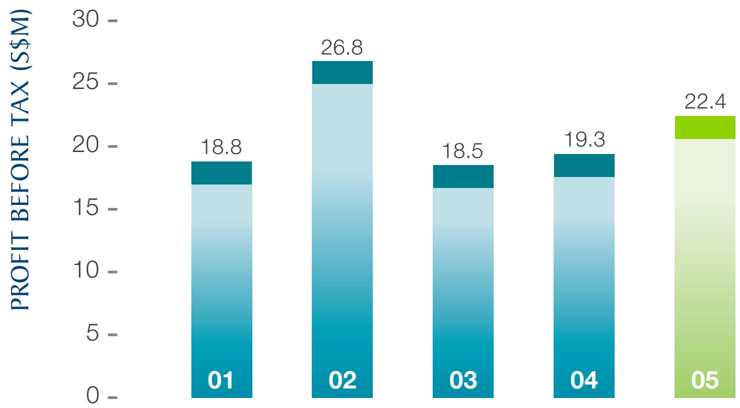
Not to be overly reliant on any of its existing T&I and M&B customers, the Group is actively working to broaden its customer base. A few new customers have been secured in the two segments as well as customers from other industrial segments. The Group is also targeting the avionics and communications sectors within the aerospace industry. We expect the margins for some of these customers to be low in the initial phase due to the need to acquire new skill, product know-how and transfer cost.

Finally, I would like to thank our customers, business partners and shareholders for their continuous support. I would also like to express my appreciation to the Board members for their guidance as well as my colleagues for their commitment and contributions. I look forward to their continued support.

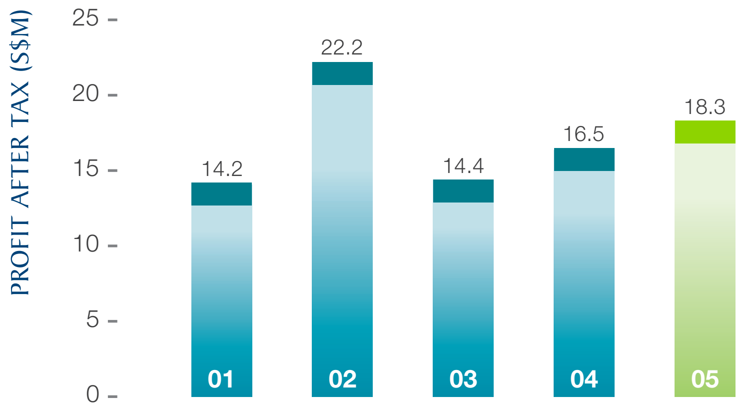
Ang Seong Kang Samuel
President and CEO



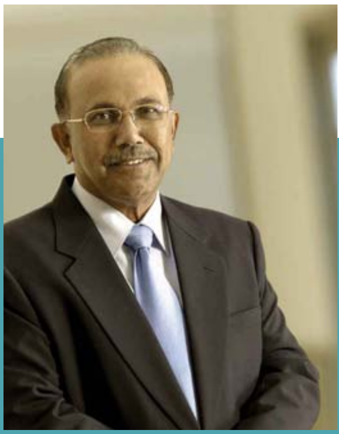
Turnover increase by 30% from S$200.4 million in FY2004 to S$260.6 million in FY2005.

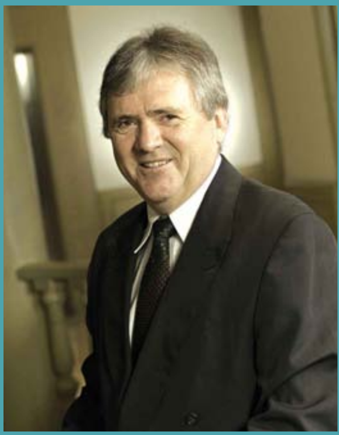


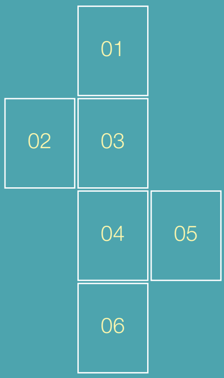
Profit before tax increase by 16% from S$19.3 million in FY2004 to S$22.4 million in FY 2005.



Profit after tax increase by 11.2% from S$16.5 million in FY2004 to S$18.3 million in FY2005.







01 S Chandra Das
02 Ang Seong Kang Samuel
03 Svein Ove Strommen
04 Bjorn Olafsson
05 Lau Ping Sum
06 Sitoh Yih Pin

board of directors

Mr S Chandra Das

Mr S Chandra Das is a non-executive Chairman of the Company. He was appointed to the Board on 15 January 1988. Mr Das is currently the Managing Director of Nur Investment & Trading Pte Ltd, a company engaged in trading and investment activities. He is also the chairman of Southern African Investments Pte Ltd, a subsidiary of Temasek Holdings Pte Ltd. In addition, he is presently a director of several public listed companies namely Nera Electronics Ltd, The Ascott Group Limited, CapitalMall Trust Management Ltd, Yeo Hiap Seng Ltd, United Test and Assembly Center Ltd (UTAC), Japan Land Ltd and Cougar Logistics Corporation Ltd. Mr Das was a Member of Parliament from 1980 to 1996. He was also the chairman of NTUC Fairprice Cooperative Limited until September 2005. Mr Das holds a Bachelor of Arts (Hons) degree in Economics from the University of Singapore.

Mr Ang Seong Kang Samuel

Mr Ang Seong Kang Samuel is the President & CEO of the Company. He was appointed to the Board on 2 October 1996. Currently, he is a member of the Executive Committee of Nera Norway. He is responsible for the overall performance of the NeraTel Group in Asia. Mr Ang previously served as the managing director, vice president and general manager of NeraTel. In addition, he serves on the Board of many NeraTel Group of Companies including a public listed subsidiary, Nera Electronics Ltd. He was a board member of the Norwegian Business Association of Singapore. Mr Ang holds a degree in Business Administration from Oklahoma City University.

Mr Svein Ove Strommen

Mr Svein Ove Strommen is a non-executive Director of the Company. He was appointed to the Board on 1 October 2004. Currently, he is the President and CEO of IsInvest AS, a privately held investment company. He has extensive experience from leading appointments in Norway and the United States, and serves on the Board of various companies in different countries around the world. Mr Strommen is the non-executive chairman of Vizrt, Ltd, a public company listed on the Frankfurt and Oslo Stock Exchanges as well as a Board member of VMETRO ASA, a public company listed on the Oslo Stock Exchange. He is also the non-executive chairman of Nera ASA, a public company listed on the Oslo Stock Exchange. Mr Strommen holds a Master of Science degree in Electrical Engineering from the South Dakota School of Mines and Technology in the United States.

Mr Bjorn Olafsson

Mr Bjorn Olafsson is the non-executive Director of the Company. He was appointed to the Board on 28 January 2002. He is also a director of Nera Electronics Ltd, a public listed subsidiary of NeraTel. Mr Olafsson is presently the President and CEO of Nera Norway. He has many years of experience in management through the various executive positions in banking and insurance he held with the Vesta Group, Bergen Bank and Vital Forsikring ASA. Mr Olafsson holds a Master of Business Administration degree from the Norwegian School of Management.

Mr Lau Ping Sim

Mr Lau Ping Sim is an independent Director of the Company. He was appointed to the Board on 29 April 1999. Mr Lau is presently the Executive Director of People's Action Party / People's Action Party Community Foundation Headquarters. He has more than twenty (20) years of experience in information technology (IT) and was responsible for the electronic data processing and IT functions in two local financial institutions. He is also a director of Huan Hsin Holdings Ltd, Cortina Holdings Ltd and Sunpower Group Ltd. Mr Lau was a Member of Parliament from 1980 to 1996. He was also a director of New Wave Technologies Ltd and KLW Holdings Ltd. Mr Lau holds a degree in Economics from the Australian National University.

Mr Sitoh Yih Pin

Mr Sitoh Yih Pin was appointed as an Independent Director of the Company on 29 April 1999. Mr Sitoh is a Certified Public Accountant and a partner of a certified public accounting firm, Nexia Tan & Sitoh. Currently, Mr Sitoh is the Advisor to Potong Pasir Grassroots Organisations. He is also presently a director of several publicly listed companies comprising Allied Technologies Limited, GKE International Limited, Hitchins Group Ltd, Joinn Holdings Limited (formerly known as Cytech Software Limited), Labroy Marine Limited, Lian Beng Group Ltd, Meiban Group Ltd, PNE Micron Holdings Ltd and United Food Holdings Limited. Mr Sitoh was also the director of 6 publicly listed companies in the preceding five years including Bio-Treat Technology Limited, CWT Distribution Limited, Fibrechem Technologies Limited, Futuristic Group Ltd (formerly known as Futuristic Image Builder Ltd), KS Energy Services Limited (formerly known as KS Tech Ltd) and WPG International Pte. Ltd. (formerly known as WPG International Limited). Mr Sitoh holds a Bachelor of Accountancy (Honours) degree from the National University of Singapore and is an Associate Member of the Institute of Chartered Accountants in Australia.

key executives

Mr Low Tiong Chuan is the Executive Vice President for Information Technology. He is responsible for the overall performance of the IT business, which includes Network Infrastructure, Broadcasting and Retail Systems. Mr Low brings with him more than twenty years of experience working in the global telecommunications and information technology companies. These include Managing Director for Singapore, Brunei and Indonesia with Lucent Technologies, Managing Director for South East Asia for Marconi and several regional management positions with Motorola. Mr Low holds a Masters of Science degree and a Bachelor of Electronics Engineering degree with honours, both from National University of Singapore.

Dr Tan Hong Pew is the Executive Vice President for Telecommunications - Satellite Communications. He is responsible for the overall performance of Satellite Communications business in Asia. Dr Tan has many years of working experience in senior management positions in both local and foreign MNCs. Dr Tan holds a Bachelor of Science (1st Class Honours) degree from the University of New South Wales, a Master of Science degree (Industrial Engineering) from the National University of Singapore and a degree of Doctor in Business Administration from the University of Western Australia.

Mr Tay Kheng Seng Alvin is the Executive Vice President for Telecommunications - Transmission Networks. He is responsible for the overall performance of the Transmission Networks business in Asia. Mr Tay has more than twenty-six years of working experience in sales and marketing, financial services and has held several senior management positions prior to joining the Company. Mr Tay holds a Master of Business Administration degree from the Brunel University.

Mr Chan Heng Chew Michael is the Senior Vice President for Contracts and Investment. He is responsible for project financing, risk management and legal matters of the NeraTel Group. He provides current insight, business growth projection, country potential analysis and product/customer trends. He also conducts business feasibility studies to assist top management in the financial planning process. He has more than fifteen years of experience in marketing, logistics, investment, business and corporate development in various industries such as shipping, healthcare, leisure, printing and publishing. Mr Chan holds a Bachelor of Science degree in Finance from the Indiana University and a Master of Business Administration degree from the Monash University.

Key Executives

Ms Chiang Hock Chin Jessie is the Senior Vice President for Corporate Affairs/Staff. She is responsible for the corporate secretarial functions, corporate communications and investor relations of the NeraTel Group, which include crisis management, corporate identity and the strategic positioning of the Company and the NeraTel Group. In addition, she oversees the Group's functions of Human Resource, Administration and Information Services. She has about nineteen years of relevant experience. Ms Chiang is a member of the Institute of Public Relations of Singapore.

Mr Mark Weng Kwai is the Financial Controller. He is responsible for the financial planning, analysis and budgeting as well as taxation, treasury functions (including foreign exchange risk management) and related financial matters of the NeraTel Group. In addition, he is also responsible for the compliance with the accounting and financial policies and procedures within the NeraTel Group. He has more than fifteen years of experience in the areas he is currently serving. Mr Mark obtained his Bachelor of Accountancy (Honours) degree from the National University of Singapore. He is a Fellow Certified Public Accountant (FCPA Singapore) and a member of Institute of Certified Public Accountants of Singapore.

Mr Goh Yoke Lim is the Vice President for Telecommunications - Satellite Communications. He is responsible for the regional business strategies and business development of Satellite Communications. In addition, he oversees the Satellite Communications business in China. Mr Goh has more than fourteen years of experience in the maintenance, design and planning of INMARSAT LES and the promotion of INMARSAT services. He also has many years of experience in the field of system integration. Mr Goh holds a degree in Engineering from the National University of Singapore.

Mr Koh Seng Chye Roy is the Vice President for Business Development, Information Technology. He is responsible for developing new markets and business opportunities for the IT business. Mr Koh joined the Company in 1991 and has more than twenty years of working experience in the marine and ship repairing industries and about seven years of working experience in the Telecommunications and Information Technology industries. Mr Koh holds a degree in Commerce from the Curtin University and is a member of the Marketing Institute of Singapore.

Ms Moh Kah Ling Zoey is the Vice President for Information Technology, Broadcasting. She is responsible for the Broadcasting business, which includes the set-up boxes, digital/analogue TV network infrastructure and MATV/CATV/Pay TV and DVB systems. Her responsibilities include account management, developing new business opportunities and the formulation and implementation of business strategies of the IT broadcasting business. She has more than twelve years of relevant experience. Ms Moh holds a degree in Business from the Monash University.

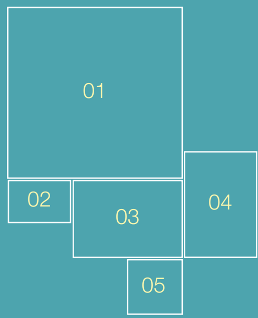
Ms Phua Ai Geok Adeline is the Vice President for Information Technology, Retail Systems. She is responsible for the Retail Systems business, which includes the point-of-sale (POS) terminals, payment gateways and solutions, and POS value added services such as electronic receipt capture. She manages existing accounts and develops new business opportunities. In addition, she is responsible for the regional client management, supply chain management and is part of the regional IT Retail Systems business strategy team. Ms Phua has more than fifteen years of experience in the payment solutions industry.

Ms Lucy Phua is the Vice President for Accounts. Ms Phua is responsible for the accounts department. She maintains appropriate funding to cater for the needs of the Company's operation so as to minimise risk and exposure to currency fluctuation. Her responsibilities include the preparation of the Company's yearly budget as well as the consolidated budgets for the NeraTel Group and their implementations. Ms Phua has more than twenty-three years of experience in accounting. She holds a degree in Commerce from the Deakin University.

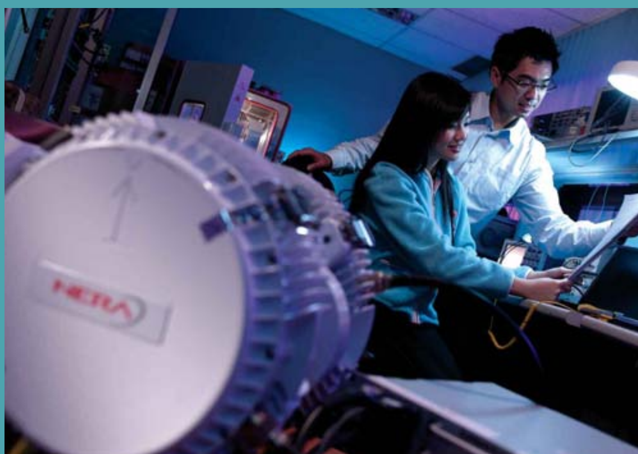
Mr Png Keng Geok Albert is the Vice President for Information Technology, Network Infrastructure. He is responsible for the Network Infrastructure business comprising internet appliances, security solutions, network solutions and free space optics. He manages the existing accounts and develops new business opportunities. In addition, he is responsible for the regional client management and is part of the regional IT Network Infrastructure business strategy team. Mr Png has more than twenty-two years of working experience in the IT industry.

Mr Yap Chei Leong Albert is the Vice President for Telecommunications - Transmission Networks, Client Management. His responsibilities include managing existing accounts and developing business opportunities. He is responsible for the client management in Asia and is part of the regional Transmission Networks business strategy team. He has approximately ten years of relevant experience within the Telecommunications industry. Mr Yap holds a degree in Engineering from the Nanyang Technological University.

Business Segment Telecommunications



01 Frequency testing
02 Engineer at work
03 Product discussion on Compact Link
04 Nera WorldPro 1000 for remote communication (BGAN Terminal)
05 Servicing of F33 Terminal



telecommunications

Transmission Networks

Designed and built on premier technology, Nera's reliable, flexible and scalable wireless solutions deliver the requisite capacity and interfaces for deployment by national carriers, cellular operators, regional operators and private network operators.

Providing cost competitive solutions that are easy to plan, install and implement, our three product lines, InterLink, CityLink and CompactLink, provide a spectrum of transmission networks (ranging from low to high frequencies) in a variety of capacities. Our solutions are ideal for cellular base stations and is an effective solution for cellular operators. The PDH radio, CompactLink, is a cost-effective low-to-medium capacity transmission network for voice, data and video traffic. Coupled with our high capacity SDH microwave radio (Citylink and Interlink), we are able to provide total wireless infrastructure networks to our customers.

Satellite Communications

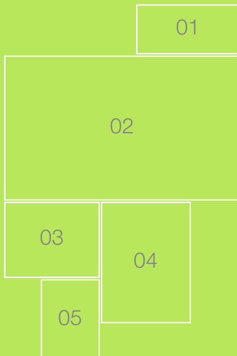
Our Satellite Communications portfolio boasts a complete range of communication products and solutions deploying various technologies.

The Nera WorldPro1000, weighing less than a kilogram, is the smallest and lightest mobile broadband satellite terminal, marking a new milestone in voice and data communications. Utilising the Inmarsat BGAN (Broadband Global Area Network) services, it enables the users to access voice and data services simultaneously from almost any part of the world, receiving at 384 kbps and transmitting at 240 kpbs. These rates are similar to terrestrial broadband and five to six times better than the existing mobile satellite services. The largest market segments are expected to be defence and military, aid and rescue, construction and mining, media and printed press, civil government, oil and gas.

Our state-of-the-art Nera SatLink System, with its exceptional ability to exploit available satellite capacity efficiently, offers our customers bandwidth at a competitive cost. This two-way broadband satellite network is based on the DVB-RCS standard. DVB-RCS (Digital Video Broadcasting - Return Channel via Satellite) is an open standard used by service providers to offer broadband access and multimedia services, content distribution, rural telephony and Internet services. This translates to low entry cost for end users and provides the operator with the opportunity and flexibility to offer the entire spectrum of services, from the typical low rate VSAT to true multi-megabit enterprise broadband.

The NWC Voyager, a vehicular GAN (Global Area Network) satellite terminal provides an ideal solution for heavy-duty users of satellite communications establishments like the military and media. In addition, our Nera Fleet Terminals (F77, F55 and F33) is specially designed for vessels that require a diverse range of applications such as internet, email and fax with MPDS (Mobile Packet Digital Service) capabilities to be used at sea.

Business Segment Information Technology



01 Staff interaction in IT Broadcasting Lab
02 IT Retail Systems Helpdesk
03 Point-of-sale Terminal
04 Communicating with customer
05 Point-of-sale Terminal

information technology

Network Infrastructure

The IT Network Infrastructure business comprises the Security Solutions, Internet Appliances and Networking Solutions.

Security Solutions

With a spike in security breaches, it is becoming even more crucial for corporations to protect their systems by providing a high level of secured access. Our seamless integration of security products, coupled with highly skilled network expertise, enable us to offer reliable and cost effective security solutions to the customers, helping them to protect their intellectual property, customer data and vital business systems.

Internet Appliances

With an increasing dependence on the internet, it is important that businesses and consumers who wish to keep up with the times adopt the internet web-enabled applications and appliances. Our competent Internet Appliance unit sees to this demand by providing a host of Traffic Management services such as data communication, bandwidth management, internet application load balancing, web server directory and site redundancy.

Networking Solutions

Our Networking Solutions unit provides high performance ATM/ Frame Relay/ IP switches, routers and network management systems to carrier, enterprises and government organizations. Our proficient IT Network Infrastructure specialists provide end-to-end solutions that include network design, planning, project management and implementation to customers.

Retail Systems

Our IT Retail Systems is one of the market leaders in the point-of-sale (POS) payment solutions. We offer a comprehensive suite of products and services from total payment solutions to point-of-sale networks, payment switching gateways, EMV payment terminals and maintenance services.

Our latest offerings include wireless terminals for home deliveries, restaurant and hospitality sectors via GPRS; TCPIP products that are designed for malls, mega marts and department stores; and even a portable range of payment devices that are easy for PIN entry and best suited for F&B hotels.

Thousands of EMV point-of-sale terminals and line encryption have been successfully delivered to various banks and financial institutions. New service and maintenance businesses have also been secured with banks and financial institutions in the Philippines and Thailand.

01 Diversity Set-Top Box
02 Ethernet Switch

Broadcasting

In the IT Broadcasting business, we provide complete digital mobile TV infrastructure network that made Singapore a lead user in Digital Video Broadcast (DVB) technology. Our Digital Terrestrial TV (DTT) network infrastructure enables digital television programmes to be viewed in places like shopping centres, food courts, cars, buses and ferries. We will continue to promote mobile DVB Set-Top Box (STB) to countries where there are DTT services. We hope to deploy it to other transportation platforms such as trains, yachts and more.

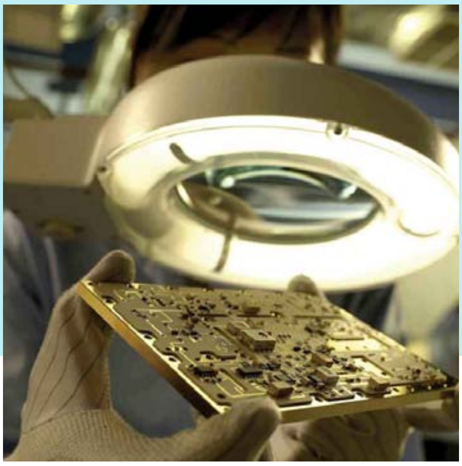
Our broadcasting business also include the sales, installation, maintenance and servicing of Master Antenna TV Systems (MATV), Cable TV Systems (CATV) and Digital TV Networks for housing developers, government institutions, educational institutions, commercial enterprises, service providers and broadcasters.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

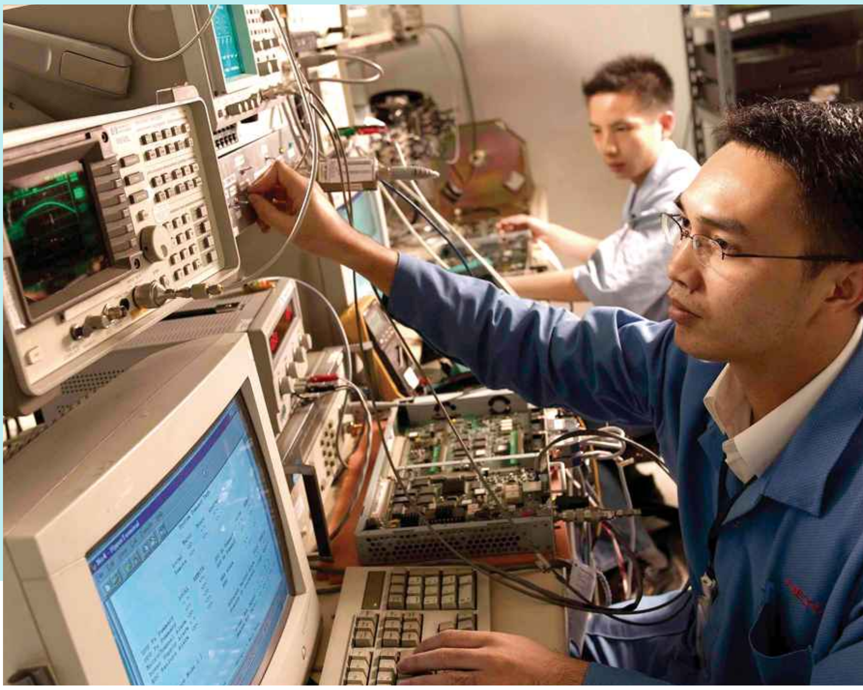
contract manufacturing

Our Contract Manufacturing business segment is operated by a 68% owned subsidiary, Nera Electronics Ltd (NEL). NEL is a public company listed on the Singapore Exchange. NEL is an established electronics contract manufacturer providing total solutions to meet the growing demand of its customers.

Focusing its business primarily in the Telecommunications and Instrumentation (T&I), Medical and Bioscience (M&B) segments, NEL offers premier end-to-end solutions in areas such as product development, prototyping, manufacturing and after-sales services. Demonstrating flexibility in its manufacturing processes, NEL is able to efficiently produce high quality products in low to media volume and at the same time, cater to a high mix of products in the most cost-effective ways. Having acquired valuable expertise in the handling of high-end industrial products such as telecommunications infrastructure and medical devices, NEL is also recognised for its radio frequency engineering capabilities applied in the areas of digital transmission products and systems.

In addition, NEL's manufacturing plant in India was completed in the last quarter of 2005. It will increase the overall production capacity and provides its customers a lower cost manufacturing alternative.





01 Radio frequency test engineering capabilities
02 QC inspection on Brass Board
03 Compact IV testing

corporate information

Board Of Directors

S Chandra Das *
Chairman

Ang Seong Kang Samuel **
President & CEO

Svein Ove Strommen ***

Bjorn Olafsson ***

Lau Ping Sum *

Sitoh Yih Pin *

** Independent Director*
*** Executive Director*
**** Non-Executive Director*

Nominating Committee

S Chandra Das
Chairman

Lau Ping Sum

Ang Seong Kang Samuel

Audit Committee

Lau Ping Sum
Chairman

Sitoh Yih Pin

Bjorn Olafsson

Compensation Committee

S Chandra Das
Chairman

Svein Ove Strommen

Sitoh Yih Pin

Company Secretaries

Tan Cher Liang

Julie Koh Ngin Joo

Business Address

109 Defu Lane 10
Singapore 539225
Tel : (65) 6281 3388
Fax : (65) 6383 9566/
(65) 6383 9577

Registered Office

10 Collyer Quay #19-08
Ocean Building
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:
Tan Wee Khim
(appointed with effect
from financial year ended
31 December 2005)

Principal Bankers

DBS Bank Ltd
6 Shenton Way
DBS Building Tower One
Singapore 068809

The Hongkong and Shanghai Banking Corporation Limited
21 Collyer Quay #04-01
HSBC Building
Singapore 049320

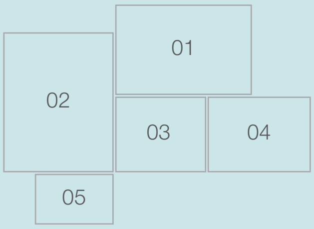
Skandinaviska Enskilda Banken (SEB)
50 Raffles Place #36-01
Singapore Land Tower
Singapore 048623

group structure

Subsidiaries And Associated Company

- Nera Electronics Ltd
- Nera Infocom Pte Ltd*
- Nera (Malaysia) Sdn Bhd**
- Nera Infocom (M) Sdn Bhd
- Nera (Thailand) Ltd
- P.T. Nera Indonesia
- Nera (Philippines), Inc.
- Nera Telecommunications (Taiwan) Co., Ltd
- Nera Telecommunications (India) Pvt Ltd
- Nera Telecommunications (Australia) Pty Ltd
- Nera Telecommunications Ltd, Vietnam Representative Office
- Nera Telecommunications Ltd, Beijing Representative Office

** Dormant Company*
*** Associated Company*



01 BGAN Training

02 A touching moment!
Chairman, Mr S. Chandra Das,
presenting a token of appreciation
to ex Director, Mr Sverre Ording Field

03 Teambuilding Training

04 Dinner & Dance 2005

05 Dinner & Dance 2005

our people

To stay at the forefront of technology and to remain competitive, we are committed to develop our human capital to handle the challenges of tomorrow.

Our training programmes answer the complexities of today’s working environment, with various programmes catered for different levels of employees to allow them to learn and grow with the challenges that they face. We believe that the acquired skills and knowledge will further enhance their productivity and performance. It will also provide them the opportunities for career development within the organisation.

Some activities like teambuilding programmes, staff forums, dinner and dance, sport and recreation are organised to provide a platform for the employees to interact across all levels. This will not only strengthen the relationship between the employees but also enhance the working environment.

Nera Telecommunications Ltd ("the Company") is committed to a high standard of corporate governance by complying with the Code of Corporate Governance ("the Code") reviewed by the Singapore Council on Corporate Disclosure and Governance, whose recommendations to revise the Code have been accepted by the Government in July 2005 ("the revised Code"). The Company has taken steps to comply with the revised Code ahead of the 2007 effective date.

This Report describes the Company's corporate governance framework in place with reference to the revised Code and the Best Practice Guide.

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 the 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 six Directors. Half 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*
Svein Ove Strommen
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, qualifications 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 six 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, S Chandra Das is an independent Director, while the President & CEO, 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 *
Lau Ping Sum *
Ang Seong Kang Samuel (appointed on 1 July 2005)

* *Independent Directors*

The principal functions of the NC are:

(a) to 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) to 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) to review the independence of each Director annually; and

(d) to assess the contribution of each Director to the effectiveness of the Board.

The NC has adopted written terms of reference.

New Directors are at present appointed by way of board resolution or board meeting, 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 Lau Ping Sum, for re-election at the forthcoming Annual General Meeting. Both S Chandra Das and Lau Ping Sum are retiring under Article 87 of the Company's Articles of Association.

S Chandra Das, an 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 27 May 2003.

Lau Ping Sum, an independent Director, was appointed to the Board on 29 April 1999. He is the chairman of the Audit Committee and a member of the Nominating Committee. He was last re-elected a Director on 25 June 2002. Upon his re-election as a Director of the Company at the forthcoming Annual General Meeting, he will remain the chairman of the Audit Committee and a member of the Nominating Committee and will be considered independent for the purposes of Rule 704(8) of the Listing Manual of the Singapore Exchange Securities Trading Limited.

S Chandra Das and Lau Ping Sum 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 of 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 has implemented Board performance evaluation to assess the effectiveness of the Board since FY2003.

Audit Committee (AC)

Principle 11 : Audit Committee

Principle 12 : Internal Controls

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

Lau Ping Sum, Chairman*
Sitoh Yih Pin*
Bjorn Olafsson

* *Independent Directors*

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

The key functions of the AC are:

(a) to consider the appointment and re-appointment of the auditors, audit fee and matters relating to the resignation and dismissal of the auditors;

(b) to review with the auditors the audit plans, the evaluation of the system of internal accounting controls and the audit reports;

(c) to 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) to review interested person transactions;

(e) to review the scope and results of the internal audit procedures; and

(f) to review the assistance given by the Management to the auditors.

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 both 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 reports to the Audit Committee and administratively to the President & CEO. The scope of work cover 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*
Sitoh Yih Pin*
Svein Ove Strommen (appointed on 1 July 2005)

* *Independent Directors*

The principal responsibilities of the CC are:

(a) to review and recommend to the 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 Directors' fees, salaries, allowances, options and benefits in kind.

(b) to 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 package 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 Group 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 the Annual General Meeting. Non-Independent and non-executive Directors, who are employees of the Nera Group, will not be paid Directors' fees.

The following table shows the makeup (in percentage terms) of the remuneration and fees of the Directors for the year ended 31 December 2005:

Remuneration Bands / Name	Fees	Salary	Bonus	Total
	(S$) %	(S$) %	(S$) %	%
S$500,000 and above				
Ang Seong Kang Samuel [1]	-	45	55	100
S$250,000 to S$499,999				
NIL	-	-	-	-
Below S$250,000				
(Fees paid to independent Directors) [2]				
S Chandra Das (S$60,000)	100	-	-	100
Svein Ove Strommen (S$35,000)	100	-	-	100
Lau Ping Sum (S$45,000)	100	-	-	100
Sitoh Yih Pin (S$40,000)	100	-	-	100
Per Brekke (S$10,000) [3]	100	-	-	100

Notes:

(1) *The salary and bonus are inclusive of CPF.*
(2) *These fees are subject to approval by the shareholders as a lump sum at the Annual General Meeting.*
(3) *Per Brekke, who left the Board on 1 July 2005, will receive a pro-rated director's fee.*
(4) *No other directors, other than disclosed above, received directors' fees or remuneration during the period.*
(5) *The above table 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 are 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 Director's performance.

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

Key Executives' Remuneration

Key executives of the Company who were above S$250,000 and below S$250,000 bands (in percentage terms) during the year are as follows:

Remuneration Bands / Name and Position	Salary [(1)]	Bonus [(1)]	Total
	%	%	%
S$250,000 to S$499,999			
Tan Hong Pew, Executive Vice President, Satellite Communications	73	27	100
Below S$250,000			
Tay Kheng Seng Alvin, Executive Vice President , Transmission Networks	71	29	100
Chan Heng Chew Michael, Senior Vice President, Contracts & Investment	76	24	100
Chiang Hock Chin Jessie, Senior Vice President, Corporate Affairs/Staff	74	26	100
Mark Weng Kwai, Financial Controller [(2)]	100	-	100
Lucy Phua, Vice President, Accounts	75	25	100
Yap Chei Leong Albert, Vice President, Transmission Networks - Client Management	69	31	100
Goh Yoke Lim, Vice President, Satellite Communications	76	24	100
Png Keng Geok Albert, Vice President, IT Network Infrastructure	72	28	100
Koh Seng Chye Roy, Vice President, IT Business Development	78	22	100
Phua Ai Geok Adeline, Vice President, IT Retail Systems	76	24	100
Moh Kah Ling Zoey, Vice President, IT Broadcasting	83	17	100

Notes:

(1) *Salaries are inclusive of allowances. In addition, salaries and bonus are inclusive of CPF.*
(2) *Mark Weng Kwai, the Financial Controller, joined the Company on 12 September 2005. Under the Company's employment policy, he is not entitled to Bonus during probation.*
(3) *There were no share options granted in FY2005.*

There were no employees who are immediate family members of a Director or the CEO.

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 SGXNET.

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 Annual General Meeting are forwarded to all shareholders of the Company. The Notice of Annual General Meeting is also advertised in 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 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.

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-ST Listing Manual on interested person transactions.

The followings are details of the aggregate value of interested person transactions for FY2005 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 $100,000)
	(S$ '000)
Sales	
Nera Networks AS	38,812
Nera Networks Inc.	13,166
Nera Satcom AS	2,729
Nera Broadband Satellite AS	2,561
Purchases	
Nera Networks AS	38,868
Nera Satcom AS	20,294
Nera Broadband Satellite AS	1,808
Other Operating Income	
Nera Networks AS	143

Notes:

(i) *All interested person transactions listed above are conducted during the financial year under shareholders' mandate pursuant to Rule 920.*

(ii) *The turnover includes a sale of $671,000 to iFoundry System Singapore Pte Ltd, which the Chairman has 43% interest in its holding company. This transaction does not fall within the shareholders' mandate pursuant to Rule 920.*

Directors' Attendance at Board and Board Committee Meetings in 2005

	Board Meetings		Audit Committee Meetings		Compensation Committee Meetings		Nominating Committee Meetings	
Name of Directors	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	-	-	-	-	1	1
Svein Ove Strommen	4	4	-	-	1	1	-	-
Bjorn Olafsson	4	4	4	4	-	-	-	-
Lau Ping Sum	4	4	4	4	-	-	1	1
Sitoh Yih Pin	4	4	4	4	1	1	-	-

financial statements

The directors are pleased to present their report to the members together with the audited consolidated financial statements of Nera Telecommunications Ltd (the "Company") and its subsidiaries (the "Group") and the balance sheet and statement of changes in equity of the Company for the financial year ended 31 December 2005.

Directors

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

S Chandra Das	(Chairman)
Ang Seong Kang Samuel	(President and Chief Executive Officer)
Lau Ping Sum	
Sitoh Yih Pin	
Bjorn Olafsson	
Svein Ove Strommen	

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 objects are, or one of 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.

Directors' interests in shares and debentures

The following directors, who held office at the end of the financial year, had, according to the register of directors' shareholdings required to be kept under section 164 of the Singapore Companies Act, Cap. 50, an interest in shares and share options of the Company and related corporations as stated below :

	Held by director			Other shareholdings in which the director is deemed to have an interest		
Name of director	As at 1.1.2005	As at 31.12.2005	As at 21.1.2006	As at 1.1.2005	As at 31.12.2005	As at 21.1.2006
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 Olafsson *	–	–	–	10,000	10,000	10,000
Svein Ove Strommen **	–	–	–	1,400,000	1,400,000	1,400,000

* *10,000 shares are held in the name of Opsjonshuset AS, which is owned by Bjorn Olafsson and his spouse.*

** *1,400,000 shares are held in the name of Isinvest AS, which Svein Ove Strommen has deemed interest in.*

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

Name of director	Held by director As at 1.1.2005	As at 31.12.2005	As at 21.1.2006	Other shareholdings in which the director is deemed to have an interest As at 1.1.2005	As at 31.12.2005	As at 21.1.2006
The Company **Ordinary shares of $0.05 each**						
S Chandra Das ***	1,500,000	1,650,000	1,650,000	1,000,000	1,000,000	1,000,000
Ang Seong Kang Samuel ****	2,430,000	2,630,000	2,630,000	65,000	65,000	65,000
Lau Ping Sum	450,000	550,000	550,000	–	–	–
Sitoh Yih Pin	400,000	500,000	500,000	–	–	–

*** *1,000,000 shares are held by the spouse of S Chandra Das.*

**** *25,000 shares are held by the spouse of Ang Seong Kang Samuel and 40,000 shares are under the Central Provident Fund share investment scheme.*

Name of director	Held by director As at 1.1.2005	As at 31.12.2005	As at 21.1.2006
Related Corporations Nera Electronics Ltd Ordinary shares of $0.05 each			
Ang Seong Kang Samuel	5,290,000	5,290,000	5,290,000
S Chandra Das	1,500,000	1,500,000	1,500,000
Nera Infocom (M) Sdn Bhd Ordinary shares of RM 1 each			
Ang Seong Kang Samuel	1	1	1
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
Nera Telecommunications (India) Pvt Ltd Ordinary shares of 10 Rupees each			
Ang Seong Kang Samuel	5,000	5,000	5,000
Nera Electronics (India) Pvt Ltd Ordinary shares of 10 Rupees each			
Ang Seong Kang Samuel	–	1	1

Except as disclosed in this report, no other director who held office at the end of the financial year had interests in shares, share options or debentures of the Company, or of related corporations, either at the beginning or end of the financial year and on 21 January 2006.

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.

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 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) Svein Ove Strommen
(iii) Sitoh Yih Pin

The Scheme shall continue to be in force at the discretion of the Committee.

The options granted by the Company to directors holding office at the end of the financial year to subscribe for ordinary shares of $0.05 each at the respective exercisable price were as follows:

	Exercise price $	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
S Chandra Das	0.625	–	150,000	–	150,000	1.3.2004 to 28.2.2007
	0.22	–	150,000	150,000	–	20.3.2005 to 19.3.2008
Lau Ping Sum	0.625	–	100,000	–	100,000	1.3.2004 to 28.2.2007
	0.22	–	100,000	100,000	–	20.3.2005 to 19.3.2008
Sitoh Yih Pin	0.625	–	100,000	–	100,000	1.3.2004 to 28.2.2007
	0.22	–	100,000	100,000	–	20.3.2005 to 19.3.2008
Ang Seong Kang	0.625	–	200,000	–	200,000	1.3.2004 to 28.2.2012
Samuel	0.22	–	200,000	200,000	–	20.3.2005 to 19.3.2013

Share options (cont'd)

The options granted by the Company to employees of the Company, its subsidiaries and associate under the Scheme to subscribe for ordinary shares of $0.05 each at the respective exercisable price were as follows :

	Exercise price $	Aggregate options outstanding as at beginning of financial year	Options granted during the financial year	Options exercised during the financial year	Options cancelled during the financial year	Aggregate options outstanding as at end of financial year	Exercisable period
Employees of the	0.625	743,000	–	–	102,000	641,000	1.3.2004 to 28.2.2012
Company	0.22	871,000	–	857,000	–	14,000	20.3.2005 to 19.3.2013
Employees of the	0.625	730,000	–	–	45,000	685,000	1.3.2004 to 28.2.2012
subsidiaries	0.22	337,000	–	300,000	28,000	9,000	20.3.2005 to 19.3.2013
Employees of an	0.625	171,000	–	–	28,000	143,000	1.3.2004 to 28.2.2007
associate	0.22	176,000	–	176,000	–	–	20.3.2005 to 19.3.2008

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

During the financial year, 1,883,000 shares of the Company were issued by virtue of the exercise of options to take up unissued shares of the Company.

The options granted by the Company do not entitle the holders of options, by virtue of such holdings, to any right to participate in any share issue of any other corporation.

There were no options granted during the financial year.

Audit Committee

The audit committee performed the functions specified in the Singapore Companies Act, Cap. 50. The functions performed are detailed in the Report on Corporate Governance.

Auditors

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

On behalf of the board of directors,

S Chandra Das
Director

Ang Seong Kang Samuel
Director

Singapore
28 March 2006

Statement by Directors

Pursuant to Section 201(15)

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, consolidated profit and loss account, statements of changes in equity, and consolidated cash flow statement together with the notes thereto are drawn up so as to give a true and fair view of the state of affairs of the Group and of the Company as at 31 December 2005 and of the results, changes in equity and cash flows of the Group and the changes in equity of the Company for the financial year ended on that date, 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.

On behalf of the board of directors,

S Chandra Das
Director

Ang Seong Kang Samuel
Director

Singapore
28 March 2006

Auditors' Report

to the Members of Nera Telecommunications Ltd

We have audited the accompanying financial statements of Nera Telecommunications Ltd (the "Company") and its subsidiaries (the "Group") set out on pages 41 to 85, for the financial year ended 31 December 2005. 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.

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 consolidated financial statements of the Group and the balance sheet and statement of changes in equity of the Company are properly drawn up in accordance with the provisions of the Singapore Companies Act, Cap. 50 (the "Act") and Singapore Financial Reporting Standards so as to give a true and fair view of the state of affairs of the Group and of the Company as at 31 December 2005 and the results, changes in equity and cash flows of the Group and the changes in equity of the Company for the financial year ended on that date; and

(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.

ERNST & YOUNG
Certified Public Accountants

Singapore
28 March 2006

Balance Sheets

as at 31 December 2005

		Group		Company	
	Note	2005 $'000	2004 $'000	2005 $'000	2004 $'000
			(As restated)		(As restated)
Non-current assets					
Fixed assets	3	10,703	10,080	3,809	4,434
Investment in subsidiaries	4	–	–	9,580	9,580
Investment in an associate	5	1,274	2,720	199	199
Deferred tax assets	26	2,612	1,630	682	787
Current assets					
Stocks	6	35,990	32,223	7,851	8,572
Contract work-in-progress	7	11,444	10,631	11,444	10,631
Trade receivables	8	35,131	38,429	16,725	20,251
Other receivables, deposits and prepayments	9	3,663	4,235	373	925
Amount due from subsidiaries					
- trade	10	–	–	3,474	4,052
- non-trade	10	–	–	1,028	969
Amounts due from an associate					
- trade	10	11,066	6,482	10,861	6,482
- non-trade	10	1,263	3,939	1,263	3,939
Amounts due from related companies (trade)	10	6,948	8,150	1,987	4,992
Fixed deposits	11	18,026	17,000	18,026	17,000
Cash and bank balances		37,063	28,926	9,819	3,720
		160,594	150,015	82,851	81,533
Current liabilities					
Trade payables	12	28,034	28,797	12,608	14,350
Other payables and accruals	13	19,491	17,578	6,181	8,437
Amounts due to subsidiaries (trade)	10	–	–	2,620	1,757
Amounts due to an associate (trade)	10	18	1,595	–	–
Amounts due to related companies (trade)	10	6,136	6,956	6,069	6,895
Provision for taxation		5,981	4,373	3,517	3,034
Provision for warranty	14	4,249	3,748	1,682	2,286
Lease obligations	15	–	14	–	–
		63,909	63,061	32,677	36,759

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.

Balance Sheets

as at 31 December 2005

		Group		Company	
	Note	2005 $'000	2004 $'000	2005 $'000	2004 $'000
			(As restated)		(As restated)
Net current assets		96,685	86,954	50,174	44,774
Non-current liability					
Lease obligations	15	–	42	–	–
		111,274	101,342	64,444	59,774
Equity attributable to equity holders of the Company					
Share capital	16	18,094	18,000	18,094	18,000
Share premium	17	11,812	11,383	11,812	11,383
Revenue reserve		62,317	55,080	34,536	30,317
Capital reserve	18	4,951	4,951	–	–
Employee share option reserve	18	2	74	2	74
Translation reserve	18	(1,206)	(1,428)	–	–
		95,970	88,060	64,444	59,774
Minority interest		15,304	13,282	–	–
		111,274	101,342	64,444	59,774

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.

Consolidated Profit and Loss Account

for the year ended 31 December 2005

	Note	2005 $'000	2004 $'000 (As restated)
Turnover	19	260,601	200,429
Cost of sales		(209,375)	(154,057)
Gross profit		51,226	46,372
Other operating income	20	720	1,256
Distribution and selling expenses		(18,999)	(19,096)
Administrative expenses	21	(9,353)	(8,271)
Other operating expenses	21	(892)	(1,556)
Profit from operating activities		22,702	18,705
Financial income	24	1,578	1,159
Financial expenses	25	(374)	(297)
		23,906	19,567
Share of loss of an associate	5	(1,498)	(253)
Profit before tax		22,408	19,314
Tax	26	(4,085)	(2,840)
Net profit for the year		18,323	16,474
Attributable to :			
Equity holders of the Company		15,463	14,277
Minority interests		2,860	2,197
Profit attributable to shareholders		18,323	16,474
Basic earnings per share (cents)	27	4.28	3.97
Fully diluted earnings per share (cents)	27	4.28	3.95

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.

Statements of Changes in Equity

for the year ended 31 December 2005

Group **2005**	Share capital (Note 16) $'000	Share premium (Note 17) $'000
At 31 December 2004 as previously reported	18,000	11,383
Cumulative effects of adopting FRS 102 (Note 2.2(a)(ii))	–	–
At 31 December 2004 as restated	18,000	11,383
Effects of adopting FRS 39 (Note 2.2a(i))	–	–
At 1 January 2005 as restated	18,000	11,383
Foreign currency translation difference	–	–
Net income recognised directly in equity	–	–
Net profit for the year	–	–
Total recognised income and expenses for the year	–	–
Exercise of employee share options	94	429
Dividends (Note 28)	–	–
At 31 December 2005	18,094	11,812
2004		
At 31 December 2003 as previously reported	18,000	11,383
Cumulative effects of adopting FRS 102 (Note 2.2(a)(ii))	–	–
At 1 January 2004 as restated	18,000	11,383
Foreign currency translation difference	–	–
Net income recognised directly in equity	–	–
Net profit for the year	–	–
Total recognised income and expenses for the year	–	–
Equity-settled share options to employees	–	–
Dividends (Note 28)	–	–
At 31 December 2004	18,000	11,383

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.

Statements of Changes in Equity

for the year ended 31 December 2005

Attributable to equity holders of the Company					
Revenue reserve	Capital reserve	Employee share option reserve	Translation reserve	Minority interests	Total equity
	(Note 18)	(Note 18)	(Note 18)		
$'000	$'000	$'000	$'000	$'000	$'000
55,154	4,951	–	(1,428)	13,282	101,342
(74)	–	74	–	–	–
55,080	4,951	74	(1,428)	13,282	101,342
97	–	–	–	–	97
55,177	4,951	74	(1,428)	13,282	101,439
–	–	–	222	–	222
–	–	–	222	–	222
15,463	–	–	–	2,860	18,323
15,463	–	–	222	2,860	18,545
–	–	(72)	–	–	451
(8,323)	–	–	–	(838)	(9,161)
62,317	4,951	2	(1,206)	15,304	111,274
49,121	4,951	–	(1,055)	11,505	93,905
(38)	–	38	–	–	–
49,083	4,951	38	(1,055)	11,505	93,905
–	–	–	(373)	–	(373)
–	–	–	(373)	–	(373)
14,277	–	–	–	2,197	16,474
14,277	–	–	(373)	2,197	16,101
–	–	36	–	–	36
(8,280)	–	–	–	(420)	(8,700)
55,080	4,951	74	(1,428)	13,282	101,342

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.

Statements of Changes in Equity

for the year ended 31 December 2005

Company **2005**	Share capital	Share premium	Revenue reserve	Employee share option reserve	Total equity
	(Note 16) $'000	(Note 17) $'000	$'000	(Note 18) $'000	$'000
At 31 December 2004 as previously reported	18,000	11,383	30,391	–	59,774
Cumulative effects of adopting FRS 102 (Note 2.2(a)(ii))	–	–	(74)	74	–
At 31 December 2004 as restated	18,000	11,383	30,317	74	59,774
Effects of adopting FRS 39	–	–	97	–	97
At 1 January 2005 as restated	18,000	11,383	30,414	74	59,871
Net profit for the year	–	–	12,445	–	12,445
Exercise of employee share options	94	429	–	(72)	451
Dividends (Note 28)	–	–	(8,323)	–	(8,323)
At 31 December 2005	18,094	11,812	34,536	2	64,444
2004					
At 31 December 2003 as previously reported	18,000	11,383	28,691	–	58,074
Cumulative effects of adopting FRS 102 (Note 2.2(a)(ii))	–	–	(38)	38	–
At 1 January 2004 as restated	18,000	11,383	28,653	38	58,074
Net profit for the year	–	–	9,944	–	9,944
Equity-settled share options to employees	–	–	–	36	36
Dividends (Note 28)	–	–	(8,280)	–	(8,280)
At 31 December 2004	18,000	11,383	30,317	74	59,774

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.

Consolidated Cash Flow Statement

for the year ended 31 December 2005

	2005 $'000	2004 $'000 (As restated)
Cash flows from operating activities		
Profit before tax	22,408	19,314
Adjustments for :		
Depreciation of fixed assets	3,266	2,907
Loss/(gain) on disposal of fixed assets	47	(21)
Allowance for stock obsolescence	2,158	1,050
Allowance/(write-back) for doubtful trade debts	147	(309)
Provision for warranty	2,996	1,902
Interest expense	14	31
Interest income	(1,578)	(1,159)
Share of loss of an associate	1,498	253
Share-based payment expense	37	36
Operating profit before working capital changes	30,993	24,004
Decrease/(increase) in :		
Stocks	(5,921)	(18,099)
Contract work-in-progress	(813)	508
Trade receivables	3,400	(14,707)
Other receivables, deposits and prepayments	1,702	(269)
Changes in related companies and associate balances	(3,255)	332
(Decrease)/increase in :		
Trade payables	(763)	1,093
Other payables and accruals	1,913	4,811
Provision for warranty	(2,492)	(1,187)
Cash generated from/(used in) operations	24,764	(3,514)
Income tax paid	(4,589)	(3,553)
Interest paid	(14)	(31)
Net cash flows from/(used in) operating activities	20,161	(7,098)
Cash flows from investing activities		
Proceeds from disposal of fixed assets	59	39
Purchase of fixed assets	(3,994)	(4,654)
Interest received	1,578	1,159
Net cash used in investing activities	(2,357)	(3,456)
Cash flows from financing activities		
Repayment of lease obligations	(56)	(359)
Dividends paid to shareholders of the Company	(8,323)	(8,280)
Dividends paid to minority shareholders of subsidiary	(838)	(420)
Proceeds from issue of ordinary shares on exercise of employees' share options	414	–
Net cash used in financing activities	(8,803)	(9,059)
Net increase/(decrease) in cash and cash equivalents	9,001	(19,613)
Effect of exchange rate changes	162	(172)
Cash and cash equivalents at beginning of year	45,926	65,711
Cash and cash equivalents at end of year (Note 29)	55,089	45,926

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.

1. Corporate information

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.

2. Summary of significant accounting policies

2.1 Basis of preparation

The consolidated financial statements of the Group and the balance sheet and statement of changes in equity of the Company have been prepared in accordance with Singapore Financial Reporting Standards (FRS).

The financial statements have been prepared on a historical cost basis except for derivative financial instruments that have been measured at their fair values.

The financial statements are presented in Singapore dollars (SGD or $) and all values are rounded to the nearest thousand ($'000) except when otherwise indicated.

2.2 Changes in accounting policies

The accounting policies have been consistently applied by the Group and the Company and are consistent with those used in the previous financial year, except for the changes in accounting policies discussed below.

(a) Adoption of new FRS

On 1 January 2005, the Group and the Company adopted the following standards mandatory for annual financial periods beginning on or after 1 January 2005.

- FRS 39, Financial Instruments: Recognition and Measurement
- FRS 102, Share-based Payment

(i) FRS 39, Financial Instruments: Recognition and Measurement

The Group and the Company had adopted FRS 39 prospectively on 1 January 2005. At that date, financial assets within the scope of FRS 39 were classified as either financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments or available-for-sale financial assets, as appropriate. Financial assets that were classified as financial assets at fair value through profit or loss and available-for-sale financial assets were measured at fair value while loans and receivables and held-to-maturity investments were measured at amortised cost using the effective interest rate method. At 1 January 2005, differences between the carrying values and fair values of financial assets at fair value through profit or loss were recognised in revenue reserve.

At 1 January 2005, financial liabilities (other than derivative financial instruments) within the scope of FRS 39 were measured at amortised costs using the effective interest rate method. Any difference between the carrying values and amortised costs as at 1 January 2005 were recognised in revenue reserve.

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

2.2 Changes in accounting policies (cont'd)

(a) Adoption of new FRS (cont'd)

(i) FRS 39, Financial Instruments: Recognition and Measurement (cont'd)

According to FRS 39, all derivative financial instruments held by the Group and the Company were recognised as assets or liabilities in the balance sheets and classified as financial assets or financial liabilities at fair value through profit or loss. Fair value adjustments of derivative financial instruments, except for those designated as hedging instruments in cash flow hedges, were recognised in revenue reserve at 1 January 2005.

Under the transitional provisions of FRS 39, the change in accounting policy on 1 January 2005 resulted in net credit adjustment of $97,000 to the Group's and the Company's revenue reserve at that date.

(ii) FRS 102, Share-based Payment

The main impact of FRS 102 on the Group and the Company is the recognition of an expense and a corresponding entry to equity for share options granted to directors and employees.

The Group and the Company have applied FRS 102 retrospectively and have taken advantage of the transitional provisions of FRS 102 in respect of equity-settled awards. As a result, the Group and the Company have applied FRS 102 only to equity-settled awards granted after 22 November 2002 that had not vested on 1 January 2005.

Under the transitional provisions of FRS 102, the change in accounting policy has resulted in the following:

- At 1 January 2005, increases/(decreases) in the Group's and the Company's:
  - Employee share option reserve by $74,000 [2004: $38,000];
  - Revenue reserve by ($74,000) [2004: ($38,000)];
- For the year ended 31 December 2005, decreases in the Group's:
  - Profit for the year by $37,000 [2004: $36,000] due to an increase in the employee benefits expense;
  - Basic earnings per share by 0.01 cents (2004: 0.01 cents); and
  - Diluted earnings per share by 0.01 cents (2004: 0.01 cents).

(b) Other revised FRSs adopted

In addition, the Group adopted the following revised standards which did not result in any significant change in accounting policies:

FRS 1 (revised),	Presentation of Financial Statements
FRS 2 (revised),	Inventories
FRS 8 (revised),	Accounting Policies, Changes in Accounting Estimates and Errors
FRS 10 (revised),	Events after the Balance Sheet Date
FRS 16 (revised),	Property, Plant and Equipment
FRS 17 (revised),	Leases
FRS 21 (revised),	The Effects of Changes in Foreign Exchange Rates
FRS 24 (revised),	Related Party Disclosures
FRS 27 (revised),	Consolidated and Separate Financial Statements
FRS 28 (revised),	Investments in Associates
FRS 32 (revised),	Financial Instruments: Disclosure and Presentation
FRS 33 (revised),	Earnings Per Share

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

2.2 Changes in accounting policies (cont'd)

(c) FRS and INT FRS not yet effective

The Group has not applied the following FRS and Interpretations of Financial Reporting Standards ("INT FRS") that have been issued but are only effective for annual financial periods beginning on or after 1 December 2005:

(i) FRS 106, Exploration for and evaluation of mineral resources
This standard does not apply to the activities of the Group.

(ii) FRS 40, Investment property
This standard does not apply to the activities of the Group.

(iii) Amendments to FRS 19, Employee benefits relating to actuarial gains and losses, group plans and disclosures
The amendments introduce an option for an entity to recognise actuarial gains and losses in full as they arise, outside profit or loss, in a statement of changes in equity that shows total recognised gains and losses (sometimes called comprehensive income). Entities therefore have an option to recognise actuarial gains and losses in profit or loss, either in the period in which they occur or spread over the service lives of the employees. The adoption of the amendments is not expected to have significant impact on the financial statements of the Group.

(iv) Amendments to FRS 39, Cash flow hedge accounting for forecast intragroup transactions
This amended section of the standard does not apply to the activities of the Group.

(v) INT FRS 104, Determining whether an arrangement contains a lease
This interpretation requires the determination of whether an arrangement is, or contains a lease to be based on the substance of the arrangement and requires an assessment of whether the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset. The adoption of this interpretation is not expected to have significant impact on the financial statements of the Group.

(vi) INT FRS 105, Rights to interests arising from decommissioning, restoration and environmental rehabilitation funds
This interpretation does not apply to the activities of the Group.

(vii) INT FRS 106, Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment
This interpretation does not apply to the activities of the Group.

(viii) INT FRS 107, Applying the Restatement Approach under FRS 29 Financial Reporting in Hyperinflationary Economies
This interpretation does not apply to the activities of the Group.

(ix) FRS 107, Financial instruments : Disclosures
The new standard deals with the revision and enhancement on the disclosures of an entity's exposure to risks and how those risks are managed. The adoption of the standard is not expected to have significant impact on the financial statements of the Group.

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

2.3 Significant accounting estimates and judgements

Estimates, assumptions concerning the future and judgements are made in the preparation of the financial statements. They affect the application of the Group's accounting policies, reported amounts of assets, liabilities, income and expenses, and disclosures made. They are assessed on an on-going basis and are based on experience and relevant factors, including expectations of future events that are believed to be reasonable under the circumstances.

Key sources of estimation uncertainty

The key assumption concerning the future and other key sources of estimation uncertainty at the balance sheet date, that has a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year is discussed below.

Income taxes

The Group has exposure to income taxes in numerous jurisdictions. Significant judgement is involved in determining the group-wide provision for income taxes. There are certain transactions and computations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for expected tax issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recognised, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made. The carrying amount of the Group's tax payables at 31 December 2005 was $5,981,000 (2004: $4,373,000).

2.4 Functional and foreign currency

(a) Functional currency

The management has determined the currency of the primary economic environment in which the Company operates i.e. functional currency, to be SGD. Sales prices and major costs of providing goods and services including major operating expenses are primarily influenced by fluctuations in SGD.

(b) Foreign currency transactions

Transactions in foreign currencies are measured in the respective functional currencies of the Company and its subsidiaries and are recorded on initial recognition in the functional currencies at exchange rates approximating those ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the closing rate of exchange ruling at the balance sheet date. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Exchange differences arising on the settlement of monetary items or on translating monetary items at the balance sheet date are recognised in the profit and loss account except for exchange differences arising on monetary items that form part of the Group's net investment in foreign subsidiaries, which are recognised initially in a separate component of equity as foreign currency translation reserve in the consolidated balance sheet and recognised in the consolidated profit and loss account on disposal of the subsidiary. In the Company's separate financial statements, such exchange differences are recognised in the profit and loss account.

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

2.4 Functional and foreign currency (cont'd)

(c) Foreign currency translation

The results and financial position of foreign operations are translated into SGD using the following procedures:

- Assets and liabilities for each balance sheet presented are translated at the closing rate ruling at that balance sheet date; and
- Income and expenses for each income statement are translated at average exchange rates for the year, which approximates the exchange rates at the dates of the transactions.

All resulting exchange differences are recognised in a separate component of equity as foreign currency translation reserve.

On disposal of a foreign operation, the cumulative amount of exchange differences deferred in equity relating to that foreign operation is recognised in the profit and loss account as a component of the gain or loss on disposal.

2.5 Principles of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at the balance sheet date. The financial statements of the subsidiaries are prepared for the same reporting date as the parent company. Consistent accounting policies are applied for like transactions and events in similar circumstances.

All intra-Group balances, transactions, income and expenses and profits and losses resulting from intra-Group transactions that are recognised in assets, are eliminated in full.

Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. Acquisitions of subsidiaries are accounted for using the purchase method.

Minority interests represent the portion of profit or loss and net assets in subsidiaries not held by the Group. They are presented in the consolidated balance sheet within equity, separately from the parent shareholders' equity, and are separately disclosed in the consolidated profit and loss account.

2.6 Subsidiaries

A subsidiary is an entity over which the Group has the power to govern the financial and operating policies so as to obtain benefits from its activities. The Group generally has such power when it 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.

In the Company's separate financial statements, investments in subsidiaries are accounted for at cost less any impairment losses.

2.7 Associates

An associate is an entity, not being a subsidiary or a joint venture, in which the Group has significant influence. This generally coincides with the Group having 20% or more of the voting power, or has representation on the board of directors.

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

2.7 Associates (cont'd)

The Group's investments in associates are accounted for using the equity method. Under the equity method, the investment in associate is carried in the balance sheet at cost plus post-acquisition changes in the Group's share of net assets of the associate. The Group's share of the profit or loss of the associate is recognised in the consolidated profit and loss account. Where there has been a change recognised directly in the equity of the associate, the Group recognises its share of such changes. After application of the equity method, the Group determines whether it is necessary to recognise any additional impairment loss with respect to the Group's net investment in the associate. The associate is equity accounted for from the date the Group obtains significant influence until the date the Group ceases to have significant influence over the associate.

Goodwill relating to an associate is included in the carrying amount of the investment.

Any excess of the Group's share of the net fair value of the associate's identifiable assets, liabilities and contingent liabilities over the cost of the investment is excluded from the carrying amount of the investment and is instead included as income in the determination of the Group's share of the associate's profit or loss in the period in which the investment is acquired.

When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

The most recent available audited financial statements of the associates are used by the Group in applying the equity method. Where the dates of the audited financial statements used are not co-terminous with those of the Group, the share of results is arrived at from the last audited financial statements available and un-audited management financial statements to the end of the accounting period. Consistent accounting policies are applied for like transactions and transactions and events in similar circumstances.

In the Company's separate financial statements, investments in associates are accounted for at cost less impairment losses.

2.8 Related parties/related companies

Related parties refer to the directors and key management personnel of the Company.

Related companies in these financial statements refer to the Nera ASA group of companies.

2.9 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 its working condition for its intended use. Expenditure incurred after the fixed assets have been put into operation, such as repairs and maintenance, is normally charged to the profit and loss account in the period in which the costs are incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of an item of fixed assets beyond its originally assessed standard of performance, the expenditure is capitalised as an additional cost of fixed assets.

Depreciation of a fixed asset begins when it is available for use and is computed on a straight-line basis over the estimated useful life of the asset 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

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

2.9 Fixed assets (cont'd)

The carrying values of fixed assets are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable.

The residual values, useful life and depreciation method are reviewed at each financial year-end to ensure that the amount, method and period of depreciation are consistent with previous estimates and the expected pattern of consumption of the future economic benefits embodied in the items of fixed assets.

An item of fixed asset is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset is included in the profit and loss account in the year the asset is derecognised.

2.10 Impairment of non-financial assets

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset (i.e. an intangible asset with an indefinite useful life, an intangible asset not yet available for use, or goodwill acquired in a business combination) is required, the Group makes an estimate of the asset's recoverable amount.

An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. Impairment losses of continuing operations are recognised in the profit and loss account as 'impairment losses'.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses recognised for an asset may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Reversal of an impairment loss is recognised in the profit and loss account.

2.11 Financial assets

Financial assets within the scope of FRS 39 are classified as either financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, or available-for-sale financial assets, as appropriate. Financial assets are recognised on the balance sheet when, and only when, the Group becomes a party to the contractual provisions of the financial instrument.

When financial assets are recognised initially, they are measured at fair value, plus, in the case of financial assets not at fair value through profit or loss, directly attributable transaction costs. The Group determines the classification of its financial assets after initial recognition and, where allowed and appropriate, re-evaluates this designation at each financial year-end.

All regular way purchases and sales of financial assets are recognised on the trade date i.e. the date that the Group commits to purchase the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace concerned.

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

2.11 Financial assets (cont'd)

(a) Financial assets at fair value through profit or loss

Financial assets classified as held for trading are included in the category 'financial assets at fair value through profit or loss'. Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term.

The Group does not designate any financial assets not held for trading as financial assets at fair value through profit and loss.

(b) Loans and receivables

Non-derivative financial assets with fixed or determinable payments that are not quoted in an active market are classified as loans and receivables. Such assets are carried at amortised cost using the effective interest method. Gains and losses are recognised in profit and loss account when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

2.12 Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, short-term deposits and short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Cash and short term deposits carried in the balance sheets are classified and accounted for as loans and receivables under FRS 39. The accounting policy for this category of financial assets is stated in Note 2.11.

2.13 Trade and other receivables

Trade and other receivables, including amounts due from subsidiaries, associate and related companies are classified and accounted for as loans and receivables under FRS 39. The accounting policy for this category of financial assets is stated in Note 2.11.

An allowance is made for uncollectible amounts when there is objective evidence that the Group will not be able to collect the debt. Bad debts are written off when identified. Further details on the accounting policy for impairment of financial assets are stated in Note 2.14.

2.14 Impairment of financial assets

The Group assesses at each balance sheet date whether there is any objective evidence that a financial asset or group of financial assets is impaired.

Assets carried at amortised cost

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced through the use of an allowance account. When there is an impairment loss, the carrying amount of the asset may be reduced either directly or through the use of an allowance accounts. The amount of the loss is recognised in the profit and loss account.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in the profit and loss account, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

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

2.15 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 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.

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

2.16 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.

2.17 Trade and other payables

Liabilities for trade and other amounts payable, which are normally settled on 30-90 day terms, and payables to subsidiaries, associate and related companies are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method.

Gains and losses are recognised in the profit and loss account when the liabilities are derecognised as well as through the amortisation process.

2.18 Derecognition of financial assets and liabilities

(a) Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- The contractual rights to receive cash flows from the asset have expired;
- The Group retains the contractual rights to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement; or
- The Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

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

2.18 Derecognition of financial assets and liabilities (cont'd)

(a) Financial assets (cont'd)

Where continuing involvement takes the form of a written and/or purchased option on the transferred asset, the extent of the Group's continuing involvement is the amount of the transferred asset that the Group may repurchase, except that in the case of a written put option on an asset measured at fair value, the extent of the Group's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

On derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of (a) the consideration received (including any new asset obtained less any new liability assumed) and (b) any cumulative gain or loss that has been recognised directly in equity is recognised in the profit and loss account.

(b) Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the profit and loss account.

2.19 Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) where, 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. Where the Group expects some or all of a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the profit and loss account net of any reimbursement.

If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as finance costs.

Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate. If it is no longer probable that an outflow of resources embodying economic benefits will be required to settle the obligation, the provision is reversed.

Provision for warranty

The warranty provision represents the management's estimate of the Group's liability to repair or replace products still 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 sales services.

2.20 Employee benefits

(a) Defined contribution plans

The Group participates in the national pension schemes as defined by the laws of the countries in which it has operations. In particular, the Singapore companies in the Group make contributions to the Central Provident Fund scheme in Singapore, a defined contribution pension scheme. Contributions to national pension schemes are recognised as an expense in the period in which the related service is performed.

(b) Employee leave entitlement

Employee entitlements to annual leave are recognised as a liability when they accrue to employees. The estimated liability for leave is recognised for services rendered by employees up to balance sheet date.

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

2.20 Employee benefits (cont'd)

(c) Employee share option plans

Employees (including directors and senior executives) of the Group receive remuneration in the form of share-based payment transactions, whereby employees render services as consideration for share options ('equity-settled transactions').

Equity-settled transactions

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date on which the share options are granted. In valuing the share options, no account is taken of any performance conditions, other than conditions linked to the price of the shares of the company ('market conditions'), if applicable.

The cost of equity-settled transactions is recognised, together with a corresponding increase in the employee share option reserve, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award ('the vesting date'). The cumulative expense recognised for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The profit or loss charge or credit for a period represents the movement in cumulative expense recognised as at the beginning and end of that period.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vested irrespective of whether or not the market condition is satisfied, provided that all other performance conditions are satisfied.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified. In addition, an expense is recognised for any modification, which increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

The Group has taken advantage of the transitional provisions of FRS 102 in respect of equity-settled awards and has applied FRS 102 only to equity-settled awards granted after 22 November 2002 that had not vested on or before 1 January 2005.

2.21 Leases

(a) Finance lease

Finance leases, which effectively transfer to the Group substantially all the risks and rewards incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased item or, if lower, at the present value of the minimum lease payments. 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. Contingent rents, if any, are charged as expenses in the period in which they are incurred.

Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset and the lease term, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term.

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

2.21 Leases (cont'd)

(b) Operating lease

Leases where the lessor effectively retains substantially all the risks and benefits of ownership of the leased item 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.

2.22 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.

(a) 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.

(b) 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. Where the contract outcome cannot be measured reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

(c) Dividend income

Revenue is recognised when dividends are declared payable.

(d) Interest income

Revenue is recognised on an accrual basis (using the effective interest method) unless collectibility is in doubt.

2.23 Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised in the profit and loss account over the period necessary to match them on a systematic basis to the costs that it is intended to compensate.

2.24 Income taxes

(a) Current tax

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the balance sheet date.

(b) Deferred tax

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

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

2.24 Income taxes (cont'd)

(b) Deferred tax (cont'd)

Deferred income tax assets are recognised for all deductible temporary differences, carry-forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry-forward of unused tax credits and unused tax losses can be utilised except in respect of deductible temporary differences associated with investments in subsidiaries and associates, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised. Unrecognised deferred income tax assets are reassessed at each balance sheet date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Income tax relating to items recognised directly in equity is recognised in equity.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

(c) Sales tax

Revenues, expenses and assets are recognised net of the amount of sales tax except:

- Where the sales tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case the sales tax is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- Receivables and payables that are stated with the amount of sales tax included.

The net amount of sales tax recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the balance sheet.

2.25 Derivative financial instruments and hedging activities

The Group uses derivative financial instruments such as forward currency contracts to hedge its risks associated with foreign currency fluctuations. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivative financial instruments are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Any gains or losses arising from changes in fair value on derivative financial instruments that do not qualify for hedge accounting are taken to the profit and loss account for the year.

The fair value of forward currency contracts is calculated by reference to current forward exchange rates for contracts with similar maturity profiles.

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

2.26 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.

Segment accounting policies are the same as the policies of the Group as disclosed in the preceding paragraphs. The Group generally accounts for inter-segment sales transfers as if the sales or transfers were to third parties at current market prices.

3. Fixed assets

Group	Leasehold land and building	Leasehold improvements	Plant and other equipment	Furniture and fittings	Motor vehicles	Equipment held for leasing	Total
	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Cost							
At 1 January 2004	5,150	2,045	13,500	1,200	1,841	4,069	27,805
Additions	–	60	3,102	232	280	980	4,654
Disposals	–	(32)	(355)	(17)	(363)	–	(767)
Currency alignment	–	(6)	(57)	(8)	(5)	(13)	(89)
At 31 December 2004 and 1 January 2005	5,150	2,067	16,190	1,407	1,753	5,036	31,603
Additions	–	232	3,107	6	20	629	3,994
Disposals	–	(53)	(1,035)	(15)	(429)	(50)	(1,582)
Written off	–	–	(1)	–	–	–	(1)
Currency realignment	–	7	34	2	1	10	54
At 31 December 2005	5,150	2,253	18,295	1,400	1,345	5,625	34,068
Accumulated depreciation							
At 1 January 2004	2,503	1,621	10,293	804	1,378	2,828	19,427
Charge for the year	286	117	1,302	112	300	790	2,907
Disposals	–	(29)	(349)	(10)	(361)	–	(749)
Currency alignment	–	(6)	(43)	(5)	(4)	(4)	(62)
At 31 December 2004 and 1 January 2005	2,789	1,703	11,203	901	1,313	3,614	21,523
Charge for the year	286	80	1,760	105	167	868	3,266
Disposals	–	(11)	(985)	(2)	(428)	(50)	(1,476)
Written off	–	–	(1)	–	–	–	(1)
Currency realignment	–	8	35	4	1	5	53
At 31 December 2005	3,075	1,780	12,012	1,008	1,053	4,437	23,365
Net book value							
At 31 December 2004	2,361	364	4,987	506	440	1,422	10,080
At 31 December 2005	2,075	473	6,283	392	292	1,188	10,703

3. Fixed assets (cont'd)

Company	Lease-hold land and building	Lease-hold improve-ments	Plant and other equip-ment	Furniture and fittings	Motor vehicles	Equipment held for leasing	Total
	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Cost							
At 1 January 2004	5,150	734	632	434	1,439	4,067	12,456
Additions	–	18	346	91	229	535	1,219
Transfers	–	–	6	4	–	(10)	–
Disposals	–	(32)	(270)	–	(364)	–	(666)
At 31 December 2004 and 1 January 2005	5,150	720	714	529	1,304	4,592	13,009
Additions	–	–	17	–	–	639	656
Disposals	–	–	(14)	–	(427)	(41)	(482)
At 31 December 2005	5,150	720	717	529	877	5,190	13,183
Accumulated depreciation							
At 1 January 2004	2,503	602	552	266	1,163	2,826	7,912
Charge for the year	286	72	69	44	212	639	1,322
Transfers	–	–	6	3	–	(9)	–
Disposals	–	(29)	(268)	–	(362)	–	(659)
At 31 December 2004 and 1 January 2005	2,789	645	359	313	1,013	3,456	8,575
Charge for the year	286	26	111	43	97	718	1,281
Disposals	–	–	(14)	–	(427)	(41)	(482)
At 31 December 2005	3,075	671	456	356	683	4,133	9,374
Net book value							
At 31 December 2004	2,361	75	355	216	291	1,136	4,434
At 31 December 2005	2,075	49	261	173	194	1,057	3,809

As at 31 December 2005, 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

Motor vehicles of the Group with net book values of approximately $Nil (2004 : $69,000), were acquired under finance leases.

4. Investment in subsidiaries

	Company 2005 $'000	Company 2004 $'000
Unquoted shares, at cost	4,379	4,379
Quoted shares, at cost	5,264	5,264
Carrying amount before impairment loss	9,643	9,643
Impairment loss	(63)	(63)
Carrying amount after impairment loss	9,580	9,580

The details and the principal activities of the subsidiaries are :

Name of Company	Principal activity	Country of incorporation and place of business	Percentage of equity interest		Cost of investment	
			2005 %	2004 %	2005 $'000	2004 $'000
Nera Infocom Pte Ltd ß	Dormant	Singapore	100	100	^	^
Nera Electronics Ltd ß	To provide electronics contract manufacturing services of printed circuit boards assemblies, microwave radios and complete products	Singapore	68.27	68.27	5,264	5,264
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

4. Investment in subsidiaries (cont'd)

Name of Company	Principal activity	Country of incorporation and place of business	Percentage of equity interest		Cost of investment	
			2005 %	2004 %	2005 $'000	2004 $'000
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#ø	Sales and distribution, design, engineering, servicing, installation and maintenance of transmission networks and satellite communications and information technology networks	Indonesia	100	100	347	347
Nera Telecommunications (Australia) Pty Ltd##ø	Sales and distribution, design, engineering, servicing, installation and maintenance of transmission networks and satellite communications and information technology networks	Australia	100	100	589	589
Nera Telecommunications (India) Pvt Ltd+ø	Sales and distribution, design, engineering, servicing, installation and maintenance of transmission networks and satellite communications and information technology networks	India	100	100	570	570
					9,643	9,643

4. Investment in subsidiaries (cont'd)

Name of Company	Principal activity	Country of incorporation and place of business	Percentage of equity interest		Cost of investment	
			2005 %	2004 %	2005 $'000	2004 $'000
Held by subsidiary						
Nera Electronics Inc. @	Marketing of electronics manufacturing services	United States of America	100	100		
Nera Electronics (India) Pvt Ltd ++	To provide electronics contract manufacturing services of printed circuit boards assemblies, microwave radios and complete products	India	100	–		

ß *Audited by Ernst & Young Singapore*
* *Audited by member firms of Ernst & Young Global in the respective countries*
# *Audited by Grant Thornton Hendrawinata, Indonesia*
Audited by Stirling SCI, Australia
+ *Audited by Lovelock & Lewes, Chennai*
++ *Audited by Prasad & Srinath, Chennai*
@ *Not required to be audited by laws of its country of incorporation*
ø *The subsidiaries are not considered to be significant subsidiaries of the Group as contribution from these subsidiaries is not material.*
^ *Amounts less than $1,000*

During the financial year, a subsidiary, Nera Electronics Ltd incorporated a wholly-owned subsidiary, Nera Electronics (India) Pvt Ltd, with an authorised capital, paid up capital and advance towards share capital of Rupees 90,000,000, Rupees 1,000,000 and Rupees 24,087,000 respectively.

5. Investment in an associate

	Group		Company	
	2005 $'000	2004 $'000	2005 $'000	2004 $'000
Unquoted equity shares, at cost	199	199	199	199
Share of post-acquisition :-				
Revenue reserve	1,806	3,304	–	–
Translation reserve	(731)	(783)	–	–
Carrying amount of investment	1,274	2,720	199	199

5. Investment in an associate (cont'd)

As at 31 December, the Group had the following associate :

Name of Company	Principal activity	Country of incorporation and place of business	Effective equity interest held by the Group	
			2005 %	2004 %
Nera (Malaysia) Sdn Bhd*	Sale, installation and maintenance of telecommunications equipment	Malaysia	30	30

* *Audited by Ernst & Young Malaysia*

The summarised financial information of the associate is as follows :-

	2005 $'000	2004 $'000
Assets and liabilities		
Current assets	20,790	19,652
Non-current assets	457	429
Total assets	21,247	20,081
Current liabilities	17,010	11,029
Results :-		
Revenue	11,585	16,451
Loss for the year	(4,993)	(844)

6. Stocks

	Group		Company	
	2005 $'000	2004 $'000	2005 $'000	2004 $'000
Raw materials, at net realisable value	12,046	5,762	–	–
Work-in-progress, at cost	10,818	8,888	–	–
Finished goods, at cost	4,280	4,653	–	–
Finished goods, at net realisable value	8,846	12,920	7,851	8,572
	35,990	32,223	7,851	8,572

During the financial year, the Group and the Company wrote-down $2,158,000 and $522,000 (2004 : $1,050,000 and wrote-back $26,000) of stocks respectively which are recognised as expense in the profit and loss account.

7. Contract work-in-progress

	Group and Company	
	2005 $'000	2004 $'000
Contract work in progress comprise:-		
Cost incurred to date	62,770	87,028
Profits recognised to date	6,460	12,035
	69,230	99,063
Progress billings	(57,786)	(88,432)
	11,444	10,631
Gross amount due from customers for contract work	11,444	10,631

8. Trade receivables

	Group		Company	
	2005 $'000	2004 $'000	2005 $'000	2004 $'000
Trade receivables	36,837	40,229	18,124	21,573
Less : allowance for doubtful debts	(1,706)	(1,800)	(1,399)	(1,322)
	35,131	38,429	16,725	20,251

Trade receivables

Trade receivables are non-interest bearing and are generally on 30 to 90 days' term. They are recognised at their original invoice amounts which represents their fair values on initial recognition.

As at 31 December 2005, the following amounts are included in trade receivables for the Group and the Company :-

	Group		Company	
	2005 $'000	2004 $'000	2005 $'000	2004 $'000
Retention sums relating to construction contract	98	63	98	63
Trade receivables denominated in a currency other than the entity's functional currency :				
- denominated in US dollars	25,443	19,247	12,368	12,023
- denominated in Euro dollars	236	1,229	1	4
- denominated in Norwegian Kroner	1,416	3,039	1,189	1,180
- denominated in other currencies	169	182	104	101

Allowance for doubtful receivables

For the year-ended 31 December 2005, the Group and the Company wrote-down $147,000 and $81,000 (2004 : wrote-back $309,000 and $225,000) of debts respectively which are recognised as expense in the profit and loss account, subsequent to debt recovery assessment performed on trade receivables as at 31 December 2005.

9. Other debtors, deposits and prepayments

	Group		Company	
	2005 $'000	2004 $'000	2005 $'000	2004 $'000
Prepayments	190	318	63	59
Deposits	589	151	76	18
Advances to suppliers	326	763	153	541
Staff advances	17	119	17	45
Other debtors	1,411	851	64	79
Tax recoverable	1,130	2,033	–	–
Dividend receivable	–	–	–	183
	3,663	4,235	373	925

10. Amounts due from/(to) an associate (trade and non-trade)/Amount due from/(to) subsidiaries (trade and non-trade)/Amount due from/(to) related companies (trade and non-trade)

The non-trade balances are unsecured, repayable on demand and are to be settled in cash. The balance due from subsidiaries of $1,363,000 (2004 : $4,377,000) bears interest at 4.25% to 10% (2004 : 4.25% to 11%) per annum. The balance due from an associate of $12,329,000 (2004 : $10,421,000) bears interest at 4.25% to 9.31% (2004 : 4.25% to 9.55%) per annum.

11. Fixed deposits

Included in fixed deposits of the Group and the Company as at year end is fixed deposits with maturity terms between 1 to 3 months (2004 : 1 to 2 months) from the date of deposit amounting to $18,026,000 (2004 : $17,000,000).

Fixed deposits of the Group and the Company earned interest of 1.03% to 2.875% (2004 : 0.3125% to 1.16%) per annum, which are also the effective interest rates, during the financial year.

12. Trade payables

Trade payables are non-interest bearing and are normally settled on 30 to 90 days' term.

Included in trade payables is a fair value of forward currency contract amounting to $227,000 which has been recognised in the profit and loss account.

As at 31 December 2005, the following amounts denominated in a currency other than the entity's functional currency are included in trade payables for the Group and the Company:-

	Group		Company	
	2005 $'000	2004 $'000	2005 $'000	2004 $'000
Denominated in US dollars	15,676	10,674	4,770	3,375
Denominated in Euro dollars	101	1,070	1	1,070
Denominated in other currencies	2,633	90	250	90

13. Other payables and accruals

	Group		Company	
	2005 $'000	2004 $'000	2005 $'000	2004 $'000
Accrued payroll expenses	6,060	5,832	3,294	3,605
Accrued contract and material cost	3,393	2,617	–	2,095
Other accrued operating expenses	6,406	3,362	1,153	1,400
Customer advances	3,188	4,690	948	797
Other creditors	444	1,077	786	540
	19,491	17,578	6,181	8,437

14. Provision for warranty

A provision is recognised for expected warranty claims on goods and services sold in the past 18 months based on past experience of the level of repairs and returns. The majority of the cost is expected to be incurred in the next financial year.

Movements in provision for warranty during the year are as follows :-

	Group		Company	
	2005 $'000	2004 $'000	2005 $'000	2004 $'000
At 1 January	3,748	3,033	2,286	1,588
Provision for the year	5,308	3,932	1,952	1,217
Write-back of provision	(2,312)	(2,030)	(1,732)	–
Utilised during the year	(2,492)	(1,247)	(824)	(519)
Currency realignment	(3)	60	–	–
At 31 December	4,249	3,748	1,682	2,286

15. Lease obligations

	2005			2004		
	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	–	–	–	49	(7)	42
Not later than 1 year	–	–	–	17	(3)	14
Total	–	–	–	66	(10)	56

During the financial year, lease obligations have been fully settled.

16. Share capital

	Group and Company			
	Number of shares			
	2005 $'000	2004 $'000	2005 $'000	2004 $'000
Authorised :-				
Ordinary shares of $0.05 each	800,000	800,000	40,000	40,000
Issued and fully paid :-				
At 1 January	360,000	360,000	18,000	18,000
Issued for cash under employee share option scheme (Note 30)	1,833	–	94	–
At 31 December	361,833	360,000	18,094	18,000

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.

The Company has an employee share option scheme (Note 30) under which options to subscribe for the Company's ordinary shares have been granted to employees.

17. Share premium

	Group and Company	
	2005 $'000	2004 $'000
At 1 January	11,383	11,383
Premium on issue of 1,883,000 ordinary shares of S$0.22 each following the exercise of employee share options	429	–
At 31 December	11,812	11,383

The share premium may be applied only for the purposes specified in the Singapore Companies Act, Cap. 50. The balance is not available for distribution of dividends except in the form of shares.

18. Other reserves

(a) Capital reserve

The capital reserve resulted from the dilution of interest in a subsidiary.

(b) Employee share option reserve

Employee share option reserve represents the equity-settled share options granted to employees (Note 30). The reserve is made up of the cumulative value of services received from employees recorded on grant of equity-settled share options.

18. Other reserves (cont'd)

(b) Employee share option reserve (cont'd)

	Group		Company	
	2005 $'000	2004 $'000	2005 $'000	2004 $'000
At 1 January as previously reported	–	–	–	–
Cumulative effects of adopting FRS 102 (Note 2.2(a)(ii))	74	38	74	38
At 1 January as restated	74	38	74	38
Grant of equity-settled share options	–	36	–	36
Exercise of share options	(72)	–	(72)	–
Balance at 31 December	2	74	2	74

c) Translation reserve

The translation reserve is used to record exchange differences arising from the translation of the financial statements of foreign operations whose functional currencies are different from that of the Group's presentation currency.

	Group		Company	
	2005 $'000	2004 $'000	2005 $'000	2004 $'000
At 1 January	(1,428)	(1,055)	–	–
Net effect of exchange differences	222	(373)	–	–
At 31 December	(1,206)	(1,428)	–	–
Net effect of exchange differences arises from :-				
Translation of financial statements of foreign operations	222	(373)	–	–

19. Turnover

	Group	
	2005 $'000	2004 $'000
Sales of goods	241,332	180,230
Services rendered	19,269	20,199
	260,601	200,429

20. Other operating income

	Group	
	2005 $'000	2004 $'000
Commission income	372	1,189
Gain on disposal of fixed assets	–	21
Sales of scrap	22	34
Grant income	248	12
Others	78	–
	720	1,256

21. Administrative and other operating expenses

Administrative and other operating expenses include :

	Group	
	2005 $'000	2004 $'000
Auditors' remuneration :-		
Auditors of the Company	106	99
Other auditors	73	61
Non-audit fees paid to :-		
Auditors of the Company	17	86
Other auditors	–	–
Foreign exchange loss, net	86	198
Loss on disposal of fixed assets	47	–

22. Personnel expenses and employee benefits

	Group	
	2005 $'000	2004 $'000
Wages, salaries and bonuses	18,284	16,579
Pension contributions	2,102	1,788
Other personnel benefits	1,252	1,153
	21,638	19,520

Personnel expenses include directors and executive officers' remuneration as shown in Note 32.

23. Directors' remuneration

The number of directors of the Company whose remunerations fell within the bands indicated was as follows :-

	2005	2004
$500,000 and above	1	1
$250,000 to $499,999	–	–
Below $250,000	5	9
	6	10

24. Financial income

	Group	
	2005 $'000	2004 $'000
Interest income from :-		
Bank deposits	820	380
An associate	758	777
A related company	–	2
	1,578	1,159

25. Financial expenses

	Group	
	2005 $'000	2004 $'000
Interest expense for :-		
Lease obligations	(8)	(31)
Others	(6)	–
Bank charges	(360)	(266)
	(374)	(297)

26. Tax

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

	Group	
	2005 $'000	2004 $'000
Current tax :-		
Current year	5,908	4,401
Foreign tax	463	325
Over provision in respect of prior years	(1,207)	(1,932)
Deferred tax :-		
Current year	(990)	(133)
Over recognition of deferred tax assets in prior year	61	79
Effect on prior years due to change in tax rate	(9)	100
Effects from previously unrecognised deferred tax assets	(107)	–
Realisation of deferred tax assets previously not recognised	(34)	–
	4,085	2,840

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 :

Accounting profit	22,408	19,314
Tax at 20% (2004 : 20%)	4,482	3,862
Tax effect of expenses that are not deductible in determining taxable profit	429	418
Realisation of deferred tax assets previously not recognised	(34)	–
Double tax deduction	–	(9)
Tax exemption	(22)	(22)
Additional tax on foreign income	–	20
Over provision in respect of prior years	(1,146)	(1,853)
Difference in tax rates applicable to subsidiaries and associates	(33)	146
Tax effect of reduction in tax rates	(9)	100
Deferred tax assets not recognised by subsidiaries	230	147
Share of results of an associate	300	–
Utilisation of previously unrecognised tax losses	(107)	–
Others	(5)	31
	4,085	2,840

26. Tax (cont'd)

Deferred income tax assets and liabilities

Deferred tax as at 31 December related to the following:

	Group		Company	
	2005 $'000	2004 $'000	2005 $'000	2004 $'000
Deferred tax liability :-				
Excess of tax over book				
depreciation of fixed assets	(665)	(578)	(276)	(296)
Deferred tax assets :-				
General provisions	3,244	2,208	958	1,083
Tax losses	33	–	–	–
Net deferred tax assets	2,612	1,630	682	787

Unrecognised tax losses

The Group has tax losses of approximately $1,341,000 (2004 : $1,132,000) that are available for offset against future taxable profits of the companies in which the losses arose for which no deferred tax asset is recognised due to uncertainty of its recoverability. The use of these tax losses is subject to the agreement of the tax authorities and compliance with certain provisions of the tax legislation of the respective countries in which the companies operate.

27. Earnings per share

Basic earnings per share amounts are calculated by dividing the net profit attributable to ordinary equity holders of the Company by the weighted average number of ordinary shares outstanding during the year.

Diluted earnings per share amounts are calculated by dividing the net profit attributable to ordinary equity holders of the Company (after deducting dividends) by the weighted average number of ordinary shares outstanding during the year (adjusted for the effects of dilutive options).

The following reflects the income and share data used in the basic and diluted earnings per share computations for the years ended 31 December :

	Group	
	2005 $'000	2004 $'000
Net profit attributable to ordinary equity holders of the Company for basic and diluted earnings per share	15,463	14,277
Weighted average number of ordinary shares in issue applicable to basic earnings per share	361,315,521	360,000,000
Effect of dilutive share options	11,500	1,127,861
Adjusted weighted average number of ordinary shares applicable to diluted earnings per share	361,327,021	361,127,861

There have been no transactions involving ordinary shares or potential ordinary shares since the end of the financial year and before the completion of these financial statements.

28. Dividends

	Group and Company	
	2005 $'000	2004 $'000
A final dividend paid in respect of the previous financial year of 0.875 cents (2004 : 0.875 cents) per share less tax at 20% (2004 : 20%)	2,533	2,520
A special dividend paid in respect of the current financial year of 2 cents (2004 : 2 cents) per share less tax at 20% (2004 : 20%)	5,790	5,760
	8,323	8,280

The directors proposed a final dividend of 1.225 cents (2004 : 0.875 cents) per share less tax at 20% (2004 : 20%) amounting to $3,546,000 (2004 : $2,520,000) and a special dividend of 2.02 cents (2004 : 2 cents) per share one-tier tax exempt dividend (2004 : tax at 20%) amounting to $7,310,000 (2004 : $5,760,000) in respect of the year ended 31 December 2005. The proposed final and special dividends are subject to the approval by shareholders at the Annual General Meeting of the Company. The proposed dividends have not been recognised as liabilities as at year end in accordance with FRS 10, Events after the Balance Sheet Date.

29. Cash and cash equivalents

	Group		Company	
	2005 $'000	2004 $'000	2005 $'000	2004 $'000
Fixed deposits	18,026	17,000	18,026	17,000
Cash and bank balances	37,063	28,926	9,819	3,720
	55,089	45,926	27,845	20,720

Cash and bank balances earn interest at 0.7% to 4.78%% (2004 : 0.3125% to 1.16%) per annum.

30. Employee share option scheme

Share options under the Employees' Share Option Scheme (the "Scheme") are granted to executive, non-executive directors and other employees on a discretionary basis. The exercise price of the options is at a discount which shall not exceed 20% of the market price of the shares for the 3 consecutive market days immediately preceding the date of grant.

The options may be exercised after two years but not later than ten years from the date of grant for employees of the Company and subsidiaries and Executive directors, and not later than five years from the date of grant for employees of the associate and non-executive directors of the Company. The shares under option may be exercised in full or in respect of 1,000 shares or a multiple thereof, on the payment of the exercise price. There are no cash settlement alternatives.

30. Employee share option scheme (cont'd)

Details of share options to subscribe for ordinary shares of $0.05 pursuant to the Scheme are as follows :-

2005 Category	Exercise price $	Number of options out-standing at 1.1.2005 (1)	During the year Granted	During the year Exercised	During the year Forfeited	Number of options outstanding at 31.12.2005	Exercisable period
Employees of the Company	0.625	743,000	–	–	102,000	641,000	1.3.2004 to 28.2.2012
	0.22	871,000	–	857,000	–	14,000	20.3.2005 to 19.3.2013
Employees of the subsidiaries	0.625	730,000	–	–	45,000	685,000	1.3.2004 to 28.2.2012
	0.22	337,000	–	300,000	28,000	9,000	20.3.2005 to 19.3.2013
Employees of an associate	0.625	171,000	–	–	28,000	143,000	1.3.2004 to 28.2.2007
	0.22	176,000	–	176,000	–	–	20.3.2005 to 19.3.2008
		3,028,000	–	1,333,000	203,000	1,492,000	
Non-executive directors	0.625	350,000	–	–	–	350,000	1.3.2004 to 28.2.2007
	0.22	350,000	–	350,000	–	–	20.3.2005 to 19.3.2008
Executive director	0.625	200,000	–	–	–	200,000	1.3.2004 to 28.2.2012
	0.22	200,000	–	200,000	–	–	20.3.2005 to 19.3.2013
		1,100,000	–	550,000	–	550,000	
Total		4,128,000	–	1,883,000	203,000	2,042,000	
Exercisable at end of year						2,042,000	

2004 Category	Exercise price $	Number of options out-standing at 1.1.2004 (1)	During the year Granted	During the year Exercised	During the year Forfeited	Number of options outstanding at 31.12.2004	Exercisable period
Employees of the Company	0.625	752,000	–	–	9,000	743,000	1.3.2004 to 28.2.2012
	0.22	884,000	–	–	13,000	871,000	20.3.2005 to 19.3.2013
Employees of the subsidiaries	0.625	779,000	–	–	49,000	730,000	1.3.2004 to 28.2.2012
	0.22	378,000	–	–	41,000	337,000	20.3.2005 to 19.3.2013
Employees of an associate	0.625	171,000	–	–	–	171,000	1.3.2004 to 28.2.2007
	0.22	176,000	–	–	–	176,000	20.3.2005 to 19.3.2008
		3,140,000	–	–	112,000	3,028,000	
Non-executive directors	0.625	350,000	–	–	–	350,000	1.3.2004 to 28.2.2007
	0.22	350,000	–	–	–	350,000	20.3.2005 to 19.3.2008
Executive director	0.625	200,000	–	–	–	200,000	1.3.2004 to 28.2.2012
	0.22	200,000	–	–	–	200,000	20.3.2005 to 19.3.2013
		1,100,000	–	–	–	1,100,000	
Total		4,240,000	–	–	112,000	4,128,000	
Exercisable at end of year						2,194,000	

30. Employee share option scheme (cont'd)

(1) Included within these balances are equity-settled options that have not been recognised in accordance with FRS 102 as these equity-settled options were granted on or before 22 November 2002. These options have not been subsequently modified and therefore do not need to be accounted for in accordance with FRS 102.

The fair value of share options as at the date of grant is estimated by an external valuer using a trinomial model, taking into account the terms and conditions upon which the options were granted. The inputs to the model used for the years ended 31 December 2005 and 31 December 2004 are shown below.

	2005 $'000	2004 $'000
Expected dividend payout ($)	0.009- 0.020	0.009- 0.020
Expected volatility (%)	44	44
Risk free interest rate (%)	1.016- 1.086	1.016- 1.086
Expected life of option (years)	5-10	5-10
Average share price ($)	0.057- 0.061	0.057- 0.061

The expected life of the options is based on historical date and is not necessarily indicative of exercise patterns that may accrue. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome. No other features of the option grant were incorporated into the measurement of fair value.

During the year, 1,883,000 options (2004 : Nil) were exercised on 21 April 2005 with an exercise price of $0.22. The share price at the date of exercise of the options was $0.41, in which proceeds from the share issue amounted to $414,260 (2004 : Nil).

31. Non-cancellable operating lease commitments

As at 31 December 2005, the Group has commitments under operating leases for office and factory 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 activities concerning dividends, additional debt or further leasing. Operating lease expenses included in the consolidated profit and loss account during the year amounted to $1,441,000 (2004 : $1,264,000).

Future minimum lease payments payable under non-cancellable operating leases as at 31 December are as follows:

	2005 $'000	2004 $'000
Not later than one year	1,501	1,052
1 year through 5 years	4,053	1,670
Later than five years	257	940
	5,811	3,662

32. 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 :

	2005 $'000	2004 $'000
Income :-		
Sales to ultimate holding company	70	207
Sales to related companies	57,433	33,208
Sales to an associate	9,859	4,292
Sales to a related party*	671	–
Commission income from related companies	143	215
Expenses :-		
Purchase of goods from related companies	61,073	52,993
Directors of the Company :-		
Directors' fees	131	194
Directors' remuneration	888	859
Defined contribution benefits	64	61
Equity compensation benefits **	11	11
Directors of the subsidiaries :-		
Directors' fees	129	129
Directors' remuneration	821	615
Defined contribution benefits	43	45
Equity compensation benefits **	3	3
Key executive officers :-		
Key executive officers' remuneration	1,879	1,660
Defined contribution benefits	151	151
Equity compensation benefits **	12	12

* *The Chairman holds substantial equity interest in its holding company.*

** *Equity compensation benefits are calculated based on the value of the employment/director services recognised in the current year profit and loss account in return of granting employee share options to these directors and key executive officers.*

33. Segment information

Reporting format

The primary segment reporting format is determined to be business segments as the Group's risks and rates of return are affected predominantly by differences in the products and services produced. Secondary information is reported geographically. The operating businesses are organised and managed separately according to the nature of the products and services provided, with each segment representing a strategic business unit that offers different products and serves different markets.

Allocation basis and transfer pricing

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly corporate assets, liabilities and expenses.

Transfer prices between business segments are set on an arm's length basis in a manner similar to transactions with third parties. Segment revenue, expenses and results include transfers between business segments. These transfers are eliminated on consolidation.

33. Segment information (cont'd)

Business segments

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

- Telecommunications
- Information technology
- Contract manufacturing

2005	Telecom-munications	Information technology	Contract manu-facturing	Elimination	Group
	$'000	$'000	$'000	$'000	$'000
Sales to external customers	116,932	49,359	94,310	–	260,601
Inter-segment sales	8,119	1,640	12,565	(22,324)	–
Total turnover	125,051	50,999	106,875	(22,324)	260,601
Gross profit	18,021	15,481	17,724		51,226
Other operating income	308	282	130		720
Distribution and selling expenses	(5,596)	(9,213)	(4,190)		(18,999)
Administrative expenses	(4,382)	(1,438)	(3,533)		(9,353)
Other operating expenses	(510)	181	(563)		(892)
Profit from operating activities	7,841	5,293	9,568		22,702
Interest expense					(14)
Interest income					1,578
Other financial expenses					(360)
Share of loss of an associate					(1,498)
Profit before tax					22,408
Tax					(4,085)
Net profit for the year					18,323
Attributable to					
Equity holders of the Company					15,463
Minority interests					2,860
					18,323
Segment assets	45,610	16,236	45,422		107,268
Investment in an associate					1,274
Unallocated assets					66,641
Total assets					175,183
Segment liabilities	17,679	4,945	1,499		24,123
Tax liabilities					5,981
Unallocated liabilities					33,805
Total liabilities					63,909
Capital expenditure	216	678	3,100		3,994
Depreciation	494	1,290	1,482		3,266

33. Segment information (cont'd)

Business segments (cont'd)

2004	Telecom-munications	Information technology	Contract manu-facturing	Elimination	Group
	$'000	$'000	$'000	$'000	$'000
Sales to external customers	88,349	53,431	58,649	–	200,429
Inter-segment sales	6,159	2,284	14,637	(23,080)	–
Total turnover	94,508	55,715	73,286	(23,080)	200,429
Gross profit	17,805	16,584	11,983		46,372
Other operating income	682	528	46		1,256
Distribution and selling expenses	(6,232)	(9,558)	(3,306)		(19,096)
Administrative expenses	(4,618)	(1,381)	(2,272)		(8,271)
Other operating expenses	(739)	(647)	(170)		(1,556)
Profit from operating activities	6,898	5,526	6,281		18,705
Interest expense					(31)
Interest income					1,159
Other financial expenses					(266)
Share of loss of an associate					(253)
Profit before tax					19,314
Tax					(2,840)
Net profit for the year					16,474
Attributable to					
Equity holders of the Company					14,277
Minority interests					2,197
					16,474
Segment assets	50,529	25,816	31,692		108,037
Investment in an associate					2,720
Unallocated assets					53,688
Total assets					164,445
Segment liabilities	19,185	11,335	997		31,517
Tax liabilities					4,373
Finance lease obligations					56
Unallocated liabilities					27,157
Total liabilities					63,103
Capital expenditure	991	926	2,737		4,654
Depreciation	504	1,273	1,130		2,907

33. 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	
	2005 $'000	2004 $'000	2005 $'000	2004 $'000	2005 $'000	2004 $'000
Singapore	60,316	55,982	159,016	142,920	3,756	3,957
Other Asian countries	120,310	116,825	16,167	21,525	238	697
Others	102,299	50,702	–	–	–	–
Less: Inter-segment elimination	(22,324)	(23,080)	–	–	–	–
	260,601	200,429	175,183	164,445	3,994	4,654

34. Financial risk management objectives and policies

The main risks arising from the 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's policy is to obtain the most favourable interest rates available without increasing its foreign currency exposure.

Surplus funds are placed with reputable banks.

Information relating to the Group interest rate exposure is also disclosed in the notes to the financial statements.

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.

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, amounts due from associate and related companies, 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.

35. Financial instruments

(a) Fair values

The fair value of a financial instrument is the amount at which the instrument could be exchanged or settled between knowledgeable and willing parties in an arm's length transaction, other then in forced or liquidation sale.

Financial instruments carried at fair value

The Group and Company has carried all derivative financial instruments at their fair value as required by FRS 39.

Financial instruments whose carrying amount approximate fair value

Management has determined that the carrying amounts of cash and bank balances, current trade and other receivables, current trade and other payables, based on their notional amounts, reasonably approximate their fair values because these are mostly short term in nature or are repriced frequently.

Method and assumptions used to determine fair values

The methods and assumptions used by management to determine fair values of financial instruments other than those whose carrying amounts reasonably approximate their fair values as mentioned earlier, are as follow :-

Financial assets and liabilities	Methods and assumptions
• Derivative financial instruments	Fair value has been determined by reference to market prices at the balance sheet date without factoring in transaction costs.

(b) Interest rate risk

The following tables sets out the carrying amount, by maturity, of the Group's and the Company's financial instruments that are exposed to interest rate risk :-

2005 **Group**	Within 1 year	1 - 2 years	2 - 3 years	3 - 4 years	4 - 5 years	More than 5 years	Total
	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Floating rate							
Cash assets	55,089	–	–	–	–	–	55,089
Amount due from an associate	12,329	–	–	–	–	–	12,329
Company							
Floating rate							
Cash assets	27,845	–	–	–	–	–	27,845
Amounts due from subsidiaries and an associate	13,487	–	–	–	–	–	13,487

35. Financial instruments (cont'd)

(b) Interest rate risk (cont'd)

2004 **Group**	Within 1 year	1 - 2 years	2 - 3 years	3 - 4 years	4 - 5 years	More than 5 years	Total
	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Fixed rate							
Obligations under finance leases	(14)	(28)	(14)	–	–	–	(56)
Floating rate							
Cash assets	45,926	–	–	–	–	–	45,926
Amount due from an associate	10,421	–	–	–	–	–	10,421
Company							
Floating rate							
Cash assets	20,720	–	–	–	–	–	20,720
Amounts due from subsidiaries and an associate	14,798	–	–	–	–	–	14,798

Interest on financial instruments subject to floating interest rates is contractually repriced at intervals of less than 6 months. Interest on financial instruments at fixed rates are fixed until the maturity of the instrument. The other financial instruments of the Group and the Company that are not included in the above table are not subject to interest rate risk.

(c) Derivative financial instruments

	2005		2004	
	Assets $'000	Liabilities $'000	Assets $'000	Liabilities $'000
Forward currency contracts	40	(267)	–	–

36. Comparative figures

Certain prior year's comparatives in consolidated profit and loss account have been restated to conform with current year's presentation.

	Group	
	2004 (As restated)	2004 (As previously reported)
	$'000	$'000
Other operating income	1,256	1,363
Administrative expenses	8,271	8,235
Other operating expenses	1,556	1,663

37. Events after the balance sheet date

Subsequent to year end,

(i) the Company received confirmation of being granted tax incentive, subject to certain conditions being met, which could reduce its effective tax rate;

(ii) its subsidiary, Nera Electronics Ltd has further injected capital amounting to $2,151,000 as advance towards share capital of Nera Electronics (India) Pvt Ltd; and

(iii) the Board of the subsidiary, Nera Electronics Ltd has approved capital expenditure amounting to $2,200,000 to replace one of its production lines.

38. Authorisation of financial statements for issue

The financial statements for the year ended 31 December 2005 were authorised for issue in accordance with a resolution of the directors on 28 March 2006.

Statistics of Shareholdings

as at 20 March 2006

Issued and fully paid-up capital	:	$18,094,150
Number of ordinary shares in issue	:	361,883,000
Class of shares	:	Ordinary share
Voting rights	:	One vote per share

DISTRIBUTION OF SHAREHOLDINGS

Size of Shareholdings	No. of Shareholders	%	No. of Shares	%
1 - 999	7	0.11	1,050	0.00
1,000 - 10,000	4,300	66.71	24,016,000	6.64
10,001 - 1,000,000	2,121	32.90	89,262,550	24.66
1,000,001 and above	18	0.28	248,603,400	68.70
Total	6,446	100.00	361,883,000	100.00

TWENTY LARGEST SHAREHOLDERS

No.	Name	No. of Shares	%
1.	Nera ASA	181,136,000	50.05
2.	HSBC (Singapore) Nominees Pte Ltd	11,573,000	3.20
3.	DBS Nominess Pte Ltd	9,013,000	2.49
4.	DBSN Services Pte Ltd	7,286,000	2.01
5.	United Overseas Bank Nominees Pte Ltd	6,887,000	1.90
6.	Raffles Nominees Pte Ltd	4,816,000	1.33
7.	Citibank Nominees Singapore Pte Ltd	3,967,000	1.10
8.	NTUC Thrift & Loan Co-operative Limited	3,888,000	1.07
9.	OCBC Nominees Singapore Pte Ltd	3,082,000	0.85
10.	OCBC Securities Private Ltd	2,735,000	0.76
11.	Ang Seong Kang Samuel	2,630,000	0.73
12.	Phillip Securities Pte Ltd	2,116,400	0.58
13.	DBS Vickers Securities (S) Pte Ltd	1,961,000	0.54
14.	UOB Kay Hian Pte Ltd	1,864,000	0.52
15.	Yim Chee Chong	1,850,000	0.51
16.	Chandra Das Nareshkumar	1,650,000	0.46
17.	Kim Eng Securities Pte. Ltd.	1,147,000	0.32
18.	Kim Leng Tee Investments Pte Ltd	1,002,000	0.28
19.	Phay Seng Whatt	1,000,000	0.28
20.	Pillai Rosie	1,000,000	0.28
	TOTAL :	250,603,400	69.26

SUBSTANTIAL SHAREHOLDERS AS AT 20 MARCH 2006

(As recorded in the Register of Substantial Shareholders)

	No. of shares of $0.05 each fully paid			
	Direct Interest	%	Deemed Interest	%
Nera ASA	181,136,000	50.05	-	-

PERCENTAGE OF SHAREHOLDING IN PUBLIC'S HAND

48.6% 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 of Annual General Meeting

Nera Telecommunications Ltd (Company Registration No. 197802690R)

(Incorporated in Singapore with limited liability)

NOTICE IS HEREBY GIVEN that the Annual General Meeting of Nera Telecommunications Ltd ("the Company") will be held at 109 Defu Lane 10, Singapore 539225 on 27 April 2006 at 11:30 am 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 2005 together with the Auditors' Report thereon. **(Resolution 1)**

2. To declare a first and final dividend of 24.5% (or 1.225 cents per ordinary share) less income tax at 20% and a one-tier tax exempt of 40.4% (or 2.02 cents per ordinary share) for the year ended 31 December 2005 (2004: a first and final dividend of 17.5% or 0.875 cents per ordinary share and a special dividend of 40% or 2 cents per ordinary share). **(Resolution 2)**

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

   Mr S Chandra Das (Retiring under Article 87) **(Resolution 3)**
   Mr Lau Ping Sum (Retiring under Article 87) **(Resolution 4)**

   Mr S Chandra Das will, upon re-election as Director of the Company, remain as Chairman of the Nominating and Compensation Committees. Mr Lau Ping Sum will, upon re-election as Director of the Company, remain as Chairman of the Audit Committee and a member of the Nominating Committee. Mr Lau Ping Sum will be considered independent for the purposes of Rule 704(8) of Listing Manual of the Singapore Exchange Securities Trading Limited ("SGX-ST").

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 ordinary business which may properly be transacted at an Annual General Meeting.

AS SPECIAL BUSINESS

6. To approve the payment of Directors' fees of S$190,000 for the year ended 31 December 2005 (previous year: S$131,150). **(Resolution 6)**

To consider and if thought fit, to pass the following resolutions as Ordinary Resolutions, with or without any modifications:

7. **Authority to allot and issue shares up to 50 per centum (50%) of issued share capital**
That pursuant to Section 161 of the Companies Act, Cap. 50 and Rule 806 of the Listing Manual of SGX-ST, the Directors be empowered to allot and issue shares and convertible securities in 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 (including shares to be issued in accordance with the terms of convertible securities issued, made or granted pursuant to this Resolution) to be allotted and issued pursuant to this Resolution shall not exceed fifty per centum (50%) of the issued shares in the 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 shares in the capital of the Company and that such authority shall, unless revoked or varied by the Company in general meeting, continue in force (i) 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 or (ii) in the case of shares to be issued in accordance with the terms of convertible securities issued, made or granted pursuant to this Resolution, until the issuance of such shares in accordance with the terms of such convertible securities.
[See Explanatory Note (i)] **(Resolution 7)**

8. **Authority to allot and issue shares under the Nera Telecom Employees' Share Option Scheme**
That pursuant to Section 161 of the Companies Act, Cap. 50, the Directors be authorised and empowered to allot and issue shares 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 shares in the capital of the Company from time to time 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 (ii)] **(Resolution 8)**

9. **Renewal of Shareholders' Mandate for Interested Person Transactions**
That for the purposes of Chapter 9 of the Listing Manual of the SGX-ST ("Chapter 9"):

(a) approval be given for the renewal of the mandate for the Company, its subsidiaries and associated company that are entities at risk (the term as defined in Chapter 9), or any of them, to enter into any of the transactions falling within the types of Interested Person Transactions described in the letter to the shareholders dated 7 April 2006 (the "Letter") with any party who is of the class of Interested Persons described in the Letter, provided that such transactions are made on normal commercial terms and in accordance with the review procedures for such interested person transaction;

(b) the approval given in paragraph (a) above (the "IPT Mandate") shall, unless revoked or varied by the Company in general meeting, continue in force until the conclusion of the next Annual General Meeting of the Company; and

(c) the Directors of the Company be and are hereby authorised to complete and do all such acts and things (including executing all such documents as may be required) as they may consider expedient or necessary to give effect to the IPT Mandate and/or this Resolution.
[See Explanatory Note (iii)] **(Resolution 9)**

10. **Renewal of Share Purchase Mandate**

That:

(a) for the purposes of Sections 76C and 76E of the Companies Act, the exercise by the Directors of the Company of all the powers of the Company to purchase or otherwise acquire issued ordinary shares in the capital of the Company (the "Shares") not exceeding in aggregate the Maximum Limit (as hereafter defined), at such price or prices as may be determined by the Directors from time to time up to the Maximum Price (as hereafter defined), whether by way of:

(i) market purchase(s) on the SGX-ST and/or any other stock exchange on which the Shares may for the time being be listed and quoted ("Other Exchange"); and/or

(ii) off-market purchase(s) (if effected otherwise than on the SGX-ST or, as the case may be, Other Exchange) in accordance with any equal access scheme(s) as may be determined or formulated by the Directors as they consider fit, which scheme(s) shall satisfy all the conditions prescribed by the Companies Act;

and otherwise in accordance with all other laws and regulations and rules of the SGX-ST or, as the case may be, Other Exchange as may for the time being be applicable, be and is hereby authorised and approved generally and unconditionally (the "Share Purchase Mandate");

(b) unless varied or revoked by the Company in General Meeting, the authority conferred on the Directors of the Company pursuant to the Share Purchase Mandate may be exercised by the Directors at any time and from time to time during the period commencing from the date of the passing of this Resolution and expiring on the earlier of:

(i) the date on which the next Annual General Meeting of the Company is held; and

(ii) the date by which the next Annual General Meeting of the Company is required by law to be held;

(c) in this Resolution:

"**Average Closing Price**" means the average of the last dealt prices of a share for the five consecutive trading days on which the Shares are transacted on the SGX-ST or, as the case may be, Other Exchange immediately preceding the date of market purchase by the Company or, as the case may be, the date of the making of the offer pursuant to the off-market purchase, and deemed to be adjusted in accordance with the listing rules of the SGX-ST for any corporate action which occurs after the relevant five day period;

"**date of the making of the offer**" means the date on which the Company announces its intention to make an offer for the purchase or acquisition of Shares from holders of Shares, stating therein the purchase price (which shall not be more than the Maximum Price calculated on the foregoing basis) for each Share and the relevant terms of the equal access scheme for effecting the off-market purchase;

"**Maximum Limit**" means that number of issued Shares representing 10 per cent of the issued ordinary share capital of the Company as at the date of the passing of this Resolution (excluding any shares which are held as treasury as at that date); and

"**Maximum Price**", in relation to a Share to be purchased or acquired, means the purchase price (excluding brokerage, commission, applicable goods and services tax and other related expenses) which shall not exceed:

(i) in the case of a market purchase of a Share, 105 per cent of the Average Closing Price of the Shares; and

(ii) in the case of an off-market purchase of a Share pursuant to an equal access scheme, 110 per cent of the Average Closing Price of the Shares; and

(d) the Directors of the Company and/or any of them be and are hereby authorised to complete and do all such acts and things (including executing such documents as may be required) as they and/or he may consider expedient or necessary to give effect to the transactions contemplated and/or authorised by this Resolution.
[See Explanatory Note (iv)] **(Resolution 10)**

By Order of the Board

Tan Cher Liang
Julie Koh Ngin Joo
Company Secretaries

Singapore, 11 April 2006

Explanatory Notes:

(i) The Ordinary Resolution 7 proposed in item 7 above, if passed, will empower the Directors from the date of this Meeting until the date of the next Annual General Meeting, or the date by which the next Annual General Meeting is required by law to be held or when varied or revoked by the Company in general meeting, whichever is the earlier, 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 shares in the capital of the Company at the time of the passing of this resolution. 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 issued shares in the capital of the Company.

For the purpose of this resolution, the percentage of issued shares is based on the issued shares in the capital of the Company at the time this proposed Ordinary Resolution is passed after adjusting for new shares arising from the conversion or exercise of convertible securities, the exercise of share options or the vesting of share awards outstanding or subsisting at the time when this proposed Ordinary Resolution is passed and any subsequent consolidation or subdivision of shares.

(ii) The Ordinary Resolution 8 proposed in item 8 above, if passed, will empower the Directors of the Company, from the date of the above Meeting until the next Annual General Meeting, or the date by which the next Annual General Meeting is required by law to be held or when varied or revoked by the Company in general meeting, whichever is the earlier, to allot and issue shares in the Company of up to a number not exceeding in total fifteen per centum (15%) of the issued ordinary shares in the capital of the Company from time to time pursuant to the exercise of the options under the Scheme.

(iii) The Ordinary Resolution 9 proposed in item 9 above, relates to the renewal of a mandate given by shareholders to the Company on 23 June 1999, and modified and renewed by the Company on 14 April 2005, allowing the Company, its subsidiaries and associated company that are entities at risk (as that term is used in Chapter 9), or any of them, to enter into transactions with interested persons as defined in Chapter 9. Please refer to letter to shareholders dated 7 April 2006 for details.

(iv) The Ordinary Resolution 10 proposed in item 10 above relates to a mandate approved by shareholders on 14 April 2005 authorising the Company to purchase its own Shares subject to and in accordance with the rules of the SGX-ST.

The Company will use its internal sources of funds, external borrowings, or a combination of internal resources and external borrowings, to finance the Company's purchase or acquisition of the Shares. The amount of financing required for the Company to purchase or acquire its Shares, and the impact on the Company's financial position, cannot be ascertained as at the date of this Notice as these will depend on the number of Shares purchased or acquired, whether the purchase or acquisition is made out of capital or profits of the Company, the price at which such Shares were purchased or acquired and whether the shares purchased or acquired are held in treasury or cancelled. Based on the existing issued and paid-up ordinary share capital of the Company as at 15 March 2006 (the "Latest Practicable Date"), the purchase by the Company of 10 per cent of its Shares will result in the purchase or the acquisition of 36,188,300 Shares. In the case of market purchases by the Company and assuming that the Company purchases or acquires 36,188,300 Shares at the Maximum Price of S$0.47 for one Share (being the price equivalent to five per cent above the Average Closing Price of the Shares for the last five consecutive market days on which the Shares were traded on the SGX-ST immediately preceding the Latest Practicable Date), the maximum amount of funds required for the purchase or acquisition of 36,188,300 Shares is S$17,008,501. In the case of off-market purchases by the Company and assuming that the Company purchases or acquires 36,188,300 Shares at the Maximum Price of S$0.50 for one Share (being the price equivalent to 10 per cent above the Average Closing Price of the Shares for the last five consecutive market days on which the Shares were traded on the SGX-ST immediately preceding the Latest Practicable Date), the maximum amount of funds required for the purchase or acquisition of 36,188,300 Shares is S$18,094,150.The financial effects of the purchase or acquisition of such Shares by the Company pursuant to the proposed Share Purchase Mandate on the audited financial statements of the Company and the Company, its subsidiaries and associated company for the financial year ended 2005 based on these assumptions, are set out in paragraph 3.8.2 of the letter to shareholders dated 7 April 2006.

Please refer to the letter to shareholders dated 7 April 2006 for further details.

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 forty-eight (48) hours before the time appointed for holding the Meeting.
3. If the appointor is a corporation, the instrument appointing a proxy must be executed under its seal or the hand of its duly authorised officer or attorney.

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IMPORTANT

1. For investors who have used their CPF monies to buy Nera Telecommunications Ltd's shares, this Report is forwarded to them at the request of the CPF Approved Nominees and is sent solely FOR INFORMATION ONLY.
2. This Proxy Form is not valid for use by CPF investors and shall be ineffective for all intents and purposes if used or purported to be used by them.
3. CPF investors who wish to attend the Meeting as an observer must submit their requests through their CPF Approved Nominees within the time frame specified. If they also wish to vote, they must submit their voting instructions to the CPF Approved Nominees within the time frame specified to enable them to vote on their behalf.

Proxy Form

Nera Telecommunications Ltd

(Company Registration No. 197802690R)

(Incorporated in Singapore with limited liability)

(Please see notes overleaf before completeing 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 April 2006 at 11.30 am 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. The authority herein includes the right to demand or to join in demanding a poll and to vote on a poll.

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

No.	Resolutions relating to:	For	Against
1	Directors' Report and Audited Accounts for the year ended 31 December 2005		
2	Payment of proposed first and final and one-tier tax exempt dividends		
3	Re-election of Mr S Chandra Das as a Director		
4	Re-election of Mr Lau Ping Sum as a Director		
5	Re-appointment of Messrs Ernst & Young as Auditors		
6	Approval of Directors' fees amounting to S$190,000		
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		
9	Renewal of Shareholders' Mandate for Interested Person Transactions		
10	Renewal of Share Purchase Mandate		

Dated this ________________ day of ________________ 2006

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

____

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

Proxy Form
Nera Telecommunications Ltd
(Company Registration No. 197802690R)
(Incorporated in Singapore with limited liability)

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 forty-eight (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 forty-eight (48) hours before the time appointed for holding the Meeting, as certified by The Central Depository (Pte) Limited to the Company.

Nera Telecommunications Ltd
109 Defu Lane 10 Singapore 539225 Tel: (65) 6281 3388 Fax: (65) 6383 9566/ 6383 9577
Website: www.neratel.com.sg Co. Reg. No.: 197802690R