



# **IDT INTERNATIONAL LIMITED**

*(Incorporated in Bermuda with limited liability)*

**(Stock Code: 167)**

## **ANNOUNCEMENT OF THIRD QUARTER RESULTS FOR THE YEAR ENDING MARCH 31, 2006**

**IDT INTERNATIONAL LIMITED is a holding company with subsidiaries engaged in the design, development, manufacture, and sales and marketing of innovative consumer electronic products featuring state-of-the-art liquid crystal display and microprocessor technology.**

### **Business Highlights of the Third Quarter:**

- **Turnover decreased 23% to HK\$812.6 million**
- **Electronic Learning Products reported 17% increase in sales**
- **Inventory was significantly reduced**
- **Inventory turnover was 87 days and debtor turnover was 71 days**
- **Net profit for the three months ended December 31, 2005 was HK\$20.2 million**

### **UNAUDITED RESULTS**

The directors (the “Directors”) of IDT International Limited (the “Company”) are pleased to announce the unaudited condensed consolidated financial statements of the Company and its subsidiaries (the “Group”) for the three months and nine months ended December 31, 2005 together with the unaudited comparative figures for the corresponding periods in 2004.

## CONDENSED CONSOLIDATED INCOME STATEMENT

	Notes	Nine months ended December 31,		Three months ended December 31,		Year ended March 31,
		2005 (Unaudited) HK\$'m	2004 (Restated) HK\$'m	2005 (Unaudited) HK\$'m	2004 (Restated) HK\$'m	2005 (Restated) HK\$'m
Turnover	2	2,009.6	2,402.4	812.6	1,056.4	2,894.7
Cost of goods sold		<u>(1,447.3)</u>	<u>(1,510.0)</u>	<u>(509.4)</u>	<u>(647.1)</u>	<u>(1,886.7)</u>
Gross profit		562.3	892.4	303.2	409.3	1,008.0
Other operating income		18.2	23.4	(2.0)	2.5	48.2
Research and development costs		(93.3)	(79.7)	(28.6)	(29.6)	(109.7)
Distribution and selling expenses		(408.2)	(355.6)	(160.7)	(165.7)	(500.1)
Administrative expenses		<u>(202.8)</u>	<u>(182.0)</u>	<u>(64.3)</u>	<u>(60.1)</u>	<u>(246.3)</u>
(Loss) profit from operations	3	(123.8)	298.5	47.6	156.4	200.1
Interest on bank and other borrowings wholly repayable within five years		<u>(17.6)</u>	<u>(8.2)</u>	<u>(7.7)</u>	<u>(3.4)</u>	<u>(12.9)</u>
(Loss) profit before taxation		(141.4)	290.3	39.9	153.0	187.2
Taxation	4	<u>(8.4)</u>	<u>(10.2)</u>	<u>(16.0)</u>	<u>(10.4)</u>	<u>(0.5)</u>
Net (loss) profit for the period		<u><u>(149.8)</u></u>	<u><u>280.1</u></u>	<u><u>23.9</u></u>	<u><u>142.6</u></u>	<u><u>186.7</u></u>
Attributable to:						
Equity holders of the parent		(164.0)	229.1	20.2	124.0	129.7
Minority interests		14.2	51.0	3.7	18.6	57.0
		<u><u>(149.8)</u></u>	<u><u>280.1</u></u>	<u><u>23.9</u></u>	<u><u>142.6</u></u>	<u><u>186.7</u></u>
Earnings per share	5					
– basic (HK cents)		<u><u>(7.87)</u></u>	<u><u>11.0</u></u>	<u><u>1.0</u></u>	<u><u>6.0</u></u>	<u><u>6.2</u></u>
– diluted (HK cents)		<u><u>(7.86)</u></u>	<u><u>11.0</u></u>	<u><u>1.0</u></u>	<u><u>6.0</u></u>	<u><u>6.2</u></u>

## CONDENSED CONSOLIDATED BALANCE SHEET

	At December 31, 2005 (Unaudited) <i>HK\$'m</i>	At December 31, 2004 (Restated) <i>HK\$'m</i>	At March 31, 2005 (Restated) <i>HK\$'m</i>
<b>Non-current assets</b>			
Investment properties	–	6.4	14.8
Property, plant and equipment	312.0	295.9	318.0
Intangible assets	90.2	96.2	81.8
Goodwill	30.1	23.7	26.4
Long-term bank deposits	273.0	296.4	296.4
Deferred tax assets	71.7	82.6	78.8
	<b>777.0</b>	801.2	816.2
<b>Current assets</b>			
Inventories	457.8	756.3	734.5
Property held for resale	1.6	1.6	1.6
Trade and other receivables	676.5	826.3	465.0
Forward asset	0.6	–	15.3
Taxation recoverable	10.1	0.5	6.8
Bank balances and cash	300.0	338.6	307.3
	<b>1,446.6</b>	1,923.3	1,530.5
<b>Current liabilities</b>			
Trade and other payables	484.4	551.7	421.5
Bills payables	16.9	70.7	26.1
Obligations under finance leases due within one year	–	0.1	0.1
Forward liability	–	6.0	–
Taxation payable	20.7	57.2	13.0
Short-term bank loans	511.2	364.1	393.9
Bank overdraft	3.5	12.8	–
	<b>1,036.7</b>	1,062.6	854.6
<b>Net current assets</b>	<b>409.9</b>	860.7	675.9
<b>Total assets less current liabilities</b>	<b>1,186.9</b>	1,661.9	1,492.1
<b>Non-current liabilities</b>			
Obligations under finance leases due after one year	0.2	0.1	0.1
Deferred tax liabilities	19.2	29.5	27.8
	<b>19.4</b>	29.6	27.9
<b>Net assets</b>	<b>1,167.5</b>	1,632.3	1,464.2
<b>Capital and reserves</b>			
Share capital	208.5	208.5	208.5
Reserves	705.2	1,149.2	979.6
Equity attributable to equity holders of the parent	913.7	1,357.7	1,188.1
Minority interests	253.8	274.6	276.1
<b>Total equity</b>	<b>1,167.5</b>	1,632.3	1,464.2

# CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Attributable to equity holders of the parent

	Share capital (Unaudited) HK\$'m	Share premium (Unaudited) HK\$'m	Properties revaluation reserve (Unaudited) HK\$'m	Employee share-based compensation reserve (Unaudited) HK\$'m	Capital reserve (Unaudited) HK\$'m	Translation reserve (Unaudited) HK\$'m	Revenue reserve (Unaudited) HK\$'m	Total (Unaudited) HK\$'m	Minority interests (Unaudited) HK\$'m	Total (Unaudited) HK\$'m
At April 1, 2004 (Originally stated)	208.2	67.4	27.9	-	6.9	8.1	926.8	1,245.3	271.9	1,517.2
Prior period adjustment - share-based payments	-	-	-	0.1	-	-	(0.1)	-	-	-
At April 1, 2004 (Restated)	208.2	67.4	27.9	0.1	6.9	8.1	926.7	1,245.3	271.9	1,517.2
Issue of shares	0.3	1.4	-	-	-	-	-	1.7	-	1.7
Exchange differences arising from translation of financial statements of overseas operations recognized directly in equity	-	-	-	-	-	6.5	-	6.5	-	6.5
Net profit for the period	-	-	-	-	-	-	229.1	229.1	51.0	280.1
Movement during the period	-	-	-	-	-	-	-	-	(8.6)	(8.6)
2004 final dividend paid	-	-	-	-	-	-	(125.1)	(125.1)	(30.4)	(155.5)
2005 interim dividend paid	-	-	-	-	-	-	-	-	(9.3)	(9.3)
Employee share option benefits	-	-	-	0.2	-	-	-	0.2	-	0.2
At December 31, 2004	<u>208.5</u>	<u>68.8</u>	<u>27.9</u>	<u>0.3</u>	<u>6.9</u>	<u>14.6</u>	<u>1,030.7</u>	<u>1,357.7</u>	<u>274.6</u>	<u>1,632.3</u>
At April 1, 2005 (Originally stated)	208.5	68.8	27.9	-	6.9	6.8	869.2	1,188.1	276.1	1,464.2
Prior period adjustment - share-based payments	-	-	-	0.4	-	-	(0.4)	-	-	-
At April 1, 2005 (Restated)	208.5	68.8	27.9	0.4	6.9	6.8	868.8	1,188.1	276.1	1,464.2
Issue of shares	-	0.3	-	-	-	-	-	0.3	-	0.3
Exchange differences arising from translation of financial statements of overseas operations recognized directly in equity	-	-	-	-	-	(6.8)	-	(6.8)	-	(6.8)
Net (loss) profit for the period	-	-	-	-	-	-	(164.0)	(164.0)	14.2	(149.8)
Movement during the period	-	-	-	-	-	-	-	-	(6.5)	(6.5)
2005 final dividend paid	-	-	-	-	-	-	(104.3)	(104.3)	(30.0)	(134.3)
Employee share option benefits	-	-	-	0.4	-	-	-	0.4	-	0.4
At December 31, 2005	<u>208.5</u>	<u>69.1</u>	<u>27.9</u>	<u>0.8</u>	<u>6.9</u>	<u>-</u>	<u>600.5</u>	<u>913.7</u>	<u>253.8</u>	<u>1,167.5</u>

# CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	Nine months ended December 31,	
	2005 (Unaudited) HK\$'m	2004 (Restated) HK\$'m
Net cash (used in) from operating activities	94.7	(184.8)
Net cash used in investing activities	(74.0)	(90.6)
Net cash (used in) from financing activities	(25.5)	57.4
	<hr/>	<hr/>
Net increase (decrease) in cash and cash equivalents	(4.8)	(218.0)
Cash and cash equivalents at April 1	307.2	530.8
Effect of foreign exchange rate changes	(5.9)	13.0
	<hr/>	<hr/>
Cash and cash equivalents at December 31	<u>296.5</u>	<u>325.8</u>
Analysis of the balances of cash and cash equivalents:		
Bank deposits, bank balances and cash	573.0	635.0
Bank overdrafts	(3.5)	(12.8)
	<hr/>	<hr/>
	569.5	622.2
Less: Long-term bank deposits	(273.0)	(296.4)
	<hr/>	<hr/>
	<u>296.5</u>	<u>325.8</u>

*Notes:*

**1. Basis of preparation and accounting policies**

The Directors are responsible for the preparation of the Group's unaudited quarterly financials. The unaudited quarterly financials have been prepared in accordance with the new Hong Kong Financial Reporting Standards ("HKFRS"), which also include Hong Kong Accounting Standards ("HKAS") and Interpretations, issued by the Hong Kong Institute of Certified Public Accountants ("the HKICPA"), and accounting principles generally accepted in Hong Kong.

The HKICPA has issued a number of new or revised HKAS and HKFRS (herein collectively referred to as "new HKFRSs") which are generally effective for accounting periods beginning on or after January 1, 2005. The principal accounting policies adopted in preparing these financial statements are consistent with those adopted in the Group's annual audited consolidated financial statements for the year ended March 31, 2005 except for those mentioned below.

**(a) Share-based Payments**

In the current period, the Group has applied HKFRS 2 "Share-based Payment" which requires an expense to be recognised where the Group buys goods or obtains services in exchange for shares or rights over shares ("equity-settled transactions"), or in exchange for other assets equivalent in value to a given number of shares or rights over shares ("cash-settled transactions"). The principal impact of HKFRS 2 on the Group is in relation to the expensing of the fair value of directors' and employees' share options of the Company determined at the date of grant of share options over the vesting period. Prior to the application of HKFRS 2, the Group did not recognize the financial effect of these share options until they were exercised. HKFRS 2 has been applied retrospectively for share options granted to employees after November 7, 2002 and had not yet vested on April 1, 2005. Following the adoption of this accounting policy, the opening balance on the Group's revenue reserve at April 1, 2005 has been decreased by HK\$0.4 million (April 1, 2004: HK\$0.1 million). In addition, the amount of employee share-based expenses of approximately HK\$0.4 million were charged to the income statement for the nine months ended at December 31, 2005 (2004: HK\$0.2 million).

**(b) Business Combinations**

In the current period, the Group has applied HKFRS 3 "Business Combinations" which is effective for business combinations for which agreement date is on or after April 1, 2005. The principal effects of the application of HKFRS 3 to the Group are summarised below:

*Goodwill*

In previous periods, goodwill arising on acquisitions was capitalised and amortised over its estimated useful life. The Group has applied the relevant transitional provisions in HKFRS 3. With respect to goodwill previously capitalised on the balance sheet, the Group has discontinued amortising such

goodwill from April 1, 2005 onwards and goodwill will be tested for impairment at least annually. Goodwill arising on acquisitions after April 1, 2005 is measured at cost less accumulated impairment losses (if any) after initial recognition. Following the adoption of this accounting policy, the Group's loss for the nine months ended December 31, 2005 decreased by HK\$1.2 million as no amortisation of goodwill has been charged in the current period. Comparative figures for 2004 have not been restated.

### (c) Financial Instruments

In the current period, the Group has applied HKAS 32 "Financial Instruments: Disclosure and Presentation" and HKAS 39 "Financial Instruments: Recognition and Measurement". HKAS 32 requires retrospective application. HKAS 39, which is effective for annual periods beginning on or after January 1, 2005, generally does not permit to recognise, derecognise or measure financial assets and liabilities on a retrospective basis. The principal effects resulting from the implementation of HKAS 32 and HKAS 39 are summarised below:

#### *Financial assets and financial liabilities other than debt and equity securities*

From April 1, 2005 onwards, the Group classifies and measures its financial assets and financial liabilities other than debt and equity securities (which were previously outside the scope of Statement of Standard Accounting Practice 24) in accordance with the requirements of HKAS 39. Under HKAS 39, financial assets are classified as "financial assets at fair value through profit or loss", "available-for-sale financial assets", "loans and receivables", or "held-to-maturity financial assets". Financial liabilities are generally classified as "financial liabilities at fair value through profit or loss" or "financial liabilities other than financial liabilities at fair value through profit or loss (other financial liabilities)". "Other financial liabilities" are carried at amortised cost using the effective interest method.

#### *Derivatives and hedging*

From April 1, 2005 onwards, all derivatives that are within the scope of HKAS 39 are required to be carried at fair value at each balance sheet date regardless of whether they are deemed as held for trading or designated as effective hedging instruments. Under HKAS 39, derivatives (including embedded derivatives separately accounted for from the host contracts) are deemed as held-for-trading financial assets or financial liabilities, unless they qualify and are designated as effective hedging instruments. The corresponding adjustments on changes in fair values would depend on whether the derivatives are designated as effective hedging instruments, and if so, the nature of the item being hedged. For derivatives that are deemed as held for trading, changes in fair values of such derivatives are recognised in profit and loss for the period in which they arise.

The Group has not early applied the new HKFRSs that have been issued but not yet effective. The directors of the Company anticipate that the application of these new HKFRSs will have no material impact on the financial statements of the Group.

## 2. Segment information

An analysis of the Group's turnover and contribution to profit from operations by each principal business activity is as follows:

	Turnover		Contribution to (loss) profit from operations	
	Nine months ended December 31,		Nine months ended December 31,	
	2005	2004	2005	2004
	HK\$'m	HK\$'m	HK\$'m	HK\$'m
Sales and manufacture of:				
LCD Consumer Electronic Products	827.2	1,008.1	31.9	195.9
Telecommunication Products	220.1	460.8	(45.8)	36.1
Digital Media Products	304.0	384.1	(159.8)	(31.5)
Electronic Learning Products	652.9	542.0	52.0	80.4
Other consumer electronic products	5.4	7.4	2.1	3.3
	<u>2,009.6</u>	<u>2,402.4</u>	<u>(119.6)</u>	<u>284.2</u>
Interest income			4.4	14.5
Unallocated corporate expense			(8.7)	(0.2)
(Loss) profit from operations			<u>(123.9)</u>	<u>298.5</u>

An analysis of the Group's turnover by geographical market is as follows:

	<b>Turnover</b>	
	<b>Nine months ended</b>	
	<b>December 31,</b>	
	<b>2005</b>	2004
	<b>HK\$'m</b>	<b>HK\$'m</b>
Americas	832.5	941.0
Europe	799.4	959.5
Asia Pacific	377.7	501.9
	<u>2,009.6</u>	<u>2,402.4</u>

**3. (Loss) profit from operations**

	<b>Nine months ended</b>	
	<b>December 31,</b>	
	<b>2005</b>	2004
	<b>HK\$'m</b>	<b>HK\$'m</b>
(Loss) profit from operations has been arrived at after charging:		
Depreciation and amortisation of property, plant and equipment	50.0	45.9
Amortisation of intangible assets	40.0	32.5
Loss on disposal of property, plant and equipment	9.8	1.7
and after crediting:		
Interest income	<u>4.4</u>	<u>14.5</u>

**4. Taxation**

The credit (charge) consists of:

	<b>Nine months ended</b>	
	<b>December 31,</b>	
	<b>2005</b>	2004
	<b>HK\$'m</b>	<b>HK\$'m</b>
Hong Kong Profits Tax	13.3	(30.0)
Tax in other jurisdictions	(1.1)	(9.8)
Deferred taxation credit	(3.8)	29.6
	<u>8.4</u>	<u>(10.2)</u>

Hong Kong Profits Tax is calculated at 17.5% on the estimated assessable profit for the period. Overseas taxation is calculated at the rates prevailing in the respective jurisdictions.

With regard to the protective assessments (the "Protective Assessments") relating to years of assessment from 1999/00 to 2003/04 that were raised to one of the Group's subsidiaries on its offshore tax claim, the Group, with the advice from its tax advisor, is in the process to agree on an appropriate basis of settlement with the Hong Kong Inland Revenue Department (the "HKIRD"). The Directors have been advised by its tax advisor, based on the subsidiary's current mode of operation, the HKIRD should conclude that no profits tax is in fact payable by the subsidiary in question and no provision for profits tax in respect of the Protective Assessments will be necessary. No provision for Hong Kong Profits Tax had been made in the financial statements of the Group for the nine months ended December 31, 2005 in respect of the Protective Assessments. The Group cannot predict when this issue will be resolved and further announcement will be made once an appropriate basis of settlement has been agreed with the HKIRD and the extent of tax liability has become transpired.

## 5. Earnings per share

The calculation of the basic and diluted earnings per share is based on the following data:

	<b>Nine months ended</b>	
	<b>December 31,</b>	
	<b>2005</b>	<b>2004</b>
	<b>HK\$m</b>	<b>HK\$m</b>
Net (loss) profit for the period attributable to shareholders and earnings for the purposes of basic earnings per share	<b>(164.0)</b>	229.1
Effect of dilutive potential ordinary shares:		
Adjustment to the share of profits of a subsidiary based on dilution of its earnings per share	—	—
Earnings for the purpose of diluted earnings per share	<u><b>(164.0)</b></u>	<u>229.1</u>
Number of ordinary shares:		
Weighted average number of ordinary shares for the purpose of basic earnings per share	<b>2,085,080,452</b>	2,084,316,475
Effect of dilutive potential ordinary shares:		
Share options	<u><b>2,755,164</b></u>	<u>3,300,752</u>
Weighted average number of ordinary shares for the purpose of diluted earnings per share	<u><b>2,087,835,616</b></u>	<u>2,087,617,227</u>

## BUSINESS REVIEW

### *Results For The Three Months Ended December 31, 2005*

Turnover of the Group for the three months ended December 31, 2005 was HK\$812.6 million, representing a 23% decrease from that in the corresponding period of the previous financial year. Oregon Scientific branded sales were 15% lower when compared with the corresponding period last year, accounting for 71% of the Group's turnover, compared with 64% in the previous same period. The decrease was the result of a 45% decline in the sales of digital media products from the liquidation of inventory of MP3 players and digital cameras and a 24% drop in LCD consumer electronic products sales due to clearance of inventory at repositioned prices. ODM/OEM sales were 38% lower when compared with the corresponding period last year and accounted for 29% of the Group's turnover. ODM/OEM sales in digital media products, telecommunications products and LCD consumer electronic products dropped 88%, 55% and 29% respectively as sale of certain price competitive models was discontinued.

The Group recorded a gross profit of HK\$303.2 million and gross profit margin of 37% compared to HK\$409.3 million and 39% respectively in the same period last year.

Profit from operations was HK\$47.6 million in the review period and HK\$156.4 million in the corresponding period last year. Total operating expenses decreased by 1% to HK\$253.6 million, comparable to 31% of sales this year against 24% last year. Distribution and selling expenses decreased by 3% to HK\$160.7 million, administrative expenses increased by 7% to HK\$64.3 million and R&D expenses decreased by 3% to HK\$28.6 million.

Net profit attributable to equity holders of the parent for the three months ended December 31, 2005 was HK\$20.2 million, compared with HK\$124.0 million in the corresponding period last year.

### *Results For The Nine Months Ended December 31, 2005*

Turnover of the Group for the nine months ended December 31, 2005 was HK\$2,009.6 million, representing a decrease of 16% from that in the corresponding period of the previous financial year. Oregon Scientific branded sales were at the same level as in the corresponding period last year, accounting for 63% of the Group's turnover, compared with 53% in the same period last year. ODM/OEM sales were 35% lower than in the corresponding period last year and accounted for 37% of the Group's turnover. ODM/OEM sales in electronic learning products increased 41% whereas those in telecommunications products, digital media products and LCD consumer electronic products dropped 61%, 54% and 22% respectively compared with the corresponding period last year.

Loss from operations was HK\$123.8 million, compared with profit from operations of HK\$298.5 million in the corresponding period last year. The exceptionally high operating profit achieved last

year was partly attributed to contribution from some ODM/OEM businesses which had not recurred this period. Total operating expenses increased by 14% to HK\$704.3 million, representing 35% of sales against 26% last year. Distribution and selling expenses increased by 15% to HK\$408.2 million, R&D expenses increased by 17% from HK\$79.7 million to HK\$93.3 million and administrative expenses increased by 11% to HK\$202.8 million.

Net loss attributable to equity holders of the parent for the nine months ended December 31, 2005 was HK\$164.0 million, compared to profit of HK\$229.1 million in the corresponding period last year.

**Oregon Scientific** recorded sales of HK\$1,268.0 million, making up 63% of the Group's turnover. The US continued to record double-digit growth in sales. Sales in Brazil was 78% higher than in the corresponding period last year. Total sales in Asia Pacific increased by 26% while that in Europe decreased by 15% mainly attributable to the Group's efforts to reduce inventory by lowering the prices of LCD consumer electronic products, MP3 players and digital cameras.

**LCD Consumer Electronic Products division** recorded sales of HK\$827.3 million, down 18% from last year. Accounting for 41% of the Group's turnover, the division remained as the largest division of the Group. Oregon Scientific branded sales were HK\$578.0 million, down 16% compared with last year and accounted for 70% of the division's total sales in the period. The drop was mainly due to the sales of high-end models in inventory at lowered prices. ODM/OEM sales were also down by 22% as fewer orders were received from customers for certain product categories.

**Electronic Learning Products division** recorded sales of HK\$652.6 million for the period, representing 33% of the Group's turnover and an increase of 20% from last year. Sales under the Oregon Scientific brand were HK\$433.1 million, accounting for 66% of the division's total sales. Oregon Scientific brand sales and ODM/OEM sales were up by 12% and 41% respectively as compared with last year. Driven by strong sales of newly licensed products, Oregon Scientific sales grew in Americas, Europe and Asia Pacific. Some of them received international recognitions and best educational and children's product awards.

**Telecommunications Products division** sales decreased by 52% to HK\$220.1 million in the period. This division contributed 11% of the Group's turnover, down from 19% last year. During the period, sales of the Oregon Scientific brand were HK\$62.8 million, which accounted for 29% of the division's total sales, up from 12% last year. ODM/OEM sales at HK\$157.4 million were 61% lower than last year largely attributed to exit of low margin products. New products have been launched to cultivate new anchor customers. At the relentless effort of the division, new key customers have come on board and new product offerings have received very positive market responses.

**Digital Media Products division** recorded sales of HK\$304.2 million, representing 15% of the Group's turnover, down from 16% last year. Oregon Scientific brought in 62% of the division's sales, compared to 36% last year. The clearance of MP3 and digital camera products drove up Oregon Scientific sales by 38% to HK\$189.6 million. Meanwhile, ODM/OEM sales decreased 54% to HK\$114.5 million, the results of fierce competition in the market.

## **OPERATIONS REVIEW**

As at December 31, 2005, the Group's inventory stood at HK\$457.8 million, 39% lower than HK\$756.3 million in the corresponding period last year and 26% lower than HK\$617.6 million in the first half of this year.

To improve the cost structure of its businesses, the Group took a number of initiatives to streamline the organisation of its overseas subsidiaries and product divisions to reduce operating expenses. No further investment was made in the development of MP3 and digital camera products given the persistent pricing pressure on the products. Besides efforts made to liquidate inventory of these products, measures had been taken to control operating expenses and to improve productivity of different divisions. A new product planning process has been implemented to improve product innovation, product quality and time to market.

The Group's effective working capital management for the nine months ended December 31, 2005 was reflected in improvements in certain performance indicators such as reduction in trade receivables and trade payables by 26% and 50% respectively when compared with the balances as at December 31, 2004. Operating expenses for the period under review were also kept at a level lower than the last corresponding period. A surplus in net cash was sustained. The Group's balance sheet has been significantly strengthened.

## **OUTLOOK**

The fourth quarter is the traditional slow selling season. The impact of RoHS, the European environmental directive that will become mandatory in July 2006, will add pressure on our gross margins as we continue to clear inventory with non-green components in the fourth quarter. The sales contributions from ODM/OEM business of digital media products in the last quarter of the year is expected to be significantly lower than that of the fourth quarter last year. Expenses in relation to reduction in headcounts of loss-making subsidiaries and continued liquidation of inventory of MP3 and digital camera products will also have negative effect on the Group's results. Taking the aforementioned factors into consideration, the Directors and the management are making every effort to minimise the impact on the Group.

However, the Group will take further action to strengthen financial management and develop innovative products that can meet the demand of consumers and the expectation of retailers. Efforts to strengthen supply chain management will help to shorten manufacturing cycle and reduce distribution expenses. Apart from the traditional distribution channels, Oregon Scientific will explore and exploit new sales channels such as B2B and e-commerce platforms, which will also serve well to promote awareness and heighten margins of the brand. The Group will step up restructuring measures to achieve greater operational efficiency, realign business and streamline cost structures so as to improve financial results. The Group will deploy resources only on businesses with adequate margins and will continue to grow both Oregon Scientific and its ODM/OEM businesses, focusing on enhancing value to customers and shareholders.

## **DIVIDEND**

The Directors do not recommend the payment of a dividend for the three months ended December 31, 2005 (2004: nil).

## **WORKING CAPITAL AND TREASURY MANAGEMENT**

Working capital as at December 31, 2005 amounted to HK\$409.9 million, down by 52% from last year. Compared with the balances as at December 31, 2004, inventories, trade receivables and trade payables dropped by 39%, 26% and 50% respectively. Inventory turnover was 87 days and debtor turnover was 71 days.

The Group generally finances its operations using internal cash flow. Its total cash balance as at December 31, 2005 were HK\$573.0 million, HK\$62.0 million lower than that of last year. The Group has no secured or unsecured long-term debt. The short-term borrowings of HK\$531.6 million as at December 31, 2005, compared with HK\$447.7 million last year, were in relation to bills payable, import loans, revolving bank loans used for currency hedging purposes and bank overdrafts. Net cash balance as at December 31, 2005 was HK\$41.2 million.

The Group had HK\$273.0 million on long term fixed deposits with financial institutions as at December 31, 2005, which was HK\$23.4 million lower than last year. These deposits were placed with institutions with a minimum Double-A rating. These instruments do carry a level of risk because interest earnings could be nil if certain conditions arise.

The Group's exposure to foreign currency stems mainly from the net cash flow and net working capital translation of its overseas subsidiaries. Hedging of foreign currency exposures is actively done through natural hedges, forward contracts and options. As at December 31, 2005, there were forward contracts in place to hedge against possible exchange losses from future net cash flows. Speculative currency transactions are strictly prohibited. Management of currency risk is the responsibility of the Group's headquarters in Hong Kong.

## **CONTINGENT LIABILITIES**

As at December 31, 2005, the Group had no contingent liabilities (2004: nil).

## **EMPLOYEES AND REMUNERATION POLICIES**

As at December 31, 2005, the Group had a total of approximately 6,100 employees (2004: approximately 7,500 employees). The Group continues to maintain and upgrade the capabilities of its workforce by providing staff with adequate and regular training.

The Group fully recognises the importance of its employees as contributors to its success. The Group's employee remuneration packages are in line with industry norm and are subject to annual review. Bonuses are awarded to employees based on both individual and the Group's overall performance each

year. Both the Company and its Singapore listed subsidiary, IDT Holdings (Singapore) Limited, have share option schemes for employees to reward them for their contributions and align their interests with that of the shareholders.

### **PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES**

There was no purchase, sale or redemption of the Company's listed securities by the Company or any of its subsidiaries during the nine months ended December 31, 2005.

### **CORPORATE GOVERNANCE**

The Group is committed to achieving high standards of corporate governance. Throughout the review period, the Company had applied the principles and complied with the requirements set out in the Code on Corporate Governance Practices ("CG Code") in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, with a major deviation from CG Code provision A.2.1 in respect of the separation of roles of the chairman and chief executive officer. The Group's compliance with the provisions and recommended best practices of the CG Code together with the reasons for any deviations are set out in the Corporate Governance Report in the Company's 2005 Annual Report issued in June 2005.

### **REVIEW OF ACCOUNTS**

The Audit Committee had reviewed with the management the unaudited financial statements and the results of the Group for the nine months ended December 31, 2005.

### **APPRECIATION**

On behalf of the Board of Directors, I wish to express my gratitude to the management team and our staff members for their hard work, dedication and support to the Group throughout the period.

On behalf of the board of directors

**Dr. Raymond Chan**

*Chairman & Chief Executive Officer*

Hong Kong, February 14, 2006

*The Directors of the Company as at the date of this announcement are Dr. Raymond Chan and Mrs. Chan Pau Shiu Yeng, Shirley as executive directors; Professor Woo Chia Wei as non-executive director; Mr. Lo Kai Yiu, Anthony, Mr. Kao Ying Lun, Mr. Jack Schmuckli, Dr. Kenichi Ohmae and Professor Yoram (Jerry) Wind as independent non-executive directors.*

Websites: <http://www.idthk.com>  
<http://www.irasia.com/listco/hk/idt>

Please also refer to the published version of this announcement in South China Morning Post - Classified.