IDT INTERNATIONAL LIMITED

萬威國際有限公司*

(Incorporated in Bermuda with limited liability)

(Stock Code: 167)

ANNOUNCEMENT OF AUDITED RESULTS FOR THE YEAR ENDED DECEMBER 31, 2018

FINANCIAL HIGHLIGHTS

- Revenue amounted to HK$433.2 million (FY2017: HK$516.6 million).
- Gross profit amounted to HK$28.9 million (FY2017: HK$103.5 million).
- Total operating expenses amounted to HK$179.1 million (FY2017 (restated): HK$181.0 million).
- Loss for the year amounted to HK$215.6 million (FY2017: HK$85.7 million).
- Group net cash balances amounted to HK$22.3million (December 31, 2017: HK$37.2 million).

The board of directors (the "**Board**" or the "**Directors**") of IDT International Limited (the "**Company**") is pleased to present the audited consolidated results of the Company and its subsidiaries (collectively, the "**Group**") for the year ended December 31, 2018 together with comparative audited figures for the year ended December 31, 2017 ("**FY 2017**").

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	NOTES	For the year ended December 31, 2018 HK$'million	For the year ended December 31, 2017 HK$'million (restated)
Revenue	3	**433.2**	516.6
Cost of goods sold		**(404.3)**	(413.1)
Gross profit		**28.9**	103.5
Other income		**5.7**	5.1
Other gains and losses		**(11.5)**	(3.9)
Impairment losses on financial assets, net of reversal		**(10.3)**	(9.2)
Impairment of goodwill		**(33.8)**	—
Research costs		**(39.2)**	(41.6)
Distribution and selling expenses		**(84.4)**	(71.9)
General administrative expenses		**(55.5)**	(67.5)
Finance costs		**(3.2)**	(0.2)
Loss before taxation	4	**(203.3)**	(85.7)
Taxation	5	**(12.3)**	—
Loss for the year		**(215.6)**	(85.7)
Other comprehensive expenses:			
Item that may be reclassified subsequently to profit or loss:			
Exchange differences arising on translation of foreign operations		**(5.9)**	(4.0)
Total comprehensive expenses for the year		**(221.5)**	(89.7)
Loss and total comprehensive expenses for the year attributable to:			
- Owners of the Company		**(221.5)**	(89.7)
- Non-controlling interests		**—**	—
		(221.5)	(89.7)
Loss per share			
- Basic (HK cents)	6	**(8.29)**	(3.30)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	NOTES	As at December 31, 2018 HK$'million	As at December 31, 2017 HK$'million
Non-current assets			
Property, plant and equipment		**27.6**	32.5
Intangible assets		**2.6**	3.3
Goodwill		**—**	33.8
Rental deposits		**6.5**	6.7
Prepaid rental		**0.1**	1.6
		36.8	77.9
Current assets			
Inventories		**74.8**	130.4
Trade and other receivables	7	**81.3**	162.5
Tax recoverable		**—**	0.1
Bank balances and cash		**22.3**	37.2
		178.4	330.2
Current liabilities			
Trade and other payables	8	**117.8**	192.9
Tax payable		**12.3**	—
Borrowing		**37.4**	35.5
Contract liabilities		**58.2**	—
		225.7	228.4
Net current (liabilities) assets		**(47.3)**	101.8
Non-current liability			
Loan from a shareholder		**32.5**	—
Net (liabilities) assets		**(43.0)**	179.7
Capital and reserves			
Share capital		**260.0**	260.0
Reserves		**(303.1)**	(80.4)
Equity attributable to owners of the Company		**(43.1)**	179.6
Non-controlling interests		**0.1**	0.1
		(43.0)	179.7

Note:

1. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS

In preparing the consolidated financial statements, the directors of the Company have given careful consideration to the future liquidity of the Company and its subsidiaries (collectively referred to as the "Group") in light of the fact that the Group's current liabilities exceeded its current assets by HK$47.3 million as at December 31, 2018, the Group's total liabilities exceeded its total assets by HK$43.0 million as of that date, and that the Group incurred a loss of HK$215.6 million for the year then ended.

The directors are of the opinion that the Group will have sufficient working capital to finance its operations and to meet its financial obligations for at least the next twelve months from the date of approval of these consolidated financial statements given that (1) China Huaneng Foundation Construction Investment Limited ("Huaneng"), the largest shareholder of the Company, has committed to provide continuous financial support to the Group as is necessary to enable the Group to meet its financial obligations as they fall due and (2) the management of Group will continue to reduce all non-essential costs.

However, should the above measures not be able to implement successfully, the Group may not have sufficient funds to operate as a going concern, in which case adjustments might have to be made to the carrying values of the Company's assets to their recoverable amounts, to reclassify the non-current assets and non-current liabilities as current assets and current liabilities, respectively and to provide for any further liabilities which might arise.

2. **APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")**

New and amendments to HKFRSs that are mandatorily effective for the current year

The Group has applied the following new and amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") for the first time in the current year:

HKFRS 9	Financial Instruments
HKFRS 15	Revenue from Contracts with Customers and the related Amendments
HK(IFRIC)-Int 22	Foreign Currency Transactions and Advance Consideration
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions
Amendments to HKFRS 4	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts
Amendments to HKAS 28	As part of the Annual Improvements to HKFRSs 2014-2016 Cycle
Amendments to HKAS 40	Transfers of Investment Property

Except as described below, the application of amendments to HKFRSs in the current year has had no material impact on the Group's financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

HKFRS 15 Revenue from Contracts with Customers

The Group has applied HKFRS 15 for the first time in the current year. HKFRS 15 superseded HKAS 18 Revenue, HKAS 11 Construction Contracts and the related interpretations.

The Group has applied HKFRS 15 retrospectively with the cumulative effect of initially applying this standard recognised at the date of initial application, January 1, 2018. Any difference at the date of initial application is recognised in the opening accumulated losses (or other components of equity, as appropriate) and comparative information has not been restated. Furthermore, in accordance with the transition provisions in HKFRS 15, the Group has elected to apply the standard retrospectively only to contracts that are not completed at January 1, 2018. Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 18 Revenue related interpretations.

The Group recognises revenue from manufacturing and sales of various consumer electronic products which arise from contracts with customers.

Information about the Group's performance obligations resulting from application of HKFRS 15 are disclosed in note 3.

Summary of effects arising from initial application of HKFRS 15

The following adjustments were made to the amounts recognised in the consolidated statement of financial position at January 1, 2018. Line items that were not affected by the changes have not been included.

	Note	**December 31, 2017 (Audited)**	**Reclassification**	**Remeasuremen**	**January 1, 2018 (After adjustment)**
		HK$'million	*HK$'million*	*HK$'million*	*HK$'million*
CURRENT LIABILITES					
Trade and other payables	(a)	192.9	(42.6)	—	150.3
Contract liabilities	(a)	—	42.6	—	42.6

Note: (a) As at January 1, 2018, advances from customers of HK$42.6 million previously included in trade and other payables were reclassified to contract liabilities.

The following table summarises the impacts of applying HKFRS 15 on the Group's consolidated statement of financial position as at December 31, 2018 for each of the line items affected. Line items that were not affected by the changes have not been included.

Impact on the consolidated statement of financial position

	As reported	**Adjustment**	**Amounts without application of HKFRS 15**
	HK$'million	*HK$'million*	*HK$'million*
CURRENT LIABILITES			
Trade and other payables	120.9	58.2	179.1
Contract liabilities	58.2	(58.2)	—

Impact on the consolidated statement of cash flows for amounts without application of HKFRS 15

	As reported	**Adjustment**	**Amounts without application of HKFRS 15**
	HK$'million	*HK$'million*	*HK$'million*
Operating activities			
Decrease in trade and other payables	(34.2)	15.6	(18.6)
Increase in contract liabilities	15.6	(15.6)	—

HKFRS 9 Financial Instruments

In the current year, the Group has applied HKFRS 9 Financial Instruments and the related consequential amendments to other HKFRSs. HKFRS 9 introduces new requirements for 1) the classification and measurement of financial assets and financial liabilities, 2) expected credit losses ("ECL") for financial assets and 3) general hedge accounting.

The Group has applied HKFRS 9 in accordance with the transition provisions set out in HKFRS 9, i.e. applied the classification and measurement requirements (including impairment under ECL model) retrospectively to instruments that have not been derecognised as at January 1, 2018 (date of initial application) and has not applied the requirements to instruments that have already been derecognised as at January 1, 2018. The difference between carrying amounts as at December 31, 2017 and the carrying amounts as at January 1, 2018 are recognised in the opening retained profits and other components of equity, without restating comparative information.

Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 39 Financial Instruments: Recognition and Measurement.

Summary of effects arising from initial application of HKFRS 9

The table below illustrates the classification and measurement of financial assets and financial liabilities and other items subject to ECL under HKFRS 9 and HKAS 39 at the date of initial application, January 1, 2018.

	Notes	**Financial assets previously classified as loans and receivables**	**Financial assets at amortised costs**	**Accumulated losses**
		HK$'million	*HK$'million*	*HK$'million*
Closing balance at December 31, 2017 - HKAS 39		159.7	—	(181.0)
Effect arising from initial application of HKFRS 9:				
Reclassification				
- From loans and receivables	(a)	(159.7)	159.7	—
Remeasurement				
Impairment under ECL model	(b)	—	(1.2)	(1.2)
Opening balance at January 1, 2018		—	158.5	(182.2)

(a) Loans and receivables

From loans and receivables to financial assets at amortised cost

The loans and receivables were reclassified as financial assets at amortised cost since the Group's business model is to hold these financial assets for collection of contractual cash flows, and the cash flows represent solely payments of principal and interest on the principal amount outstanding.

The Group applies the HKFRS 9 simplified approach to measure ECL which uses a lifetime ECL for all trade receivables arising from transactions within the scope of HKFRS 15. To measure the ECL, receivables have been grouped based on shared credit risk characteristics.

ECL for other financial assets at amortised cost, including other receivables and bank balances, are assessed on 12-month ECL basis as there had been no significant increase in credit risks since initial recognition.

As at January 1, 2018, additional credit loss allowance of HK$1.2 million has been recognised against accumulated losses. The additional loss allowance is charged against the respective asset.

(b) Impairment under ECL model

All loss allowance for trade receivables and other receivables as at December 31, 2017 reconciled to the opening loss allowances as at January 1, 2018 are as follows:

	Amount
At December 31, 2017	HK$'million
- HKAS 39	23.1
Amounts remeasured through opening accumulated losses	1.2
At January 1, 2018	24.3

Impacts on opening consolidated statement of financial position arising from the application of all new standards

As a result of the changes in the Group's accounting policies above, the opening consolidated statement of financial position had to be restated. The following table shows the adjustments recognised for each of the line items affected. Line items that were not affected by the changes have not been included.

	December 31, 2017 (Audited)	HKFRS 15	HKFRS 9	January 1, 2018 (Restated)
	HK$'million	HK$'million	HK$'million	HK$'million
CURRENT ASSETS				
Trade and other receivables	162.5	—	(1.2)	161.3
CURRENT LIABILITES				
Trade and other payables	192.9	(42.6)	—	150.3
Contract Liabilities	—	42.6	—	42.6
Capital and reserves				
Reserves	(80.4)	—	(1.2)	(81.6)

Note: For the purposes of reporting cash flows from operating activities under indirect method for the year ended December 31, 2018, movements in working capital have been computed based on opening statement of financial position as at January 1, 2018 as disclosed above.

New and amendments to HKFRSs in issue but not yet effective

The Group has not early applied the following new and amendments to HKFRSs that have been issued but are not yet effective:

HKFRS 16	Leases[1]
HKFRS 17	Insurance Contracts[2]
HK(IFRIC)-Int 23	Uncertainty over Income Tax Treatments[1]
Amendments to HKFRS 3	Definition of a Business[4]
Amendments to HKFRS 9	Prepayment Features with Negative Compensation[1]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3]
Amendments to HKAS 1 and HKAS 8	Definition of Material[5]

Amendments to HKAS 19	Plan Amendment, Curtailment or Settlement[1]
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures[1]
Amendments to HKFRSs	Annual Improvements to HKFRSs 2015-2017 Cycle[1]

[1] Effective for annual periods beginning on or after January 1, 2019
[2] Effective for annual periods beginning on or after January 1, 2021
[3] Effective for annual periods beginning on or after a date to be determined
[4] Effective for business combination and asset acquisitions which the acquisition date is on or after the beginning of the first annual period beginning on or after January 1, 2020
[5] Effective for annual periods beginning on or after January 1, 2020

3. REVENUE AND SEGMENT INFORMATION

Revenue represents the amounts received and receivable for goods sold by the Group to outside corporate customers, net of sales related taxes. Revenue represents mainly Oregon Scientific branded sales ("Branded Sales") and original equipment manufacturer and original design manufacturer sales ("OEM/ODM Sales"). The revenue for the year ended December 31, 2018 is disaggregated below.

	Smart learning, and immersive technology	**Connected home and communications**	**Health and wellness**	**Others**	**Total**
	HK$'million	HK$'million	HK$'million	HK$'million	HK$'million
Timing of revenue recognition					
One point in time	55.4	140.4	166.1	71.3	433.2

Performance obligations for contracts with customers

Sales of goods (revenue recognised at one point in time)

The Group sells various consumer electronic products to corporate customers. Revenue is recognised when control of the goods has transferred, being when the goods have been shipped to the customer's specific location (delivery). Following delivery, the customer has full discretion over the manner of distribution and price to sell the goods, has the primary responsibility when on selling the goods and bears the risks of obsolescence and loss in relation to the goods. The normal credit term for customers is normally 90 days upon delivery.

During the year ended December 31, 2018, all performance obligations for sales of goods are for periods of one year or loss. As permitted under HKFRS15, the transition price allocated to unsatisfied performance obligations as at the end of each reporting period is not disclosed

HKFRS 8 Operating Segments requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the executive directors and chief executive officer, being the chief operating decision maker (the "CODM"), in order to allocate resources to the segments and to assess their performance. The Group operates in four operating and reportable segments, namely smart learning and immersive technology, connected home and communications, health and wellness as well as others.

Segment revenue and results

The following is an analysis of the Group's revenue and results by operating and reportable segments:

	Smart learning, and immersive technology	Connected home and communications	Health and wellness	Others	Total
	HK$'million	HK$'million	HK$'million	HK$'million	HK$'million
Year ended December 31, 2018					
Segment revenue					
Branded sales	55.4	80.8	19.8	5.5	161.5
OEM/ODM sales	—	59.6	146.3	65.8	271.7
Total segment revenue	55.4	140.4	166.1	71.3	433.2
Segment loss	(5.1)	(53.1)	(74.3)	(48.7)	(181.2)
Unallocated income					1.1
Unallocated expense					(20.0)
Finance costs					(3.2)
Loss before taxation					(203.3)
Year ended December 31, 2017					
Segment revenue					
Branded sales	82.0	106.3	14.4	9.1	211.8
OEM/ODM sales	—	120.8	63.7	120.3	304.8
Total segment revenue	82.0	227.1	78.1	129.4	516.6
Segment (loss) profit	(1.5)	(23.6)	(7.6)	(15.9)	(48.6)
Unallocated income					1.9
Unallocated expense					(38.8)
Finance costs					(0.2)
Loss before taxation					(85.7)

Segment revenue reported above represents revenue generated from external customers. There were no inter-segment sales for both years.

Segment loss represents the loss earned by each segment without allocation of interest income, rental income, other miscellaneous income, unallocated expense such as central administrative cost, and finance costs. This is the measure reported to the Group's CODM, for the purposes of resource allocation and performance assessment.

No segment assets and segment liabilities are presented as such amounts are not reviewed by the Group's CODM for the purpose of resource allocation and performance assessment or otherwise regularly provided to the Group's CODM.

4. LOSS BEFORE TAXATION

	Year ended December 31, 2018 HK$'million	Year ended December 31, 2017 HK$'million
Loss before taxation has been arrived at after charging (crediting):		
Directors' emolument	**1.3**	1.1
Retirement benefits scheme contributions for other staff	**18.3**	12.0
Salaries and other benefits for other staff	**126.0**	172.7
Other staff costs	**144.3**	184.7
Total staff costs	**145.6**	185.8
Less: Amount capitalised to inventories	**(37.1)**	(61.1)
	108.5	124.7
Amortisation of intangible assets	**0.7**	0.7
Auditors' remuneration	**2.6**	2.3
Cost of inventories recognised as expense	**369.7**	413.1
Provision (reversal) of write-down of inventories	**34.6**	(3.3)
Depreciation of property, plant and equipment	**14.5**	12.7
Less: Amount capitalised to inventories	**(8.7)**	(6.2)
	5.8	6.5
Operating lease rentals in respect of		
-office equipment and motor vehicles	**0.2**	0.1
-rented premises	**20.3**	22.8

5. TAXATION

	Year ended December 31, 2018 HK$'million	Year ended December 31, 2017 HK$'million
Current tax		
- Under provision in prior year (note)	**12.3**	—

Note: An indirect wholly-owned subsidiary of the Company, Oregon Scientific Italy Limited ("OS Italy"), was involved in a tax dispute with the Italian Tax Authorities. As disclosed in the announcement of the Company dated on November 6, 2018, there was a tax dispute between OS Italy and the Italian Tax Authorities (the "Tax Dispute"), and the tax charge judgement in relation to the Tax Dispute from the Supreme Court of Cassation of Italy was received. After seeking the legal advice, the directors of the Company considered no further legal actions are possible for OS Italy in relation to the Tax Dispute. Based on tax notice received from the Italian Tax Authorities in January 2019, the Group provided a tax provision of approximately Euro 1.4 million (equivalent to approximately HK$12.3 million) in the consolidated statement of profit or loss and other comprehensive income for the year ended December 31, 2108.

On March 21, 2018, the Hong Kong Legislative Council passed The Inland Revenue (Amendment) (No. 7) Bill 2017 (the "Bill") which introduces the two-tiered profits tax rates regime. The Bill was signed into law on March 28, 2018 and was gazetted on the following day. Under the two-tiered profits tax rates regime, the first HK$2 million of profits of the qualifying group entity will be taxed at 8.25%, and profits above HK$2 million will be taxed at 16.5%. The profits of group entities not qualifying for the two-tiered profits tax rates regime will continue to be taxed at a flat rate of 16.5%.

Under the Law of the PRC on Enterprise Income Tax ("EIT Law") and Implementation Regulation of the EIT Law, the tax rate for the PRC Subsudiaries is 25%.

Taxation arising in other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.

6. LOSS PER SHARE

The calculation of the basic loss per share attributable to the owners of the Company for the year is based on the following data:

	Year ended December 31, 2018	**Year ended December 31, 2017**
	HK$'million	*HK$'million*
Loss:		
Loss for the year attributable to owners of the Company and loss for the purposes of basic loss per share	**(215.6)**	(85.7)

	As at December 31, 2018	**As at December 31, 2017**
Number of ordinary shares:		
Weighted average number of ordinary share for the purpose of basis loss per share	**2,599,993,088**	2,599,993,088

No dilutive earnings per share is presented for the year ended December 31, 2018 and 2017 as there was no potential ordinary share in issue for both years.

7. TRADE AND OTHER RECEIVABLES

The following is an aged analysis of trade receivables (net of allowance for credit losses) presented based on the invoice date which approximate the respective revenue recognition date at the reporting date.

	2018	**2017**
	HK$'million	*HK$'million*
Trade receivables	60.8	140.2
Less: Allowance for credit losses	(24.2)	(23.1)
	36.6	117.1
Other receivables	44.7	45.4
Total trade and other receivables	81.3	162.5

The following is an aged analysis of trade receivables (net of allowance for credit losses) presented based on the invoice date which approximate the respective revenue recognition date at the reporting date.

	2018	**2017**
	HK$' million	*HK$' million*
0 to 30 days	22.9	48.8
31 to 90 days	12.5	64.2
Over 90 days	1.2	4.1
Trade receivables	36.6	117.1

The Group normally allows credit period of 30 to 90 days to its customers. Before accepting any new customers, the management of the Group will base on the credit quality of the potential customers to define credit limits. Credit limits to customers are reviewed annually. In determining the recoverability of the trade receivables, the Group considers any change in the credit quality of the trade receivables from the date credit was initially granted up to the reporting date.

As at December 31, 2018, included in the Group's trade receivable balances are debtors with aggregate carrying amount of HK$1.2 million (2017: HK$4.1 million) which are past due at the end of the reporting period. The Group does not hold any collateral over these balances.

As at December 31, 2017, the trade receivable balances of HK$113.0 million were neither past due nor impaired at the end of the reporting period for which the Group had not provided for impairment loss since they had no default history and of good credit quality.

Aging of trade receivables which are past due but not impaired:

	2017
	HK$'million
Overdue less than 90 days	2.2
Overdue 91 to 360 days	1.9
	4.1

Movement in the allowance for doubtful debts on trade receivables:

	2017
	HK$'million
Balance at beginning of the year	13.6
Currency realignment	0.3
Impairment loss for the year	9.2
Balance at end of the year	23.1

As at December 31, 2017, included in the allowance for doubtful debts were individually impaired trade receivables with an aggregate balance of HK$23.1 million which have either been placed under liquidation or in financial difficulties.

Other receivables

	2018	**2017**
	HK$'million	*HK$'million*
Advances to suppliers	**37.1**	32.8
Other taxes recoverable	**5.1**	7.2
Others	**2.5**	5.4
	44.7	45.4

8. TRADE AND OTHER PAYABLES

The following is an aged analysis of trade payables presented based on the invoice date at the end of the reporting period:

	As at December 31, 2018	**As at December 31, 2017**
	HK$'million	*HK$'million*
0 to 30 days	**35.1**	25.2
31 to 90 days	**17.7**	47.7
Over 90 days	**45.7**	37.6
Trade payables	**98.5**	110.5
Other payables	**19.3**	82.4
Trade and other payables	**117.8**	192.9

SCOPE OF WORK OF MESSRS. DELOITTE TOUCHE TOHMATSU

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of profit or loss and other comprehensive income and the related notes thereto for the year ended December 31, 2018 as set out in the preliminary announcement have been agreed by the Group's auditor, Messrs. Deloitte Touche Tohmatsu, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by Messrs. Deloitte Touche Tohmatsu in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by Messrs. Deloitte Touche Tohmatsu on the preliminary announcement.

EXTRACT FROM INDEPENDENT AUDITOR'S REPORT

The following is an extract of the independent auditor's report on the consolidated financial statements of the Group for the year ended December 31, 2018.

"DISCLAIMER OF OPINION

We do not express an opinion on the consolidated financial statements of the Group. Because of the significance of the matter described in the Basis for Disclaimer of Opinion section of our report, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these consolidated financial statements. In all other respects, in our opinion the consolidated financial statements have been properly prepared in compliance with the Hong Kong Companies Ordinance.

BASIS FOR DISCLAIMER OF OPINION

As described in note 2 to the consolidated financial statements, the Group reported a net loss attributable to the owners of the Company of HK$215.6 million during the year ended December 31, 2018. As at the same date, the Group had net current liabilities of HK$47.3 million and net liabilities of HK$43.0 million, as compared to its unrestricted cash and cash equivalents which amounted to HK$22.3 million. The Group's ability to continue as a going concern is dependent on the ongoing availability of financing to the Group, including the financial support from the shareholder.

As further described in note 2 to the consolidated financial statements, the largest shareholder of the Company has committed in writing to provide financial support to the Group as necessary to enable the Group to meet its financial obligations as and when they fall due for the foreseeable future. However, we have not been provided with sufficient appropriate documentary evidence to enable us to assess the financial ability of the shareholder of the Company to provide such financial support to the Group. If the financing were not available, the Group would be unable to meet its financial obligations as and when they fall due.

In view of the extent of the limitation of audit evidence relating to the ongoing availability of finance to the Group, and the significance of the Group's ongoing reliance on this financing, we disclaim our opinion in respect of the year ended December 31, 2018."

Details of "notes 2 to the consolidated financial statements" have been included in "notes 1 to consolidated financial statements" of this announcement respectively.

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Review

The Group's total revenue for the year ended December 31, 2018 was amounted to HK$433.2 million (FY2017: HK$516.6 million), which was due to unclear global trade prospects and the weak performance of the global economy.

Gross profit totalled HK$28.9 million (FY2017: HK$103.5 million). Gross profit margin decreased to 6.67% in the year ended December 31, 2018, the reasons are (i) under the impact of challenging global economic environment due to unclear global trade prospects and the weak performance of the global economy, the revenue of the Group declined while the unit cost of goods increased that lead the gross profit margin decreased significantly compare with FY2017; and (ii) the provision of write-down of inventories included in cost of goods sold amounted HK$34.6 million (FY2017: reversal of write-down of inventories amounted HK$3.3 millions).

The Group continued to execute stringent cost controls and streamline organisational structure and operational procedures. Total operating expenses of the Group, including research costs, distribution and selling expenses and general administrative expenses, amounted to HK$179.1 million (FY2017 (restated): HK$181.0 million). The decrement was mainly due to the staffs cost decreased HK$2 million included in distribution and selling expenses and general administration expenses compared with FY2017.

Other gains and losses during the year were recorded as losses of HK$11.5 million (FY2017: loss of HK$3.9 million), the increment was mainly due to the loss on disposal of property, plant and equipment amounting HK$5.0 million (FY2017 (restated): HK$0.4 million).

Impairment of goodwill was HK$ 33.8 million (FY2017:Nil). Impairment loss on financial assets, net of reversal was recorded as HK$ 10.3 million (FY2017: HK$ 9.2 million) due to credit loss of trade receivables.

Tax expenses of HK$12.3 million was recorded due to underprovision of overseas tax expenses in prior year (FY2017: Nil) (details refer to notes 5 of this announcement).

Loss for the year ended December 31, 2018 was HK$215.6 million (FY2017: loss of HK$85.7 million).

BUSINESS REVIEW

In 2018, the overall weak global economy and the trade war affected consumers' and trade buyers' purchase momentum particularly in the consumer electronics business. The company implemented a series of streamlining measures with an aim to enhance operation efficiency and lower business administration cost. There were several one-off provisions which were made and impacted the performance in 2018. Overall the company recorded decline in the sales revenue and increased net loss.

During the year, the management has put effort on cost control by lean manufacturing, streamlining manpower and implementing business model change in overseas operations. There were subsidiaries of the Company continued to suffer losses, the Group has restructured the distribution operation model by maintaining the retail business through securing partnership with local reputable distributors instead of operating by self-own subsidiaries to expand retail point of sales network and accelerate cash inflow. The Group also gave up the projects with lower margin or negative margin.

Even though 2018 was a challenging year, the company continued to put focus on establishing the China business, which as result recorded 86.1% growth in sales revenue compared to that of 2017. We secured new distribution partners, opened e-commerce platforms and expanded retail point of sales network in the target channels by launching customized products.

OREGON SCIENTIFIC ("OS")

In 2018, sales revenue of OS business totaled HK$161.5 million (FY2017: HK$211.8 million), 23.7% decrease compared to last year, accounting for 37.3% of the Group's total sales revenue. Connected Home (CoH) and Smart Learning & Immersive Technology (SLIT) were the main product categories, accounting over 50.0% of OS sales.

In CoH category, the Group's strategy was to continue bring in new products such as the stylish contemporary design of time and weather instruments and a series of upgraded version on existing products with competitive pricing, while to streamline the number of SKU for effective inventory management.

In SLIT category, the technology enablement of AR functions continued to impress the customers. The World First Open interactive smart globe became the iconic product in most of the markets. The continuous content upgrade has been one of the key selling benefits that appreciated by the users.

In terms of regional distribution, as we allocated more resources and formed several strategic distribution partnerships in the key targeted channels in China, we achieved 86.1% increase of the sales revenue compared to that of in 2017. Europe was still the largest market, accounting for 50.8% of total OS revenue, whilst the America increased to 21.1% and the Asia Pacific decreased to 28.1%.

We implemented the business model change in Italy and Germany and secured strong partnership with reputable distributors in the local market. This change enabled us to leverage distribution partners' point of sales network to enhance the reach to the market at lower cost with faster cash inflow.

Value Manufacturing Services ("VMS")

In 2018, the Group continued to strengthen its service to VMS customers and made progress in customer retention, and some old customers increased the number of orders and opened several new customers in the new market for VMS business such as China and Israel. Still, due to the trendily weak performance of the global consumer electronics industry and the higher tariff as a result of trade war did impact the purchase from the customers in the 2nd half of the year.

The sales revenue of the Company's VMS business in 2018 was HK$271.7 million (FY2017: HK$304.8 million), which accounted for 62.7% of the Group's total revenue. In terms of product categories, Sports, Health & Fitness is still the main contribution, accounting for 53.8% of the VMS sales revenue and followed by the Connected Home (22.0% of the VMS sales revenue) and Makers' projects (24.2% of the VMS sales revenue).

Due to the steady growth of the smart health product and intelligent home control products in global markets, the Company has gotten the new purchase orders from the important brands. To maintain the leading role in technology and market competitiveness, the VMS research & development team continuously establishes strategic partnership with global innovative technology partner. Our Sports, Fitness & Health team has already launched the co-operation with various strategic partners such as the co-developed solution of Eink watch, PWTT Smart blood pressure monitor, heart rate variability measurement.

WORKING CAPITAL

The inventory balance at December 31, 2018 was HK$74.8 million, decreased by 42.6% compared to the HK$130.4 million at December 31, 2017. The inventory turnover days decreased to 91 days (FY 2017: 104 days).

Trade debtor balances at December 31, 2018 was HK$36.6 million, decreased by 68.7% compared to the HK$117.1 million shown at December 31, 2017. Trade debtor's turnover days decreased to 64 days (FY2017: 80 days)

LIQUIDITY AND TREASURY MANAGEMENT

At December 31, 2018, bank balances and cash of the Group, including short term bank deposits, were HK$22.3 million (December 31, 2017: HK$37.2 million).

During the year, the Group generated its funds mainly from operating activities. The net cash position (bank balances and cash) at December 31, 2018 amounted to HK$22.3 million (December 31, 2017: HK$37.2 million).

CHARGES ON GROUP ASSETS

At December 31, 2018, there were no finance charges on the Group's assets.

CAPITAL EXPENDITURE

Capital expenditure on property, plant and equipment for the year ended December 31, 2018 amounted to HK$14.5 million (FY2017: HK$24.8 million) which was all used for business operations and product development. Source of funds were financed by internal resources and borrowings.

There were no material acquisitions or disposals of subsidiaries and associated Companies in the course of the year ended December 31, 2018.

DIVIDEND

The Directors of the Company do not recommend any dividend for the year ended December 31, 2018 (FY2017: Nil).

CONTINGENT LIABILITIES

An indirect wholly-owned subsidiary of the Company, Oregon Scientific Brasil Ltda, was involved in a tax dispute with the State of Sao Paulo, the Federative Republic of Brazil, which may cause a maximum tax payment including penalty and interest of approximately Brazilian Real 3.6 million(equivalent to approximately HK$7.3 million). After seeking the independent legal advice, the directors of the Company consider that the outcome and the amount of final payment, if any, are uncertain, and no provision has been made in the consolidated financial statements

HUMAN RESOURCES AND REMUNERATION POLICY

As at December 31, 2018, the Group had 744 employees. The Group fully recognizes the importance of its employees who contribute significantly to its success and continues to maintain and upgrade the capabilities of its workforce by providing them with adequate and regular training.

The Group's remuneration policy is to provide compensation packages at market rates which reward individual's performance and attract, retain and motivate high quality employees. The compensation packages offered by the Group are comparable with other organizations of similar size and business nature and are reviewed annually. The components of employee's remuneration package consist of base salary, double pay, fringe benefits including pension scheme, medical insurance, life and personal accident insurance, employee compensation and business travel insurance as well as incentives like discretionary cash bonus.

OUTLOOK

Despite the uncertain global economy and the trade war between the China and United States of America will continue to have a considerable impact on the growth of the Group, nonetheless there are still opportunities and the Group remains confident in its strategy in 2019.

The group continues to develop China market maximizing customer coverage from offline and online channels, with customized product development focus on Sports Fitness Health and Smart Learning products. The group will form strategic partnerships with the leading institutes in China in the children learning and healthcare areas to develop the customized products and promotion through the joint effort.

OREGON SCIENTIFIC ("OS")

A series of new SLIT products will be launched and this category will continue to be the main product category of the OS business. The upcoming products will also come with even stronger and interactive AR technology to enhance the learning experience. Strategic partnership will be formed with Intellectual Property Publishing House which is under the National Intellectual Property Administration; PRC with focus on promoting the smart learning products into the targeted channels includes school with joint promotion effort.

Regarding the smart home category, we will continue to streamline the number of SKU and concentrated on the key ranges with compelling offerings. An experienced product marketing team has also been established to strengthen the launch of new products, increase existing customer participation, and explore more opportunities in existing markets and new markets.

In terms of geographic expansion, China is the key focus while we will aim at steady growth in the overseas business. We project steady growth as overall and remarkable growth in China. OS will plan to launch the healthcare products in China partnering with the health institutes.

From the perspective of channel development, as we have engaged several strong distribution partners in Europe in 2018, we will start to get the result in 2019 in terms of point of sales expansion in the retail network. At the same time, e-commerce will stay as the channel gets most resources and attention to increase business of B2C.

VALUE MANUFACTURING SERVICES ("VMS")

Based on accumulative experiences and advantages through year's development, we are entering into the era of smart health. Sports, Fitness and health continue to be the key product category of the VMS business and the portion will be getting even bigger than in 2018.

Our VMS business and customers both focus on digital health products, including activity tracking, blood glucose monitoring, heart rate monitoring, blood pressure monitoring etc. All these products are related to the big data concept. As such, our customer and strategy partners will work with us to analyze and utilize these data to develop products which could suit better the consumers' need.

While we swiftly enter the digital health and smart lifestyle markets, we continue to optimize and improve the existing products. We will outsource some of our low-value products and the principle of no low margin or negative margin projects remains unchanged. We would focus on the strategic VMS customers who can contribute good scale and reasonable margin.

Besides working the existing customers and developing new ones, our focus includes continuously improving the efficiency of product developments and manufacturing operation. We continue to innovate with our VMS customers and achieve the largest results at the lowest cost. As such, our customers would gain more resources to be invested into new products and make us more competitive and grow together.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted its own Code of Conduct for Securities Transactions by Directors (the "**Code of Conduct for Securities Transactions**"). This is on terms no less exacting than the required standard set out in the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as set out in Appendix 10 to the Listing Rules, and has been updated from time to time.

Having made specific enquiries to all Directors, all Directors confirmed that they had complied with the required standards set out in the Model Code and the Code of Conduct for Securities Transactions throughout the year ended December 31, 2018.

COMPLIANCE WITH CORPORATE GOVERNANCE CODE

Save as disclosed below, The Company has complied with the code provisions of the Corporate Governance Code (the "**Code**") under Appendix 14 of the Listing Rules throughout the year ended December 31, 2018.

Code Provision A.6.7 stipulates, inter alia, Independent Non-executive Directors and other Non-executive Directors, as equal Board members, should attend general meetings and develop a balanced understanding of the views of shareholders. While some director failed to attend the general meetings as tight business schedule. The detail was contained in the Company's Annual Report.

AUDIT COMMITTEE

The Company established an audit committee (the "Audit Committee") with written terms of reference in compliance with the Listing Rules. The primary duties of the Audit Committee are to review and supervise the financial reporting process and risk management and internal control systems of the Group. As at the date of this announcement, the Audit Committee comprises three independent non-executive Directors, namely Mr, Zhou Meilin, Mr. Xu Jinwen and Mr. Zhou Rui. Mr, Zhou Meilin is the chairman of the Audit Committee.

The audited financial results of the Group for the year ended December 31, 2018 have been reviewed by the Audit Committee.

DIRECTORS' VIEW ON THE INDEPENDENT AUDITOR'S OPINION

The independent auditor of the Company has issued a disclaimer of opinion on the consolidated financial statements of the Group for the year ended December 31, 2018. Details of the disclaimer of opinion are disclosed in Extract fom Independent Auditor's Report on this announcement pages 16 and 17.

THE BOARD'S REPSONSE TO THE AUDITOR'S OPINION

In regard to the matters described in the section headed "Disclaimer of Opinion" and "Basis for Disclaimer of Opinion" in the Independent Auditor's Report, the Board would like to take this opportunity to provide the Boards' preliminary response, as well as measures taken or to be taken by the management of the Company.

THE BOARD RESPONSE TO "DISCLAIMER OF OPTION — GOING CONCERN"

As the Group had net current liabilities of HK$47.3 million and net liabilities of HK$43.0 million for the year ended December 31, 2018, the Board will appoint a team, which will be led by the chief financial officer, to monitor the daily cashflow so as to ensure the Group has the sufficient financial resources to settle the Group's financial obligation when fall due.

In addition, in order to improve the Group's financial position, to provide liquidity with cash flows and to sustain the Group as a going concern, the Group has been implementing a number of measures, including but not limited to:

(i) The Group obtained a loan amounted of HK$32.5 million from China Huaneng Foundation Construction Investment Limited ("Huaneng"), the largest shareholder of the Company, with the term of interest rate at 5% per annum and the maturity term of 3 years, which was recorded as non-current liability in the consolidated financial statements for the year ended December 31, 2018;

(ii) Huaneng has also committed to provide continuous financial support to the Group as is necessary to enable the Group to meet its financial obligations as they fall due;

(iii) The management will continue to reduce all non-essential costs;

(iv) The management will look for the potential investor to raise further capital as well as to improve its gearing ratio by repaying loans and debts of the Group.

The Company and the audit committee shared the same view that the above solutions will help raise capital to improve the liquidity and financial position of the Group.

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

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed shares during the year ended December 31, 2018.

PUBLICATION OF RESULTS ANNOUNCEMENT AND ANNUAL REPORT

This preliminary results announcement will be posted on the website of the Stock Exchange (http://www.hkex.com.hk) and the website of the Company (http://www.idthk.com). The annual report for the financial year will be despatched to the shareholders of the Company and available on the same websites in due course.

On behalf of the Board of Directors of
IDT International Limited
Xu Chiming
Chairman

Hong Kong, March 29, 2019

As at the date of this announcement,

1. The executive Directors are Mr. Xu Chiming (Chairman), Mr. Zhu Yongning(Chief Executive Officer);
2. The non-executive Director is Mr. Song Rongrong; and
3. The independent non-executive Directors are Mr. Zhou Meilin, Mr. Xu Jinwen and Mr. Zhou Rui.