IDT INTERNATIONAL LIMITED
萬威國際有限公司*
(Incorporated in Bermuda with limited liability)
(Stock Code: 167)

SUPPLEMENTAL ANNOUNCEMENT IN RELATION TO ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2018 AND ANNUAL REPORT 2018

Reference is made to the annual results announcement of IDT International Limited (the "**Company**") and its subsidiaries (collectively the "**Group**") for the year ended 31 December 2018 dated 28 March 2019 (the "**Annual Result Announcement**") and the Company's annual report 2018 published on 26 April 2019 (the "**Annual Report**"). Unless otherwise stated, the terms defined in the Annual Result Announcement and Annual Report shall have the same meanings used in this announcement.

The board of directors (the "**Board**") of the Company hereby would like to provide supplemental information as follows:

DISCLAIMER OF OPINION

Extent of the limitation of audit evidence

In view of the extent of the limitation of audit evidence relating to the ongoing availability of finance to the Group from China Huaneng Foundation Construction Investment Ltd ("**Huaneng**"), the largest shareholder of the Company, and the significance of the Group's ongoing reliance on this financing, Deloitte Touche Tohmatsu, the then independent auditors of the Group, ("**DTT**") disclaimed their opinion on the Company's consolidated financial statements for the year ended 31 December 2018.

During the course of audit, DTT once requested the information and supporting documents in relation to Huaneng including, *inter alia*, (i) the audited financial statement of Huaneng; (ii) the latest bank statement of Huaneng and (iii) the undertaking letter for provision of financial support to the Company (the "**Undertaking Letter**"). However, Huaneng was not willing to provide the above other than the Undertaking Letter. In addition, as Huaneng is a private company incorporated in Hong Kong, its financial information was not available to the public.

As such, DTT were not satisfied due to their failure to obtaining sufficient audit documentation or supporting (other than a copy of Huaneng's signed Undertaking Letter) for assessment of the financial ability of Huaneng in relation to the continuing financial support undertaken by Huaneng to the Group for the foreseeable future.

Action taken/to be taken to address the Disclaimer of Opinion

As disclosed in note 2 of the Annual Report, the Board 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 the Annual Report given that:

(i) Huaneng 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.

    As at 31 October 2019, the Group had an unaudited amount of shareholder's loan due to Huaneng of approximately HK$54.6 million (31 December 2018: approximately HK$32.5 million).

(ii) the management of the Group will continue to reduce all non-essential costs.

    In 2019, the Board appointed a team, which was led by the chief financial officer, to monitor the Group's daily cashflow so as to ensure that it has the sufficient financial resources to settle its 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 to reduce non-essential costs in 2019. Most importantly, the Group restructured the distribution operation by entering into the distributorship agreements with overseas distributors (Nital S.P.A. and Bresser GmbH) for selling the Group's products, instead of through retail business operating by its oversea subsidiaries, in order to expand retail point of sales network and accelerate cash flows. Such change enables the Group to scale down certain overseas companies, thereby reducing the salesmen and administrative staff and greatly reducing labour costs. In addition, travelling expenses, warehouse storage fees, administrative fees and other non-essential costs are also reduced accordingly.

    It is estimated that the unaudited amount of costs for the 10 months ended 31 October 2019 saved by the Group after implementing such measures was approximately HK$40 million.

In addition, in 2019, the Board had taken/will take additional measures to enhance the availability of financing to the Group as follows:

(i) On 24 January 2019, China Zheshang Bank 浙商銀行 ("**CZ Bank**") had entered into a revolving bank facility of RMB50 million with 萬威電子(深圳)有限公司 IDT Electronics (Shenzhen) Co., Ltd*, one of the Company's subsidiaries, with a term of one year, where Mr. Zhu Yongning ("**Mr. Zhu**"), the Executive Director & CEO of the Company and the controlling shareholder of Huaneng, and his spouse agreed to act as guarantors and 南京宏梃建築科技有限公司 Nanjing Hong Ting Construction Technology Co., Ltd* (a company in which Mr. Zhu has substantial equity interest) agreed to pledge its assets in favour of CZ Bank as securities. The above bank facility is available for draw-down once the pledge of asset is effective. At the date of this announcement, it is the Group's preliminary planning not to renew such revolving bank facility with CZ Bank; however, the Group still continues to look for financing from other banks (when appropriate).

(ii) On 31 August 2019, Mr. Zhu provided an undertaking to the Board of the Company that it would provide the Group with a financial support (when necessary) for 18 months starting from 31 August 2019, by (a) providing a loan in principal amount of not less than US$20 million (equivalent to approximately HK$156 million) to meet the Group's current liabilities and to settle all the loans when they fall due; and/or (b) providing guarantees and/or assets for pledge in fulfillment of the conditions stipulated in the Group's loan facilities offered/to be offered by the banks.

Mr. Zhu also confirmed that he will not demand the partial or full repayment of the abovementioned loan nor withdraw the guarantees and/or assets for pledge until such demand or withdrawal has no significant adverse impact on the Group's going concern.

Up to the date of this announcement, the Company has not drawn down the loan due to Mr. Zhu yet.

(iii) The Board intends to raise funds by way of subscription shortly, where the Company will issue ordinary shares to potential investors at a price close to market price by way of specific mandate to raise funds in a range of approximately HK$50 – 100 million. Up to the date of this announcement, the Company is still identifying potential investors.

Should the net proceed from subscription of approximately HK$100 million be raised, the Company intends to use approximately (a) HK$60 million towards payment of overdue trade and other payables; (b) HK$20 million towards repayment of shareholder's loan owing to Huaneng; (c) HK$2 million for purchase of additional plant and equipment for production purposes; and (d) the remaining balance for supplementing the Group's working capital.

Mazars CPA Limited ("**Mazars**"), the new independent auditors of the Group, is of the view that, subject to the outcome of the Group's measures to reduce non-essential costs and the satisfactory results of their audit procedures, the disclaimer opinion can be removed if the Company is able to provide sufficient appropriate documentary evidence to prove that it will have sufficient working capital to finance its operation and to meets its financial obligations for at least the next twelve months from the date of approval of the consolidated financial statements for the year ended 31 December 2019.

The information and supporting documents requested by Mazars mainly include (1) the updated cash flow forecast for at least 15-months ending 31 March 2021 with relevant supporting document; (2) a copy of undertaking letter from Mr. Zhu and/or Huaneng; and (3) proof of funds relevant to the financial ability of Mr. Zhu and/or Huaneng to provide financial support to the Company.

Based on preliminary discussion with Mr. Zhu and Huaneng, the Board expects that adequate supporting documents can be provided by the Group, Mr. Zhu and/or Huaneng so as to enable Mazars to assess the going concern of the Group and the financial ability of Mr. Zhu and/or Huaneng.

IMPAIRMENT OF GOODWILL

		Categorised into	
	Goodwill	**Time & Weather/LCD consumer electronic products unit (CGU A)**	**Tele-communi-cations products unit (CGU B)**
	HK$'million	*HK$'million*	*HK$'million*
Carrying value as at 31 Dec 2017, representing:			
(i) Arising from acquisition of additional interest in I-Comm Technology Limited *(Note A)*	18.2	–	18.2
(ii) Arising from deemed acquisition of additional interest in IDT Holdings (Singapore) Limited *(Note B)*	14.1	14.1	–
(iii) Arising from purchase of business *(Note C)*	3.5	3.5	–
(iv) Amortised in prior years	(2.2)	(0.3)	(1.9)
(v) Currency re-alignment adjustment in prior years	0.2	0.2	–
	33.8	17.5	16.3
Less: Provision for Impairment made in 2018 *(Note D)*	(33.8)	(17.5)	(16.3)
Carrying value as at 31 Dec 2018	–	–	–

Notes:

A. The goodwill arisen from the acquisition of additional interest in I-Comm Technology Limited ("**I-Comm**") and its subsidiaries ("**I-Comm Group**") during the year ended 31 March 2003. I-Comm was then a 75%-owned subsidiary of the Company listed on the Main Board of the Singapore Exchange Securities Trading Limited ("**SGX-ST**"). I-Comm Group was categorized as Telecommunication products unit.

As disclosed in the Company's announcement dated 18 September 2002, a voluntary conditional cash offer was made by the Group to acquire all the issued ordinary shares of US$0.05 each ("**I-Comm Shares**") in the capital of I-Comm not owned by the Group at an offer price of S$0.30 per I-Comm Share.

I-Comm was delisted from SGX-ST after the Offer was completed and it became a wholly-owned subsidiary of the Company in January 2003.

The Board considered that the above transaction had been properly disclosed in the announcements dated 18 September 2002 and 5 December 2002, respectively, in accordance with the then Listing Rules.

B. The goodwill arisen from the deemed acquisition of additional interest in IDT Holdings (Singapore) Limited ("**IDTS**") and its subsidiaries ("**IDTS Group**") during the year ended 31 March 2003, 2005 and 2006. IDTS Group was categorized as LCD consumer electronic products unit.

As at 31 March 2002, the Group held approximately 63% equity interests in IDTS Group. The Group's cost of investment in IDTS Group as at 31 March 2003, 2005 and 2006 was the same as 2002; however, its percentage of shareholdings in IDTS Group was deemed increased slightly as a result of the reduction of the issued share capital of IDTS during those years.

The Board considered that each of the deemed acquisitions of additional interests in IDTS Group did not constitute a transaction subject to the disclosure requirement under the then Listing Rules.

C. As stated in note 30 of the Company's annual report for the year ended 31 March 2006, on 9 May 2005, the Group acquired the retail business of a shop located in Rome, Italy (the "**Business**") from an independent third party for a cash consideration of HK$3.5 million which represents the goodwill attributable to the anticipated profitability of the Business for distribution of LCD consumer electronic products.

The Board considered that the above acquisition did not constitute a transaction subject to disclosure requirement under the then Listing Rules as the applicable percentage ratios are less than 5%.

D. It is the accounting policy adopted by the Group that goodwill arising on an acquisition of a business is carried at cost less any accumulated impairment losses, if any. A CGU (or groups of CGUs) to which goodwill has been allocated is tested for impairment annually when there is indication that the unit may be impaired.

The main product types of CGU A are related to weather monitoring system/device whereas the main product types of CGU B are related to telecommunication device.

Since 2006, the Group assessed the impairment on goodwill annually based on value-in-use calculation. The value-in-use is calculated using cash flow projections based on the financial budgets for the coming years approved by the management. In the cash flow projections, management estimated discount rate for both CGU A and CGU B taking into consideration of risk-free rate, the market return and CGU specific risk factors; and the annual growth rates in sales and the expected gross margin based on past experience and expectations of future changes in the market.

DTT were satisfied with the Group's assessment of impairment on goodwill and they concurred with management that no impairment was necessary up to the year ended 31 December 2017. During the year ended 31 December 2018, due to (a) the intense market competition and (b) the weak performance of the global consumer electronics industry under sentiments of trade war, the generalized profit margin of products in both CGU A and CGU B had decreased and certain old models even made loss. Therefore, while the cash flow projection for the assessment of impairment on goodwill as at 31 December 2018 was prepared, the annual growth rate in sales and the expected gross margin of CGU A and CGU B were adjusted downward by reference to the 2018's financial performance of the Group and the prevailing market sentiment. As such, the value-in-use as at 31 December 2018 derived from the cash flow projection was far below the carrying value of the goodwill and hence, DTT concurred with management that full impairment on the goodwill was necessary as at 31 December 2018.

It is the Group's policy to put resources and efforts on research and development so as to upgrade its products with new technology and application; and, at the same time, to replace certain products of old models from production (when appropriate), with an aim to maintain or enhance the competitiveness of products.

DISCLOSURES SUPPLEMENTING THE COMPANY'S CORPORATE GOVERNANCE REPORT FOR THE YEAR ENDED 31 DECEMBER 2018

In preparing the consolidated financial statements for the year ended 31 December 2018, the Board have given careful consideration to the future liquidity of the Group in light of the fact that the Group's current liabilities exceeded its current assets by HK$47.3 million as at 31 December 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 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.

The Board 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 (i) Huaneng has committed to provide continuous financial support for foreseeable future to the Group as is necessary to enable the Group to meet its financial obligations as they fall due and (ii) the management of Group will continue to reduce all non-essential costs.

As at the date of approval of the Annual Report, i.e. 29 March 2019, the Group had an unaudited amount of shareholder's loan due to Huaneng of approximately HK$46.3 million (31 December 2018: approximately HK$32.5 million).

In 2019, the Board appointed a team, which was led by the chief financial officer, to monitor the Group's daily cashflow so as to ensure that it has the sufficient financial resources to settle its 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 to reduce non-essential costs in 2019. Mostly importantly, the Group restructured the distribution operation by entering into the distributorship agreements with overseas distributors (Nital S.P.A. and Bresser GmbH) for selling the Group's products in 2019, instead of through retail business operating by its oversea subsidiaries, in order to expand retail point of sales network and accelerate cash flows. Such change enables the Group to scale down certain overseas companies, thereby reducing the salesmen and administrative staff and greatly reducing labour costs. In addition, travelling expenses, warehouse storage fees, administrative fees and other non-essential costs are also reduced accordingly.

It is estimated that the costs to be saved by the Group after implementing such measures in 2019 was approximately HK$40 million.

By order of the Board
IDT International Limited
ZHU Yongning
Executive Director and
Chief Executive Officer

Hong Kong, 10 January 2020

At the date of this announcement, the Board comprises:

1. The executive director – Mr. Zhu Yongning (Chief Executive Officer);

2. The non-executive director – Mr. Song Rongrong; and

3. The independent non-executive directors – Mr. Zhou Meilin, Mr. Xu Jinwen and Mr. Zhou Rui.

* *For identification purposes only*