## PROSPECTS

Leveraging the extensive sales and distribution networks in the US, European and Asian markets, Oregon Scientific continues to report double-digit growth in the first half of this financial year. Its sales will attain growth expectation by improved execution of the Group's strategy in brand building, product launch and distribution channel development. To further strengthen its brand recognition and extend its market reach, the Group will on one hand seek to penetrate more new markets and on the other, generate more synergies through cooperating with well-established brand names worldwide.

In the US market, the Oregon Scientific brand building initiatives was taken to the next level by the opening of three Oregon Scientific stores, two already opened in California and one to be opened in Oregon in the third quarter of this financial year.

During the review period, the Group's LCD Consumer Electronic Products division has developed a new weather forecast product jointly with Microsoft for the US market. The first batch of orders had already been shipped in October this year. Moreover, another new co-branded product line under Oregon Scientific has started the pipeline filling in the US market. Major products include weather forecast devices and wireless real-time data weather forecast device. These cooperative relationships contribute not only to branding recognition for Oregon Scientific, but also to the technological prominence for IDT. The Group will reposition the pricing of its high-end LCD Consumer Electronic Products and strengthen the market impact of its new Oregon Scientific product launches.

The Electronic Learning Products division will continue to develop innovative learning products and to launch more licensed products. In view of the favorable market reception of the new licensed product lines, the Company is negotiating for new licensing opportunities with some of the world's most prestigious brands. It is expected that this division will become a major growth driver.

The Telecommunications Products division will continue to focus on gaining more anchor customers to rebuild the ODM/OEM business. Some initiatives in winning new customers in the US and Europe were coming on stream. New mainstream products in the cordless phone product category applying broadband, VoIP and other wireless telephony technologies have been receiving encouraging feedback from the customers. As a result, order level is expected to build up in the fourth quarter this year.

StyleFi, the unique collection of new digital audio products with wireless speaker technology, is available for sale in all major markets since this October. Its snappy design, combined with comprehensive functions, has won positive acclaims from the market.

In the meantime, by implementing new product planning processes and disciplined cost management and cost restructuring policies, the Group is committed to reduce its expense level. The Group has sufficient internal financial resources to finance its daily operations. Looking ahead, sales during peak seasons will generate a strong cashflow to improve the Group's liquidity position.

To further expand its share in the lifestyle consumer electronic products market, the Group will continue to develop more innovative products. Oregon Scientific will be the major focus of future business development. Besides locating more channels to penetrate existing markets, Oregon Scientific has set foot in some of the high growth markets such as Japan and Latin America. The Group also aims at landing in new markets like Russia. With a more comprehensive product mix, a wider distribution network and greater market coverage, the Group is well-prepared to go through to its next level of growth after weathering this financial year. Having identified problems and taken necessary measures, it is expected that the Group will operate positively in the second half barring any unforeseeable circumstances.

## DIVIDEND

The board of Directors (the "Board") has resolved not to declare any interim dividend for the year ending March 31, 2006 (interim dividend for the year ended March 31, 2005 was 3.0 HK cents per share in cash).

## WORKING CAPITAL AND TREASURY MANAGEMENT

Working capital as at September 30, 2005 amounted to HK$366.5 million, down by 46% from last year. Comparing with the balances at March 31, 2005, inventories and trade payable dropped by 16% and 12% respectively whereas trade receivables increased by 38%. Inventory turnover day was 120 and debtor turnover day was 74. The initiatives in inventory reduction will continue to drive down the inventory turnover day to lower levels in the second half of this year. The increase in trade receivables was mainly attributable to the increase in the current portion of Oregon Scientific's trade receivables due to the growth in the branded sales.

The Group generally finances its operations from internal cash flow. The total cash balances at September 30, 2005 were HK$582.6 million which were HK$13.8 million higher than the balances recorded last year. The Group has no secured or unsecured long-term debt. The short-term borrowings of HK$612.0 million as at September 30, 2005, compared with HK$267.7 million last year, were in relation to bills payable, import loans, revolving bank loans used for currency hedging purposes and bank overdrafts.

The Group had placed HK$273.0 million on long term fixed deposits with financial institutions as at September 30, 2005, which was HK$23.4 million lower than last year's level. 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 are met.

The Group's exposure to foreign currency mainly arises 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 September 30, 2005, there were forward contracts in place to hedge against possible exchange losses from future net cash flows. Speculative currency transactions are strictly prohibited. The management of currency risk is centralised in the Group's headquarters in Hong Kong.

## EMPLOYEES AND REMUNERATION POLICIES

As at September 30, 2005, the Group employed a total of approximately 7,300 employees (2004: approximately 8,500 employees). The Group continues to maintain and upgrade the capabilities of its workforce by providing them with adequate and regular training.

The Group fully recognises the importance of its employees who contribute significantly to its success. The Group's employee remuneration packages are in line with industry norm, which are subject to annual review. Bonuses are awarded to employees based on both individual and the Group's overall performance each year. Other staff benefits include medical insurance and mandatory provident fund. In Xixian, Shenzhen, China where the Group centres its production facilities and research and development resources, staff welfare rates are set with reference to the prevailing labour laws in China. Both the Company and its Singapore listed subsidiary, IDT Holdings (Singapore) Limited, have employees' share option schemes, which grant share options to selected eligible employees to reward them for their contributions and to align their interests with that of the shareholders.