IWS

Integrated Waste Solutions Group Holdings Limited
綜合環保集團有限公司

(Incorporated in the Cayman Islands with limited liability, stock code: 923)

ANNUAL RESULTS FOR THE YEAR ENDED 31 MARCH 2017

Annual Results

- Revenue decreased by 24%, to HK$206.9 million
- Gross profit margin increased from 8.2% to 18.3%
- Loss attributable to equity shareholders of the Company decreased by 22.0% to HK$81.2 million
- Basic loss per share was HK1.7 cents (FY2016: HK2.2 cents)

The Board does not recommend the payment of any dividend for the year ended 31 March 2017.

The board (the "Board") of directors (the "Directors") of Integrated Waste Solutions Group Holdings Limited (the "Company") would like to announce the consolidated results of the Company and its subsidiaries (the "Group") for the year ended 31 March 2017. The audit committee of the Company (the "Audit Committee") has reviewed the results and the consolidated financial statements of the Group for the year ended 31 March 2017 prior to recommending them to the Board for approval.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 MARCH 2017

(Expressed in Hong Kong dollars)

	Note	**2017** **$'000**	2016 *$'000*
Revenue	3	**206,940**	273,131
Cost of sales		**(169,063)**	(250,621)
Gross profit		**37,877**	22,510
Other revenue	4	**7,644**	6,980
Other net loss	5	**(3,843)**	(3,315)
Selling and distribution expenses		**(30,867)**	(48,175)
Administrative and other operating expenses		**(82,235)**	(90,489)
Impairment loss of property, plant and equipment		**(12,873)**	–
Operating loss		**(84,297)**	(112,489)
Finance income	6(b)	**5,400**	5,492
Share of loss of joint venture		**(2,309)**	(2,454)
Loss before taxation		**(81,206)**	(109,451)
Income tax	7(a)	**–**	–
Loss and total comprehensive income for the year		**(81,206)**	(109,451)
Attributable to:			
Equity shareholders of the Company		**(81,201)**	(104,078)
Non-controlling interests		**(5)**	(5,373)
		(81,206)	(109,451)
Basic and diluted loss per share	8	**(1.7) cents**	(2.2) cents

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 MARCH 2017

(Expressed in Hong Kong dollars)

	Note	**2017** **$'000**	2016 $'000
Non-current assets			
Property, plant and equipment		**704,871**	734,786
Land use rights		**32,982**	32,431
Interests in joint venture		**16,840**	30,381
Deposits and prepayments		**22,284**	17,656
Finance lease receivables		**–**	5,153
		776,977	820,407
Current assets			
Inventories		**4,550**	4,808
Trade and bills receivables	10	**41,657**	45,355
Other receivables, deposits and prepayments		**23,742**	35,052
Finance lease receivables		**–**	1,004
Taxation recoverable		**2,976**	3,076
Amounts due from joint venture		**14,682**	867
Amount due from a related company		**12**	12
Restricted and pledged bank deposits		**17,876**	18,475
Bank deposits and cash		**219,102**	288,212
		324,597	396,861
Current liabilities			
Trade payables	11	**8,655**	13,901
Other payables and accruals	11	**18,439**	52,061
Amount due to a related company		**10**	10
		27,104	65,972
Net current assets		**297,493**	330,889
NET ASSETS		**1,074,470**	1,151,296

	Note	**2017**	2016
		$'000	*$'000*
CAPITAL AND RESERVES			
Share capital	12	**482,234**	482,234
Reserves		**592,236**	672,480
Total equity attributable to equity shareholders of the Company		**1,074,470**	1,154,714
Non-controlling interests		**–**	(3,418)
TOTAL EQUITY		**1,074,470**	1,151,296

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

1 General information

Integrated Waste Solutions Group Holdings Limited (the "Company") was incorporated and registered as an exempted company with limited liability in the Cayman Islands on 11 November 2009 under the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The Company is an investment holding company and is listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The registered address of the Company is Clifton House, 75 Fort Street, PO Box 1350, Grand Cayman, KY1-1108, Cayman Islands.

The Company and its subsidiaries are collectively referred to as the "Group". The subsidiaries of the Group are principally engaged in the trading of recovered paper and materials, trading of tissue paper products, provision of confidential materials destruction services and provision of logistics services.

These consolidated financial statements are presented in Hong Kong dollars (HK$), which is also the functional currency of the Company.

2 Summary of significant accounting policies

(a) Basis of preparation of the financial statements

These financial statements have been prepared in accordance with all applicable International Financial Reporting Standards ("IFRSs"), which collective term includes all applicable individual International Financial Reporting Standards, International Accounting Standards ("IASs") and related Interpretations promulgated by the International Accounting Standards Board ("IASB"). These financial statements comply with the applicable disclosure requirements of the Hong Kong Companies Ordinance and the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

The principal accounting policies adopted are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 March 2016 except for the changes stated as below.

(b) Changes in accounting policies

The IASB has issued a number of amendments to IFRSs that are first effective for the current accounting period of the Group. None of these developments have had a material effect on how the Group's results and financial position for the current or prior periods have been prepared or presented.

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

3 Segment information

The Board of Directors of the Company, which is the chief operating decision maker of the Group, reviews the Group's internal reporting in order to assess performance and allocate resources. Management has determined the operating segments based on these reports. The Group is organised into four business segments:

– Recovered paper and materials: sale of recovered paper and materials

– Tissue paper products: sale of tissue paper products

– Confidential materials destruction service ("CMDS"): provision of confidential materials destruction services

– Logistics services: provision of logistics services

Although the Group's products and services are sold/rendered to Hong Kong, the PRC and overseas markets, the chief operating decision maker of the Group regularly reviews the financial information by business segments to assess performance and make resources allocation decisions. It assesses the performance of the operating segments based on a measure of segment gross profits. The Group's revenue consists of the following:

	2017	2016
	$'000	*$'000*
Sale of recovered paper and materials	**184,571**	235,686
Sale of tissue paper products	**3,606**	18,117
Provision of CMDS	**18,491**	16,692
Provision of logistics services	**272**	2,636
	206,940	273,131

All of the Group's revenue from external customers are derived from sales originated from Hong Kong during the years ended 31 March 2017 and 31 March 2016.

For the year ended 31 March 2017, revenue of approximately $150,933,000 (2016: $77,844,000) is derived from external customers which individually accounted for greater than 10% of the Group's total revenue.

All of the Group's non-current assets as at 31 March 2017 and 31 March 2016 are located in Hong Kong.

The segment results and other segment items included in the loss for the year ended 31 March 2017 are as follows:

	Recovered paper and materials $'000	Tissue paper products $'000	CMDS $'000	Logistics services $'000	Group $'000
Segment revenue:					
Sale to external customers	184,571	3,606	18,491	272	206,940
Inter-segment sale	–	–	–	21,792	21,792
Reportable segment revenue	184,571	3,606	18,491	22,064	228,732
Elimination of inter-segment revenue	–	–	–	(21,792)	(21,792)
	184,571	3,606	18,491	272	206,940
Segment results:					
Reportable segment profit	32,431	88	10,696	3,937	47,152
Elimination of inter-segment profits					(9,275)
Reportable segment profit derived from the Group's external customers					37,877
Unallocated operating costs					(109,301)
Impairment loss of property, plant and equipment					(12,873)
Finance income					5,400
Share of loss of joint venture					(2,309)
Loss for the year					(81,206)

The segment results and other segment items included in the loss for the year ended 31 March 2016 are as follows:

	Recovered paper and materials *$'000*	Tissue paper products *$'000*	CMDS *$'000*	Logistics services *$'000*	Group *$'000*
Segment revenue:					
Sale to external customers	235,686	18,117	16,692	2,636	273,131
Inter-segment sale	–	–	–	20,211	20,211
Reportable segment revenue	235,686	18,117	16,692	22,847	293,342
Elimination of inter-segment revenue	–	–	–	(20,211)	(20,211)
	235,686	18,117	16,692	2,636	273,131
Segment results:					
Reportable segment profit	14,908	1,743	9,403	2,117	28,171
Elimination of inter-segment profits					(5,661)
Reportable segment profit derived from the Group's external customers					22,510
Unallocated operating costs					(134,999)
Finance income					5,492
Share of loss of joint venture					(2,454)
Loss for the year					(109,451)

4 Other revenue

	2017	2016
	$'000	*$'000*
Service income	**3,777**	4,589
Refund from mediation (note)	**2,338**	–
Project income	**1,296**	1,054
Subsidy income	**–**	528
Installation service income	**–**	460
Others	**233**	349
	7,644	6,980

Note: In prior years, the Group has lodged certain claims against its former directors and employees ("Defendants"). During the year ended 31 March 2017, the Group entered into settlement deed with certain Defendants and received the mediation sum of $2,338,000. The Group has irrevocably released these Defendants from obligations of the claims and discontinued the claims against them.

5 Other net loss

	2017	2016
	$'000	*$'000*
Gain/(loss) on disposals of property, plant and equipment, net	**866**	(634)
Write off of property, plant and equipment	**(1,581)**	(1,700)
Foreign exchange losses, net	**(3,128)**	(981)
	(3,843)	(3,315)

6 Loss before taxation

Loss before taxation is arrived after charging/(crediting):

	2017 $'000	2016 $'000
(a) Staff costs (excluding directors' emoluments)		
Salaries, wages and other benefits	**49,584**	60,653
Contributions to defined contribution retirement plan	**2,068**	2,247
Equity settled share-based payment expenses	**3,280**	2,443
	54,932	65,343
Staff costs included in:		
– Cost of sales	**19,615**	23,854
– Selling and distribution expenses	**16,992**	17,344
– Administrative and other operating expenses	**18,325**	24,145
	54,932	65,343
(b) Finance income		
Interest income from banks deposits	**(2,802)**	(3,404)
Interest income from other deposits	**(61)**	(247)
Interest income from loans to joint venture	**(2,342)**	(1,778)
Finance lease income	**(195)**	(63)
	(5,400)	(5,492)
(c) Other items		
Cost of inventories sold	**124,368**	181,985
Amortisation of land use rights	**1,064**	968
Depreciation of property, plant and equipment	**34,870**	36,518
Impairment losses:		
– Property, plant and equipment (note)	**12,873**	–
– Trade and bills receivables (note 10(b))	**355**	2,889
– Finance lease receivables	**5,657**	–
Operating lease charges in respect of land and buildings	**14,041**	19,217
Auditor's remuneration:		
– Audit services	**2,000**	2,000
– Other services	**320**	591

Note: Impairment loss of property, plant and equipment

During the year ended 31 March 2017, the Group recognised an impairment loss of $12,873,000 on property, plant and equipment of the tissue paper operation to reduce their carrying amount to the recoverable amount of $3,800,000. The impairment arose primarily due to the decline in demand for the tissue paper products and shrinking profitability, and lack of prospects for recovery in the near term.

7 Income tax

(a) Taxation in the consolidated statement of profit or loss and other comprehensive income:

No provision for Hong Kong Profits Tax for the years ended 31 March 2017 and 31 March 2016 has been made in respect of the subsidiaries in Hong Kong as either the tax losses brought forward from previous years exceed the estimated assessable profits for the year or the subsidiaries have no estimated assessable profits in Hong Kong.

(b) Reconciliation between income tax expense and loss before taxation at applicable tax rates:

	2017	2016
	$'000	*$'000*
Loss before taxation	**(81,206)**	(109,451)
Tax calculated at tax rates of 16.5% (2016: 16.5%)	**(13,399)**	(18,059)
Tax effects of non-taxable income	**(2,369)**	(1,005)
Tax effects of non-deductible expenses	**3,226**	3,708
Tax effects of tax losses not recognised	**13,819**	18,719
Tax effect of utilisation of tax loss previously not recognised	**(1,384)**	(273)
Others	**107**	(3,090)
Income tax expense	**–**	–

8 Loss per share

The calculation of basic and diluted loss per share is based on the loss attributable to equity shareholders of the Company of $81,201,000 (2016: $104,078,000).

The calculation of basic loss per share is based on the weighted average number of 4,822,334,000 (2016: 4,822,334,000) ordinary shares in issue during the year.

No adjustment had been made to the basic loss per share presented for the year ended 31 March 2017 in respect of a dilution as the impact of the outstanding share options had an anti-dilutive effect on the basic loss per share presented.

There were no outstanding dilutive instruments as at 31 March 2016 and therefore, the diluted loss per share equals the basic loss per share for the year ended 31 March 2016.

9 Dividends

The Board does not recommend the payment of any dividend in respect of the year ended 31 March 2017 (2016: Nil).

10 Trade and bills receivables

	2017	2016
	$'000	*$'000*
Trade and bills receivables	**50,215**	53,558
Less: Provision for impairment (note 10(b))	**(8,558)**	(8,203)
Trade and bills receivables, net	**41,657**	45,355

(a) Ageing analysis

As at the end of the reporting period, the ageing analysis of trade and bills receivables, based on transaction date and net of provision for impairment, is as follows:

	2017	2016
	$'000	*$'000*
0 – 30 days	**39,471**	35,840
31 – 60 days	**499**	2,104
61 – 90 days	**435**	14
91 – 120 days	**289**	1,585
Over 120 days	**9,521**	14,015
	50,215	53,558
Less: Provision for impairment (note 10(b))	**(8,558)**	(8,203)
	41,657	45,355

Payment terms granted to customers are mainly cash on delivery or on credit. The average credit period ranges from 10 days to 90 days.

(b) Impairment of trade and bills receivables

Impairment losses in respect of trade and bills receivables are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against trade and bills receivables directly.

The movement in the allowance for doubtful debts during the year, including both specific and collective loss components, is as follows:

	2017	2016
	$'000	*$'000*
At the beginning of the year	**8,203**	5,314
Impairment loss recognised	**355**	2,889
At the end of the year	**8,558**	8,203

As at 31 March 2017, trade and bills receivables of approximately $8,558,000 (2016: $8,203,000) were impaired and fully provided for. The individually impaired receivables mainly related to smaller customers which were in default in payments and considered to be irrecoverable.

The movement of provision for impaired receivables have been included in "administrative and other operating expenses" in the consolidated statement of profit or loss and other comprehensive income. Amounts charged to the allowance account are generally written off when there is no expectation of recovering additional cash.

(c) Trade and bills receivables that are not impaired

The ageing analysis of these trade and bills receivables that are neither individually nor collectively considered to be impaired are as follows:

	2017	2016
	$'000	*$'000*
Neither past due nor impaired	**30,791**	22,973
1 – 30 days	**8,554**	14,072
31 – 60 days	**433**	929
61 – 90 days	**209**	622
91 – 120 days	**87**	3,898
Over 120 days	**1,583**	2,861
	10,866	22,382
	41,657	45,355

Receivables that were neither past due nor impaired relate to a wide range of customers for whom there was no recent history of default.

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable.

(d) The carrying amounts of trade and bills receivables are denominated in the following currencies:

	2017	2016
	$'000	*$'000*
HK$	**40,886**	37,909
USD	**771**	7,446
	41,657	45,355

At 31 March 2017 and 31 March 2016, the fair values of the trade and bills receivables approximate their carrying amounts. The maximum exposure to credit risk at the end of each reporting period is the carrying value of the receivables. The Group does not hold any collateral as security.

11 Payables and accruals

	2017	2016
	$'000	*$'000*
Trade payables	**8,655**	13,901
Other payables and accruals:		
– Construction costs payable	**6,940**	18,949
– Accrued expenses	**6,417**	20,215
– Receipts in advance from customers	**1,020**	1,963
– Amount due to non-controlling interests	**–**	1,100
– Others	**4,062**	9,834
	18,439	52,061
	27,094	65,962

(a) Ageing analysis

As at the end of the reporting period, the ageing analysis of trade payables, based on the invoice due date, is as follows:

	2017	2016
	$'000	*$'000*
Current	**3,681**	5,005
1 – 30 days	**2,133**	3,480
31 – 60 days	**18**	1,085
61 – 90 days	**12**	5
91 – 120 days	**24**	27
Over 120 days	**2,787**	4,299
	8,655	13,901

(b) The carrying amounts of payables and accruals are denominated in the following currencies:

	2017	2016
	$'000	*$'000*
HK$	**26,883**	64,012
USD	**211**	1,950
	27,094	65,962

As at 31 March 2017 and 31 March 2016, the fair values of the trade and other payables approximate their carrying amounts.

12 Share capital

(a) Authorised share capital of the Company

	2017	2016
	$'000	*$'000*
Authorised:		
5,000,000,000 ordinary shares of $0.10 each	**500,000**	500,000

(b) Issued share capital of the Company

	Number of ordinary shares	**Amount**
	'000	***$'000***
Issued and fully paid:		
At 1 April 2015, 31 March 2016, 1 April 2016 and 31 March 2017	**4,822,334**	**482,234**

(c) Equity settled share-based transactions

Pursuant to the resolutions in writing passed by all shareholders of the Company on 11 March 2010, the Company adopted a share option scheme on 11 March 2010 (the "Share Option Scheme"). The purpose of the Share Option Scheme is to provide incentives to the Group's employees including the executive directors and non-executive directors and any advisers, consultants, suppliers, customers and agents (each "eligible participant"). The Board of Directors of the Company may, at any time within 10 years after the date of adoption of the Share Option Scheme, make an offer to any eligible participant. The subscription price for shares granted pursuant to the Share Option Scheme shall be determined by the Board of Directors of the Company in its absolute discretion but shall not be less than the highest of:

- the closing price of the shares of the Company stated in the Stock Exchange's daily quotation sheet of the business day on which an offer is made to an eligible participant;
- the average of the closing prices of the shares stated in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the date on which such offer is made; and
- the nominal value of a share of the Company.

(i) Share options granted in 2014

On 25 April 2014, the Group announced that a total of 71,110,000 share options under the Share Option Scheme to subscribe for the Company's shares were granted, subject to acceptance of the grantees. Each share option shall entitle the holder to subscribe for one share upon exercise of such share option at an initial exercise price of $0.542 per share. These share options may be exercised from 25 July 2014 to 24 April 2020 (both dates inclusive) subject to the vesting periods.

Pursuant to the Share Option Scheme, the number of unexercised share options and exercise price may be subject to adjustment in case of alteration in the capital structure of the Company. On 14 October 2014, the Board announced that as a result of the completion of the Open Offer, adjustments have been made to the exercise price of the share options and the number of shares falling to be issued under the outstanding options granted under the Share Option Scheme. The adjustments (the "Adjustments") to the exercise price and the number of the shares falling to be issued under the outstanding share options took effect from 15 October 2014. As at 15 October 2014, the number of shares falling to be issued under the outstanding share options alter the Adjustments was 76,746,711 and the exercise price of the share options after the Adjustments was $0.444 per share.

In accordance with the terms of the Share Option Scheme, upon the making of a mandatory cash offers to all holders of the share options following the change in controlling shareholder of the Group on 21 December 2015, all share options that remained unexercised were deemed to be lapsed on 29 February 2016 and $24,000 was paid to the holders of share options by Prestige Safe Limited, a wholly-owned subsidiary of Chow Tai Fook (Holding) Limited, for the purchase of the share options.

(ii) Share options granted in 2016

On 7 September 2016, the Group announced that a total of 157,850,000 options under the Share Option Scheme to subscribe for the Company's shares were granted, subject to acceptance of the grantees. Each option shall entitle the holder to subscribe for one share upon exercise of such option at an initial exercise price of $0.128 per share. These options may be exercised from 7 September 2017 to 6 September 2022 (both dates inclusive) subject to respective vesting periods. At the end of the acceptance period, 152,150,000 options were accepted by the grantees.

(iii) *The movements in the number of share options under the Share Option Scheme during the year were as follows:*

			Number of share options						
Date of grant	Initial exercise price *HK$*	Exercisable period	Outstanding at 1 April 2015	Cancelled/ lapsed during FY2016	Outstanding at 31 March 2016 and 1 April 2016	Granted and accepted during FY2017	Cancelled/ lapsed during FY2017	Outstanding and exercisable at 31 March 2017	Remaining contractual life
Directors									
25 April 2014	0.542	25 July 2014 to 24 April 2020	53,223,422	(53,223,422)	–	–	–	–	N/A
7 September 2016	0.128	7 September 2017 to 6 September 2022	–	–	–	127,800,000	(15,000,000)	112,800,000	5.4 years
Employees									
25 April 2014	0.542	25 July 2014 to 24 April 2020	17,248,781	(17,248,781)	–	–	–	–	N/A
7 September 2016	0.128	7 September 2017 to 6 September 2022	–	–	–	24,350,000	(1,450,000)	22,900,000	5.4 years
Other eligible participants									
25 April 2014	0.542	25 July 2014 to 24 April 2020	3,955,138	(3,955,138)	–	–	–	–	N/A
			74,427,341	(74,427,341)	–	152,150,000	(16,450,000)	135,700,000	

Vesting period: Tranche 1: 50% vesting in 1 year from the date of grant

Tranche 2: 50% vesting in 2 years from the date of grant

Share option expenses charged to the consolidated statement of profit or loss and other comprehensive income are determined using the binomial lattice model based on the following assumptions:

	Date of grant	
	25 April 2014	**7 September 2016**
Fair value at measurement date	$0.190	$0.057
Share price at measurement date	$0.328	$0.128
Exercise price	$0.542	$0.128
Expected volatility	52.10%	50.00%
Risk-free interest rate (based on Exchange Fund Notes)	1.34%	0.63%
Expected average life of options	2.2 years	6 years
Expected dividend yield	0%	0%

The expected volatility is based on the historic volatility on the Company's shares (calculated based on the weighted average remaining life of the share options). Expected dividends are based on historic dividends. Changes in the subjective input assumptions could materially affect the fair value estimate.

The Group recognised expenses of $3,280,000 (2016: $2,443,000) related to equity settled share-based payment transactions during the year ended 31 March 2017.

COMPANY OVERVIEW

The Group is one of the major solid-waste solutions providers in Hong Kong, engaging in waste collection, recycling and treatment activities. With an extensive waste collection network and depots, the Group provides waste management services on waste paper, Confidential Material Destruction Services ("CMDS") and other recyclable waste for a broad range of customers in both the public and private sectors. Wastes are treated in an environmentally friendly method through our technologically advanced treatment plants. Products include recovered paper and tissue paper, which are sorted, packed and shipped to the PRC or overseas for further treatment and sales.

We are committed to maintaining stable and efficient services, managing and developing our business with professionalism. Recognizing the importance of our business in becoming part of the solution to municipal waste management, we will continue to make a difference by dedicating resources to create shared value strategy, moving towards the goal of becoming one of the most reputable integrated waste solutions providers in Hong Kong and the Greater China.

MARKET REVIEW

Landfills are running out of space quickly. Hong Kong has few options on waste management but to start taking action in reducing and recycling waste. Coupled with the new legislation on municipal waste management, the market landscape has started to undergo radical changes. Further to some encouraging move taken by the Government in 2016, for instance, producer responsibility schemes ("PRS") implemented for plastic bags and waste electrical and electronic equipment ("WEEE").

In addition to the PRS for glass beverage containers from 2018 onwards, we envisage enforcement and legislative changes will be tightened in the coming years, the Government and the industry have been studying the feasibility of a PRS for plastic bottles requiring manufacturers, distributors, consumers and retailers to share a duty of collecting, recycling, treating and disposing the products. In Hong Kong, the use of disposable plastic products remains rampant, approximately 20 percent of the municipal solid waste is plastic. Embracing the escalating demand to reduce the amount of plastic waste, the Group's plastic recycling operation will come into operation in the coming fiscal year.

FINANCIAL REVIEW

The loss attributable to equity shareholders of the Company for the year ended 31 March 2017 ("FY2017" or "Current Year") amounted to HK$81.2 million, an improvement of HK$22.9 million when compared to the net loss of HK$104.1 million for the year ended 31 March 2016 ("FY2016" or "Last Year").

	FY2017	FY2016	Fav./(Unfav.) Change	
	HK$'000	HK$'000	**HK$'000**	%
Results of operating segments	**(20,657)**	(59,140)	**38,483**	65%
Net corporate expenses	**(42,014)**	(44,938)	**2,924**	7%
Non-operating items:				
Impairment loss on finance lease receivables	**(5,657)**	–	**(5,657)**	N/A
Impairment loss of property, plant and equipment	**(12,873)**	–	**(12,873)**	N/A
Loss attributable to equity shareholders of the Company	**(81,201)**	(104,078)	**22,877**	22%

In FY2017, we saw a significant improvement in the results of the operating segments with a reduction in loss of 65% or HK$38.5 million when compared to FY2016 while net corporate expenses has reduced by 7% or HK$2.9 million. However, the Group recognised a total impairment loss of approximately HK$18.5 million in view of the recoverability of the carrying value of certain plant and equipment and finance lease receivables was being questionable. All these impairment losses are non-cash items and bear no impact on the cash flow and operations of the Group.

Revenue Analysis	**FY2017**	FY2016	**Change**	
	HK$'000	*HK$'000*	***HK$'000***	%
Sales of recovered paper	**181,979**	209,998	**(28,019)**	(13%)
Sales of tissue paper products	**3,606**	18,117	**(14,511)**	(80%)
CMDS service income	**18,491**	16,692	**1,799**	11%
Sales of other materials	**2,592**	25,676	**(23,084)**	(90%)
Other revenue	**272**	2,648	**(2,376)**	(90%)
	206,940	273,131	**(66,191)**	(24%)

Sales revenue of **Recovered Paper** continued to be affected by the overall operating environment for recovered paper, especially in the PRC. The implementation of environmentally friendly manufacturing regulations has eliminated small and medium enterprises that fail to meet the standard which in turn affected the demand for recovered paper. The global economic slowdown, including but not limited to the PRC, and the stringent regulation of the PRC on waste imports has significantly affected the trading volume of our recovered paper. Moreover, due to the nature of the recovered paper business and its low entry barrier, the Group has faced intense competition from other traders in terms of purchasing price and collection volume. The revenue of recovered paper has reduced to approximately HK$182.0 million, a drop of approximately HK$28.0 million or 13% when compared to FY2016. Although the sales volume for FY2017 has decreased by 18% when compared to FY2016, we saw an increase in the average selling price per ton by 7% due to close monitoring of our pricing strategies.

The sales revenue of **Tissue Paper Products** dropped by HK$14.5 million or 80% to HK$3.6 million. Despite quality of life and consumer health awareness have continued to improve, Mainland China's tissue paper consumption per capita still lags behind that of developed countries. On one hand, it implies potential for growth but on the other hand it intensifies competition among market players. During the Current Year, the Group has launched its own tissue paper products in order to diversify its product portfolio. However, with limited production capacity and ever-increasing cost of production has rendered us not able to maintain operating efficiency and economies of scale, which in turn led to a decline in the profit margin.

Confidential Material Destruction Services ("CMDS") service income increased by 11% or HK$1.8 million to HK$18.5 million. The increase in CMDS service income was mainly due to the re-engineering of our value chain activities when delivering our exemplary CMDS product or service. Total CMDS service income included materials destruction services for both paper and non-paper products, which recorded an increase of 9.8% and 13.8% over the Last Year respectively. We collect and destroy confidential materials from government departments, housing authority, banks, financial and other professional institutions in Hong Kong. Confidential materials that we destroy include confidential documents, branded products, counterfeit and storage media such as computer hard disks, credit cards, mobile SIM cards, etc.

During the Current Year, the Group had entered into new solid waste recycling business which recycles plastic waste into Low-density Polyethylene ("LDPE") plastic pellets. These LDPE pellets can be used for both rigid containers and plastic film applications such as plastic bags and film wrap. This project is still under commissioning stage and will be one of the profit contributors to the Group in the coming years. In addition, the joint venture with ALBA Group operating in recycling of WEEE will come into operation this year.

Gross Profit

The gross profit percentage of the Group for FY2017 has improved from 8.2% to 18.3% when compared to FY2016. The increase in gross profit margin was attributable to an on-going cost efficiency exercise to reduce the direct cost of sales.

Selling, Distribution and Administrative Expenses

Selling, distribution and administrative expenses amounted to a total of HK$113.1 million, representing a reduction of HK$25.6 million when compared to FY2016. The reduction in these expenditures was due to the cost control measures adopted by the management throughout the year.

Loss before Interest, Tax, Depreciation and Amortisation ("LBITDA")

Although the revenue of the Group has reduced substantially, LBITDA for the year has improved by approximately HK$26.8 million to HK$50.7 million when compared to HK$77.5 million of FY2016.

Liquidity and Financial Resources

The Group recognizes the need to achieve an adequate profit margin and considers that it is prudent to finance the Group's long-term growth by long-term financing, especially in the form of equity which will not increase the Group's finance costs. During the current financial year, the Group had no financing exercise undertaken and all capital expenditure incurred was financed by internal resources.

As at 31 March 2017, the Group had unrestricted bank deposits and cash of approximately HK$219.1 million (2016: HK$288.2 million). The Group had no bank loans and overdrafts as at 31 March 2017 (2016: Nil).

As at 31 March 2017, the Group had net current assets of approximately HK$297.5 million, as compared to net current assets of approximately HK$330.9 million as at 31 March 2016. The current ratio of the Group was 12.0 as at 31 March 2017 as compared to 6.0 as at 31 March 2016.

Foreign Exchange Exposure

The Group mainly operates in Hong Kong with most of its sales denominated in Hong Kong dollars and United States dollars. Most of the raw materials purchases are denominated in Hong Kong dollars. Furthermore, most of the Group's monetary assets and liabilities are denominated in Renminbi, United States dollars and Hong Kong dollars.

For the year ended 31 March 2017, the Group recorded a net foreign exchange loss of HK$3.1 million (2016: HK$1.0 million) as a result of the gradual devaluation of Renminbi during the year. The Group has not used any forward contracts, currency borrowings or other means to hedge its foreign currency exposure.

Major Capital Expenditure and Commitments

During the current financial year, the Group incurred HK$10.4 million for the construction expenditure in respect of the new headquarter of the Group in Tseung Kwan O Industrial Estate, Hong Kong. As at 31 March 2017, the Group has capital commitments of HK$2.4 million, which are mainly related to the acquisition of plant and machineries.

Pledge of Assets

As at 31 March 2017, the Group had restricted bank deposits amounted to HK$17.9 million (2016: HK$18.5 million) which were pledged with banks for issuing guarantees to suppliers to secure supply.

Contingent Liabilities

At 31 March 2017, the Group has, upon legal advice, lodged certain claims against its former directors and employees and the outcomes of which remain to be seen.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE

Sustainability has become one of the major concern within the recycling industry. While recycling forms an important part in contributing to sustainable development as it reduces waste disposal, we acknowledge that our operation does have impact on the environment, our people and the community. The Group has gradually incorporated sustainability into its daily business operations, setting out strategies to ensure environmental, social and governance ("ESG") issues including emissions, relations with employees, key clients, suppliers, etc., are monitored and well-managed. We believe that good practices on sustainability can become a cornerstone for our business growth. The Group's ESG matters are handled by relevant department heads who report to the Board of Directors for consideration and decision-making.

Detailed ESG performances will be disseminated in our ESG Report which will be published on the websites of the Stock Exchange and the Company in early August 2017. This report will be prepared according to the ESG Reporting Guide set out in Appendix 27 to the Rules Governing the Listing of Securities on the Main Board of The Stock Exchange of Hong Kong Limited (the "Listing Rules"), and in accordance with the operational circumstances of the Company.

Environmental Management

As a responsible waste management service provider, the Group is committed to environmental sustainability in all aspects of our operations including energy, resources consumption and waste reduction. The Group is a registered waste recycler and registered waste collector at the HKQAA. We have strictly complied with all relevant local environmental laws and regulations during the year. Our environmental management system has obtained ISO 14001:2004 certification. Together with the ISO 9001:2008 standard, we integrated the environmental and quality management targets which facilitate more effective identification and control on potential environmental risks.

We strived to be the vanguard of sustainability by taking initiatives to lessen our environmental impact. Efforts include a green design of our office building, which uses renewable energy recycled products in our facilities and decoration. We self-discipline ourselves in managing the wastes produced from our operation plants. Practices and measures are implemented to mitigate emissions and use of energy resources throughout the recycling process. As our business expands this year, such policies are reviewed regularly at management review meetings to maintain their validity and effectiveness.

Engagement with Stakeholders

The Group seeks to closely engage with our stakeholders including customers, employees, investors, government, suppliers and communities on an ongoing basis and through a variety of mechanisms. Besides existing communication channels such as meetings and publications, we commissioned an independent third-party consultant to conduct an online survey with internal stakeholders, collecting their views on the Group's businesses towards sustainability. We will continue to broaden our dialogue with all stakeholders in identifying ESG related issues which help us in responding to their expectations.

Employees

As of 31 March 2017, the Group had a workforce of 203 employees. Employee costs, excluding directors' emoluments, amounted to HK$54.9 million for FY2017 (2016: HK$65.3 million). Adhering to the people-oriented management principle, we treat our employees with courtesy and respect. We provide satisfactory working environment, remuneration and welfare package, as well as equal opportunities on recruiting and appraisal procedures based on meritocracy. The Group also promotes inclusiveness and diversity in workplace, prohibiting any forms of discrimination. We maintain effective communication channels between employees and the management on employment matters and the reporting of any violation of code of conduct.

Health and safety of our employees are always on top priority of concern. In addition to complying with all relevant laws and regulations on occupational safety, the Group has established a Safety Committee which scrutinizes the implementation of our occupational safety and health policy and facilitate communication within the Group on safety issues. Our safety management system has laid out potential risks, safety rules and emergency plans in preventing and preparing in case of accidents.

The Group recognizes the importance of knowledge and skills of our employees to our business success. We invested resources on internal and external training programmes, including on-the-job training and safety training for new employees. We believe that improvement of employee's capabilities will definitely strengthen the competitiveness of the Group as a whole.

Customers

It is our responsibility to provide the highest quality waste management services to our customers. With an effective complaint mechanism and privacy protection policy, we aim to become one of the most trusted enterprises by our customers and the public. The Group will maintain smooth communications with customers and take necessary improvement measures after collecting their opinion and feedbacks.

Suppliers

The Group strives to maintain stable relationships with key suppliers, working together towards sustainability in our operations. We choose local suppliers to minimize our carbon footprint from the purchasing process. The Group follows a set of criteria and procedure to evaluate, select and monitor suppliers, ensuring their compliance with related laws and regulations as well as our requirements.

Community

The Group is devoted in fulfilling corporate social responsibility through investing back to our community and we believe that education is the key to promote environmental protection. Our IWS Environmental Education Centre is opened for community groups visits. We wish to contribute our part in advocating the idea of Reduce, Reuse and Recycle, building a green culture and transforming our local communities towards a sustainable future.

PROSPECTS

The Group will continue to operate diligently its core businesses and look for opportunities to expand the source of revenue. With the improvement in market conditions, there is a possibility of a turnaround. Under the new mandatory producer responsibility scheme implemented by the Hong Kong government, we have developed new solid waste management system for waste electrical and electronic equipment and plastic. We are looking to expand our businesses into glass beverage containers recycling in the future. In addition, as the municipal solid waste charging will become effective in 2019, we expect more business opportunities to be available in the market. The Group well-prepared itself to embrace the new policy initiatives. Our professional expertise and experiences are equipping ourselves in providing quality solid waste management service, thus creating value for our customers and the community. Looking ahead, the Group will continue to consolidate its core businesses while entering into other areas of solid waste management, devoting our efforts in promoting solid waste recycling in Hong Kong.

DIVIDEND

The Board does not recommend the payment of any dividend in respect of the year ended 31 March 2017 (2016: Nil).

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Thursday, 24 August 2017 to Wednesday, 30 August 2017 both days inclusive, during which no transfer of shares of the Company will be registered. In order to be eligible for attending and voting at the 2017 annual general meeting of the Company to be held on Wednesday, 30 August 2017, all completed transfer documents, accompanied by the relevant share certificates must be lodged with the Company's branch share registrar and transfer office in Hong Kong, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:30 p.m. on Wednesday, 23 August 2017.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

Neither the Company nor any of its subsidiaries has purchased, redeemed or sold any of the Company's share during the year ended 31 March 2017.

CORPORATE GOVERNANCE

Throughout the financial year ended 31 March 2017 and to the extent that it is reasonable and appropriate, the Company has been compliant with the code provisions and some of the recommended best practices as set out in the Corporate Governance Code contained in Appendix 14 to the Listing Rules. The Company will continue improving its corporate governance that is conducive to the conduct and growth of its business, and reviewing its governance practices to ensure compliance with the regulatory requirements, thereby meeting the expectations of shareholders and investors.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules as its own code for dealing in securities of the Company by the Directors. Following specific enquiries by the Company, all Directors have confirmed that they have complied with the Model Code throughout the year ended 31 March 2017.

COMPLIANCE WITH WRITTEN GUIDELINES FOR SECURITIES TRANSACTIONS BY THE RELEVANT EMPLOYEES OF THE COMPANY

The Company has also adopted written guidelines on no less exacting terms than the Model Code (the "Written Guidelines") for governing securities transactions by employees who are likely to be in possession of unpublished inside information of the Company or its securities. No incident of non-compliance of the Written Guidelines by any relevant employee was noted by the Company during the year ended 31 March 2017.

AUDIT COMMITTEE

The Audit Committee of the Company, which comprises four independent non-executive Directors, namely, Mr. Wong Man Chung, Francis (Chairman of the Audit Committee), Mr. Nguyen Van Tu, Peter, Mr. Chow Shiu Wing, Joseph and Mr. Yeung Kwok Ki, Anthony; and two non-executive Directors, namely, Mr. Cheng Chi Ming, Brian and Mr. Tsang On Yip, Patrick, has reviewed the consolidated financial statements of the Group for the year ended 31 March 2017 and discussed with the management of the Company on the accounting principles and practices adopted by the Group, risk management and internal controls and financial reporting matters.

REVIEW OF FINANCIAL INFORMATION

The Audit Committee has reviewed the accounting principles and practices adopted by the Group and the annual results for the year ended 31 March 2017. The financial 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 31 March 2017 as set out in the preliminary announcement have been compared by the Group's auditor, KPMG, Certified Public Accountants, to the amounts set out in the Group's audited consolidated financial statements for the year and the amounts were found to be in agreement. The work performed by KPMG in this respect did not constitute an audit, review or other 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 the auditor.

PUBLICATION OF ANNUAL RESULTS AND ANNUAL REPORT

The annual results announcement is published on the websites of the Stock Exchange of Hong Kong Limited (www.hkex.com.hk) and the Company (www.iwsgh.com). The annual report of the Company for the year ended 31 March 2017 containing all the information required by the Listing Rules will be dispatched to the Company's shareholders and published on the above websites in due course.

By Order of the Board
Integrated Waste Solutions Group Holdings Limited
CHENG Chi Ming, Brian
Chairman

Hong Kong, 29 June 2017

As at the date of this announcement, the Board comprises two executive directors, namely, Messrs. LAM King Sang and TAM Sui Kin, Chris; four non-executive directors, namely, Messrs. CHENG Chi Ming, Brian (Chairman), TSANG On Yip, Patrick, LAU Sai Cheong and TO Chun Wai; and four independent non-executive directors, namely, Messrs. NGUYEN Van Tu, Peter, CHOW Shiu Wing, Joseph, WONG Man Chung, Francis and YEUNG Kwok Ki, Anthony.