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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)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2020

Financial Highlights

| | 6 months ended 30.09.2020 HK\$'M | 6 months ended 30.09.2019 HK\$'M | Change HK\$'M | % |
|--|---|---|------------------|---------|
| (Unaudited) | | | | |
| Revenue | 28.4 | 62.0 | (33.6) | (54.2%) |
| Gross Profit | 14.7 | 8.6 | 6.1 | 70.9% |
| Loss attributable to equity shareholders of the Company | (9.9) | (32.8) | 22.9 | 69.8% |
| Loss per share (HK cent) | (0.2) | (0.7) | 0.5 | 71.4% |

The Board does not recommend the payment of any interim dividend for the six months ended 30 September 2020.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 September 2020 – unaudited

(Expressed in Hong Kong dollars)

| | | Six months ended 30 September | |
|---|-------------|--|-------------------|
| | <i>Note</i> | 2020 | 2019 |
| | | \$'000 | \$'000 |
| Revenue | 4 | 28,448 | 61,988 |
| Cost of sales and services | | <u>(13,700)</u> | <u>(53,423)</u> |
| Gross profit | | 14,748 | 8,565 |
| Other revenue | | 10,236 | 4,682 |
| Other net loss | | (602) | (1,383) |
| Selling and distribution expenses | | (8,321) | (11,492) |
| Administrative and other operating expenses | | <u>(32,950)</u> | <u>(34,889)</u> |
| Operating loss | | (16,889) | (34,517) |
| Finance income | 5(a) | 2,169 | 4,345 |
| Finance cost | 5(b) | (44) | (95) |
| Share of profit of an associate | | 4,413 | – |
| Share of profit/(loss) of joint ventures | | <u>418</u> | <u>(2,507)</u> |
| Loss before taxation | 5 | (9,933) | (32,774) |
| Income tax | 6 | <u>–</u> | <u>–</u> |
| Loss for the period | 7 | <u>(9,933)</u> | <u>(32,774)</u> |
| Basic and diluted loss per share | 7 | <u>(0.2) cent</u> | <u>(0.7) cent</u> |

| | Six months ended | |
|--|-------------------------|-----------------|
| | 30 September | |
| | 2020 | 2019 |
| | \$'000 | \$'000 |
| Loss for the period | (9,933) | (32,774) |
| Other comprehensive income for the period (net of nil tax): | | |
| Item that may be reclassified subsequently to profit or loss | | |
| Exchange difference on translation of financial statements of: | | |
| – a joint venture and an associate operating outside Hong Kong | 327 | – |
| Other comprehensive income for the period | 327 | – |
| Total comprehensive income for the period | (9,606) | (32,774) |

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 September 2020 – unaudited

(Expressed in Hong Kong dollars)

| | | At 30 September 2020 \$'000 | At 31 March 2020 \$'000 |
|---|------|--------------------------------------|----------------------------------|
| | Note | | |
| Non-current assets | | | |
| Property, plant and equipment | 9 | 595,471 | 610,279 |
| Right-of-use assets | | 29,638 | 31,734 |
| Interests in an associate | 10 | 96,209 | 80,429 |
| Interests in joint ventures | 11 | 9,170 | 3,795 |
| Deposits and prepayments | | 49 | – |
| | | <u>730,537</u> | <u>726,237</u> |
| Current assets | | | |
| Inventories | | 251 | 2,012 |
| Trade receivables | 12 | 4,630 | 6,980 |
| Other receivables, deposits and prepayments | | 13,107 | 14,056 |
| Amount due from an associate | 10 | 11,498 | 5,556 |
| Amounts due from joint ventures | 11 | 33,684 | 38,278 |
| Amount due from a related company | | 12 | 12 |
| Bank deposits and cash | | 85,046 | 98,962 |
| | | <u>148,228</u> | <u>165,856</u> |
| Current liabilities | | | |
| Trade payables | 13 | 898 | 2,411 |
| Other payables, accruals and contract liabilities | | 18,747 | 19,351 |
| Lease liabilities | | 504 | 1,740 |
| Amount due to a related company | | 10 | 10 |
| | | <u>20,159</u> | <u>23,512</u> |
| Net current assets | | <u>128,069</u> | <u>142,344</u> |
| Total assets less current liabilities | | <u>858,606</u> | <u>868,581</u> |

| | | At 30 September 2020 \$'000 | At 31 March 2020 \$'000 |
|------------------------------|------|--------------------------------------|----------------------------------|
| | Note | | |
| Non-current liability | | | |
| Lease liabilities | | — | 369 |
| | | <u> </u> | <u> </u> |
| NET ASSETS | | 858,606 | 868,212 |
| | | <u> </u> | <u> </u> |
| CAPITAL AND RESERVES | | | |
| Share capital | 14 | 482,301 | 482,301 |
| Reserves | | 376,305 | 385,911 |
| | | <u> </u> | <u> </u> |
| TOTAL EQUITY | | 858,606 | 868,212 |
| | | <u> </u> | <u> </u> |

NOTES

(Expressed in Hong Kong dollars unless otherwise indicated)

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, provision of logistics services and investment holding.

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

2 Basis of preparation

The unaudited interim financial results set out in this announcement does not constitute the unaudited interim financial report of the Group for the six months ended 30 September 2020 but is derived from that unaudited interim financial report which has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (“Listing Rules”), including compliance with International Accounting Standard (“IAS”) 34, Interim financial reporting, promulgated by the International Accounting Standards Board (“IASB”).

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2020 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2021 annual financial statements. Details of any changes in accounting policies are set out in note 3.

The preparation of an interim financial report in conformity with IAS 34 requires management to make judgements, estimates and assumptions that affect the application of policies and reported amount of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates.

The interim financial report contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2020 annual financial statements. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for full set of financial statements prepared in accordance with International Financial Reporting Standards (“IFRSs”). The annual financial statements for the year ended 31 March 2020 are available from the Company’s registered office.

The interim financial report is unaudited, but has been reviewed by KPMG in accordance with International Standards on Review Engagements 2410, “Review of interim financial information performed by the independent auditor of the entity” issued by the International Auditing and Assurance Standards Board.

3 Changes in accounting policies

The IASB has issued the following amendments to IFRSs that are first effective for the current accounting period of the Group:

- Amendments to IFRS 3, *Definition of a Business*
- Amendments to IFRS 9, IAS 39 and IFRS 7, *Interest Rate Benchmark Reform*
- Amendments to IAS 1 and IAS 8, *Definition of Material*

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

4 Revenue and 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:

- Confidential materials destruction service (“CMDS”): provision of confidential materials destruction services
- Logistics services: provision of logistics services
- Recovered paper and materials: sales of recovered paper and materials
- Tissue paper products: sales of tissue paper products

Although the Group's products and services are sold/rendered to Hong Kong, Mainland China 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.

Revenue from contracts with customers within the scope of IFRS 15

| | Six months ended | |
|--|-------------------------|--------|
| | 30 September | |
| | 2020 | 2019 |
| | \$'000 | \$'000 |
| Disaggregated by major products or service lines | | |
| – Provision of CMDS | 9,931 | 10,181 |
| – Provision of logistics services | 6,743 | 3,151 |
| – Sales of recovered paper and materials | 11,728 | 48,644 |
| – Sales of tissue paper products | 46 | 12 |
| | 28,448 | 61,988 |

Revenue by geographic markets

| | Six months ended | |
|----------------|-------------------------|--------|
| | 30 September | |
| | 2020 | 2019 |
| | \$'000 | \$'000 |
| Hong Kong | 18,233 | 34,210 |
| South Korea | 8,120 | 8,743 |
| Mainland China | 2,095 | 19,035 |
| | 28,448 | 61,988 |

The geographical location is based on the location at which goods were delivered or service was rendered.

The segment results and other segment items included in the loss for the six months ended 30 September 2020 are as follows:

| | Six months ended 30 September 2020 | | | | |
|---|---|------------------|------------------|-----------------|-----------------|
| | CMDS | Logistics | Recovered | Tissue | |
| | \$'000 | services | paper and | paper | Total |
| | | \$'000 | materials | products | \$'000 |
| | | | \$'000 | \$'000 | |
| <i>Segment revenue:</i> | | | | | |
| Sales to external customers | 9,931 | 6,743 | 11,728 | 46 | 28,448 |
| Inter-segment sales | – | 5,387 | – | – | 5,387 |
| Reportable segment revenue | 9,931 | 12,130 | 11,728 | 46 | 33,835 |
| Elimination of inter-segment revenue | – | (5,387) | – | – | (5,387) |
| | 9,931 | 6,743 | 11,728 | 46 | 28,448 |
| <i>Segment results:</i> | | | | | |
| Reportable segment profit | 6,793 | 3,154 | 4,941 | – | 14,888 |
| Elimination of inter-segment profit | | | | | (140) |
| Reportable segment profit derived from the Group's external customers | | | | | 14,748 |
| Other revenue | | | | | 10,236 |
| Other net loss | | | | | (602) |
| Selling and distribution expenses | | | | | (8,321) |
| Administrative and other operating expenses | | | | | (32,950) |
| Finance income | | | | | 2,169 |
| Finance cost | | | | | (44) |
| Share of profit of an associate | | | | | 4,413 |
| Share of profit of joint ventures | | | | | 418 |
| Loss for the period | | | | | (9,933) |

The segment results and other segment items included in the loss for the six months ended 30 September 2019 are as follows:

| | Six months ended 30 September 2019 | | | | |
|---|------------------------------------|--------------|---------------|-----------|------------------------|
| | CMDS | Logistics | Recovered | Tissue | Total |
| | \$'000 | services | paper and | paper | |
| | | \$'000 | materials | products | \$'000 |
| | | | \$'000 | \$'000 | |
| <i>Segment revenue:</i> | | | | | |
| Sales to external customers | 10,181 | 3,151 | 48,644 | 12 | 61,988 |
| Inter-segment sales | – | 6,609 | – | – | 6,609 |
| Reportable segment revenue | 10,181 | 9,760 | 48,644 | 12 | 68,597 |
| Elimination of inter-segment revenue | – | (6,609) | – | – | (6,609) |
| | <u>10,181</u> | <u>3,151</u> | <u>48,644</u> | <u>12</u> | <u>61,988</u> |
| <i>Segment results:</i> | | | | | |
| Reportable segment profit | 6,240 | 2,391 | 1,840 | – | 10,471 |
| Elimination of inter-segment profit | | | | | <u>(1,906)</u> |
| Reportable segment profit derived from the Group's external customers | | | | | 8,565 |
| Other revenue | | | | | 4,682 |
| Other net loss | | | | | (1,383) |
| Selling and distribution expenses | | | | | (11,492) |
| Administrative and other operating expenses | | | | | (34,889) |
| Finance income | | | | | 4,345 |
| Finance cost | | | | | (95) |
| Share of loss of joint ventures | | | | | <u>(2,507)</u> |
| Loss for the period | | | | | <u><u>(32,774)</u></u> |

5 Loss before taxation

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

| | Six months ended | |
|--|-------------------------|----------------|
| | 30 September | |
| | 2020 | 2019 |
| | \$'000 | \$'000 |
| (a) Finance income | | |
| Interest income from bank deposits | (440) | (1,124) |
| Interest income from loans to joint ventures | (422) | (3,221) |
| Interest income from loans to an associate | (1,307) | – |
| | <u>(2,169)</u> | <u>(4,345)</u> |
| (b) Finance cost | | |
| Interest on lease liabilities | <u>44</u> | <u>95</u> |
| (c) Other items | | |
| Cost of inventories sold | 6,824 | 46,816 |
| Depreciation charge: | | |
| – owned property, plant and equipment | 12,878 | 16,163 |
| – right-of-use assets | 1,236 | 1,381 |
| Loss on disposal of property, plant and equipment | 342 | 617 |
| Short-term lease payments not included in the measurement of lease liabilities | 212 | 442 |
| Write off of property, plant and equipment | 190 | 1 |
| Write down of inventories | – | 2,700 |
| Foreign exchange loss, net | <u>91</u> | <u>765</u> |

6 Income tax

No provision for Hong Kong Profits Tax for the six months ended 30 September 2020 and 2019 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 period or the subsidiaries have no estimated assessable profits in Hong Kong.

7 Loss per share

(a) Basic loss per share

The calculation of the basic loss per share is based on the loss attributable to equity shareholders of the Company of \$9,933,000 (six months ended 30 September 2019: \$32,774,000) and the weighted average of 4,823,009,000 (2019: 4,823,009,000) ordinary shares in issue during the interim period.

(b) Diluted loss per share

No adjustment had been made to the basic loss per share presented for the six months ended 30 September 2020 and 30 September 2019 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.

8 Dividends

No dividends has been paid or declared by the Company for the six months ended 30 September 2020 (2019: Nil).

9 Property, plant and equipment

During the six months ended 30 September 2020, the Group disposed and wrote off items of property, plant and equipment with aggregate net book value of \$1,991,000 (2019: \$2,207,000).

10 Interests in an associate

| | At 30 September 2020 \$'000 | At 31 March 2020 \$'000 |
|---|--------------------------------------|----------------------------------|
| Share of net assets | 74,129 | 69,389 |
| Loans to an associate (note 10(a)) | 33,120 | 16,560 |
| Amount due from an associate (note 10(b)) | 458 | 36 |
| | <u>107,707</u> | <u>85,985</u> |
| Represented by: | | |
| Non-current portion | 96,209 | 80,429 |
| Current portion | 11,498 | 5,556 |
| | <u>107,707</u> | <u>85,985</u> |

(a) Loans to an associate

- (i) loan of RMB14,400,000 (equivalent to approximately \$16,560,000) at 30 September 2020 (31 March 2020: \$16,560,000) which is unsecured, interest-bearing at the rate of 5% per annum. The loan will be repaid by instalments of RMB4,800,000 each (equivalent to approximately \$5,520,000) on 16 March 2021, 16 March 2022 and 16 March 2023 respectively; and
- (ii) loan of RMB14,400,000 (equivalent to approximately \$16,560,000) at 30 September 2020 (31 March 2020: Nil) which is unsecured, interest-bearing at the rate of 5% per annum. The loan will be repaid by instalments of RMB4,800,000 each (equivalent to approximately \$5,520,000) on 28 September 2021, 28 September 2022 and 28 September 2023 respectively.

(b) Amount due from an associate

The amount due from an associate at 30 September 2020 and 31 March 2020 are unsecured, interest-free and has no fixed terms of repayment.

11 Interests in joint ventures

| | At 30 September 2020 \$'000 | At 31 March 2020 \$'000 |
|--|--------------------------------------|----------------------------------|
| Share of net liabilities | (15,262) | (15,705) |
| Loans to joint ventures (note 11(a)) | 43,982 | 46,982 |
| Amounts due from joint ventures (note 11(b)) | 14,134 | 10,796 |
| | <u>42,854</u> | <u>42,073</u> |
| Represented by: | | |
| Non-current portion | 9,170 | 3,795 |
| Current portion | 33,684 | 38,278 |
| | <u>42,854</u> | <u>42,073</u> |

On 26 March 2020, the Group entered into a shareholders' agreement with a third party to set up Smart City Logistics Hong Kong Limited ("Smart City"), a joint venture company at the consideration of \$25,000. On 13 May 2020, Smart City was incorporated in Hong Kong for the purpose of providing services for logistics of wastes in Hong Kong. The Group is entitled to share 25% of the financial results of Smart City.

(a) Loans to joint ventures

- (i) loan of \$19,982,000 (31 March 2020: \$19,982,000) which is unsecured, interest-bearing at the rate of 7% per annum (31 March 2020: 7% per annum) and repayable on demand;
- (ii) loan of \$12,000,000 (31 March 2020: \$12,000,000) which is unsecured, interest-bearing at the rate of HIBOR plus 4% per annum (31 March 2020: HIBOR plus 4% per annum). The loan will be repaid by instalments, of which \$4,500,000 is repayable on 19 February 2021 and the remaining \$7,500,000 is repayable on 19 February 2022; and
- (iii) loan of \$12,000,000 (31 March 2020: \$15,000,000) which is unsecured, interest-bearing at the rate of HIBOR plus 4% per annum (31 March 2020: HIBOR plus 4% per annum). The loan will be repaid by instalments, of which \$4,500,000 is repayable on 2 May 2021 and the remaining \$7,500,000 is repayable on 2 May 2022.

(b) Amounts due from joint ventures

The amounts due from joint ventures at 30 September 2020 and 31 March 2020 are unsecured, interest-free and has no fixed terms of repayment.

12 Trade receivables

| | At 30 September 2020 \$'000 | At 31 March 2020 \$'000 |
|------------------------|--|--|
| Trade receivables | 8,507 | 10,857 |
| Less: Loss allowance | (3,877) | (3,877) |
| Trade receivables, net | 4,630 | 6,980 |

As at the end of the reporting period, the ageing analysis of trade receivables, based on transaction date and net of loss allowance, is as follows:

| | At 30 September 2020 \$'000 | At 31 March 2020 \$'000 |
|---------------|--|--|
| 0 – 30 days | 3,848 | 4,990 |
| 31 – 60 days | 284 | 1,419 |
| 61 – 90 days | 100 | 1 |
| 91 – 120 days | 250 | 196 |
| Over 120 days | 148 | 374 |
| | 4,630 | 6,980 |

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

13 Trade payables

| | At 30 September 2020 \$'000 | At 31 March 2020 \$'000 |
|----------------|--------------------------------------|----------------------------------|
| Trade payables | 898 | 2,411 |

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

| | At 30 September 2020 \$'000 | At 31 March 2020 \$'000 |
|---------------|--------------------------------------|----------------------------------|
| Current | 95 | 1,558 |
| 1 – 30 days | 91 | 41 |
| 31 – 60 days | 47 | 33 |
| 61 – 90 days | 10 | 46 |
| 91 – 120 days | 3 | 16 |
| Over 120 days | 652 | 717 |
| | 898 | 2,411 |

14 Share capital and reserves

(a) Authorised share capital of the Company

| | At 30 September 2020 \$'000 | At 31 March 2020 \$'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 '000 | Amount \$'000 |
|---|---|------------------|
| Issued and fully paid: | | |
| At 1 April 2019, 30 September 2019, 31 March 2020, 1 April 2020 and 30 September 2020 | 4,823,009 | 482,301 |

(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 sheet 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.

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.

The movements in the number of share options under the Share Option Scheme during the period were as follows:

| Date of grant | Initial exercise price \$ | Exercisable period | Number of share options | | | |
|------------------|------------------------------|--------------------------------------|-----------------------------|--------------------------|----------------------------------|----------------------------|
| | | | Outstanding at 1 April 2020 | Lapsed during the period | Outstanding at 30 September 2020 | Remaining contractual life |
| Directors | | | | | | |
| 7 September 2016 | 0.128 | 7 September 2017 to 6 September 2022 | 86,400,000 | – | 86,400,000 | 1.9 years |
| Employees | | | | | | |
| 7 September 2016 | 0.128 | 7 September 2017 to 6 September 2022 | 15,100,000 | (1,800,000) | 13,300,000 | 1.9 years |
| | | | 101,500,000 | (1,800,000) | 99,700,000 | |

Vesting period: Tranche 1: 50% vesting in 1 year from the date of grant (exercisable from 7 September 2017 to 6 September 2022)

Tranche 2: 50% vesting in 2 years from the date of grant (exercisable from 7 September 2018 to 6 September 2022)

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:

| | |
|--|---------|
| Fair value at measurement date | \$0.057 |
| Share price at measurement date | \$0.128 |
| Exercise price | \$0.128 |
| Expected volatility | 50.00% |
| Risk-free interest rate (based on Exchange Fund Notes) | 0.63% |
| Expected average life of options | 6 years |
| Expected dividend yield | 0% |

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

The Group recognised expense of Nil (2019: Nil) related to equity settled share-based payment transactions during the six months ended 30 September 2020.

15 Capital commitments

| | At 30 September 2020 \$'000 | At 31 March 2020 \$'000 |
|---|--------------------------------------|----------------------------------|
| Contracted but not provided for | | |
| – Investment in I-Talent Paper Product (HK) Limited ("I-Talent") | <u><u>2,550</u></u> | <u><u>–</u></u> |

On 25 August 2020, the Group entered into a shareholders' agreement with a third party to establish I-Talent for the purpose of developing business in trading and manufacturing of assorted paper products. As at 30 September 2020, the Group's total commitment to the investment in I-Talent is \$2,550,000 for capital contribution. Upon completion of capital injection, the Group will hold 51% equity interest in I-Talent.

MANAGEMENT DISCUSSION AND ANALYSIS

REVIEW OF OPERATIONS

During the six months ended 30 September 2020, the businesses of our Group were adversely affected by the developments in the global economy and the outbreak of COVID-19 pandemic. The on-going Sino-US trade war has resulted in fluctuations in product demand, and the outbreak of COVID-19 pandemic caused further uncertainties in the recycled products market. Suspension of production by the manufacturing industry and the social distancing regulations have directly caused a drop in the amount of waste collected, as well as the demand for our recycled products. These have negatively impacted on the revenue of some of our business segments such as recovered paper and recycled plastic pellets operations. Although the revenue of the Group has reduced substantially, the overall performance of the Group has been improved due to the continuous cost control measures and the positive contribution from new project.

FINANCIAL REVIEW

The loss attributable to equity shareholders of the Company for the six months ended 30 September 2020 (the “Current Period”) amounted to HK\$9.9 million, a decrease of approximately HK\$22.9 million when compared to the net loss of HK\$32.8 million for the six months ended 30 September 2019 (the “Last Period”).

| | 6 months ended 30.09.2020 HK\$'000 | 6 months ended 30.09.2019 HK\$'000 | Fav./(Unfav.) Change HK\$'000 | % |
|--|---|---|--|---------------|
| Results of Operating Segments | 7,554 | (9,088) | 16,642 | 183.1% |
| Net Corporate expenses | (22,318) | (21,179) | (1,139) | (5.4%) |
| | (14,764) | (30,267) | 15,503 | 51.2% |
| Share of results of an associate | 4,413 | – | 4,413 | N/A |
| Share of results of joint ventures | 418 | (2,507) | 2,925 | 116.7% |
| Loss attributable to equity shareholders of the Company | (9,933) | (32,774) | 22,841 | 69.7% |

The results of the operating segments of the Group have improved with a significant reduction in loss of HK\$16.6 million when compared to the Last Period. Net corporate expenses maintained at the same level as the Last Period. The share of results of joint ventures of the Group have been improved from a share of loss of HK\$2.5 million in the Last Period to a share of profit of HK\$0.4 million in the Current Period. During the Current Period, the Group has recognised a share of profit of HK\$4.4 million of its hazardous waste treatment project which was acquired in January 2020.

Revenue Analysis

| | 6 months ended 30.09.2020 HK\$'000 | 6 months ended 30.09.2019 HK\$'000 | Fav./ (Unfav.) Change HK\$'000 | % |
|--|---|---|---|-----------------------|
| Sales of Recovered Paper | 9,810 | 40,654 | (30,844) | (75.9%) |
| CMDS service income | 9,931 | 10,181 | (250) | (2.5%) |
| Logistics service income | 6,743 | 3,151 | 3,592 | 114.0% |
| Sales of Recyled LPDE Pellets | 1,893 | 7,708 | (5,815) | (75.4%) |
| Sales of other waste materials and tissue paper | 71 | 294 | (223) | (75.9%) |
| | <u>28,448</u> | <u>61,988</u> | <u>(33,540)</u> | <u>(54.1%)</u> |

The revenue of **Recovered Paper** declined to approximately HK\$9.8 million, a drop of approximately HK\$30.8 million or 75.9% when compared to the Last Period. The paper manufacturing business has been under substantial pressure owing to the intensification of Sino-US trade war during the second half of 2019 which continues to hinder the demand for recycled paper. The tightening of the import quota for waste paper by the Mainland Government has also undermined exports from Hong Kong to the PRC. The outbreak of COVID-19 pandemic has further complicated the situation. Sales volume dropped by 79.4%. However, the gross profit margin of recovered paper trading has increased from 14.0% to 47.6% due to increase in average selling price of 17.3% during the Current Period.

Sales revenue of recovered office paper generated from the CMDS services has decreased by 12.8%, mainly due to a drop in selling price. The demand for office paper has been relatively less affected by external risks compared to other types of recovered paper, its sales volume recorded an increase of 3.9%.

Confidential Material Destruction Services (“CMDS”) service income maintained at HK\$9.9 million which recorded a slight decrease of HK\$0.3 million or 2.5% when compared to the Last Period. The measures imposed by the HKSAR Government in response to the COVID-19 pandemic has hindered the collection volume of CMDS during the Current Period. The Group actively strives to bring in new long-term customers to increase its revenue base. We expect the services demand to stabilise after the pandemic subsides.

Recycled Plastic Pellets Project was adversely affected by the Sino-US trade war and the drop in crude oil prices. The demand for Low-density Polyethylene (“LDPE”) plastic pellets shrank significantly, leading to a substantial drop in price. The Group decided to temporarily suspend production of LDPE pellets during the second half of 2019. The unprecedented standstill in the global manufacturing sector during the COVID-19 outbreak has undermined the sales of plastic pellets, which recorded a decline of 75.4%. We are constantly monitoring the external environment and shall take appropriate measures to resume production as and when the situation becomes more favourable.

The joint venture for production of high value-added **recycled engineering plastic pellets** started trial production in March 2019. The business was affected by the unfavourable external environment to a smaller degree compared to the LDPE operation. The recycled engineering plastic pellets are high value-added products, demand for which remains relatively stable. With the COVID-19 pandemic being under control and resumption of business in the Mainland, we expect this segment to gradually pick the pace. The Group will also implement measures for increasing its production capacity, enabling the business to bring greater contributions to our revenue.

ALBA Integrated Waste Solutions (Hong Kong) Limited (“ALBA IWS”), our joint venture with ALBA Group for treatment and recycling of WEEE in Hong Kong has been operational for three years. It has become a stable contributor to the Group since the producer responsibility scheme on waste electrical and electronic equipment and the relevant section of the Waste Disposal Ordinance became effective at the end of 2018. We are confident that the WEEE operation will gain further momentum and continue to grow over time. Our Logistics Division has worked with ALBA IWS and played a major role in the transportation service of WEEE items. Accordingly, its service income has increased significantly during the Current Period.

In January 2020, we completed the acquisition of 40% interests in Dugong IWS HAZ Limited. It represents not only a geographical expansion to Mainland China but also our investment in a new type of business, **treatment of hazardous waste**. The tightened environmental requirements in the Mainland had led to growing demand for hazardous waste treatment. The treatment projects in Lianyungang, Jiangsu and Kaifeng, Henan are showing potential for growth, given their mature and comprehensive treatment solutions and forthcoming expansion plans. We are optimistic on this investment and expect it to be a major profit contributor to the Group’s financial results.

Gross Profit and Gross Profit Margin

The Gross Profit of the Group for the Current Period was HK\$14.7 million, an increase of HK\$6.1 million or 70.9% when compared to the Last Period, and the gross profit margin has been significantly increased from 13.8% to 51.8%. The increase in both gross profit and gross profit margin were due to the increase in total service income and the decrease in the total revenue of Recovered Paper and Recycled LDPE Pellets which have lower profit margins.

Selling, Distribution, Administrative and Other Operating Expenses

Selling, distribution, administrative and other operating expenses amounted to a total of HK\$41.3 million, representing a reduction of HK\$5.1 million when compared to the Last Period. The reduction in these expenditures was due to the cost control measures initiated by the management throughout the Current Period.

Earnings/Loss Before Interest, Tax, Depreciation and Amortisation (“EBITDA/LBITDA”)

With the increase in total gross profit and share of profits from joint ventures and associate, together with the reduction in expenditures as a result of the cost control measures throughout the Current Period, EBITDA for the Current Period has been significantly improved by approximately HK\$21.6 million from LBITDA of HK\$19.5 million in Last Period to EBITDA of HK\$2.1 million in the Current Period.

Liquidity and Financial Resources

As at 30 September 2020, the Group had unrestricted bank deposits and cash of approximately HK\$85.0 million (31 March 2020: HK\$99.0 million). The Group had no bank loans and overdrafts as at 30 September 2020 (31 March 2020: Nil).

As at 30 September 2020, the Group had net current assets of approximately HK\$128.1 million, as compared to net current assets of approximately HK\$142.3 million as at 31 March 2020. The current ratio of the Group was 7.4 as at 30 September 2020 as compared to 7.1 as at 31 March 2020.

The Group will continue to monitor its cash position and explore all possible financing options as and when required.

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 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 six months ended 30 September 2020, the Group recorded a net foreign exchange loss of HK\$0.1 million (six months ended 30 September 2019: loss of HK\$0.8 million). 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 Period, the Group incurred HK\$0.1 million mainly for the capital expenditure in respect of the headquarters of the Group in Tseung Kwan O Industrial Estate, Hong Kong. As at 30 September 2020, the Group has capital commitments of HK\$2.6 million, which are mainly related to the capital contribution in I-Talent Paper Product (HK) Limited (“I-Talent”), a company established with a third party on 24 September 2020 for the purpose of developing business in trading and manufacturing of assorted paper products. The Group will hold 51% equity interest in I-Talent upon the completion of capital injection. Details of the capital commitment of the Group are set out in Note 15.

Capital Structure

Details of the capital structure of the Company are set out in Note 14.

Contingent Liabilities

At 30 September 2020, the Group has, upon legal advice, lodged certain claims against its former director and employee and the outcomes of which remain to be seen.

Employees and Remuneration Policies

The Group employed approximately 121 employees in Hong Kong as at 30 September 2020. Employee costs, including directors’ emoluments, amounted to HK\$21.4 million for the six months ended 30 September 2020 (six months ended 30 September 2019: HK\$29.2 million). All of the Group companies are equal opportunity employers, with the selection and promotion of employees based on suitability for the position offered. The Group also believes that, with proper training and guidance, people with intellectual disabilities can be capable, loyal and conscientious workers to contribute to society. By providing job opportunities to people with intellectual disabilities, we can enhance their social integration and assist them in seeking open employment.

In addition to the mandatory MPF contributions by both employer and employees, the Group offers all full-time employees a comprehensive benefits package which includes discretionary performance bonus, annual leave, sick leave, maternity and paternity leave, marriage leave and compassionate leave entitlements, healthcare benefits and labour insurance.

OUTLOOK AND PROSPECT

Although our business will still be facing substantial difficulties until the COVID-19 pandemic subsides and the global economy recovers, we will not cease our efforts at maintaining our operations and services in a professional manner. The Group will continue to adopt a cautious approach in monitoring and managing risks, keeping the strong foundation of our businesses. We will take all necessary measures including tight cost control for ensuring a stable operational and financial status.

We will continue to consolidate existing businesses by constantly increasing cost efficiency of all our operations and maintaining high quality services in CMDs. We will work on ensuring smooth operations at our joint venture projects including the recycled engineering plastic pellets and the newly invested hazardous waste treatment business in China. At the same time, we remain open to new business opportunities for diversifying our sources of income, fulfilling our commitment to our shareholders and investors through bringing high value-added businesses that drive sustainable growth.

INTERIM DIVIDEND

The Board does not recommend the payment of any interim dividend for the six months ended 30 September 2020 (2019 interim: HK\$Nil).

COMPLIANCE WITH CORPORATE GOVERNANCE CODE

The Company is committed to maintain a high standard of corporate governance and has adopted the principles and code provisions of the Corporate Governance Code (the “CG Code”) set out in Appendix 14 to the Rules Governing the Listing of Securities (the “Listing Rules”) on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”). The Company has complied with the code provisions set out in the CG Code throughout the six months ended 30 September 2020.

The Company will continue improving its corporate governance that is conducive to conduct and growth of its business, and reviewing regularly its governance practices to ensure compliance with the regulatory requirements, thereby meeting the expectations of shareholders and investors.

COMPLIANCE WITH MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Listing Rules (the “Model Code”) as its own code for dealing in securities of the Company by the Directors.

Having made specific enquiries by the Company with the Directors, all Directors have confirmed that they have complied with the Model Code throughout the six months ended 30 September 2020.

COMPLIANCE WITH CODE FOR SECURITIES TRANSACTIONS BY RELEVANT EMPLOYEES OF THE COMPANY

The Company has also adopted Code for Securities Transactions by Relevant Employees (the “Own Code”) on no less exacting terms than the Model Code for governing securities transactions by relevant employees who are likely to be in possession of inside information of the Company or its securities. No incident of non-compliance of the Own Code by any relevant employee was noted by the Company during the six months ended 30 September 2020.

AUDIT COMMITTEE AND REVIEW OF INTERIM RESULTS

The Audit Committee of the Company comprises three independent non-executive Directors, namely, Mr. Wong Man Chung, Francis (chairman of the Audit Committee), Mr. Chow Shiu Wing, Joseph and Mr. Chan Ting Bond, Michael and two non-executive Directors, namely Mr. Cheng Chi Ming, Brian and Mr. Tsang On Yip, Patrick.

The Audit Committee has reviewed the accounting principles and practices adopted by the Group and the unaudited interim financial report of the Group for the six months ended 30 September 2020 with the management and the external auditor, KPMG. The unaudited interim financial report of the Group for the six months ended 30 September 2020 has been reviewed by the Company's external auditor, KPMG, in accordance with International Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity", issued by International Auditing and Assurance Standards Board and International Accounting Standard 34 "Interim Financial Reporting" issued by International Accounting Standards Board.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the listed securities of the Company during the six months ended 30 September 2020.

PUBLICATION OF INTERIM RESULTS AND INTERIM REPORT

The interim results announcement is published on the Company's website (www.iwsggh.com) and the designated website of the Stock Exchange (www.hkexnews.hk). The interim report of the Company for the six months ended 30 September 2020 containing all the information required by the Listing Rules will be despatched 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, 26 November 2020

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 Lee Chi Hin, Jacob; and three independent non-executive Directors, namely, Messrs. Chow Shiu Wing, Joseph, Wong Man Chung, Francis and Chan Ting Bond, Michael.