

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this announcement, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.



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)

CONTINUING CONNECTED TRANSACTIONS MANUFACTURING AND SUPPLY AGREEMENT

MANUFACTURING AND SUPPLY AGREEMENT

On 16 April 2021, I-Talent (an indirect non-wholly owned subsidiary of the Company) entered into the Manufacturing and Supply Agreement with Samiton which serves as a master agreement by which Samiton exclusively engages I-Talent to manufacture and supply the Products for a term of three years commencing from 1 April 2021 and ending on (and including) 31 March 2024.

LISTING RULES IMPLICATIONS

Since Samiton is a connected person of the Company, the Transactions constitute continuing connected transactions for the Company under Chapter 14A of the Listing Rules.

Given that Samiton is a connected person of the Company at subsidiary level and (i) the Board has approved the Transactions; and (ii) the independent non-executive Directors have confirmed that the terms of the Transactions are fair and reasonable and the Transactions are on normal commercial terms and in the interests of the Company and its shareholders as a whole, the Transactions are subject to the reporting and announcement requirements, but are exempt from the circular, independent financial advice and independent shareholders' approval requirements under Rule 14A.101 of the Listing Rules.

On 16 April 2021, I-Talent (an indirect non-wholly owned subsidiary of the Company) entered into the Manufacturing and Supply Agreement with Samiton which serves as a master agreement by which Samiton exclusively engages I-Talent to manufacture and supply the Products for a term of three years commencing from 1 April 2021 and ending on (and including) 31 March 2024.

MANUFACTURING AND SUPPLY AGREEMENT

The principal terms of the Manufacturing and Supply Agreement are set out below:

Date: 16 April 2021

Parties: (i) I-Talent

(ii) Samiton

As at the date of this announcement, I-Talent is owned as to 51% indirectly by the Company and as to 49% by Talent First Limited, which in turn is owned as to 60% by Samiton. Therefore, Samiton is a substantial shareholder of I-Talent. Further, since Yung Wai Man, Danny, who is a director of I-Talent, owns Samiton as to 44.5%, Samiton is an associate of Yung Wai Man, Danny. Based on the foregoing, Samiton is a connected person of the Company at subsidiary level.

Subject matters

Pursuant to the terms of the Manufacturing and Supply Agreement, Samiton shall engage I-Talent exclusively to manufacture the Products in respect of all purchase orders for the Own Products and the OEM Products placed by the customers of Samiton.

Samiton and I-Talent will from time to time enter into specific written agreements in respect of orders to be placed by Samiton with I-Talent for the Products, provided that the terms and conditions of such specific agreements shall not be inconsistent with the terms of the Manufacturing and Supply Agreement.

Purchase price

The purchase price of the Products to be paid by Samiton to I-Talent will be the same price offered to Samiton in respect of the corresponding purchase orders placed by its customers.

Under the Manufacturing and Supply Agreement, I-Talent is not obliged to accept any purchase order from Samiton. I-Talent will decide whether or not to accept the purchase order after considering the following:

- (a) whether the purchase price (after taking into account the Commission Arrangement (as defined below)) justifies the costs of I-Talent to be incurred in respect of the purchase order and generates a reasonable profit margin for I-Talent; and
- (b) other factors including but not limited to the general sales condition, competition, quantity, potential workload imposed on the Group, and whether the transactions will help promote the business of the Group.

For any purchase orders for the Products accepted by I-Talent, Samiton shall pay the purchase price in full in cash to I-Talent (in respect of OEM Products) on the same credit terms (normally 30 to 60 days) in respect of the corresponding purchase orders placed by its customers or (in respect of Own Products) within 30 days from the date of invoice to Samiton.

The manufacturing and supply of the paper products contemplated under the Manufacturing and Supply Agreement is new to I-Talent with no track records. At its early days of operation, it is difficult for I-Talent to secure direct orders from potential customers. Through the Manufacturing and Supply Agreement, I-Talent is able to receive steady purchase orders which assist in the gradual build-up of its business and operation in this market. For this reason, I-Talent finds it commercially sound to accept purchase prices for purchase orders placed under the Manufacturing and Supply Agreement, so long as the purchase prices (after taking into account the Commission Arrangement (as defined below)) are able to justify the costs of I-Talent and generate a reasonable profit margin for I-Talent.

Based on the above, the Directors (including the independent non-executive Directors) consider that the above pricing is fair and reasonable and is in the interests of the Company and its shareholders as a whole.

Commission Arrangement

In accordance with the terms of the Manufacturing and Supply Agreement, a commission arrangement (the “**Commission Arrangement**”) is agreed whereby I-Talent shall pay Samiton commission in cash at the following rates in respect of each purchase order from Samiton within 14 days after I-Talent’s receipt of all monies of the respective purchase order of the Products from Samiton:

- (a) for Own Products, 11% of the sum of each purchase order from Samiton completed by I-Talent; and
- (b) for OEM Products, 6% of the sum of each purchase order from Samiton completed by I-Talent.

The above rates of commission are determined after arm's length negotiation and taking into account the expected cost of sourcing new orders using I-Talent's own resources.

As I-Talent is new to the manufacturing and supply of the paper products contemplated under the Manufacturing and Supply Agreement with no track records, it would not have favourable market perception during its early stage of operation which makes it difficult to secure direct orders from potential customers. The above commission is akin to a referral fee paid by I-Talent to Samiton. The Commission Arrangement offers I-Talent immediate entry to the market that may be hard to reach with its direct sales force. It will shorten the time and reduce I-Talent's marketing effort and expenses to explore the market and obtain sales orders. The difference in the rates of commission represents the fact that Samiton is required to spend more marketing time and efforts for the Own Products than for the OEM Products.

Based on the above, the Directors consider that the Commission Arrangement is on normal commercial terms, fair and reasonable and in the interests of the Company and its shareholders as a whole.

Termination

The Manufacturing and Supply Agreement shall terminate on the expiry date of its term and is subject to renewal on terms and conditions to be agreed between Samiton and I-Talent and compliance with the relevant requirements under the applicable laws and regulations (including but not limited to the Listing Rules).

I-Talent may immediately give notice in accordance with the Manufacturing and Supply Agreement terminating the Manufacturing and Supply Agreement where:

- (a) Samiton fails to perform any of its obligations thereunder; or
- (b) there is any insolvency event that impacts on Samiton; or
- (c) I-Talent fails to obtain at its reasonable endeavour the necessary regulatory approval for performing the Manufacturing and Supply Agreement.

ANNUAL CAPS AND BASIS

The Directors estimate that the maximum amount of purchase price payable by Samiton to I-Talent in respect of the Transactions will not exceed HK\$7.7 million, HK\$8.6 million and HK\$9.1 million for each of the three years ending 31 March 2024, respectively.

In arriving at the above annual caps, the Directors considered factors including:

- (a) the historical total transaction value of the Own Products and OEM Products supplied by Samiton to its customers for the two years ended 31 March 2021 of approximately HK\$4.5 million and HK\$5.3 million;

- (b) the expected slowdown of growth in the demand for the OEM Products by Samiton's customers during the year ending 31 March 2022 and the expected reduction in demand during the year ending 31 March 2023, both due to the upcoming brand change of Samiton's customers which is expected to occur in the first half of 2021, and the expected growth in the demand for the OEM Products during the year ending 31 March 2024; and
- (c) the estimated significant increase in the demand for the Own Products for the year ending 31 March 2022 following the planned promotion by Samiton of the Own Products as the only "Made in Hong Kong" brand, coupled with the expansion of Samiton's retail network to pharmacy channel and the launch of a new brand of products in the market in April 2021, after which the increase in demand during the two years ending 31 March 2024 is expected to continue but at a progressively reduced rate.

INTERNAL CONTROL IN RESPECT OF THE MANUFACTURING AND SUPPLY AGREEMENT

The Group has adopted the following internal control measures to ensure that the Transactions will be conducted in accordance with the pricing policies and the terms of the Manufacturing and Supply Agreement, and in compliance with the Listing Rules:

- (a) the finance department of the Group will on a quarterly basis assess and estimate the total costs for the production of the Products, which include raw materials and packing materials sourcing, marketing, distribution network development and customer services costs, wages and others as major costs. When Samiton places a purchase order with I-Talent for the Products, designated staff from the finance department of the Group will compare the purchase prices of the Products with the estimated costs to arrive at an estimated profit margin. The financial controller of the Group is responsible for reviewing and (if he thinks appropriate) approving the purchase orders (including the purchase prices). The comparison together with the underlying data will be kept by the financial controller of the Group and reported to the management team of the Group on a quarterly basis. These internal procedures are aimed to ensure that the purchase price justify the costs of I-Talent and generates a reasonable profit margin in respect of the relevant purchase order;
- (b) the finance department of the Group will periodically prepare a ledger on the transaction amounts, aggregate the amount of transactions and compare such amount with the relevant annual cap to confirm whether the relevant annual cap has been exceeded and report to the management team of the Company periodically to ensure the relevant annual cap will not be exceeded;
- (c) the Board will continue to review the Group's internal control systems and their effectiveness periodically; and

(d) the independent non-executive Directors shall, and the Company shall engage its external auditors to, conduct annual review on the Transactions and the relevant annual cap in accordance with the requirements of the Listing Rules.

REASONS FOR AND BENEFITS OF ENTERING INTO THE MANUFACTURING AND SUPPLY AGREEMENT

The Group is principally engaged in the trading of recovered paper and materials, provision of confidential materials destruction services, manufacturing of recycling plastic pellets, and provision of logistics services. I-Talent is principally engaged in manufacturing and supply of assorted paper products in Hong Kong.

Samiton is a tissue paper trading company with more than 30 years of history. It has established extensive distribution network and a considerable proportion of market share in the local market of tissue paper products. Through the Manufacturing and Supply Agreement, I-Talent can shorten the time taken in its start-up of this business to market and penetrate into the relevant market and increase market share more promptly.

Based on the above, the Directors (including the independent non-executive Directors) are of the view that (i) the Transactions will be entered into in the ordinary and usual course of business of the Group, on normal commercial terms or better and in the interests of the Company and its shareholders as a whole, and on terms which are fair and reasonable; and (ii) the annual caps in respect of the Transactions are fair and reasonable and in the interests of the Company and its shareholders as a whole.

INFORMATION ON SAMITON

Samiton is a company incorporated in Hong Kong with limited liability and is principally engaged in the trading, promotion, distribution and sales of assorted paper products, including, without limitation, the Products. As at the date of this announcement, Samiton is owned as to 44.5% by Yung Wai Man, Danny (who is a director of I-Talent), 22.5% by Yip Yiu Leung, 15% by Fong Kin Yee, 10.7% by Cheung Oi Wah (who is a director of I-Talent) and the remaining 7.3% by another individual. The shareholders of Samiton have diversified business activities with principal business in production, trading and marketing of tissue paper products in Mainland China and Hong Kong. To the best knowledge, information and belief of the Directors after making reasonable enquiries, Samiton and each of its shareholders are third parties independent of the Company and its connected persons, save and except that: (i) Yung Wai Man, Danny and Cheung Oi Wah, who are shareholders of Samiton as mentioned above, are directors of I-Talent; and (ii) Samiton is a connected person of the Company at subsidiary level because of its indirect shareholding in I-Talent and its being an associate of Yung Wai Man, Danny.

LISTING RULES IMPLICATIONS

Since Samiton is a connected person of the Company, the Transactions constitute continuing connected transactions for the Company under Chapter 14A of the Listing Rules.

Given that Samiton is a connected person of the Company at subsidiary level and (i) the Board has approved the Transactions; and (ii) the independent non-executive Directors have confirmed that the terms of the Transactions are fair and reasonable and the Transactions are on normal commercial terms and in the interests of the Company and its shareholders as a whole, the Transactions are subject to the reporting and announcement requirements, but are exempt from the circular, independent financial advice and independent shareholders' approval requirements under Rule 14A.101 of the Listing Rules.

No Director is considered to have any material interest in the Transactions. Therefore, no Director was required to abstain from voting at the Board meeting at which the Transactions and the related annual caps were approved.

DEFINITIONS

In this announcement, unless the context otherwise requires, the following terms have the meanings set out below:

“associate(s)”	has the meaning ascribed to it under the Listing Rules
“Board”	the board of Directors
“Company”	Integrated Waste Solutions Group Holdings Limited, (stock code: 923), a company incorporated in the Cayman Islands with limited liability, the shares of which are listed on the Main Board of the Stock Exchange
“connected person(s)”	has the meaning ascribed to it under the Listing Rules
“Director(s)”	director(s) of the Company
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the People's Republic of China
“I-Talent”	I-Talent Paper Product (HK) Limited, a company incorporated in Hong Kong with limited liability and an indirect non-wholly owned subsidiary of the Company

“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Manufacturing and Supply Agreement”	the exclusive manufacturing and supply agreement dated 16 April 2021 between I-Talent and Samiton
“OEM Products”	paper products including box facial, soft pack and mini hankies that Samiton undertakes to manufacture for its customers using the designated brand names of its customers from time to time
“Own Products”	paper products including box facial, soft pack and mini hankies manufactured using Samiton’s own brand names and associated intellectual property
“Products”	the Own Products and the OEM Products
“Samiton”	Samiton Limited, a company incorporated in Hong Kong with limited liability
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“substantial shareholder(s)”	has the meaning ascribed to it under the Listing Rules
“Transactions”	the transactions contemplated under the Manufacturing and Supply Agreement
“%”	per cent.

By order of the Board
Integrated Waste Solutions Group Holdings Limited
Cheng Chi Ming, Brian
Chairman

Hong Kong, 16 April 2021

As at the date of this announcement, the Board comprises two executive Directors, namely, Messrs. Lam King Sang and Tam Sui Kin, Chris; three non-executive Directors, namely, Messrs. Cheng Chi Ming, Brian (Chairman), Tsang On Yip, Patrick 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.