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**Baguio Green Group Limited**

**碧瑤綠色集團有限公司**

*(Incorporated in the Cayman Islands with limited liability)*

**(Stock Code: 1397)**

**INTERIM RESULTS ANNOUNCEMENT  
FOR THE SIX MONTHS ENDED 30 JUNE 2019**

**FINANCIAL SUMMARY**

- Revenue for the six months ended 30 June 2019 amounted to approximately HK\$719.1 million (1H2018: HK\$688.0 million), representing an increase of approximately 4.5% as compared with the preceding period.
- Gross profit for the six months ended 30 June 2019 was approximately HK\$42.9 million (1H2018: HK\$47.4 million), representing a decrease of approximately 9.5% as compared with the preceding period.
- Profit attributable to equity shareholders of the Group for the six months ended 30 June 2019 was approximately HK\$3.8 million (1H2018: HK\$12.6 million), representing a decrease of approximately 69.5% as compared with the preceding period.
- The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2019 (1H2018: Nil).

The board of directors (the “Directors” and the “Board”) of Baguio Green Group Limited (the “Company”) is pleased to announce the unaudited consolidated interim results of the Company and its subsidiaries (the “Group” or “Baguio”) for the six months ended 30 June 2019 (the “Period”).

## MARKET REVIEW

During the Period, the environmental industry in Hong Kong has been facing both challenges and opportunities. In spite of intense competition and escalating labor cost, as one of the largest integrated environmental service providers in Hong Kong with market leading advantages in technology and economies of scale, Baguio sees vast opportunities in the fast growing environmental industry led by the rising public awareness on sustainable development in the city. According to the Census and Statistics Department, the value added of Hong Kong's environmental industry increased by 10.8% year on year to HK\$9.3 billion in 2017 (or 0.4% of GDP). As a global trend, different industries in Hong Kong have been undergoing a transformation towards low carbon and green economy, which facilitates the demand for a greener and healthier living environment with less power consumption and waste generation. Therefore, the demand for cleaning and landscape services is still on a rising trend with tremendous room for growth.

On the other hand, on 1 January 2018, the People's Republic of China (the "PRC") ended its long-running practice of accepting thousands of containers carrying scrap paper, plastics and metals for recycling and reuse. Governments around the world, including the Hong Kong Government, are now being forced to roll out their own disposal and recycling systems. The PRC's decision not to remain the dumping ground for foreign garbage has shined the spotlight on the need for countries to start facing up to their plastics addictions, and for makers of plastics and disposable goods to take on more responsibility for the environmental damage they inflict. The reform in the PRC has become a key milestone in speeding up the development of the environmental protection industry and meanwhile, an immediate alert to Hong Kong to tackle with the serious waste problem with her own resources.

Further, the PRC announced the implementation of "compulsory waste classification" since 1 July 2019 and Shanghai to be the pilot city. The vibrant development of environmental protection and recycling industries in the PRC has become a driving force for Hong Kong to gear up her efforts in the city's environmental protection measures and sustainable development. The city's leaders and institutions have long taken a proactive approach in motivating the public to achieve improved waste recycling and waste reduction in order to divert recyclables away from landfills. Measures including the Source Separation of Domestic Waste (2005), Tuen Mun EcoPark (2007), the Community Recycling Network (2011), the \$1 billion Recycling Fund (2015) and many other green procurement policies have been introduced to promote waste reduction and recycling.

Whereas for food waste, projects such as the "Food Waste Recycling Projects in Housing Estates" under the Environment and Conservation Fund of the Hong Kong Government are being rolled out to arouse public awareness. These projects were launched in July 2011 to subsidise the installation of on-site food waste treatment facilities in private housing estates, organising related educational activities and setting up related service platforms to provide technical support to estates. Another 35 "Household Food Recycling Projects" have been approved and so far about 2,000 tonnes of food waste are being recycled.

However, all the above measures are far from being able to solve the escalating waste problems in Hong Kong. The Group believes that the active participation from the business sector in promoting more vigorous recycling industry development is a more effective approach in achieving the sustainable goals of the city and, therefore, sees huge business opportunities from the increasing demand of greening and environmental protection services. As a one-stop waste management and recycling operator, Baguio is working closely with the Hong Kong Government to advance the development of the green industry.

## **BUSINESS REVIEW**

Competition remained intensive during the Period. The Group's gross profit was adversely affected due to increasing costs of labor, particular in the cleaning segment. Margins were also impacted dragging overall profitability downward. During the Period, the Group's revenue was approximately HK\$719.1 million, representing an increase of approximately 4.5% from approximately HK\$688.0 million for the corresponding period of 2018. Gross profit decreased by approximately 9.5% to approximately HK\$42.9 million (1H2018: HK\$47.4 million) and gross profit margin decreased by 0.9 percentage points ("p.p") to approximately 6.0% (1H2018: 6.9%). Profit attributable to equity shareholders of the Company amounted to approximately HK\$3.8 million, representing a year-on-year decline of approximately 69.5% (1H2018: HK\$12.6 million), with net profit margin decreased by approximately 1.3 p.p to approximately 0.5% (1H2018: 1.8%).

Intensive competition has negatively impacted profit margins for our clearing business segment. To mitigate its exposure to heightened competition, Baguio will be more selective in the bidding process and focus only on high margin projects including those which require advanced skill sets or good governance such as airports, aircraft and public utilities. Furthermore, the Group is working on technological transformation to enhance overall work efficiency and productivity in order to consolidate its industry leading position.

In our landscaping business, Baguio has increased investment and manpower on seedling production as a strategy with a view to expand into large-scale landscaping projects. In past years there have been significant changes in requirements for better living environments along with improving living standards in Hong Kong and the PRC. Following the introduction of tougher greening policies from the Hong Kong Government, the Group is expecting a strong demand for quality landscaping in the coming years. Leveraging on its first-mover advantage, Baguio's plant nurseries in Zhongshan PRC have already started supplying seedlings to landscaping projects and other clients in the Greater Bay area. The landscaping business will become an important growth driver for the Group.

The Group has also long been one of the largest pest control service providers in Hong Kong, boasting a full spectrum of services, including pest investigation and inspection, species identification, pest control and monitoring since 2005. The pest control business aligns closely with the Group's Go-Green policy, and Baguio is dedicated to bettering the lives of people and creating a green and healthy environment for the community.

As one of the key players in processing recyclable wastes in Hong Kong, Baguio believes that the waste recycling and processing segment is a core pillar for the city’s sustainability, and that efforts made at this stage will be rewarded greatly in future. Capitalising on moves made in 2018, Baguio intended to form a partnership with ALBA Group Asia Limited (“ALBA”) and Swire Beverages Holdings Limited (“Swire”), for the formation of a joint venture (the “JV”) dedicated to building and operating a state-of-the-art recycling facility for plastic waste, the first of its kind in Hong Kong. The facility is expected to commence operation in the third quarter of 2020, at which time it will be well placed to seize the opportunity brought by the onset of the strange spacing between alphabets and the proposed Producer Responsibility Scheme on plastic bottles. The Group is confident that the new facility will ease the problem of current lower-than-expected plastic bottle recycling rate and heavy reliance on exporting plastic recyclables.

Since 2018, continued effort has also been focused on expanding other recycling business areas, including glass bottles, animal waste and horticultural waste. The Group’s glass bottle management facility commenced operation and passed the trial run in 2018. In addition, a strong and widespread waste collection network has been established. The Group is, therefore, well-positioned to participate in the soon-to-be vibrant resource recycling market in Hong Kong.

### Interim Dividend

The Directors do not recommend the payment of an interim dividend for the Period (1H2018: Nil).

### Revenue Breakdown of Major Business Segments

	For the six months ended 30 June				Change
	2019		2018		
	Revenue (HK\$ Million)	% of total revenue	Revenue (HK\$ Million)	% of total revenue	
Cleaning	513.5	71.5%	518.2	75.3%	-0.9%
Landscaping	97.2	13.5%	85.3	12.4%	+13.9%
Pest management	27.6	3.8%	23.5	3.4%	+17.6%
Waste management and recycling	80.8	11.2%	61.0	8.9%	+32.5%
Total	<u>719.1</u>	<u>100.0%</u>	<u>688.0</u>	<u>100.0%</u>	+4.5%

## Gross Profit Margin of Major Business Segments

	For the six months ended 30 June		Change
	2019	2018	
Cleaning	2.8%	4.7%	-1.9 p.p.
Landscaping	18.7%	17.3%	+1.4 p.p.
Pest management	9.2%	11.6%	-2.4 p.p.
Waste management and recycling	9.5%	9.4%	+0.1 p.p.
Overall	6.0%	6.9%	-0.9 p.p.

During the Period, the Group was able to secure tender contracts with its existing and new customers to drive overall revenue upwards. The Group has delivered satisfactory growth in its landscaping, pest management together with waste management and recycling segments by achieving approximately 13.9%, 17.6% and 32.5% revenue growth respectively, which offset the effect of revenue decrease from our cleaning segment. With the increasing demand for professional landscaping and arboriculture services, the landscaping segment still maintained higher gross profit margin. The overall gross profit margin dropped from 6.9% to 6.0% mainly due to increase in labor costs, especially in the cleaning segment. The increment in cost of services was higher than that in revenue.

### Contracts on hand

As of 30 June 2019, the Group had a total amount of approximately HK\$1,469.50 million worth of unexpired contracts on hand, among which, approximately HK\$590.6 million would be recognised by the end of 2019; approximately HK\$561.4 million would be recognised in 2020 and the rest of approximately HK\$317.5 million would be recognised in 2021 and beyond.

	Unexpired contract value (HK\$ Million)	Contract value to be recognised by 31 December 2019 (HK\$ Million)	Contract value to be recognised by 31 December 2020 (HK\$ Million)	Contract value to be recognised in 2021 and beyond (HK\$ Million)
Cleaning services	826.0	406.2	322.0	97.8
Landscaping services	159.9	83.6	69.1	7.2
Pest management services	75.4	30.6	35.7	9.1
Waste management and recycling services	408.2	70.2	134.6	203.4
Total	<u>1,469.5</u>	<u>590.6</u>	<u>561.4</u>	<u>317.5</u>

## PROSPECTS

Looking ahead, Baguio will remain cautious in further expanding the market presence in the environmental industry. On 14 June 2019, the Council for Sustainable Development launched the public interaction phase of the public engagement on Long-term Decarbonisation Strategy with an aim to pave the way for the building of a low-carbon society. Driven by the sustainable development initiatives by the Hong Kong Government, Baguio will leverage on our leading edge in R&D, market expertise and industry experience in cleaning, landscaping, pest management, recycling and waste management to strive for a better development with our best effort.

Many international reports and surveys show that the recycling market is booming and is gradually gaining prominence. Growing sustainability awareness, government initiatives and more stringent environmental protection regulations are driving the growth of the recycling market. Looking at the second half of 2019, with the progressive implementation of waste-to-energy infrastructure, we are hoping to see much stronger demand for the recycling market. In view of that, we believe the government will continue to explore incubating local manufacturing industries to help absorb the local recyclables generated, so as to reduce Hong Kong's reliance on waste exports. The Group will continue to look into the potential of establishing processing facilities and further expanding its footprint in the recycling sector. Through collaboration with industry experts, the Group is working to gain ground in the recycling industry by incorporating advanced technologies and experiences in order to help accelerate the development of Hong Kong's recycling industry and ultimately to develop a sustainable community that embraces the key sustainable development goals of supporting responsible consumption and production, reducing carbon emission and waste emission to the oceans, sea life as well as to the land in creating a healthier environments.

The Group is confident that the JV with Swire and ALBA will be able to process the entire domestic volume of post-consumer plastic bottles from beverage and personal care products and to further unleash other business synergies. Whereas the Group's investment in technological advancement, including building new systems and platforms, is expected to give a positive boost to business efficiency.

For close to 40 years, Baguio has been tapping into different environmental service markets and has successfully built a holistic and highly synergistic environmental services portfolio, ranging from cleaning, landscaping and pest management, to waste management and recycling. Riding on Baguio's existing collection network and resources, as well as its well-established reputation and extensive experience in the waste management industry, the Group will leverage its strong operational knowhow, advanced management system and proven track record in order to seize new business opportunities in Hong Kong and the PRC. As one of the government's closest partners in city cleaning and greening, Baguio aims to help build a clean, safe and sustainable city and to deliver greater and satisfactory returns to our shareholders.

## **FINANCIAL REVIEW**

### **Revenue**

The Group's revenue for each of the six-month periods ended 30 June 2019 and 2018 were approximately HK\$719.1 million and HK\$688.0 million respectively, representing an increase of approximately 4.5%. The increase was mainly due to the overall increase in revenue in our services segments of landscaping together with waste management and recycling with increase in number of contracts and orders during the Period.

### **Cost of Services**

For each of the six-month periods ended 30 June 2019 and 2018, the cost of services amounted to approximately HK\$676.2 million and HK\$640.6 million respectively, representing approximately 94.0% and approximately 93.1% of the Group's revenue for the corresponding periods respectively. The cost of services primarily comprised of direct wages, direct overhead expenses, material consumables and sub-contracting fees. The cost of services to the Group's revenue increased due to increase in labor costs in the market and the operating expenses incurred for the glass treatment facility and collection network, that commenced operation in May 2018.

### **Gross Profit**

The Group's gross profit for the Period was approximately HK\$42.9 million, representing a decrease of approximately 9.5% from approximately HK\$47.4 million for the corresponding period in 2018. The decrease was mainly due to the keen competition in the market, coupled with an increase in labor costs, especially in cleaning segment. The increment in cost of services was higher than that in revenue.

### **Gross Profit Margin**

The gross profit margins of the Group for each of the six-month periods ended 30 June 2019 and 2018 were approximately 6.0% and approximately 6.9% respectively. As mentioned above, the decrease in gross profit margin was mainly due to the increase in direct labor costs in light of the labor intensive nature of our businesses during the Period.

### **Change in Fair Value Less Costs to Sell of Biological Assets**

The Group's biological assets consist of trees, plants and flowers located at the Group's nurseries in the PRC and Hong Kong. The gain in fair value of biological assets for each of the six-month periods ended 30 June 2019 and 2018 were approximately HK\$1.7 million and HK\$1.5 million respectively, representing an increase of approximately 14.0%. This is due to the continuing accumulation and growth of the biological assets in the nurseries for future landscaping projects.

## **Selling and Marketing Expenses**

The selling and marketing expenses of the Group for each of the six-month periods ended 30 June 2019 and 2018 were approximately HK\$1.1 million and HK\$1.0 million respectively, representing an increase of approximately 3.7% and accounting for approximately 0.1% of the total revenue of each of the respective periods.

## **Administrative Expenses**

The administrative expenses of the Group for each of the six-month periods ended 30 June 2019 and 2018 were approximately HK\$35.9 million and HK\$31.2 million respectively, representing approximately 5.0% and approximately 4.5% of the respective period's total revenue. The increase was mainly due to the increase in the overhead and depreciation charge on expansion of office premises, and the increase of the number of administrative staff for the development of glass management and building the recycling network. The Group continued to implement its budget cost control measures for administrative expenses during the Period.

## **Finance Costs**

The finance costs amounted to approximately HK\$4.4 million and HK\$2.3 million for each of the six-month periods ended 30 June 2019 and 2018 respectively, representing approximately 0.6% and 0.3% of the Group's total revenue respectively. The increase was mainly due to the increase in the average level of bank borrowings during the Period.

## **Profit for the Period Attributable to Equity Shareholders of The Company**

The Group's net profit attributable to equity shareholders of the Company for each of the six-month periods ended 30 June 2019 and 2018 were approximately HK\$3.8 million and HK\$12.6 million respectively, representing a decrease of approximately 69.5%. The decrease was mainly due to the factors described above.

## **CAPITAL STRUCTURE**

The share capital of the Group comprises only ordinary shares. The capital structure of the Group mainly consists of borrowings from banks and lease liabilities and equity attributable to equity shareholders of the Group, comprising issued share capital and reserves.

The Directors review the capital structure regularly, taking into consideration of the cost of capital and the risks associated with the capital. The Group considers the cost of capital and the risks associated with each class of capital to monitor its capital structure on the basis of gearing ratio.

## **LIQUIDITY AND FINANCIAL RESOURCES**

The Group derives cash flows from operating activities principally from rendering comprehensive range of environmental services. For the Period, we had net cash used in operating activities of approximately HK\$8.1 million (1H2018: net cash generated from HK\$2.7 million). As at 30 June 2019, the Group had available cash and bank balances amounting to approximately HK\$20.3 million (31 December 2018: HK\$36.1 million), representing a decrease of approximately 43.7% from 31 December 2018.

As at 30 June 2019, the Group's total current assets and current liabilities were approximately HK\$451.2 million (31 December 2018: HK\$454.5 million) and HK\$432.8 million (31 December 2018: HK\$422.8 million) respectively, while the current ratio was approximately 1.0 times (31 December 2018: 1.1 times).

As at 30 June 2019, the Group's bank borrowings amounted to approximately HK\$245.4 million (31 December 2018: HK\$218.3 million), representing an increase of approximately 12.4%; the Group's lease liabilities were approximately HK\$53.1 million (31 December 2018: HK\$23.8 million), representing an increase of approximately 122.9%, for financing the acquisition of motor vehicles for operational usage and recognising lease liabilities related to the lease contracts in respect of certain office buildings as requested by the newly adopted HKFRS 16 since 1 January 2019. During the Period, no financial instruments were used for hedging purposes.

The gearing ratio of the Group was approximately 1.2 times as at 30 June 2019 (31 December 2018: 1.0 times), which was calculated based on the total interest-bearing bank borrowings and lease liabilities over total equity of the Group.

As at 30 June 2019, the Group had unutilised banking facilities of approximately HK\$150.4 million (31 December 2018: HK\$72.2 million).

## **FOREIGN CURRENCY EXPOSURE**

The Group's foreign currency exposure is limited as most of its transactions, assets and liabilities are denominated in Hong Kong dollars. During the Period, the main foreign currency exposure arose from the fluctuation in Renminbi ("RMB"). Due to the Group's PRC operation, the Group possessed RMB bank balances and a small portion of transactions were denominated in RMB.

## **CAPITAL COMMITMENT**

As at 30 June 2019, the Group had capital commitment contracted for of approximately HK\$2.0 million (31 December 2018: HK\$5.4 million) and capital commitment authorised but not contracted for of nil (31 December 2018: HK\$90.0 million).

## **CHARGES ON THE GROUP'S ASSETS**

As at 30 June 2019, the amounts payable under lease liabilities within one year was approximately HK\$15.0 million (31 December 2018: HK\$12.4 million), that after one year but with five years was approximately HK\$15.8 million (31 December 2018: HK\$11.4 million), and that over five years was approximately HK\$22.3 million (31 December 2018: Nil). Meanwhile, the Group adopted HKFRS 16 since 1 January 2019 and recognised the lease liabilities accordingly.

As at 30 June 2019, the lease liabilities of the Group of approximately HK\$16.3 million (31 December 2018: HK\$23.8 million) were guaranteed by the Company and a subsidiary of the Company.

In addition as at 30 June 2019, the Group have (i) pledged bank deposits of approximately HK\$6.1 million (31 December 2018: HK\$6.1 million); (ii) mortgage of the land and buildings of approximately HK\$74.3 million (31 December 2018: HK\$75.7 million); (iii) pledge of the financial assets at fair value through profit or loss of approximately HK\$14.0 million (31 December 2018: HK\$13.9 million); (iv) pledge of the trade receivables of approximately HK\$87.5 million (31 December 2018: HK\$78.1 million); and (v) pledge of the contract assets arising from performance under glass management contracts of approximately HK\$6.8 million (31 December 2018: HK\$7.0 million).

Save as mentioned above in this section, we did not have any outstanding mortgages or charges, borrowings or indebtedness including bank overdrafts, loans or debentures, loan capital, debt securities or other similar indebtedness, finance lease or hire purchase.

## **CONTINGENT LIABILITIES**

As at 30 June 2019, the Group did not have any material contingent liabilities.

## **ACQUISITION, DISPOSAL AND SIGNIFICANT INVESTMENT HELD**

During the Period, the Group did not make any material acquisition, disposal nor significant investment.

## **HUMAN RESOURCES**

As at 30 June 2019, the Group employed 7,856 employees. Remuneration packages were generally structured by reference to market terms and individual qualifications and experience.

During the Period, various training activities, such as training on operational safety, office and management skills, have been conducted to improve the front-end quality of services and office support. In addition, employees are also encouraged and subsidised to attend job-related seminars and course organised by professional and/or educational institutions to ensure the smooth and effective management of the Group's business.

The unaudited consolidated interim financial results of the Group for the six months ended 30 June 2019 together with the comparative figures of 2018 are as follows:

**CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND  
OTHER COMPREHENSIVE INCOME**

*For the six months ended 30 June 2019 — UNAUDITED*  
(EXPRESSED IN HONG KONG DOLLARS)

		<b>For the six months ended 30 June</b>	
		<b>2019</b>	2018
	<i>Note</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>Revenue</b>	4	<b>719,055</b>	687,999
Cost of services		<u>(676,197)</u>	<u>(640,636)</u>
<b>Gross profit</b>		<b>42,858</b>	47,363
Other income		<b>1,220</b>	344
Change in fair value less costs to sell of biological assets		<b>1,673</b>	1,468
Selling and marketing expenses		<b>(1,068)</b>	(1,030)
Administrative expenses		<u>(35,913)</u>	<u>(31,173)</u>
<b>Profit from operations</b>		<b>8,770</b>	16,972
Finance costs	5	<u>(4,436)</u>	<u>(2,281)</u>
<b>Profit before taxation</b>	6	<b>4,334</b>	14,691
Income tax	7	<u>(779)</u>	<u>(2,131)</u>
<b>Profit for the period</b>		<b>3,555</b>	12,560
<b>Other comprehensive income:</b>			
<b>Items that may be reclassified subsequently to profit or loss, net of nil tax:</b>			
Exchange differences on translation of financial statements of subsidiaries		<u>10</u>	<u>(69)</u>
<b>Total comprehensive income for the period</b>		<u><b>3,565</b></u>	<u>12,491</u>
<b>Profit for the period attributable to:</b>			
Equity shareholders of the Company		<b>3,834</b>	12,560
Non-controlling interests		<u>(279)</u>	<u>—</u>
		<u><b>3,555</b></u>	<u>12,560</u>

		<b>For the six months ended 30 June</b>	
		<b>2019</b>	2018
	<i>Note</i>	<b>HK\$'000</b>	<b>HK\$'000</b>
<b>Total comprehensive income for the period attributable to:</b>			
Equity shareholders of the Company		<b>3,844</b>	12,491
Non-controlling interests		<b>(279)</b>	–
		<u><b>3,565</b></u>	<u>12,491</u>
<b>Earnings per share</b>			
Basic and diluted (HK cents)	9	<u><b>0.92</b></u>	<u>3.03</u>

*Note:* The Group has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, comparative information is not restated. See note 3.

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION***As at 30 June 2019 — UNAUDITED*

(EXPRESSED IN HONG KONG DOLLARS)

		At 30 June 2019 <i>HK\$'000</i>	At 31 December 2018 <i>HK\$'000</i>
	<i>Note</i>		
<b>Non-current assets</b>			
Property, plant and equipment		181,913	222,794
Right-of-use assets		79,792	–
Financial assets at fair value through profit or loss		13,987	13,893
Prepayments and deposits		7,362	6,637
		<u>283,054</u>	<u>243,324</u>
<b>Current assets</b>			
Inventories		3,920	3,902
Contract assets		12,002	10,526
Trade receivables	<i>10</i>	349,689	352,779
Prepayments, deposits and other receivables	<i>11</i>	30,730	22,439
Tax recoverable		2,425	1,819
Biological assets		25,953	20,772
Pledged bank deposits		6,147	6,143
Cash and cash equivalents		20,327	36,105
		<u>451,193</u>	<u>454,485</u>
<b>Current liabilities</b>			
Trade payables	<i>12</i>	27,641	30,921
Accruals, deposits received and other payables		143,485	160,540
Bank borrowings		245,390	218,314
Lease liabilities		14,991	12,437
Tax payable		1,315	608
		<u>432,822</u>	<u>422,820</u>
<b>Net current assets</b>		<u>18,371</u>	<u>31,665</u>
<b>Total assets less current liabilities</b>		<u>301,425</u>	<u>274,989</u>

		At <b>30 June</b> <b>2019</b> <i>HK\$'000</i>	At 31 December 2018 <i>HK\$'000</i>
	<i>Note</i>		
<b>Non-current liabilities</b>			
Lease liabilities		<b>38,138</b>	11,400
Deferred tax liabilities		<b>11,255</b>	11,727
		<u><b>49,393</b></u>	<u>23,127</u>
<b>Net assets</b>		<u><b>252,032</b></u>	<u>251,862</u>
<b>Capital and reserves</b>			
Share capital	<i>13</i>	<b>4,150</b>	4,150
Reserves		<b>247,882</b>	248,673
		<u><b>252,032</b></u>	<u>252,823</u>
<b>Total equity attributable to equity shareholders of the Company</b>		<b>252,032</b>	252,823
<b>Non-controlling interests</b>		<u>–</u>	<u>(961)</u>
<b>Total equity</b>		<u><b>252,032</b></u>	<u>251,862</u>

*Note:* The Group has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, the comparative information is not restated. See note 3.

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2019 — UNAUDITED

(EXPRESSED IN HONG KONG DOLLARS)

	Attributable to equity shareholders of the Company							Non-controlling interests	Total equity
	Share capital	Share premium	Other reserve	Share option reserve	Translation reserve	Retained earnings	Total		
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2018	4,150	100,850	18,330	1,911	14	115,636	240,891	-	240,891
Profit for the period	-	-	-	-	-	12,560	12,560	-	12,560
Other comprehensive income for the period	-	-	-	-	(69)	-	(69)	-	(69)
Total comprehensive income for the period	-	-	-	-	(69)	12,560	12,491	-	12,491
Dividends approved in respect of the previous year (note 8)	-	-	-	-	-	(5,810)	(5,810)	-	(5,810)
Share options lapsed	-	-	-	(108)	-	108	-	-	-
At 30 June 2018	<u>4,150</u>	<u>100,850</u>	<u>18,330</u>	<u>1,803</u>	<u>(55)</u>	<u>122,494</u>	<u>247,572</u>	<u>-</u>	<u>247,572</u>
At 1 January 2019	<u>4,150</u>	<u>100,850</u>	<u>18,330</u>	<u>1,773</u>	<u>(137)</u>	<u>127,857</u>	<u>252,823</u>	<u>(961)</u>	<u>251,862</u>
Profit for the period	-	-	-	-	-	3,834	3,834	(279)	3,555
Other comprehensive income for the period	-	-	-	-	10	-	10	-	10
Total comprehensive income for the period	-	-	-	-	10	3,834	3,844	(279)	3,565
Acquisition of non-controlling interests in a subsidiary	-	-	-	-	-	(1,730)	(1,730)	1,240	(490)
Dividends approved in respect of the previous year (note 8)	-	-	-	-	-	(2,905)	(2,905)	-	(2,905)
Share options lapsed	-	-	-	(78)	-	78	-	-	-
At 30 June 2019	<u>4,150</u>	<u>100,850</u>	<u>18,330</u>	<u>1,695</u>	<u>(127)</u>	<u>127,134</u>	<u>252,032</u>	<u>-</u>	<u>252,032</u>

Note: The Group has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, the comparative information is not restated. See note 3.

## CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2019 — UNAUDITED

(EXPRESSED IN HONG KONG DOLLARS)

	For the six months ended 30 June	
	2019 HK\$'000	2018 HK\$'000
<b>Net cash (used in)/generated from operating activities</b>	<b>(8,110)</b>	2,677
<b>Investing activities</b>		
Payment for the purchase of property, plant and equipment	(21,015)	(27,218)
Other cash flows arising from investing activities	2,866	2,856
<b>Net cash used in investing activities</b>	<b>(18,149)</b>	(24,362)
<b>Financing activities</b>		
Proceeds from new bank borrowings	651,750	462,355
Repayment of bank borrowings	(624,674)	(437,993)
Other cash flows used in financing activities	(16,605)	(12,341)
<b>Net cash generated from financing activities</b>	<b>10,471</b>	12,021
<b>Net decrease in cash and cash equivalents</b>	<b>(15,788)</b>	(9,664)
<b>Cash and cash equivalents at the beginning of the period</b>	<b>36,105</b>	47,983
<b>Effect of foreign exchange rates changes</b>	<b>10</b>	(69)
<b>Cash and cash equivalents at the end of the period</b>	<b>20,327</b>	38,250

*Note:* The Group has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, the comparative information is not restated. See note 3.

## NOTES

### 1. GENERAL INFORMATION

The Company was incorporated with limited liability in the Cayman Islands and its shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited. The ultimate holding company of the Company is Baguio Green (Holdings) Limited, which was incorporated in the British Virgin Islands. The registered office of the Company is located at Cricket Square, Hutchins Drive, PO Box 2681, Grand Cayman KY1-1111, Cayman Islands and its principal place of business in Hong Kong is located at Unit A, 4/F., Dragon Industrial Building, No. 93 King Lam Street, Lai Chi Kok, Kowloon, Hong Kong.

The principal activity of the Company is investment holding. The principal activities of its subsidiaries are engaged in the provision of environmental and related services.

### 2. BASIS OF PREPARATION

The interim financial results set out in this announcement do not constitute the Group's interim financial report for the six months ended 30 June 2019, but are extracted from that interim financial report.

The interim financial report 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, including compliance with Hong Kong Accounting Standard ("HKAS") 34, *Interim financial reporting*, issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). It was authorised for issue on 29 August 2019.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2018 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2019 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 HKAS 34 requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts 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 2018 annual financial statements. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for a full set of financial statements prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs").

The interim financial report is unaudited, but has been reviewed by KPMG in accordance with Hong Kong Standard on Review Engagements 2410, *Review of interim financial information performed by the independent auditor of the entity*, issued by the HKICPA.

The financial information relating to the financial year ended 31 December 2018 that is included in the interim financial report as comparative information does not constitute the Company's annual consolidated financial statements for that financial year but is derived from those financial statements.

### 3. CHANGES IN ACCOUNTING POLICIES

The HKICPA has issued a new HKFRS, HKFRS 16, *Leases*, and a number of amendments to HKFRSs that are first effective for the current accounting period of the Group.

Except for HKFRS 16, *Leases*, none of the 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 results. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

The Group has initially applied HKFRS 16 as from 1 January 2019. The Group has elected to use the modified retrospective approach and has therefore recognised lease liabilities and corresponding right-of-use assets of HK\$38,423,000 in relation to leases previously classified as operating leases. Property, plant and equipment of HK\$67,006,000 held previously under finance leases were reclassified to right-of-use assets on 1 January 2019. There is no impact on the opening balance of the Group's equity as at 1 January 2019. Comparative information has not been restated and continues to be reported under HKAS 17.

So far as the impact of the adoption of HKFRS 16 on leases previously classified as finance leases is concerned, the Group is not required to make any adjustments at the date of initial application of HKFRS 16, other than changing the captions for the balances. Accordingly, instead of "Obligations under finance leases", these amounts are included within "Lease liabilities".

### 4. SEGMENT INFORMATION

Information reported to the executive directors, being the chief operating decision maker, for the purposes of resource allocation and assessment of segment performance focuses on types of services provided. The Group has identified four reportable segments. No operating segments have been aggregated to form the following reportable segments:

- Cleaning services business
- Landscaping services business
- Pest management business
- Waste management and recycling business

Information regarding the Group's reportable segments is presented below.

## Segment revenue and results

Segment results represent the earnings from each segment before interest, taxation and administrative expenses including directors' emoluments and exclude other income and change in fair value less costs to sell of biological assets. The following is an analysis of the Group's revenue and results by reportable segments.

	Cleaning services business <i>HK\$'000</i>	Landscaping services business <i>HK\$'000</i>	Pest management business <i>HK\$'000</i>	Waste management and recycling business <i>HK\$'000</i>	Total <i>HK\$'000</i>
<b>Six months ended 30 June 2019</b>					
Revenue from external customers and reportable segment revenue recognised over time	<u>513,481</u>	<u>97,183</u>	<u>27,584</u>	<u>80,807</u>	<u>719,055</u>
Segment results	<u>13,634</u>	<u>18,178</u>	<u>2,621</u>	<u>7,357</u>	<u>41,790</u>
Other income					1,220
Change in fair value less costs to sell of biological assets					1,673
Administrative expenses					(35,913)
Finance costs					(4,436)
Profit before taxation					<u><u>4,334</u></u>
	Cleaning services business <i>HK\$'000</i>	Landscaping services business <i>HK\$'000</i>	Pest management business <i>HK\$'000</i>	Waste management and recycling business <i>HK\$'000</i>	Total <i>HK\$'000</i>
<b>Six months ended 30 June 2018</b>					
Revenue from external customers and reportable segment revenue recognised over time	<u>518,240</u>	<u>85,329</u>	<u>23,456</u>	<u>60,974</u>	<u>687,999</u>
Segment results	<u>23,642</u>	<u>14,645</u>	<u>2,720</u>	<u>5,326</u>	<u>46,333</u>
Other income					344
Change in fair value less costs to sell of biological assets					1,468
Administrative expenses					(31,173)
Finance costs					(2,281)
Profit before taxation					<u><u>14,691</u></u>

## Segment assets and liabilities

Segment assets include all assets attributable to the activities of the individual segments, with the exception of intercompany receivables and other corporate assets. Segment liabilities include all liabilities attributable to the activities of the individual segments, with the exception of intercompany payables and corporate liabilities. The segment assets and liabilities at the end of the reporting period by reportable segments are as follows:

	Cleaning services business <i>HK\$'000</i>	Landscaping services business <i>HK\$'000</i>	Pest management business <i>HK\$'000</i>	Waste management and recycling business <i>HK\$'000</i>	Total <i>HK\$'000</i>
<b>As at 30 June 2019</b>					
Segment assets	413,461	122,078	28,848	164,928	729,315
Unallocated					4,932
Total assets					<u>734,247</u>
Segment liabilities	352,737	32,543	17,426	75,067	477,773
Unallocated					4,442
Total liabilities					<u>482,215</u>
	Cleaning services business <i>HK\$'000</i>	Landscaping services business <i>HK\$'000</i>	Pest management business <i>HK\$'000</i>	Waste management and recycling business <i>HK\$'000</i>	Total <i>HK\$'000</i>
<b>As at 31 December 2018</b>					
Segment assets	429,398	106,432	26,105	131,647	693,582
Unallocated					4,227
Total assets					<u>697,809</u>
Segment liabilities	359,663	29,921	14,701	40,427	444,712
Unallocated					1,235
Total liabilities					<u>445,947</u>

## Geographical information

All of the Group's businesses are carried out in Hong Kong and the Group's revenue from external customers is generated in Hong Kong during the interim period.

## 5. FINANCE COSTS

	For the six months ended 30 June	
	2019 HK\$'000	2018 HK\$'000
Interest on:		
Bank overdrafts	7	18
Bank loans	3,885	1,621
Lease liabilities	1,014	642
	<hr/>	<hr/>
Total interest expenses	4,906	2,281
Less: Capitalised interest expenses	(470)	–
	<hr/>	<hr/>
	<b>4,436</b>	<b>2,281</b>
	<hr/> <hr/>	<hr/> <hr/>

# The borrowing costs have been capitalised at a rate of 3.88% per annum during the six months ended 30 June 2019.

## 6. PROFIT BEFORE TAXATION

	For the six months ended 30 June	
	2019 HK\$'000	2018# HK\$'000
Profit before taxation is arrived at after charging/(crediting):		
Cost of consumables goods	23,368	21,988
(Reversal of)/credit losses on trade receivables	(43)	–
Depreciation#		
– owned property, plant and equipment	13,937	8,882
– property, plant and equipment held under finance lease	–	4,586
– right-of-use assets	5,606	–
(Gain)/loss on disposal of property, plant and equipment	(19)	17
Government grants*	(111)	(202)
	<hr/>	<hr/>
Staff costs (including directors' remuneration):		
Wages, salaries and other benefits	573,190	541,881
Provision for long service payments	8,230	4,487
Provision for untaken paid leave	4,808	6,084
Contributions to defined contribution retirement scheme	17,385	17,012
	<hr/>	<hr/>
	<b>603,613</b>	<b>569,464</b>
	<hr/> <hr/>	<hr/> <hr/>
Total minimum lease payments for leases previously classified as operating leases under HKAS 17#		
Land and buildings	–	2,335
	<hr/>	<hr/>
Short-term lease payments not included in the measurement of lease liabilities		
Machinery and motor vehicles	15,721	15,330
Land and buildings	2,261	572
	<hr/>	<hr/>
	<b>17,982</b>	<b>15,902</b>
	<hr/> <hr/>	<hr/> <hr/>

- # The Group has initially applied HKFRS 16 at 1 January 2019 using the modified retrospectively approach. Under this approach, comparative information is not restated. See note 3.
- \* Government grants of HK\$111,000 (six months ended 30 June 2018: HK\$202,000) were granted during the six months ended 30 June 2019 in respect of phasing out certain diesel commercial vehicles by the Group. There were no unfulfilled conditions and other contingencies attached to the receipt of those grants. There is no assurance that the Group will continue to receive such grant in the future.

## 7. INCOME TAX

	<b>For the six months ended 30 June</b>	
	<b>2019</b>	2018
	<i>HK\$'000</i>	<i>HK\$'000</i>
Current tax:		
Hong Kong Profits Tax	<b>1,250</b>	1,519
Deferred tax	<u>(471)</u>	<u>612</u>
	<u><b>779</b></u>	<u>2,131</u>

The provision for Hong Kong Profits Tax is calculated by applying the estimated annual effective tax rate of 16.5% (2018: 16.5%) to the six months ended 30 June 2019, except for one subsidiary of the Group which is a qualifying corporation under the two-tiered Profits Tax rate regime.

For this subsidiary, the first HK\$2 million of assessable profits are taxed at 8.25% and the remaining assessable profits are taxed at 16.5%. The provision for Hong Kong Profits Tax for this subsidiary was calculated at the same basis in 2018.

## 8. DIVIDENDS

	<b>For the six months ended 30 June</b>	
	<b>2019</b>	2018
	<i>HK\$'000</i>	<i>HK\$'000</i>
Final dividend in respect of the previous financial year, was approved and recognised during the following interim period, of HK0.7 cents (six months ended 30 June 2018: HK1.4 cents) per ordinary share	<u><b>2,905</b></u>	<u>5,810</u>

The directors of the Company do not recommend the payment of any interim dividend for the six months ended 30 June 2019 (six months ended 30 June 2018: Nil).

## 9. EARNINGS PER SHARE

### (a) Basic earnings per share

The calculation of the basic earnings per share is based on the profit for the period attributable to ordinary equity shareholders of the Company of HK\$3,834,000 (six months ended 30 June 2018: HK\$12,560,000) and the weighted average number of 415,000,000 (six months ended 30 June 2018: 415,000,000) ordinary shares in issue during the interim period.

### (b) Diluted earnings per share

Diluted earnings per share were same as the basic earnings per share as there were no potential dilutive ordinary shares in existence during the interim period.

## 10. TRADE RECEIVABLES

The ageing analysis of trade receivables based on the invoice date (or date of revenue recognition, if earlier) and net of loss allowance at the end of the reporting period is as follows:

	At 30 June 2019 <i>HK\$'000</i>	At 31 December 2018 <i>HK\$'000</i>
Within 60 days	267,468	259,559
Over 60 days but within 120 days	63,489	68,719
Over 120 days but within 365 days	18,561	23,355
Over 365 days	171	1,146
	<u>349,689</u>	<u>352,779</u>

In general, for the contracts with some quasi-government organisations and The Government of the Hong Kong Special Administrative Region, the Group has no specific credit terms in accordance with the tender terms. For other contracts, the Group normally allows a credit period ranging from 30 to 60 days depending on the customers' creditworthiness and the length of business relationship.

## 11. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

Included in prepayments, deposits and other receivables as at 30 June 2019 is a gross amount of HK\$4,500,000 (31 December 2018: HK\$4,500,000) due from Shanghai Genyuan Environmental Co., Limited ("Shanghai Genyuan", a company principally engaged in harmless treatment of organic wastes and resources utilisation in the People's Republic of China) in respect of a refundable deposit in relation to the proposed acquisition of certain equity interest in Shanghai Genyuan. The proposed acquisition was terminated during year ended 31 December 2016 as the Group could not reach an agreement with the seller on certain crucial terms. During the year ended 31 December 2017, the Group agreed with Shanghai Genyuan on the repayment schedule of the outstanding balance but certain scheduled payments were subsequently defaulted. The Group has taken legal action against Shanghai Genyuan and the guarantors, and a loss allowance of HK\$2,250,000 continued to be recognised as at 30 June 2019 (31 December 2018: HK\$2,250,000), based on the latest development of the case.

## 12. TRADE PAYABLES

The ageing analysis of trade payables based on the invoice date at the end of each reporting period is as follow:

	At <b>30 June</b> <b>2019</b> <i>HK\$'000</i>	At 31 December 2018 <i>HK\$'000</i>
Within 30 days	<b>19,246</b>	16,561
Over 30 days but within 60 days	<b>4,733</b>	10,913
Over 60 days but within 90 days	<b>722</b>	987
Over 90 days	<b>2,940</b>	2,460
	<u><b>27,641</b></u>	<u>30,921</u>

The credit period on purchases of certain goods and services is generally within 30 to 60 days.

## 13. SHARE CAPITAL

	Number of shares '000	Nominal value <i>HK\$'000</i>
<b>Authorised:</b> <i>Ordinary shares of HK\$0.01 each</i>		
As at 1 January 2018, 31 December 2018, 1 January 2019 and 30 June 2019	<u>1,000,000</u>	<u>10,000</u>
<b>Issued and fully paid:</b> <i>Ordinary shares of HK\$0.01 each</i>		
As at 1 January 2018, 31 December 2018, 1 January 2019 and 30 June 2019	<u>415,000</u>	<u>4,150</u>

## **PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES**

During the Period, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

## **CORPORATE GOVERNANCE**

The Company is committed to maintain high standards of corporate governance to safeguard the interests of shareholders and to enhance corporate value and accountability. The Company has complied with all applicable code provisions under the Corporate Governance Code (the "CG Code") as set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules") throughout the six months ended 30 June 2019. The Company will continue to review and enhance its corporate governance practices to ensure compliance with the CG Code.

## **MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS**

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules as its own code of conduct regarding directors' securities transactions. Having made specific enquiries with all directors of the Company, each of the directors has confirmed that he/she has complied with the required standards as set out in the Model Code throughout the six months ended 30 June 2019.

## **AUDIT COMMITTEE**

The primary duties of the audit committee of the Company ("Audit Committee") is to review the effectiveness of the Group's financial reporting process and risk management and internal control systems, and to oversee the audit and review process of the external auditor. The Audit Committee currently consists of three independent non-executive directors of the Company.

The Audit Committee has reviewed with the management of the Company the accounting principles and practices adopted by the Group, and discussed risk management and internal controls and financial reporting matters including a review of the interim results of the Group for the Period.

## **PUBLICATION OF INTERIM RESULTS AND INTERIM REPORT**

This interim results announcement will be published on the websites of the Stock Exchange ([www.hkex.com.hk](http://www.hkex.com.hk)) and the Company ([www.baguio.com.hk](http://www.baguio.com.hk)). The interim report of the Company for the Period will be despatched to the shareholders of the Company as well as published on the websites of the Stock Exchange and the Company in due course.

By order of the Board of  
**Baguio Green Group Limited**  
**Ng Wing Hong**  
*Chairman*

Hong Kong, 29 August 2019

*As at the date of this announcement, the Board comprises Mr. Ng Wing Hong, Ms. Ng Yuk Kwan Phyllis, Mr. Ng Wing Chuen, Ms. Leung Shuk Ping, Ms. Chan Shuk Kuen and Ms. Cheung Siu Chun as executive Directors and Mr. Sin Ho Chiu, Dr. Law Ka Hung and Mr. Lau Chi Yin Thomas as independent non-executive Directors.*