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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)

**ANNOUNCEMENT OF FINAL RESULTS
FOR THE YEAR ENDED 31 DECEMBER 2016**

FINANCIAL SUMMARY

- Revenue for the year ended 31 December 2016 amounted to approximately HK\$1,094.8 million (2015: HK\$1,224.9 million), representing a decrease of approximately 10.6% as compared with the preceding year.
- Gross profit for the year ended 31 December 2016 was approximately HK\$95.6 million (2015: HK\$94.9 million), representing an increase of approximately 0.7% as compared with the preceding year.
- Net profit for the year ended 31 December 2016 was approximately HK\$25.0 million (2015: HK\$24.1 million), representing an increase of approximately 3.8% as compared with the preceding year.
- A final dividend of HK1.7 cents (2015: HK1.7 cents) per share, totalling HK\$7,055,000 (2015: HK\$7,055,000) was recommended by the Board for the year ended 31 December 2016.

The board (the “Board”) of directors (the “Directors”) of Baguio Green Group Limited (the “Company”) is pleased to announce the consolidated annual results of the Company and its subsidiaries (the “Group” or “Baguio”) for the year ended 31 December 2016 (the “Year”).

CHAIRMAN'S STATEMENT

On behalf of the Board, it is my pleasure to present the consolidated results of the Group for the Year.

2016 represented a year of challenges, dedication and hard work, with Baguio facing keen competition from local/regional players particularly in the cleaning business. Despite suffering from a drop in revenue as a result, the Group was able to improve its gross profit and net profit, both in net value terms and in margin terms, by leveraging on our leading market position, efficient operating scale, strong brand equity, as well as established financing channels. To further differentiate from price competition while making our business more sustainable in the future, Baguio has aimed, and would continue to aim to extend its servicing offerings to previously untapped market, expand its servicing capability through technological advancement, and in the meantime, looking into other strategic M&As and collaborations in widening its business dimension and geographical footprint.

Extend Service Portfolio into Niche Yet High Margin Market

While Baguio has one of the most comprehensive offering in integrated environmental services in Hong Kong, it is important for the Group to further increase its customer stickiness in an ever-competitive market. Hence, during the Year, the Group made serious efforts in extending its service portfolio to previously untapped segments, such as aircraft cleaning, the operation of waste transfer station and resources recycling, where clients were looking for a reputable brand with quality services, but with limited options in the market.

In February 2016, the Group was able to achieve a breakthrough in its business extension plan, by winning a contract to provide aircraft internal cleaning services to reputable airlines. Such kind of service demands a high operational efficiency, servicing quality, and equipment/investment support, thus creating a natural entry barrier to some smaller-scale competitors. On the other hand, the Group has also made good progress on the waste management and recycling front. Being the only HK-based company in the tendering of the waste transfer station, along with our successful tender of Christmas tree and peach blossom tree recycling, Baguio has been placed above its competition in terms of operational experiences and future tender ability, demonstrating our dedication in service and margin expansion.

Enrich Technological Capability to Prepare for Future Business Development

In order to move further away from price competition, Baguio has been actively raising its technological level, particularly in its Landscaping business and other environmental projects, in an attempt of doing more and better. During the Year, the Group was able to double the size and raise the quality of its plant nursery in the People's Republic of China (the "PRC"). Not only would this allow Baguio reduce the raw material cost of purchasing from external vendors, it would also provide the necessary quality assurance to our clients.

Advanced environmental project is also one of the key directions that Baguio would actively explore. Project such as biowaste-to-energy and the harmless treatment of organic waste, although did not come to fruition, provided valuable insights, technological know-hows, and operational experiences for future tender. Meanwhile, Baguio is also looking into the possibility of pairing with some engineering companies in Hong Kong/PRC in enhancing its technological ability, potentially venturing into the waste water treatment and recycling business. Currently still in the early negotiation stage, we have identified a number of potential partners, with the aim of delivering new applications, as well as new recycling technologies to the market in 2017. Together with our experiences in environmental services, Baguio is well-equipped for the technology-driven market in the future.

Prospects

Looking forward to the future, the Group has identified the waste management and recycling business as one of the key growth drivers, and would aim to continue its encouraging performance by leveraging on Baguio's brand equity and technological capabilities. Supported by an increasing private sector contribution, an expanding public education programs, and favourable government initiatives such as the organic waste collection, glass bottle collection, municipal waste charging scheme, as well as the establishment of the recycling fund, we believe that the market is ready to make the transition from initiation to commercialization. This, in return, would create various business opportunities in which established players such as Baguio would be ready to partake.

In addition, the Group also sees great potentials in the landscaping business, as there is a rising requirement of greening in various public and private works. With the support of our expanding plant nursery and professional arborists, Baguio would be well-equipped to capture future market opportunities. Lastly, the Group would continue to explore the possibilities of M&As and strategic collaborations, looking to further widen its service mix and geographical coverage in an attempt to deliver long term shareholder value.

Appreciation

I would like to take this opportunity to express my sincere gratitude towards the Baguio team, whose support and dedication has been crucial in delivering another year of fruitful results. I would also like to extend the gratitude to our shareholders and business partners, for their support and faith in the Group. Together, I am confident that Baguio will rise against challenges and achieve brighter results in the coming year.

MANAGEMENT DISCUSSION & ANALYSIS

BUSINESS REVIEW

Directed by the Group's core dual-growth strategies, namely business diversification and geographical expansion, the Year was full of new experiences to Baguio. As an industry leader of Hong Kong's integrated environmental services, Baguio has been providing a wide range of comprehensive environmental services, diverging from cleaning, landscaping and pest management to waste management and recycling. To further solidify the Group's position in these core businesses, while differentiating itself from price competition, Baguio is actively exploring new business opportunities in specialised markets where clients are looking for a renowned brand with experience and quality services.

During the Year, the Group successfully brought itself to the next level by venturing into the specialised cleaning services, amidst the highly competitive cleaning servicing market. In February 2016, the Group gained a new contract to provide aircraft internal cleaning services to certain reputable airlines. This kind of specialised cleaning service demands stronger operational and management skills, as well as industry leading service quality, thus, creating threshold against smaller-scale market participants. On the waste management and recycling front, the Group, for the first time, involved in yard waste collection through a contract won in November 2016 to collect Christmas trees and peach blossoms for the Environmental Protection Department. These accomplishments could not be made without the Group's commitment in winning clients' utmost trust.

In addition to the existing businesses, the Group aspired to look for potential projects in environmental services related segments to widen its services scope and business dimension. During the Year, the Group made its foray into participation of a government tender of waste transfer station management and operation. It was also the first time of the Group partnering with an overseas environmental services expert, further enriching the Group's technical experiences in different areas.

With the solid business foundation in Hong Kong, Baguio also saw huge potential in the environmental services market in the PRC. Cities in the PRC started to progressively outsource the municipal cleaning services, waste management as well as recycling services to private service providers. During the Year, the Group examined the feasibility of the plan and proactively looked into the possibility of cooperation with local operators. Supported by its technical know-how, management expertise, financing capability and well-established reputation, Baguio plans to capture this blue ocean opportunity.

Market Review

Waste reduction and recycling have become an inevitable trend among the globe. To catch up with this global trend, the Hong Kong SAR Government stepped up in public education on waste management, particularly on recycling, food waste and waste reduction, in 2016. Also, more environmental protection schemes and policies are coming into place, such as the avocation of municipal solid waste charging scheme, the initiation of the Food Waste Hong Kong scheme, the construction of the organic waste treatment facilities, the legislation of Producer Responsibility Scheme for glass beverage bottles, as well as the opening of “T • PARK” (the first waste-to-energy facility in Hong Kong), and hence, significantly aroused the public’s attention to the importance of environmental protection. During the Year, the Group’s recycling centre in Fanling gained reputation in the industry and attentions from the government. Over 40 corporates and 200 visitors paid visits to the Fanling recycling centre during the Year, including high ranking government officials, renowned corporations, media and public. The Board noted a rising need of a total waste management solution. A wider scope of waste management services is, therefore, required to answer the increasing demand in both public and private sectors, which opened the door for the Group to further delve into the waste management services market in various aspects.

The 13th Five Year Plan (the “Plan”) was officially implemented in 2016. In the Plan, the PRC Government has again positioned “Green Development” as one of the top five items prioritised in the agenda, demonstrating the PRC Government’s determination to pursuit a greener and more sustainable development. Coupled with the raising public awareness on creating a clean environment, the Plan has unleashed the market potential for the Group to explore opportunities in the environmental services market in the PRC.

Results

Revenue of the Group decreased by 10.6% from approximately HK\$1,224.9 million for the year ended 31 December 2015 to approximately HK\$1,094.8 million for the Year. The Group, however, significantly decreased the cost of service by 11.6% to approximately HK\$999.2 million and recorded a modest increment of 0.7% in gross profit to approximately HK\$95.6 million (2015: approximately HK\$94.9 million). Gross profit margin also increased by 1.0% to 8.7%, mainly attributable to the Group’s strategic move of selectively choosing more favourable tenders, as well as the optimised operation efficiency through computerisation of manual processes. Profit attributable to equity shareholders of the Company (“Shareholders”) amounted to approximately HK\$25.0 million, representing an increase of 3.8% year-on-year for the Year (2015: approximately HK\$24.1 million) while the net profit margin slightly increased by 0.3% to 2.3% (2015: 2.0%). Earnings per share was 6 HK cents (2015: 6 HK cents).

Final Dividend

The Board recommends the payment of a final dividend for the Year at 1.7 HK cents (2015: 1.7 HK cents) per share, totalling HK\$7,055,000 (2015: HK\$7,055,000), subject to approval by the Shareholders at the forthcoming annual general meeting (“Annual General Meeting”) of the Company to be held on 2 June 2017. If so approved by the Shareholders, it is expected that the final dividend will be paid out on or around 23 June 2017 to the Shareholders whose names appear on the register of members of the Company on 8 June 2017.

Revenue breakdown of major business segments

	For the year ended				<i>Change</i>
	31 December 2015		31 December 2016		
	<i>Revenue</i>	<i>% of total</i>	<i>Revenue</i>	<i>% of total</i>	
	<i>(HK\$ Million)</i>	<i>revenue</i>	<i>(HK\$ Million)</i>	<i>revenue</i>	
Cleaning	911.1	74.4%	803.4	73.4%	-11.8%
Landscaping	144.1	11.8%	123.4	11.3%	-14.4%
Pest management	80.9	6.6%	52.5	4.8%	-35.1%
Waste management and recycling	88.8	7.2%	115.5	10.5%	+30.0%
Total	<u>1,224.9</u>	<u>100.0%</u>	<u>1,094.8</u>	<u>100.0%</u>	<u>-10.6%</u>

Gross profit margin of major business segments

	For	For	<i>Change</i>
	the year ended	the year ended	
	31 December	31 December	
	2015	2016	
	<i>Gross profit</i>	<i>Gross profit</i>	
	<i>margin</i>	<i>margin</i>	
Cleaning	6.0%	6.4%	+0.4p.p.
Landscaping	17.0%	17.0%	–
Pest management	7.5%	13.1%	+5.6p.p.
Waste management and recycling	11.2%	14.4%	+3.2p.p.
Overall	7.7%	8.7%	+1.0p.p.

Riding on our professional management, quality services and stringent control in safety precaution, the Group continued to maintain a high tender rate at 35% in the Year. In terms of business segments, the Group has delivered encouraging results in its waste management and recycling business segment by achieving 30.0% revenue growth for the Year, by leveraging on its genuine effort in gaining renewal contracts and new contracts. During the Year, the Group successfully renewed four contracts with the Food and Environmental Hygiene Department in providing recyclable waste collection services from three-coloured recycling bins in all 18 districts of Hong Kong. The contract was effective from August 2016 for a 2-year period, and the total contract value amounted to approximately HK\$22.4 million. On top of these, the Group also obtained a new contract with the Environmental Protection Department regarding the collection of Christmas trees and peach blossoms during Christmas and Lunar New Year periods. Together with the continuous enhancement in the operation efficiency of the recycling centre in Fanling, the segment gross profit margin raised 3.2% to 14.4% in the Year.

In spite of the drop in revenue in the cleaning, landscaping and pest management businesses, the Group managed to boost or maintain each segment's gross profit margin with the selective tendering strategy and the continuous implementation of internal measures on streamlining the operation.

Contract on-hand

As of 31 December 2016, the Group has a total amount of approximately HK\$1,474.8 million worth of unexpired contracts on hand. Among which, approximately HK\$821.4 million will be recognised by the end of 2017; approximately HK\$461.1 million will be recognised in 2018 and the rest of approximately HK\$192.3 million will be recognised in 2019 and beyond.

	Backlog contract value <i>(HK\$ Million)</i>	Contract value to be recognised by 31 December 2017 <i>(HK\$ Million)</i>	Contract value to be recognised by 31 December 2018 <i>(HK\$ Million)</i>	Contract value to be recognised in 2019 and beyond <i>(HK\$ Million)</i>
Cleaning services	1,030.2	594.7	364.6	70.9
Landscaping services	149.8	108.6	31.9	9.3
Pest management services	35.7	27.5	6.0	2.2
Waste management and recycling services	259.1	90.6	58.6	109.9
Total	<u>1,474.8</u>	<u>821.4</u>	<u>461.1</u>	<u>192.3</u>

PROSPECTS

Riding on its dual-growth strategies, Baguio aims to become a one-stop value added environmental services solutions provider via synergising its core business segments, particularly the waste management and recycling segment and landscaping segment. Foreseeing the imminent saturation of landfills, the Hong Kong government has redoubled its recent efforts in propelling the implementation of related environmental initiatives, such as food waste and organic waste collection, glass beverage bottles collection and municipal waste charging scheme. Supported by such favorable policies, there are various business opportunities yet to be explored in the market. In order to grasp the market, Baguio continues to equip itself with enhanced waste management technologies and facilities, aiming to cover the entire supply chain from waste collection to downstream waste reprocessing. By combining the technological capabilities together with the Group's strong track records in large-scale tendering, Baguio would be able to enjoy the first-mover advantage for future tenders, and in return, continue its outstanding results in waste management and recycling.

On the other hand, the growing economy in the PRC has led to an improving living standard, along with an increasing environmental awareness of the community. This, in return, creates a rising demand on environmental services, including cleaning, landscaping, pest control and waste management and recycling services, in both public and private sectors. With the Central Government's re-emphasis on "Green Development", as well as the intention to gradually privatise public environmental services on the municipal level, the marketplace is going to be vibrant with plenty of potentials. Being a leading cleaning and environmental services provider with experienced management and strong industry knowledge, the Group is ready to venture into the market by partnering with local experts or strategic merger and acquisition.

In addition to the existing business segments, creating new revenue streams remains as one of the Group's key focuses. The Group will look into the possibility of participating in various projects, such as waste water treatment, organic waste treatment plant, waste transfer station and downstream recycling product business, through strategic collaboration with overseas experts. In light of Baguio's strong track record, quality services and management system, the Directors believe that the synergies between the Group's businesses will further cement the Group's foundation for sustainable development. Lastly, the Group will also continue to maintain its capital commitment and to better allocate its resources, in order to support the Group's development plan.

FINANCIAL REVIEW

Revenue

The Group's revenue for each of the years ended 31 December 2016 and 2015 was approximately HK\$1,094.8 million and HK\$1,224.9 million, respectively, representing a decrease of approximately 10.6%. The decrease was mainly due to more non-renewed contracts during the Year in our services segments of cleaning, landscaping and pest management. On the other hand, revenue in our waste management and recycling service segment has recorded considerable growth.

Cost of Services

For each of the years ended 31 December 2016 and 2015, the cost of services of the Group amounted to approximately HK\$999.2 million and HK\$1,130.0 million respectively, representing approximately 91.3% and 92.3% of the Group's revenue for the corresponding years. Our cost of services primarily comprised direct wages, direct overhead expenses, consumables and sub-contracting fees. The cost of services in proportion to the Group's revenue has decreased as the Group was successful in implementing cost control measures and changing its tendering approach to focus on more profitable contracts.

Gross Profit

The Group's gross profit for the Year was approximately HK\$95.6 million, representing an increase of approximately 0.7% from approximately HK\$94.9 million in the year ended 31 December 2015. The increase was mainly due to decrease in cost of services of the Group.

Gross Profit Margin

The gross profit margins of the Group for the years ended 31 December 2016 and 2015 were approximately 8.7% and 7.7% respectively. As mentioned above, the increase in gross profit margin was mainly attributable to better cost control measures implemented by the Group during the Year.

Change in Fair Value of Biological Assets

The Group's biological assets are represented by the trees, plants and flowers located at the Group's nurseries in the PRC and Hong Kong. The gains in fair value of the Group's biological assets for the years ended 31 December 2016 and 2015 were approximately HK\$1.7 million and HK\$0.9 million respectively, representing an increase of approximately 82.4%. This is due to the continuing accumulation and growth of the biological assets in the nurseries.

Selling and Marketing Expenses

The selling and marketing expenses incurred by the Group for the years ended 31 December 2016 and 2015 were approximately HK\$2.0 million and HK\$2.5 million respectively, representing a decrease of approximately 17.6%, and accounting for approximately 0.2% of each year's total revenue. This was mainly because the Group's more actively controlled spending for its public and investors' relationships function.

Administrative Expenses

The administrative expenses incurred by the Group for the years ended 31 December 2016 and 2015 were approximately HK\$63.1 million and HK\$61.8 million respectively, representing an increase of approximately 2.1%, and approximately 5.8% and 5.0% of the respective year's total revenue. The increase was mainly attributable to the increase in wages and allowances and other office and overhead expenses during the Year. The Group continues to implement its budgeted cost control measures for administrative expenses.

Finance Costs

The finance costs of the Group amounted to approximately HK\$5.3 million and HK\$7.6 million for the years ended 31 December 2016 and 2015 respectively, representing approximately 0.5% and approximately 0.6% of the Group's revenue in the respective year.

Profit for the Year Attributable to Equity Shareholders of The Company

The Group's profit attributable to Shareholders of the Company for the years ended 31 December 2016 and 2015 were approximately HK\$25.0 million and HK\$24.1 million respectively, representing an increase of approximately 3.8%. The increase was primarily attributable to increase in gross profit and change in fair value of biological assets with the factors described above.

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 Year, 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.

LIQUIDITY AND FINANCIAL RESOURCES

The Group derives cash flow from operating activities principally from rendering a comprehensive range of environmental services. For the Year, we had net cash generated from operating activities of approximately HK\$64.2 million (2015: HK\$50.6 million). The Group had available cash and bank balances amounting to approximately HK\$55.7 million as at 31 December 2016 (31 December 2015: HK\$90.3 million), representing a decrease of approximately 38.3% from 31 December 2015. The Group's bank borrowings were approximately HK\$82.5 million as at 31 December 2016 (31 December 2015: HK\$135.4 million), representing a decrease of approximately 39.1% from 31 December 2015. As at 31 December 2016, the Group's finance lease payables were approximately HK\$56.9 million (31 December 2015: HK\$66.2 million) for financing the acquisition of motor vehicles for operation use. During the Year, no financial instruments were used for hedging purposes (2015: nil).

As at 31 December 2016, the Group's total current assets and current liabilities were approximately HK\$348.9 million (31 December 2015: HK\$384.9 million) and HK\$247.0 million (31 December 2015: HK\$296.4 million) respectively, while the current ratio was approximately 1.4 times (31 December 2015: approximately 1.3 times).

The gearing ratio of the Group was approximately 0.6 times as at 31 December 2016 (31 December 2015: 1.0 times), which was calculated based on the total interest-bearing bank borrowings and obligations under finance leases over total equity of the Group.

CAPITAL EXPENDITURES AND CAPITAL COMMITMENT

For the Year, our capital expenditures which mainly included additions in motor vehicles and equipment amounted to approximately HK\$26.2 million (2015: HK\$28.5 million). These capital expenditures were funded by borrowings from bank and finance companies, funds generated from our operating activities and capital contributions from our shareholders through the initial public offering of the Company.

As at 31 December 2016, the Group had capital commitment of approximately HK\$0.7 million (31 December 2015: HK\$1.4 million) in respect of the acquisition of motor vehicles, office equipment and machinery contracted but not provided in the financial statements.

CONTINGENT LIABILITIES

In prior years, a legal action was taken against the Group for a claim of approximately HK\$3.2 million in respect of a personal injury taken place in the servicing area of the Group. The claim was still outstanding and the Group was in the process of negotiation with the claimant for the settlement as at 31 December 2016. Subsequently in January 2017, the Group received a revised claim of approximately HK\$6.0 million based on an updated assessment of the loss by the claimant as a result of the injury. Based on the advice from the Group's legal counsel, the Group estimated that it would be liable to pay approximately HK\$0.9 million for the settlement of the claim and accordingly, such amount was provided for as at 31 December 2016 and included in the Group's consolidated statement of financial position as "Accruals, deposits received and other payables".

USE OF PROCEEDS

The shares of the Company were listed on The Stock Exchange of Hong Kong Limited on 22 May 2014 and the Group raised net proceeds of approximately HK\$90.0 million. The plans for the use of net proceeds were stated in the Company's prospectus dated 12 May 2014 (the "Prospectus") and subsequently changed in 2015 as stated in the Company's announcement dated 31 December 2015. During the period between the date of the listing of the shares of the Company to 31 December 2016, the net proceeds were used for the following purposes:

Summary of use of proceeds

	Available <i>(HK\$ Million)</i>	Utilised <i>(HK\$ Million)</i>	Unutilised <i>(HK\$ Million)</i>
Acquisition of vehicles and equipment for expanding and broadening for existing services	18.4	18.4	–
Development and expansion of waste management and recycling services	9.9	9.9	–
Enhancing operation efficiency and quality services	11.7	11.7	–
Working capital and other general purposes	35.0	35.0	–
Investment in potential projects	15.0	–	15.0
	<u>90.0</u>	<u>75.0</u>	<u>15.0</u>

As at 31 December 2016, the unutilised proceeds were deposited in licensed banks in Hong Kong.

CHARGES ON THE GROUP'S ASSETS

As at 31 December 2016, the amounts payable under finance leases within one year was approximately HK\$21.6 million (31 December 2015: HK\$23.7 million), and after one year but within five years was approximately HK\$35.3 million (31 December 2015: HK\$42.4 million).

As at 31 December 2016, the obligations under finance leases of the Group were guaranteed by the Company and a subsidiary of the Company.

In addition, we have (i) pledged bank deposits of approximately HK\$5.1 million as at 31 December 2016 (31 December 2015: HK\$5.1 million); (ii) mortgage of the Group's leasehold land and buildings of approximately HK\$17.2 million as at 31 December 2016 (31 December 2015: HK\$17.7 million); (iii) pledge of the Group's available-for-sale financial assets of approximately HK\$13.3 million as at 31 December 2016 (31 December 2015: HK\$12.9 million); and (iv) pledge of the Group's trade receivables of approximately HK\$72.1 million as at 31 December 2016 (31 December 2015: HK\$113.2 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.

ACQUISITION, DISPOSAL AND SIGNIFICANT INVESTMENT HELD

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

HUMAN RESOURCES

As at 31 December 2016, the Group employed 7,967 employees, including both full time and part time (31 December 2015: 8,658). Remuneration packages are generally structured by reference to market terms, individual qualifications and experience.

During the Year, various training activities, such as training on operational safety, team building, administrative and management skills, were conducted to improve the quality of front-end services, office support and management. In additions, employees are also encouraged, subsidised and sponsored to attend job-related seminars and courses organised by professional and/or educational institution to ensure the smooth and effective management of the Group's business.

The consolidated annual results of the Group for the year ended 31 December 2016 together with the comparative figures of 2015 are as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2016

	<i>Note</i>	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Revenue	5	1,094,788	1,224,887
Cost of services		<u>(999,234)</u>	<u>(1,129,974)</u>
Gross profit		95,554	94,913
Other income	6	3,933	4,646
Change in fair value less costs to sell of biological assets		1,729	948
Selling and marketing expenses		(2,025)	(2,458)
Administrative expenses		<u>(63,092)</u>	<u>(61,766)</u>
Profit from operations		36,099	36,283
Finance costs	7	<u>(5,340)</u>	<u>(7,552)</u>
Profit before taxation	8	30,759	28,731
Income tax	9	<u>(5,748)</u>	<u>(4,645)</u>
Profit for the year attributable to equity shareholders of the Company		25,011	24,086
Other comprehensive income:			
Items that may be reclassified subsequently to profit or loss, net of nil tax:			
Exchange differences on translation of financial statements of subsidiaries		(120)	–
Change in fair value of available-for-sale financial assets		<u>345</u>	<u>402</u>
Other comprehensive income		<u>225</u>	<u>402</u>
Total comprehensive income for the year attributable to equity shareholders of the Company		<u>25,236</u>	<u>24,488</u>
Earnings per share			
Basic and diluted (HK\$)	<i>11</i>	<u>0.06</u>	<u>0.06</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2016

	<i>Note</i>	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Non-current assets			
Property, plant and equipment		156,628	161,734
Interest in associate		150	–
Available-for-sale financial assets		13,286	12,941
Pledged bank deposits		–	5,137
		170,064	179,812
Current assets			
Inventories		4,942	4,955
Trade receivables	<i>12</i>	251,905	269,620
Prepayments, deposits and other receivables		21,521	13,147
Biological assets		9,700	6,820
Tax recoverable		–	20
Pledged bank deposits		5,140	–
Cash and cash equivalents		55,735	90,346
		348,943	384,908
Current liabilities			
Trade payables	<i>13</i>	26,979	23,654
Accruals, deposits received and other payables		114,473	120,810
Bank borrowings		82,499	126,177
Obligations under finance leases		21,601	23,726
Tax payable		1,471	2,017
		247,023	296,384
Net current assets		101,920	88,524
Total assets less current liabilities		271,984	268,336
Non-current liabilities			
Bank borrowings		–	9,204
Obligations under finance leases		35,306	42,440
Deferred tax liabilities		10,507	9,688
		45,813	61,332
Net assets		226,171	207,004
Capital and reserves			
Share capital	<i>14</i>	4,150	4,150
Reserves		222,021	202,854
Total equity		226,171	207,004

NOTES

1. GENERAL INFORMATION

The Company was incorporated as an exempted company with limited liability in the Cayman Islands on 8 November 2013. The ultimate holding company of the Company is Baguio Green (Holding) Limited, which was incorporated in the British Virgin Islands (“BVI”). 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 service.

2. BASIS FOR PREPARATION

The financial information set out in this announcement does not constitute the Group’s statutory financial statements for the year ended 31 December 2016, but is derived from those financial statements.

The financial statements have been prepared in accordance with the same accounting policies adopted in the 2015 annual financial statements, except for the changes in accounting policies set out in note 3.

The measurement basis used in the preparation of the financial statements is the historical costs. The financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards, which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards and Interpretations issued by the Hong Kong Institute of Certified Public Accountants, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Exchange of Hong Kong Limited (“Listing Rules”).

3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

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

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

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 HK\$'000	Landscaping services business HK\$'000	Pest management business HK\$'000	Waste management and recycling business HK\$'000	Total HK\$'000
Year ended 31 December 2016					
Revenue from external customers and reportable segment revenue	<u>803,365</u>	<u>123,395</u>	<u>52,488</u>	<u>115,540</u>	<u>1,094,788</u>
Segment results	<u>49,239</u>	<u>20,917</u>	<u>6,899</u>	<u>16,474</u>	<u>93,529</u>
Other income					3,933
Change in fair value less costs to sell of biological assets					1,729
Administrative expenses					(63,092)
Finance costs					<u>(5,340)</u>
Profit before taxation					<u><u>30,759</u></u>
	Cleaning services business HK\$'000	Landscaping services business HK\$'000	Pest management business HK\$'000	Waste management and recycling business HK\$'000	Total HK\$'000
Year ended 31 December 2015					
Revenue from external customers and reportable segment revenue	<u>911,062</u>	<u>144,080</u>	<u>80,896</u>	<u>88,849</u>	<u>1,224,887</u>
Segment results	<u>53,026</u>	<u>24,513</u>	<u>5,178</u>	<u>9,738</u>	<u>92,455</u>
Other income					4,646
Change in fair value less costs to sell of biological assets					948
Administrative expenses					(61,766)
Finance costs					<u>(7,552)</u>
Profit before taxation					<u><u>28,731</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 HK\$'000	Landscaping services business HK\$'000	Pest management business HK\$'000	Waste management and recycling business HK\$'000	Total HK\$'000
As at 31 December 2016					
Segment assets	305,119	64,346	33,923	105,213	508,601
Unallocated					10,406
Total assets					519,007
Segment liabilities	187,954	29,634	21,993	50,792	290,373
Unallocated					2,463
Total liabilities					292,836
	Cleaning services business HK\$'000	Landscaping services business HK\$'000	Pest management business HK\$'000	Waste management and recycling business HK\$'000	Total HK\$'000
As at 31 December 2015					
Segment assets	324,921	60,013	58,183	97,147	540,264
Unallocated					24,456
Total assets					564,720
Segment liabilities	239,516	30,305	36,991	48,125	354,937
Unallocated					2,779
Total liabilities					357,716

Other segment information

	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>	Unallocated <i>HK\$'000</i>	Total <i>HK\$'000</i>
For the year ended						
31 December 2016						
Depreciation of property, plant and equipment	9,620	992	2,362	10,462	143	23,579
Additions to non-current assets	6,552	2,564	184	16,673	250	26,223
Loss on disposal of property, plant and equipment	156	248	112	184	1	701

	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>	Unallocated <i>HK\$'000</i>	Total <i>HK\$'000</i>
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For the year ended
31 December 2015

Depreciation of property, plant and equipment	11,016	1,016	3,104	9,326	99	24,561
Additions to non-current assets	13,111	933	202	14,040	214	28,500
Loss on disposal of property, plant and equipment	747	362	16	282	2	1,409

Geographical information

No geographical information is presented as 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 years ended 31 December 2016 and 2015.

Information about major customers

For the year ended 31 December 2016, the Group's revenue of HK\$646,680,000 (2015: HK\$837,765,000) for various segments was derived from two customers (2015: two), each of whom has individually accounted for over 10% of the Group's total revenue, which are disclosed as follows:

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Customer A	286,846	452,516
Customer B	359,834	385,249
	646,680	837,765

5. REVENUE

The principal activity of the Group is environmental and related service. The amount of each significant category of revenue recognised is as follows:

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Cleaning services	803,365	911,062
Landscaping services	123,395	144,080
Pest management services	52,488	80,896
Waste management and recycling services	115,540	88,849
	<u>1,094,788</u>	<u>1,224,887</u>

6. OTHER INCOME

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Government grants*	3,593	4,002
Interest income	136	10
Sundry income	204	634
	<u>3,933</u>	<u>4,646</u>

* Government grants of HK\$3,593,000 (2015: HK\$4,002,000) were granted during the year ended 31 December 2016 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. FINANCE COSTS

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Interest on:		
Bank overdrafts	2	6
Bank loans	3,124	4,770
Obligations under finance leases	2,214	2,776
	<u>5,340</u>	<u>7,552</u>

8. PROFIT BEFORE TAXATION

Profit before taxation has been arrived at after charging:

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Auditors' remuneration:		
Audit services	1,200	780
Other services	80	160
Depreciation of property, plant and equipment:		
Owned by the Group	11,508	13,000
Held under finance leases	12,071	11,561
Loss on disposal of property, plant and equipment	701	1,409
Cost of consumable goods	44,443	51,195
	<u> </u>	<u> </u>
Staff costs (including directors' remuneration):		
Wages, salaries and other benefits	836,884	958,537
Provision for long service payments	2,559	1,878
Provision for untaken paid leave	9,622	10,509
Contributions to defined contribution retirement scheme	28,516	32,955
Equity-settled share-based payments	986	210
	<u> </u>	<u> </u>
	<u>878,567</u>	<u>1,004,089</u>
	<u> </u>	<u> </u>
Operating lease rentals: minimum lease payments		
Hire of machinery and motor vehicles	19,597	18,086
Land and buildings	4,909	4,264
	<u> </u>	<u> </u>
	<u>24,506</u>	<u>22,350</u>
	<u> </u>	<u> </u>

9. INCOME TAX

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Current tax — Hong Kong Profits Tax		
Provision for the year	4,929	5,068
Deferred tax		
Origination and reversal of temporary differences	819	(423)
	<u> </u>	<u> </u>
	<u>5,748</u>	<u>4,645</u>
	<u> </u>	<u> </u>

The provision for Hong Kong Profits Tax for the year ended 31 December 2016 is calculated at 16.5% (2015: 16.5%) of the estimated assessable profits for the year.

10. DIVIDENDS

(a) Dividends payable to equity shareholders of the Company attributable to the year

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Final dividend proposed after the end of the reporting period of HK1.7 cents (2015: HK1.7 cents) per ordinary share	<u>7,055</u>	<u>7,055</u>

The final dividend proposed after the end of the reporting period has not been recognised as a liability at the end of the reporting period.

(b) Dividends payable to equity shareholders of the Company attributable to the previous financial year, approved and paid during the year

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Final dividend in respect of the previous financial year, approved and paid during the year, of HK1.7 cents (2015: HK1.3 cents) per ordinary share	<u>7,055</u>	<u>5,395</u>

11. EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of the basic earnings per share for the year ended 31 December 2016 is based on the profit for the year attributable to ordinary equity shareholders of the Company of HK\$25,011,000 (2015: HK\$24,086,000) and the weighted average number of 415,000,000 (2015: 415,000,000) ordinary shares in issue during the year.

(b) Diluted earnings per share

Diluted earnings per share for the years ended 31 December 2016 and 2015 were the same as the basic earnings per share as there were no potential dilutive ordinary shares in existence during the years.

12. TRADE RECEIVABLES

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

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Within 60 days	189,624	231,343
Over 60 days but within 120 days	53,575	24,381
Over 120 days but within 365 days	7,651	13,702
Over 365 days	<u>1,055</u>	<u>194</u>
	<u>251,905</u>	<u>269,620</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.

13. TRADE PAYABLES

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

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Within 30 days	15,906	15,744
Over 30 days but within 60 days	6,635	2,894
Over 60 days but within 90 days	535	672
Over 90 days	3,903	4,344
	<u>26,979</u>	<u>23,654</u>

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

14. SHARE CAPITAL

	Number of shares '000	Nominal value <i>HK\$'000</i>
Authorised: <i>Ordinary shares of HK\$0.01 each</i> As at 1 January 2015, 31 December 2015, 1 January 2016 and 31 December 2016	<u>1,000,000</u>	<u>10,000</u>
Issued and fully paid: <i>Ordinary shares of HK\$0.01 each</i> As at 1 January 2015, 31 December 2015, 1 January 2016 and 31 December 2016	<u>415,000</u>	<u>4,150</u>

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All ordinary shares rank equally with regard to the Company's residual assets.

POST BALANCE SHEET EVENTS

The Group had no material event subsequent to the end of the Year and up to the date of this announcement.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed tentatively from Monday, 29 May 2017 to Friday, 2 June 2017, both days inclusive, during which period no transfer of shares of the Company will be registered. To be eligible to attend and vote at the Annual General Meeting, all transfer forms accompanied by the relevant share certificates must be lodged with the Company's Hong Kong Branch Share Registrar, Tricor Investor Services Limited of Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:30 p.m. on Friday, 26 May 2017 or at another time and/or date as advised.

The register of members of the Company will be closed tentatively from Thursday, 8 June 2017 to Friday, 9 June 2017, both days inclusive, during which period no transfer of shares of the Company will be registered. In order for the Shareholders to qualify for the proposed final dividend, all transfer forms accompanied by the relevant share certificates must be lodged with the Company's Hong Kong Branch Share Registrar, Tricor Investor Services Limited of Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:30 p.m. on Wednesday, 7 June 2017.

CORPORATE GOVERNANCE

The Company is committed to maintaining 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 Listing Rules throughout the Year. The Company will continue to review and enhance its corporate governance practices to ensure compliance with the CG Code.

Information on the corporate governance practices adopted by the Company is set out in the Corporate Governance Report in the Group's 2016 annual report to be published in due course.

AUDIT COMMITTEE

The audit committee has reviewed with the management of the Company the consolidated annual results of the Group for the Year, and reviewed the effectiveness of the risk management and internal control system of the Company with the management of the Company.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the “Model Code”) as set out in Appendix 10 to the Listing Rules as its own code of conduct regarding directors’ securities transactions. Having made specific enquiries with all Directors, each of the Directors confirmed that he/she has complied with the Model Code throughout the Year.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

Neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the Company’s listed securities during the Year.

SCOPE OF WORK OF KPMG

The financial figures in respect of the Group’s consolidated statement of financial position, consolidated statement of profit or loss and other comprehensive income and the related notes thereto for the Year as set out in the preliminary announcement of the Group’s results for the Year have been compared by the Group’s auditor, KPMG, Certified Public Accountants, to the amounts set out in the Group’s draft consolidated financial statements for the Year and the amounts were found to be in agreement. The work performed by KPMG in this respect did not constitute an audit, review or other assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by the auditor.

PUBLICATION OF FINAL RESULTS AND ANNUAL REPORT

This final results announcement will be published on the websites of The Stock Exchange of Hong Kong Limited (www.hkex.com.hk) and the Company (www.baguio.com.hk). The annual report of the Company for the Year will be despatched to the Shareholders as well as published on the websites of The Stock Exchange of Hong Kong Limited and the Company in due course.

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

Hong Kong, 30 March 2017

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 of the Company and Mr. Sin Ho Chiu, Dr. Law Ka Hung and Mr. Lau Chi Yin Thomas as independent non-executive directors of the Company.