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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 2018**

FINANCIAL SUMMARY

- Revenue for the year ended 31 December 2018 amounted to approximately HK\$1,429.5 million (2017: HK\$1,207.6 million), representing an increase of approximately 18.4% as compared with the preceding year.
- Gross profit for the year ended 31 December 2018 was approximately HK\$92.9 million (2017: HK\$97.3 million), representing a decrease of approximately 4.5% as compared with the preceding year.
- Profit attributable to shareholders of the Group for the year ended 31 December 2018 was approximately HK\$17.9 million (2017: HK\$20.6 million), representing a decrease of approximately 13.2% as compared with the preceding year.
- A final dividend of HK0.7 cents (2017: HK1.4 cents) per share, totalling HK\$2,905,000 (2017: HK\$5,810,000) was recommended by the Board for the year ended 31 December 2018.

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 2018 (the “Year”).

MANAGEMENT DISCUSSION & ANALYSIS

MARKET REVIEW

In view of population growth and economic development, Hong Kong's municipal solid waste ("MSW") generation has been continuously increasing, with its daily per capita domestic waste generation rate remaining at a significantly higher level comparing to neighboring Asian cities at similar degree of economic development. To tackle this problem, Hong Kong, as an international city, is obligated to take a more proactive approach in motivating the public to achieve waste recycling and waste reduction, as to divert recyclables away from landfills. After carefully considering the global trend, the Hong Kong Special Administrative Region (the "HKSAR") Government (the "Government") has implemented a basket of initiatives such as the Producer Responsibility Scheme ("PRS") on glass beverage containers, a proposed PRS on plastic bottles and the MSW Charging Scheme, etc., all encouraging the public and community to participate in source separation of waste as to minimize waste disposal and promote resources recovery. On the other hand, as the Government strives to create a welcoming competitive environment for the environmental services industry in the HKSAR, it has been actively refining the tendering process, with an aim to transforming it into an open, fair and transparent procedure. The aforementioned measures demonstrated the Government's determination in advancing the development of the recycling industry, laying an ideal operating environment for Baguio's one-stop waste management and recycling business.

BUSINESS REVIEW

The Year was challenging to Baguio as Baguio experienced a more intense competition from local and regional players particularly in the cleaning business sector. The Group's gross profit was adversely affected. However, this didn't prevent Baguio from devoting its commitment in exploring opportunities in the recycling business and stepping up from a recyclable waste collector to be one of the key players in processing of recyclable wastes in Hong Kong. Although the initial expenses in these new projects would temporarily narrow the segment profit, Baguio believes that the waste cycling and processing segment will be the future growth driver and the efforts made at this stage will be rewarded.

Close to 40 years, Baguio has been tapping into different environmental service markets and successfully built a holistic and highly synergistic environmental services portfolio, ranging from cleaning, landscaping and pest management, to waste management and recycling. Further from gaining its first glass management contract and obtaining a tender lease in EcoPark for expanding its plastic waste recycling business in 2017, the Group kicked off the establishment of a glass and plastic bottles collection network during the Year. The glass waste treatment plant in Tuen Mun commenced operation in May 2018 and it adopted the advanced technology to produce glass cullets which can be used for the production of eco-friendly materials such as eco-paving blocks.

For waste composting, we continue to provide services to collect and deliver animal manure to the Animal Waste Composting Plant (the “AWCP”) at Ngau Tam Mei and to operate the AWCP in composting the collected animal waste and turning it into organic compost which is then sold to third parties or reused in our landscaping business. In addition, Baguio has again showcased its competitive edge, as it has for the third time consecutively gained the contracts from the Environmental Protection Department of Hong Kong to recycle yard waste, namely Christmas tree and peach blossoms. Riding on its well-established collection network, Baguio is able to extend its recycling services to stable waste, yard waste, and glass and plastic wastes. Such service extension further demonstrated the Group’s dedication and capability in tapping into new markets.

As for its landscaping business, the Group is expecting a strong demand in the coming years, especially after the introduction of greening policy from the Government. As there is an increasing trend of Government entities outsourcing landscaping contracts to professional services providers in the recent years, together with the rising living standard and the increasing demand for a cleaner living environment, Baguio is expecting a growing demand of landscaping services from the commercial, industrial, government and residential sectors, which will provide a strong growth momentum for the Group’s business.

In order to stand out from the competition under an ever-changing and increasingly-regulated business environment, Baguio will continue to improve its management system, professional vocation training, and IT system. With its extensive network, strong operational support, advanced technological capabilities and strong track records in large scale tendering, Baguio would be able to enjoy first-mover advantage for future tenders.

Results

For the Year, the Group’s revenue was approximately HK\$1,429.5 million, indicating a stable growth of approximately 18.4% from approximately HK\$1,207.6 million for the corresponding period of 2017, mainly attributable to the Group’s dedicated efforts in gaining new and renewal contracts. Gross profit decreased by approximately 4.5% to approximately HK\$92.9 million (2017: HK\$97.3 million) and gross profit margin decreased by 1.6 percentage points (“p.p”) to approximately 6.5% (2017: 8.1%). Decline in gross profit margin was mainly due to the increase in labor costs, particular in the cleaning segment. In addition, we continued to widen and deepen our recycling business where initial operating expenses were incurred for the new glass treatment plant and the building of collection network. Profit attributable to shareholders of the Company amounted to approximately HK\$17.9 million, representing a year-on-year decline of approximately 13.2% (2017: HK\$20.6 million), with net profit margin decreased by 0.5 p.p to approximately 1.2% (2017: 1.7%). Earnings per share was HK4.3 cents (2017: HK5.0 cents).

Final Dividend

The Board recommends the payment of a final dividend for the Year at HK0.7 cents (2017: HK1.4 cents) per ordinary share, totalling HK\$2,905,000 (2017: HK\$5,810,000), subject to approval by the shareholders of the Company (the “Shareholders”) at the forthcoming annual general meeting (the “Annual General Meeting”) of the Company to be held on 13 June 2019. If so approved by the Shareholders, it is expected that the final dividend will be paid out on or around 5 July 2019 to the Shareholders whose names appear on the register of members of the Company on 20 June 2019.

Revenue breakdown of major business segments

	For the year ended				Change
	31 December 2018		31 December 2017		
	<i>Revenue</i>	<i>% of</i>	<i>Revenue</i>	<i>% of total</i>	
	<i>(HK\$ million)</i>	<i>total revenue</i>	<i>(HK\$ million)</i>	<i>revenue</i>	
Cleaning	1,065.1	74.5%	903.1	74.8%	+17.9%
Landscaping	186.1	13.0%	155.7	12.9%	+19.5%
Pest management	44.3	3.1%	39.5	3.3%	+12.3%
Waste management and recycling	134.0	9.4%	109.3	9.0%	+22.5%
Total	<u>1,429.5</u>	<u>100.0%</u>	<u>1,207.6</u>	<u>100.0%</u>	+18.4%

Gross profit margin of major business segments

	For the year ended 31 December 2018	For the year ended 31 December 2017	Change
	<i>Gross profit margin</i>	<i>Gross profit margin</i>	
Cleaning	4.3%	6.2%	-1.9 p.p
Landscaping	16.2%	16.4%	-0.2 p.p
Pest management	10.9%	12.6%	-1.7 p.p
Waste management and recycling	8.9%	9.9%	-1.0 p.p
Overall	6.5%	8.1%	-1.6 p.p

Riding on our professional management, quality services and stringent control in safety precaution, the Group continued to maintain a high tender success rate at approximately 38% in 2018 (2017: 37%). During the Year, 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 the overall service segments, especially in its waste management and recycling as well as the landscaping segments by achieving approximately 22.5% and 19.5% revenue growth respectively. With the increasing demand for professional landscaping and arboriculture services, the landscaping segment still maintained high gross profit margin. The overall gross profit margin dropped from approximately 8.1% to approximately 6.5% mainly due to increase in labor costs, especially in the cleaning segment and initial operating expenses were incurred for the glass treatment facility and collection network.

In addition, the Group successfully obtained three contracts from the Food and Environmental Hygiene Department of Hong Kong for provision of cleaning and supporting services and renewed a contract with the Airport Authority Hong Kong. Other than the provision of general cleaning services, we continuously strived to expand our services scope in order to enhance our competitiveness. In the waste management and recycling segment, although the initial operating expenses incurred for the new glass treatment plant and the building of collection network with the new glass management contracts affected the gross profit margin, we shall continue to widen and deepen our recycling business which we expect to exhibit major growth in the near future.

Contracts on hand

As of 31 December 2018, the Group had a total amount of approximately HK\$1,701.2 million worth of unexpired contracts on hand, of which, approximately HK\$1,028.3 million will be recognised by the end of 2019, approximately HK\$393.3 million will be recognised in 2020 and the rest of approximately HK\$279.6 million will be recognised in 2021 and beyond.

	Backlog 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	956.4	690.1	201.7	64.6
Landscaping services	243.2	174.7	57.0	11.5
Pest management services	28.1	26.3	1.3	0.5
Waste management and recycling services	473.5	137.2	133.3	203.0
	<hr/>	<hr/>	<hr/>	<hr/>
Total	1,701.2	1,028.3	393.3	279.6
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PROSPECTS

Looking forward, Baguio will continue to uphold its core philosophy to maintain a “Clean & Green” environment for the society, and remain focused on its core businesses in Hong Kong, especially in the waste management and recycling business. Supported by the green measures and policies from the Government, the Group believes that total waste management solution would become an enormous market for the Group to tap into.

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 is glad to announce that it will be partnering with ALBA Group Asia Limited (“ALBA”), and Swire Beverages Holdings Limited (“Swire Beverages”) to form a joint venture (“JV”) for the operation of a state-of-the-art recycling facility for plastic waste in Hong Kong, which is expected to commence operations in the third quarter of 2020. The facility is planned to be able to process the entire domestic volume of post-consumer plastic beverage plastic bottles and personal care plastic bottles, which are collectable in the foreseeable future. As the JV will ride on the strength of Baguio’s domestic collection network in Hong Kong, ALBA’s recycling technology expertise and Swire Beverages’ strength in the domestic beverages market, the Group believes that this has placed the Group in an advanced position in capturing future opportunities from related segments, while offering the platform for it to expand upstream and downstream along the waste management value chain. For further details of the JV, please refer to the announcement of the Company dated 21 January 2019.

In addition to its solid business foundation in Hong Kong, Baguio also sees huge potential in the environmental services market in the People’s Republic of China (“PRC”), especially in the Greater Bay Area, as the demand for green and environmental protection services in the area is likely to grow. The Group will leverage its market-leading position in Hong Kong, as well as its strong operational knowhow, advanced management system and proven track record in order to secure future tender in the PRC. Adding that to the already-sustainable businesses in Hong Kong, the Group is in a good position to be thriving in the future.

Baguio will also keep a keen eye for potential strategic partnership or investment, along with suitable mergers and acquisitions to integrate and improve its existing business portfolio, as to accumulate operational experiences, reach out to niche markets, and eventually, making continuous contribution to the protection of global environment. Through the aforementioned strategies, the Group will aim to further unleash business synergies, and deliver greater and sustainable returns to the Shareholders.

FINANCIAL REVIEW

Revenue

The Group’s revenue for the years ended 31 December 2018 and 2017 was approximately HK\$1,429.5 million and HK\$1,207.6 million, respectively, representing an increase of approximately 18.4%. The increase was mainly due to the overall increase in revenue in all services segments.

Cost of Services

For the years ended 31 December 2018 and 2017, the cost of services of the Group amounted to approximately HK\$1,336.6 million and HK\$1,110.3 million respectively, representing approximately 93.5% and 91.9% of the Group's revenue for the corresponding years respectively. The 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 increased due to increase in labor costs in the market during the Year and the initial operating expenses incurred for the glass treatment facility and collection network.

Gross Profit

The Group's gross profit for the Year was approximately HK\$92.9 million, representing a decrease of approximately 4.5% from approximately HK\$97.3 million for the year ended 31 December 2017. The decrease was mainly due to the keen competition in the market, coupled with an increase in labor costs, especially in the 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 the years ended 31 December 2018 and 2017 were approximately 6.5% and 8.1% 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 business during the Year.

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 the Group's biological assets for the years ended 31 December 2018 and 2017 were approximately HK\$7.8 million and HK\$2.0 million respectively, representing an increase of approximately 2.8 times. 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 the years ended 31 December 2018 and 2017 were approximately HK\$2.9 million and HK\$1.8 million respectively, representing an increase of approximately 63.1%. The increase was mainly due to the increased promotional activities and channels to promote our recycling business and to enhance the public awareness of environmental protection and waste recycling.

Administrative Expenses

The administrative expenses of the Group for the years ended 31 December 2018 and 2017 were approximately HK\$73.7 million and HK\$68.8 million respectively, representing an increase of approximately 7.2%, and approximately 5.2% and 5.7% of the respective year's total revenue. The increase was mainly due to the increase in overhead with 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 continues to implement its budget cost control measures for administrative expenses during the Year. As disclosed in note 13 in this announcement, a loss allowance of approximately HK\$2.3 million was recognised for the year ended 31 December 2017 (2018: Nil).

Finance Costs

The finance costs of the Group amounted to approximately HK\$5.8 million and HK\$4.3 million for the years ended 31 December 2018 and 2017 respectively, representing approximately 0.4% of each year's total revenue.

Profit for the Year Attributable to Equity Shareholders of The Company

The Group's profits attributable to the equity shareholders of the Company for the years ended 31 December 2018 and 2017 were approximately HK\$17.9 million and HK\$20.6 million respectively, representing a decrease of approximately 13.2%. The decrease was primarily due to 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 used in operating activities of approximately HK\$5.5 million (2017: generated from operating activities of HK\$27.4 million). The Group had available cash and bank balances amounting to approximately HK\$36.1 million as at 31 December 2018 (2017: HK\$48.0 million), representing a decrease of approximately 24.8%.

As at 31 December 2018, the Group's total current assets and current liabilities were approximately HK\$454.5 million (2017: HK\$369.4 million) and HK\$422.8 million (2017: HK\$280.4 million) respectively, while the current ratio was approximately 1.1 times (2017: 1.3 times). The liquidity position is maintained at a healthy level.

As at 31 December 2018, the Group's bank borrowings amounted to approximately HK\$218.3 million (2017: HK\$108.7 million), representing an increase of approximately 100.8%; the Group's finance lease payables were approximately HK\$23.8 million (2017: HK\$42.4 million) representing a decrease of approximately 43.7%, for financing the acquisition of motor vehicles for operation use. During the Year, no financial instruments were used for hedging purposes (2017: Nil).

The gearing ratio of the Group was approximately 1.0 times as at 31 December 2018 (2017: 0.6 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, capital expenditures, which mainly included additions in office premises, motor vehicles and equipment, amounted to approximately HK\$89.6 million (2017: HK\$38.3 million). Capital expenditures of approximately HK\$6.4 million in relation to the development of glass management project were funded by the proceeds of the initial public offering of the shares of the Company. Other capital expenditures were funded by banks, finance companies and funds generated from our operating activities.

As at 31 December 2018, the Group had capital commitment contracted for of approximately HK\$5.4 million (2017: HK\$3.3 million) and capital commitment authorised but not contracted for of approximately HK\$90.0 million (2017: HK\$100.0 million).

CONTINGENT LIABILITIES

As at 31 December 2018, the Group did not have any material contingent liabilities.

USE OF PROCEEDS

The shares of the Company were listed on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) on 22 May 2014 and the Company raised net proceeds of approximately HK\$90.0 million. During the period between the date of the listing of the shares of the Company to 31 December 2018, 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	–
Development in glass and plastic management projects	15.0	15.0	–
	<u>90.0</u>	<u>90.0</u>	<u>–</u>

CHARGES ON THE GROUP’S ASSETS

As at 31 December 2018, the amounts payable under finance leases within one year amounted to approximately HK\$12.4 million (2017: HK\$18.3 million), and that after one year but within five years amounted to approximately HK\$11.4 million (2017: HK\$24.1 million).

As at 31 December 2018, the obligations under finance leases of the Group were guaranteed by the Company and a subsidiary of the Company.

In addition, as at 31 December 2018, we have (i) pledged bank deposits of approximately HK\$6.1 million (2017: HK\$5.1 million); (ii) mortgage of the Group’s leasehold land and buildings of approximately HK\$75.7 million (2017: HK\$29.9 million); (iii) pledge of the other property, plant and equipment of approximately HK\$26.5 million (2017: Nil); (iv) pledge of the Group’s financial assets at fair value through profit or loss of approximately HK\$13.9 million (2017: available-for-sale financial assets of HK\$13.6 million); (v) pledge of the Group’s trade receivables of approximately HK\$78.1 million (2017: HK\$37.8 million); and (vi) pledge of the Group’s contract assets arising from performance under glass management contracts of approximately HK\$7.0 million (2017: Nil).

Save as mentioned above, 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 2018, the Group employed 8,715 employees (2017: 8,853 employees), including both full time and part time. 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 addition, 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 2018 together with the comparative figures of 2017 are as follows:

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

For the year ended 31 December 2018

	<i>Note</i>	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
Revenue	5	1,429,480	1,207,640
Cost of services		<u>(1,336,550)</u>	<u>(1,110,294)</u>
Gross profit		92,930	97,346
Other income	6	978	1,046
Change in fair value less costs to sell of biological assets	14	7,785	2,026
Selling and marketing expenses		(2,893)	(1,774)
Administrative expenses		<u>(73,748)</u>	<u>(68,800)</u>
Profit from operations		25,052	29,844
Finance costs	7	<u>(5,780)</u>	<u>(4,293)</u>
Profit before taxation	8	19,272	25,551
Income tax	9	<u>(2,830)</u>	<u>(4,935)</u>
Profit for the year		16,442	20,616
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		(151)	134
Change in fair value of available-for-sale financial assets (<i>note (ii)</i>)		<u>–</u>	<u>310</u>
Other comprehensive income		<u>(151)</u>	<u>444</u>
Total comprehensive income for the year		<u>16,291</u>	<u>21,060</u>
Profit for the year attributable to:			
Equity shareholders of the Company		17,893	20,616
Non-controlling interests		<u>(1,451)</u>	<u>–</u>
		<u>16,442</u>	<u>20,616</u>

	<i>Note</i>	2018 HK\$'000	2017 HK\$'000
Total comprehensive income for the year attributable to:			
Equity shareholders of the Company		17,742	21,060
Non-controlling interests		(1,451)	–
		<u>16,291</u>	<u>21,060</u>
Earnings per share			
Basic and diluted (HK cents)	<i>11</i>	<u>4.31</u>	<u>4.97</u>

Notes:

- (i) The Group has initially applied HKFRS 15 and HKFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information is not restated.
- (ii) This amount arose under the accounting policies applicable prior to 1 January 2018. As part of the opening balance adjustments as at 1 January 2018 the balance of this reserve has been reclassified to retained earnings and will not be reclassified to profit or loss in any future periods.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2018

	<i>Note</i>	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
Non-current assets			
Property, plant and equipment		222,794	167,210
Available-for-sale financial assets		–	13,596
Financial assets at fair value through profit or loss		13,893	–
Prepayments and deposits		6,637	5,764
		<u>243,324</u>	<u>186,570</u>
Current assets			
Inventories		3,902	4,539
Contract assets		10,526	–
Trade receivables	12	352,779	285,889
Prepayments, deposits and other receivables	13	22,439	13,830
Tax recoverable		1,819	–
Biological assets	14	20,772	12,031
Pledged bank deposits		6,143	5,141
Cash and cash equivalents		36,105	47,983
		<u>454,485</u>	<u>369,413</u>
Current liabilities			
Trade payables	15	30,921	21,125
Accruals, deposits received and other payables		160,540	131,051
Bank borrowings		218,314	108,712
Obligations under finance leases		12,437	18,289
Tax payable		608	1,218
		<u>422,820</u>	<u>280,395</u>
Net current assets		<u>31,665</u>	<u>89,018</u>
Total assets less current liabilities		<u>274,989</u>	<u>275,588</u>
Non-current liabilities			
Obligations under finance leases		11,400	24,067
Deferred tax liabilities		11,727	10,630
		<u>23,127</u>	<u>34,697</u>
Net assets		<u>251,862</u>	<u>240,891</u>
Capital and reserves			
Share capital	16	4,150	4,150
Reserves		248,673	236,741
		<u>252,823</u>	<u>240,891</u>
Total equity attributable to equity shareholders of the Company		<u>252,823</u>	<u>240,891</u>
Non-controlling interests		(961)	–
		<u>251,862</u>	<u>240,891</u>
Total equity		<u>251,862</u>	<u>240,891</u>

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 (Holding) 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 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 2018, but is derived from those financial statements.

The financial statements have been prepared in accordance with the same accounting policies adopted in the 2017 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 ("HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. The 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. CHANGES IN ACCOUNTING POLICIES

(a) Overview

The HKICPA has issued a number of new HKFRSs and amendments to HKFRSs that are first effective for the current accounting period of the Group. Of these, the following developments are relevant to the Group's financial statements:

- HKFRS 9, *Financial instruments*
- HKFRS 15, *Revenue from contracts with customers*
- HK(IFRIC) 22, *Foreign currency transactions and advance consideration*

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

The Group has been impacted by HKFRS 9 in relation to classification of financial assets and measurement of credit losses, and impacted by HKFRS 15 in relation to timing of revenue recognition, capitalisation of contract costs, significant financing components in transactions with customers and presentation of contract assets and contract liabilities. The adoption of HKFRS 9 and 15 does not have a significant impact to the Group's result and financial position, except for the classification of financial assets and presentation of contract assets and liabilities, which are discussed in notes 3(b) and 3(c) respectively.

Under the transition methods chosen, the Group recognises cumulative effect of the initial application of HKFRS 9 and HKFRS 15 as an adjustment to the opening balance of equity at 1 January 2018. Comparative information is not restated.

(b) Classification of financial assets

The impacts of transition to HKFRS 9 to the Group in respect of the classification of financial assets are as follows:

- investments in life insurance held by the Group of HK\$13,596,000 at 31 December 2017, which were classified as available-for-sale financial assets under HKAS 39, were reclassified as financial assets at fair value through profit or loss at 1 January 2018; and
- debit balance of available-for-sale financial assets revaluation reserve amounting to HK\$83,000 at 31 December 2017 was transferred to retained earnings at 1 January 2018.

(c) Presentation of contract assets and liabilities

According to HKFRS 15, a receivable is recognised only if the Group has an unconditional right to consideration. If the Group recognises the related revenue before being unconditionally entitled to the consideration for the promised goods and services in the contract, then the entitlement to consideration is classified as a contract asset. Similarly, a contract liability, rather than a payable, is recognised when a customer pays consideration, or is contractually required to pay consideration and the amount is already due, before the Group recognises the related revenue. For a single contract with the customer, either a net contract asset or a net contract liability is presented. For multiple contracts, contract assets and contract liabilities of unrelated contracts are not presented on a net basis.

Previously, contract balances relating to service contracts in progress were presented in the statement of financial position as trade receivables.

To reflect the above changes in presentation, the Group has reclassified the contract balances of HK\$2,201,000, which were previously included in trade receivables, are now included under contract assets at 1 January 2018 as a result of the adoption of HKFRS 15. The reclassification has no effect to the opening balances of the Group's equity at 1 January 2018.

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>
Year ended 31 December 2018					
Revenue from external customers and reportable segment revenue recognised over time	<u>1,065,136</u>	<u>186,084</u>	<u>44,314</u>	<u>133,946</u>	<u>1,429,480</u>
Segment results	<u>44,285</u>	<u>30,200</u>	<u>4,883</u>	<u>10,669</u>	<u>90,037</u>
Other income					978
Change in fair value less costs to sell of biological assets					7,785
Administrative expenses					(73,748)
Finance costs					(5,780)
Profit before taxation					<u><u>19,272</u></u>
Year ended 31 December 2017					
Revenue from external customers and reportable segment revenue recognised over time	<u>903,107</u>	<u>155,700</u>	<u>39,469</u>	<u>109,364</u>	<u>1,207,640</u>
Segment results	<u>54,420</u>	<u>25,580</u>	<u>4,958</u>	<u>10,614</u>	95,572
Other income					1,046
Change in fair value less costs to sell of biological assets					2,026
Administrative expenses					(68,800)
Finance costs					(4,293)
Profit before taxation					<u><u>25,551</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>
As at 31 December 2018					
Segment assets	429,398	106,432	26,105	131,647	693,582
Unallocated					<u>4,227</u>
Total assets					<u><u>697,809</u></u>
Segment liabilities	359,663	29,921	14,701	40,427	444,712
Unallocated					<u>1,235</u>
Total liabilities					<u><u>445,947</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>
As at 31 December 2017					
Segment assets	345,560	78,296	30,059	96,711	550,626
Unallocated					<u>5,357</u>
Total assets					<u><u>555,983</u></u>
Segment liabilities	233,587	25,827	17,426	37,201	314,041
Unallocated					<u>1,051</u>
Total liabilities					<u><u>315,092</u></u>

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 2018						
Depreciation of property, plant and equipment	14,168	1,711	1,707	10,765	171	28,522
Additions to non-current assets	71,911	2,538	59	16,019	16	90,543
Loss/(gain) on disposal of property, plant and equipment	(70)	167	(273)	394	1	219

	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 2017

Depreciation of property, plant and equipment	10,583	1,186	1,844	10,265	147	24,025
Additions to non-current assets	33,003	2,043	261	3,941	32	39,280
Loss/(gain) on disposal of property, plant and equipment	67	73	(133)	42	215	264

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 years ended 31 December 2018 and 2017.

Information about major customers

For the year ended 31 December 2018, the Group's revenue of HK\$784,043,000 (2017: HK\$678,335,000) for various segments was derived from two customers (2017: two), each of whom has individually accounted for over 10% of the Group's total revenue, which are disclosed as follows:

	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
Customer A	404,450	288,075
Customer B	379,593	390,260
	<u>784,043</u>	<u>678,335</u>

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:

	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
Cleaning services	1,065,136	903,107
Landscaping services	186,084	155,700
Pest management services	44,314	39,469
Waste management and recycling services	133,946	109,364
	<u>1,429,480</u>	<u>1,207,640</u>

6. OTHER INCOME

	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
Change in fair value of investments in life insurance	297	–
Government grants*	313	622
Interest income	16	92
Rental income	126	–
Sundry income	226	332
	<u>978</u>	<u>1,046</u>

* Government grants of HK\$313,000 (2017: HK\$622,000) were granted during the year ended 31 December 2018 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

	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
Interest on:		
Bank overdrafts	34	310
Bank loans	4,617	2,295
Obligations under finance leases	1,129	1,688
	<u>5,780</u>	<u>4,293</u>

8. PROFIT BEFORE TAXATION

Profit before taxation has been arrived at after charging:

	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
Auditors' remuneration:		
Audit services	1,405	1,260
Other services	106	102
Cost of consumable goods	57,871	45,451
Credit losses on trade receivables	139	–
Depreciation of property, plant and equipment:		
Owned by the Group	19,421	12,094
Held under finance leases	9,101	11,931
Loss on disposal of property, plant and equipment	219	264
	<u>1,107,245</u>	<u>945,837</u>
Staff costs (including directors' remuneration):		
Wages, salaries and other benefits	1,107,245	945,837
Provision for long service payments	7,745	422
Provision for untaken paid leave	13,032	7,900
Contributions to defined contribution retirement scheme	35,195	30,634
Equity-settled share-based payments	–	715
	<u>1,163,217</u>	<u>985,508</u>
Operating lease rentals: minimum lease payments		
Hire of machinery and motor vehicles	34,625	25,763
Land and buildings	8,355	5,550
	<u>42,980</u>	<u>31,313</u>

9. INCOME TAX

	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
Current tax — Hong Kong Profits Tax		
Provision for the year	2,239	4,812
Over-provision in respect of prior years	(508)	–
	<u>1,731</u>	<u>4,812</u>
Current tax — PRC Enterprise Income Tax		
Provision for the year	2	–
	<u>1,733</u>	<u>4,812</u>
Deferred tax		
Origination and reversal of temporary differences	1,097	123
	<u>2,830</u>	<u>4,935</u>

In March 2018, the Hong Kong Government introduced a two-tiered profits tax rate regime by enacting the Inland Revenue (Amendment) (No. 3) Ordinance 2018 (the “Ordinance”). Under the two-tiered profits tax rate regime, the first HK\$2 million of assessable profits of a qualifying Hong Kong subsidiary within the Group is taxed at 8.25% and the remaining assessable profits are taxed at 16.5%. The Ordinance is effective from the year of assessment 2018/19.

Accordingly, the provision for Hong Kong Profits Tax for the year ended 31 December 2018 is calculated in accordance with the two-tiered profits tax rate regime (2017: a single tax rate of 16.5% was applied).

The provision for Hong Kong Profits Tax for 2018 has also taken into account a reduction granted by the Hong Kong SAR Government of 75% of the tax payable for the year of assessment 2017/18. The Group is eligible for the maximum reduction of HK\$30,000 (2017: a maximum reduction of HK\$20,000 was granted for the year of assessment 2016/17 and was taken into account in calculating the provision for 2017) for each Hong Kong subsidiaries within the Group. Taxation for overseas subsidiaries is charged at the appropriate current rates of taxation ruling in the relevant countries.

10. DIVIDENDS

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

	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
Final dividend proposed after the end of the reporting period of HK0.7 cents (2017: HK1.4 cents) per ordinary share	<u>2,905</u>	<u>5,810</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

	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
Final dividend in respect of the previous financial year, approved and paid during the year, of HK1.4 cents (2017: HK1.7 cents) per ordinary share	<u>5,810</u>	<u>7,055</u>

11. EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of the basic earnings per share for the year ended 31 December 2018 is based on the profit for the year attributable to ordinary equity shareholders of the Company of HK\$17,893,000 (2017: HK\$20,616,000) and the weighted average number of 415,000,000 (2017: 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 2018 and 2017 are the same as the basic earnings per share as there were no potential dilutive ordinary shares in existence during the years presented.

12. 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:

	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
Within 60 days	259,559	212,469
Over 60 days but within 120 days	68,719	63,016
Over 120 days but within 365 days	23,355	9,273
Over 365 days	1,146	1,131
	<u>352,779</u>	<u>285,889</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. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

In respect of other receivables, there was a gross amount of 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 PRC) in respect of a refundable deposit in relation to the proposed acquisition of certain equity interest in Shanghai Genyuan as at 31 December 2018. 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 31 December 2018 (2017: HK\$2,250,000), based on the latest development of the case.

14. BIOLOGICAL ASSETS

Movements of biological assets are summarised as follows:

	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
Plants and flowers		
Balance as at 1 January	12,031	9,700
Purchases	3,726	634
Usage in services	(2,648)	(317)
Disposal	(122)	(12)
Change in fair value less costs to sell	7,785	2,026
	<u>20,772</u>	<u>12,031</u>
Balance as at 31 December	<u>20,772</u>	<u>12,031</u>

The plants and flowers are primarily held for further growth for the usage in services and are classified as current assets.

The fair value of biological assets of the Group as at 31 December 2018 and 2017 has been arrived at the basis of a valuation carried out at that date by the independent valuer and the independent valuer has appropriate qualifications and experiences in providing biological assets valuation services.

The fair value less costs to sell of plants and flowers are determined using the market based approach which assumes sales of biological assets in their existing state and making reference to similar sales or offerings or listings of comparable assets on the market.

15. TRADE PAYABLES

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

	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
Within 30 days	16,561	12,413
Over 30 days but within 60 days	10,913	6,634
Over 60 days but within 90 days	987	805
Over 90 days	2,460	1,273
	<u>30,921</u>	<u>21,125</u>

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

16. SHARE CAPITAL

	Number of shares '000	Nominal value HK\$'000
Authorised:		
<i>Ordinary shares of HK\$0.01 each</i>		
As at 1 January 2017, 31 December 2017, 1 January 2018 and 31 December 2018	<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 2017, 31 December 2017, 1 January 2018 and 31 December 2018	<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, 10 June 2019 to Thursday, 13 June 2019, both days inclusive, during which 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 Thursday, 6 June 2019 or at another time and/or date as advised.

The register of members of the Company will be closed tentatively from Thursday, 20 June 2019 to Friday, 21 June 2019, both days inclusive, during which 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, 19 June 2019.

CORPORATE GOVERNANCE

The Company is committed to maintaining high standards of corporate governance to safeguard the interests of the 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 will be set out in the Corporate Governance Report in the Group's 2018 annual report to be published in due course.

AUDIT COMMITTEE

The audit committee of the Company has reviewed with the management of the Company the consolidated financial statements 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 this announcement 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 HKICPA and consequently no assurance has been expressed by the Group’s 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, 28 March 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.