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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 2019**

FINANCIAL SUMMARY

- Revenue for the year ended 31 December 2019 amounted to approximately HK\$1,397.5 million (2018: HK\$1,429.5 million), representing a decrease of approximately 2.2% as compared with the preceding year.
- Gross profit for the year ended 31 December 2019 was approximately HK\$70.5 million (2018: HK\$92.9 million), representing a decrease of approximately 24.2% as compared with the preceding year.
- The Group's profit attributable to shareholders of the Company of approximately HK\$17.9 million for the preceding year turned into a loss of approximately HK\$11.0 million for the Year.
- The Board does not recommend the payment of a final dividend for the Year (2018: HK0.7 cents per share).

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 2019 ("2019" or the "Year").

MANAGEMENT DISCUSSION & ANALYSIS

MARKET REVIEW

Hong Kong's waste output rate has reached its highest point since 1991 when record-keeping on waste disposal first began. Each day of 2018 Hongkongers sent 1.53kg of municipal solid waste per person to the landfill, culminating in a total of 5.87 million tonnes in 2018 compared to a total of 5.66 million tonnes in 2017.

Meanwhile, Hong Kong has been exposed to a waste crisis ever since the implementation of China's waste import ban. Together with the prolonged social unrest and the spread of the coronavirus disease ("COVID-19"), there are a myriad of environmental issues Hong Kong must address, including waste reduction, recycling and social sustainability, among others. All of these can be managed by taking multi-pronged actions, ranging from waste reduction at the source to enhancing waste recovery, rebooting a recycling regime, waste charging scheme and building a comprehensive and modern waste treatment infrastructure that can handle different types of waste. While the government is taking the initiative to implement policies and prioritise efforts on sustainability promotion, as a front line combatant in protecting Hong Kong's cleanliness, Baguio is continuously seeking ways to reform the city's recycling programme and enhance its internal waste management capabilities.

Furthermore, topics on climate change and environmental damage are attracting high attention. Greta Thunberg, a Swedish environmental activist, was awarded Time's Person of the Year, helping to spark a new round of focus on fighting climate change. Private enterprises have taken initiatives to launch campaigns to respond to this global issue and large consumer brands have launched programmes to tackle environmental issues. Coca Cola, for example, announced an industry-first goal to collect and recycle the equivalent of every bottle or can it sells globally by 2030. As the wider public shows its concern about our planet, Baguio believes that the green industry is on an irreversible upward track.

BUSINESS REVIEW

The past Year has been challenging, with almost all business sectors affected by unexpected local and global social volatility. As such, The Hong Kong economy contracted by 1.2% in 2019, marking the first year of decline since 2009. Subject to high uncertainties, including the threat of a novel coronavirus epidemic, US-China trade relations and the local social situation, the near-term outlook for the Hong Kong economy has turned even more austere.

This, however, has not and will not deter Baguio from its commitment to exploring opportunities in the recycling business and moving forward from a recyclable waste collector to one of the key players in processing recyclable wastes in Hong Kong. The waste recycling industry has always been our primary and core development focus.

As the Government boosts its support for waste reduction in Hong Kong, various new support measures and subsidies have been announced to address the immediate needs of the industry, resulting in the opening of more tenders for pilot schemes aimed at plastics waste collection and recycling.

Baguio achieved a big milestone in 2019 when it joined with ALBA Group Asia Limited (“ALBA”) and Swire Beverages Holdings Limited (“Swire”) to form a joint venture (“JV”) to operate the first food-grade ready plastics recycling facility in Hong Kong. Located at EcoPark, the facility is expected to commence operations in the second half of 2020. Once completed, the facility will be able to process and recycle 35,000 tonnes of post-consumer PET (polyethylene terephthalate or clear beverage bottle) and HDPE (high density polythelene or personal care bottle) annually at a rate of 100 tonnes of plastics per day. Aiming to prolong the life of reusable plastics, the three-stage processing will turn plastic waste into flakes and pellets, which can be reused as raw materials for new, high-quality consumable or industrial products.

While competition remains intense in the cleaning business, the HKSAR Government launched the new marking scheme on tenders in April 2019 to encourage the raising of standard wages for frontline workers. This has changed the competitive landscape of the cleaning business. Though increased labour costs have a significant effect on costs per contract, the new marking scheme benefits large-scale companies with adequate financial resources. Baguio will leverage the new scheme to be more aggressive on tenders and expand our customer base. Furthermore, to mitigate its exposure to heightened competition, Baguio will be more selective in the bidding process and focus only on high margin projects, including those which require advanced skill sets or good governance such as airports, aircraft and public utilities.

In terms of our landscaping business, Baguio has increased investment and manpower on seedling production with a strategic goal of expanding into large-scale landscaping projects. For the past years there have been significant changes in requirements for better living environments, along with improving living standards, in Hong Kong and the PRC. Following the introduction of tougher greening policies by the HKSAR Government, the Group is expecting strong demand for quality landscaping in the coming years. The landscaping business will become an important growth driver for the Group.

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

Results

For the Year, the Group’s revenue was approximately HK\$1,397.5 million, indicating a slight decrease of approximately 2.2% from approximately HK\$1,429.5 million for 2018. Gross profit decreased by approximately 24.2% to approximately HK\$70.5 million (2018: HK\$92.9 million) and gross profit margin decreased by 1.5 percentage points (“p.p”) to approximately 5.0% (2018: 6.5%). Decline in gross profit margin was mainly due to the increase in labor costs and progress delays of the landscaping projects. The Group’s profit attributable to shareholders of the Company of approximately HK\$17.9 million for the preceding year turned into a loss of approximately HK\$11.0 million for the Year, changing from net profit margin of approximately 1.2% for the preceding year to net loss margin of approximately 0.8%. Loss per share was HK2.7 cents (2018: Earning per share HK4.3 cents).

Final Dividend

The Board does not recommend the payment of a final dividend for the Year. A final dividend for the year ended 31 December 2018 of HK0.7 cents per ordinary share, totalling HK\$2,905,000, was paid in July 2019.

Revenue breakdown of major business segments

	For the year ended				Change
	31 December 2019		31 December 2018		
	<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	977.3	69.9%	1,065.1	74.5%	-8.3%
Landscaping	184.2	13.2%	186.1	13.0%	-1.0%
Pest management	71.2	5.1%	44.3	3.1%	+60.7%
Waste management and recycling	164.8	11.8%	134.0	9.4%	+23.0%
Total	1,397.5	100.0%	1,429.5	100.0%	-2.2%

Gross profit margin of major business segments

	For	For	Change
	the year ended	the year ended	
	31 December	31 December	
	2019	2018	
	<i>Gross profit</i>	<i>Gross profit</i>	
	<i>margin</i>	<i>margin</i>	
Cleaning	2.6%	4.3%	-1.7 p.p
Landscaping	11.8%	16.2%	-4.4 p.p
Pest management	7.7%	10.9%	-3.2 p.p
Waste management and recycling	10.7%	8.9%	+1.8 p.p
Overall	5.0%	6.5%	-1.5 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 2019 (2018: 38%). We continuously strived to expand our services scope in order to enhance our competitiveness. In term of business segments, the Group has delivered satisfactory growth in its pest management together with its waste management and recycling segments by achieving approximately 60.7% and 23.0% revenue growth respectively, which nearly offset the effect of revenue decrease from the cleaning segment having some contracts expiring during the Year. During the Year, the Group successfully obtained four contracts from the Food and Environmental Hygiene Department of Hong Kong for provision of pest management services. The demand for professional landscaping and arboriculture services is still keen. However, due to the progress delays of the landscaping projects and increase in cost, the profit margin for the landscaping segment dropped from approximately 16.2% for 2018 to approximately 11.8% for 2019. Besides, the decrease in the projected volume in collection of waste glass containers due to temporary suspension of collection services and reduced outdoor consumer activities as a result of the social unrest and mass street protests in Hong Kong in the second half of the Year also affected the profit performance of the Group. In addition, with the increase in labor costs due to the competitive labor market, the overall gross profit margin dropped from approximately 6.5% for 2018 to approximately 5.0% for 2019.

Contracts on hand

As of 31 December 2019, the Group had a total amount of approximately HK\$1,379.7 million worth of unexpired contracts on hand, of which, approximately HK\$790.2 million will be recognised by the end of 2020, approximately HK\$345.4 million will be recognised in 2021 and the rest of approximately HK\$244.1 million will be recognised in 2022 and beyond.

	Backlog contract value (HK\$ million)	Contract value to be recognised by 31 December 2020 (HK\$ million)	Contract value to be recognised by 31 December 2021 (HK\$ million)	Contract value to be recognised in 2022 and beyond (HK\$ million)
Cleaning services	720.3	452.4	182.0	85.9
Landscaping services	139.5	117.1	20.5	1.9
Pest management services	186.1	88.7	57.1	40.3
Waste management and recycling services	333.8	132.0	85.8	116.0
Total	1,379.7	790.2	345.4	244.1

PROSPECTS

The HKSAR Government's determination to create a greener community was highlighted in its 2020-21 Budget, which introduced a plan to set up a HK\$200 million Green Tech Fund to support research and development, speed up the deployment of green technologies, finance the implementation of a HK\$300 million scheme to recycle waste paper and issue green bonds totalling HK\$66 billion over the next five years.

As the Government and the community increasingly factor in environmental concerns in overall governance, business models and lifestyle, green industry is presented a huge opportunity to deliver social goals on sustainable development. Recognising Baguio's vital role in delivering in this space, the Group is putting in place strategic action plans and catalyzing industry innovations to align with a green future. In this regard, the Group is reviewing different channels for internal adjustment and to boost efficiency, including resource optimization and implementing plans to devote more resources on technology upgrades and deploying ERP systems.

To further complement our recycling business in Hong Kong, the Group is designing a one-stop smartphone application (the "APP") aimed at better connecting the public with nearby recycling collection sites. The Group will promote community recycling by making collector information more accessible. A loyalty programme will be put in place to reward users for every item recycled in order to not only promote recycling among the community, but to broaden our source of recyclables. The APP is currently in the final stages of development and will be officially launched soon. In addition to the opening of our first JV food grade plastic recycling facility later this year, more resources will be invested in the collection of glass containers and plastic containers in order to further promote the local recycling business chain in Hong Kong.

Baguio has a longstanding commitment to delivering quality environmental services and is proud of the progress we have achieved in keeping our community clean and sustainable. The Group will continue to adopt a visionary, proactive, pragmatic and action-oriented approach in order to explore different waste-recycling and processing business opportunities and assist Hong Kong in solving its waste problem. As a leader in the green industry in Hong Kong, we also strive for satisfactory returns for our shareholders.

FINANCIAL REVIEW

Revenue

The Group's revenue for the years ended 31 December 2019 and 2018 amounted to approximately HK\$1,397.5 million and HK\$1,429.5 million, respectively, representing a slight decrease of approximately 2.2%. The decrease was mainly due to the decrease in revenue in the cleaning services segment with some contracts expiring during the Year.

Cost of Services

For the years ended 31 December 2019 and 2018, the cost of services of the Group amounted to approximately HK\$1,327.0 million and HK\$1,336.6 million respectively, representing approximately 95.0% and 93.5% 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 and the operating expenses incurred for the glass treatment facility and collection network, that commenced operation in May 2018.

Gross Profit

The Group's gross profit for the Year was approximately HK\$70.5 million, representing a decrease of approximately 24.2% from approximately HK\$92.9 million for the year ended 31 December 2018. The decrease was mainly due to the keen competition in the market, coupled with an increase in labor costs and progress delays of the landscaping projects. 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 2019 and 2018 were approximately 5.0% and 6.5% 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 and progress delays of the landscaping projects 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 gains in fair value of the Group's biological assets for the years ended 31 December 2019 and 2018 were approximately HK\$5.0 million and HK\$7.8 million respectively, representing a decrease of approximately 35.7%. 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 2019 and 2018 were approximately HK\$2.0 million and HK\$2.9 million respectively, representing a decrease of approximately 31.2%. These expenses are mainly for the 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 2019 and 2018 were approximately HK\$80.2 million and HK\$73.7 million respectively, representing an increase of approximately 8.8%, and approximately 5.7% and 5.2% of the respective year's total revenue. The increase was mainly due to the increase in the overhead and depreciation charge on expansion of office premises, and the increase of the number of administrative staff for the development of glass management and building the recycling network. The Group continued to implement its budget cost control measures for administrative expenses during the Year. As disclosed in note 13 to the annual results on page 22, a provision of approximately HK\$2.3 million was made at 31 December 2019.

Finance Costs

The finance costs of the Group amounted to approximately HK\$10.5 million and HK\$5.8 million for the years ended 31 December 2019 and 2018 respectively, representing approximately 0.8% of and 0.4% of the Group's total revenue respectively. The increase was mainly due to increase in interest rate and the increase in the average level of bank borrowings during the Year.

Loss for the Year Attributable to Equity Shareholders of The Company

The Group's profit attributable to shareholders of the Company of approximately HK\$17.9 million for the preceding year turned into a loss of approximately HK\$11.0 million for the Year. The change 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 generated from operating activities of approximately HK\$34.4 million (2018: net cash used in operating activities of HK\$5.5 million). The Group had available cash and bank balances amounting to approximately HK\$22.9 million as at 31 December 2019 (2018: HK\$36.1 million), representing a decrease of approximately 36.6%.

As at 31 December 2019, the Group's total current assets and current liabilities were approximately HK\$423.2 million (2018: HK\$454.5 million) and HK\$419.9 million (2018: HK\$422.8 million) respectively, while the current ratio was approximately 1.0 times (2018: approximately 1.1 times). The liquidity position of the Group is maintained at a healthy level.

As at 31 December 2019, the Group's bank borrowings amounted to approximately HK\$235.1 million (2018: HK\$218.3 million), representing an increase of approximately 7.7%; the Group's lease liabilities were approximately HK\$46.7 million (2018: HK\$23.8 million) representing an increase of approximately 96.0%, for financing the acquisition of motor vehicles for operation usage and recognised lease liabilities related to the lease contracts in respect of certain land and office buildings as required by the newly effective HKFRS 16 since 1 January 2019. During the Year, no financial instruments were used for hedging purposes (2018: Nil).

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

CAPITAL EXPENDITURES AND CAPITAL COMMITMENT

For the Year, capital expenditures, which mainly included additions in motor vehicles and equipment, amounted to approximately HK\$25.3 million (2018: HK\$89.6 million). No proceeds of the initial public offering of the shares of the Company were brought forward from year 2018. Capital expenditures were funded by banks, finance companies and funds generated from our operating activities.

As at 31 December 2019, the Group had capital commitment contracted for of approximately HK\$1.2 million (2018: HK\$5.4 million) and capital commitment authorised but not contracted for of nil (2018: HK\$90.0 million).

CONTINGENT LIABILITIES

As at 31 December 2019, the Group did not have any material contingent liabilities.

CHARGES ON THE GROUP'S ASSETS

As at 31 December 2019, the amounts payable under lease liabilities within one year amounted to approximately HK\$11.7 million (2018: HK\$12.4 million), that after one year but within five years amounted to approximately HK\$13.2 million (2018: HK\$11.4 million), and that over five years was approximately HK\$21.7 million (2018: Nil). Meanwhile, the Group adopted HKFRS 16 since 1 January 2019 and recognised the lease liabilities accordingly.

As at 31 December 2019, the lease liabilities of the Group of approximately HK\$11.2 million (2018: HK\$23.8 million) were guaranteed by the Company and a subsidiary of the Company.

In addition as at 31 December 2019, we had (i) pledged bank deposits of approximately HK\$6.2 million (2018: HK\$6.1 million); (ii) pledge of cash and cash equivalents of approximately HK\$0.5 million (2018: Nil); (iii) mortgage of the leasehold land and buildings of approximately HK\$73.0 million (2018: HK\$75.7 million); (iv) pledge of the financial assets at fair value through profit or loss of approximately HK\$14.2 million (2018: HK\$13.9 million); (v) pledge of the trade receivables of approximately HK\$83.7 million (2018: HK\$78.1 million); and (vi) pledge of the contract assets arising from performance under glass management contracts of approximately HK\$2.7 million (2018: HK\$7.0 million).

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

On 25 September 2019, the Group entered into a shareholders' agreement with, amongst independent third parties, Swire Recycling Limited and Alba Asia Plastics Recycling Limited in relation to the investment into and management of the joint venture company ("JV Company"), New Life Plastics Limited.

On 26 September 2019, the Group subscribed 10.0 million shares of HK\$1 each, approximately 33.33% of total issued shares in the JV Company, totalling HK\$10.0 million. The Group also provided a shareholder's loan of HK\$3.3 million for the year ended 31 December 2019.

The JV Company will be engaged in the business of constructing and operating a plant at Lot T6 of EcoPark for the recovery, recycling and reprocessing (including, without limitation, by way of washing, crushing, grinding and flake production) of (a) polyethylene terephthalate ("PET") and high density polyethylene ("HDPE") waste bottles; and (b) other PET and HDPE waste plastic which is from time to time capable of being recovered, recycled or reprocessed by the Plant (the "Specified Waste Plastics") in Hong Kong.

For details of the transaction, please refer to the Company's announcement dated 25 September 2019.

Save for aforesaid, the Group had no other material acquisition, disposal nor investment.

HUMAN RESOURCES

As at 31 December 2019, the Group employed 7,457 employees (2018: 8,715 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 2019 together with the comparative figures of 2018 are as follows:

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

For the year ended 31 December 2019

	<i>Note</i>	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
Revenue	5	1,397,455	1,429,480
Cost of services		<u>(1,327,000)</u>	<u>(1,336,550)</u>
Gross profit		70,455	92,930
Other income	6	5,181	978
Change in fair value less costs to sell of biological assets	14	5,009	7,785
Selling and marketing expenses		(1,990)	(2,893)
Administrative expenses		<u>(80,240)</u>	<u>(73,748)</u>
(Loss)/profit from operations		(1,585)	25,052
Finance costs	7	(10,489)	(5,780)
Share of losses of a joint venture		<u>(648)</u>	<u>–</u>
(Loss)/profit before taxation	8	(12,722)	19,272
Income tax credit/(expense)	9	1,412	(2,830)
(Loss)/profit for the year		(11,310)	16,442
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		<u>(36)</u>	<u>(151)</u>
Total comprehensive income for the year		<u>(11,346)</u>	<u>16,291</u>
(Loss)/profit for the year attributable to:			
Equity shareholders of the Company		(11,031)	17,893
Non-controlling interests		<u>(279)</u>	<u>(1,451)</u>
		<u>(11,310)</u>	<u>16,442</u>

	<i>Note</i>	2019 HK\$'000	2018 HK\$'000
Total comprehensive income for the year attributable to:			
Equity shareholders of the Company		(11,067)	17,742
Non-controlling interests		(279)	(1,451)
		<u>(11,346)</u>	<u>16,291</u>
(Loss)/earnings per share			
Basic and diluted (HK cents)	<i>11</i>	<u>(2.66)</u>	<u>4.31</u>

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2019

	<i>Note</i>	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
Non-current assets			
Property, plant and equipment		181,613	222,794
Right-of-use assets		63,679	–
Interest in a joint venture		9,352	–
Financial assets at fair value through profit or loss		14,176	13,893
Prepayments, deposits and other receivables		18,562	6,637
		<u>287,382</u>	<u>243,324</u>
Current assets			
Inventories		2,635	3,902
Contract assets		9,042	10,526
Trade receivables	12	319,970	352,779
Prepayments, deposits and other receivables	13	32,125	22,439
Tax recoverable		2,073	1,819
Biological assets	14	28,316	20,772
Pledged bank deposits		6,153	6,143
Cash and cash equivalents		22,887	36,105
		<u>423,201</u>	<u>454,485</u>
Current liabilities			
Trade payables	15	28,001	30,921
Accruals, deposits received and other payables		143,118	160,540
Bank borrowings		235,095	218,314
Lease liabilities		11,745	12,437
Tax payable		1,982	608
		<u>419,941</u>	<u>422,820</u>
Net current assets		<u>3,260</u>	31,665
Total assets less current liabilities		<u>290,642</u>	<u>274,989</u>
Non-current liabilities			
Lease liabilities		34,976	11,400
Provision		10,152	–
Deferred tax liabilities		8,393	11,727
		<u>53,521</u>	<u>23,127</u>
Net assets		<u>237,121</u>	<u>251,862</u>
Capital and reserves			
Share capital	16	4,150	4,150
Reserves		232,971	248,673
		<u>237,121</u>	<u>252,823</u>
Total equity attributable to equity shareholders of the Company		<u>237,121</u>	<u>252,823</u>
Non-controlling interests		–	(961)
Total equity		<u>237,121</u>	<u>251,862</u>

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

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 annual consolidated financial statements for the year ended 31 December 2019, but is derived from those financial statements.

The consolidated financial statements have been prepared in accordance with the same accounting policies adopted in the 2018 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 except for biological assets and certain financial instruments that are measured at their fair values at the end of each reporting period. 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

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

Except for HKFRS 16, *Leases*, none of the developments have had a material effect on how the Group's results and financial position for the current or prior periods have been prepared or presented in this financial information. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

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

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

4. SEGMENT INFORMATION

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

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

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

Segment revenue and results

Segment results represent the earnings from each segment before interest, taxation and administrative expenses including directors' emoluments and exclude other income, change in fair value less costs to sell of biological assets and share of losses of a joint venture. 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 2019					
Revenue from external customers and reportable segment revenue recognised over time	<u>977,248</u>	<u>184,189</u>	<u>71,222</u>	<u>164,796</u>	<u>1,397,455</u>
Segment results	<u>24,113</u>	<u>21,726</u>	<u>5,612</u>	<u>17,014</u>	<u>68,465</u>
Other income					5,181
Change in fair value less costs to sell of biological assets (note 14)					5,009
Administrative expenses					(80,240)
Finance costs					(10,489)
Share of losses of a joint venture					<u>(648)</u>
Loss before taxation					<u><u>(12,722)</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>
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>	90,037
Other income					978
Change in fair value less costs to sell of biological assets (note 14)					7,785
Administrative expenses					(73,748)
Finance costs					<u>(5,780)</u>
Profit before taxation					<u><u>19,272</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 2019					
Segment assets	371,552	119,507	30,585	186,814	708,458
Unallocated					<u>2,125</u>
Total assets					<u><u>710,583</u></u>
Segment liabilities	339,946	32,037	21,322	79,078	472,383
Unallocated					<u>1,079</u>
Total liabilities					<u><u>473,462</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 2018					
Segment assets	429,398	106,432	26,105	131,647	693,582
Unallocated					4,227
Total assets					<u>697,809</u>
Segment liabilities	359,663	29,921	14,701	40,427	444,712
Unallocated					1,235
Total liabilities					<u>445,947</u>

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 2019						
Depreciation	16,665	2,556	1,635	17,553	771	39,180
Additions to non-current assets	15,354	1,591	237	10,351	166	27,699
Loss/(gain) on disposal of property, plant and equipment	(1)	118	(183)	130	-	64

	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	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

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 2019 and 2018.

Information about major customers

For the year ended 31 December 2019, the Group's revenue of HK\$695,828,000 (2018: HK\$784,043,000) for various segments was derived from two customers (2018: two), each of whom has individually accounted for over 10% of the Group's total revenue, which are disclosed as follows:

	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
Customer A	330,043	404,450
Customer B	365,785	379,593
	695,828	784,043

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:

	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
Cleaning services	977,248	1,065,136
Landscaping services	184,189	186,084
Pest management services	71,222	44,314
Waste management and recycling services	164,796	133,946
	1,397,455	1,429,480

6. OTHER INCOME

	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
Change in fair value of investments in life insurance	283	297
Government grants*	313	313
Income relating to right-of-use assets	2,356	–
Interest income	45	16
Rental income	1,341	126
Exchange gain	386	–
Sundry income	457	226
	5,181	978

* Government grants of HK\$313,000 (2018: HK\$313,000) were granted during the year ended 31 December 2019 in respect of phasing out certain diesel commercial vehicles by the Group. There were no unfulfilled conditions and other contingencies attached to the receipt of those grants. There is no assurance that the Group will continue to receive such grant in the future.

7. FINANCE COSTS

	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
Interest on:		
Bank overdrafts	13	34
Bank loans	8,570	4,617
Lease liabilities	1,906	1,129
	<u>10,489</u>	<u>5,780</u>

8. (LOSS)/PROFIT BEFORE TAXATION

(Loss)/profit before taxation has been arrived at after charging/(crediting):

	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
Auditors' remuneration:		
Audit services	1,405	1,405
Other services	116	106
Cost of consumable goods	59,609	57,871
Recognition of credit losses on other receivables	2,250	–
(Reversal)/recognition of credit losses on trade receivables	(38)	139
Depreciation#		
Owned property, plant and equipment	26,224	19,421
Property, plant and equipment held under finance leases	–	9,101
Right-of-use assets	12,956	–
Loss on disposal of property, plant and equipment	64	219
	<u>1,095,264</u>	<u>1,107,245</u>
Staff costs (including directors' remuneration):		
Wages, salaries and other benefits	18,513	7,745
Provision for long service payments	10,693	13,032
Contributions to defined contribution retirement scheme	33,128	35,195
	<u>1,157,598</u>	<u>1,163,217</u>
Total minimum lease payments for leases previously classified as operating leases under HKAS 17# (excluding short-term lease payments)		
Land and buildings	–	4,954
	<u>–</u>	<u>4,954</u>
Short-term lease payments not included in the measurement of lease liabilities		
Machinery and motor vehicles	38,599	34,625
Land and buildings	4,420	3,401
	<u>43,019</u>	<u>38,026</u>

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

9. INCOME TAX (CREDIT)/EXPENSE

	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
Current tax — Hong Kong Profits Tax		
Provision for the year	1,963	2,239
Over-provision in respect of prior years	(45)	(508)
	1,918	1,731
Current tax — PRC Enterprise Income Tax		
Provision for the year	4	2
	1,922	1,733
Deferred tax		
Origination and (reversal) of temporary differences	(3,334)	1,097
	(1,412)	2,830

The provision for Hong Kong Profits Tax for 2019 is calculated at 16.5% (2018: 16.5%) of the estimated assessable profits for the year, except for one subsidiary of the Group which is a qualifying corporation under the two-tiered Profits Tax rate regime. For this subsidiary, the first HK\$2 million of assessable profits are taxed at 8.25% and the remaining assessable profits are taxed at 16.5%. The provision for Hong Kong Profits Tax for this subsidiary was calculated at the same basis in 2018.

The provision for Hong Kong Profits Tax for 2019 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 2018/19. The Group is eligible for the maximum reduction of HK\$20,000 (2018: a maximum reduction of HK\$30,000 was granted for the year of assessment 2017/18 and was taken into account in calculating the provision for 2018) 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 jurisdictions.

10. DIVIDENDS

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

	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
Final dividend proposed after the end of the reporting period of nil (2018: HK0.7 cents) per ordinary share	<u>–</u>	<u>2,905</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

	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
Final dividend in respect of the previous financial year, approved and paid during the year, of HK0.7 cents (2018: HK1.4 cents) per ordinary share	<u>2,905</u>	<u>5,810</u>

11. (LOSS)/EARNINGS PER SHARE

(a) Basic (loss)/earnings per share

The calculation of the basic loss per share for the year ended 31 December 2019 is based on the loss for the year attributable to ordinary equity shareholders of the Company of HK\$11,031,000 (2018: profit of HK\$17,893,000) and the weighted average number of 415,000,000 (2018: 415,000,000) ordinary shares in issue during the year.

(b) Diluted (loss)/profit per share

Diluted (loss)/profit per share for the years ended 31 December 2019 and 2018 are the same as the basic (loss)/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:

	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
Within 60 days	236,313	259,559
Over 60 days but within 120 days	69,490	68,719
Over 120 days but within 365 days	13,893	23,355
Over 365 days	274	1,146
	<u>319,970</u>	<u>352,779</u>

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

13. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

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

14. BIOLOGICAL ASSETS

Movements of biological assets are summarised as follows:

	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
Plants and flowers		
Balance as at 1 January	20,772	12,031
Purchases	8,097	3,726
Usage in services	(5,471)	(2,648)
Disposal	(91)	(122)
Change in fair value less costs to sell	5,009	7,785
	<u>28,316</u>	<u>20,772</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 2019 and 2018 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:

	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
Within 30 days	16,986	16,561
Over 30 days but within 60 days	7,963	10,913
Over 60 days but within 90 days	809	987
Over 90 days	2,243	2,460
	<u>28,001</u>	<u>30,921</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 2018, 31 December 2018, 1 January 2019 and 31 December 2019	<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 2018, 31 December 2018, 1 January 2019 and 31 December 2019	<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

Upon the outbreak of COVID-19 in early 2020, World Health Organization further declared COVID-19 a ‘Pandemic’ on 11 March 2020. The continued surge of COVID-19 cases, combined with the impact of various government measures, have caused disruption to business in a domestic and global manner.

The Group quickly responded with caution during the difficult times; however our recycling business is expected to be affected to a certain extent due to the city lockdown and we see greater costs burden on securing sufficient sterilizing materials and protection gears to the work force. The Group will continue to pay close attention to the development of the COVID-19 outbreak, and evaluate and proactively respond to its impact on the Group’s financial position and operating results.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed tentatively from Monday, 25 May 2020 to Thursday, 28 May 2020, 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 which shall be held on 28 May 2020, 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 54, Hopewell Centre, 183 Queen’s Road East, Hong Kong for registration not later than 4:30 p.m. on Friday, 22 May 2020 or at another time and/or date as advised.

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 2019 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, 30 March 2020

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.