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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 2017**

FINANCIAL SUMMARY

- Revenue for the year ended 31 December 2017 amounted to approximately HK\$1,207.6 million (2016: HK\$1,094.8 million), representing an increase of approximately 10.3% as compared with the preceding year.
- Gross profit for the year ended 31 December 2017 was approximately HK\$97.3 million (2016: HK\$95.6 million), representing an increase of approximately 1.9% as compared with the preceding year.
- Net profit for the year ended 31 December 2017 was approximately HK\$20.6 million (2016: HK\$25.0 million), representing a decrease of approximately 17.6% as compared with the preceding year.
- A final dividend of HK1.4 cents (2016: HK1.7 cents) per share, totalling HK\$5,810,000 (2016: HK\$7,055,000) was recommended by the Board for the year ended 31 December 2017.

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 2017 (the “Year”).

MANAGEMENT DISCUSSION & ANALYSIS

BUSINESS REVIEW

Baguio, being the industry leader in Hong Kong's integrated environmental services, has been providing comprehensive environmental services ranging from cleaning, landscaping, pest management, and waste management and recycling. For the Group, the Year marked a year of venturing and expansion into new business segments, thanks to new policies, changing market demand, as well as its latest project development. Under the increasingly keen competition in the market, the Group was able to solidify its leading market position through its experiences in environmental services, highly effective management, and its dedication in tapping into new markets.

With resources conservation now becoming a global trend, the Group has also firmly entrenched itself in recycling services. In April 2017, the Group has entered into a servicing contract with HK Jockey Club, pursuant to which the Group is responsible for collecting and delivering animal manure to the Animal Waste Composting Plant (the "AWCP") at Ngau Tam Mei for composting. In July 2017, Baguio again stretched the boundary of its services offerings and partnered with The Jardine Engineering Corporation Limited to win the contract from the Electrical and Mechanical Services Department to operate AWCP in composting the collected animal waste and turning it into organic compost. The above two contracts denoted our quality services and expansive services offerings in collecting animal waste, further demonstrating our ability to serve every step of the recycling supply chain, from waste collection to downstream waste reprocessing and reusing. The Group also successfully gained the contract from the Environmental Protection Department (the "EPD") of Hong Kong to recycle yard waste namely Christmas tree and peach blossoms.

In addition, Baguio has again showcased its competitive edge, as it has successfully become the first contractor being awarded a glass management contract in Hong Kong. The Group obtained two glass management contracts from the EPD in respect of the recycling of glass bottle for Hong Kong Island (including Islands District) and the New Territories regions in October 2017, each for a term of 5 years. Under the said glass management contracts, Baguio is responsible to collect waste glass containers, and turn them to reusable materials, which will be used locally in Hong Kong or exported to overseas markets.

Meanwhile, in August 2017, the Group was awarded the tender lease of lot T6 in EcoPark, a 6,500 square meters piece of land, in return offering a great opportunity for the Group to expand its plastic waste recycling business. It is expected that the lease will commence in mid 2018 for a period of 20 years, and the Group aims to establish a recycling plant on the lot for transforming locally-generated plastic PET (Polyethylene terephthalate) and PE (Polyethylene) bottles, to useful raw materials. The Group believes that plastic recycling is the global trend with enormous market potential. With the Group's extensive industry experiences, advanced technological capabilities and strong track records in large scale tendering, it is expected that Baguio would be able to enjoy first-mover advantage for future tenders, while contributing to government's environmental advocacy and serving the purpose of community education.

Regarding its landscaping business, the Group expects a strong demand in the coming years, especially after the introduction of greening policy from the government. Apart from being awarded the yard waste collection contract in collecting Christmas tree and peach blossoms for the EPD, the Group has also expanded its plant nursery areas in Zhongshan, the People's Republic of China (the "PRC"), to a total of 2,850,000 sq. ft., to ensure the quality, quantity, and variety of plants supplying to its customers and projects. Coupled with the support of Baguio's experienced arborist and horticulturalist teams, the revenue from the landscaping segment enjoyed a significant increase of 26.2% during the Year. By riding on Baguio's solid business foundation and well-established reputation in Hong Kong, these accomplishments would allow the Group to further sharpen its capabilities in landscaping while further expanding its market share.

Market Review

According to the EPD, the landfills in Hong Kong were initially intended to serve until 2020, but could be exhausted way ahead of schedule if there is no immediate action to reduce current waste loads. To tackle the problem, the Hong Kong SAR Government has implemented corresponding measures in the past few years, advocating the idea of green consumption to the general public with the aim of raising public awareness of proper waste management. Specifically, policies such as the Municipal Solid Waste Charging Scheme (expected to be introduced in 2019 earliest), the Producer Responsibility Scheme on Glass Beverage Bottles Recycling, Food Waste Hong Kong Scheme and the upcoming commissioning of the organic waste treatment facility in Siu Ho Wan, are all encouraging the public and community to participate in source separation of waste, to minimize waste disposal, and to promote resources recovery. The aforementioned measures demonstrated the government's determination in advancing the development of the recycling industry, which has laid an ideal operating environment for Baguio's one-stop waste management and recycling business.

Riding on its established presence in Hong Kong, Baguio is also endeavoured to seek business opportunities in the environmental service and related markets in the PRC. In recent years, the PRC Government has been strongly advocating the environmental protection in order to build a "Beautiful China", with an ever-growing emphasis from various dimensions such as legislation, initiatives and urban planning. Such efforts included the revision of the "Environmental Protection Law" (《環境保護法》), the formulation of the "13th Five-Year" Eco-Environmental Protection Plan (《「十三五」生態環境保護規劃》), and the rolling out of an action plan for waste management. In the face of the severe pollution issues in the PRC, it represented an untapped market with great market potentials, providing the perfect opportunity for the Group to establish a strong foothold in the environmental industry in the PRC.

Results

For the Year, the Group's revenue was approximately HK\$1,207.6 million, indicating a stable growth of approximately 10.3% from approximately HK\$1,094.8 million for the corresponding period of 2016, mainly attributable to the Group's dedicated efforts in gaining new and renewal contracts. Gross profit slightly increased by approximately 1.9% to approximately HK\$97.3 million (2016: approximately HK\$95.6 million) and gross profit margin decreased by 0.6 percentage points to approximately 8.1% (2016: 8.7%), as the rise in statutory minimum wage to HK\$34.5 per hour since 1 May 2017 has inevitably affected the cost level of the Group. Profit attributable to shareholders of the Company amounted to approximately HK\$20.6 million, representing a year-on-year decline of approximately 17.6% (2016: approximately HK\$25.0 million), with net profit margin decreased by 0.6 percentage points to approximately 1.7% (2016: 2.3%). Earnings per share was 5 HK cents (2016: 6 HK cents).

Final Dividend

The Board recommends the payment of a final dividend for the Year at HK1.4 cents (2016: HK1.7 cents) per share, totalling HK\$5,810,000 (2016: HK\$7,055,000), 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 8 June 2018. If so approved by the Shareholders, it is expected that the final dividend will be paid out on or around 3 July 2018 to the Shareholders whose names appear on the register of members of the Company on 14 June 2018.

Revenue breakdown of major business segments

	For the year ended				Change
	31 December 2016		31 December 2017		
	Revenue (HK\$ million)	% of total revenue	Revenue (HK\$ million)	% of total revenue	
Cleaning	803.4	73.4%	903.1	74.8%	+12.4%
Landscaping	123.4	11.3%	155.7	12.9%	+26.2%
Pest management	52.5	4.8%	39.5	3.3%	-24.8%
Waste management and recycling	115.5	10.5%	109.3	9.0%	-5.3%
Total	<u>1,094.8</u>	<u>100.0%</u>	<u>1,207.6</u>	<u>100.0%</u>	+10.3%

Gross profit margin of major business segments

	For the year ended 31 December 2016 <i>Gross profit margin</i>	For the year ended 31 December 2017 <i>Gross profit margin</i>	<i>Change</i>
Cleaning	6.4%	6.2%	-0.2p.p
Landscaping	17.0%	16.4%	-0.6p.p
Pest management	13.1%	12.6%	-0.5p.p
Waste management and recycling	14.4%	9.9%	-4.5p.p
Overall	8.7%	8.1%	-0.6p.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 37% in 2017 (2016: 35%). In terms of business segment, the Group had delivered encouraging results in cleaning and landscaping services. The Group successfully renewed four contracts with the Leisure and Cultural Services Department of Hong Kong for provision of cleaning and supporting services in May 2017. Other than the provision of general cleaning services, we continuously strived for enlarging our services scope to enhance our competitiveness. During the Year, the Group obtained the new contracts from hospitals for provision of domestic and portering services and a new contract from an air-line company to provide store packing services covering the beverage packing, delivery of carts to loading bay, stock taking, and deboxing. In the waste management and recycling segment, in spite of the expiration of two waste collection contracts and initial operating expenses incurred from new contracts affecting the gross profit margin, we continue to widen and deepen our recycling business. Other than the provision of collection services for three-coloured recycling bins in all 18 districts of Hong Kong, we commenced the stable waste collection services with Jockey Club and the operation of the AWCP in composting the collected animal waste and turning it into organic compost. In addition, the glass management contracts for Hong Kong Island and the New Territories Districts have also commenced in November 2017.

Contracts on-hand

As of 31 December 2017, the Group has a total amount of approximately HK\$2,246.4 million worth of unexpired contracts on hand, of which, approximately HK\$1,133.0 million will be recognised by the end of 2018, approximately HK\$661.2 million will be recognised in 2019 and the rest of approximately HK\$452.2 million will be recognised in 2020 and beyond.

	Backlog contract value (HK\$ million)	Contract value to be recognised by 31 December 2018 (HK\$ million)	Contract value to be recognised by 31 December 2019 (HK\$ million)	Contract value to be recognised in 2020 and beyond (HK\$ million)
Cleaning services	1,380.7	873.0	421.8	85.9
Landscaping services	276.6	130.2	97.9	48.5
Pest management services	55.7	34.3	21.4	–
Waste management and recycling services	533.4	95.5	120.1	317.8
Total	<u>2,246.4</u>	<u>1,133.0</u>	<u>661.2</u>	<u>452.2</u>

PROSPECTS

Looking into 2018, the Group will endeavour to materialise its expansion in the PRC while pursuing a stable growth in its core businesses in Hong Kong. Baguio, as the market leader in environmental services in Hong Kong, will continue to uphold its core philosophy of creating a “Green & Clean” environment for the society, contributing to the promotion of waste recycling in Hong Kong, while striving to capture opportunities arising under the schemes promulgated by the Hong Kong SAR Government.

The Group will continue to look into the potentials to establish processing facilities and to further expand its footprints in the recycling business. By seeking collaboration with industry experts, the Group will be able to advance in the recycling market by incorporating industry-forward technologies and experiences, and accelerate the development of Hong Kong’s recycling industry.

At the same time, the Group aims to further advance the establishment of the recycling plant in EcoPark, with a keen eye on the market trend and demand for recyclables, including glass, plastic raw material and relevant products, and other recyclables, in order to be well-positioned to participate in the soon-vibrant resource recycling market in Hong Kong. With higher degree of automation and more experiences in such business, we expect that there would be a gradual increase of the weight of our recycling segment in terms of the proportion of revenue and contribution amongst our business segments.

Riding on Baguio’s strong track record of quality services, the Group believes that the synergies between the four business segments provide a solid foundation for sustainable development. Looking forward to 2018, the Group will remain prudent, yet optimistic, in exploring new business opportunities in order to further cement its leading market position.

FINANCIAL REVIEW

Revenue

The Group's revenue for the years ended 31 December 2017 and 2016 was approximately HK\$1,207.6 million and HK\$1,094.8 million, respectively, representing an increase of approximately 10.3%. The increase was mainly due to more renewed contracts and new contracts gained during the Year in our services segments of cleaning and landscaping. On the other hand, revenue in our pest management and waste management and recycling service segment had dropped as some contracts of these segments had expired during the Year with other new contracts commencing near the end of Year.

Cost of Services

For the years ended 31 December 2017 and 2016, the cost of services of the Group amounted to approximately HK\$1,110.3 million and HK\$999.2 million respectively, representing approximately 91.9% and 91.3% of the Group's revenue for the corresponding years. Our cost of services primarily comprised direct wages, direct overhead expenses, consumables and subcontracting fees. The cost of services in proportion to the Group's revenue has increased slightly due to the rise in statutory minimum wage during the Year.

Gross Profit

The Group's gross profit for the Year was approximately HK\$97.3 million, representing an increase of approximately 1.9% from approximately HK\$95.6 million for the year ended 31 December 2016. The increase was mainly due to the increase in the Group's revenue.

Gross Profit Margin

The gross profit margins of the Group for the years ended 31 December 2017 and 2016 were approximately 8.1% and 8.7% respectively. As mentioned above, the decrease in gross profit margin was mainly due to the rise in statutory minimum wage during the Year.

Change in Fair Value of Biological Assets

The Group's biological assets are represented by the trees, plants and flowers located at the Group's nurseries in the PRC and Hong Kong. The gain in fair value of the Group's biological assets for each of the years ended 31 December 2017 and 2016 were approximately HK\$2.0 million and HK\$1.7 million respectively, representing an increase of approximately 17.2%. This is due to the continuing accumulation and growth of the biological assets in the nurseries.

Selling and Marketing Expenses

The selling and marketing expenses incurred by the Group for the years ended 31 December 2017 and 2016 were approximately HK\$1.8 million and HK\$2.0 million respectively, representing a decrease of approximately 12.4%, and accounting for approximately 0.1% of each year's total revenue.

Administrative Expenses

The administrative expenses incurred by the Group for the years ended 31 December 2017 and 2016 were approximately HK\$68.8 million and HK\$63.1 million respectively, representing an increase of approximately 9.0%, and approximately 5.7% and 5.8% of the respective year's total revenue. The increase was mainly attributable to the increase in wages and allowances and other office overhead expenses during the Year. The Group continues to implement its budgeted cost control measures for administrative expenses. As disclosed in note 13 to the annual results on page 20, a provision of approximately HK\$2.3 million was made at 31 December 2017.

Finance Costs

The finance costs of the Group amounted to approximately HK\$4.3 million and HK\$5.3 million for the years ended 31 December 2017 and 2016 respectively, representing approximately 0.4% and approximately 0.5% of the Group's revenue in the respective year. The decrease was mainly due to the decrease in the average level of bank borrowings and the competitive borrowings rates obtained by the Group during the Year.

Profit for the Year Attributable to Equity Shareholders of The Company

The Group's profit attributable to the Shareholders of the Company for each of the year ended 31 December 2017 and 2016 was the approximately HK\$20.6 million and HK\$25.0 million respectively, representing a decrease of approximately 17.6%. 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 generated from operating activities of approximately HK\$27.4 million (2016: HK\$64.2 million). The Group had available cash and bank balances amounting to approximately HK\$48.0 million as at 31 December 2017 (31 December 2016: HK\$55.7 million), representing a decrease of approximately 13.9% from 31 December 2016. The Group's bank borrowings amounted to approximately HK\$108.7 million as at 31 December 2017 (31 December 2016: HK\$82.5 million), representing an increase of approximately 31.8% from 31 December 2016. As at 31 December 2017, the Group's finance lease payables were approximately HK\$42.4 million (31 December 2016: HK\$56.9 million) for financing the acquisition of motor vehicles for operation use. During the Year, no financial instruments were used for hedging purposes (2016: nil).

As at 31 December 2017, the Group's total current assets and current liabilities were approximately HK\$369.4 million (31 December 2016: HK\$348.9 million) and HK\$280.4 million (31 December 2016: HK\$247.0 million) respectively, while the current ratio was approximately 1.3 times (31 December 2016: approximately 1.4 times).

The gearing ratio of the Group was approximately 0.6 times as at 31 December 2017 (31 December 2016: 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, our capital expenditures which mainly included additions in motor vehicles, equipment and office premises amounted to approximately HK\$38.3 million (2016: HK\$26.2 million). These capital expenditures were funded by borrowings from banks and finance companies, funds generated from our operating activities and capital contributions from our shareholders through the initial public offering of the Company.

As at 31 December 2017, the Group had capital commitment contracted for of approximately HK\$3.3 million (31 December 2016: HK\$0.7 million) and capital commitment authorised but not contracted for of approximately HK\$100.0 million (31 December 2016: Nil).

CONTINGENT LIABILITIES

As at 31 December 2017, 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. The plans for the use of net proceeds were stated in the Company’s prospectus dated 12 May 2014 (the “Prospectus”) and subsequently changed in 2015 as stated in the Company’s announcement dated 31 December 2015. During the period between the date of the listing of the shares of the Company to 31 December 2017, 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	8.6	6.4
	<u>90.0</u>	<u>83.6</u>	<u>6.4</u>

As at 31 December 2017, the unutilised proceeds were deposited in licensed banks in Hong Kong.

CHARGES ON THE GROUP'S ASSETS

As at 31 December 2017, the amounts payable under finance leases within one year amounted to approximately HK\$18.3 million (31 December 2016: HK\$21.6 million), and that after one year but within five years amounted to approximately HK\$24.1 million (31 December 2016: HK\$35.3 million).

As at 31 December 2017, the obligations under finance leases of the Group were guaranteed by the Company and a subsidiary of the Company.

In addition, we have (i) pledged bank deposits of approximately HK\$5.1 million as at 31 December 2017 (31 December 2016: HK\$5.1 million); (ii) mortgage of the Group's leasehold land and buildings of approximately HK\$29.9 million as at 31 December 2017 (31 December 2016: HK\$17.2 million); (iii) pledge of the Group's available-for-sale financial assets of approximately HK\$13.6 million as at 31 December 2017 (31 December 2016: HK\$13.3 million); and (iv) pledge of the Group's trade receivables of approximately HK\$37.8 million as at 31 December 2017 (31 December 2016: HK\$72.1 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

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

INTELLECTUAL PROPERTIES

During the Year, the Group registered the trademark  in Hong Kong for a period of 10 years.

HUMAN RESOURCES

As at 31 December 2017, the Group employed 8,853 employees, including both full time and part time employees (31 December 2016: 7,967). 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 2017 together with the comparative figures of 2016 are as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2017

	<i>Note</i>	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
Revenue	5	1,207,640	1,094,788
Cost of services		(1,110,294)	(999,234)
Gross profit		97,346	95,554
Other income	6	1,046	3,933
Change in fair value less costs to sell of biological assets		2,026	1,729
Selling and marketing expenses		(1,774)	(2,025)
Administrative expenses		(68,800)	(63,092)
Profit from operations		29,844	36,099
Finance costs	7	(4,293)	(5,340)
Profit before taxation	8	25,551	30,759
Income tax	9	(4,935)	(5,748)
Profit for the year attributable to equity shareholders of the Company		20,616	25,011
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		134	(120)
Change in fair value of available-for-sale financial assets		310	345
Other comprehensive income		444	225
Total comprehensive income for the year attributable to equity shareholders of the Company		21,060	25,236
Earnings per share			
Basic and diluted (HK\$)	11	0.05	0.06

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2017

	<i>Note</i>	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
Non-current assets			
Property, plant and equipment		167,210	156,628
Interest in associate		–	150
Available-for-sale financial assets		13,596	13,286
Prepayments and deposits		5,764	–
		186,570	170,064
Current assets			
Inventories		4,539	4,942
Trade receivables	<i>12</i>	285,889	251,905
Prepayments, deposits and other receivables	<i>13</i>	13,830	21,521
Biological assets		12,031	9,700
Pledged bank deposits		5,141	5,140
Cash and cash equivalents		47,983	55,735
		369,413	348,943
Current liabilities			
Trade payables	<i>14</i>	21,125	26,979
Accruals, deposits received and other payables		131,051	114,473
Bank borrowings		108,712	82,499
Obligations under finance leases		18,289	21,601
Tax payable		1,218	1,471
		280,395	247,023
Net current assets		89,018	101,920
Total assets less current liabilities		275,588	271,984
Non-current liabilities			
Obligations under finance leases		24,067	35,306
Deferred tax liabilities		10,630	10,507
		34,697	45,813
Net assets		240,891	226,171
Capital and reserves			
Share capital	<i>15</i>	4,150	4,150
Reserves		236,741	222,021
Total equity		240,891	226,171

NOTES

1. GENERAL INFORMATION

The Company was incorporated as an exempted company with limited liability in the Cayman Islands on 8 November 2013. The ultimate holding company of the Company is Baguio Green (Holding) Limited, which was incorporated in the British Virgin Islands (“BVI”). The registered office of the Company is located at Cricket Square, Hutchins Drive, PO Box 2681, Grand Cayman KY1-1111, Cayman Islands and its principal place of business in Hong Kong is located at Unit A, 4/F., Dragon Industrial Building, No. 93 King Lam Street, Lai Chi Kok, Kowloon, Hong Kong.

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

2. BASIS FOR PREPARATION

The financial information set out in this announcement does not constitute the Group’s statutory financial statements for the year ended 31 December 2017, but is derived from those financial statements.

The financial statements have been prepared in accordance with the same accounting policies adopted in the 2016 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. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Exchange of Hong Kong Limited (“Listing Rules”).

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

The HKICPA has issued several amendments to HKFRSs that are first effective for the current accounting period of the Group. None of these impact on the accounting policies of the Group. However, additional disclosure has been included in the financial statements to satisfy the new disclosure requirements introduced by the amendments to HKAS 7, *Statement of cash flows: Disclosure initiative*, which require entities to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes.

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

4. SEGMENT INFORMATION

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

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

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

Segment revenue and results

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

	Cleaning services business HK\$'000	Landscaping services business HK\$'000	Pest management business HK\$'000	Waste management and recycling business HK\$'000	Total HK\$'000
Year ended 31 December 2017					
Revenue from external customers and reportable segment revenue	<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>	<u>95,572</u>
Other income					1,046
Change in fair value less costs to sell of biological assets					2,026
Administrative expenses					(68,800)
Finance costs					<u>(4,293)</u>
Profit before taxation					<u><u>25,551</u></u>
Year ended 31 December 2016					
Revenue from external customers and reportable segment revenue	<u>803,365</u>	<u>123,395</u>	<u>52,488</u>	<u>115,540</u>	<u>1,094,788</u>
Segment results	<u>49,239</u>	<u>20,917</u>	<u>6,899</u>	<u>16,474</u>	<u>93,529</u>
Other income					3,933
Change in fair value less costs to sell of biological assets					1,729
Administrative expenses					(63,092)
Finance costs					<u>(5,340)</u>
Profit before taxation					<u><u>30,759</u></u>

Segment assets and liabilities

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

	Cleaning services business HK\$'000	Landscaping services business HK\$'000	Pest management business HK\$'000	Waste management and recycling business HK\$'000	Total HK\$'000
As at 31 December 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>
	Cleaning services business HK\$'000	Landscaping services business HK\$'000	Pest management business HK\$'000	Waste management and recycling business HK\$'000	Total HK\$'000
As at 31 December 2016					
Segment assets	305,119	64,346	33,923	105,213	508,601
Unallocated					<u>10,406</u>
Total assets					<u><u>519,007</u></u>
Segment liabilities	187,954	29,634	21,993	50,792	290,373
Unallocated					<u>2,463</u>
Total liabilities					<u><u>292,836</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 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

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

Geographical information

No geographical information is presented as all of the Group's businesses are carried out in Hong Kong and the Group's revenue from external customers is generated in Hong Kong during the years ended 31 December 2017 and 2016.

Information about major customers

For the year ended 31 December 2017, the Group's revenue of HK\$678,335,000 (2016: HK\$646,680,000) for various segments was derived from two customers (2016: two), each of whom has individually accounted for over 10% of the Group's total revenue, which are disclosed as follows:

	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
Customer A	288,075	286,846
Customer B	390,260	359,834
	<u>678,335</u>	<u>646,680</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:

	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
Cleaning services	903,107	803,365
Landscaping services	155,700	123,395
Pest management services	39,469	52,488
Waste management and recycling services	109,364	115,540
	<u>1,207,640</u>	<u>1,094,788</u>

6. OTHER INCOME

	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
Government grants*	622	3,593
Interest income	92	136
Sundry income	332	204
	<u>1,046</u>	<u>3,933</u>

* Government grants of HK\$622,000 (2016: HK\$3,593,000) were granted during the year ended 31 December 2017 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

	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
Interest on:		
Bank overdrafts	310	2
Bank loans	2,295	3,124
Obligations under finance leases	1,688	2,214
	<u>4,293</u>	<u>5,340</u>

8. PROFIT BEFORE TAXATION

Profit before taxation has been arrived at after charging:

	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
Auditors' remuneration:		
Audit services	1,260	1,200
Other services	102	80
Depreciation of property, plant and equipment:		
Owned by the Group	12,094	11,508
Held under finance leases	11,931	12,071
Loss on disposal of property, plant and equipment	264	701
Cost of consumable goods	45,451	44,443
	<u> </u>	<u> </u>
Staff costs (including directors' remuneration):		
Wages, salaries and other benefits	945,837	836,884
Provision for long service payments	422	2,559
Provision for untaken paid leave	7,900	9,622
Contributions to defined contribution retirement scheme	30,634	28,516
Equity-settled share-based payments	715	986
	<u> </u>	<u> </u>
	<u>985,508</u>	<u>878,567</u>
Operating lease rentals: minimum lease payments		
Hire of machinery and motor vehicles	25,763	19,597
Land and buildings	5,550	4,909
	<u> </u>	<u> </u>
	<u>31,313</u>	<u>24,506</u>

9. INCOME TAX

(a) Income tax charged to profit or loss represents:

	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
Current tax — Hong Kong Profits Tax		
Provision for the year	4,812	4,929
Deferred tax		
Origination and reversal of temporary differences	123	819
	<u> </u>	<u> </u>
	<u>4,935</u>	<u>5,748</u>

The provision for Hong Kong Profits Tax for the year ended 31 December 2017 is calculated at 16.5% (2016: 16.5%) of the estimated assessable profits for the year.

10. DIVIDENDS

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

	2017	2016
	<i>HK\$'000</i>	<i>HK\$'000</i>
Final dividend proposed after the end of the reporting period of HK1.4 cents (2016: HK1.7 cents) per ordinary share	<u>5,810</u>	<u>7,055</u>

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

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

	2017	2016
	<i>HK\$'000</i>	<i>HK\$'000</i>
Final dividend in respect of the previous financial year, approved and paid during the year, of HK1.4 cents (2016: 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 2017 is based on the profit for the year attributable to ordinary equity shareholders of the Company of HK\$20,616,000 (2016: HK\$25,011,000) and the weighted average number of 415,000,000 (2016: 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 2017 and 2016 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) at the end of the reporting period is as follows:

	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
Within 60 days	212,469	189,624
Over 60 days but within 120 days	63,016	53,575
Over 120 days but within 365 days	9,273	7,651
Over 365 days	1,131	1,055
	<u>285,889</u>	<u>251,905</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 2017 is a gross amount of HK\$4,500,000 (2016: HK\$5,000,000) 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. 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 provision of HK\$2,250,000 was made in the current year.

14. TRADE PAYABLES

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

	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
Within 30 days	12,413	15,906
Over 30 days but within 60 days	6,634	6,635
Over 60 days but within 90 days	805	535
Over 90 days	1,273	3,903
	<u>21,125</u>	<u>26,979</u>

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

15. SHARE CAPITAL

	Number of shares '000	Nominal value HK\$'000
Authorised: <i>Ordinary shares of HK\$0.01 each</i> As at 1 January 2016, 31 December 2016, 1 January 2017 and 31 December 2017	<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 2016, 31 December 2016, 1 January 2017 and 31 December 2017	<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 Tuesday, 5 June 2018 to Friday, 8 June 2018, 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 Monday, 4 June 2018 or at another time and/or date as advised.

The register of members of the Company will be closed tentatively from Thursday, 14 June 2018 to Friday, 15 June 2018, 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, 13 June 2018.

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 2017 annual report to be published in due course.

AUDIT COMMITTEE

The audit committee 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 2018

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.