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Baguio Green Group Limited

碧瑤綠色集團有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1397)

**INTERIM RESULTS ANNOUNCEMENT
FOR THE SIX MONTHS ENDED 30 JUNE 2017**

FINANCIAL SUMMARY

- Revenue for the six months ended 30 June 2017 amounted to approximately HK\$571.1 million (1H2016: HK\$538.1 million), representing an increase of approximately 6.1% as compared with the preceding period.
- Gross profit for the six months ended 30 June 2017 was approximately HK\$51.8 million (1H2016: HK\$49.9 million), representing an increase of approximately 3.7% as compared with the preceding period.
- Net profit for the six months ended 30 June 2017 was approximately HK\$15.1 million (1H2016: HK\$17.3 million), representing a decrease of approximately 12.7% as compared with the preceding period.
- The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2017 (1H2016: Nil).

The board of directors (the “Directors” and the “Board”) of Baguio Green Group Limited (the “Company”) is pleased to announce the unaudited consolidated interim results of the Company and its subsidiaries (the “Group” or “Baguio”) for the six months ended 30 June 2017 (the “Period”).

MARKET REVIEW

2017 is an important year for Baguio to expand its waste management and recycling services. Waste management has long been a critical challenge in Hong Kong. According to the Monitoring of Solid Waste in Hong Kong – Waste Statistic for 2010 and 2015 issued by Environmental Protection Department (“EPD”), the recovery rate of municipal solid waste generated dropped sharply from 52% in 2010 to 35% in 2015. While the international leading countries are giving strong impetus in waste reduction and recycling, Hong Kong, as an international financial hub, must take a more proactive approach in motivating the public to achieve waste recycling and waste reduction, in order to divert recyclables away from landfills. To catch up with the global trend, the Hong Kong Government stepped up its efforts to promote green policies, such as advocating the Municipal Solid Waste Charging Scheme and Food Waste Hong Kong Scheme, the construction of the organic waste treatment facilities, as well as the legislation of Producer Responsibility Scheme on Glass Beverage Bottles. Together with public education and supporting measures, the government has significantly aroused the public’s awareness to the importance of proper waste management. In the first half of 2017, Baguio received a rising number of enquiries from public entities and private enterprises looking for a total waste management solution. It is believed that a wider scope of waste management services is required to answer the increasing demand in both the public and private sectors, which opened the gate for the Group to further delve into the waste management services market in various aspects.

In parallel, the People’s Republic of China (“PRC”) is also putting “Green Development” as one of the top five priorities under the 13th Five-year Plan framework. Aiming to tackle the severe conditions of environmental issues, the Environmental Protection Tax Law (環境保護稅法) was enacted on 25 December 2016 and will come into effect on 1 January 2018. Various significant environmental policies or plans, such as the “13th Five-Year” Eco-Environmental Protection Plan (「十三五」生態環境保護規劃) and the “13th Five-Year Plan” for Nationwide Municipal Waste Detoxification Treatment Facilities Construction (「十三五」全國城鎮生活垃圾無害化處理設施建設規劃), also came into force, clearly demonstrating that the Central Government’s determination to pursuit a greener and more sustainable development. These top-down policies also provided new opportunities for the development of environmental protection industry. Coupled with the raising public awareness on creating a clean environment, the Central Government’s effort has unleashed the market potential for the Group to explore opportunities in the environmental services in the PRC.

BUSINESS REVIEW

Being a leading integrated environmental services provider, Baguio strives to create a “Green & Clean” environment to the society by providing a wide scope of comprehensive environmental services, ranging from cleaning, landscaping and pest management to waste management and recycling. Following the yard waste collection contract gained in November 2016, the Group further delved into the waste management and recycling segment and broadened its services scope for the Period. In February 2017, the Group secured a contract with the Hong Kong Jockey Club to provide stable waste collection service, which commenced in April 2017. In this contract, Baguio collects the stable waste at the Shatin Racecourse and delivers to Animal Waste Composting Plant (“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. Synergizing with the landscaping segment of the Group, Baguio managed to provide a one-stop waste management solution to animal waste, covering the entire supply chain from waste collection to downstream waste reprocessing and reusing.

When it comes to waste recycling, animal waste recycling is not Baguio’s only new venture. In May 2017, Baguio procured the first food waste truck to accelerate the efficiency of its food waste collection services. Specially designed for food waste collection, the truck is equipped with advanced functions to facilitate the collection process, and thus, reliance on manual labour is reduced. This significantly improved the cost effectiveness and overall margin. During the Period, the Group also participated in the tender on glass bottles recycling, which covers the whole supply chain from glass bottles collection, processing to downstream remanufacturing, as well as community education. With the Group’s extensive industry experiences, advanced technological capabilities and strong track records in large scale tendering, it is believed that Baguio would be able to enjoy the first-mover advantage for future tenders.

Riding on the solid business foundation in Hong Kong, Baguio also saw huge potential in the environmental services market in the PRC. Cities in the PRC, particularly the second to third-tier cities, started to outsource their municipal cleaning services, waste management and recycling services to private service providers. During the Period, the Group has examined the feasibility of expanding its operation in the PRC and proactively looked into the possibility of cooperation with local operators. Supported by its technical know-how, management expertise, financing capability and well-established reputation, Baguio is ready to capture the diverse opportunities in this vast market.

Results

For the Period, revenue of the Group was approximately HK\$571.1 million, registering a stable growth of approximately 6.1% from approximately HK\$538.1 million for the same period of 2016. This was mainly attributable to the Group's genuine efforts in gaining new and renewal contracts. Gross profit increased by 3.7% to approximately HK\$51.8 million (1H2016: approximately HK\$49.9 million), but gross profit margin decreased by 0.2% to 9.1%(1H2016: 9.3%) mainly due to increased labor cost. Profit attributable to equity shareholders of the Company amounted to approximately HK\$15.1 million, representing a decline of 12.7% year-on-year for the Period (1H2016: approximately HK\$17.3 million) while the net profit margin decreased by 0.6% to 2.6% (1H2016: 3.2%). Earnings per share was 4 HK cents (1H2016: 4 HK cents).

Interim Dividend

The Directors do not recommend the payment of an interim dividend for the Period (1H2016: nil).

Revenue Breakdown of Major Business Segments

	For the six months ended 30 June 2017		2016		Change
	Revenue (HK\$ Million)	% of total revenue	Revenue (HK\$ Million)	% of total revenue	
Cleaning	423.8	74.2%	397.8	73.9%	6.5%
Landscaping	72.5	12.7%	58.1	10.8%	24.8%
Pest management	20.7	3.6%	25.5	4.7%	-18.8%
Waste management and recycling	54.1	9.5%	56.7	10.6%	-4.6%
Total	<u>571.1</u>	<u>100.0%</u>	<u>538.1</u>	<u>100.0%</u>	<u>6.1%</u>

Gross Profit Margin of Major Business Segments

	For the six months ended 30 June		Change
	2017	2016	
Cleaning	7.2%	7.3%	-0.1 p.p.
Landscaping	16.9%	17.3%	-0.4 p.p.
Pest management	12.0%	11.9%	0.1 p.p.
Waste management and recycling	<u>12.4%</u>	<u>14.0%</u>	<u>-1.6 p.p.</u>
Overall	<u>9.1%</u>	<u>9.3%</u>	<u>-0.2 p.p.</u>

During the Period, the Group was able to secure tender contracts with its existing and new customers to drive overall revenue upwards. The Group has delivered satisfactory growth in its cleaning and landscaping segments by achieving 6.5% and 24.8% revenue growth respectively, which offset the effect of revenue decrease from our pest management and waste management and recycling segments. With the aforementioned new businesses in the pipeline for our waste management and recycling segment, it is expected that the revenue for the waste management and recycling segment will exhibit major growth in the near future. Despite our revenue growth, the gross profit margins for most of our business segments have decreased slightly during the Period, as a result of the continuously rising labor cost in Hong Kong.

Contracts on hand

As of 30 June 2017, the Group had a total amount of approximately HK\$2,247.3 million worth of unexpired contracts on hand, among which, approximately HK\$566.1 million would be recognised by the end of 2017; approximately HK\$995.8 million would be recognised in 2018 and the rest of approximately HK\$685.4 million would be recognised in 2019 and beyond.

	Unexpired contract value <i>(HK\$ Million)</i>	Contract value to be recognised by 31 December 2017 <i>(HK\$ Million)</i>	Contract value to be recognised by 31 December 2018 <i>(HK\$ Million)</i>	Contract value to be recognised in 2019 and beyond <i>(HK\$ Million)</i>
Cleaning services	1,698.5	461.5	796.3	440.7
Landscaping services	212.4	40.7	111.1	60.6
Pest management services	29.9	13.8	12.3	3.8
Waste management and recycling services	306.5	50.1	76.1	180.3
Total	<u>2,247.3</u>	<u>566.1</u>	<u>995.8</u>	<u>685.4</u>

AWARDS

During the Period, the Group has been recognised by many renowned institutes and the following awards have been granted:

Date	Issuer of Award	Award
Jan 2017	7-Eleven — Combined Distribution Centre	Certificate of Occupational Safety & Health
Jan 2017	World Green Organisation	WGO 4th Anniversary cum Symposium Dinner — Certificate of Appreciation
Jan 2017	LEO Club of Kowloon Tong & Trend Catering Limited	Certificate of Appreciation — Volunteer Service

Date	Issuer of Award	Award
Jan 2017	Sun Fook Kong Construction Group	Sun Fook Kong Safety Awards Scheme 2016 — Certificate to Zero Accident Achievement (Oct 2015–Mar 2016)
Jan 2017	Sun Fook Kong Construction Group	Sun Fook Kong Safety Awards Scheme 2016 — Certificate to Zero Accident Achievement (Apr–Sept 2016)
Feb 2017	Island District Office/ H.K.S.K.H. Tung Chung Integrated Services	Certificate of Appreciation — Tung Chung Job Fair 2017
Feb 2017	People Service Centre	Certificate of Appreciation
Mar 2017	Hong Kong Waste Management Association	Certificate of Appreciation
Mar 2017	Hong Kong Council of Social Service	5 years+ Caring Company 2016/17 — Baguio Cleaning Services Company Limited
Mar 2017	Hong Kong Council of Social Service	5 years+ Caring Company 2016/17 — Baguio Landscaping Services Limited
Mar 2017	Hong Kong Council of Social Service	Caring Company 2016/17— Baguio Pest Management Limited
Mar 2017	Hong Kong Council of Social Service	Caring Company 2016/17 — Baguio Waste Management & Recycling Limited
Mar 2017	Hong Kong Council of Social Service	Caring Company 2016/17- Baguio Green Group Limited
Mar 2017	Hong Kong Council of Social Service	Caring Company 2016/17 — Tak Tai Enviroscape Limited
Mar 2017	Employee Retraining Board	ERB Merit Award for Employers
May 2017	The CLP Group	Appreciation of Team Participation — CLP Power Safety, Health and Environment Quiz 2017 — Contractor Stream Competition
May 2017	Environmental Campaign Committee	Certificate of Appreciation — Award Application Participation
Jun 2017	Bank of China & The Federation of Hong Kong Industries	Corporate Environmental Leadership Awards 2016 — ECO Challenger

CORPORATE SOCIAL RESPONSIBILITY ACTIVITIES

In addition to focusing on its professional services to improve living standard of Hong Kong citizens, the Group strived to contribute to the society together with our employees. The following are some of the activities participated or organised by the Group during the first half of 2017.

Month	Organizer of Activity	Activity
Jan 2017	Green Council	The Fourteenth Green Carnival 2017
Jan 2017	Leo Club of Kowloon Tong	CNY Dinner for the frontline cleaners
Feb 2017	Greener Action	Red Pocket Reuse & Recycle Program
Mar 2017	Hong Kong Employment Development Service Limited	Career Counseling Seminar and Site Visit
Apr 2017	Friends of the Earth (HK)	Tree Planting Challenge 2017
Jun 2017	Green Council	Hong Kong Green Day Opening Ceremony 2017
Jan 2017– Jun 2017	World Green Organization & A.S. Watson	Plastic Bottle Recycling Scheme

PROSPECTS

Looking forward to the future, Baguio will continue to base its core businesses in Hong Kong, while keep venturing into potential business opportunities in the PRC market. On the Hong Kong front, the waste management and recycling segment remains the strategic focus of the Group. The Hong Kong Environmental Protection Department has scheduled to commence the Municipal Solid Waste Charging Scheme as early as in the second half of 2019, with an aim to effectively bring about public's behavioral change to achieve waste recycling, and ultimately, waste reduction. Supported by other green measures and facilities, such as the collection of food waste, glass beverage bottles and electronic waste and the implementation of Environmental, Social and Governance ("ESG") reporting, the Group foresees that more and more public entities and private enterprises, especially listed companies, are willing or have already begun to look for a total waste management solution. This opens an enormous market for the Group to seize. With the successful tender of yard waste and animal waste collection in the first half of 2017, Baguio is going to deepen its market penetration and tap into the collection service markets of food waste, glass beverage bottles and electronic wastes. Leveraging on the Group's strong brand equity, seasoned industrial experience and strong track records in large-scale tendering, Baguio is well-equipped to capture future market opportunities, and in return, continue its outstanding results in waste management and recycling to benefit the society.

In addition to waste collection services, Baguio targets to expand its waste management capability by tapping into the recycled waste processing industry, in which recycled waste will be transformed into useful raw materials. The demand of raw material is foreseen to be getting higher in the PRC due to the strict policies of restricting import of unprocessed solid waste into PRC. Furthermore, the coming Municipal Solid Waste Charging Scheme of Hong Kong requires more than 2 million plastic bags per day. There would be a huge and stable market for recycled plastic bags. With a forward-looking vision, Baguio has been collaborating with a number of institutions such as the Hong Kong Productivity Council in examining the feasibility of adopting advanced technologies to recycle plastic waste into raw material or useful end products such as plastic bags for the coming Municipal Solid Waste Charging Scheme.

On the PRC front, the Group has never held back from exploring potential opportunities in the PRC's environmental services market. During the G20 summit in Hamburg, Germany, President Xi Jinping reiterated the Central Government's dedication and commitment in leading the globe in environmental protection, including energy saving, carbon emission reduction and waste recycling on both international platform and domestic legalization levels. This is a golden timing for the Group to expand its business and presence in PRC through mergers and acquisitions and strategic collaborations with local operators. Lastly, the Group will also continue to maintain its capital commitment and to better allocate its resources in order to support the Group's development plan.

FINANCIAL REVIEW

Revenue

The Group's revenue for each of the six-month periods ended 30 June 2017 and 2016 were approximately HK\$571.1 million and approximately HK\$538.1 million, respectively, representing an increase of approximately 6.1%. The increase was mainly due to increase in contracts secured in our services segments of cleaning and landscaping during the Period. Revenue from our pest management and waste management and recycling service segments decreased during the Period as some contracts for these segments had expired since 30 June 2016.

Cost of Services

For each of the six-month periods ended 30 June 2017 and 2016, the cost of services amounted to approximately HK\$519.3 million and approximately HK\$488.2 million, respectively, representing approximately 90.9% and approximately 90.7% of the Group's revenue for the corresponding periods, respectively. The cost of services primarily comprised of direct wages, direct overhead expenses, material consumables and sub-contracting fees. The cost of services in proportion to the Group's revenue increased due to increase in labor cost in the market.

Gross Profit

The Group's gross profit for the Period was approximately HK\$51.8 million, representing an increase of approximately 3.7% from approximately HK\$49.9 million for the corresponding period in 2016. The increase was mainly due to increase in the Group's overall revenue.

Gross Profit Margin

The gross profit margins of the Group for the six-month period ended 30 June 2017 was similar to last year with a slight difference of 0.2%.

Other Income

Other income of the Group for each of the six-month periods ended 30 June 2017 and 2016 were approximately HK\$0.4 million and HK\$3.1 million respectively, representing a decrease of approximately 85.4%. The other income in the prior period mainly comprised of one-off government grants for phrasing out certain diesel vehicles of the Group. Such government grants reduced significantly during the Period.

Change In Fair Value Less Cost To Sell 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 biological assets for each of the six-month periods ended 30 June 2017 and 2016 were approximately HK\$1.3 million and HK\$0.2 million respectively, representing an increase of approximately 456.8%. The group has expanded its nurseries in the PRC during the Period and continued to store and grow these biological assets for future landscaping projects.

Administrative Expenses

The administrative expenses of the Group for each of the six-month periods ended 30 June 2017 and 2016 were approximately HK\$32.7 million and approximately HK\$29.0 million respectively, representing approximately 5.7% and approximately 5.4% of the respective period's revenue. The Group continued to control its administrative expenses during the Period. As disclosed in note 11 to the unaudited interim financial results on page 23, a provision of approximately HK\$2.3 million was made.

Finance Costs

The finance costs amounted to approximately HK\$2.1 million and approximately HK\$2.5 million for each of the six-month periods ended 30 June 2017 and 2016, respectively, representing approximately 0.4% and approximately 0.5% of the Group's revenue respectively. The decrease was primarily due to the decrease in the average level of bank borrowings during the Period.

Profit for the Period Attributable to Equity Shareholders of The Company

The Group's net profit attributable to equity shareholders of the Company for each of the six-month periods ended 30 June 2017 and 2016 were approximately HK\$15.1 million and approximately HK\$17.3 million respectively, representing a decrease of approximately 12.7%. The decrease was mainly due to the above mentioned reasons.

CAPITAL STRUCTURE

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

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

LIQUIDITY AND FINANCIAL RESOURCES

The Group derives cash flows from operating activities principally from rendering comprehensive range of environmental services. For the Period, we had net cash generated from operating activities of approximately HK\$42.9 million (1H2016: approximately HK\$44.7 million). As at 30 June 2017, the Group had available cash and bank balances amounting to approximately HK\$56.6 million (31 December 2016: approximately HK\$55.7 million), representing an increase of approximately 1.6% from 31 December 2016.

As at 30 June 2017, the Group's total current assets and current liabilities were approximately HK\$331.7 million (31 December 2016: approximately HK\$348.9 million) and approximately HK\$222.8 million (31 December 2016: approximately HK\$247.0 million) respectively, while the current ratio was approximately 1.5 times (31 December 2016: approximately 1.4 times).

As at 30 June 2017, the Group's finance lease payables were approximately HK\$48.2 million (31 December 2016: approximately HK\$56.9 million) for financing the acquisition of motor vehicles for operational usage. During the Period, no financial instruments were used for hedging purposes.

The gearing ratio of the Group was approximately 0.5 times as at 30 June 2017 (31 December 2016: approximately 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.

As at 30 June 2017, the Group had unutilised banking facilities of approximately HK\$127.0 million (31 December 2016: approximately HK\$121.9 million).

FOREIGN CURRENCY RISK

The Group's foreign currency exposure is limited as most of its transactions, assets and liabilities are denominated in Hong Kong dollars.

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 raised net proceeds of approximately HK\$90.0 million. During the period between the date of the listing of the shares of the Company to 30 June 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	–
Investment in potential projects	15.0	–	15.0
	<u>90.0</u>	<u>75.0</u>	<u>15.0</u>

As at 30 June 2017, the unutilised proceeds were deposited in licensed banks in Hong Kong.

CAPITAL COMMITMENT

As at 30 June 2017, the Group had capital commitment of approximately HK\$3.5 million in respect of the acquisition of motor vehicles, equipment and machinery contracted but not provided in the interim financial results (31 December 2016: approximately HK\$0.7 million).

CHARGES ON THE GROUP’S ASSETS

As at 30 June 2017, the amounts payable under finance leases within one year was approximately HK\$19.9 million (31 December 2016: approximately HK\$21.6 million), and in the second to fifth year inclusive was approximately HK\$28.3 million (31 December 2016: approximately HK\$35.3 million).

As at 30 June 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 with carrying amounts of approximately HK\$5.1 million as at 30 June 2017 (31 December 2016: approximately HK\$5.1 million); (ii) mortgage of the Group's leasehold land and buildings with carrying amounts of approximately HK\$16.9 million as at 30 June 2017 (31 December 2016: approximately HK\$17.2 million); (iii) pledge of the Group's available-for-sale financial assets with carrying values of approximately HK\$13.4 million as at 30 June 2017 (31 December 2016: approximately HK\$13.3 million); and (iv) pledge of the Group's trade receivables with aggregate values of approximately HK\$29.5 million as at 30 June 2017 (31 December 2016: approximately HK\$72.1 million).

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

ACQUISITION, DISPOSAL AND SIGNIFICANT INVESTMENT HELD

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

HUMAN RESOURCES

As at 30 June 2017, the Group employed 8,253 employees. Remuneration packages were generally structured by reference to market terms and individual qualifications and experience.

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

The unaudited interim financial results of the Group for the six months ended 30 June 2017 together with the comparative figures of 2016 are as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2017 — UNAUDITED

(EXPRESSED IN HONG KONG DOLLARS)

		For the six months ended 30 June	
		2017	2016
	<i>Note</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Revenue	4	571,122	538,122
Cost of services		(519,368)	(488,201)
Gross profit		51,754	49,921
Other income		447	3,066
Change in fair value less costs to sell of biological assets		1,314	236
Selling and marketing expenses		(583)	(985)
Administrative expenses		(32,688)	(29,028)
Profit from operations		20,244	23,210
Finance costs	5	(2,129)	(2,528)
Profit before taxation	6	18,115	20,682
Income tax	7	(2,983)	(3,353)
Profit for the period attributable to equity shareholders of the Company		15,132	17,329
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		35	(10)
Change in fair value of available-for-sale financial assets		112	133
Other comprehensive income		147	123
Total comprehensive income for the period attributable to equity shareholders of the Company		15,279	17,452
Earnings per share			
Basic and diluted (HK\$)	9	0.04	0.04

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2017 — UNAUDITED

(EXPRESSED IN HONG KONG DOLLARS)

		At 30 June 2017 <i>HK\$'000</i>	At 31 December 2016 <i>HK\$'000</i>
	<i>Note</i>		
Non-current assets			
Property, plant and equipment		151,538	156,628
Interest in associate		150	150
Available-for-sale financial assets		13,398	13,286
		<u>165,086</u>	<u>170,064</u>
Current assets			
Inventories		5,172	4,942
Trade receivables	10	234,368	251,905
Prepayments, deposits and other receivables	11	19,627	21,521
Biological assets		10,811	9,700
Pledged bank deposits		5,140	5,140
Cash and bank balances		56,624	55,735
		<u>331,742</u>	<u>348,943</u>
Current liabilities			
Trade payables	12	22,776	26,979
Accruals, deposits received and other payables		112,091	114,473
Bank borrowings		65,170	82,499
Obligations under finance leases		19,855	21,601
Tax payable		2,923	1,471
		<u>222,815</u>	<u>247,023</u>
Net current assets		<u>108,927</u>	<u>101,920</u>
Total assets less current liabilities		<u>274,013</u>	<u>271,984</u>
Non-current liabilities			
Obligations under finance leases		28,335	35,306
Deferred tax liabilities		10,826	10,507
		<u>39,161</u>	<u>45,813</u>
Net assets		<u>234,852</u>	<u>226,171</u>
Capital and reserves			
Share capital	13	4,150	4,150
Reserves		230,702	222,021
Total equity		<u>234,852</u>	<u>226,171</u>

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2017 — UNAUDITED

(EXPRESSED IN HONG KONG DOLLARS)

	Share capital <i>HK\$'000</i>	Share premium <i>HK\$'000</i>	Other reserve <i>HK\$'000</i>	Available- for-sale financial assets revaluation reserve <i>HK\$'000</i>	Share option reserve <i>HK\$'000</i>	Translation reserve <i>HK\$'000</i>	Retained earnings <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 January 2016	4,150	100,850	18,330	(738)	210	–	84,202	207,004
Profit for the period	–	–	–	–	–	–	17,329	17,329
Other comprehensive income for the period	–	–	–	133	–	(10)	–	123
Total comprehensive income for the period	–	–	–	133	–	(10)	17,329	17,452
Dividends approved in respect of the previous year (<i>note 8</i>)	–	–	–	–	–	–	(7,055)	(7,055)
Equity-settled share-based payments	–	–	–	–	502	–	–	502
At 30 June 2016	<u>4,150</u>	<u>100,850</u>	<u>18,330</u>	<u>(605)</u>	<u>712</u>	<u>(10)</u>	<u>94,476</u>	<u>217,903</u>
At 1 January 2017	4,150	100,850	18,330	(393)	1,196	(120)	102,158	226,171
Profit for the period	–	–	–	–	–	–	15,132	15,132
Other comprehensive income for the period	–	–	–	112	–	35	–	147
Total comprehensive income for the period	–	–	–	112	–	35	15,132	15,279
Dividends approved in respect of the previous year (<i>note 8</i>)	–	–	–	–	–	–	(7,055)	(7,055)
Equity-settled share-based payments	–	–	–	–	457	–	–	457
At 30 June 2017	<u>4,150</u>	<u>100,850</u>	<u>18,330</u>	<u>(281)</u>	<u>1,653</u>	<u>(85)</u>	<u>110,235</u>	<u>234,852</u>

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS*For the six months ended 30 June 2017 — UNAUDITED*

(EXPRESSED IN HONG KONG DOLLARS)

	For the six months ended 30 June	
	2017	2016
	HK\$'000	HK\$'000
Net cash generated from operating activities	42,896	44,677
Investing activities		
Payment for the purchase of property, plant and equipment	(6,207)	(14,849)
Payment for deposits	–	(6,000)
Other cash flows arising from investing activities	2,377	4,238
Net cash used in investing activities	(3,830)	(16,611)
Financing activities		
Proceeds from new bank borrowings	302,009	135,847
Repayment of bank borrowings	(319,338)	(187,849)
Dividend paid to equity shareholders of the Company	(7,055)	(7,055)
Other cash flows used in financing activities	(13,828)	(6,051)
Net cash used in financing activities	(38,212)	(65,108)
Net increase/(decrease) in cash and cash equivalents	854	(37,042)
Cash and cash equivalents at the beginning of the period	55,735	90,346
Effect of foreign exchange rates changes	35	(11)
Cash and cash equivalents at the end of the period	56,624	53,293
Analysis of the balances of cash and cash equivalents		
Cash and bank balances	56,624	53,293

NOTES

1. GENERAL INFORMATION

The Company was incorporated as exempted company with limited liability in the Cayman Islands on 8 November 2013. The ultimate holding company of the Company is Baguio Green (Holdings) 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, 93 King Lam Street, Lai Chi Kok, Kowloon, Hong Kong.

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

2. BASIS OF PREPARATION

The interim financial results set out in this announcement do not constitute the Group’s interim financial report for the six months ended 30 June 2017 but are extracted from that interim financial report.

The interim financial report has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, including compliance with Hong Kong Accounting Standard (“HKAS”) 34, *Interim financial reporting*, issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”). It was authorised for issue on 30 August 2017.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2016 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2017 annual financial statements. Details of any changes in accounting policies are set out in note 3.

The preparation of an interim financial report in conformity with HKAS 34 requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates.

The interim financial report contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2016 annual financial statements. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for full set of financial statements prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”).

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

The financial information relating to the financial year ended 31 December 2016 that is included in the interim financial report as comparative information does not constitute the Company’s annual consolidated financial statements for that financial year but is derived from those financial statements.

3. CHANGES IN ACCOUNTING POLICIES

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

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

4. SEGMENT INFORMATION

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

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

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

Segment revenue and results

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

	Cleaning services business HK\$'000	Landscaping services business HK\$'000	Pest management business HK\$'000	Waste management and recycling business HK\$'000	Total HK\$'000
Six months ended 30 June 2017					
Segment revenue	<u>423,850</u>	<u>72,452</u>	<u>20,692</u>	<u>54,128</u>	<u>571,122</u>
Segment results	<u>29,855</u>	<u>12,209</u>	<u>2,474</u>	<u>6,633</u>	<u>51,171</u>
Other income					447
Change in fair value less costs to sell of biological assets					1,314
Administrative expenses					(32,688)
Finance costs					<u>(2,129)</u>
Profit before taxation					<u><u>18,115</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>
Six months ended 30 June 2016					
Segment revenue	<u>397,828</u>	<u>58,054</u>	<u>25,459</u>	<u>56,781</u>	<u>538,122</u>
Segment results	<u>27,957</u>	<u>10,027</u>	<u>3,039</u>	<u>7,913</u>	<u>48,936</u>
Other income					3,066
Change in fair value less costs to sell of biological assets					236
Administrative expenses					(29,028)
Finance costs					<u>(2,528)</u>
Profit before taxation					<u><u>20,682</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 30 June 2017					
Segment assets	284,338	73,246	30,343	102,532	490,459
Unallocated					<u>6,369</u>
Total assets					<u><u>496,828</u></u>
Segment liabilities	175,003	28,815	16,166	41,063	261,047
Unallocated					<u>929</u>
Total liabilities					<u><u>261,976</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 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>

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 interim period.

5. FINANCE COSTS

	For the six months ended 30 June	
	2017	2016
	<i>HK\$'000</i>	<i>HK\$'000</i>
Interest on:		
Bank overdrafts	5	2
Bank loans	1,221	1,385
Obligations under finance leases	903	1,141
	<u>2,129</u>	<u>2,528</u>

6. PROFIT BEFORE TAXATION

	For the six months ended 30 June	
	2017	2016
	HK\$'000	HK\$'000
Profit before taxation is arrived at after charging/(crediting):		
Depreciation	11,796	11,748
Loss on disposal of property, plant and equipment	174	507
Cost of consumables goods	19,372	19,946
Government grants*	(276)	(2,852)
Staff costs (including directors' remuneration)		
Wages, salaries and other benefits	444,572	411,170
(Reversal of)/provision for long service payments	(745)	140
Provision for untaken paid leave	3,056	4,620
Contributions to defined contribution retirement scheme	14,705	14,287
Equity-settled share-based payments	457	502
	<u>462,045</u>	<u>430,719</u>
Operating lease rentals: minimum lease payments		
Machinery and motor vehicles	11,065	9,810
Land and buildings	2,748	2,398
	<u>13,813</u>	<u>12,208</u>

* Government grants of HK\$276,000 (six months ended 30 June 2016: HK\$2,852,000) were granted during the six months ended 30 June 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. INCOME TAX

	For the six months ended 30 June	
	2017	2016
	HK\$'000	HK\$'000
Current tax:		
Hong Kong Profits Tax	2,664	3,389
Deferred tax	<u>319</u>	<u>(36)</u>
	<u>2,983</u>	<u>3,353</u>

The provision for Hong Kong Profits Tax is calculated by applying the estimated annual effective tax rate of 16.5% (six months ended 30 June 2016: 16.5%) on the estimated assessable profit for the six months ended 30 June 2017.

8. DIVIDENDS

**For the six months
ended 30 June**
2017 2016
HK\$'000 **HK\$'000**

Final dividend in respect of the previous financial year, approved and paid during the following interim period, of HK1.7 cents per share (six months ended 30 June 2016: HK1.7 cents per share)

	7,055	7,055
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The directors of the Company do not recommend the payment of any interim dividend for the six months ended 30 June 2017 (six months ended 30 June 2016: Nil).

9. EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of the basic earnings per share is based on the profit for the period attributable to ordinary equity shareholders of the Company of HK\$15,132,000 (six months ended 30 June 2016: HK\$17,329,000) and the weighted average number of 415,000,000 (six months ended 30 June 2016: 415,000,000) ordinary shares in issue during the interim period.

(b) Diluted earnings per share

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

10. TRADE RECEIVABLES

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

	At 30 June 2017 HK\$'000	At 31 December 2016 HK\$'000
Within 60 days	185,825	189,624
Over 60 days but within 120 days	42,018	53,575
Over 120 days but within 365 days	5,039	7,651
Over 365 days	1,486	1,055
	234,368	251,905

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 customer's creditworthiness and the length of business relationship.

Receivables that were past due but not impaired included in the trade receivables relate to a number of independent customers that have a good track record with the Group. Management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit risk and the balances are considered fully recoverable. The Group does not hold any collateral over those balances. No impairment loss was recognised by the Group at 30 June 2017 (31 December 2016: Nil).

11. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

Included in prepayments, deposits and other receivables as at 30 June 2017 is a gross amount of HK\$4,500,000 (31 December 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 six months ended 30 June 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 period.

12. TRADE PAYABLES

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

	At 30 June 2017 HK\$'000	At 31 December 2016 HK\$'000
Within 30 days	16,527	15,906
Over 30 days but within 60 days	3,209	6,635
Over 60 days but within 90 days	467	535
Over 90 days	2,573	3,903
	<u>22,776</u>	<u>26,979</u>

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

13. SHARE CAPITAL

	Number of shares	Nominal value HK\$
Authorised: <i>Ordinary shares of HK\$0.01 each</i>		
As at 31 December 2016, 1 January 2017 and 30 June 2017	<u>1,000,000,000</u>	<u>10,000,000</u>
Issued and fully paid: <i>Ordinary shares of HK\$0.01 each</i>		
As at 31 December 2016, 1 January 2017 and 30 June 2017	<u>415,000,000</u>	<u>4,150,000</u>

14. NON-ADJUSTING EVENTS AFTER THE REPORTING PERIOD

Purchase of Property

In July 2017, the Group entered in to an agreement for the purchase of additional office premises in Hong Kong with a consideration of HK\$12,400,000.

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

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

CORPORATE GOVERNANCE

The Company is committed to maintain high standards of corporate governance to safeguard the interests of shareholders and to enhance corporate value and accountability. The Company has complied with all applicable code provisions under the Corporate Governance Code (the "CG Code") as set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules") throughout the six months ended 30 June 2017. The Company will continue to review and enhance its corporate governance practices to ensure compliance with the CG Code.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules as its own code of conduct regarding directors' securities transactions. Having made specific enquiries with all directors of the Company, each of the directors has confirmed that he/she has complied with the required standards as set out in the Model Code throughout the six months ended 30 June 2017.

AUDIT COMMITTEE

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

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

EVENTS AFTER THE REPORTING PERIOD

Apart from those events disclosed in note 14 to the unaudited interim financial results on page 23, there is no other material event undertaken by the Company or the Group after 30 June 2017 and up to the date of this interim results announcement.

PUBLICATION OF INTERIM RESULTS AND INTERIM REPORT

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

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

Hong Kong, 30 August 2017

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