碧瑤
BAGUIO

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 2018

FINANCIAL SUMMARY

- Revenue for the six months ended 30 June 2018 amounted to approximately HK$688.0 million (1H2017: HK$571.1 million), representing an increase of approximately 20.5% as compared with the preceding period.
- Gross profit for the six months ended 30 June 2018 was approximately HK$47.4 million (1H2017: HK$51.8 million), representing a decrease of approximately 8.5% as compared with the preceding period.
- Net profit for the six months ended 30 June 2018 was approximately HK$12.6 million (1H2017: HK$15.1 million), representing a decrease of approximately 17.0% as compared with the preceding period.
- The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2018 (1H2017: 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 2018 (the "Period").

MARKET REVIEW

The first half of 2018 was challenging to Baguio as it experienced a more intense competition from local and regional players particularly in the cleaning business. However, it didn't prevent Baguio from devoting its commitment in exploring opportunities in the recycling business and stepping up from a recyclable waste collector to be one of the key players in processing of recyclable wastes in Hong Kong. Glass containers and plastic bottles are two types of wastes which the Government (the "Government") of the Hong Kong Special Administrative Region ("HKSAR") targeted in the first phase of environmental protection plan. In the past few years, the Government has been working in full swing to introduce multi-pronged environmental protection policies and programs, such as the Producer Responsibility Scheme ("PRS") on glass beverage containers, the proposed PRS on plastic bottles and the Municipal solid Waste Charging Scheme. Furthermore, the Government has been enhancing the funding and promotion on developing new technologies for waste recycling, with an aim to establish one-stop solutions to minimise waste disposal and to promote resources recycling. All the above create an ideal operating environment for Baguio's one-stop waste management and recycling business.

With a strong belief that resources recycling is the most efficient solution to Hong Kong's waste problem, the Group has, since 2014, been targeting to develop one-stop waste management and recycling solutions. The Group has successfully built its extensive waste collection network in the past four years and now, the Group is ready to steer forward to the next stage, waste processing, and eventually, the goal is to transform the processed recyclables into useful raw materials.

BUSINESS REVIEW

Baguio is a leading integrated environmental services provider with its footprint in a wide scope of comprehensive environmental service segments, ranging from cleaning, landscaping and pest management to waste management and recycling in Hong Kong. While the environmental service industry, especially the cleaning business sector, faced a keen competition in the first half of 2018, the Group's gross profit was adversely affected. The Group has been adopting new technologies to enhance the operation efficiency and better contract management to improve the gross profit margin. In the meantime, the Group is speeding up the development plan of its waste management and recycling business.

Further from gaining its first glass management contract and obtaining a tender lease in EcoPark for expanding its plastic waste recycling business in 2017, the Group, in the first half of 2018, kicked off the establishment of a glass and plastic bottles collection network. In addition, the Group also devoted resources to enhance public education and promotion, as well as enforce its operational support and fleet size. The glass processing factory in Tuen Mun commenced operation in May 2018. The Group is also planning to enhance the use of mobile applications to enhance the operational efficiency and accuracy. Although the initial expenses in these new projects would temporarily narrow the segment profit, Baguio believes that the waste recycling segment will be the future growth driver and the efforts made at this stage will be rewarded. With an extensive network and a strong operational support team, Baguio is ready to welcome the business opportunities brought by the PRS to be implemented in 2019 and 2020 respectively.

Results

For the Period, revenue of the Group was approximately HK$688.0 million, representing a growth of approximately 20.5% from approximately HK$571.1 million for the same period in 2017. This was mainly attributable to the Group's genuine efforts in gaining new and renewal contracts. Gross profit decreased by approximately 8.5% to approximately HK$47.4 million (1H2017: HK$51.8 million), and gross profit margin decreased by approximately 2.2 percentage point ("p.p.") to approximately 6.9% (1H2017: 9.1%). Decline in gross profit margin was mainly due to the increase in labor costs, particular in the cleaning segment. Profit attributable to equity shareholders of the Company amounted to approximately HK$12.6 million, representing a decline of approximately 17.0% year-on-year for the Period (1H2017: approximately HK$15.1 million) while the net profit margin decreased by approximately 0.8p.p. to approximately 1.8% (1H2017: 2.6%). Earnings per share was 3.03 HK cents (1H2017: 3.65 HK cents).

Interim Dividend

The Directors do not recommend the payment of an interim dividend for the Period (1H2017: Nil).

Revenue Breakdown of Major Business Segments

	For the six months ended 30 June				
	2018		2017		
	Revenue *(HK$ Million)*	**% of total revenue**	Revenue *(HK$ Million)*	% of total revenue	**Change**
Cleaning	**518.2**	**75.3%**	423.8	74.2%	+22.3%
Landscaping	**85.3**	**12.4%**	72.5	12.7%	+17.8%
Pest management	**23.5**	**3.4%**	20.7	3.6%	+13.4%
Waste management and recycling	**61.0**	**8.9%**	54.1	9.5%	+12.6%
Total	**688.0**	**100.0%**	571.1	100.0%	+20.5%

Gross Profit Margin of Major Business Segments

	For the six months ended 30 June		
	2018	2017	**Change**
Cleaning	**4.7%**	7.2%	-2.5 p.p.
Landscaping	**17.3%**	16.9%	+0.4 p.p.
Pest management	**11.6%**	12.0%	-0.4 p.p.
Waste management and recycling	**9.4%**	12.4%	-3.0 p.p.
Overall	**6.9%**	9.1%	-2.2 p.p.

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 the overall service segments, especially in its cleaning and landscaping segments by achieving approximately 22.3% and 17.8% revenue growth respectively. With the increasing demand for professional landscaping and arboriculture services, the landscaping segment still maintained higher gross profit margin. The overall gross profit margin dropped from 9.1% to 6.9% mainly due to increase in labor costs, especially in the cleaning segment. Initial operating expenses incurred with the new glass management contracts in the recycling segment also affected the gross profit margin. We shall continue to widen and deepen our recycling business which we expect to exhibit major growth in the near future.

Contracts on hand

As of 30 June 2018, the Group had a total amount of approximately HK$2,067.1 million worth of unexpired contracts on hand, among which, approximately HK$700.9 million would be recognised by the end of 2018; approximately HK$870.2 million would be recognised in 2019 and the rest of approximately HK$496.0 million would be recognised in 2020 and beyond.

	Unexpired contract value	**Contract value to be recognised by 31 December 2018**	**Contract value to be recognised by 31 December 2019**	**Contract value to be recognised in 2020 and beyond**
	(HK$ Million)	*(HK$ Million)*	*(HK$ Million)*	*(HK$ Million)*
Cleaning services	1,272.3	508.3	606.0	158.0
Landscaping services	259.6	114.7	108.7	36.2
Pest management services	40.5	16.1	24.1	0.3
Waste management and recycling services	494.7	61.8	131.4	301.5
Total	2,067.1	700.9	870.2	496.0

PROSPECTS

Looking into the second half of 2018, Baguio will continue to uphold its core philosophy to maintain a "Clean & Green" environment for the society. The Group will continue to focus on its core business in Hong Kong, primarily in the waste management and recycling business. Meanwhile, the Group will keep venturing into potential business opportunities in the People's Republic of China (the "PRC") market, especially in the Greater Bay Area, as it believes the demand for green and environmental protection services in the PRC will continue to grow. With the positive outlook of the environmental industry in Hong Kong and the PRC, coupled with its network, advanced operating systems as well as its successful track record, the Group believes it is in a good position and has absolute advantages for future business development.

As a leading environmental services provider in Hong Kong, Baguio will continue to strengthen its position in the existing cleaning, landscaping, pest control and waste management businesses to maintain a strong and sustainable growth, while actively expand its capacity and capability in recyclables collection, sorting and processing of a wider scope of recyclables, including plastics, glass bottles and horticultural waste which the HKSAR is particularly concerned with. Given the imminent waste and landfill problems in Hong Kong and the Government's determination to increase the recycling rate, there will be a lot of new opportunities emerging from the recycling industry. Riding on its existing collection network and resources, together with its extensive experience in the waste management industry and its long-term working relationship with the Government, the Group believes it is in an advance position to capture these emergent opportunities.

Looking ahead, Baguio will constantly seek projects with growth potential and good opportunities for mergers and acquisitions through integrating and improving the existing business portfolio, constantly summing up experience and keeping track of market trends, thus to make continuous contribution to the protection of global environment. The Group will also continue to keep a keen eye for potential strategic partnership or investment, in order to further unleash business synergies and to deliver greater and sustainable returns to its shareholders.

FINANCIAL REVIEW

Revenue

The Group's revenue for each of the six-month periods ended 30 June 2018 and 2017 were approximately HK$688.0 million and HK$571.1 million respectively, representing an increase of approximately 20.5%. The increase was mainly due to the overall increase in revenue in our services segments of cleaning and landscaping with increase in number of contracts and orders during the Period.

Cost of Services

For each of the six-month periods ended 30 June 2018 and 2017, the cost of services amounted to approximately HK$640.6 million and HK$519.4 million respectively, representing approximately 93.1% and approximately 90.9% 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 costs in the market.

Gross Profit

The Group's gross profit for the Period was approximately HK$47.4 million, representing a decrease of approximately 8.5% from approximately HK$51.8 million for the corresponding period in 2017. The decrease was mainly due to the keen competition in the market, coupled with an increase in labor costs, especially in the cleaning segment. The proportion of increment in cost of services was higher than the increase in revenue.

Gross Profit Margin

The gross profit margins of the Group for each of the six-month periods ended 30 June 2018 and 2017 were approximately 6.9% and approximately 9.1% respectively. The decrease in gross profit margin was mainly due to the increase in direct labor costs in light of the labor intensive nature of our businesses.

Change in Fair Value Less Costs to Sell of Biological Assets

The Group's biological assets consist of trees, plants and flowers located at the Group's nurseries in the PRC and Hong Kong. The gain in fair value of biological assets for each of the six-month periods ended 30 June 2018 and 2017 were approximately HK$1.5 million and HK$1.3 million respectively, representing an increase of approximately 11.7%. The Group continued to store and plant these biological assets for future landscaping projects.

Selling and Marketing Expenses

The selling and marketing expenses of the Group for each of the six-month periods ended 30 June 2018 and 2017 were approximately HK$1.0 million and HK$0.6 million respectively. The increase was mainly due to the increased promotional activities and channels to promote our recycling business and to enhance the public awareness of environmental protection and waste recycling.

Administrative Expenses

The administrative expenses of the Group for each of the six-month periods ended 30 June 2018 and 2017 were approximately HK$31.2 million and HK$32.7 million respectively, representing approximately 4.5% and approximately 5.7% of the respective period's revenue. The Group continued to implement its budget cost control measures for administrative expenses during the Period. A provision of approximately HK$2.3 million was made for the six-month period ended 30 June 2017.

Finance Costs

The finance costs amounted to approximately HK$2.3 million and HK$2.1 million for each of the six-month periods ended 30 June 2018 and 2017 respectively, representing approximately 0.3% and 0.4% of the Group's revenue respectively.

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 2018 and 2017 were approximately HK$12.6 million and HK$15.1 million respectively, representing a decrease of approximately 17.0%. 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$2.7 million (1H2017: $42.9 million). As at 30 June 2018, the Group had available cash and bank balances amounting to approximately HK$38.3 million (31 December 2017: HK$48.0 million), representing a decrease of approximately 20.3% from 31 December 2017.

As at 30 June 2018, the Group's total current assets and current liabilities were approximately HK$404.8 million (31 December 2017: HK$369.4 million) and HK$327.6 million (31 December 2017: HK$280.4 million) respectively, while the current ratio was approximately 1.2 times (31 December 2017: 1.3 times).

As at 30 June 2018, the Group's finance lease payables were approximately HK$32.9 million (31 December 2017: HK$42.4 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 0.7 times as at 30 June 2018 (31 December 2017: 0.6 times), which was calculated based on the total interest-bearing bank borrowings and obligations under finance leases over total equity of the Group.

As at 30 June 2018, the Group had unutilised banking facilities of approximately HK$176.1 million (31 December 2017: HK$151.3 million).

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 Period, 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.

USE OF PROCEEDS

The shares of the Company were listed on the Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 22 May 2014 and the Company raised net proceeds of approximately HK$90.0 million. During the period between the date of the listing of the shares of the Company to 30 June 2018, the net proceeds were used for the following purposes:

Summary of use of proceeds

	Available *(HK$ Million)*	Utilised *(HK$ Million)*	Unutilised *(HK$ Million)*
Acquisition of vehicles and equipment for expanding and broadening for existing services	18.4	18.4	–
Development and expansion of waste management and recycling services	9.9	9.9	–
Enhancing operation efficiency and quality services	11.7	11.7	–
Working capital and other general purposes	35.0	35.0	–
Development in glass and plastic management projects	15.0	15.0	–
	90.0	90.0	–

CAPITAL COMMITMENT

As at 30 June 2018, the Group had capital commitment contracted for of approximately HK$5.2 million (31 December 2017: HK$3.3 million) in respect of the acquisition of motor vehicles, equipment and machinery and capital commitment authorised, but not contracted for of approximately HK$92.4 million (31 December 2017: HK$100.0 million).

CHARGES ON THE GROUP'S ASSETS

As at 30 June 2018, the amounts payable under finance leases within one year was approximately HK$15.9 million (31 December 2017: HK$18.3 million), and in the second to fifth year inclusive was approximately HK$17.1 million (31 December 2017: HK$24.1 million).

As at 30 June 2018, 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 30 June 2018 (31 December 2017: HK$5.1 million); (ii) mortgage of the Group's leasehold land and buildings of approximately HK$29.4 million as at 30 June 2018 (31 December 2017: HK$29.9 million); (iii) pledge of the Group's financial assets at fair value through profit or loss of approximately HK$13.7 million as at 30 June 2018 (31 December 2017: available-for-sale financial assets of HK$13.6 million); and (iv) pledge of the Group's trade receivables of approximately HK$52.7 million as at 30 June 2018 (31 December 2017: HK$37.8 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.

CONTINGENT LIABILITIES

As at 30 June 2018, the Group did not have any material contingent liabilities.

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 2018, the Group employed 9,602 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 consolidated interim financial results of the Group for the six months ended 30 June 2018 together with the comparative figures of 2017 are as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2018 — UNAUDITED
(EXPRESSED IN HONG KONG DOLLARS)

		For the six months ended 30 June	
		2018	2017
	Note	***HK$'000***	*HK$'000*
Revenue	*4*	**687,999**	571,122
Cost of services		**(640,636)**	(519,368)
Gross profit		**47,363**	51,754
Other income		**344**	447
Change in fair value less costs to sell of biological assets		**1,468**	1,314
Selling and marketing expenses		**(1,030)**	(583)
Administrative expenses		**(31,173)**	(32,688)
Profit from operations		**16,972**	20,244
Finance costs	*5*	**(2,281)**	(2,129)
Profit before taxation	*6*	**14,691**	18,115
Income tax	*7*	**(2,131)**	(2,983)
Profit for the period attributable to equity shareholders of the Company		**12,560**	15,132
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		**(69)**	35
Change in fair value of available-for-sale financial assets *(note (ii))*		**–**	112
Other comprehensive income		**(69)**	147
Total comprehensive income for the period attributable to equity shareholders of the Company		**12,491**	15,279
Earnings per share			
Basic and diluted (HK cents)	*9*	**3.03**	3.65

notes:

(i) The Group has initially applied HKFRS 15 and HKFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information is not restated. See note 3.

(ii) This amount arose under the accounting policies applicable prior to 1 January 2018. As part of the opening balance adjustments as at 1 January 2018 the balance of this reserve has been reclassified to retained earnings and will not be reclassified to profit or loss in any future periods. See note 3(b).

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 30 June 2018 — UNAUDITED
(EXPRESSED IN HONG KONG DOLLARS)

	Note	**At 30 June 2018** *HK$'000*	At 31 December 2017 *HK$'000*
Non-current assets			
Property, plant and equipment		**177,286**	167,210
Available-for-sale financial assets		**–**	13,596
Financial assets at fair value through profit or loss		**13,700**	–
Prepayments and deposits		**7,668**	5,764
		198,654	186,570
Current assets			
Inventories		**4,504**	4,539
Contract assets		**6,658**	–
Trade receivables	*10*	**315,048**	285,889
Prepayments, deposits and other receivables	*11*	**20,171**	13,830
Biological assets		**15,070**	12,031
Pledged bank deposits		**5,140**	5,141
Cash and bank equivalents		**38,250**	47,983
		404,841	369,413
Current liabilities			
Trade payables	*12*	**26,718**	21,125
Accruals, deposits received and other payables		**150,000**	131,051
Bank borrowings		**133,074**	108,712
Obligations under finance leases		**15,867**	18,289
Tax payable		**1,946**	1,218
		327,605	280,395
Net current assets		**77,236**	89,018
Total assets less current liabilities		**275,890**	275,588
Non-current liabilities			
Obligations under finance leases		**17,077**	24,067
Deferred tax liabilities		**11,241**	10,630
		28,318	34,697
Net assets		**247,572**	240,891
Capital and reserves			
Share capital	*13*	**4,150**	4,150
Reserves		**243,422**	236,741
Total equity		**247,572**	240,891

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2018 — UNAUDITED

(EXPRESSED IN HONG KONG DOLLARS)

	Share capital *HK$'000*	Share premium *HK$'000*	Other reserve *HK$'000*	Available-for-sale financial assets revaluation reserve *HK$'000*	Share option reserve *HK$'000*	Translation reserve *HK$'000*	Retained earnings *HK$'000*	Total *HK$'000*
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 *(note 8)*	–	–	–	–	–	–	(7,055)	(7,055)
Equity-settled share-based payments	–	–	–	–	457	–	–	457
At 30 June 2017	4,150	100,850	18,330	(281)	1,653	(85)	110,235	234,852
At 31 December 2017	**4,150**	**100,850**	**18,330**	**(83)**	**1,911**	**14**	**115,719**	**240,891**
Impact on initial application of HKFRS 9 *(note 3(b))*	**–**	**–**	**–**	**83**	**–**	**–**	**(83)**	**–**
Adjusted at 1 January 2018	**4,150**	**100,850**	**18,330**	**–**	**1,911**	**14**	**115,636**	**240,891**
Profit for the period	**–**	**–**	**–**	**–**	**–**	**–**	**12,560**	**12,560**
Other comprehensive income for the period	**–**	**–**	**–**	**–**	**–**	**(69)**	**–**	**(69)**
Total comprehensive income for the period	**–**	**–**	**–**	**–**	**–**	**(69)**	**12,560**	**12,491**
Dividends approved in respect of the previous year *(note 8)*	**–**	**–**	**–**	**–**	**–**	**–**	**(5,810)**	**(5,810)**
Share options lapsed	**–**	**–**	**–**	**–**	**(108)**	**–**	**108**	**–**
At 30 June 2018	**4,150**	**100,850**	**18,330**	**–**	**1,803**	**(55)**	**122,494**	**247,572**

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
For the six months ended 30 June 2018 — UNAUDITED
(EXPRESSED IN HONG KONG DOLLARS)

	For the six months ended 30 June	
	2018	2017
	HK$'000	*HK$'000*
Net cash generated from operating activities	**2,677**	42,896
Investing activities		
Payment for the purchase of property, plant and equipment	**(27,218)**	(6,207)
Other cash flows arising from investing activities	**2,856**	2,377
Net cash used in investing activities	**(24,362)**	(3,830)
Financing activities		
Proceeds from new bank borrowings	**462,355**	302,009
Repayment of bank borrowings	**(437,993)**	(319,338)
Dividend paid to equity shareholders of the Company	**–**	(7,055)
Other cash flows used in financing activities	**(12,341)**	(13,828)
Net cash generated from/(used in) financing activities	**12,021**	(38,212)
Net (decrease)/increase in cash and cash equivalents	**(9,664)**	854
Cash and cash equivalents at the beginning of the period	**47,983**	55,735
Effect of foreign exchange rates changes	**(69)**	35
Cash and cash equivalents at the end of the period	**38,250**	56,624

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. 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 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 2018, 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 2018.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2017 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2018 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 2017 annual financial statements. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for a 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 2017 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

(a) Overview

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

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

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

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

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

(b) Classification of financial assets

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

— investments in life insurance held by the Group of HK$13,596,000 at 31 December 2017, which were classified as available-for-sale financial assets under HKAS 39, were reclassified as financial assets at fair value through profit or loss at 1 January 2018; and

— debit balance of available-for-sale financial assets revaluation reserve amounting to HK$83,000 at 31 December 2017 was transferred to retained earnings at 1 January 2018.

(c) Presentation of contract assets and liabilities

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

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

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

4. SEGMENT INFORMATION

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

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

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

Segment revenue and results

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

	Cleaning services business *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 2018					
Revenue from external customers and reportable segment revenue recognised over time	**518,240**	**85,329**	**23,456**	**60,974**	**687,999**
Segment results	**23,642**	**14,645**	**2,720**	**5,326**	**46,333**
Other income					**344**
Change in fair value less costs to sell of biological assets					**1,468**
Administrative expenses					**(31,173)**
Finance costs					**(2,281)**
Profit before taxation					**14,691**

	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					
Revenue from external customers and reportable segment revenue recognised over time	423,850	72,452	20,692	54,128	571,122
Segment results	29,855	12,209	2,474	6,633	51,171
Other income					447
Change in fair value less costs to sell of biological assets					1,314
Administrative expenses					(32,688)
Finance costs					(2,129)
Profit before taxation					18,115

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 30 June 2018					
Segment assets	**373,299**	**83,176**	**27,984**	**108,615**	**593,074**
Unallocated					**10,421**
Total assets					**603,495**
Segment liabilities	**270,455**	**27,050**	**16,365**	**35,408**	**349,278**
Unallocated					**6,645**
Total liabilities					**355,923**

	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					5,357
Total assets					555,983
Segment liabilities	233,587	25,827	17,426	37,201	314,041
Unallocated					1,051
Total liabilities					315,092

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 interim period.

5. FINANCE COSTS

	For the six months ended 30 June	
	2018	2017
	HK$'000	*HK$'000*
Interest on:		
Bank overdrafts	**18**	5
Bank loans	**1,621**	1,221
Obligations under finance leases	**642**	903
	2,281	2,129

6. PROFIT BEFORE TAXATION

	For the six months ended 30 June	
	2018	2017
	HK$'000	*HK$'000*
Profit before taxation is arrived at after charging/(crediting):		
Depreciation	**13,468**	11,796
Loss on disposal of property, plant and equipment	**17**	174
Cost of consumables goods	**21,988**	19,372
Government grants*	**(202)**	(276)
Staff costs (including directors' remuneration):		
Wages, salaries and other benefits	**541,881**	444,572
Provision/(reversal of) for long service payments	**4,487**	(745)
Provision for untaken paid leave	**6,084**	3,056
Contributions to defined contribution retirement scheme	**17,012**	14,705
Equity-settled share-based payments	**–**	457
	569,464	462,045
Operating lease rentals: minimum lease payments		
Machinery and motor vehicles	**15,330**	11,065
Land and buildings	**2,907**	2,748
	18,237	13,813

* Government grants of HK$202,000 (six months ended 30 June 2017: HK$276,000) were granted during the six months ended 30 June 2018 in respect of phasing out certain diesel commercial vehicles by the Group. There were no unfulfilled conditions and other contingencies attached to the receipt of those grants. There is no assurance that the Group will continue to receive such grant in the future.

7. INCOME TAX

	For the six months ended 30 June	
	2018	2017
	HK$'000	*HK$'000*
Current tax:		
Hong Kong Profits Tax	**1,519**	2,664
Deferred tax	**612**	319
	2,131	2,983

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 2017: 16.5%) on the estimated assessable profit for the six months ended 30 June 2018.

8. DIVIDENDS

	For the six months ended 30 June	
	2018	2017
	HK$'000	*HK$'000*
Final dividend in respect of the previous financial year, was approved and recognised during the following interim period, of HK1.4 cents (six months ended 30 June 2017: HK1.7 cents) per ordinary share	**5,810**	7,055

The directors of the Company do not recommend the payment of any interim dividend for the six months ended 30 June 2018 (six months ended 30 June 2017: 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$12,560,000 (six months ended 30 June 2017: HK$15,132,000) and the weighted average number of 415,000,000 (six months ended 30 June 2017: 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 2018	At 31 December 2017
	HK$'000	*HK$'000*
Within 60 days	**236,256**	212,469
Over 60 days but within 120 days	**66,480**	63,016
Over 120 days but within 365 days	**12,288**	9,273
Over 365 days	**24**	1,131
	315,048	285,889

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.

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, 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 2018 (31 December 2017: Nil).

11. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

Included in prepayments, deposits and other receivables as at 30 June 2018 is a gross amount of HK$4,500,000 (31 December 2017: HK$4,500,000) due from Shanghai Genyuan Environmental Co., Limited ("Shanghai Genyuan", a company principally engaged in harmless treatment of organic wastes and resources utilisation in the People's Republic of China) in respect of a refundable deposit in relation to the proposed acquisition of certain equity interest in Shanghai Genyuan. The proposed acquisition was terminated during year ended 31 December 2016 as the Group could not reach an agreement with the seller on certain crucial terms. During the year ended 31 December 2017, the Group agreed with Shanghai Genyuan on the repayment schedule of the outstanding balance but certain scheduled payments were subsequently defaulted. The Group has taken legal action against Shanghai Genyuan and the guarantors, and a provision of HK$2,250,000 was made as at 30 June 2018 (31 December 2017: HK$2,250,000).

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 2018 *HK$'000*	At 31 December 2017 *HK$'000*
Within 30 days	**18,606**	12,413
Over 30 days but within 60 days	**4,849**	6,634
Over 60 days but within 90 days	**758**	805
Over 90 days	**2,505**	1,273
	26,718	21,125

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

13. SHARE CAPITAL

	Number of shares	**Nominal value** *HK$*
Authorised:		
Ordinary shares of HK$0.01 each		
As at 1 January 2017, 31 December 2017, 1 January 2018 and 30 June 2018	1,000,000,000	10,000,000
Issued and fully paid:		
Ordinary shares of HK$0.01 each		
As at 1 January 2017, 31 December 2017, 1 January 2018 and 30 June 2018	415,000,000	4,150,000

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 2018. 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 2018.

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.

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 of the Company 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 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.