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BAGUIO GREEN GROUP LIMITED

碧瑤綠色集團有限公司

(Incorporated in Cayman Islands with limited liability)

(Stock Code: 1397)

**INTERIM RESULTS ANNOUNCEMENT
FOR THE SIX MONTHS ENDED 30 JUNE 2020**

FINANCIAL SUMMARY

- Revenue for the six months ended 30 June 2020 amounted to approximately HK\$591.1 million (1H2019: HK\$719.1 million), representing a decrease of approximately 17.8% as compared with the preceding period.
- Gross profit for the six months ended 30 June 2020 was approximately HK\$33.0 million (1H2019: HK\$42.9 million), representing a decrease of approximately 23.1% as compared with the preceding period.
- Other income for the six months ended 30 June 2020 was approximately HK\$21.8 million (1H2019: HK\$1.2 million), representing an increase of approximately 16.8 times as compared with the preceding period.
- Profit attributable to equity shareholders of the Group for the six months ended 30 June 2020 was approximately HK\$11.2 million (1H2019: HK\$3.8 million), representing an increase of approximately 191.0% as compared with the preceding period.
- The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2020 (1H2019: 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 2020 (the “Period”).

MARKET REVIEW

The outbreak of the coronavirus (COVID-19) has taken a devastating human toll and brought catastrophic impact to social and economic sectors around the world, including Hong Kong where has suffered a massive economic hit in the first half of 2020. The slowdown and suspension of business activities within the city and with its trading partners, coupled with the associated anti-epidemic lockdown measures, have seriously disrupted local economic activities and supply chains. According to the Census and Statistics Department, Hong Kong's real GDP recorded a significant decrease of 9.0% year-on-year (YoY) in the second quarter alone. Against a backdrop of rising awareness of environmental and personal hygiene, the environmental and cleaning industry in Hong Kong has coped better than others in the service sectors benefiting from increased social demand for cleansing and disinfection services.

The HK\$80 billion Employment Support Scheme introduced by the Hong Kong Government (the "Government") in April 2020 to alleviate the impact of the pandemic has helped service companies like ours to cushion the near-term economic blow from the pandemic. Nonetheless, the environmental and cleaning industry still faces severe long-term impacts as more corporations adopt stringent measures to control operating costs to ensure long-term survival.

The environmental protection and recycling sector in Hong Kong is facing unprecedented challenges as consumers adapt their spending habits and attitudes during the crisis. For example, the consumption of protective equipment (PPE) and daily single-use items from both the medical sector and households, such as face masks, hand sanitisers, cleaning supplies, disposable cutlery and take-out dining waste, has skyrocketed. According to green experts in Hong Kong, the volume of single-use plastics distributed for takeaway meals during the pandemic is 2.2 times higher than the corresponding period in 2019. This has exerted tremendous pressure on domestic waste collection, disposal and recycling activities. Making matters worse, constraints brought about to control the virus greatly increased the difficulties for recyclers to collect and manage waste, as recycling plant operation ground to a halt. The ongoing delay in implementing the Legislative Council's Municipal Solid Waste (MSW) Charging Scheme, which was formally introduced in 2018 and taxes residents according to the amount waste they generate, is putting the entire recycling industry at risk.

Overall, the Government has been supportive of the Hong Kong environmental industry. In the 2020–2021 Budget, the administration announced the extension of the Cleaner Production Partnership Programme to March 2025, with funding of HK\$300 million to encourage factories to improve environmental quality. In addition, HK\$300 million has been earmarked for the launch of a waste-paper recycling scheme. Under COVID-19, the Government has also adopted two subsidy schemes for recycling facilities currently financed by its recycling fund. The first is the One-off Rental Support Scheme (ORSS), which assists recycling facilities by covering 50% of their rent or up to HK\$25,000. The second is the One-off Recycling Industry Anti-epidemic Scheme (ORIAS), which subsidises recycling facilities' operational costs at HK\$20,000 per month.

The Government also launched the Reduce & Recycle 2.0 Campaign in June 2020 to encourage the public to go green in support of a green recovery and circular economy while fighting COVID-19. By collaborating with the Environmental Campaign Committee (ECC), this initiative will promote a range of themes, including establishing different types of recyclables, promoting the community recycling network and raising public awareness of plastic-free living by encouraging people to avoid single-use plastic tableware and packaging materials.

BUSINESS REVIEW

The adverse economic impact of COVID-19 combined with keen market competition, has made the first half of 2020 a challenging time for Baguio. During the Period, the Group's revenue was approximately HK\$591.1 million, representing a decrease of approximately 17.8% from approximately HK\$719.1 million for the corresponding period in 2019. Gross profit decreased by approximately 23.1% to approximately HK\$33.0 million (1H2019: HK\$42.9 million) and gross profit margin decreased by 0.4 percentage points ("p.p") to approximately 5.6% (1H2019: 6.0%). Profit attributable to equity shareholders of the Company amounted to approximately HK\$11.2 million, representing a year-on-year increase of approximately 191.0% (1H2019: HK\$3.8 million), with net profit margin increased by approximately 1.4 p.p to approximately 1.9% (1H2019: 0.5%).

The decline in revenue and profit was mainly attributable to the expiry of several sizable cleaning services contracts, as well as a changing customer mix during the Period. In order to maintain a reasonable profit margin, the Group has been working to expand its clientele to include more public institutions and private residential estates. During the Period, the Group secured the new contract with the Hospital Authority for the provision of domestic and transportation service for Caritas Medial Centre, Kwai Chung Hospital and North Lantau Hospital, and new contracts with other government departments, including Hong Kong Police Force and Correctional Services Department, for the provision of cleaning services.

As one of the largest integrated environmental service providers in Hong Kong, Baguio carries out stringent infection control measures to safeguard the wellbeing of frontline staff, including providing all necessary PPE, such as medical surgical masks, alcohol sanitiser and gloves. However, the shortage of PPE during the initial days of the outbreak drove the cost of supplies up, which added further pressure on our operational expenses. Although the price of PPE has stabilised, we expect the added expense of PPE for staff to continue for some time.

In the landscaping business sector Baguio has increased its investment and manpower on seedling production with a strategic objective of expanding into large-scale landscaping projects. In recent years the demand for better living environments and improved living standards has been on the rise in both Hong Kong and the PRC. Following the introduction of tougher greening policies from the Hong Kong Government, the Group is anticipating strong demand for quality landscaping in the future, as the economic activities begin to resume.

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

During the COVID-19 crisis, the need for pest control services surged, with demand from commercial buildings such as offices, hotels and restaurants, bolstered by increased hygiene awareness.

In terms of the waste management and recycling business, the Group secured contracts with the Environmental Protection Department for providing collection and recycling services of paper recyclable materials as well as with the Airport Authority Hong Kong in providing food waste collection and recycling services. These contracts have further extended our waste recycling and collection networks in Hong Kong. Nonetheless, the coronavirus crisis has dealt a double whammy to the recycling industry, which was already reeling by the social unrest at the end of 2019 and was further hampered as the collection of empty bottles came to a near halt as bars, restaurants and nightclubs were closed or suspended during the lockdown.

However, in April 2020, to promote clean recycling and build public recycling habits, Baguio launched the “iRecycle” mobile APP, a one-stop recycling platform powered by blockchain technology to recycle plastic bottles (Type 1 and Type 2) and glass bottles at designated collection points. The registered users can earn points in return for discount coupons redemption provided by our merchant partners. With the support of our partners, almost 40 bottle collection points were launched and “Door to door bottle collection services” will be implemented shortly. We successfully collected over 64,000 plastic and glass bottles through “iRecycle” in the first 100 days since launch.

Apart from plastic and glass bottles, as a key player in processing recyclable wastes in Hong Kong, Baguio strives to expand its recycling network and broaden the type of recyclables by exploring the processing of other materials such as food waste and paper.

Interim Dividend

The Directors do not recommend the payment of an interim dividend for the Period (1H2019: Nil).

Revenue Breakdown of Major Business Segments

	For the six months ended 30 June				Change
	2020		2019		
	Revenue (HK\$ million)	% of total revenue	Revenue (HK\$ million)	% of total revenue	
Cleaning	361.7	61.2%	513.5	71.5%	-29.6%
Landscaping	97.9	16.6%	97.2	13.5%	+0.8%
Pest management	51.7	8.7%	27.6	3.8%	+87.3%
Waste management and recycling	79.8	13.5%	80.8	11.2%	-1.3%
Total	591.1	100.0%	719.1	100.0%	-17.8%

Gross Profit Margin of Major Business Segments

	For the six months ended 30 June		
	2020	2019	Change
Cleaning	2.5%	2.8%	-0.3 p.p.
Landscaping	13.1%	18.7%	-5.6 p.p.
Pest management	5.4%	9.2%	-3.8 p.p.
Waste management and recycling	10.6%	9.5%	+1.1 p.p.
Overall	5.6%	6.0%	-0.4 p.p.

During the Period, the Group delivered satisfactory results in the pest management segment by achieving nearly 87.3% revenue growth though the profit margin has dropped due to keen competition. This encouraging result was attributable to the Group's enormous effort in securing new contracts. The demand for professional landscaping and arboriculture services is still keen. However, due to the progress delays of the landscaping projects and increase in cost, the gross profit margin of the landscaping segment dropped from approximately 18.7% to approximately 13.1%.

Despite the decrease in revenue from our cleaning segment, the Group has still successfully been awarded new contracts with government departments, including the Food and Environmental Hygiene Department, the Hong Kong Police Force and the Correctional Services Department for provision of cleaning and pest control services and continued to control costs on the operation during the Period. The Group recorded a decrease in the overall gross profit margin from approximately 6.0% to approximately 5.6% due to the increase in labour costs, especially in the cleaning segment. Nonetheless, the gross profit margin of the Group at approximately 5.6% for the six months ended 30 June 2020 is better than that of the Group at approximately 5.0% for the year ended 31 December 2019.

Contracts on Hand

As of 30 June 2020, the Group had a total amount of approximately HK\$1,974.4 million worth of unexpired contracts on hand, among which, approximately HK\$517.4 million would be recognised by the end of 2020; approximately HK\$736.8 million would be recognised in 2021 and the rest of approximately HK\$720.2 million would be recognised in 2022 and beyond.

	Backlog contract value (HK\$ million)	Contract value to be recognised by 31 December 2020 (HK\$ million)	Contract value to be recognised by 31 December 2021 (HK\$ million)	Contract value to be recognised in 2022 and beyond (HK\$ million)
Cleaning services	1,390.7	326.8	529.4	534.5
Landscaping services	115.1	60.6	41.4	13.1
Pest management services	176.5	50.1	70.2	56.2
Waste management and recycling services	292.1	79.9	95.8	116.4
Total	1,974.4	517.4	736.8	720.2

PROSPECTS

The World Health Organization (WHO) has warned that COVID-19 is likely to co-exist with humans for an extended period. To alleviate the long term impact of the pandemic, the Hong Kong Government has allocated HK\$5,903.1 million in environmental hygiene and related services in 2020–2021, representing a significant increase of 19.5%. We believe the rising demand for better hygiene will create more business opportunities for our high quality cleaning and disinfection services, especially among government premises, commercial buildings and restaurants.

The Group remains unwavering in its commitment to continuously promote the recycling business in Hong Kong, and is confident in its mission to be an industry pioneer. Currently, over 5 million tonnes of waste are disposed of each year in the three strategic landfills which were nearly saturated. Although landfills extension projects have begun, the long-term waste problem can only be resolved through wide adoption of a robust local recycling economy.

The Group is confident in the long-term prospects of the local recycling industry. Our first joint venture with ALBA and Swire to operate the first food-grade ready plastics recycling facility in Hong Kong at EcoPark is expected to commence operations by the end of 2020. It is expected that the facility will process and recycle 35,000 tonnes of post-consumer PET (polyethylene terephthalate or clear beverage bottles) and HDPE (high density polyethylene or personal care bottles) annually at a rate of 100 tonnes of plastics per day, thus prolonging the life of reusable plastics. The three-stage process will turn plastic waste into flakes and pellets, which can be reused as raw materials for new, high quality consumer or industrial products.

Baguio is committed to promoting sustainable environmental development and creating a harmonious living environment. Since the launch of “iRecycle”, our first recycling mobile APP platform, we are keen to further explore and increase collection points for bottles to boost our recycle network.

Looking forward, the Group will continue to focus on developing the local recycling industry, as well as strengthening our core businesses of cleaning, landscaping and pest management. We are hopeful that the Municipal Solid Waste (MSW) Charging Scheme can be passed in the near future. As a leading green company in Hong Kong, we not only strive to build a clean and sustainable city, but also create better returns for shareholders.

FINANCIAL REVIEW

Revenue

The Group's revenue for the six-month periods ended 30 June 2020 and 2019 amounted to approximately HK\$591.1 million and HK\$719.1 million respectively, representing a decrease of approximately 17.8%. The decrease was mainly due to the decrease in revenue in the cleaning services segment with some contracts expiring during the Period.

Cost of Services

For the six-month periods ended 30 June 2020 and 2019, the cost of services amounted to approximately HK\$558.1 million and HK\$676.2 million respectively, representing approximately 94.4% and approximately 94.0% 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.

Gross Profit

The Group's gross profit for the Period was approximately HK\$33.0 million, representing a decrease of approximately 23.1% from approximately HK\$42.9 million for the corresponding period in 2019. The decrease was mainly due to the revenue decrease from the cleaning services segment having some contracts expiring and progress delays of the landscaping projects during the Period.

Gross Profit Margin

The gross profit margins of the Group for the six-month periods ended 30 June 2020 and 2019 were approximately 5.6% and approximately 6.0% respectively. As mentioned above, the decrease in gross profit margin was mainly due to the increase in labour costs and progress delays of the landscaping projects during the Period.

Other Income

The other income of the Group for the six-month periods ended 30 June 2020 and 2019 were approximately HK\$21.8 million and HK\$1.2 million respectively, representing an increase of approximately 16.8 times. The substantial increase was mainly with the amount of approximately HK\$15.5 million relating to the subsidies under the Anti-epidemic Fund set up by the Hong Kong Government.

Change in Fair Value Less Costs to Sell of Biological Assets

The Group's biological assets consist of trees, plants and flowers located at the Group's nurseries in the PRC and Hong Kong. The gains in fair value of biological assets for the six-month periods ended 30 June 2020 and 2019 were approximately HK\$23,000 and HK\$1.7 million respectively, representing an decrease of approximately 98.6%. The increase in fair value was contributed by the growth of the plants offset by the decrease in market price. The Group continued to store and plant these biological assets in the nurseries for future landscaping projects.

Selling and Marketing Expenses

The selling and marketing expenses of the Group for the six-month periods ended 30 June 2020 and 2019 were approximately HK\$0.6 million and HK\$1.1 million respectively, representing a decrease of approximately 46.4%. These expenses are mainly for the promotional activities and channels to promote our recycling business and to enhance the public awareness of environmental protection and waste recycling.

Administrative Expenses

The administrative expenses of the Group for the six-month periods ended 30 June 2020 and 2019 were approximately HK\$37.6 million and HK\$35.9 million respectively, representing an increase of approximately 4.8%, and approximately 6.4% and approximately 5.0% of the respective period's total revenue. The increase was mainly due to the increase in wages and allowances to continue enhancing the waste and recycling development. The Group continued to implement its budget cost control measures for administrative expenses during the Period.

Finance Costs

The finance costs amounted to approximately HK\$4.5 million and HK\$4.4 million for the six-month periods ended 30 June 2020 and 2019 respectively, representing approximately 0.8% and approximately 0.6% of the Group's total revenue respectively. The increase was mainly due to the increase in interest costs on lease liabilities 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 the six-month periods ended 30 June 2020 and 2019 amounted to approximately HK\$11.2 million and HK\$3.8 million respectively, representing an increase of approximately 191.0%. The increase was mainly due to the government subsidy from the Anti-epidemic Fund.

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 lease liabilities 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\$70.7 million (1H2019: net cash used in operating activities of HK\$8.1 million). As at 30 June 2020, the Group had available cash and bank balances amounting to approximately HK\$41.1 million (31 December 2019: HK\$22.9 million), representing an increase of approximately 79.7% from 31 December 2019.

As at 30 June 2020, the Group's total current assets and current liabilities were approximately HK\$368.0 million (31 December 2019: HK\$423.2 million) and HK\$342.2 million (31 December 2019: HK\$419.9 million) respectively, while the current ratio was approximately 1.1 times (31 December 2019: 1.0 times). The liquidity position of the Group is maintained at a healthy level.

As at 30 June 2020, the Group's bank borrowings amounted to approximately HK\$194.5 million (31 December 2019: HK\$235.1 million), representing a decrease of approximately 17.3%; the Group's lease liabilities were approximately HK\$46.7 million (31 December 2019: HK\$46.7 million), which was the same as that of the previous year ended, for financing the acquisition of motor vehicles for operational usage and recognising lease liabilities related to the lease contracts in respect of certain lands, office buildings and nurseries. During the Period, no financial instruments were used for hedging purposes.

The gearing ratio of the Group was approximately 1.0 times as at 30 June 2020 (31 December 2019: 1.2 times), which was calculated based on the total interest-bearing bank borrowings and lease liabilities over total equity of the Group.

As at 30 June 2020, the Group had unutilised banking facilities of approximately HK\$205.0 million (31 December 2019: HK\$174.0 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.

CAPITAL COMMITMENT

As at 30 June 2020, the Group had neither capital commitment contracted for (31 December 2019: HK\$1.2 million) nor capital commitment authorised but not contracted for (31 December 2019: Nil).

CHARGES ON THE GROUP'S ASSETS

As at 30 June 2020, the amounts payable under lease liabilities within one year was approximately HK\$12.8 million (31 December 2019: HK\$11.7 million), that after one year but with five years was approximately HK\$13.4 million (31 December 2019: HK\$13.2 million), and that over five years was approximately HK\$20.5 million (31 December 2019: HK\$21.7 million).

As at 30 June 2020, the lease liabilities of the Group of approximately HK\$7.3 million (31 December 2019: HK\$11.2 million) were guaranteed by the Company and a subsidiary of the Company.

In addition as at 30 June 2020, the Group had (i) pledged bank deposits of approximately HK\$6.2 million (31 December 2019: HK\$6.2 million); (ii) pledge of cash and cash equivalents of approximately HK\$0.1 million (31 December 2019: HK\$0.5 million); (iii) mortgage of the land and buildings of approximately HK\$71.7 million (31 December 2019: HK\$73.0 million); (iv) pledge of the financial assets at fair value through profit or loss of approximately HK\$14.3 million (31 December 2019: HK\$14.2 million); (v) pledge of the trade receivables of approximately HK\$37.9 million (31 December 2019: HK\$83.7 million); and (vi) pledge of the contract assets arising from performance under glass management contracts of approximately HK\$2.6 million (31 December 2019: HK\$2.7 million).

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

CONTINGENT LIABILITIES

As at 30 June 2020, 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 2020, the Group employed 4,982 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, team building administrative and management skills, were conducted to improve the quality of front-end services and office support and management. In addition, employees are also encouraged, subsidised and sponsored to attend job-related seminars and courses organised by professional and/or educational 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 2020 together with the comparative figures of 2019 are as follows:

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

For the six months ended 30 June 2020 — UNAUDITED
(EXPRESSED IN HONG KONG DOLLARS)

		For the six months ended 30 June	
		2020	2019
	<i>Note</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Revenue	4	591,055	719,055
Cost of services		<u>(558,079)</u>	<u>(676,197)</u>
Gross profit		32,976	42,858
Other income		21,783	1,220
Change in fair value less costs to sell of biological assets		23	1,673
Selling and marketing expenses		(572)	(1,068)
Administrative expenses		<u>(37,628)</u>	<u>(35,913)</u>
Profit from operations		16,582	8,770
Finance costs	5	(4,530)	(4,436)
Share of losses of a joint venture		<u>(1,303)</u>	<u>—</u>
Profit before taxation	6	10,749	4,334
Income tax credit/(expense)	7	<u>409</u>	<u>(779)</u>
Profit for the period		11,158	3,555
Other comprehensive income:			
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translation of financial statements of subsidiaries, net of nil tax		(32)	10
Cash flow hedge: net movement in the hedging reserve shared from a joint venture		<u>554</u>	<u>—</u>
Other comprehensive income		<u>522</u>	<u>10</u>
Total comprehensive income for the period		<u><u>11,680</u></u>	<u><u>3,565</u></u>

		For the six months ended 30 June	
		2020	2019
	<i>Note</i>	HK\$'000	HK\$'000
Profit for the period attributable to:			
Equity shareholders of the Company		11,158	3,834
Non-controlling interests		<u>–</u>	<u>(279)</u>
		<u>11,158</u>	<u>3,555</u>
Total comprehensive income for the period attributable to:			
Equity shareholders of the Company		11,680	3,844
Non-controlling interests		<u>–</u>	<u>(279)</u>
		<u>11,680</u>	<u>3,565</u>
Earnings per share			
Basic and diluted (HK cents)	9	<u>2.69</u>	<u>0.92</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2020 — UNAUDITED

(EXPRESSED IN HONG KONG DOLLARS)

		At 30 June 2020 <i>HK\$'000</i>	At 31 December 2019 <i>HK\$'000</i>
	<i>Note</i>		
Non-current assets			
Property, plant and equipment		170,675	181,613
Right-of-use assets		62,587	63,679
Interest in a joint venture		8,603	9,352
Financial assets at fair value through profit or loss		14,268	14,176
Prepayments, deposits and other receivables		18,465	18,562
		<u>274,598</u>	<u>287,382</u>
Current assets			
Inventories		2,669	2,635
Contract assets		11,271	9,042
Trade receivables	10	237,050	319,970
Prepayments, deposits and other receivables		42,861	32,125
Tax recoverable		2,073	2,073
Biological assets		24,798	28,316
Pledged bank deposits		6,157	6,153
Cash and cash equivalents		41,118	22,887
		<u>367,997</u>	<u>423,201</u>
Current liabilities			
Trade payables	11	22,695	28,001
Accruals, deposits received and other payables		111,226	143,118
Bank borrowings		194,503	235,095
Lease liabilities		12,774	11,745
Tax payable		1,042	1,982
		<u>342,240</u>	<u>419,941</u>
Net current assets		<u>25,757</u>	<u>3,260</u>
Total assets less current liabilities		<u>300,355</u>	<u>290,642</u>

		At 30 June 2020 <i>HK\$'000</i>	At 31 December 2019 <i>HK\$'000</i>
	<i>Note</i>		
Non-current liabilities			
Lease liabilities		33,960	34,976
Provision		10,350	10,152
Deferred tax liabilities		7,244	8,393
		<u>51,554</u>	<u>53,521</u>
Net assets		<u>248,801</u>	<u>237,121</u>
Capital and reserves			
Share capital	12	4,150	4,150
Reserves		244,651	232,971
Total equity		<u>248,801</u>	<u>237,121</u>

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2020 — UNAUDITED

(EXPRESSED IN HONG KONG DOLLARS)

	Attributable to equity shareholders of the Company									
	Share capital	Share premium	Other reserve	Share option reserve	Translation reserve	Hedging reserve	Retained earnings	Total	Non-controlling interests	Total equity
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2019	4,150	100,850	18,330	1,773	(137)	–	127,857	252,823	(961)	251,862
Profit for the period	–	–	–	–	–	–	3,834	3,834	(279)	3,555
Other comprehensive income for the period	–	–	–	–	10	–	–	10	–	10
Total comprehensive income for the period	–	–	–	–	10	–	3,834	3,844	(279)	3,565
Acquisition of non-controlling interests in a subsidiary	–	–	–	–	–	–	(1,730)	(1,730)	1,240	(490)
Dividends approved in respect of the previous year (note 8)	–	–	–	–	–	–	(2,905)	(2,905)	–	(2,905)
Share options lapsed	–	–	–	(78)	–	–	78	–	–	–
At 30 June 2019	4,150	100,850	18,330	1,695	(127)	–	127,134	252,032	–	252,032
At 1 January 2020	4,150	100,850	18,330	1,695	(173)	–	112,269	237,121	–	237,121
Profit for the period	–	–	–	–	–	–	11,158	11,158	–	11,158
Other comprehensive income for the period	–	–	–	–	(32)	554	–	522	–	522
Total comprehensive income for the period	–	–	–	–	(32)	554	11,158	11,680	–	11,680
At 30 June 2020	4,150	100,850	18,330	1,695	(205)	554	123,427	248,801	–	248,801

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS*For the six months ended 30 June 2020 — UNAUDITED***(EXPRESSED IN HONG KONG DOLLARS)**

	For the six months ended 30 June	
	2020	2019
	HK\$'000	HK\$'000
Net cash generated from/(used in) operating activities	70,676	(8,110)
Investing activities		
Payment for the purchase of property, plant and equipment	(3,574)	(21,015)
Other cash flows arising from investing activities	4,126	2,866
Net cash generated from/(used in) investing activities	552	(18,149)
Financing activities		
Proceeds from new bank borrowings	688,556	651,750
Repayment of bank borrowings	(729,148)	(624,674)
Other cash flows used in financing activities	(12,265)	(16,605)
Net cash (used in)/generated from financing activities	(52,857)	10,471
Net increase/(decrease) in cash and cash equivalents	18,371	(15,788)
Cash and cash equivalents at the beginning of the period	22,887	36,105
Effect of foreign exchange rates changes	(140)	10
Cash and cash equivalents at the end of the period	41,118	20,327

NOTES

1. GENERAL INFORMATION

The Company was incorporated with limited liability in the Cayman Islands and its shares are listed on the Main Board of The Stock Board of the Stock Exchange of Hong Kong Limited. 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 2020, 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 28 August 2020.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2019 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2020 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 2019 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 2019 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 new and amended standards, that are first effective for the current accounting period of the Group.

Except for the amendment to HKFRS 16, *Leases, Covid-19-Related Rent Concessions*, none of the developments have had a material effect on how the Group's results and financial position for the current or prior periods have been prepared or presented in this interim financial report. Other than the amendment to HKFRS 16, the Group has not applied any new standard or interpretation that is not yet effective for the current accounting period. Impacts of the adoption of the amended HKFRSs are discussed below:

Amendment to HKFRS 16, *Leases, Covid-19-Related Rent Concessions*

The amendment provides a practical expedient that allows a lessee to by-pass the need to evaluate whether certain qualifying rent concessions occurring as a direct consequence of the COVID-19 pandemic ("COVID-19-related rent concessions") are lease modifications and, instead, account for those rent concessions as if they were not lease modifications.

The Group has elected to early adopt the amendments and applies the practical expedient to all qualifying COVID-19-related rent concessions granted to the Group during the interim reporting period. Consequently, rent concessions received have been accounted for as negative variable lease payments recognised in profit or loss in the period in which the event or condition that triggers those payments occurred. There is no impact on the opening balance of equity at 1 January 2020.

4. SEGMENT INFORMATION

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

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

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

Segment revenue and results

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

	Cleaning services business 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 2020					
Revenue from external customers and reportable segment revenue recognised over time	<u>361,691</u>	<u>97,939</u>	<u>51,657</u>	<u>79,768</u>	<u>591,055</u>
Segment results	<u>8,490</u>	<u>12,815</u>	<u>2,807</u>	<u>8,292</u>	<u>32,404</u>
Other income					21,783
Change in fair value less costs to sell of biological assets					23
Administrative expenses					(37,628)
Finance costs					(4,530)
Share of losses of a joint venture					<u>(1,303)</u>
Profit before taxation					<u><u>10,749</u></u>

	Cleaning services business HK\$'000	Landscaping services business HK\$'000	Pest management business HK\$'000	Waste management and recycling business HK\$'000	Total HK\$'000
Six months ended 30 June 2019					
Revenue from external customers and reportable segment revenue recognised over time	<u>513,481</u>	<u>97,183</u>	<u>27,584</u>	<u>80,807</u>	<u>719,055</u>
Segment results	<u>13,634</u>	<u>18,178</u>	<u>2,621</u>	<u>7,357</u>	<u>41,790</u>
Other income					1,220
Change in fair value less costs to sell of biological assets					1,673
Administrative expenses					(35,913)
Finance costs					<u>(4,436)</u>
Profit before taxation					<u><u>4,334</u></u>

Segment assets and liabilities

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

	Cleaning services business HK\$'000	Landscaping services business HK\$'000	Pest management business HK\$'000	Waste management and recycling business HK\$'000	Total HK\$'000
As at 30 June 2020					
Segment assets	318,556	129,670	32,697	159,006	639,929
Unallocated					2,666
Total assets					642,595
Segment liabilities	268,898	30,015	15,045	78,266	392,224
Unallocated					1,570
Total liabilities					393,794

	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 2019					
Segment assets	371,552	119,507	30,585	186,814	708,458
Unallocated					2,125
Total assets					710,583
Segment liabilities	339,946	32,037	21,322	79,078	472,383
Unallocated					1,079
Total liabilities					473,462

Geographical information

All of the Group's businesses are carried out in Hong Kong and the Group's revenue from external customers is generated in Hong Kong during the interim period.

5. FINANCE COSTS

	For the six months ended 30 June	
	2020	2019
	HK\$'000	HK\$'000
Interest on:		
Bank overdrafts	5	7
Bank borrowings	3,685	3,885
Lease liabilities	840	544
	<u>4,530</u>	<u>4,436</u>

6. PROFIT BEFORE TAXATION

	For the six months ended 30 June	
	2020	2019
	HK\$'000	HK\$'000
Profit before taxation is arrived at after charging/(crediting):		
Cost of consumable goods	22,231	23,368
Reversal of credit losses on trade receivables	(36)	(43)
Depreciation		
Owned property, plant and equipment	13,518	13,937
Right-of-use assets	6,067	5,606
Loss/(gain) on disposal of property, plant and equipment	357	(19)
Government grants*	(15,524)	(111)
	<u>458,831</u>	<u>573,190</u>
Staff costs (including directors' remuneration):		
Wages, salaries and other benefits	13,840	8,230
Provision for long service and severance payments	5,057	4,808
Contributions to defined contribution retirement scheme	13,076	17,385
	<u>490,804</u>	<u>603,613</u>
Short-term lease payments not included in the measurement of lease liabilities		
Machinery and motor vehicles	15,595	15,721
Land and buildings	1,076	2,261
	<u>16,671</u>	<u>17,982</u>

* During the reporting period, the Group recognised the government grants as follows:

- (i) Employment Support Scheme ("ESS"), which aims to retain employment and combat COVID-19, under the Anti-epidemic Fund of the Government of HK\$12,210,000 (six months ended 30 June 2019: Nil). The purpose of the funding is to provide financial support to enterprises to retain their employees who would otherwise be made redundant. Under the terms of the grant, the group is required not to make redundancies during the subsidy period and to spend all the funding on paying wages to the employees;
- (ii) Transport Trades Subsidy under the Anti-epidemic Fund of HK\$3,180,000 (six months ended 30 June 2019: Nil);

- (iii) subsidies for phasing out certain diesel commercial vehicles by the Group of nil (six months ended 30 June 2019: HK\$111,000); and
- (iv) other subsidies under the Anti-epidemic Fund of HK\$134,000 (six months ended 30 June 2019: Nil) .

There were neither unfulfilled conditions nor 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(CREDIT)/EXPENSE

	For the six months ended 30 June	
	2020	2019
	HK\$'000	HK\$'000
Current tax:		
Hong Kong Profits Tax	739	1,250
Deferred tax	(1,148)	(471)
	<u>(409)</u>	<u>779</u>

The provision for Hong Kong Profits Tax is calculated by applying the estimated annual effective tax rate of 16.5% (2019: 16.5%) to the six months ended 30 June 2020, except for one subsidiary of the Group which is a qualifying corporation under the two-tiered Profits Tax rate regime.

For this subsidiary, the first HK\$2 million of assessable profits are taxed at 8.25% and the remaining assessable profits are taxed at 16.5%. The provision for Hong Kong Profits Tax for this subsidiary was calculated at the same basis in 2019.

8. DIVIDENDS

	For the six months ended 30 June	
	2020	2019
	HK\$'000	HK\$'000
Final dividend in respect of the previous financial year, was approved and recognised during the following interim period, of nil (six months ended 30 June 2019: HK0.7 cents) per ordinary share	<u>–</u>	<u>2,905</u>

The directors of the Company do not recommend the payment of any interim dividend for the six months ended 30 June 2020 (six months ended 30 June 2019: 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 six months ended 30 June 2020 attributable to ordinary equity shareholders of the Company of HK\$11,158,000 (six months ended 30 June 2019: HK\$3,834,000) and the weighted average number of 415,000,000 (six months ended 30 June 2019: 415,000,000) ordinary shares in issue during the interim period.

(b) Diluted earnings per share

Diluted earnings per share for the six months ended 30 June 2020 are the 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) and net of loss allowance at the end of the reporting period is as follows:

	At 30 June 2020 HK\$'000	At 31 December 2019 HK\$'000
Within 60 days	172,150	236,313
Over 60 days but within 120 days	43,993	69,490
Over 120 days but within 365 days	19,142	13,893
Over 365 days	1,765	274
	<u>237,050</u>	<u>319,970</u>

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

11. TRADE PAYABLES

The ageing analysis of trade payables based on the invoice date at the end of the reporting period is as follow:

	At 30 June 2020 HK\$'000	At 31 December 2019 HK\$'000
Within 30 days	16,814	16,986
Over 30 days but within 60 days	3,236	7,963
Over 60 days but within 90 days	679	809
Over 90 days	1,966	2,243
	<u>22,695</u>	<u>28,001</u>

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

12. SHARE CAPITAL

	Number of shares '000	Nominal value HK\$'000
Authorised: <i>Ordinary shares of HK\$0.01 each</i>		
As at 1 January 2019, 31 December 2019, 1 January 2020 and 30 June 2020	<u>1,000,000</u>	<u>10,000</u>
Issued and fully paid: <i>Ordinary shares of HK\$0.01 each</i>		
As at 1 January 2019, 31 December 2019, 1 January 2020 and 30 June 2020	<u>415,000</u>	<u>4,150</u>

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 Period. 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, 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 2020.

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, 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, 28 August 2020

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