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BAGUIO GREEN GROUP LIMITED

碧瑤綠色集團有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1397)

ANNOUNCEMENT OF FINAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2021

FINANCIAL SUMMARY

- Revenue for the year ended 31 December 2021 amounted to approximately HK\$1,273.8 million (2020: HK\$1,131.8 million), representing an increase of approximately 12.5% as compared with the preceding year.
- Gross profit for the year ended 31 December 2021 was approximately HK\$109.0 million (2020: HK\$63.5 million), representing an increase of approximately 71.5% as compared with the preceding year.
- The Group's profit attributable to shareholders of the Company for the year ended 31 December 2021 was approximately HK\$12.8 million (2020: HK\$51.4 million), representing a decrease of approximately 75.0% as compared with the preceding year.
- A final dividend of HK0.9 cents (2020: HK3.6 cents) per share, totalling HK\$3,735,000 (2020: HK\$14,940,000) was recommended by the Board for the year ended 31 December 2021.

The board (the "Board") of directors (the "Directors") of Baguio Green Group Limited (the "Company") is pleased to announce the consolidated annual results of the Company and its subsidiaries (the "Group" or "Baguio") for the year ended 31 December 2021 ("2021" or the "Year").

MANAGEMENT DISCUSSION & ANALYSIS

MARKET REVIEW

The Hong Kong Climate Action Plan 2050 announced by the Chief Executive in the 2021 Policy Address clearly outlines the strategies and measures to reduce Hong Kong's carbon emissions by 50% before 2035, compared to 2005 level, with the ultimate goal of achieving the vision of carbon neutrality by 2050. This important initiative has created significant opportunities for the Group's integrated environmental business.

Throughout 2021, the global COVID-19 pandemic continued to flare up. Hong Kong strived to raise vaccination rates, public health standards and awareness to cope with the pandemic, creating more demand for cleaning services. Nonetheless, the Omicron variant has posed significant threats to the global economy and created uncertainty, straining human resources and supply chains which in turn has led to stricter resource allocation and cost control by different companies.

Nevertheless, environmental services are a basic need. During the past year, the Group's diversified and integrated environmental services benefited from increasing public awareness of environmental hygiene and sustainable development.

As Hong Kong people and businesses became increasingly aware of environmental hygiene, demand for cleaning and disinfection services grew significantly. Regarding waste management and recycling, we have benefited from the Government's "Waste Reduction" strategy and measures, as well as the high demand for medical waste collection services during the pandemic. The COVID-19 crisis coupled with rodent infestation in certain Hong Kong communities this year created sizeable opportunities for our pest management business. However, demand for our landscaping services declined as companies tightened cost controls given the uncertain economic outlook.

BUSINESS REVIEW

The Group actively expanded its cleaning and waste management & recycling businesses during the Year. Both recorded considerable growth, accounting for more than 80% of the Group's total revenue.

Our cleaning business benefited from the increased demand created by the pandemic and the Group's success in securing a number of new service contracts from the Government and public organizations. These included street-cleaning service contracts from the Food and Environmental Hygiene Department, and disinfection and cleaning services for quarantine hotels. Moreover, thanks to innovative cleaning technology, a new digital platform and various cost management initiatives, the Group's operational efficiency significantly improved — resulting in a dramatic increase in profits and profit margin for its cleaning business.

With regard to the waste management and recycling business, the Group continued to expand its operational capacity and collection network for recyclable items. Baguio was contracted by Environmental Protection Department (“EPD”) to handle more than 5,000 recycling spots (including plastic, glass bottles, metal and wastepaper) across Hong Kong and currently operates various sorting facilities to recycle products. To ensure its recycling capacity keeps pace with its rapid business expansion, Baguio opened a new waste-sorting plant covering 50,000 sq. ft. in Yuen Long with a maximum daily capacity of 20 tonnes. This new sorting plant is equipped with advanced machines featuring NIR technology, imported from overseas, that support high-speed automatic sorting. Thanks to more efficient recycling, the volume has significantly increased.

During the Year, Baguio expanded its collection network for recyclables to include Shell and Esso petrol stations, reverse vending machines, EPD’s recycling stations, and recycling stores and spots — consolidating Baguio’s leadership position in the recycling sector. Significant growth in business mix and scale has greatly increased the profit margin for its recycling business.

Turning to landscaping services, the overall market remained weak due to project delays caused by the pandemic, decreasing demand and intense market competition. All these affected our landscaping business’s performance. However, given its solid experience in providing high-end landscape services, the Group was awarded a two-year greening contract for the public open space at Kai Tak Sports Park. As Hong Kong’s largest sports stadium, this venue will host various international sporting events and cultural and recreational activities in the coming years. The Group is delighted to contribute to the development of sports in Hong Kong. Our pest management business, which has delivered high-quality professional services over the years, continued to enjoy healthy growth during the Year.

Leveraging its years of experience and reputation for quality, the Group secured many one-stop service contracts from large corporations to provide cleaning, waste management and pest control services — which all contributed to its steady growth and development.

Results

For the Year, the Group's revenue was approximately HK\$1,273.8 million, representing an increase of approximately 12.5% from approximately HK\$1,131.8 million for 2020. Gross profit increased by approximately 71.5% to approximately HK\$109.0 million (2020: HK\$63.5 million) and gross profit margin increased by 3.0 percentage points ("p.p.") to approximately 8.6% (2020: 5.6%). Profit attributable to equity shareholders of the Company amounted to approximately HK\$12.8 million, representing in a year-on-year decrease of approximately 75.0% (2020: HK\$51.4 million), with net profit margin decreased by 3.5 p.p. to approximately 1.0% (2020: 4.5%). Such substantial decrease in the Group's profit was mainly due to no subsidies being received from the Employment Support Scheme under Anti-epidemic Fund granted by the Hong Kong Government for 2021. Earnings per share was HK3.1 cents (2020: HK12.4 cents).

Final Dividend

The Board recommends the payment of a final dividend for the Year at HK0.9 cents (2020: HK3.6 cents) per ordinary share, totalling HK\$3,735,000 (2020: HK\$14,940,000), subject to approval by the shareholders of the Company (the "Shareholders") at the forthcoming annual general meeting (the "Annual General Meeting") of the Company to be held on 31 May 2022. If so approved by the Shareholders, it is expected that the final dividend will be paid on or around 8 July 2022 to the Shareholders whose names appear on the register of members of the Company on 23 June 2022.

Revenue breakdown of major business segments

	For the year ended				Change
	31 December 2021		31 December 2020		
	Revenue (HK\$ million)	% of total revenue	Revenue (HK\$ million)	% of total revenue	
Cleaning	825.5	64.8%	679.5	60.0%	+21.5%
Landscaping	112.3	8.8%	172.4	15.2%	-34.9%
Pest management	102.0	8.0%	111.3	9.9%	-8.4%
Waste management and recycling	234.0	18.4%	168.6	14.9%	+38.8%
Total	<u>1,273.8</u>	<u>100.0%</u>	<u>1,131.8</u>	<u>100.0%</u>	+12.5%

Gross profit margin of major business segments

	For the year ended		
	31 December	31 December	
	2021	2020	Change
Cleaning	8.8%	4.5%	+4.3 p.p.
Landscaping	5.4%	10.8%	-5.4 p.p.
Pest management	7.7%	5.8%	+1.9 p.p.
Waste management and recycling	9.4%	4.7%	+4.7 p.p.
Overall	8.6%	5.6%	+3.0 p.p.

Riding on our professional management, quality services and stringent control in safety precaution, the Group continued to maintain a high tender success rate at approximately 39.5% in 2021 (2020: 37.0%). We continuously strived to expand our services scope in order to enhance our competitiveness. During the Year, the Group was driven by the increase in revenue of approximately 38.8% from waste management and recycling segment. This encouraging result was attributable to the Group's enormous effort to secure new contracts with Food and Environmental Hygiene Department for the provision of waste collection services, and Airport Authority Hong Kong for the provision of waste management services. Additions, with the award of new contracts from cleaning and pest management segments with higher profit margin and effective cost control, the profit margin for the relevant segments were improved satisfactorily approximately from 4.5% to 8.8%, and approximately from 5.8% to 7.7% respectively. However, the landscaping segment was still affected by the impact of COVID-19 pandemic. The progress delay in landscaping projects increased operation cost and overhead, and the keen competition in landscaping market also hindered the tender results of new contracts.

The overall gross profit amount and margin of the Group were improved approximately from HK\$63.5 million to HK\$109.0 million, and approximately from 5.6% to 8.6% respectively.

Contracts on hand

As of 31 December 2021, the Group had a total amount of approximately HK\$2,145.3 million worth of unexpired contracts on hand, of which, approximately HK\$1,201.8 million will be recognised by the end of 2022, approximately HK\$672.5 million will be recognised in 2023 and the rest of approximately HK\$271.0 million will be recognised in 2024 and beyond.

	Backlog contract value (HK\$ million)	Contract value to be recognised by 31 December 2022 (HK\$ million)	Contract value to be recognised by 31 December 2023 (HK\$ million)	Contract value to be recognised in 2024 and beyond (HK\$ million)
Cleaning services	1,505.4	888.5	491.7	125.2
Landscaping services	126.1	79.3	38.4	8.4
Pest management services	101.4	76.8	21.4	3.2
Waste management and recycling services	412.4	157.2	121.0	134.2
Total	<u>2,145.3</u>	<u>1,201.8</u>	<u>672.5</u>	<u>271.0</u>

PROSPECTS

Given its “Zero-carbon Emissions • Liveable City • Sustainable Development” vision in *Hong Kong’s Climate Action Plan 2050 and the Waste Blueprint for Hong Kong 2035*, the Hong Kong Government will likely introduce more favorable policies for the recycling industry that should create major new business opportunities. We remain optimistic about the industry’s future.

In line with Hong Kong’s sustainable development, we will continue enhancing our collection and recycling capabilities. In 2022, we participated in a joint venture with Swire Beverages Holdings Limited and another investor to set up Hong Kong’s first food-grade PET plastic factory at EcoPark in Tuen Mun. Recycled plastics will be turned into plastic flakes and pellets, which can then be re-manufactured as water bottles and related products. The project will begin operating in mid-2022.

Baguio was also awarded the EPD’s first service contract this year for the bioconversion of organic waste from chicken manure into animal feed and fertilizer using Black Soldier Flies. This innovative project applies organic bioconversion technology to help solve Hong Kong’s waste problem. Located at EcoPark in Tuen Mun, the factory will commence operations in mid-2022, opening a new chapter for the Group’s green technology business.

To help the Hong Kong Government fulfill its vision of carbon neutrality and cooperate and implement its Waste Blueprint for Hong Kong 2035, Baguio and The Jardine Engineering Corporation Limited formed a strategic partnership. By the end of 2022, Baguio will begin operating a new Pilot Biochar Production Plant (PBPP) at the EcoPark in Tuen Mun for a four-year period. The process will include collecting of shredded yard waste and applying Australia's advanced Pyrolysis technology to convert wood materials into high-quality biochar. The production plant effectively turns waste into useful resources. When completed, the facility should be able to process around 6,000 tonnes of local wood waste and produce approximately 1,200 tonnes of biochar per year.

Starting 2022, Baguio was contracted by EPD to collect more than 20 tonnes of food waste every day in Kowloon and provide collection & recycling services for plastic recyclable materials in a number of Hong Kong districts. These two services will be significant new revenue sources for the Group.

To further enhance the Group's service quality and competitiveness, we will introduce various information technology solutions to enhance operational efficiency, monitor service performance, and optimize the use of corporate resources. We will also pursue any new opportunities to enhance our existing core businesses and introduce green technology projects with strong growth potential.

The Group's iRecycle platform, which established an innovative "door-to-door recycling service", has been well received by users and merchants. With the official launch of the municipal solid waste (MSW) charging scheme in 2023, Hong Kong people will have even more incentive to recycle which in turn will increase transaction volumes for our iRecycle platform. By adopting big data technology for iRecycle, we aim to provide more personalized services and capture significant business opportunities.

Looking forward, we will continue building a greener, cleaner city through professionalism and innovation, while delivering sustainable returns for our shareholders.

FINANCIAL REVIEW

Revenue

The Group's revenue for the years ended 31 December 2021 and 2020 amounted to approximately HK\$1,273.8 million and HK\$1,131.8 million respectively, representing an increase of approximately 12.5%. The increase was mainly due to the overall increase in revenue in our services segments of cleaning together with waste management and recycling with increase in number of contracts and orders during the Year.

Cost of Services

For the years ended 31 December 2021 and 2020, the cost of services of the Group amounted to approximately HK\$1,164.8 million and HK\$1,068.3 million respectively, representing approximately 91.4% and 94.4% of the Group's revenue for the corresponding years respectively. The cost of services primarily comprised direct wages, direct overhead expenses, material consumables and sub-contracting fees.

Gross Profit

The Group's gross profit for the Year was approximately HK\$109.0 million, representing an increase of approximately 71.5% from approximately HK\$63.5 million for the year ended 31 December 2020.

Gross Profit Margin

The gross profit margins of the Group for the years ended 31 December 2021 and 2020 were approximately 8.6% and 5.6% respectively. The increase in gross profit margin was mainly due to the increase of new contracts with high profit margin and effective cost control during the Year.

Other Income

The other income of the Group for the years ended 31 December 2021 and 2020 were approximately HK\$22.2 million and HK\$95.5 million respectively, representing a decrease of approximately 76.8%. The substantial decrease was mainly due to no subsidies being received from the Employment Support Scheme under the Anti-epidemic Fund granted by the Hong Kong Government for 2021, which during the year ended 31 December 2020 was approximately HK\$81.0 million.

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 change in fair value of the biological assets for the years ended 31 December 2021 and 2020 were approximately loss of HK\$4.2 million and HK\$4.0 million respectively. The decrease in fair value was mainly due to the decrease in demand in new landscaping contracts and sales market affected by the COVID-19 pandemic.

Selling and Marketing Expenses

The selling and marketing expenses of the Group for the years ended 31 December 2021 and 2020 were approximately HK\$1.8 million and HK\$1.2 million respectively, representing an increase of approximately 46.2%. These expenses are mainly for the promotional activities and channels to promote our recycling business and to enhance the public awareness of environmental protection and waste recycling.

Administrative Expenses

The administrative expenses of the Group for the years ended 31 December 2021 and 2020 were approximately HK\$92.5 million and HK\$95.7 million respectively, representing a decrease of approximately 3.4%, and approximately 7.3% and 8.5% of the respective year's total revenue. The decrease was mainly due to no loss on disposal and impairment of motor vehicles for 2021 and the increase in wages and bonus allowances for staff and office overhead during the Year. The Group continued to implement its budget cost control measures for administrative expenses during the Year.

Finance Costs

The finance costs of the Group amounted to approximately HK\$4.7 million and HK\$7.8 million for the years ended 31 December 2021 and 2020 respectively, representing approximately 0.4% of and 0.7% of the Group's total revenue respectively. The decrease was mainly due to the decrease in the level of working capital loan and interest costs on bank borrowings during the Year.

Profit for the Year Attributable to Equity Shareholders of The Company

The Group's profit attributable to equity shareholders of the Company for the years ended 31 December 2021 and 2020 approximately HK\$12.8 million and HK\$51.4 million respectively, representing a decrease of approximately 75.0%. The decrease was mainly due to the factors described above.

FOREIGN CURRENCY EXPOSURE

The Group's foreign currency exposure is limited as most of its transactions, assets and liabilities are denominated in Hong Kong dollars. During the Year, the main foreign currency exposure arose from the fluctuation in Renminbi ("RMB"). Due to the Group's PRC operation, the Group possessed RMB bank balances and a small portion of transactions were denominated in RMB.

LIQUIDITY AND FINANCIAL RESOURCES

The Group derives cash flow from operating activities principally from rendering a comprehensive range of environmental services. For the Year, we had net cash generated from operating activities of approximately HK\$88.0 million (2020: HK\$162.3 million). As at 31 December 2021, the Group had available cash and bank balances amounting to approximately HK\$32.3 million (2020: HK\$28.5 million), representing an increase of approximately 13.1%.

As at 31 December 2021, the Group's total current assets and current liabilities were approximately HK\$381.8 million (2020: HK\$355.2 million) and HK\$318.8 million (2020: HK\$264.6 million) respectively, while the current ratio was approximately 1.2 times (2020: 1.3 times). The liquidity position of the Group is maintained at a healthy level.

As at 31 December 2021, the Group's bank borrowings amounted to approximately HK\$123.6 million (2020: HK\$107.6 million), representing an increase of approximately 14.8%; the Group's lease liabilities were approximately HK\$37.7 million (2020: HK\$46.0 million), representing a decrease of approximately 18.0%, for financing the acquisition of motor vehicles for operational usage and recognised lease liabilities related to the lease contracts in respect of certain lands, office buildings and nurseries. During the Year, no financial instruments were used for hedging purposes (2020: Nil).

As at 31 December 2021, the gearing ratio of the Group was approximately 0.6 times (2020: 0.5 times), which was calculated based on the total interest-bearing bank borrowings and lease liabilities over total equity of the Group.

CAPITAL EXPENDITURES AND CAPITAL COMMITMENT

For the Year, capital expenditures, which mainly included additions in motor vehicles and equipment, amounted to approximately HK\$73.4 million (2020: HK\$17.1 million). Capital expenditures were funded by banks and funds generated from our operating activities.

As at 31 December 2021, the Group had capital commitment contracted for of approximately HK\$4.4 million (2020: HK\$0.1 million) and no capital commitment authorised but not contracted for (2020: Nil).

CONTINGENT LIABILITIES

As at 31 December 2021, the Group did not have any material contingent liabilities (2020: Nil).

CHARGES ON THE GROUP'S ASSETS

As at 31 December 2021, the amounts payable under lease liabilities within one year was approximately HK\$9.3 million (2020: HK\$13.3 million), that after one year but within five years was approximately HK\$9.9 million (2020: HK\$12.5 million), and that after five years was approximately HK\$18.5 million (2020: HK\$20.2 million).

As at 31 December 2021, the lease liabilities of the Group of approximately HK\$0.9 million (2020: HK\$4.2 million) were guaranteed by the Company and a subsidiary of the Company.




In addition as at 31 December 2021, the Group had (i) pledged bank deposits of approximately HK\$7.2 million (2020: HK\$6.2 million); (ii) pledge of cash and cash equivalents of approximately HK\$0.7 million (2020: HK\$1.5 million); (iii) mortgage of the land and buildings of approximately HK\$67.7 million (2020: HK\$70.4 million); (iv) pledge of the financial assets at fair value through profit or loss of approximately HK\$2.5 million (2020: HK\$2.4 million); (v) pledge of the trade receivables of approximately HK\$75.6 million (2020: HK\$59.5 million); and (vi) pledge of the contract assets arising from performance under glass management contract of approximately HK\$4.1 million (2020: HK\$2.4 million).

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

ACQUISITION, DISPOSAL AND SIGNIFICANT INVESTMENT HELD

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

INTELLECTUAL PROPERTIES

During the Year, the Group registered the trademarks  愛回收  and  **iRecycle** in Hong Kong for a period of 10 years.

HUMAN RESOURCES

As at 31 December 2021, the Group employed 5,621 employees (2020: 5,255 employees), including both full time and part time. Remuneration packages are generally structured by reference to market terms together with individual qualifications and experience.

During the Year, various training activities, such as training on operational safety, team building, administrative and management skills, were conducted to improve the quality of front-end services together with office support and management. In addition, employees are also encouraged, subsidised and sponsored to attend job-related seminars and courses organised by professional and/or educational institution to ensure the smooth and effective management of the Group's business.

The consolidated annual results of the Group for the year ended 31 December 2021 together with the comparative figures of 2020 are as follows:

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

For the year ended 31 December 2021

	<i>Note</i>	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Revenue	5	1,273,809	1,131,781
Cost of services		<u>(1,164,804)</u>	<u>(1,068,235)</u>
Gross profit		109,005	63,546
Other income	6	22,154	95,537
Change in fair value less costs to sell of biological assets	13	(4,223)	(3,956)
Selling and marketing expenses		(1,759)	(1,203)
Administrative expenses		<u>(92,482)</u>	<u>(95,707)</u>
Profit from operations		32,695	58,217
Finance costs	7	(4,691)	(7,768)
Share of losses of a joint venture		<u>(6,278)</u>	<u>(1,327)</u>
Profit before taxation	8	21,726	49,122
Income tax (expense)/credit	9	(8,882)	2,254
Profit for the year		12,844	51,376
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		59	121
Cash flow hedge: share of net movement in the hedging reserve of a joint venture		<u>(414)</u>	<u>414</u>
Other comprehensive income		<u>(355)</u>	<u>535</u>
Total comprehensive income for the year		<u>12,489</u>	<u>51,911</u>

	<i>Note</i>	2021 HK\$'000	2020 HK\$'000
Profit for the year attributable to:			
Equity shareholders of the Company		12,847	51,376
Non-controlling interests		(3)	–
		<u>12,844</u>	<u>51,376</u>
Total comprehensive income for			
the year attributable to:			
Equity shareholders of the Company		12,492	51,911
Non-controlling interests		(3)	–
		<u>12,489</u>	<u>51,911</u>
Earnings per share			
Basic and diluted (HK cents)	<i>11</i>	<u>3.10</u>	<u>12.38</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2021

	<i>Note</i>	2021 HK\$'000	2020 <i>HK\$'000</i>
Non-current assets			
Property, plant and equipment		190,023	149,837
Right-of-use assets		38,442	54,829
Interest in a joint venture		1,747	8,439
Financial assets at fair value through profit or loss		14,669	14,348
Prepayments, deposits and other receivables		31,628	19,292
Deferred tax assets		2,643	2,367
		<hr/> 279,152	<hr/> 249,112
Current assets			
Inventories		3,531	3,180
Contract assets		10,418	9,451
Trade receivables	<i>12</i>	297,146	259,529
Prepayments, deposits and other receivables		18,062	26,775
Tax recoverable		7	1,072
Biological assets	<i>13</i>	13,209	20,493
Pledged bank deposits		7,164	6,161
Cash and cash equivalents		32,254	28,522
		<hr/> 381,791	<hr/> 355,183
Current liabilities			
Trade payables	<i>14</i>	32,269	23,899
Contract liabilities		756	1,750
Accruals, deposits received and other payables		152,428	117,790
Bank borrowings		123,605	107,642
Lease liabilities		9,282	13,254
Tax payable		426	218
		<hr/> 318,766	<hr/> 264,553
Net current assets		<hr/> 63,025	<hr/> 90,630
Total assets less current liabilities		<hr/> 342,177	<hr/> 339,742

	<i>Note</i>	2021 HK\$'000	2020 HK\$'000
Non-current liabilities			
Other payables		1,620	–
Lease liabilities		28,439	32,749
Provision		10,969	10,548
Deferred tax liabilities		14,568	7,413
		<u>55,596</u>	<u>50,710</u>
Net assets		<u>286,581</u>	<u>289,032</u>
Capital and reserves			
Share capital	<i>15</i>	4,150	4,150
Reserves		282,434	284,882
		<u>286,584</u>	<u>289,032</u>
Total equity attributable to equity shareholders of the Company		286,584	289,032
Non-controlling interests		(3)	–
		<u>286,581</u>	<u>289,032</u>
Total equity		<u>286,581</u>	<u>289,032</u>

NOTES

1. GENERAL INFORMATION

The Company was incorporated with limited liability in the Cayman Islands and its shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited. The ultimate holding company of the Company is Baguio Green (Holding) Limited, which was incorporated in the British Virgin Islands. The registered office of the Company is located at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands and its principal place of business in Hong Kong is located at Unit A, 4/F., Dragon Industrial Building, No. 93 King Lam Street, Lai Chi Kok, Kowloon, Hong Kong.

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

2. BASIS FOR PREPARATION

The financial information set out in this announcement does not constitute the Group's annual consolidated financial statements for the year ended 31 December 2021, but is derived from those financial statements.

The consolidated financial statements have been prepared in accordance with the same accounting policies adopted in the 2020 annual financial statements, except for the changes in accounting policies set out in note 3.

The measurement basis used in the preparation of the financial statements is the historical costs except for biological assets and certain financial instruments that are measured at their fair values at the end of each reporting period. The financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards, which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. The financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules").

3. CHANGES IN ACCOUNTING POLICIES

The HKICPA has 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, *Covid-19-Related Rent Concessions beyond 30 June 2021*, none of these developments have had a material effect on how the Group's results and financial position for the current or prior periods have been prepared or presented. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period except for the Amendment to HKFRS 16, *Covid-19-Related Rent Concessions beyond 30 June 2021*.

Amendment to HKFRS 16, Covid-19-Related Rent Concessions beyond 30 June 2021 (2021 amendment)

The Group previously applied the practical expedient in HKFRS 16 such that as lessee it was not required to assess whether rent concessions occurring as a direct consequence of the COVID-19 pandemic were lease modifications, if the eligibility conditions are met. One of these conditions requires the reduction in lease payments affect only payments originally due on or before a specified time limit. The 2021 amendment extends this time limit from 30 June 2021 to 30 June 2022.

The Group has early adopted the 2021 amendment in this financial year. This is no impact on the opening balance of equity at 1 January 2021.

4. SEGMENT INFORMATION

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

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

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

Segment revenue and results

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

	Cleaning services business <i>HK\$'000</i>	Landscaping services business <i>HK\$'000</i>	Pest management business <i>HK\$'000</i>	Waste management and recycling business <i>HK\$'000</i>	Total <i>HK\$'000</i>
For the year ended 31 December 2021					
Revenue from external customers					
— recognised over time	825,451	112,321	102,011	193,690	1,233,473
— recognised at point in time	—	—	—	40,336	40,336
Reportable segment revenue	<u>825,451</u>	<u>112,321</u>	<u>102,011</u>	<u>234,026</u>	<u>1,273,809</u>
Segment results	<u>71,563</u>	<u>6,069</u>	<u>7,889</u>	<u>21,725</u>	107,246
Other income					22,154
Change in fair value less costs to sell of biological assets (note 13)					(4,223)
Administrative expenses					(92,482)
Finance costs					(4,691)
Share of losses of a joint venture					(6,278)
Profit before taxation					<u>21,726</u>

	Cleaning services business <i>HK\$'000</i>	Landscaping services business <i>HK\$'000</i>	Pest management business <i>HK\$'000</i>	Waste management and recycling business <i>HK\$'000</i>	Total <i>HK\$'000</i>
For the year ended 31 December 2020					
Revenue from external customers and reportable segment revenue recognised over time	679,465	172,356	111,347	168,613	1,131,781
Segment results	<u>29,438</u>	<u>18,647</u>	<u>6,492</u>	<u>7,766</u>	62,343
Other income					95,537
Change in fair value less costs to sell of biological assets (note 13)					(3,956)
Administrative expenses					(95,707)
Finance costs					(7,768)
Share of losses of a joint venture					(1,327)
Profit before taxation					<u>49,122</u>

Segment assets and liabilities

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

	Cleaning services business <i>HK\$'000</i>	Landscaping services business <i>HK\$'000</i>	Pest management business <i>HK\$'000</i>	Waste management and recycling business <i>HK\$'000</i>	Total <i>HK\$'000</i>
As at 31 December 2021					
Segment assets	363,973	83,035	38,888	171,922	657,818
Unallocated					3,125
Total assets					<u>660,943</u>
Segment liabilities	244,669	23,798	23,015	81,281	372,763
Unallocated					1,599
Total liabilities					<u>374,362</u>
	Cleaning services business <i>HK\$'000</i>	Landscaping services business <i>HK\$'000</i>	Pest management business <i>HK\$'000</i>	Waste management and recycling business <i>HK\$'000</i>	Total <i>HK\$'000</i>
As at 31 December 2020					
Segment assets	292,163	106,696	40,267	162,909	602,035
Unallocated					2,260
Total assets					<u>604,295</u>
Segment liabilities	171,502	24,392	35,137	81,700	312,731
Unallocated					2,532
Total liabilities					<u>315,263</u>

Other segment information

	Cleaning services business <i>HK\$'000</i>	Landscaping services business <i>HK\$'000</i>	Pest management business <i>HK\$'000</i>	Waste management and recycling business <i>HK\$'000</i>	Unallocated <i>HK\$'000</i>	Total <i>HK\$'000</i>
For the year ended						
31 December 2021						
Depreciation	18,751	2,510	2,337	25,325	677	49,600
Additions to non-current assets	55,571	241	10,791	15,798	102	82,503
Gain on disposal of property, plant and equipment	(593)	(249)	(1,157)	(785)	-	(2,784)
Gain on disposal of right-of-use assets	(101)	(96)	-	-	-	(197)

	Cleaning services business <i>HK\$'000</i>	Landscaping services business <i>HK\$'000</i>	Pest management business <i>HK\$'000</i>	Waste management and recycling business <i>HK\$'000</i>	Unallocated <i>HK\$'000</i>	Total <i>HK\$'000</i>
For the year ended						
31 December 2020						
Depreciation	19,116	3,234	2,342	29,205	712	54,609
Additions to non-current assets	9,691	1,944	830	18,503	1,247	32,215
Loss/(gain) on disposal of property, plant and equipment	284	(191)	79	5,807	-	5,979
Loss on disposal of right-of-use assets	167	-	-	-	-	167

Geographical information

The following sets out information about the geographical region of the Group's revenue from external customers, which is based on the location to which the services and goods are delivered.

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Hong Kong	1,246,408	1,131,781
Mainland China	12,389	-
Southeast Asia	15,012	-
	<u>1,273,809</u>	<u>1,131,781</u>

All of the Group's non-current assets are either based in Hong Kong or related to the Group's operations in Hong Kong as at 31 December 2021 and 2020.

Information about major customers

For the year ended 31 December 2021, the Group's revenue of HK\$335,402,000 (2020: HK\$399,749,000) for various segments was derived from one customer (2020: two customers), each of whom has individually accounted for over 10% of the Group's total revenue, which is/are disclosed as follows:

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Customer A	335,402	201,043
Customer B (<i>Note</i>)	N/A	198,706

Note: The revenue from customer B for the year ended 31 December 2021 was less than 10% of the Group's revenue.

5. REVENUE

The principal activity of the Group is environmental and related services and goods. The amount of each significant category of revenue recognised is as follows:

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Cleaning services	825,451	679,465
Landscaping services	112,321	172,356
Pest management services	102,011	111,347
Waste management and recycling services	193,690	168,613
Sales of recycled materials	40,336	–
	<u>1,273,809</u>	<u>1,131,781</u>

6. OTHER INCOME

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Administration fee income	637	3,401
Change in fair value of investments in life insurance	321	172
Compensation income from services contracts	8,900	–
COVID-19-related rent concessions received	1,946	1,524
Gain on disposal of property, plants and equipment	2,784	–
Gain on disposal of right-of-use assets	197	–
Government grants*	2,312	84,944
Income relating to right-of-use assets	3,971	3,964
Interest income	203	226
Rental income	582	790
Sundry income	301	516
	<u>22,154</u>	<u>95,537</u>

* During the year ended 31 December 2021, the Group recognised the government grants as follows:

- (i) Employment Support Scheme, which aims to retain employment and combat COVID-19, under the Anti-epidemic Fund of the Government of nil (2020: HK\$80,986,000). 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 nil (2020: HK\$3,190,000);
- (iii) subsidies from One-off Rental Support Scheme under the Recycling Fund of nil (2020: HK\$375,000);
- (iv) subsidies from the Green Employment Scheme of the Environment Bureau of HK\$1,166,000 (2020: HK\$174,000);
- (v) subsidies for phasing out certain diesel commercial vehicles by the Group of HK\$1,041,000 (2020: Nil); and
- (vi) other subsidies of HK\$105,000 (2020: HK\$219,000).

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. FINANCE COSTS

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Interest on:		
Bank overdrafts	10	8
Bank borrowings	3,211	6,055
Lease liabilities	1,470	1,705
	<u>4,691</u>	<u>7,768</u>

8. PROFIT BEFORE TAXATION

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

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Auditors' remuneration:		
Audit services	1,680	1,580
Other services	129	150
Cost of consumable goods	79,941	69,523
(Reversal)/recognition of credit losses on trade receivables	(622)	6,173
Depreciation:		
Owned property, plant and equipment	35,805	40,057
Right-of-use assets	13,795	14,552
(Gain)/loss disposal of property, plant and equipment	(2,784)	5,979
(Gain)/loss on disposal of right-of-use assets	(197)	167
Impairment loss on property, plant and equipment	–	1,877
	<u> </u>	<u> </u>
Staff costs (including directors' remuneration):		
Wages, salaries and other benefits	906,156	830,857
Provision for long service and severance payments	23,339	24,340
Provision for untaken paid leave	11,213	9,305
Contributions to defined contribution retirement scheme	29,483	25,696
	<u> </u>	<u> </u>
	<u>970,191</u>	<u>890,198</u>
Short-term lease payments not included in the measurement of lease liabilities:		
Machinery and motor vehicles	41,962	36,848
Land and buildings	5,948	2,005
	<u> </u>	<u> </u>
	<u>47,910</u>	<u>38,853</u>

9. INCOME TAX EXPENSES/(CREDIT)

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Current tax — Hong Kong Profits Tax		
Provision for the year	1,964	1,114
Under/(over)-provision in respect of prior years	<u>18</u>	<u>(35)</u>
	1,982	1,079
Current tax — People's Republic of China Enterprise Income Tax		
Provision for the year	<u>21</u>	<u>13</u>
	2,003	1,092
Deferred tax		
Reversal of temporary differences	<u>6,879</u>	<u>(3,346)</u>
	<u>8,882</u>	<u>(2,254)</u>

The provision for Hong Kong Profits Tax for 2021 is calculated at 16.5% (2020: 16.5%) of the estimated assessable profits for the year, except for one subsidiary of the Group which is a qualifying corporation under the two-tiered Profits Tax rate regime. For this subsidiary, the first HK\$2 million of assessable profits are taxed at 8.25% and the remaining assessable profits are taxed at 16.5%. The provision for Hong Kong Profits Tax for this subsidiary was calculated at the same basis in 2020.

The provision for Hong Kong Profits Tax for 2021 has also taken into account a reduction granted by the Hong Kong SAR Government for the year of assessment 2020/21. The Group is eligible for the maximum reduction of HK\$10,000 (2020: a maximum reduction of HK\$20,000 was granted for the year of assessment 2019/20 and was taken into account in calculating the provision for 2020) for each Hong Kong subsidiaries within the Group.

Taxation for overseas subsidiaries is charged at the appropriate current rates of taxation ruling in the relevant jurisdictions.

10. DIVIDENDS

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

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Final dividend proposed after the end of the reporting period of HK0.9 cents (2020: HK3.6 cents) per ordinary share	<u>3,735</u>	<u>14,940</u>

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

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

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Final dividend in respect of the previous financial year, was approved and paid during the year, of HK3.6 cents (2020: Nil) per ordinary share	<u>14,940</u>	<u>–</u>

11. EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of the basic earnings per share for the year ended 31 December 2021 is based on the profit for the year attributable to ordinary equity shareholders of the Company of HK\$12,847,000 (2020: HK\$51,376,000) and the weighted average number of 415,000,000 (2020: 415,000,000) ordinary shares in issue during the year.

(b) Diluted earnings per share

Diluted earnings per share for the years ended 31 December 2021 and 2020 are the same as the basic earnings per share as there were no potential dilutive ordinary shares in existence during the years presented.

12. TRADE RECEIVABLES

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

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Within 60 days	221,198	175,562
Over 60 days but within 120 days	48,304	56,315
Over 120 days but within 365 days	23,430	21,770
Over 365 days	<u>4,214</u>	<u>5,882</u>
	<u>297,146</u>	<u>259,529</u>

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

13. BIOLOGICAL ASSETS

Movements of biological assets are summarised as follows:

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Plants and flowers		
Balance as at 1 January	20,493	28,316
Purchases	1,567	4,042
Usage in services	(2,665)	(6,144)
Disposal	(1,963)	(1,765)
Change in fair value less costs to sell (<i>note 4</i>)	(4,223)	(3,956)
	<u>13,209</u>	<u>20,493</u>
Balance as at 31 December	<u>13,209</u>	<u>20,493</u>

The plants and flowers are primarily held for further growth for the usage in services and are classified as current assets.

The fair value of biological assets of the Group as at 31 December 2021 and 2020 has been arrived at the basis of a valuation carried out at that date by the independent valuer and the independent valuer has appropriate qualifications and experiences in providing biological assets valuation services.

The fair value less costs to sell of plants and flowers are determined using the market based approach which assumes sales of biological assets in their existing state and making reference to similar sales or offerings or listings of comparable assets on the market.

14. TRADE PAYABLES

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

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Within 30 days	17,284	13,281
Over 30 days but within 60 days	6,957	6,450
Over 60 days but within 90 days	884	664
Over 90 days	7,144	3,504
	<u>32,269</u>	<u>23,899</u>

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

15. SHARE CAPITAL

	Number of shares '000	Nominal value HK\$'000
Authorised:		
<i>Ordinary shares of HK\$0.01 each</i>		
As at 1 January 2020, 31 December 2020, 1 January 2021 and 31 December 2021	<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 2020, 31 December 2020, 1 January 2021 and 31 December 2021	<u>415,000</u>	<u>4,150</u>

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All ordinary shares rank equally with regard to the Company's residual assets.

POST BALANCE SHEET EVENTS

On 26 January 2022, the Company has granted 11,120,000 share options to 4 eligible persons under the share option scheme. For details of the grant of share options, please refer to the announcement of the Company dated 26 January 2022.

Save for aforesaid, the Group had no material event subsequent to the end of the Year and up to the date of this announcement.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed tentatively from Thursday, 26 May 2022 to Tuesday, 31 May 2022, both days inclusive, during which no transfer of shares of the Company will be registered. To be eligible to attend and vote at the Annual General Meeting which shall be held on 31 May 2022, all transfer forms accompanied by the relevant share certificates must be lodged with the Company's Hong Kong Branch Share Registrar, Tricor Investor Services Limited of Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:30 p.m. on Wednesday, 25 May 2022 or at another time and/or date as advised.

The register of members of the Company will be closed tentatively from Thursday, 23 June 2022 to Friday, 24 June 2022, both days inclusive, during which no transfer of shares of the Company will be registered. In order for the Shareholders to qualify for the proposed final dividend, all transfer forms accompanied by the relevant share certificates must be lodged with the Company's Hong Kong Branch Share Registrar, Tricor Investor Services Limited of Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:30 p.m. on Wednesday, 22 June 2022.

CORPORATE GOVERNANCE

The Company is committed to maintaining high standards of corporate governance to safeguard the interests of the Shareholders and to enhance corporate value and accountability. The Company has complied with all applicable code provisions under the Corporate Governance Code (the "CG Code") as set out in Appendix 14 to the Listing Rules throughout the Year. The Company will continue to review and enhance its corporate governance practices to ensure compliance with the CG Code.

Information on the corporate governance practices adopted by the Company will be set out in the Corporate Governance Report in the Group's 2021 annual report to be published in due course.

AUDIT COMMITTEE

The audit committee of the Company has reviewed with the management of the Company the consolidated financial statements of the Group for the Year, and reviewed the effectiveness of the risk management and internal control system of the Company with the management of the Company.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the “Model Code”) as set out in Appendix 10 to the Listing Rules as its own code of conduct regarding directors’ securities transactions. Having made specific enquiries with all Directors, each of the Directors confirmed that he/she has complied with the Model Code throughout the Year.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

Neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the Company’s listed securities during the Year.

SCOPE OF WORK OF KPMG

The financial figures in respect of the Group’s consolidated statement of financial position, consolidated statement of profit or loss and other comprehensive income and the related notes thereto for the Year as set out in this announcement have been compared by the Group’s auditor, KPMG, Certified Public Accountants, to the amounts set out in the Group’s draft consolidated financial statements for the Year and the amounts were found to be in agreement. The work performed by KPMG in this respect did not constitute an audit, review or other assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the HKICPA and consequently no assurance has been expressed by the Group’s auditor.

PUBLICATION OF FINAL RESULTS AND ANNUAL REPORT

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

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

Hong Kong, 30 March 2022

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 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.