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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: 01397)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2022

FINANCIAL SUMMARY

- Revenue for the six months ended 30 June 2022 amounted to approximately HK\$714.1 million (1H2021: HK\$587.2 million), representing an increase of approximately 21.6% as compared with the preceding period.
- Gross profit for the six months ended 30 June 2022 was approximately HK\$57.7 million (1H2021: HK\$49.0 million), representing an increase of approximately 17.6% as compared with the preceding period.
- Other income, gains and losses for the six months ended 30 June 2022 was approximately HK\$20.9 million (1H2021: HK\$16.2 million), representing an increase of approximately 29.3% as compared with the preceding period.
- Profit attributable to equity shareholders of the Company for the six months ended 30 June 2022 was approximately HK\$17.8 million (1H2021: HK\$12.2 million), representing an increase of approximately 45.3% as compared with the preceding period.
- The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2022 (1H2021: Nil).

The board of directors (the “Directors” and the “Board” respectively) of Baguio Green Group Limited (the “Company”, and together with its subsidiaries, the “Group” or “Baguio”) is pleased to announce the unaudited consolidated interim results of the Group for the six months ended 30 June 2022 (the “Period”).

MARKET REVIEW

The Waste Blueprint for Hong Kong 2035 and The Hong Kong Climate Action Plan 2050 announced by the HKSAR Government in 2021 clearly outlined 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. Climate change has led to a surge in demand for integrated environmental services in Hong Kong, which creates significant opportunities for the Group.

In the first half of 2022, the COVID-19 pandemic continued to affect every sector of society. Stringent pandemic control measures and supply chain disruptions together with the rising energy and raw material prices posed significant challenges to resources allocation and cost control. Although the operating environment was challenging, the increasing awareness of public health by Hong Kong people and the significant growth in business demand boosted the Group's development in cleaning and disinfection services. Regarding waste management and recycling, the recycling rate dropped as restaurants and bars were ordered to be closed for a long period of time during the pandemic. However, extensive rodent infestations hitting hygiene blackspots throughout the city created sizeable opportunities for our pest management business. To combat the infestations, the Food and Environmental Hygiene Department ("FEHD") commissioned new tenders, including the use of artificial intelligence systems with thermal cameras to precisely identify and target rodent-infested areas. As for the landscaping business, demand for our services declined as companies tightened their cost controls under the uncertain economic outlook.

BUSINESS REVIEW

The Group's core business, cleaning services, recorded a considerable growth in the first half of 2022. Revenue of cleaning services increased by 42% to approximately HK\$498.6 million, accounting for 70% of the Group's overall revenue during the Period. Total revenue was approximately HK\$714.1 million, representing an increase of 22% as compared to the same period in 2021.

With regard to our cleaning business, the Group secured a number of new service contracts from the HKSAR Government worth approximately HK\$1.6 billion. To make Hong Kong cleaner, greener and more sustainable, Baguio has introduced various innovative green technologies including electric vehicles, high-tech disinfection facilities, intelligent cleaning, and Internet of Things (IoT) technology. Demand for cleaning services increased due to the pandemic. Specifically, high profit margin cleaning services, such as disinfection and cleaning services for quarantine hotels, greatly contributed to the overall growth in our cleaning business and an increase in gross profit margin to 9.7% from 7.4% in the same period in 2021. The gross profit margin has already reflected the additional costs brought by high oil prices and inflation. If there were no such inflationary factors, the gross profit margin of our cleaning services would be even higher.

With regard to the waste management and recycling business, the Group secured two new contracts with FEHD for the provision of waste collection services during the Period, worth approximately HK\$140 million. The Group is contracted by the Environmental Protection Department (“EPD”) to handle over 5,000 recycling spots (including plastic, glass bottles, metals and waste paper) across Hong Kong. We currently operate various sorting facilities to support our recycling business. Baguio runs Hong Kong’s most comprehensive plastic collection networks. It is the operator contracted by the EPD to manage three-colour recycling bins in the Hong Kong Island, Kowloon and New Territories. In January 2022, it won a new 33-month EPD Plastic Recycling Pilot Scheme contract to provide plastic collection services for three districts (Eastern, Kwun Tong and Central & Western). Baguio also provides plastic collection services for Recycling Stations of “GREEN@COMMUNITY” and Reverse Vending Machines (“RVMs”), which were introduced by EPD and other institutions in Hong Kong. In addition, the Group also provides collection and management services of glass bottles for the Hong Kong Island (including Islands District) and the New Territories.

During the Period, the gross profit margin of our waste management and recycling segment declined due to various factors including increasing energy prices and inflation combined with a decline in the recycling rate during the pandemic. However, the overall decline was mainly due to the impact of our plastic recycling services. Under the EPD’s Plastic Recycling Pilot Scheme, the contractor needed to invest substantial resources and costs to initiate and establish the collection network in the first half of the year. Revenue generated in the short run may not be proportional to expenditure. It is expected that after the contract has commenced for a certain period of time, this short-term disproportionate issue will be improved.

With the exception of the plastic recycling services, other waste management and recycling businesses including waste collection services, glass bottle collection services, food waste collection services, etc., recorded gross profit margins at the similar level as last year, if the increasing oil prices and inflation factors were excluded.

In the landscaping services, projects continued to experience delays with increased logistics costs due to the ongoing pandemic. Additionally, intense market competition affected the gross profit margin and the overall performance of our landscaping business. For the pest management business, since the outbreak of COVID-19 pandemic, the entry of newcomers has led to keen competition affecting our gross profit margin and performance. The Group seeks to enhance its competitive edge with the introduction of artificial intelligence system to precisely and effectively tackle a growing number of rodent infestations throughout the city.

Interim Dividend

The Directors do not recommend the payment of an interim dividend for the Period (1H2021: Nil).

Revenue Breakdown of Major Business Segments

	For the six months ended 30 June 2022		2021		Change
	Revenue (HK\$ million)	% of total revenue	Revenue (HK\$ million)	% of total revenue	
Cleaning	498.6	69.8%	351.8	59.9%	+41.7%
Waste management and recycling	111.8	15.7%	117.6	20.0%	-4.9%
Landscaping	56.9	8.0%	62.6	10.7%	-9.2%
Pest management	46.8	6.5%	55.2	9.4%	-15.1%
Total	714.1	100.0%	587.2	100.0%	+21.6%

Gross Profit Margin of Major Business Segments

	For the six months ended 30 June		Change
	2022	2021	
Cleaning	9.7%	7.4%	+2.3 p.p.
Waste management and recycling	3.0%	11.4%	-8.4 p.p.
Landscaping	6.7%	7.4%	-0.7 p.p.
Pest management	4.6%	8.9%	-4.3 p.p.
Overall	8.1%	8.4%	-0.3 p.p.

During the Period, the Group was driven by the strong performance with the increase in revenue of approximately 41.7% from cleaning segment. This encouraging result was attributable to the Group's enormous effort in securing new contracts with the FEHD and the Leisure and Cultural Services Department for the provision of cleaning services.

The overall gross profit margin dropped from 8.4% to 8.1% mainly due to the initial operation costs in our new projects in waste and recycling segment. Relevant income in short run may not proportional to expenditure. In additions, the progress delay of landscaping projects and high service level demand in pest management services market with keen competition, together with the high energy price also affected the gross profit margin.

Contracts on Hand

As of 30 June 2022, the Group had a total amount of approximately HK\$3,406 million worth of unexpired contracts on hand, among which, approximately HK\$900 million would be recognised by the end of 2022; approximately HK\$1,328 million would be recognised in 2023 and the rest of approximately HK\$1,178 million would 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	2,624	702	1,039	883
Waste management and recycling services	561	111	193	257
Landscaping services	135	48	64	23
Pest management services	86	39	32	15
Total	<u>3,406</u>	<u>900</u>	<u>1,328</u>	<u>1,178</u>

PROSPECTS

In the first half of 2022, new contracts awarded to the Group amounted to a total of HK\$1.95 billion. As a result, the Group recorded a historical high for its contracts on hand of approximately HK\$3.4 billion (as of 30 June 2022), representing an increase of approximately 59% from approximately HK\$2.1 billion as of 31 December 2021. This signifies not only Baguio's strong execution capabilities but also wide market recognition, providing a strong revenue growth in the second half of 2022 and the subsequent years.

During the Period, our cleaning business secured a number of cleaning service contracts which will provide revenue contribution in the second half of 2022. The Group has been awarded seven 3-year service contracts (the "FEHD Contracts") worth approximately HK\$1.6 billion in total by the FEHD of the HKSAR Government for street cleaning services in Sha Tin, Yuen Long and Western districts commencing from 1 July 2022, and Tai Po district commencing from 1 August 2022. Winning these FEHD contracts confirms that Baguio is a leading player in the Hong Kong cleaning market and currently covers a total of seven Hong Kong districts, serving more than 2.5 million people (or a third of the city's population).

In the waste management services, the Group won two FEHD 5-year service contracts worth approximately HK\$140 million in total. The contracts are to provide waste collection services in Mong Kok and Wan Chai districts commencing from 1 June 2022 and from 1 July 2022, respectively. With these two FEHD contracts, Baguio's waste collection services network now covers a total of five districts in Hong Kong and serves approximately 1.5 million people, placing Baguio one of the key waste management leaders in Hong Kong.

In the recycling business services, Baguio's 33-month service contract under EPD's Plastic Recycling Pilot Scheme for plastic collection services in the Eastern, Kwun Tong and Central & Western districts commenced in the first half of 2022. The plastic collection networks were successfully established after six months, giving Baguio a comprehensive coverage of the three districts serving the entire community. The collection volume is expected to rise in the second half of 2022 and thereby accelerates our revenue growth.

With the Municipal Solid Waste (MSW) Charging Scheme scheduled to be launched in the second half of 2023, it is expected to further motivate the public to recycle and to increase the recycling volume. With the implementation of the Producer Responsibility Scheme on Plastic Beverage Containers enshrining the principle of "polluter pays" and the vision of "eco-responsibility", the recycling rate of plastic beverage containers is expected to have a significant increase. The two schemes are expected to directly drive the growth of Baguio's recycling business and create solid returns from our investment in recycling facilities which creates a strong entry barrier to the competition.

To support the expected growth in the volume of the plastic recycling business, a new high-speed and fully-automated plastic-sorting facility was introduced to one of the Group's recycling plants in July 2022. Enhanced by Near-Infrared ("NIR") technology, the new plant facilitates rapid separation of all plastic types and colours. It not only increases the processing volume, but also strengthens Baguio's plastic-sorting capability to precisely and effectively separate the collected plastic recyclables into different types for quality conversion. This new technology will drive the Group's plastic recycling business future growth. When fully operational, the plant's plastic processing capacity per year could exceed 10,000 tonnes, equivalent to 400 million plastic bottles.

In line with the Hong Kong's sustainable development, we continue to enhance our collection and recycling capabilities. Our joint venture with Swire Beverages Holdings Limited and another investor to set up Hong Kong's first food-grade ready PET plastic factory at the EcoPark in Tuen Mun has commenced operation. Collected plastics are turning into recycled plastic flakes, which can then be re-manufactured as new products. The production volume is gradually increasing.

To capture the enormous opportunities, the Group launched the "ESG+" solution to support listed company clients to implement and promote "Environmental, Social and Governance (ESG)" policies. By providing professional sustainability services such as low-carbon waste management, waste audit, recycling, iRecycle sustainability services and providing green products as well as green/ESG data, Baguio assists listed company clients to improve their ESG performance, thereby increasing their chances of securing green financing and becoming an ESG index constituent.

Regarding our green technology business, we were awarded EPD's first service contract last year for using bioconversion technology (Black Soldier Flies) to help solve Hong Kong's chicken manure problem. Located at the EcoPark in Tuen Mun, the facility is currently undergoing commissioning tests and is scheduled to become fully operational by the end of 2022, opening a new chapter for the Baguio's green technology business.

We strive to inject new momentum into our business with biotechnology. In partnership with Jardine Engineering Corporation Limited, the Group formed a Pilot Biochar Production Plant at the EcoPark in Tuen Mun which will enter testing phase within this year. By converting wood waste into high-quality biochar with pyrolysis technology, the production plant effectively turns waste into useful resources.

In the landscaping services, given our solid experience in landscape services, the Group was honored to have the opportunity to provide greening services in public open space at Kai Tak Sports Park, demonstrating the Group's landscaping services is widely recognised. Additionally, according to the Northern Metropolis Development Strategy announced in October 2021, the Government will further implement proactive conservation measures with the creation of wetland conservation parks with a total area of approximately 2,000 hectares. This creates a new opportunity for the Group to grow its landscaping business. At the same time, the new initiative explicitly mentions that there will be an expansion of housing supply and innovative and technology, which is believed to bring opportunities for the Group's various core businesses.

With the new government's high emphasis on environmental hygiene, a three-month citywide clean-up campaign was launched in August 2022 with a District Matters Co-ordination Task Force set up to address and tackle district-based issues such as hygiene blackspots, street obstruction blackspots, environmental problems and cityscape improvement. As one of Hong Kong's largest integrated environmental services groups, Baguio has the capacity to provide the highest environmental health standards for the HKSAR Government to create a sustainable environment. Baguio will continue to work closely with the Government and provide a full spectrum of professional services from professional cleaning, waste collection & recycling, waste management, green technology, and organic fertilizer & animal feed production to horticulture & landscaping, and pest control with an aim to support the city in realising visions for a green future.

Looking ahead, Baguio will continue to contribute to global environment protection by integrating its existing business, consolidating its in-depth knowledge and experiences, staying on top of industry trends, and constantly exploring projects with strong growth potential and green technology. The Group will also continue to proactively pursue potential strategic partnerships or investment opportunities to further achieve synergy effects among businesses and deliver solid returns to shareholders.

FINANCIAL REVIEW

Revenue

The Group's revenue for the six-month periods ended 30 June 2022 and 2021 amounted to approximately HK\$714.1 million and HK\$587.2 million respectively, representing an increase of approximately 21.6%. The increase was mainly due to the increase in revenue in our cleaning segment with increase in number of contracts and orders during the Period.

Cost of Services

For the six-month periods ended 30 June 2022 and 2021, the cost of services amounted to approximately HK\$656.4 million and HK\$538.1 million respectively, representing approximately 91.9% and approximately 91.6% 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\$57.7 million, representing an increase of approximately 17.6% from approximately HK\$49.0 million for the corresponding period in 2021.

Gross Profit Margin

The gross profit margins of the Group for the six-month periods ended 30 June 2022 and 2021 were approximately 8.1% and approximately 8.4% respectively. As mentioned above, though there was a strong performance in cleaning segment which were partially offset by the initial operation costs from new projects in waste and recycling segment. In additions, profit margin was also affected by increased cost with the progress delay of landscaping projects and high service level demand in pest management services market with keen competition, together with high energy price.

Other income, gains and losses

The other income, gains and losses of the Group for the six-month periods ended 30 June 2022 and 2021 were approximately HK\$20.9 million and HK\$16.2 million respectively, representing an increase of approximately 29.3%. The substantial increase was mainly related to the subsidies under the Anti-epidemic Fund set up by the Hong Kong Government was recognised during the Period.

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 biological assets represented by the loss of approximately HK\$2.2 million and HK\$3.0 million for the six-month periods ended 30 June 2022 and 2021 respectively. The decrease in fair value was mainly due to the decrease in demand in new landscaping contracts and sales market continued to be affected by the COVID-19 pandemic.

Selling and Marketing Expenses

The selling and marketing expenses of the Group for the six-month periods ended 30 June 2022 and 2021 were approximately HK\$0.8 million and HK\$0.6 million respectively. 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 2022 and 2021 were approximately HK\$48.2 million and HK\$40.4 million respectively, representing an increase of approximately 19.3%, and approximately 6.7% and approximately 6.9% of the respective period's total revenue. The increase was mainly due to the increase in wages and allowances for staff and the office overhead to support new business development, and to strengthen and expand the ERP system enhancing the competitiveness. 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\$2.7 million and HK\$2.0 million for the six-month periods ended 30 June 2022 and 2021 respectively, representing approximately 0.4% and approximately 0.3% of the Group's total revenue respectively. The increase was mainly due to the increase in the level of working capital loan and interest rate on bank borrowings during the Period.

Profit for the Period Attributable to Equity Shareholders of The Company

The Group's net profit attributable to equity shareholders of the Company for the six-month periods ended 30 June 2022 and 2021 amounted to approximately HK\$17.8 million and HK\$12.2 million respectively, representing an increase of approximately 45.3%. The increase was mainly due to the factors described above.

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\$50.1 million (1H2021: HK\$51.4 million). As at 30 June 2022, the Group had available cash and bank balances amounting to approximately HK\$43.4 million (31 December 2021: HK\$32.3 million), representing an increase of approximately 34.7% from 31 December 2021.

As at 30 June 2022, the Group's total current assets and current liabilities were approximately HK\$430.3 million (31 December 2021: HK\$381.8 million) and HK\$401.0 million (31 December 2021: HK\$318.8 million) respectively, while the current ratio was approximately 1.1 times (31 December 2021: 1.2 times). The liquidity position of the Group is maintained at a healthy level.

As at 30 June 2022, the Group's bank borrowings amounted to approximately HK\$158.9 million (31 December 2021: HK\$123.6 million), representing an increase of approximately 28.5%; the Group's lease liabilities were approximately HK\$46.3 million (31 December 2021: HK\$37.7 million), representing an increase of approximately 22.7%, 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; the Group's other loan from a non-controlling shareholder of a subsidiary amounted to approximately HK\$5.6 million (31 December 2021: Nil) for financing the acquisition of property, plant and equipment for operational usage. During the Period, no financial instruments were used for hedging purposes.

As at 30 June 2022, the gearing ratio of the Group was approximately 0.7 times (31 December 2021: 0.6 times), which was calculated based on the total interest-bearing bank borrowings, lease liabilities and other loan over total equity of the Group.

As at 30 June 2022, the Group had unutilised banking facilities of approximately HK\$272.0 million (31 December 2021: HK\$244.0 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 2022, the Group had capital commitment contracted for of approximately HK\$19.1 million (31 December 2021: HK\$4.4 million).

CHARGES ON THE GROUP'S ASSETS

As at 30 June 2022, the amounts payable under lease liabilities within one year was approximately HK\$11.4 million (31 December 2021: HK\$9.3 million), that after one year but with five years was approximately HK\$17.6 million (31 December 2021: HK\$9.9 million), and that after five years was approximately HK\$17.3 million (31 December 2021: HK\$18.5 million).

As at 30 June 2022, the lease liabilities of the Group of approximately HK\$0.2 million (31 December 2021: HK\$0.9 million) were guaranteed by the Company and a subsidiary of the Company.

In addition, as at 30 June 2022, the Group had (i) pledged bank deposits of approximately HK\$7.2 million (31 December 2021: HK\$7.2 million); (ii) pledge of cash and cash equivalents of approximately HK\$45,000 (31 December 2021: HK\$0.7 million); (iii) mortgage of the land and buildings of approximately HK\$66.4 million (31 December 2021: HK\$67.7 million); (iv) pledge of the financial assets at fair value through profit or loss of approximately HK\$2.5 million (31 December 2021: HK\$2.5 million); (v) pledge of the trade receivables of approximately HK\$76.8 million (31 December 2021: HK\$75.6 million); and (vi) pledge of the contract assets of approximately HK\$4.7 million (31 December 2021: HK\$4.1 million).

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


CONTINGENT LIABILITIES

As at 30 June 2022, 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.

INTELLECTUAL PROPERTIES

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

HUMAN RESOURCES

As at 30 June 2022, the Group employed 6,234 employees (31 December 2021: 5,621 employees), including both full time and part time. 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 2022 together with the comparative figures of 2021 are as follows:

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

For the six months ended 30 June 2022 — UNAUDITED

(EXPRESSED IN HONG KONG DOLLARS)

		For the six months ended 30 June	
		2022	2021
	<i>Note</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Revenue	4	714,122	587,154
Cost of services		<u>(656,442)</u>	<u>(538,121)</u>
Gross profit		57,680	49,033
Other income, gains and losses		20,937	16,190
Change in fair value less costs to sell of biological assets		(2,161)	(3,015)
Selling and marketing expenses		(769)	(638)
Administrative expenses		<u>(48,170)</u>	<u>(40,375)</u>
Profit from operations		27,517	21,195
Finance costs	5	(2,723)	(1,958)
Share of losses of a joint venture		<u>(1,747)</u>	<u>(1,729)</u>
Profit before taxation	6	23,047	17,508
Income tax expense	7	<u>(5,929)</u>	<u>(5,261)</u>
Profit for the period		17,118	12,247
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		(104)	24
Cash flow hedge: share of net movement in the hedging reserve of a joint venture		<u>—</u>	<u>(414)</u>
Other comprehensive income		<u>(104)</u>	<u>(390)</u>
Total comprehensive income for the period		<u>17,014</u>	<u>11,857</u>

		For the six months ended 30 June	
		2022	2021
	<i>Note</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Profit for the period attributable to:			
Equity shareholders of the Company		17,796	12,247
Non-controlling interests		(678)	–
		<u>17,118</u>	<u>12,247</u>
Total comprehensive income for the period attributable to:			
Equity shareholders of the Company		17,692	11,857
Non-controlling interests		(678)	–
		<u>17,014</u>	<u>11,857</u>
Earnings per share			
Basic and diluted (HK cents)	9	<u>4.29</u>	<u>2.95</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2022 — *UNAUDITED*

(EXPRESSED IN HONG KONG DOLLARS)

	<i>Note</i>	At 30 June 2022 <i>HK\$'000</i>	At 31 December 2021 <i>HK\$'000</i>
Non-current assets			
Property, plant and equipment		233,545	190,023
Right-of-use assets		46,780	38,442
Interest in a joint venture		–	1,747
Financial assets at fair value through profit or loss		14,728	14,669
Prepayments, deposits and other receivables		40,787	31,628
Deferred tax assets		2,569	2,643
		<u>338,409</u>	<u>279,152</u>
Current assets			
Inventories		3,867	3,531
Contract assets		12,014	10,418
Trade receivables	10	322,061	297,146
Prepayments, deposits and other receivables		32,722	18,062
Tax recoverable		124	7
Biological assets		8,938	13,209
Pledged bank deposits		7,166	7,164
Cash and cash equivalents		43,433	32,254
		<u>430,325</u>	<u>381,791</u>
Current liabilities			
Trade payables	11	35,087	32,269
Contract liabilities		356	756
Accruals, deposits received and other payables		194,304	152,428
Bank borrowings		158,855	123,605
Lease liabilities		11,400	9,282
Tax payable		990	426
		<u>400,992</u>	<u>318,766</u>
Net current assets		<u>29,333</u>	<u>63,025</u>
Total assets less current liabilities		<u>367,742</u>	<u>342,177</u>

		At 30 June 2022 <i>HK\$'000</i>	At 31 December 2021 <i>HK\$'000</i>
	<i>Note</i>		
Non-current liabilities			
Other payables		1,404	1,620
Lease liabilities		34,887	28,439
Provision		10,969	10,969
Deferred tax liabilities		19,541	14,568
		<u>66,801</u>	<u>55,596</u>
Net assets		<u>300,941</u>	<u>286,581</u>
Capital and reserves			
Share capital	12	4,150	4,150
Reserves		296,672	282,434
Total equity attributable to equity shareholders of the Company		300,822	286,584
Non-controlling interests		119	(3)
Total equity		<u>300,941</u>	<u>286,581</u>

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2022 — UNAUDITED

(EXPRESSED IN HONG KONG DOLLARS)

	Attributable to equity shareholders of the Company							Total	Non-controlling interests	Total equity
	Share capital	Share premium	Other reserve	Share option reserve	Translation reserve	Hedging reserve	Retained earnings			
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2021	4,150	100,850	18,330	1,656	(52)	414	163,684	289,032	–	289,032
Profit for the period	–	–	–	–	–	–	12,247	12,247	–	12,247
Other comprehensive income for the period	–	–	–	–	24	(414)	–	(390)	–	(390)
Total comprehensive income for the period	–	–	–	–	24	(414)	12,247	11,857	–	11,857
Dividends approved in respect of the previous year (note 8)	–	–	–	–	–	–	(14,940)	(14,940)	–	(14,940)
Share options lapsed	–	–	–	(84)	–	–	84	–	–	–
At 30 June 2021	4,150	100,850	18,330	1,572	(28)	–	161,075	285,949	–	285,949
At 1 January 2022	4,150	100,850	18,330	1,572	7	–	161,675	286,584	(3)	286,581
Profit for the period	–	–	–	–	–	–	17,796	17,796	(678)	17,118
Other comprehensive income for the period	–	–	–	–	(104)	–	–	(104)	–	(104)
Total comprehensive income for the period	–	–	–	–	(104)	–	17,796	17,692	(678)	17,014
Capital contributions received by non-wholly owned subsidiary from a non-controlling shareholder	–	–	–	–	–	–	–	–	800	800
Dividends approved in respect of the previous year (note 8)	–	–	–	–	–	–	(3,735)	(3,735)	–	(3,735)
Equity-settled share-based payments	–	–	–	281	–	–	–	281	–	281
Share options lapsed	–	–	–	(49)	–	–	49	–	–	–
At 30 June 2022	4,150	100,850	18,330	1,804	(97)	–	175,785	300,822	119	300,941

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS*For the six months ended 30 June 2022 — UNAUDITED***(EXPRESSED IN HONG KONG DOLLARS)**

	For the six months ended 30 June	
	2022	2021
	HK\$'000	HK\$'000
Net cash generated from operating activities	50,090	51,371
Investing activities		
Payment for the purchase of property, plant and equipment	(72,844)	(44,322)
Other cash flows arising from investing activities	2,359	7,853
Net cash used in investing activities	(70,485)	(36,469)
Financing activities		
Proceeds from new bank borrowings	647,075	390,478
Repayment of bank borrowings	(611,825)	(367,797)
Other cash flows used in financing activities	(3,358)	(9,205)
Net cash generated from financing activities	31,892	13,476
Net increase in cash and cash equivalents	11,497	28,378
Cash and cash equivalents at the beginning of the period	32,254	28,522
Effect of foreign exchange rates changes	(318)	68
Cash and cash equivalents at the end of the period	43,433	56,968

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 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 2022, but are extracted from that interim financial report.

The interim financial report has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, including compliance with Hong Kong Accounting Standard ("HKAS") 34, *Interim financial reporting*, issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). It was authorised for issue on 30 August 2022.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2021 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2022 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 2021 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 2021 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 Group has applied the following amendments to HKFRSs issued by the HKICPA to this interim financial report for the current accounting period:

- Amendments to HKFRS 3, *Reference to the conceptual framework*
- Amendments to HKAS 16, *Property, plant and equipment: Proceeds before intended use*
- Amendments to HKAS 37, *Provisions, contingent liabilities and contingent assets: Onerous contracts — cost of fulfilling a contract*
- Annual improvements to HKFRSs 2018–2020 cycle

None of the above amendments have had a significant financial effect to the Group. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

4. SEGMENT INFORMATION

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

- Cleaning services business
- Waste management and recycling business
- Landscaping services business
- Pest management 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, gains and losses, 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>	Waste management and recycling business <i>HK\$'000</i>	Landscaping services business <i>HK\$'000</i>	Pest management business <i>HK\$'000</i>	Total <i>HK\$'000</i>
Six months ended 30 June 2022					
Revenue from external customers					
— recognised over time	498,607	93,765	56,848	46,842	696,062
— recognised at point in time	—	18,060	—	—	18,060
	<u>498,607</u>	<u>111,825</u>	<u>56,848</u>	<u>46,842</u>	<u>714,122</u>
Segment results	<u>47,702</u>	<u>3,251</u>	<u>3,797</u>	<u>2,161</u>	<u>56,911</u>
Other income, gains and losses					20,937
Change in fair value less costs to sell of biological assets					(2,161)
Administrative expenses					(48,170)
Finance costs					(2,723)
Share of losses of a joint venture					(1,747)
Profit before taxation					<u><u>23,047</u></u>
Six months ended 30 June 2021					
Revenue from external customers and reportable segment revenue recognised over time	351,821	117,595	62,591	55,147	587,154
Segment results	<u>25,666</u>	<u>13,197</u>	<u>4,650</u>	<u>4,882</u>	<u>48,395</u>
Other income, gains and losses					16,190
Change in fair value less costs to sell of biological assets					(3,015)
Administrative expenses					(40,375)
Finance costs					(1,958)
Share of losses of a joint venture					(1,729)
Profit before taxation					<u><u>17,508</u></u>

Segment assets and liabilities

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

	Cleaning services business <i>HK\$'000</i>	Waste management and recycling business <i>HK\$'000</i>	Landscaping services business <i>HK\$'000</i>	Pest management business <i>HK\$'000</i>	Total <i>HK\$'000</i>
As at 30 June 2022					
Segment assets	436,198	210,098	78,296	40,219	764,811
Unallocated					3,923
Total assets					768,734
Segment liabilities	304,120	98,301	21,486	36,960	460,867
Unallocated					6,926
Total liabilities					467,793
	Cleaning services business <i>HK\$'000</i>	Waste management and recycling business <i>HK\$'000</i>	Landscaping services business <i>HK\$'000</i>	Pest management business <i>HK\$'000</i>	Total <i>HK\$'000</i>
As at 31 December 2021					
Segment assets	363,973	171,922	83,035	38,888	657,818
Unallocated					3,125
Total assets					660,943
Segment liabilities	244,669	81,281	23,798	23,015	372,763
Unallocated					1,599
Total liabilities					374,362

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.

	For the six months ended 30 June	
	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Hong Kong	702,110	587,154
Mainland China	6,458	–
Southeast Asia	5,554	–
	<u>714,122</u>	<u>587,154</u>

5. FINANCE COSTS

	For the six months ended 30 June	
	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Interest on:		
Bank borrowings	1,931	1,194
Bank overdrafts	1	–
Lease liabilities	679	764
Others	112	–
	<u>2,723</u>	<u>1,958</u>

6. PROFIT BEFORE TAXATION

	For the six months ended 30 June	
	2022	2021
	HK\$'000	HK\$'000
Profit before taxation is arrived at after charging/(crediting):		
Cost of inventories	37,104	41,915
Depreciation:		
Owned property, plant and equipment	20,699	15,597
Right-of-use assets	7,475	7,489
Compensation income from services contracts	–	(8,900)
COVID-19-related rent concessions received	(973)	(973)
Gain on disposal of property, plant and equipment	(1,387)	(2,068)
Gain on disposal of right-of-use assets	–	(198)
Government grants*	(13,345)	(675)
Reversal of credit losses on trade receivables	(1,820)	(29)
	<u>37,104</u>	<u>41,915</u>
Staff costs (including directors' remuneration):		
Wages, salaries and other benefits	520,516	411,042
Provision for long service and severance payments	11,254	12,026
Provision for untaken paid leave	6,702	4,265
Contributions to defined contribution retirement scheme	16,397	14,042
Equity-settled share-based payments	281	–
	<u>555,150</u>	<u>441,375</u>
Short-term lease payments not included in the measurement of lease liabilities:		
Machinery and motor vehicles	22,814	17,638
Land and buildings	3,140	2,289
	<u>25,954</u>	<u>19,927</u>

* During the reporting period, 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 HK\$7,696,000 (six months ended 30 June 2021: 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) subsidies from the Green Employment Scheme of the Environment Bureau of HK\$567,000 (six months ended 30 June 2021: HK\$650,000);
- (iii) subsidies for phasing out certain diesel commercial vehicles by the Group of HK\$5,017,000 (six months ended 30 June 2021: Nil); and
- (iv) other subsidies of HK\$65,000 (six months ended 30 June 2021: HK\$25,000).

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. INCOME TAX EXPENSE

	For the six months ended 30 June	
	2022 HK\$'000	2021 HK\$'000
Current tax:		
Hong Kong Profits Tax	882	890
Deferred tax	<u>5,047</u>	<u>4,371</u>
	<u><u>5,929</u></u>	<u><u>5,261</u></u>

The provision for Hong Kong Profits Tax is calculated by applying the estimated annual effective tax rate of 16.5% (2021: 16.5%) to the six months ended 30 June 2022, 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 2021.

8. DIVIDENDS

	For the six months ended 30 June	
	2022 HK\$'000	2021 HK\$'000
Final dividend in respect of the previous financial year, was approved and recognised during the interim period, of HK0.9 cents (six months ended 30 June 2021: HK3.6 cents) per ordinary share	<u>3,735</u>	<u>14,940</u>

The directors of the Company do not recommend the payment of any interim dividend for the six months ended 30 June 2022 (six months ended 30 June 2021: 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 2022 attributable to ordinary equity shareholders of the Company of HK\$17,796,000 (six months ended 30 June 2021: HK\$12,247,000) and the weighted average number of 415,000,000 (six months ended 30 June 2021: 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 2022 and 2021 are the same as the basic earnings per share as there were no potential dilutive ordinary shares in existence during the interim periods.

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 2022 <i>HK\$'000</i>	At 31 December 2021 <i>HK\$'000</i>
Within 60 days	237,036	221,198
Over 60 days but within 120 days	45,258	48,304
Over 120 days but within 365 days	31,491	23,430
Over 365 days	8,276	4,214
	<u>322,061</u>	<u>297,146</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 2022 <i>HK\$'000</i>	At 31 December 2021 <i>HK\$'000</i>
Within 30 days	22,657	17,284
Over 30 days but within 60 days	3,359	6,957
Over 60 days but within 90 days	717	884
Over 90 days	8,354	7,144
	<u>35,087</u>	<u>32,269</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 <i>HK\$'000</i>
Authorised: <i>Ordinary shares of HK\$0.01 each</i>		
As at 1 January 2021, 31 December 2021, 1 January 2022 and 30 June 2022	<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 2021, 31 December 2021, 1 January 2022 and 30 June 2022	<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 2022.

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, 30 August 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.