

碧 瑤 BAGUIO

碧瑤綠色集團有限公司
Baguio Green Group Limited

(於開曼群島註冊成立之有限公司)
(Incorporated in the Cayman Islands with limited liability)

股份代號 Stock Code : 1397

Clean & Green



Annual Report
年報 2016

CONTENTS

| | |
|---|------------|
| Corporate Information | 2 |
| Chairman's Statement | 3 |
| Management Discussion and Analysis | 5 |
| Biographical Details of Directors | 12 |
| Report of the Directors | 15 |
| Corporate Governance Report | 26 |
| Environmental, Social and Governance Report | 37 |
| Independent Auditor's Report | 57 |
| Consolidated Statement of Profit or Loss and Other Comprehensive Income | 62 |
| Consolidated Statement of Financial Position | 63 |
| Consolidated Statement of Changes in Equity | 64 |
| Consolidated Statement of Cash Flows | 65 |
| Notes to the Consolidated Financial Statements | 66 |
| Five-Year Financial Summary | 112 |

CORPORATE INFORMATION

EXECUTIVE DIRECTORS

Mr. Ng Wing Hong
Ms. Ng Yuk Kwan Phyllis
Mr. Ng Wing Chuen
Ms. Leung Shuk Ping
Ms. Chan Shuk Kuen
Ms. Cheung Siu Chun

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Sin Ho Chiu
Dr. Law Ka Hung
Mr. Lau Chi Yin Thomas

AUTHORIZED REPRESENTATIVES

Mr. Ng Wing Hong
Ms. Cheung Siu Chun

AUDIT COMMITTEE

Mr. Lau Chi Yin Thomas (*Chairman*)
Mr. Sin Ho Chiu
Dr. Law Ka Hung

REMUNERATION COMMITTEE

Mr. Sin Ho Chiu (*Chairman*)
Mr. Lau Chi Yin Thomas
Dr. Law Ka Hung
Mr. Ng Wing Hong

NOMINATION COMMITTEE

Dr. Law Ka Hung (*Chairman*)
Mr. Sin Ho Chiu
Mr. Lau Chi Yin Thomas
Ms. Ng Yuk Kwan Phyllis

COMPANY SECRETARY

Ms. Cheung Siu Chun

LEGAL AND COMPLIANCE ADVISERS

Robertsons
(Hong Kong law)
Conyers Dill & Pearman (Cayman) Limited
(Cayman Islands law)

AUDITORS

KPMG

REGISTERED OFFICE

Cricket Square, Hutchins Drive
P.O. Box 2681
Grand Cayman, KY1-1111
Cayman Islands

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Unit A, 4/F, Dragon Industrial Building
No. 93 King Lam Street, Lai Chi Kok,
Kowloon, Hong Kong

PLACE OF BUSINESS IN THE PEOPLE'S REPUBLIC OF CHINA

Unit 6J, Shang Bu Building
No. 68 Nanyuan Road, Futian District
Shenzhen, Guangdong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Conyers Trust Company (Cayman) Limited
Cricket Square, Hutchins Drive
P.O. Box 2681
Grand Cayman, KY1-1111
Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR

Tricor Investor Services Limited
Level 22
Hopewell Centre, 183 Queen's Road East
Hong Kong

PRINCIPAL BANKERS

Bank of China (Hong Kong) Limited
DBS Bank (Hong Kong) Limited
The Hongkong and Shanghai Banking Corporation Limited

COMPANY WEBSITE ADDRESS

<http://www.baguio.com.hk>

STOCK CODE

1397

CHAIRMAN'S STATEMENT

Dear Shareholders,

On behalf of the board (the "Board") of directors (the "Directors") of Baguio Green Group Limited (the "Company", and together with its subsidiaries, the "Group" or "Baguio"), it is my pleasure to present the audited consolidated results of the Group for the year ended 31 December 2016 (the "Year").

2016 represented a year of challenges, dedication and hard work, with Baguio facing keen competition from local/regional players particularly in the cleaning business. Despite suffering from a drop in revenue as a result, the Group was able to improve its gross profit and net profit, both in net value terms and in margin terms, by leveraging on our leading market position, efficient operating scale, strong brand equity, as well as established financing channels. To further differentiate from price competition while making our business more sustainable in the future, Baguio has aimed, and would continue to aim to extend its servicing offerings to previously untapped market, expand its servicing capability through technological advancement, and in the meantime, looking into other strategic mergers and acquisitions ("M&As") and collaborations in widening its business dimension and geographical footprint.

Extend Service Portfolio Into Niche Yet High Margin Market

While Baguio has one of the most comprehensive offering in integrated environmental services in Hong Kong, it is important for the Group to further increase its customer stickiness in an ever-competitive market. Hence, during the Year, the Group made serious efforts in extending its service portfolio to previously untapped segments, such as aircraft cleaning, the operation of waste transfer station and resources recycling, where clients were looking for a reputable brand with quality services, but with limited options in the market.

In February 2016, the Group was able to achieve a breakthrough in its business extension plan, by winning a contract to provide aircraft internal cleaning services to reputable airlines. Such kind of service demands a high operational efficiency, servicing quality, and equipment/investment support, thus creating a natural entry barrier to some smaller-scale competitors. On the other hand, the Group has also made good progress on the waste management and recycling front. Being the only Hong Kong based company in the tendering of the waste transfer station, along with our successful tender of Christmas tree and peach blossom tree recycling, Baguio has been placed above its competition in terms of operational experiences and future tender ability, demonstrating our dedication in service and margin expansion.

Enrich Technological Capability to Prepare for Future Business Development

In order to move further away from price competition, Baguio has been actively raising its technological level, particularly in its landscaping business and other environmental projects, in an attempt of doing more and better. During the Year, the Group was able to double the size and raise the quality of its plant nursery in the People's Republic of China (the "PRC"). Not only would this allow Baguio to reduce the raw material cost of purchasing from external vendors, it would also provide the necessary quality assurance to our clients.

Advanced environmental project is also one of the key directions that Baguio would actively explore. Project such as biowaste-to-energy and the harmless treatment of organic waste, although did not come to fruition, provided valuable insights, technological know-hows, and operational experiences for future tender. Meanwhile, Baguio is also looking into the possibility of pairing with some engineering companies in Hong Kong/PRC in enhancing its technological ability, potentially venturing into the waste water treatment and recycling business. Currently still in the early negotiation stage, we have identified a number of potential partners, with the aim of delivering new applications, as well as new recycling technologies to the market in 2017. Together with our experiences in environmental services, Baguio is well-equipped for the technology-driven market in the future.

CHAIRMAN'S STATEMENT

Prospects

Looking forward to the future, the Group has identified the waste management and recycling business as one of the key growth drivers, and would aim to continue its encouraging performance by leveraging on Baguio's brand equity and technological capabilities. Supported by an increasing private sector contribution, an expanding public education programs, and favourable government initiatives such as the organic waste collection, glass bottle collection, municipal waste charging scheme, as well as the establishment of the recycling fund, we believe that the market is ready to make the transition from initiation to commercialization. This, in return, would create various business opportunities in which established players such as Baguio would be ready to partake.

In addition, the Group also sees great potentials in the landscaping business, as there is a rising requirement of greening in various public and private works. With the support of our expanding plant nursery and professional arborists, Baguio would be well-equipped to capture future market opportunities. Lastly, the Group would continue to explore the possibilities of M&As and strategic collaborations, looking to further widen its service mix and geographical coverage in an attempt to deliver long term shareholder value.

Appreciation

I would like to take this opportunity to express my sincere gratitude towards the Baguio team, whose support and dedication has been crucial in delivering another year of fruitful results. I would also like to extend the gratitude to our shareholders and business partners, for their support and faith in the Group. Together, I am confident that Baguio will rise against challenges and achieve brighter results in the coming year.

Ng Wing Hong

Chairman of the Board

Hong Kong
30 March 2017

MANAGEMENT DISCUSSION AND ANALYSIS

ABOUT BAGUIO

Baguio is mainly engaged in providing professional cleaning, landscaping, pest management and waste management and recycling services. With over 30 years of experiences, an established reputation, a seasoned management team and comprehensive resources, Baguio is one of the largest integrated environmental services provider in Hong Kong in terms of revenue. As a dominant player, the Group has competitive advantages in gaining contracts and projects across different sectors including government departments, semi-government entities, public utility companies as well as non-governmental organizations (“NGOs”) and private companies.

BUSINESS REVIEW

Directed by the Group’s core dual-growth strategies, namely business diversification and geographical expansion, the Year was full of new experiences to Baguio. As an industry leader of Hong Kong’s integrated environmental services, Baguio has been providing a wide range of comprehensive environmental services, diverging from cleaning, landscaping and pest management to waste management and recycling. To further solidify the Group’s position in these core businesses, while differentiating itself from price competition, Baguio is actively exploring new business opportunities in specialised markets where clients are looking for a renowned brand with experience and quality services.

During the Year, the Group successfully brought itself to the next level by venturing into the specialised cleaning services, amidst the highly competitive cleaning servicing market. In February 2016, the Group gained a new contract to provide aircraft internal cleaning services to certain reputable airlines. This kind of specialised cleaning service demands stronger operational and management skills, as well as industry leading service quality, thus creating threshold against smaller-scale market participants. On the waste management and recycling front, the Group, for the first time, involved in yard waste collection through a contract won in November 2016 to collect Christmas trees and peach blossoms for the Environmental Protection Department. These accomplishments could not be made without the Group’s commitment in winning clients’ utmost trust.

In addition to the existing businesses, the Group aspired to look for potential projects in environmental services related segments to widen its services scope and business dimension. During the Year, the Group made its foray into participation of a government tender of waste transfer station management and operation. It was also the first time of the Group partnering with an overseas environmental services expert, further enriched the Group’s technical experiences in different areas.

With the solid business foundation in Hong Kong, Baguio also saw huge potential in the environmental services market in the PRC. Cities in the PRC started to progressively outsource the municipal cleaning services, waste management as well as recycling services to private service providers. During the Year, the Group examined the feasibility of the plan and proactively looked into the possibility of cooperation with local operators. Supported by its technical know-how, management expertise, financing capability and well-established reputation, Baguio plans to capture this blue ocean opportunity.

Market Review

Waste reduction and recycling have become an inevitable trend among the globe. To catch up with this global trend, the Hong Kong SAR Government has stepped up in public education on waste management, particularly on recycling, food waste and waste reduction, in 2016. Also, more environmental protection schemes and policies are coming into place, such as the avocation of municipal solid waste charging scheme, the initiation of the Food Waste Hong Kong scheme, the construction of the organic waste treatment facilities, the legislation of Producer Responsibility Scheme for glass beverage bottles, as well as the opening of “T • PARK” (the first waste-to-energy facility in Hong Kong), and hence, significantly aroused the public’s attention to the importance of environmental protection. During the Year, the Group’s recycling centre in Fanling gained reputation in the industry and attentions from the government. Over 40 corporates and 200 visitors paid visits to the Fanling recycling centre during the Year, including high ranking government officials, renowned corporations, the media and the public. The Board noted a rising need of a total waste management solution. A wider scope of waste management services is, therefore, required to answer the increasing demand in both public and private sectors, which opened the door for the Group to further delve into the waste management services market in various aspects.

MANAGEMENT DISCUSSION AND ANALYSIS

The 13th Five Year Plan (the “Plan”) was officially implemented in 2016. In the Plan, the PRC Government has again positioned “Green Development” as one of the top five prioritised in the agenda, demonstrating the PRC Government’s determination to pursue a greener and more sustainable development. Coupled with the raising public awareness on creating a clean environment, the Plan has unleashed the market potential for the Group to explore opportunities in the environmental services market in the PRC.

Results

Revenue of the Group decreased by 10.6% from approximately HK\$1,224.9 million for the year ended 31 December 2015 to approximately HK\$1,094.8 million for the Year. The Group, however, significantly decreased the cost of service by 11.6% to approximately HK\$999.2 million and recorded a modest increment of 0.7% in gross profit to approximately HK\$95.6 million (2015: approximately HK\$94.9 million). Gross profit margin also increased by 1.0% to 8.7%, mainly attributable to the Group’s strategic move of selectively choosing more favourable tenders, as well as the optimised operation efficiency through computerisation of manual processes. Profit attributable to equity shareholders of the Company (the “Shareholders”) amounted to approximately HK\$25.0 million, representing an increase of 3.8% year-on-year for the Year (2015: approximately HK\$24.1 million) while the net profit margin slightly increased by 0.3% to 2.3% (2015: 2.0%). Earnings per share was 6 HK cents (2015: 6 HK cents).

Final Dividend

The Board recommends the payment of a final dividend for the Year at 1.7 HK cents (2015: 1.7 HK cents) per share, totalling HK\$7,055,000 (2015: HK\$7,055,000), subject to approval by the Shareholders at the forthcoming annual general meeting (“Annual General Meeting”) of the Company to be held on 2 June 2017. If so approved by the Shareholders, it is expected that the final dividend will be paid out on or around 23 June 2017 to the Shareholders whose names appear on the register of members of the Company on 8 June 2017.

Revenue breakdown of major business segments

| | 31 December 2015 | | For the year ended 31 December 2016 | | Change |
|--------------------------------|---------------------------|-----------------------|--|-----------------------|--------|
| | Revenue (HK\$ Million) | % of total revenue | Revenue (HK\$ Million) | % of total revenue | |
| Cleaning | 911.1 | 74.4% | 803.4 | 73.4% | -11.8% |
| Landscaping | 144.1 | 11.8% | 123.4 | 11.3% | -14.4% |
| Pest management | 80.9 | 6.6% | 52.5 | 4.8% | -35.1% |
| Waste management and recycling | 88.8 | 7.2% | 115.5 | 10.5% | +30.0% |
| Total | 1,224.9 | 100.0% | 1,094.8 | 100.0% | -10.6% |

Gross profit margin of major business segments

| | For the year ended 31 December 2015 | | For the year ended 31 December 2016 | | Change |
|--------------------------------|---|------------------------|---|------------------------|----------|
| | Gross profit margin | Gross profit margin | Gross profit margin | Gross profit margin | |
| Cleaning | 6.0% | | 6.4% | | +0.4p.p. |
| Landscaping | 17.0% | | 17.0% | | – |
| Pest management | 7.5% | | 13.1% | | +5.6p.p. |
| Waste management and recycling | 11.2% | | 14.4% | | +3.2p.p. |
| Overall | 7.7% | | 8.7% | | +1.0p.p. |

MANAGEMENT DISCUSSION AND ANALYSIS

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 35% in 2016. In terms of business segments, the Group has delivered encouraging results in its waste management and recycling business segment by achieving 30.0% revenue growth for the Year, by leveraging on its genuine effort in gaining renewal contracts and new contracts. During the Year, the Group successfully renewed four contracts with the Food and Environmental Hygiene Department in providing recyclable waste collection services from three-coloured recycling bins in all 18 districts of Hong Kong. The contract is effective from August 2016 for a 2-year period, and the total contract value amounted to approximately HK\$22.4 million. On top of these, the Group also obtained a new contract with Environmental Protection Department regarding the collection of Christmas trees and peach blossoms during Christmas and Lunar New Year periods. Together with the continuous enhancement in the operation efficiency of the recycling centre in Fanling, the segment gross profit margin raised 3.2 percentage point to 14.4% in the Year.

In spite of the drop in revenue of cleaning, landscaping and pest management businesses, the Group managed to boost or maintain each segment's gross profit margin with the selective tendering strategy and the continuous implement of the internal measures on streamlining the operation.

Contract on-hand

As of 31 December 2016, the Group has a total amount of approximately HK\$1,474.8 million worth of unexpired contracts on hand. Among which, approximately HK\$821.4 million will be recognised by the end of 2017; approximately HK\$461.1 million will be recognised in 2018 and the rest of approximately HK\$192.3 million will be recognised in 2019 and beyond.

| | Backlog contract value (HK\$ Million) | Contract value to be recognised by 31 December 2017 (HK\$ Million) | Contract value to be recognised by 31 December 2018 (HK\$ Million) | Contract value to be recognised in 2019 and beyond (HK\$ Million) |
|---|---|---|---|--|
| Cleaning services | 1,030.2 | 594.7 | 364.6 | 70.9 |
| Landscaping services | 149.8 | 108.6 | 31.9 | 9.3 |
| Pest management services | 35.7 | 27.5 | 6.0 | 2.2 |
| Waste management and recycling services | 259.1 | 90.6 | 58.6 | 109.9 |
| Total | 1,474.8 | 821.4 | 461.1 | 192.3 |

HUMAN RESOURCES

As at 31 December 2016, the Group employed 7,967 employees, including both full time and part time (31 December 2015: 8,658). Remuneration packages are generally structured by reference to market terms, 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, 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.

MANAGEMENT DISCUSSION AND ANALYSIS

PROSPECTS

Riding on its dual-growth strategies, Baguio aims to become a one-stop value added environment services solutions provider via synergising its core business segments, particularly the waste management and recycling segment and landscaping segment. Foreseeing the imminent saturation of landfills, the Hong Kong government has redoubled its recent efforts in propelling the implementation of related environmental initiatives, such as food waste and organic waste collection, glass beverage bottles collection and municipal waste charging scheme. Supported by such favorable policies, there are various business opportunities yet to be explored in the market. In order to grasp the market, Baguio continues to equip itself with enhanced waste management technologies and facilities, aiming to cover the entire supply chain from waste collection to downstream waste reprocessing. By combining the technological capabilities together with the Group's strong track records in large-scale tendering, Baguio would be able to enjoy the first-mover advantage for future tenders, and in return, continue its outstanding results in waste management and recycling.

On the other hand, the growing economy in the PRC has led to an improving living standard, along with an increasing environmental awareness of the community. This, in return, creates a rising demand on environmental services, including cleaning, landscaping, pest control and waste management and recycling services, in both public and private sectors. With the Central Government's re-emphasis on "Green Development", as well as the intention to gradually privatise public environmental services on the municipal level, the marketplace is going to be vibrant with plenty of potentials. Being a leading cleaning and environmental services provider with experienced management and strong industry knowledge, the Group is ready to venture into the market by partnering with local experts or strategic merger and acquisition.

In addition to the existing business segments, creating new revenue streams remains as one of the Group's key focuses. The Group will look into the possibility of participating in various projects, such as waste water treatment, organic waste treatment plant, waste transfer station and downstream recycling product business, through strategic collaboration with overseas experts. In light of Baguio's strong track record, quality services and management system, the Directors believe that the synergies between the Group's businesses will further cement the Group's foundation for sustainable development. Lastly, the Group will also continue to maintain its capital commitment and to better allocate its resources, in order to support the Group's development plan.

FINANCIAL REVIEW

Revenue

The Group's revenue for the years ended 31 December 2016 and 2015 was approximately HK\$1,094.8 million and HK\$1,224.9 million, respectively, representing a decrease of approximately 10.6%. The decrease was mainly due to more non-renewed contracts during the Year in our services segments of cleaning, landscaping and pest management. On the other hand, revenue in our waste management and recycling service segment has recorded considerable growth.

More details of the Group's performance for the Year by business segments is set out in note 5 to the consolidated financial statements.

Cost of Services

For the years ended 31 December 2016 and 2015, the cost of services of the Group amounted to approximately HK\$999.2 million and HK\$1,130.0 million respectively, representing approximately 91.3% and 92.3% of the Group's revenue for the corresponding years. Our cost of services primarily comprised direct wages, direct overhead expenses, consumables and sub-contracting fees. The cost of services in proportion to the Group's revenue has decreased as the Group was successful in implementing cost control measures and changing its tendering approach to focus on more profitable contracts.

Gross Profit

The Group's gross profit for the Year was approximately HK\$95.6 million, representing an increase of approximately 0.7% from approximately HK\$94.9 million for the year ended 31 December 2015. The increase was mainly due to decrease in cost of services of the Group.

MANAGEMENT DISCUSSION AND ANALYSIS

Gross Profit Margin

The gross profit margins of the Group for the years ended 31 December 2016 and 2015 were approximately 8.7% and 7.7% respectively. As mentioned above, the increase in gross profit margin was mainly attributable to better cost control measures implemented by the Group during the Year.

Change in Fair Value of Biological Assets

The Group's biological assets are represented by the trees, plants and flowers located at the Group's nurseries in the PRC and Hong Kong. The gain in fair value of the Group's biological assets for each of the years ended 31 December 2016 and 2015 were approximately HK\$1.7 million and HK\$0.9 million respectively, representing an increase of approximately 82.4%. This is due to the continuing accumulation and growth of the biological assets in the nurseries.

Selling and Marketing Expenses

The selling and marketing expenses incurred by the Group for the years ended 31 December 2016 and 2015 were approximately HK\$2.0 million and HK\$2.5 million respectively, representing a decrease of approximately 17.6%, and accounting for approximately 0.2% of each year's total revenue. This was mainly because the Group more actively controlled spending for its public and investors' relationships function.

Administrative Expenses

The administrative expenses incurred by the Group for the years ended 31 December 2016 and 2015 were approximately HK\$63.1 million and HK\$61.8 million respectively, representing an increase of approximately 2.1%, and approximately 5.8% and 5.0% of the respective year's total revenue. The increase was mainly attributable to the increase in wages and allowances and other office overhead expenses during the Year. The Group continues to implement its budgeted cost control measures for administrative expenses.

Finance Costs

The finance costs of the Group amounted to approximately HK\$5.3 million and HK\$7.6 million for the years ended 31 December 2016 and 2015 respectively, representing approximately 0.5% and approximately 0.6% of the Group's revenue in the respective year.

Profit for the Year Attributable to Equity Shareholders of The Company

The Group's profit attributable to Shareholders of the Company for each of the year ended 31 December 2016 and 2015 were approximately HK\$25.0 million and HK\$24.1 million respectively, representing an increase of approximately 3.8%. The increase was primarily attributable to increase in gross profit and change in fair value of biological assets with 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\$64.2 million (2015: HK\$50.6 million). The Group had available cash and bank balances amounting to approximately HK\$55.7 million as at 31 December 2016 (31 December 2015: HK\$90.3 million), representing a decrease of approximately 38.3% from 31 December 2015. The Group's bank borrowings were approximately HK\$82.5 million as at 31 December 2016 (31 December 2015: HK\$135.4 million), representing a decrease of approximately 39.1% from 31 December 2015. As at 31 December 2016, the Group's finance lease payables were approximately HK\$56.9 million (31 December 2015: HK\$66.2 million) for financing the acquisition of motor vehicles for operation use. During the Year, no financial instruments were used for hedging purposes (2015: nil).

MANAGEMENT DISCUSSION AND ANALYSIS

As at 31 December 2016, the Group's total current assets and current liabilities were approximately HK\$348.9 million (31 December 2015: HK\$384.9 million) and HK\$247.0 million (31 December 2015: HK\$296.4 million) respectively, while the current ratio was approximately 1.4 times (31 December 2015: approximately 1.3 times).

The gearing ratio of the Group was approximately 0.6 times as at 31 December 2016 (31 December 2015: 1.0 times), which was calculated based on the total interest-bearing bank borrowings and obligations under finance leases over total equity of the Group.

CAPITAL EXPENDITURES AND CAPITAL COMMITMENT

For the Year, our capital expenditures which mainly included additions in motor vehicles and equipment amounted to approximately HK\$26.2 million (2015: HK\$28.5 million). These capital expenditures were funded by borrowings from bank and finance companies, funds generated from our operating activities and capital contributions from our shareholders through the initial public offering of the Company.

As at 31 December 2016, the Group had capital commitment of approximately HK\$0.7 million (31 December 2015: HK\$1.4 million) in respect of the acquisition of motor vehicles, office equipment and machinery contracted but not provided in the financial statements.

CONTINGENT LIABILITIES

The material contingent liabilities of the Group as at 31 December 2016 is disclosed in note 41 to the consolidated financial statements.

USE OF PROCEEDS

The Company was listed on the The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 22 May 2014 and raised net proceeds of approximately HK\$90.0 million. The plans for the use of net proceeds were stated in the Company's prospectus dated 12 May 2014 (the "Prospectus") and subsequently changed in 2015 as stated in the Company's announcement dated 31 December 2015. During the period between the date of the listing of the shares of the Company to 31 December 2016, the net proceeds were used for the following purposes:

Summary of use of proceeds

| | Available (HK\$ Million) | Utilised (HK\$ Million) | Unutilised (HK\$ Million) |
|--|-----------------------------|----------------------------|------------------------------|
| Acquisition of vehicles and equipment for expanding and broadening for existing services | 18.4 | 18.4 | – |
| Development and expansion of waste management and recycling services | 9.9 | 9.9 | – |
| Enhancing operation efficiency and quality services | 11.7 | 11.7 | – |
| Working capital and other general purposes | 35.0 | 35.0 | – |
| Investment in potential projects | 15.0 | – | 15.0 |
| | 90.0 | 75.0 | 15.0 |

As at 31 December 2016, the unutilised proceeds were deposited in licensed banks in Hong Kong.

MANAGEMENT DISCUSSION AND ANALYSIS

CHARGES ON THE GROUP'S ASSETS

As at 31 December 2016, the amounts payable under finance leases within one year was approximately HK\$21.6 million (31 December 2015: HK\$23.7 million), and after one year but within five years was approximately HK\$35.3 million (31 December 2015: HK\$42.4 million).

As at 31 December 2016, the obligations under finance leases of the Group were guaranteed by the Company and a subsidiary of the Company.

In addition, we have (i) pledged bank deposit of approximately HK\$5.1 million as at 31 December 2016 (31 December 2015: HK\$5.1 million); (ii) mortgage of the Group's leasehold land and buildings of approximately HK\$17.2 million as at 31 December 2016 (31 December 2015: HK\$17.7 million); (iii) pledge of the Group's available-for-sale financial assets of approximately HK\$13.3 million as at 31 December 2016 (31 December 2015: HK\$12.9 million); and (iv) pledge of the Group's trade receivables of approximately HK\$72.1 million as at 31 December 2016 (31 December 2015: HK\$113.2 million).

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

ACQUISITION, DISPOSAL AND SIGNIFICANT INVESTMENT HELD

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

INTELLECTUAL PROPERTIES

During the Year, we have registered the Group's trademark  碧瑤 BAGUIO in the PRC for a period of 10 years.

BIOGRAPHICAL DETAILS OF DIRECTORS

EXECUTIVE DIRECTORS

Ng Wing Hong (吳永康), aged 62, is the Chairman and an Executive Director of the Company. Mr. Ng was appointed as our Executive Director and the Chairman on 23 January 2014. Mr. Ng is also one of the founders and controlling shareholders of our Group. Mr. Ng has over 35 years of experience in the environmental service industry and is primarily responsible for the overall management, strategic planning and business development of our Group. In 1980, Mr. Ng together with his brother, Mr. Ng Wing Sun formed a partnership under the name of Baguio Cleaning Services Company Limited which started off as a cleaning service provider in Hong Kong.

Mr. Ng graduated from the University of Hong Kong in October 1977 with a Bachelor of Science degree. He also obtained a Master of Business Administration degree from the Chinese University of Hong Kong in December 1983, a Bachelor of Laws degree from the University of London (external degree) in August 1990 and a Postgraduate Certificate in Laws from the University of Hong Kong in September 1991. Mr. Ng was admitted as an associated member of the Association of Chartered Certified Accountants in September 1988 and became a fellow of the Association of Chartered Certified Accountants in September 1993. He was also a fellow member of the Hong Kong Institute of Certified Public Accountants in March 2000. He was admitted as an associate member of the Institute of Chartered Secretaries and Administrators in March 1988 and an associate member of the Hong Kong Institute of Company Secretaries in August 1994. He became a fellow member of the Hong Kong Institute of Chartered Secretaries in March 2014 and he was also admitted as a fellow of the Hong Kong Institute of Directors in May 2014. Mr. Ng is the husband of Ms. Chan Shuk Kuen and the brother of Mr. Ng Wing Chuen and Ms. Ng Yuk Kwan Phyllis.

Ng Yuk Kwan Phyllis (吳玉群), aged 48, is an Executive Director, the Chief Executive Officer and Compliance Officer of the Company. She was appointed as our Executive Director and Chief Executive Officer on 23 January 2014. She joined our Group as an Assistant General Manager in November 1995 and was promoted as a General Manager in February 2000. Ms. Ng has over 20 years of experience in the environmental service industry and is primarily responsible for the overall management of our Group and for overseeing the corporate development department and project development department.

Ms. Ng graduated from the University of Hong Kong with a Bachelor of Arts degree in November 1991 and a Master of Business Administration degree from University of South Australia in April 1999 and a Master of Corporate Finance degree from The Hong Kong Polytechnic University in September 2016. She completed the Pest Control and Pesticide Safety for Industrial Undertakings course organised by the Hong Kong Polytechnic University in June 2009, the ISO 9000:2000 Series Internal Quality Auditor Training Course co-organised by the Hong Kong Productivity Council and SGS International Certification Services in November 2002 and the IMS Internal Auditor Course for ISO 9001:2008 and ISO 14001:2004 and OHSAS 18001:2007 held by the British Standards Institution in December 2013. She was certified as a certified arborist by the International Society of Arboriculture in September 2012. She was admitted as a fellow of the Hong Kong Institute of Directors in May 2014 and she obtained Professional Diploma in Corporate Governance & Directorship jointly awarded by Hong Kong Institute of Directors and Hong Kong Productivity Council in June 2014. Ms. Ng is the sister of Mr. Ng Wing Hong and Mr. Ng Wing Chuen as well as the sister-in-law of Ms. Chan Shuk Kuen.

Ng Wing Chuen (吳永全), aged 66, is an executive Director of the Company. He was appointed as our executive Director on 23 January 2014. He joined our Group since 1982 as one of Baguio Cleaning Services Company Limited's directors. He is currently in charge of the overall management and strategic planning of our Group. Prior to joining our Group, Mr. Ng had served at various banks and other financial institutions, including Hong Kong Chinese Bank Limited.

Mr. Ng was awarded a graduate diploma in international marketing from Central Connecticut State University, USA in July 1993. Mr. Ng was admitted as a fellow of the Hong Kong Institute of Directors in May 2014. Mr. Ng is the brother of Mr. Ng Wing Hong and Ms. Ng Yuk Kwan Phyllis as well as the brother-in-law of Ms. Chan Shuk Kuen.

BIOGRAPHICAL DETAILS OF DIRECTORS

Leung Shuk Ping (梁淑萍), aged 44, is an Executive Director of the Company. She was appointed as our Executive Director on 23 January 2014. She joined our Group in August 1997 as a secretary and resigned in October 2010 with her last position as a Senior Administration Manager. She rejoined our group as the Operation Director in June 2012. Ms. Leung has over 16 years' of experience in administration and business management. She currently oversees the operation department, administration department, IT department, SHEQ department and fleet management department of our Group.

Ms. Leung was awarded a Certificate in Business Management in January 2001 and a Diploma in Business Management in April 2008 from the School of Continuing Education Hong Kong Baptist University. She completed the IMS Internal Auditor Course for ISO 9001:2008 and ISO 14001:2004 and OHSAS 18001:2007 held by the British Standards Institution in December 2013. She completed the Pest Control and Pesticide Safety for Industrial Undertakings course organised by Hong Kong Polytechnic University in 2009. She completed the Certificate Programme on Inventory Management organised by the Hong Kong Management Association on July 1991. She was admitted as an associate of The Hong Kong Institute of Directors in May 2014.

Chan Shuk Kuen (陳淑娟), aged 48, is an Executive Director of the Company. She was appointed as our Executive Director on 23 January 2014. Ms. Chan joined our Group in May 2006 as Human Resources Manager and was promoted as Senior Human Resources Manager in December 2008 and as Human Resource Director in July 2012. Ms. Chan oversees the full spectrum of human resources functions including compensation management, employee relations, recruitment, performance management, training and development.

Prior to joining our Group, Ms. Chan worked in HK Art's Group, whose business is retails of optical products, as General Manager between May 1992 and August 1997, where she was responsible for setting the group's development strategy as well as managing the daily operations of the 14 optical retail shops of the group.

Ms. Chan was awarded Master of Science in Strategic Human Resources Management degree from Hong Kong Baptist University in 2016 and a Bachelor of Business Administration from the Open University of Hong Kong in December 2000. She was admitted as an associate of The Hong Kong Institute of Directors in May 2014. Ms. Chan is the wife of Mr. Ng Wing Hong and the sister-in-law of Ms. Ng Yuk Kwan Phyllis and Mr. Ng Wing Chuen.

Cheung Siu Chun (張笑珍), aged 52, is an Executive Director, Chief Financial officer and Company Secretary of the Company. She was appointed as an Executive Director, Chief Financial Officer and Company Secretary on 23 January 2014. She joined our Group in November 1999 as our Financial Controller and resigned in November 2004. She rejoined our Group in August 2005 and in July 2012, she became our Finance Director. Ms. Cheung currently oversees the Group's finance department, purchasing department and logistics department and is responsible for the Group's accounting, cost control, corporate finance and cash management affairs.

She was awarded a post-experience certificate in accountancy from the Hong Kong Polytechnic University in September 2001, a Master of Business Administration degree from University of South Australia in April 2004. Ms. Cheung was admitted as a fellow member of the Association of Chartered Certified Accountants in June 1999 and a fellow member of the Hong Kong Institute of Certified Public Accountants in September 2013. She was admitted as a fellow member of the Taxation Institute of Hong Kong in January 2014. She was admitted as a life full member of Association of Women Accountants (Hong Kong) Limited in December 2007. She was also admitted as an associate member of the Institute of Chartered Accountants in England and Wales in February 2008. Ms. Cheung was granted a Certificate of Completion of the Best Practices for ERP Implementation and Enterprise Collaboration Applications Workshop by the Hong Kong Productivity Council in June 2004. She was admitted as a member of the Hong Kong Institute of Directors in May 2014. Ms. Cheung was also admitted as an associate member of the Institute of Chartered Secretaries and Administrators, and an associate member of the Hong Kong Institute of Chartered Secretaries in December 2016 respectively.

BIOGRAPHICAL DETAILS OF DIRECTORS

INDEPENDENT NON-EXECUTIVE DIRECTORS

Sin Ho Chiu (洗浩釗), aged 61, was appointed as an Independent Non-executive Director of the Company on 24 April 2014 and he is also the chairman of our Remuneration Committee. He has been the legal representative of Shanghai GrafTech Trading Company Limited since February 2011 and the sales director and general manager of GrafTech Hong Kong Limited since May 2011. From October 2001 to April 2011, Mr. Sin served and was promoted as the business director-Asia Pacific in GrafTech International Trading Inc. Between September 1999 and September 2001, Mr. Sin served as the treasurer and controller of Union Carbide Asia Pacific Inc. Between September 1987 and August 1999, Mr. Sin served as the finance manager of Union Carbide Asia Limited.

Mr. Sin graduated from the Chinese University of Hong Kong with a Bachelor of Science in December 1979 and a Master of Business Administration in December 1983.

Dr. Law Ka Hung (羅家熊), aged 61, was appointed as an independent non-executive Director of the Company on 24 April 2014 and also the chairman of our Nomination Committee. He has been appointed as independent non-executive director of HKC International Holdings Limited (stock code: 248) since December 2012.

Dr. Law was awarded a Bachelor of Business Administration in Accounting degree from the University of Texas at Arlington in December 1981, a Master of Science degree from Warwick University in July 1988 and a Doctor of Business Administration degree from the Hong Kong Polytechnic University in November 2001. He has been admitted as a full member of the Hong Kong Computer Society since January 1989.

Lau Chi Yin Thomas (劉志賢), aged 58, was appointed as an Independent Non-executive Director of the Company on 24 April 2014 and is also the chairman of our Audit Committee. Mr. Lau has been the executive director and responsible officer of Jolmo Capital Limited, a licenced corporation of the Securities and Futures Commission of Hong Kong, with main areas of business in advising on securities, corporate finance and asset management, since January 2008 and March 2005 respectively. He has been serving as a member of the Disciplinary Committee Panel of the Social Workers Registration Board since January 2008. Between April 2008 and September 2011, Mr. Lau was appointed as a director of Zhanjiang Guolian Aquatic Products Co., Ltd. (湛江國聯水產開發股份有限公司) (Shenzhen stock code: 300094). Between April 2008 and December 2011, Mr. Lau was appointed as the supervisor of Zhuhai Winbase International Chemical Tank Terminal Co., Ltd. (珠海恒基達鑫國際化工倉儲股份有限公司) (Shenzhen stock code: 002492).

Mr. Lau obtained a Bachelor of Science degree from the University of Hong Kong in July 1981 and a Master of Business Administration degree from the Chinese University of Hong Kong in December 1983. Mr. Lau has been a Chartered Financial Analyst since September 2001. He is also a member of the Hong Kong Society of Financial Analysts.

REPORT OF THE DIRECTORS

The Board is pleased to present the report of the Directors and the audited consolidated financial statements of the Group for the year ended 31 December 2016.

1. PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Details of the principal activities of its major subsidiaries are set out in note 17 to the consolidated financial statements. During the Year, there were no significant changes in the nature of the Group's principal activities.

2. BUSINESS REVIEW

A review of the Group's business during the Year is provided in the section headed "Management Discussion and Analysis" on page 5 to 11 of this annual report. A description of the Group's corporate governance and the Group's risk management and internal control system is provided in the section headed "Corporate Governance Report" on page 26 to 36 of this annual report. A discussion on the Group's environmental policies, relationships with its key stakeholders and the relevant laws and regulations that have a significant impact on the Group are provided in the section headed "Environmental, Social and Governance Report" on page 37 to 56 of this annual report.

3. SEGMENT INFORMATION

An analysis of the Group's revenue and contribution to results by principal operating activities and the Group's assets and liabilities by reportable segments of operations for the year ended 31 December 2016 is set out in note 5 to the consolidated financial statements. No geographical information is represented as nearly all of the Group's businesses were carried out in Hong Kong during the Year and all of the Group's revenue from external customers was generated in Hong Kong during the Year.

4. RESULTS AND FINAL DIVIDENDS

The results of the Group for the Year are set out in the consolidated statement of profit or loss and other comprehensive income on page 62. The Directors recommended the payment of a final dividend of HK1.7 cents per share, totalling approximately HK\$7,055,000, to be paid on or around 23 June 2017, to the shareholders of the Company (the "Shareholders") whose names appear on the register of members of the Company on 8 June 2017.

5. RESERVES

Details of movements in the reserves of the Company and of the Group during the year are set out in note 40 to the consolidated financial statements and in the consolidated statement of changes in equity, respectively.

6. SHARE CAPITAL

Details of movements in the Company's share capital during the Year are set out in note 40 to the consolidated financial statements.

7. DISTRIBUTABLE RESERVES

As at 31 December 2016, the Company's reserve available for distribution, calculated in accordance with the Companies Law of the Cayman Islands amounted to approximately HK\$102.5 million, of which approximately HK\$7.1 million has been proposed be paid to the Shareholders as a final dividend for the Year. Under the laws of Cayman Islands, the share premium account is distributable to the shareholders of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as and when fall due in the ordinary course of business. The share premium account may also be distributed in the form of fully paid bonus shares.

8. PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the year are set out in note 16 to the consolidated financial statements.

REPORT OF THE DIRECTORS

9. BANK BORROWINGS

Particulars of the bank borrowings of the Group as at 31 December 2016 are set out in the note 28 to the consolidated financial statements.

10. PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Articles of Association or the laws of the Cayman Islands which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

11. 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.

12. FINANCIAL SUMMARY

A summary of the results for the year ended 31 December 2016 and of the assets and liabilities of the Group as at 31 December 2016 and for the previous four financial years are set out on page 112.

13. DIRECTORS

The Directors during the Year and up to the date of this report are as follows:

Executive Directors:

Mr. Ng Wing Hong (*Chairman*)

Ms. Ng Yuk Kwan Phyllis (*Chief Executive Officer and Compliance Officer*)

Mr. Ng Wing Chuen

Ms. Leung Shuk Ping

Ms. Chan Shuk Kuen

Ms. Cheung Siu Chun (*Chief Financial Officer and Company Secretary*)

Independent Non-executive Directors:

Mr. Sin Ho Chiu

Dr. Law Ka Hung

Mr. Lau Chi Yin Thomas

Pursuant to Article 84(1) of the Articles of Association of the Company, Mr. Sin Ho Chiu, Dr. Law Ka Hung and Mr. Lau Chi Yin Thomas are subject to retirement by rotation at the forthcoming annual general meeting and, being eligible, to offer themselves for re-election.

The Company has received an annual confirmation of independence pursuant to rule 3.13 of the Rules governing the Listing of Securities on the Stock Exchange of Hong Kong Limited ("Listing Rules") from each of the independent non-executive directors and, as at the date of this report, still considers them to be independent.

14. BIOGRAPHICAL DETAILS OF DIRECTORS

Brief biographical details of the Directors as of the date of publication of this report are set out on page 12 to 14.

REPORT OF THE DIRECTORS

15. DIRECTORS' SERVICE CONTRACTS

Each of the executive directors has entered into a service contract with the Company and is subject to termination by either party giving not less than three months' written notice.

Each of the independent non-executive director has entered into a letter of appointment with the Company and is subject to termination by either party giving not less than one month's written notice.

No director proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable by the Company within one year without payment of compensation (other than statutory compensation).

16. DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

No contracts of significance in relation to the Group's business to which the Company or its subsidiaries was a party and in which a Director had a material interest, whether directly or indirectly, subsisted at the end of the Year or at any time during the Year except as disclosed under the section headed "Connected Transactions" in this report of the Directors and note 37 to the consolidated financial statements.

17. DIRECTORS' INTERESTS IN COMPETING BUSINESS

As at the date of this report, none of the directors of the Company and directors of the Company's subsidiaries, or their respective associates had interests in business, which compete or are likely to compete either directly or indirectly, with the business of the Company and its subsidiaries as required to be disclosed pursuant to the Listing Rules.

REPORT OF THE DIRECTORS

18. SUBSTANTIAL SHAREHOLDERS' INTEREST

As at 31 December 2016, as far as is known to the Director or chief executives of the Company, the following persons or corporations were deemed or taken to have an interest or short position in the shares or underlying shares of the Company as recorded in the register required to be kept under section 336 Part XV of the Securities and Futures Ordinance (Cap. 571) ("SFO") or as otherwise notified to the Company:

| Name | Capacity/ Nature of Interest | Number of Issued Shares Held | Approximate Percentage Holding (%) |
|---|--|------------------------------------|--|
| Ng Wing Hong | Interest of controlled corporation / Beneficial owner ^(Note 1) | 275,544,000 | 66.40 |
| Chan Shuk Kuen | Family interest ^(Note 2) | 275,544,000 | 66.40 |
| Ng Yuk Kwan Phyllis | Beneficial owner ^(Note 3) | 25,000,000 | 6.02 |
| Mak Che Fai Lawrence | Family interest ^(Note 4) | 25,000,000 | 6.02 |
| Baguio Green (Holding) Limited | Beneficial owner ^(Note 1) | 275,000,000 | 66.27 |
| RAYS Capital Partners Limited | Investment manager/Beneficial owner/ Interest of controlled corporation ^(Note 6) | 28,912,000 | 6.97 |
| Ruan David Ching-chi | Interest of controlled corporation ^(Note 5) | 28,912,000 | 6.97 |
| Yip Yok Tak Amy | Interest of controlled corporation ^(Note 5) | 28,912,000 | 6.97 |
| Asian Equity Special Opportunities Portfolio Master Fund Limited | Beneficial owner ^(Note 6) | 28,464,000 | 6.86 |

Notes:

- (1) The entire issued share capital of Baguio Green (Holding) Limited is beneficially owned by Mr. Ng Wing Hong. Therefore, Mr. Ng Wing Hong is deemed to be interested in all the 275,000,000 shares of the Company ("Shares") held by Baguio Green (Holding) Limited. Mr. Ng Wing Hong is a controlling shareholder (as defined under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules")) and an executive director of the Company. In addition, Mr. Ng Wing Hong also directly held 544,000 shares of the Company.
- (2) Ms. Chan Shuk Kuen is the spouse of Mr. Ng Wing Hong and is therefore deemed to be interested in all the Shares held/ owned by Mr. Ng Wing Hong (by himself or through Baguio Green (Holding) Limited) by virtue of the SFO. Ms. Chan Shuk Kuen is an executive director of the Company.
- (3) Ms. Ng Yuk Kwan Phyllis directly held 25,000,000 shares of the Company. Ms. Ng Yuk Kwan Phyllis is an executive director of the Company.
- (4) Mr. Mak Che Fai Lawrence is the spouse of Ms. Ng Yuk Kwan Phyllis and is therefore deemed to be interested in all the shares held by Ms. Ng Yuk Kwan Phyllis.
- (5) The shares in RAYS Capital Partners Limited are equally held by Ruan David Ching-chi and Yip Yok Tak Amy. Therefore, they are deemed interested in all the Shares held by RAYS Capital Partners Limited.
- (6) Asian Equity Special Opportunities Portfolio Master Fund Limited ("Asian Equity") is wholly-owned by RAYS Capital Partners Limited. Therefore, RAYS Capital Partners Limited is deemed to be interested in all the Shares held by Asian Equity.

REPORT OF THE DIRECTORS

19. DIRECTORS' INTERESTS DISCLOSEABLE UNDER THE SFO

As at 31 December 2016, the shareholding interests of Mr. Ng Wing Hong, Ms. Chan Shuk Kuen and Ms. Ng Yuk Kwan Phyllis are set out in the section "Substantial Shareholders' Interest" above and the share option interests of all Directors are presented on page 21 in the section "Share Option Scheme" below. In addition, as at 31 December 2016, Ms. Cheung Siu Chun, an executive director and the company secretary of the Company, held 800,000 shares of the Company. Other than as disclosed here, none of the Directors of the Company or any of their respective associates had any interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporation (within the meaning of Part XV of the SFO) as recorded in the register required to be kept by the Company under section 352 of the SFO or, as otherwise notified to the Company and the Stock Exchange pursuant to Part XV of the SFO or the Model Code for Securities Transactions by Directors of Listed Issuers under the Listing Rules.

20. CONNECTED TRANSACTIONS

During the Year, the Company and the Group had the following continuing connected transactions, certain details of which are disclosed below in compliance with the requirements of Chapter 14A of the Listing Rules.

Continuing connected transactions exempt from reporting, announcement, circular, annual review and independent shareholders' approval requirements

- (A) On 11 October 2013, Baguio Cleaning Services Company Limited ("Baguio Cleaning") and Mr. Ng Wing Hong, a Controlling Shareholder of the Company and an executive Director, entered into a lease agreement pursuant to which Mr. Ng Wing Hong (as landlord) agreed to lease the premises situated at Room 5C, Block 19, Baguio Villa, Hong Kong with a total gross floor area of approximately 1,580 sq.ft. to Baguio Cleaning (as tenant), for a period commencing from 1 August 2013 and expiring on 30 September 2015, at a total annual rent of HK\$576,000. The premises is used as staff quarter for Ms. Ng Yuk Kwan Phyllis, one of our executive Directors.

On 8 October 2015, Baguio Cleaning and Mr. Ng Wing Hong renewed the lease agreement of the same premises for a period commencing from 1 October 2015 to 30 September 2017, at a total annual rent of HK\$576,000. The amount of annual rent was determined on an arm's length basis between Mr. Ng Wing Hong and Baguio Cleaning by reference to the prevailing market rate for the lease of properties of similar standard in the neighbouring areas of the premises and the terms of the previous lease agreement. As the total amount of rent payable under the renewed lease agreement for each of the two financial years ending 31 December 2017 will be less than HK\$1,000,000 per annum and the percentage ratios in Rule 14.07 of the Listing Rules are less than 5%. Accordingly, the total rent payable under the renewed lease agreement falls below the de minimis threshold under Rule 14A.76(1)(c) of the Listing Rules and thus is not subject to any reporting, announcement, circular, annual review or independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

During the Year, the approximate total amount of rent paid for the abovementioned lease agreements was approximately HK\$576,000, which did not exceed the HK\$1,000,000 annual cap for the Year.

Continuing connected transactions subject to reporting, announcement and annual review but exempt from the circular and independent shareholders' approval requirements

- (B) On 27 January 2014, Baguio Cleaning and Cleanic Cleaning Equipment Limited ("CCE") (which is owned as to approximately 74% by Mr. Ng Wing Sun, the brother of Mr. Ng Wing Hong), entered into a supply agreement (the "Supply Agreement") pursuant to which CCE has agreed to supply cleaning equipment and materials to our Group for use in our ordinary course of business for a period of three years commencing from 27 January 2014 and expiring on 26 January 2017.

On 29 December 2016, Baguio Cleaning and CCE entered into a supplemental supply agreement to extend the supply of cleaning equipment and materials to the Group under the Supply Agreement for a further term of 35 months commencing from 26 January 2017 up to and including 31 December 2019. Details are available from the Company's announcement dated 29 December 2016.

REPORT OF THE DIRECTORS

During the Year, the approximate total amount of purchases under the Supply Agreement was approximately HK\$1,460,000, which did not exceed the HK\$3,500,000 annual cap for the Year.

- (C) On 28 January 2014, Baguio Cleaning and Nexus Solutions Limited (“NSL”) entered into an IT service agreement (the “IT Agreement”) pursuant to which NSL has agreed to provide information technology services to our Group. Pursuant to the IT Agreement, NSL shall provide our Group with hardware and networking support for a period of three years commencing from 28 January 2014 and expiring on 27 January 2017.

On 29 December 2016, Baguio Cleaning and NSL entered into a supplemental IT agreement to extend the term of the provision of information technology services to the Group under the IT Agreement for a further term of 35 months commencing from 27 January 2017 up to and including 31 December 2019. Details are available from the announcement of the Company dated 29 December 2016.

NSL is owned as to approximately 87% by Mr. Ng Wing Hong, the chairman, a controlling shareholder and an executive Director of the Company, through his wholly owned company, IT Holdings Limited.

With reference to the Company’s announcement dated 1 April 2015, the annual caps for the transaction for the years ending 31 December 2015 and 2016, respectively have been revised to HK\$6,000,000 and HK\$2,500,000, respectively per annum.

During the Year, the transaction amounts of the IT product and services provided by NSL to the Group was approximately HK\$1,002,000, which did not exceed the HK\$2,500,000 annual cap.

The independent non-executive Directors of the Company have reviewed the continuing connected transactions mentioned in paragraph 20(B) and 20(C) and have confirmed that these continuing connected transactions were entered into (i) in the ordinary and usual course of business of the Group; (ii) on normal commercial terms or, if there are not sufficient comparable transactions to judge whether they are on normal commercial terms, on terms no less favourable to the Group than terms available to or from (as appropriate) independent third parties; and (iii) in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

The Company’s auditors were engaged to report on the Group’s continuing connected transactions mentioned in paragraph 20(B) and 20(C) in accordance with Hong Kong Standard on Assurance Engagements 3000 “Assurance Engagements Other Than Audits or Review of Historical Financial Information” and with reference to Practice Note 740 “Auditor’s Letter on Continuing Connected Transactions under the Hong Kong Listing Rules” issued by the Hong Kong Institute of Certified Public Accountants. The auditors have issued their unqualified letter containing their findings and conclusions in respect of the continuing connected transactions disclosed above by the Group in accordance with Rule 14A.56 of the Listing Rules. A copy of the auditor’s letter has been provided by the Company to the Stock Exchange.

Saved as disclosed above, there is no related party transaction or continuing related party transaction as set out in note 37 to the consolidated financial statements that falls under the definition of “connected transaction” or “continuing connected transaction” in Chapter 14A of the Listing Rules. The Company has complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules.

21. CONTRACTS OF SIGNIFICANCE

Save as disclosed under the section headed “Connected Transactions” in this report of the Directors:

- (i) No contract of significance between the Company or any of its subsidiaries and a controlling shareholder of the Company or any of its subsidiaries subsisted during the Year or at the end of the Year; and
- (ii) No contract of significance for the provision of services to the Company or any of its subsidiaries by controlling shareholder of the Company or any of its subsidiaries subsisted during the Year or at the end of the Year.

REPORT OF THE DIRECTORS

22. MAJOR CUSTOMERS AND MAJOR SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for 69.0% (2015: 75.9%) of the total sales for the year and sales to the largest customer included therein amounted to 32.9% (2015: 36.9%). Purchases from the Group's five largest suppliers accounted for 23.1% (2015: 23.6%) of the total purchases for the year and purchases from the largest supplier included therein amounted to 5.3% (2015: 6.8%).

None of the directors or any of their associates or any shareholders (which, to the best of the knowledge of the directors, own more than 5% of the Company's issued share capital) had any beneficial interest in the Group's five largest customers and suppliers.

23. COMPETING BUSINESS

None of the Directors had any interest in any competing business with the Company or any of its subsidiaries during the Year.

24. MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Group were entered into or existed during the Year.

25. EMOLUMENT AND REMUNERATION POLICY

The Company has a remuneration committee for reviewing the Group's emolument policy and structure for all remuneration of the Directors and senior management of the Group, having regard to the Group's operating results, individual performance of the Directors and senior management and comparable market practices.

26. REMUNERATION OF DIRECTORS AND FIVE INDIVIDUALS WITH HIGHEST EMOLUMENTS

Details of the emoluments of the Directors and five highest paid individuals are set out in note 15 to the consolidated financial statements.

No director has waived or has agreed to waive any emolument during the Year.

27. SHARE OPTION SCHEME

On 24 April 2014, the Company adopted a share option scheme (the "Share Option Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. The Directors confirm that the Share Option Scheme is in compliance with Chapter 17 of the Listing Rules.

A summary of the Share Option Scheme of the Company is as follows:

| | |
|------------------------|---|
| Purpose: | To enable the Board to grant options to selected Eligible Persons (an "Eligible Person" means any employee or proposed employee (whether full time or part time employee, including any director) of any member of the Group or any invested entity, any supplier of goods or services, any customer, any person or entity that provide research, development or other technical support, any shareholders or any participants who contribute to the development and growth of the Group or any invested entity) as incentives or rewards for their contribution or potential contribution to the Group and/or to recruit and retain high caliber Eligible Persons and to attract human resources that are valuable to the Group. |
| Eligible Participants: | (i) the Board may, at its absolute discretion and on such terms as it may think fit, grant options to any Eligible Person to subscribe at the Exercise Price (as defined in the paragraph "Exercise Price" of this section) for such number of Shares as it may determine in accordance with the terms of the Share Option Scheme; |

REPORT OF THE DIRECTORS

- (ii) the basis of eligibility of any of the Eligible Persons to the grant of options shall be determined by the Board from time to time on the basis of his contribution or potential contribution to the development and growth of the Group.

Total number of securities available for issue under the Share Option Scheme:

The maximum number of Shares which may be issued upon exercise of options to be granted under the Share Option Scheme and any other share option schemes of the Company (excluding, for this purpose, options which have lapsed in accordance with the terms of the Share Option Scheme or any other share option schemes of the Company) must not in aggregate exceed 10% of the Shares in issue on the date of the listing of the shares of the Company, i.e. 40,000,000 Shares (the "Scheme Limit").

Options lapsed in accordance with the Share Option Scheme will not be counted for the purpose of the Scheme Limit.

The Scheme Limit may be refreshed at any time by obtaining approval of the shareholders of the Company ("Shareholders") in general meeting provided that the refreshed limit must not exceed 10% of the Shares in issue at the date of the Shareholders' approval of such limit. Options previously granted under the Share Option Scheme or any other share option scheme of the Company (including those outstanding, cancelled or lapsed in accordance with the terms of the Share Option Scheme or any other share option schemes of the Company or those exercised) will not be counted for the purpose of calculating the refreshed limit.

The Company may also, by obtaining separate approval of the Shareholders in general meeting, grant options beyond the Scheme Limit provided the options in excess of the Scheme Limit are granted only to Eligible Persons specifically identified by the Company before such approval is sought. The Company shall send a circular to the Shareholders which contains the information required by the Listing Rules.

The aggregate number of Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other share option schemes of the Company must not exceed 30% of the Shares in issue from time to time.

Price for Subscription of Shares:

The Exercise Price is to be determined by the Board provided always that it shall be at least the higher of:

- (i) the closing price of the Shares as stated in the daily quotations sheet issued by the Stock Exchange on the date of offer for the grant of the option (which is deemed to be the date of grant if the offer for the grant of the option is accepted by the Eligible Person), which must be a trading day; and
- (ii) the average closing price of the Shares as stated in the daily quotations sheets issued by the Stock Exchange for the five business days immediately preceding the date of grant, provided that the Exercise Price shall in no event be less than the nominal amount of one Share.

REPORT OF THE DIRECTORS

| | |
|---|---|
| Amount payable on acceptance of the option and the period within which such payment must be made: | An offer for grant of options must be accepted within twenty one days inclusive of the day on which such offer was made. The amount payable to the Company on acceptance of the offer for the grant of an option is HK\$1.00. |
| Maximum entitlement of each eligible participant: | The maximum number of Shares issued and to be issued upon exercise of options granted and to be granted under the Share Option Scheme and any other share option schemes of the Company to any Eligible Person (including cancelled, exercised and outstanding options), in any 12-month period up to the date of grant shall not exceed 1% of the Shares in issue from time to time (the "Participant Limit"). Any further grant of options in excess of such limit must be separately approved by Shareholders with such Eligible Person and his associates abstaining from voting. The Company shall send a circular to the Shareholders which contains the information required by the Listing Rules. |
| Exercise price: | The Board is entitled to determine the price per Share payable on the exercise of an option according to the terms of the Share Option Scheme. |
| Minimum holding period: | The Board is entitled to determine whether there is any minimum holding period, and whether there is any performance target which must be achieved, before an option granted under the Share Option Scheme is exercised. |
| Period within which the securities must be taken up under an option: | In respect of any option, such period as the Board may in its absolute discretion determine, save that such period shall not be more than 10 years from the date of the grant of the option and in the absence of such determination, the period commencing from the acceptance date of the option and ending (i) in accordance with the Share Option Scheme; or (ii) on the day immediately preceding the tenth anniversary of the date of grant. |
| The remaining life of the Share Option Scheme: | The Share Option Scheme remains in force for a period of 10 years commencing on 24 April 2014 unless terminated earlier by Shareholders in general meeting. |

REPORT OF THE DIRECTORS

On 16 October 2015, the Company granted share options to certain eligible participants to subscribe for an aggregate of 5,216,000 ordinary shares of HK\$0.01 each in the Capital of the Company, represented approximately 1.26% of all the Shares in issue as at the date of this report.

No share option was granted during the Year, while 100,000 share options lapsed during the Year due to resignation of an employee who had been granted share options.

The movement of the share options granted during the Year is as follows:

| Name or category of participants | Date of grant (Note 1) | Number of underlying shares comprised in share options | | | | Exercise price per share (HK\$) | |
|---|---------------------------|---|-------------------------------|------------------------------|------------------------------|--|------|
| | | As at 1 January 2016 | Granted during the Year | Lapsed during the Year | As at 31 December 2016 | | |
| Directors | | | | | | | |
| Ms. Ng Yuk Kwan Phyllis | 16/10/2015 | 292,000 | – | – | 292,000 | 16/10/2017– 23/04/2024 | 1.00 |
| Mr. Ng Wing Chuen | 16/10/2015 | 240,000 | – | – | 240,000 | 16/10/2017– 23/04/2024 | 1.00 |
| Ms. Leung Shuk Ping | 16/10/2015 | 216,000 | – | – | 216,000 | 16/10/2017– 23/04/2024 | 1.00 |
| Ms. Chan Shuk Kuen | 16/10/2015 | 216,000 | – | – | 216,000 | 16/10/2017– 23/04/2024 | 1.00 |
| Ms. Cheung Siu Chun | 16/10/2015 | 240,000 | – | – | 240,000 | 16/10/2017– 23/04/2024 | 1.00 |
| Mr. Sin Ho Chiu | 16/10/2015 | 140,000 | – | – | 140,000 | 16/10/2017– 23/04/2024 | 1.00 |
| Dr. Law Ka Hung | 16/10/2015 | 140,000 | – | – | 140,000 | 16/10/2017– 23/04/2024 | 1.00 |
| Mr. Lau Chi Yin Thomas | 16/10/2015 | 140,000 | – | – | 140,000 | 16/10/2017– 23/04/2024 | 1.00 |
| Subtotal | | 1,624,000 | – | – | 1,624,000 | | |
| Other Eligible Participants (in aggregate) | | | | | | | |
| Other employees | 16/10/2015 | 3,592,000 | – | (100,000) | 3,492,000 | 16/10/2017– 23/04/2024 | 1.00 |
| Subtotal | | 3,592,000 | – | (100,000) | 3,492,000 | | |
| Total | | 5,216,000 | – | (100,000) | 5,116,000 | | |

Note:

(1) The share options will vest on 16 October 2017.

Save as disclosed above, no share options were granted, exercised, cancelled, or lapsed in accordance with the terms of the Share Option Scheme during the Year.

REPORT OF THE DIRECTORS

28. RIGHTS TO ACQUIRE COMPANY'S SECURITIES

Save as otherwise disclosed in this report, at no time during the Year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any Director or their respective spouse or children under 18 years of age, or were any such rights exercised by them; or was the Company and any of its subsidiaries a party to any arrangement to enable the Directors, or their respective spouse or children under 18 years of age, to acquire such rights in any other body corporate.

29. EVENTS AFTER THE REPORTING PERIOD

The Group does not have material events after the end of the reporting period.

30. CORPORATE GOVERNANCE

The Company is committed to maintaining 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 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 is set out in the Corporate Governance Report on page 26 to 36 of this annual report.

31. SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the Directors, at least 25% of the Company's total issued share capital is held by the public as at the date of this report.

32. AUDIT COMMITTEE

The audit committee has reviewed with the management of the Company the audited consolidated annual results 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.

33. AUDITORS

HLB Hodgson Impey Cheng Limited ("HLB") resigned as the auditor of the Company with effect from 27 June 2016. KPMG was first appointed as auditor of the Company with effect from 30 June 2016 to fill the casual vacancy following the resignation of HLB. KPMG retire and, being eligible, offer themselves for re-appointment. A resolution for the reappointment of KPMG as auditor of the Company is to be prepared at the forthcoming annual general meeting.

On behalf of the Board

Mr. Ng Wing Hong

Chairman

Hong Kong, 30 March 2017

CORPORATE GOVERNANCE REPORT

The Board is pleased to present the Corporate Governance Report for the year ended 31 December 2016.

1. COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

The Board is committed to achieving high standards of corporate governance to safeguard the interests of the Company's shareholders and to enhance corporate value and accountability. For the year ended 31 December 2016, the Company has applied the principles and complied with the applicable code provisions of the CG Code as set out in Appendix 14 to the Listing Rules.

2. MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code ("Model Code") as set out in Appendix 10 to the Listing Rules.

Specific enquiries have been made to all the Directors and the Directors have confirmed that they have complied with the Model Code for the year ended 31 December 2016.

The Company has also established written guidelines on no less exacting terms than the Model Code (the "Employees Written Guidelines") for securities transactions by employees who are likely to be in possession of unpublished price-sensitive information of the Company.

No incident of non-compliance with the Employees Written Guidelines was noted by the Company.

3. BOARD OF DIRECTORS

The Board currently comprises a total of 9 members, with six executive directors, and three independent non-executive directors:

Executive Directors:

Mr. Ng Wing Hong (*Chairman*)

Ms. Ng Yuk Kwan Phyllis (*Chief Executive Officer and Compliance Officer*)

Mr. Ng Wing Chuen

Ms. Leung Shuk Ping

Ms. Chan Shuk Kuen

Ms. Cheung Siu Chun (*Chief Financial Officer and Company Secretary*)

Independent Non-executive Directors:

Mr. Sin Ho Chiu

Dr. Law Ka Hung

Mr. Lau Chi Yin Thomas

Mr. Ng Wing Hong, Ms. Ng Yuk Kwan Phyllis and Mr. Ng Wing Chuen are siblings, while, Ms. Chan Shuk Kuen is the spouse of Mr. Ng Wing Hong.

The list of directors (by category) is also disclosed in all corporate communications issued by the Company from time to time pursuant to the Listing Rules.

The biography details of the directors of the Company are set out under the section headed "Biographical Details of Directors" on page 12 to 14 in this annual report.

Chairman and Chief Executive Officer

The Chairman and the Chief Executive officer of the Company are Mr. Ng Wing Hong and Ms. Ng Yuk Kwan Phyllis, respectively. Mr. Ng Wing Hong is the brother of Ms. Ng Yuk Kwan Phyllis. The roles of the Chairman and the Chief Executive Officer are segregated and assumed by two separate individuals. It is aimed at striking a balance of power and authority so that the job responsibilities are not concentrated on any one individual. The Chairman is responsible for the leadership and effective running of the Board, while the Chief Executive Officer is delegated with the authorities to manage the business of the Group in all aspects effectively.

CORPORATE GOVERNANCE REPORT

Independent non-executive Directors

During the Year, the Board at all times met the requirements of the Listing Rules relating to the appointment of at least three independent non-executive directors representing one-third of the Board. These independent non-executive directors are seasoned individuals from diversified backgrounds and industries and one member has appropriate accounting and related financial management expertise.

The independent non-executive directors serve the relevant function of bringing independent judgment and advice on the overall management of the Company. They take the lead where potential conflicts of interests arise.

The Company has received confirmations of independence from all existing independent Non-executive Directors and considers them independent, in accordance with Rule 3.13 of the Listing Rules. All Directors have a term of office of three years and are required to retire and, being eligible, can offer themselves for re-election at the Company's forthcoming annual general meeting in accordance with the Articles of Association the Company.

Responsibilities, Accountabilities and Contributions of the Board and Management

The Board is responsible for the leadership and control of the Company and oversees the Company's businesses, strategic decisions and performance. The Board has delegated to the chief executive officer, and through her, to the senior management, to execute the Board's strategy and implementing its policies through the day-to-day management and operation of the Company.

The Board determines which functions are reserved to the Board and which are delegated to the senior management. It delegates appropriate aspects of its management and administrative functions to senior management. The delegated functions and responsibilities are periodically reviewed. Approval has to be obtained from the Board prior to any significant transactions entered into by the aforesaid officers.

The Board reserves for its decision all major matters of the Company, including: approval and monitoring of all policy matters, overall strategies and budgets, mergers and acquisitions, risk management and internal control systems, corporate structure, material transactions (in particular those that may involve conflict of interests), financial information, appointment of directors, announcements of interim and final results and payment of dividends.

During the Year, the Board has reviewed the above arrangements for delegation of responsibilities to senior management and considered it to be appropriate.

Directors' Continuous Professional Development

During the Year, to develop and refresh their knowledge and skills, all Directors have participated in appropriate continuous professional development training which covered updates on laws, rules and regulations and also directors' duties and responsibilities. The following shows the training of each of the directors received during the Year:

| | Attending seminars/briefings | Reading materials |
|--|------------------------------|-------------------|
| Executive Directors | | |
| Mr. Ng Wing Hong | ✓ | ✓ |
| Ms. Ng Yuk Kwan Phyllis | ✓ | ✓ |
| Mr. Ng Wing Chuen | ✓ | ✓ |
| Ms. Leung Shuk Ping | ✓ | ✓ |
| Ms. Chan Shuk Kuen | ✓ | ✓ |
| Ms. Cheung Siu Chun | ✓ | ✓ |
| Independent non-executive directors | | |
| Mr. Sin Ho Chiu | ✓ | ✓ |
| Dr. Law Ka Hung | ✓ | ✓ |
| Mr. Lau Chi Yin Thomas | ✓ | ✓ |

4. BOARD DIVERSITY POLICY

Pursuant to the code provision A.5.6 of the CG Code, the Board has adopted a board diversity policy which sets out the approach to achieve diversity on the Board.

The Board sees diversity at the Board level as an essential element in supporting the attainment of its strategic objectives and its sustainable development. In designing the Board's composition, board diversity has been considered from a number of aspects, including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service. All board appointments will be based on meritocracy, and candidates will be considered against objective criteria, having due regard for the benefits of diversity on the Board.

5. BOARD COMMITTEES

The Board has established a remuneration committee, a nomination committee and an audit committee. They are each established with specific written terms of reference which deal clearly with their respective authority and responsibilities.

There was satisfactory attendance for meetings of the board committees during the Year. The minutes of the committee meetings were circulated to all members of the Board unless a conflict of interest arises. The committees are required to report back to the Board on key findings, recommendations and decisions.

Remuneration Committee

The purpose of the committee is to make recommendations to the Board on the remuneration policy and structure for all directors and senior management of the Company and the remuneration of all directors of each subsidiary of the Company.

The committee is responsible for making recommendations to the Board on the establishment of a formal and transparent procedure for developing remuneration policy in respect of all directors and senior management and for determining remuneration packages of individual executive directors and senior management. It also makes recommendations to the Board on the remuneration of independent non-executive directors.

The committee consults the chairman and the chief executive officer about remuneration proposals for other executive directors.

The Company's remuneration policy seeks to provide fair market remuneration in a form and value to attract, retain and motivate high quality staff. Remuneration packages are set at market levels to ensure comparability and competitiveness with other companies in the industry and market competing for a similar talent pool. Emoluments are also based on an individual's knowledge, skill, time commitment, responsibilities and performance and by reference to the Company's profits and performance.

Members of the remuneration committee are:

Mr. Sin Ho Chiu (*Independent non-executive director*) (*Chairman*)
Mr. Lau Chi Yin Thomas (*Independent non-executive director*)
Dr. Law Ka Hung (*Independent non-executive director*)
Mr. Ng Wing Hong (*Executive director*)

The terms of reference of the remuneration committee are available on the website of the Company and the website of the Stock Exchange.

During the Year, the remuneration committee had held two meetings to discuss and review the remuneration packages of the directors and senior management of the Company. All members of the remuneration committee have attended the above meetings.

Details of directors' remuneration are set out in note 15 to the consolidated financial statements.

Nomination Committee

The purpose of the nomination committee is to lead the process for Board appointments and for identifying and nominating for the approval of the Board candidates for appointment to the Board.

The committee is responsible for reviewing the structure, size and composition (including skills, knowledge and experience) of the Board at least annually and making recommendations on any proposed changes to the Board to complement the Company's corporate strategy, identifying individuals suitably qualified to become members of the Board and selecting or making recommendations to the Board on the selection of individuals nominated for directorships. The committee is also responsible for assessing the independence of independent non-executive directors and making recommendations to the Board on the appointment or re-appointment of directors and succession planning for directors, in particular the chairman and the vice chairman and the chief executive officer of the Company.

The committee consults the chairman of the Board about his proposals relating to the process for Board appointments and for identifying and nominating candidates as members of the Board.

The criteria for the committee to select and recommend a candidate for directorship include the candidate's skills, knowledge, experience and integrity and whether he/she can demonstrate a standard of competence commensurate with his/her position as a director of the Company.

Members of the nomination committee are:

Dr. Law Ka Hung (*Independent non-executive director*) (*Chairman*)
Mr. Sin Ho Chiu (*Independent non-executive director*)
Mr. Lau Chi Yin Thomas (*Independent non-executive director*)
Ms. Ng Yuk Kwan Phyllis (*Executive director*)

The terms of reference of the nomination committee are available on the website of the Company and the website of the Stock Exchange.

During the Year, the nomination committee had held one meeting to review the structure, size and composition of the Board. All member of the nomination committee have attended the above meeting.

Audit Committee

The purpose of the audit committee is to establish formal and transparent arrangements to consider how the Board applies financial reporting, risk management and internal control principles and maintains an appropriate relationship with the Company's external auditors.

The committee is responsible for making recommendations to the Board on the appointment, re-appointment and removal of the external auditors, and approving the remuneration and terms of engagement of the external auditors, and considering any questions of its resignation or dismissal.

The committee reports to the Board any suspected fraud and irregularities, significant risks, failures of internal control or suspected infringement of laws, rules and regulations which come to its attention and are of sufficient importance to warrant the attention of the Board.

Members of the audit committee are:

Mr. Lau Chi Yin Thomas (*Independent non-executive director*) (*Chairman*)

Mr. Sin Ho Chiu (*Independent non-executive director*)

Dr. Law Ka Hung (*Independent non-executive director*)

The members of the committee possess appropriate professional qualifications and/or experience in financial matters.

The audit committee reviewed, together with senior management and the external auditors, the financial statements for the six months ended 30 June 2016 and for the year ended 31 December 2016, the accounting principles and practices adopted by the Company, statutory compliance, other financial reporting matters, risk management and internal control systems and continuing connected transactions of the Company.

The terms of reference of the Audit Committee are available on the website of the Company and the website of the Stock Exchange.

During the Year, the audit committee had held three meetings for considering the annual results of the Company for the year ended 31 December 2015, considering the interim results of the Company for the six months ended 30 June 2016 and planning the annual audit of the Company for the year ended 31 December 2016 respectively. All members of the Audit Committee have attended the above meetings.

The committee has recommended to the Board (which endorsed the recommendation) that, subject to shareholders' approval at the Company's forthcoming annual general meeting, KPMG be re-appointed as the Company's external auditors for 2017.

CORPORATE GOVERNANCE REPORT

6. ATTENDANCE RECORDS OF DIRECTORS AND COMMITTEE MEMBERS

| | Number of meetings held during the year Attended/Eligible to attend | | | |
|--|--|---------------------------|-------------------------|--------------------|
| | Board | Remuneration Committee | Nomination Committee | Audit Committee |
| Executive Directors | | | | |
| Mr. Ng Wing Hong | 7/7 | 2/2 | 0/0 | 1/3 |
| Ms. Ng Yuk Kwan Phyllis | 7/7 | 1/2 | 1/1 | 0/0 |
| Mr. Ng Wing Chuen | 6/7 | 0/0 | 0/0 | 0/0 |
| Ms. Leung Shuk Ping | 5/7 | 0/0 | 0/0 | 0/0 |
| Ms. Chan Shuk Kuen | 7/7 | 0/0 | 0/0 | 0/0 |
| Ms. Cheung Siu Chun | 7/7 | 2/2 | 1/1 | 3/3 |
| Independent non-executive directors | | | | |
| Mr. Sin Ho Chiu | 7/7 | 2/2 | 1/1 | 3/3 |
| Dr. Law Ka Hung | 7/7 | 2/2 | 1/1 | 3/3 |
| Mr. Lau Chi Yin Thomas | 7/7 | 2/2 | 1/1 | 3/3 |

Prior notices of the board meetings were despatched to the Directors setting out the matters to be discussed at the meetings. At the meetings, the Directors were provided with the relevant documents to be discussed and approved. The company secretary was responsible for keeping minutes of the meetings of the Board and Board Committees.

The Board is regularly provided with brief reports containing balanced and comprehensive evaluation on the Group's performance, status and prospects to keep it abreast of the Group's affairs and facilitate the Directors' performance of their obligations under the relevant requirements of the Listing Rules.

7. CORPORATE GOVERNANCE FUNCTIONS

The board has the following responsibilities:

- to develop and review the Company's policies and practices on corporate governance; and to review the compliance with the CG Code and disclosures in the corporate governance report;
- to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;
- to review and monitor the training and continuous professional development of the directors and senior management; and
- to develop, review and monitor the code of conduct applicable to the directors and employees.

CORPORATE GOVERNANCE REPORT

8. FINANCIAL REPORTING

The directors acknowledge their responsibilities for preparing the financial statements for the Company. The directors are regularly provided with updates on the Company's businesses, potential investments, financial objectives, plans and actions.

The Board aims at presenting a balanced, clear and comprehensive assessment of the Company's performance, position and prospects. Management provides such explanation and information to the directors to enable the Board to make informed assessments of the financial and other matters put before the Board for approval.

The Board considers that, through a review made by the audit committee, the resources, staff qualifications and experience, training programs and budget of the Company's accounting and financial reporting function are adequate.

The senior management has provided to the Board such explanation and information as are necessary to enable the Board to carry out an informed assessment of the Company's financial statements, which are put to the Board for approval.

The Directors were not aware of any material uncertainties relating to events or conditions which may cast significant doubt upon the Group's ability to continue as a going concern.

The statement by the independent auditors of the Company regarding their reporting responsibilities on the consolidated financial statements of the Company is set out in the Independent Auditors' Report on page 57 of this annual report.

9. RISK MANAGEMENT AND INTERNAL CONTROL

The Board acknowledges that it is responsible for the risk management and internal control systems of the Group on an ongoing basis and reviewing their effectiveness. Such systems are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

During the Year, the Board, through the Audit Committee, conducted a review of the effectiveness of the risk management and internal control systems of the Group, including the adequacy of resources, staff qualifications and experience, training programmes and budget of the Group's accounting, internal audit and financial reporting functions. In this respect, the Audit Committee communicates any material issues to the Board.

During the Year, the Group appointed Baker Tilly Hong Kong Risk Assurance Limited ("Baker Tilly") to:

- assist in identifying and assessing the risks of the Group through a series of workshops and interviews; and
- independently perform internal control review and assess the Group's risk management and internal control systems.

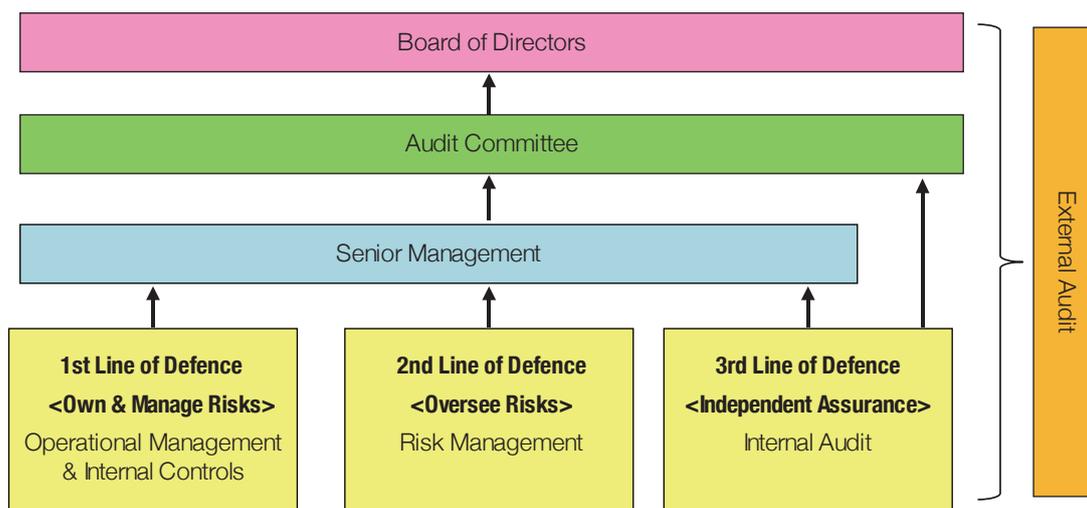
The results of the independent review and assessment were reported to the Audit Committee and the Board. Moreover, improvements recommended by Baker Tilly to enhance our risk management and internal control systems and minimise risks of the Group were adopted by the Board.

Our Enterprise Risk Management Framework and Governance Structure

Baguio established its enterprise risk management framework in 2016 which follows the Committee of Sponsoring Organizations of the Treadway Commission (“COSO”) Enterprise Risk Management-Integrated Framework 2016. It is our belief that having an effective risk management system is a cornerstone in achieving our strategic priorities. While the Board has the overall responsibility to ensure that sound and effective internal controls are maintained, management is responsible for designing and implementing an internal controls system to manage risks.

Through a risk identification and assessment process with both top down and bottom up approaches, risks are identified, assessed, prioritized and allocated treatments. Our risk management framework is guided by a three lines of defence system, which allows the Board to manage risks effectively. The Board receives regular reports through the Audit Committee that oversees risk management and internal audit functions.

Baguio Risk Governance Structure



1st Line of Defence — Operational Management & Internal Controls

The first line of defence refers to the operational management and internal controls carried out by the risk owners. Internal controls and monitoring procedures over regulatory compliance and risk management are integrated into the daily operations subject to a set of clear policy and procedures, which are reviewed on a regular basis to ensure their effectiveness. Every major department has its own set of its operating policy and procedures to ensure that its operating activities are governed by the operational guidelines within a control framework.

2nd Line of Defence — Risk Management

The second line of defence refers to the risk management activities performed by the risk management team led by our risk facilitator in order to monitor and improve the effectiveness of risk controls. The risk management team carries out annual review of the Group's risks profile and maintains a risk register of the Group. From a holistic angle, the second line of defence identifies emerging issues and assists departments to develop processes and controls to manage risks. In particular, the risk management team provides guidelines to business functions to facilitate the risk management process, support management in assessing known and emerging risks and assist in developing the respective internal controls.

3rd Line of Defence — Internal Audit

The third line of defence refers to the internal audit function of the Group. The internal audit provides an independent and objective assurance of the Group's risk management and internal control system. The internal audit function reports directly to the Audit Committee and dotted line to the Group's senior management. During the Year, the Group engaged Baker Tilly as outsourced independent service provider to perform internal audit on an annual basis with an internal audit plan which focus on the risks identified for priorities of treatment. Key findings and recommendations for improvement and the corresponding implementation are regularly reported to the Board through the Audit Committee.

External Auditors

The external auditors of the Group also test the key controls to the extent that they will be relied on for the audit and communicate with the Audit Committee any significant deficiencies in material control identified during the audit.

Principal Risks

We considered the followings to be the principal risks of the Group. Relevant risks are classified into areas of strategic and business risks, operational risks, financial risks and compliance risks.

These principal risks are compiled through aggregation, filtering and prioritization of the risks from a Group's perspective, taking into account of the risks from each department and business unit.

| Risk Areas | Principal Risks |
|------------------------------|--|
| Strategic and Business Risks | Keen market competition; sensitivity to government policies; customer concentration; investment risk; keeping up with new technologies; unsatisfactory tendering; and insufficient succession planning |
| Operational Risks | Insufficient labour supply; insufficient experienced managerial personnel; increasing labour cost; workplace injury; fleet management; third party liability; and disruption of IT system |
| Financial Risks | Liquidity risk; credit risk; interest rate risk; and foreign exchange risk |
| Compliance Risks | Compliance risk related to occupation safety and health; risk of non-compliance with ordinances related to employment; unfamiliar with foreign laws and regulations for mergers and acquisitions; risk of failure to comply with contract terms; and change of listing rules and relevant company regulations and ordinances |

Our Risk Control Mechanism

The Group maintains a central risk register as a formal record that keeps track of all identified major risks of the Group. The risk register provides the Board, the Audit Committee, the risk management team and senior management with a holistic overview of Baguio's major risks and records what management has done to monitor and mitigate these risks. Each risk is evaluated at least annually based on its likelihood of occurrence and potential impact upon the relevant department or business unit and the Group as a whole. The addition or deletion of risk is considered at least annually after performing the annual risk evaluation. Such review process can ensure the Group proactively manage the risks it faces. All executives of the Group with risk management responsibility are granted access to the register so that they are aware of and alert to those risks which require their attention and follow-up action, as and when necessary.

In addition to the risk register, the Group also maintains detailed risk management procedures regarding risk management activities. These procedures are incorporated into each department's own operation manual and are referenced by the risk register. Department heads and risk owners are responsible for updating the risk management procedures at least annually, and monitoring the implementation of the procedures in actual practice.

The Group regulates the handling and dissemination of inside information as set out in the Group's corporate governance policy and various subsidiary procedures to ensure inside information remains confidential until the disclosure of such information is appropriately approved, and the dissemination of such information is efficiently and consistently made.

Outlook

Our risk management is an ongoing process. The effectiveness of our risk management framework will be evaluated at least annually and quarterly risk management meetings are held to update the progress of risk monitoring efforts. We also continue to focus on embedding risk process and controls into the business operations of the Group in order to raise awareness of risk responsibilities and to ensure that risk management is part of relevant business processes for securing continuous improvements while at the same time maintaining a simple and practical risk management approach.

To strengthen the internal control function, other than the annual internal audit which will be performed by the external service provider, the Group is planning to set up an internal audit team to carry out surprise check and specific audit to ensure the risk management and internal control process is integrated in daily operations.

10. AUDITORS' REMUNERATION

For the Year, KPMG charged the Group approximately HK\$1.2 million for the provision of audit services, and approximately HK\$80,000 for other non-audit services respectively.

11. COMPANY SECRETARY

The company secretary of the Company, Ms. Cheung Siu Chun, is the executive Director and Chief Finance Officer of the Company. The biographical details of Ms. Cheung are set out under the section headed "Biographical Details of Directors" of this annual report.

According to the requirements of Rule 3.29 of the Listing Rules, Ms. Cheung has taken not less than 15 hours of relevant professional training during the Year. The company secretary is a full time employee of the Company and has day-to-day knowledge of the Company's affairs. She reports to the Chairman and is responsible for advising the Board on governance matters.

12. SHAREHOLDERS' RIGHTS

Procedures for shareholders to convene an extraordinary general meeting

Pursuant to Article 58 of the Company's Articles of Association, an extraordinary general meeting shall be called by the Board on the written resolution of any one or more shareholders of the Company, provided that such shareholder(s) held at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company. Such meeting shall be called for the transaction of any business specified in the written requisition to the Board or the company secretary of the Company; and shall be held within two months after the deposit of such requisition. If within twenty-one days of such deposit the Board fails to proceed to convene such meeting, the requisition(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

Procedures for putting forward proposals at general meetings

There are no statutory provisions granting the right to shareholders to put forward or move new resolutions at general meetings under the Cayman Islands Companies Law or the Articles of Association of the Company. Shareholders who wish to move a resolution may request the Company to convene a general meeting following the procedures set out in the preceding paragraph.

Procedures for directing shareholders' enquiries to the Board

Shareholders may at any time send their enquiries and concerns with sufficient contact details to the Board to the following:

Address: Unit A, 4/F., Dragon Industrial Building, 93 King Lam Street, Lai Chi Kok, Kowloon, Hong Kong.
Fax: 2544-8668
Email: info@baguio.com.hk

For the avoidance of doubt, shareholder(s) must deposit and send the original duly signed written requisition, notice or statement, or enquiry (as the case may be) to the above address, and provide their full name, contact details and identification in order to give effect thereto. Shareholders' information may be disclosed as required by law.

13. COMMUNICATION WITH SHAREHOLDERS AND INVESTOR RELATIONS

The Company continues to pursue a proactive policy of promoting investor relations and communications by conducting analyst's briefing, road shows, participating in investors' conferences and making corporate presentations during these events.

To enhance transparency, the Company endeavors to maintain open dialogue with shareholders through a wide array of channels such as the annual general meetings and other general meetings. Shareholders are encouraged to participate in these meetings. The Company also recognises the importance of transparency and timely disclosure of corporate information, which will enable shareholders and investors to make the best investment decisions.

The general meetings of the Company provide a forum for communication between the Board and the shareholders. The Chairman of the Board as well as chairman of the Nomination Committee, Remuneration Committee and Audit Committee or, in their absence, other members of the respective committees and, where applicable, the chairman of the independent Board committee, are available to answer questions at shareholder meetings.

To promote effective communication, the Company maintains a website at <http://www.baguio.com.hk> where up-to-date information and updates on the Company's business operations and developments, financial information and other information are available for public access.

14. COMPLIANCE OF NON-COMPETITION UNDERTAKING

The Company has entered into a deed of non-competition dated 24 April 2014 (the "Non-competition Deed") with Baguio Green (Holding) Limited and Mr. Ng Wing Hong, both being the controlling shareholders of the Company (the "Controlling Shareholders"), pursuant to which the Controlling Shareholders procure that its/his/her associates (other than the members of our Company) not to, engage in any competing business involving the environmental industry.

The Company has received the annual confirmation from the Controlling Shareholders in compliance with the terms of the deed of non-competition. The Independent Non-executive Directors has reviewed the annual confirmation from the Controlling Shareholders relating to the compliance with the non-competition undertaking by the Controlling Shareholders under the deed of non-competition and are satisfied that the same has been complied with by the Controlling Shareholders under the deed of non-competition.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

ABOUT THE ESG REPORT

As part of our continued commitment to our stakeholders and the general public, we are proud to present the Group's second annual Environmental Social and Governance ("ESG") report, which showcases our achievements and performance on ESG issues in Hong Kong during the Year.

Building on progress from the previous year, the Group has stepped up its efforts in engaging its stakeholders. This year's ESG report focuses on aspects that have been identified as material to Baguio's business, highlighting the measures and successes in pursuing sustainability throughout our business operations in 2016.

SUSTAINABILITY CONTEXT

The Group is committed to continuously creating and maintaining a "Clean and Green" environment for society. Over the years, it has developed into a group of well-established and socially responsible companies providing integrated environmental services, ranging from professional cleaning, integrated pest management, horticulture and landscaping to waste collection and recycling.

The Group has built its own operational teams for integrated environmental services, catering to customers' diverse needs. During the Year, the Group retained more than 7,900 staff and operated a fleet of over 300 vehicles in Hong Kong as at the end of 2016. With passion and dedication in providing a clean, green and healthy environment to the community, the Group considers sustainability imperative to its long-term development and has been striving to align its business with sustainable development principles. We join hands with our customers to cater for the rising expectations of society and strive for continual improvement of our environmental and social performance.

Board approval

The Board acknowledges its responsibility to ensure the integrity of the ESG Report and to the best of its knowledge this report addresses all material issues and fairly presents the ESG performance of the Group and its impact. The Board confirms that it has reviewed and approved the report.



ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

MESSAGE FROM THE CEO

Dear stakeholders,

In 2016, we are glad to see more and more people in Hong Kong willing to take a step further in reducing and recycling waste. Thanks to increased education on waste management by our Government, public awareness has reached a new height domestically. While we are upbeat about this development and believe the marketplace is going to present plenty of potential, the Group, as an industry leader in offering integrated environmental services, is poised to play a pivotal role in contributing to a more sustainable Hong Kong through our resource efficiency initiatives and socially responsible practices.

With improving living standards and growing environmental awareness in the community, the demand for the Group's environmental services has been on the rise. To cope with increased business development, we continue to focus on achieving resource efficiency. During the past year, the Group managed to reduce fuel usage by 9% and water consumption by 9%. We also reduced our paper consumption by 22%.

The commitment to provide a safe workplace for our employees is always at the top of our priority list. In 2016, we implemented over 5,000 hours of safety training including general safety rules, specialized training session targeted for staff conducting high risk work and handling of hazardous waste and chemicals. We continue to strive to mitigate incidents of work injuries. While our safety performance did respond to our increased efforts, we are not complacent about this and will remain vigilant to safeguard the health and safety of our employees.

“While our safety performance did respond to our increased efforts, we are not complacent and will remain vigilant to safeguard the health and safety of our employees.”

In 2016, while we continue to give back to our community, we are much more focusing on how we create shared value. In addition to participating in community activities, we ran a city-wide campaign promoting the recycling of plastic bottles and promote the environmental education with visit of our recycling plant. Going forward, we will continue to seek such Corporate Social Responsibility (“CSR”) opportunities which allow us to align our core business with social responsibility.

Looking to the future, we would like to continue focusing our efforts on resource efficiency, aiming to consume less while we expand our business operation. We also aim to increase our contribution to the development of waste management services in Hong Kong. Leveraging on our management expertise and capable operation team, we are confident that we can implement “Clean and Green” in Hong Kong. We aim to grow our business in a responsible and sustainability way, this sustainability journey takes continuous effort and our success, to a certain extent, relies on our stakeholders' continuing support. We look forward to achieving sustainable outcomes for all our stakeholders.

By Order of the Board

Phyllis Ng

Chief Executive Officer

Hong Kong, 30 March 2017

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

CORE VALUES AND CULTURE

Our mission is to provide a cleaner, greener and more sustainable environment to society.

Customer First — Customers are the ultimate assessor of our success. The success of Baguio Group depends on customer satisfaction in all the services provided. Thus, customer satisfaction is the central value of our group around which all other values have been developed.

Integrity — Our mission is to cater to customers' special needs and tailor services for efficiency and excellence. To maintain long term relationships with loyal customers as well as cater to their needs and demands, all deals with customers, workers, and business partners are done with the utmost integrity. Hence, integrity is the most important value of our group in striving for excellence.

Striving for Excellence — To be the most comprehensive and reliable environmental services group in the region, we pledge to strive for excellence by delivering the best possible service to our customers. We care about our customers' unique needs and tailor our services to serve them best, down to the minute details. Excellence is the goal to which our operation strives to reach.

Self-Improvement — Our internal drive for continuous improvement is the key to the ability in meeting the rising demands of our customers. The Group is constantly updating the latest technology and improving services in anticipation of customers' demand.

Social Responsibility — We also believe that to benefit society and strive for excellence, the fundamental duty of a person is to contribute and give back to society. Therefore, the group actively participates into activities helping the underprivileged and poor people in society.

AWARDS AND RECOGNITION

Our Group has received various awards and recognition of participation from different entities. The awards received during 2016 are listed in the table below.

| Organiser | Award |
|--|--|
| Environmental Responsibility | |
| The Government of HKSAR — Environment Bureau | Friends of Eco Park Certificate of Appreciation |
| World Green Organisation | Green Office Award — Label Scheme (Group) |
| Bank of China & The Federation of Hong Kong Industries | Corporate Environmental Leadership Awards 2015 — ECO Challenger |
| Mediazone Group | Greater China's Most Reputed Integrated Environmental Services Provider |
| Friends of the Earth | Certificate of Appreciation — Save Resources Mission |
| | Certificate of Appreciation — Save Energy Mission |
| People Service Centre | Certificate of Appreciation |
| Green Council | Hong Kong Green Award 2016 — Environmental, Health and Safety Award (Corporate) Gold |
| | Hong Kong Green Award 2016 — Sustained Performance 7+ years |
| Environmental Campaign Committee | Wastewi\$e Certificate — Excellence Level |

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

| Organiser | Award |
|--|---|
| Health and Safety | |
| Occupation Safety & Health Council and Labour Department | Safety Quiz 2016 — Participation Certificate to Customer First Team Safety Quiz 2016 — Participation Certificate to Social Responsibility Team Safety Quiz 2016 — Participation Certificate to Self-Improvement Team Safety Quiz 2016 — Participation Certificate to Excellence Team Safety Quiz 2016 — Participation Certificate to Integrity Team Joyful @ Healthy Workplace Charter |
| The CLP Group | Appreciation of Team Participation — CLP Power Safety, Health and Environmental Quiz 2016 — Contractor Stream Competition |
| Hong Kong International Airport | Appreciation for participating in Airfield & Baggage Hall Safety Campaign 2016 |
| Sun Fook Kong Construction Group | Sun Fook Kong Safety Awards Scheme 2015 — Certificate to Zero Accident Achievement |
| Socio-Economic Contribution | |
| The Federation of Hong Kong Industries | “Industry Cares” 2016 — Caring Certificate |
| Hong Kong Council of Social Service | Caring Company — Tak Tai Enviroscape Limited Caring Company — Baguio Green Group Limited Caring Company — Baguio Waste Management & Recycling Limited Caring Company — Baguio Pest Management Limited 5 years+ Caring Company — Baguio Landscaping Services Limited 5 years+ Caring Company — Baguio Cleaning Services Company Limited |
| Richmond Fellowship of Hong Kong | Certificate of Appreciation |
| Junior Chamber International Hong Kong | Better World Company Logo |
| Employer of Choice | |
| The Labour and Welfare Bureau (LWB), The Rehabilitation Advisory Committee, The Hong Kong Joint Council for People with Disability & The Hong Kong Council of Social Service | Talent-Wise Employment Charter and Inclusive Organisations Recognition Scheme 18 Districts Caring Employers 2016 Award (Special Award for being awarded for 5 consecutive years or above) |
| The Society of Rehabilitation & Crime Prevention, HK | Benevolent Employers of Rehabilitated Offenders |
| Employee Retraining Board | Manpower Developer Award Scheme |
| Hong Kong Rehabilitation Power | Certificate of Appreciation — Rehab Power Day 2016 |
| The Hong Kong General Chamber of Small and Medium Business | Partner Employer Award |
| Hong Kong Single Parents Association | Certification of Appreciation — Funding Scheme For Women’s Development |

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

MEMBERSHIPS AND CHARTERS

The Group is actively involved in a number of initiatives and charters promoting sustainable development in economic, environmental and social aspects. We are a corporate member of the industry associations, NGOs, and chambers listed below.

Organization

- All-China Environmental Federation
- Business Environment Council
- Environmental Contractors Management Association
- China Association of Environmental Protection Industry
- Chinese Society for Environmental Sciences
- Federation of Hong Kong Industries
- Hong Kong Environmental Industry Association
- Hong Kong General Chamber of Commerce
- Hong Kong Greening Contractors Association
- Hong Kong Pest Management Association
- Hong Kong Recycle Materials & Re-production Business General Association
- Hong Kong Waste Disposal Industry Association
- Hong Kong Waste Management Association
- National Pest Management Association
- Occupational Safety & Health Council — Green Cross Group
- Pest Control Personnel Association of Hong Kong
- The Chamber of Hong Kong Listed Company
- The Charter on Proper Operation of Refuse Collection Vehicles Steering Committee

CORPORATE GOVERNANCE

Baguio is committed to sound corporate governance practices. The Board is committed to achieving high standards of corporate governance to safeguard the interests of the Group's shareholders and to enhance corporate value and accountability. For the year ended 31 December 2016, the Group has applied the principles and complied with the applicable code provisions of 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.

The Board currently comprises a total of nine members, with six executive directors, and three independent non-executive directors. For full details of all the Board committees, including various responsibilities, please refer to our Corporate Governance Report from page 26 to 36 of this annual report.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

SUSTAINABILITY FRAMEWORK AND APPROACH

Sustainability is the foundation of our corporate culture. We believe sustainability is good for those around us and therefore good for our business. The Group has been striving to embed environmental and socio-economic considerations into our decision-making processes and management approach. From the Board to our frontline employees — everyone has the responsibility to support our sustainability vision across our business. Our ESG functions are managed by various departments and committees, including the Department of Safety, Health, Environment and Quality (“SHEQ”) and the working group for CSR. All of which report to our CEO, who oversees the ESG matters.

Our sustainability framework, consist of five core elements, namely staff, business performance, corporate governance, environment and community.

| Sustainability Framework | Goal |
|--|--|
| Staff The strength of Baguio is rooted in our culture of serving people first as a core value. We work hard to develop, and retain the best people in our Group. | <ul style="list-style-type: none">• Strive for minimizing the injuries in all our workplace• Support a healthy workforce• Develop committed and motivated employee |
| Business Performance The continuous improvement and growth in our business performance are the greatest returns to our investors and shareholders. | <ul style="list-style-type: none">• Create long-term shareholder value• Adapt proactively to a changing business environment• Enhance individual and organization capability• Meet or exceed customer expectations• Operate our business ethically |
| Corporate Governance A strong and transparent corporate governance framework is essential for the long-term success link. | <ul style="list-style-type: none">• Compliance to laws and regulations• Effective risk management and internal control |
| Environment The efficient use of resources and waste management will continue to be a major component of our cost management and environmental protection strategies. | <ul style="list-style-type: none">• Strive for minimizing the carbon emissions• Move towards a more sustainable rate of resource use• Promote waste segregation to increase the recycle rate of Hong Kong |
| Community As a good and responsible corporate citizen, we are connecting our business success and community success in ways that we seize opportunities to meet societal needs via a sustainable business model. | <ul style="list-style-type: none">• Proactively support environmental education• Continuously give back to community by donation and participation in community and social responsibility activities |

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

STAKEHOLDER ENGAGEMENT

We believe that stakeholder engagement helps us in better understanding the needs and concerns of all our key stakeholders, which in turn contributes in assessing the material sustainable goals of our business.

The Group has been engaging stakeholders in understanding and caring for their needs through various channels. Below are the communications channels and the ESG topics material to stakeholders.

| Stakeholder | Issue | Engagement Channels |
|----------------------------|--|--|
| Investors and shareholders | <ul style="list-style-type: none"> • Corporate governance • Operational risk • Business operation • Disclosure | <ul style="list-style-type: none"> • Investor conferences and roadshows • Annual general meeting • Financial reports and press releases • ESG report |
| Employees | <ul style="list-style-type: none"> • Training and development • Remuneration • Occupational health and safety | <ul style="list-style-type: none"> • Corporate activities and events • Employee grievance mechanism • Feedback of training workshops • Education and support |
| The Government | <ul style="list-style-type: none"> • Legal compliance and corporate governance • Labour protection • Business ethics | <ul style="list-style-type: none"> • Compliance with laws and regulations • Active response to government policy • Ongoing communication with relevant government departments |
| Customers | <ul style="list-style-type: none"> • Service quality | <ul style="list-style-type: none"> • Customer surveys • Maintain high service level • Websites • Feedback from front-line employees |
| Community | <ul style="list-style-type: none"> • Helping people in need | <ul style="list-style-type: none"> • Support charity organizations • Participate in voluntary work |
| Suppliers | <ul style="list-style-type: none"> • Corporate reputation • Responsible sourcing | <ul style="list-style-type: none"> • Site visits and assessments • Interviews and appraisals |

MATERIALITY ASSESSMENT

To ensure prompt and proper management of key sustainability issues, our Group has compiled and prioritized material aspects relating to business operations. Material aspects are those that reflect the organization’s significant economic, environmental and social impacts; or that substantially influence the assessments and decisions of our stakeholders. These priorities allow us to uphold our commitment to our stakeholders while managing the impact we have on society and the environment.

In 2016, we conducted a survey among internal stakeholders to gauge the impact of how our operations have influenced the stakeholder and how stakeholders exert impact on our sustainability. Top priority issues were identified from the survey results. Consequently, “Occupational Health and Safety”, “Material Consumption”, “Talent Sourcing & Retention”, “Employee Training” and “Service Quality” were identified as material aspects of the Group.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

MANAGING OUR ENVIRONMENTAL IMPACT

Environment

As an environmental protection enterprise, we are committed to increase the efficiency of resources utilization and enhance environmental performance. We are focusing on efficient operation in our own and our clients' facilities to effectively manage our environmental impact. In 2016, the Group complied with all relevant environmental laws and regulations. Our SHEQ department is responsible for regularly reviewing all environmental and safety policies. Policies and measures on resource efficiency and waste management were strengthened and implemented this year as we aim to achieve sustainable improvement in reducing the environmental impact associated with our services.

“As an environmental protection enterprise, we are committed to increase the efficiency of resources utilization and enhance environmental performance. We are focusing on efficient operation in our own and our clients' facilities to effectively manage our environmental impact.”

Resource Consumption

We understand that the use of vehicles has a direct impact to the environment and is one of our primary concerns. During the Year, our fleet of vehicles is comprised over 300 vehicles of different types for operation use, and therefore a considerable amount of fuel was consumed. In 2016, other than regular training, the Group enhanced a Vehicle Repair and Management Guideline for efficient vehicle maintenance. The schedule for checkups and maintenance is systematically monitored to maintain the optimal condition of our vehicles, optimizing the efficiency of fuel consumption. The overall consumption generally declined compared to 2015. During the Year, fuel usage was at around 2.7 million liters, showing a 9% decrease in fuel consumption compared to last year.

Other major resources consumed in our operation include electricity, fuel, water and paper. Compared to 2015, the usage of all such resources except electricity fell during the Year. Thanks to our stringent water saving initiative, the Group's water usage was reduced by 9% to 2,915 m³. With the installation of a smart printing system during the Year, our paper usage was reduced significantly by 22% to 4,395 reams.

| Resource Consumption | Unit | 2016 | 2015 | Change |
|-------------------------|----------------|-------------|-------------|--------|
| Electricity consumption | kWh | 448,313.0 | 438,039.0 | +2% |
| Fuel Usage | Litre | 2,657,570.0 | 2,910,217.4 | (9%) |
| Water Consumption | m ³ | 2,915.0 | 3,207.9 | (9%) |
| Paper Consumption | Ream | 4,395.0 | 5,612.0 | (22%) |

Following the improvement in fleet management, the drop in fuel usage also mitigated our carbon emissions. In 2016, our total carbon emissions fell by 7% to 7,302 tCO₂e.

| Carbon Emissions | Unit | 2016 | 2015 | Change |
|------------------------------|--------------------|---------|---------|--------|
| Direct (Scope 1) emissions | tCO ₂ e | 7,059.8 | 7,594.8 | (7%) |
| Indirect (Scope 2) emissions | tCO ₂ e | 242.1 | 276.0 | (12%) |
| Total Carbon Emissions | tCO ₂ e | 7,301.9 | 7,870.8 | (7%) |

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Striving for Improved Resource Efficiency

We strive to achieve targets in resource efficiency through various initiatives such as energy saving, green procurement, and recycling and reuse projects. In 2016, the group resolved to replace all lightings in office to LED tubes. The installation shall be entirely completed by the first half of 2017. By the time, we estimate to achieve a monthly reduction of 3,900 kWh of energy, a monthly saving of HK\$4,400 electricity cost and an annual reduction of approximately 23.3 tCO₂e carbon emission.

In the coming years, we will reach our targets in reduced energy consumption through more targeted energy saving initiatives such as setting up guidelines for the use of electricity at the office premises. Paper consumption is also expected to be reduced as we continue to encourage our employees to adopt environmentally responsible habits by using recycled paper and printing on both sides for all office operations.

Training is organized regularly to ensure the continual awareness of resource efficiency objectives and targets. Relevant environmental awareness messages are continuously promoted to all levels of staff, such as paper saving tips, daily water-saving tips, methods for disposal of pesticides and sewage treatment, etc.

Waste Management

We emphasize the importance of resource recycling following proper waste management and with an aim to measure and manage how we dispose of waste from our office premise, the Group formulated a waste discharge policy for waste generated in 2016. We recorded a total of 4,892 kg of non-hazardous waste, of which over 70% was paper waste.

Sustainable Procurement

As per our supply chain policy, we intend to minimize the environmental impact of our activities while maintaining the principle of cost-effectiveness. Sub-contractors and suppliers are appointed from an approved list which is reviewed annually. Placement on the list is subject to performance of the supplier concerning product quality as well as environmental commitment. For the bags we purchased, over 55% were bio-degradable. The Group strives to raise the proportion of environmental-friendly bags, pesticides and chemicals used.

As a member of Green Purchasing Charter with the Green Council, we are committed to Green Procurement. In procurement of products for operational use, we select sustainable products that have attained certified environmental friendly labels such as Energy Star, Green Seal, or those with recycled and recyclable content, minimal packaging, and neutral chemicals. We promote the use of reusable and non-toxic products such as chemicals and water-based solvents for our environmental services. When purchasing a large quantity of products, we adhere to the principle of waste reduction, and avoid bulky, wasteful packaging.

Promoting Waste Management in Hong Kong

We promote separation of waste at the source to recover the maximum amount of valuable materials. The Group owns and operates a recycling plant of 35,000 sq. ft. in Fanling. We offered total waste management solution to our customers with waste collection and sorting of recyclables to decrease the amount of unsorted waste filling up our landfills. In 2016, the Group became a Registered Waste Collector and Recycler administered by Hong Kong Quality Assurance Agency. The Group has also owned the “Chemical Waste Collection License” and “Clinical Waste Collectors License” since 2014 from the Environmental Protection Department.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

We maintain a diverse pool of suppliers for provision of different services. Suppliers and sub-contractors are required to comply with governance related regulations such as anti-bribery, anti-corruption, etc. Employees dealing with suppliers and contractors are required to declare any conflict of interest. Communication avenues have been set up for employees to confidentially raise concerns about suspected misconduct, malpractice or impropriety.

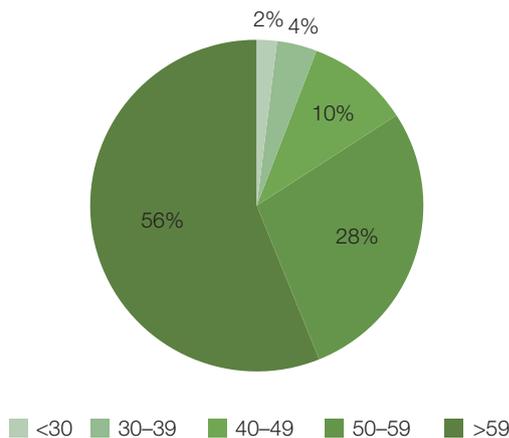
CARING FOR PEOPLE AND COMMUNITY

Employment

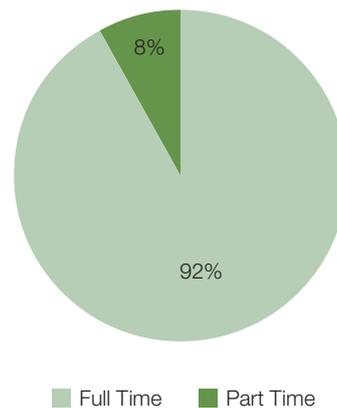
Employees are the most important assets and the key driving force of our sustainable performance. As of 31 December 2016, the Group employed 7,967 staff. Our employment process complies with the policies and laws in Hong Kong related to employment, compensation, benefits, dismissal, working hours, and rest periods. All our employees are treated fairly with equal opportunity regardless of their race, gender, family status, marital status, pregnancy and disability. During 2016, the Group's turnover rate was approximately 3.67%. The workforce profile is presented in the graphs below.

"The Group is committed to keeping its employees safe, and its customers free of the impacts of health and safety risks. We strive to contribute to society by implementing and promoting waste recycling."

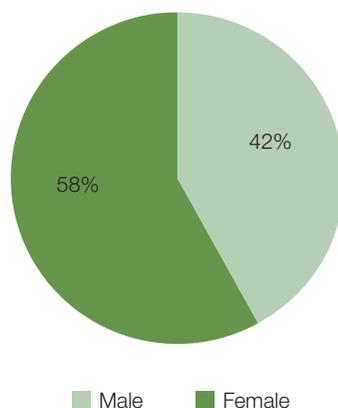
Age Profile



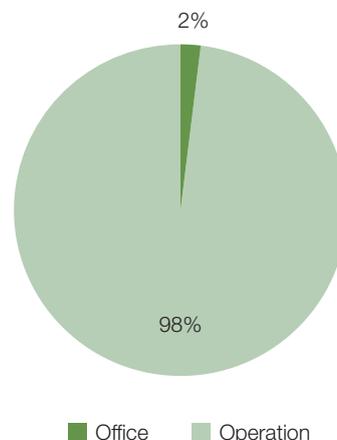
Employee Profile



Gender Profile



Workforce Profile



ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Office Staff Education Background



We understand that it is important to embrace our employees in improving our management systems. To encourage employees to reflect their opinion and complaints about the company's management policies and working environment, during the Year, we enhanced and refined our speak-up policy by launching a committee specifically for processing the opinions and complaints reflected. The committee obligates to process the cases in a highly confidential, fair and just manner, while serious complaints that violated the law will be directed to relevant government departments.

Recreational Activities in 2016

The Group organised a range of recreational activities during the Year including birthday parties, guessing lantern riddles for Lantern Festival, annual dinner, site tour visits, OHS Quiz, dinner feast with mahjong contest and beer drinking contest and Christmas party, encouraging balance of life and enhancing communication for our employees.



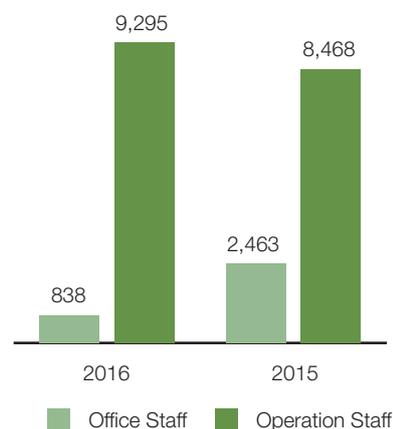
ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Training and Development

Training and development has become a priority to mitigate labour shortages from a business planning perspective. We encourage our staff to progress and improve their performance by offering skill training and development opportunities in areas such as customer service, safety driving, business writing, operation training, orientation, as well as information technology security. In 2016, other than on sites training, the total training hours of our employees were 10,133 hours.

Continuous education is one of the ways to maintain the competitiveness of employees in the industry. The Group is committed in providing our employees resources and opportunities. In 2016, we have established a career ladder policy, which equipped our employees with necessary knowledge and skills set, so that they can have clear career goals to progress within the company.

Total Training Hours



Put Safety First

The Group is committed to keeping its employees safe, and its customers free of the impacts of health and safety risks. We truly care about our employees' well-being. Our primary focus areas in workplace safety include working procedures, working at height, occupational road risk, and machinery safety. Work-related health and safety performance is overseen by the SHEQ department in the Group. While the Group's health and safety policies comply with relevant statutory requirements, our safety management system is accredited to the leading international standard of OHSAS 18001. The SHEQ department is also responsible for monitoring the safety and health of the contractual requirement. All staff members are required to be familiar with and follow our Occupational Health Safety and Environmental Guidelines on workplace safety.

Attributed to our persistent effort, the safety performance in 2016 improved compared with that of the previous year. The overall "Lost Time Injury Frequency Rate" (LTIFR) of the Group fell to 1.32 in 2016 from 1.59 in 2015. The total number of accidental injuries decreased by 26% to 314. Consequently, the total number of lost days dropped to 10,246, or an 18% reduction compared to 2015. The Group is also pleased to continue to have zero work-related death incidents during the Year.

| Safety Performance | 2016 | 2015 | Change |
|---------------------------------------|-----------------|----------|--------|
| Total no. of accidental injuries | 314.0 | 422.0 | (26%) |
| No. of days lost due to work injuries | 10,246.0 | 12,540.0 | (18%) |

During the Year, a total of 5,635 safety training hours were completed by office and operational staff for safety training. Specialized safety training programs such as "Chemical Safety Training" and "Safe disposal of clinical waste" were also conducted, in particular, for frontline staff.

From the start of 2016, vehicle management is performed on a regular basis by the Fleet Management Department. A Vehicle Repair and Management Guideline was also enhanced to ensure scheduled checkups and maintenance is systematically monitored to preserve the optimal conditions of our vehicles.

Our Occupational Health & Safety and Environmental Guidelines have also been put in place to provide information regarding safety precautions to be observed while conducting work. For example, use of personal protective equipment such as proper gloves, safety goggles, masks, use of appropriate tools for picking up garbage, proper use of chemicals as per standards etc., to reduce accidental injuries. Safety rules are translated into various native languages to cater to the different language needs of our employees, and regular updates on health and safety issues are distributed by SHEQ. The Group has incorporated safety management awareness in every stage of our operation. We also introduce our safety culture and policies to our contractors and partners as part of the terms in agreement.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Give back to our Community

The Group believes that corporate social responsibility is the backbone of corporate values, and continues to dedicate time and effort to give back to the local community. For the six consecutive years, we have been named as a “Caring Company” by The Hong Kong Council of Social Service in recognition of our contributions to support community building, environmental conservation, and people development.

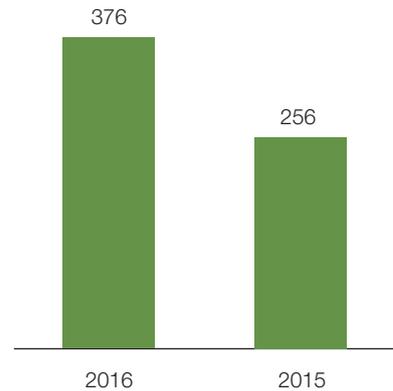
In 2016, we dedicated 376 hours to CSR activities to give back to the community, recording a 47% increase compared to 2015.

In addition, as a leading integrated environmental services provider, we realize we have the broader responsibility of raising public awareness to waste management issues. We strive to contribute to society by implementing and promoting waste recycling.

Help save the planet

Every day, there are over 500 million plastic bottles being disposed in Hong Kong, which are seriously affecting our environment. In addition, the problem of single-use plastic water bottles have long troubled environmentalists. Plastic products degrade slowly and contain chemicals which would be released into the atmosphere. Leading enterprises in the industry are now looking at ways in which they can reverse this trend or at least reduce the amount of plastic that gets thrown away. During the year, A.S. Watson Group launched the “Plastic Container Recycling Programme” Collecting empty plastic bottles from over 200 Watsons stores in Hong Kong and Baguio had been appointed to be its recycling partner to handle the recyclables for free to stop plastics from being disposed of at the landfills. For the interest of our stakeholder, we are striving our best effort to help save the planet.

Volunteering Hours



ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Environmental education and support

In order to let the public to understand more about the recycling industry in Hong Kong and to encourage environmental protection in the society, we actively utilized our existing resources to promote environmental education by opening our recycling plant in Fanling regularly for government officials, community organizations, investors, media and students to visit. We believe that this kind of activities does not only strengthened the awareness of public for the importance of waste management and collection of recycles. It also enhances the transparency and improve the interaction with stakeholders, and cultivate the interest of young generations in pursuing green career. During the year, more than 40 corporations and 200 persons have visited our recycling plant.



Oxfam Trailwalker 2016

Baguio Group participated in the Oxfam Trailwalker in Nov 2016, which supports Oxfam's poverty alleviation and emergency relief projects in various locations around the world. Other than the Baguio Trailwalker team, the whole Baguio Group supported the trailwalker team and donated over HK\$70,000 to Oxfam. Some of the employees supported our trailwalkers by accompanying them to walk along the journey. It enhanced the team spirit amongst employees and raised awareness of caring for the community.



ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Other than above activities, our CSR working group also encourages employees to participate into environmental protection initiatives and also supports different programs that help to raise awareness about social issues in Hong Kong.

In 2016, we joined or organised major activities including Red Packet Recycling and Reuse Program, Hong Kong Green Day – Green Run, Hong Kong Green Walk, etc. Some of our campaigns are highlighted here.

Beach Cleanup

The Group strives to contribute in creating a clean environment in Hong Kong. In March 2016, we organized a beach cleanup event at Lung Kwu Tan, so as to raise the awareness of proper usage of recreational places. Our employees restored the beautiful view of Lung Kwu Tan by collecting wastes that was disposed at the beach.



Hong Kong Green Day

Baguio Group joined the “Hong Kong Green Day” program in June 2016, aiming to promote environmental protection awareness among communities and encourage waste reduction and recycling.

During the program, we took actual actions to contribute to the community — a set of 3-colored recycling bins and a 600ml cart were provided by our Group for the Green Day Program. 650 plants were also distributed as participation gifts during the program to raise the awareness of nature and greenness.



Tree To Cottage

In June 2016, Baguio and New Home Association co-organized the “Tree Top Cottage” project. Participating children and volunteers joined some environmental protection workshops such as recycle paper and leave vein bookmark production. The activities gave children the opportunity to interact with nature.



ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Summary of Community Activities in 2016

| Day/Month | Organization | Activity | Volunteer Hours |
|-----------------------|---|--|-----------------|
| Feb | Greener Action | Red Packet Reuse & Recycle Program | 8 |
| 19 Mar | Baguio Green Group Limited | Beach Cleanup | 100 |
| 4 Jun | Green Council | Hong Kong Green Day – Green running | 12 |
| 11 Jun | New Home Association | Tree Top Activity | 128 |
| 15 Jul | Green Council | Guest speaker for HK Green Award Experience Sharing Seminar | 6 |
| 1 Aug | World Green Organization | Guest Speaker for Green Office Award Experience Sharing Seminar | 6 |
| 24 Sep | Kwai Tsing Safe Community and Healthy City Association | Elder Visit | 80 |
| 15 Oct | World Green Organization | Green Walk HK 2016 | 8 |
| 3 Dec | Kwai Tsing Safe Community and Healthy City Association | Elder Health Checkpoint | 28 |
| Total Volunteer Hours | | | 376 |

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Performance Data Summary

| Category | Data | Unit | 2016 | 2015 |
|--|--|--------------------|--------------------|-------------|
| Workforce | Head Count as at Year End | | | |
| | Full time | Person | 7,315 | 7,698 |
| | Part time | Person | 652 | 960 |
| | Total | Person | 7,967 | 8,658 |
| | By Professional Profile | | | |
| | Office Staff | Person | 152 | 147 |
| | Operations Staff | Person | 7,815 | 8,511 |
| | By Age (Full time only) | | | |
| | <30 | Person | 193 | 216 |
| | 30–39 | Person | 335 | 396 |
| | 40–49 | Person | 798 | 1,006 |
| | 50–59 | Person | 2,210 | 2,571 |
| | >59 | Person | 4,431 | 4,469 |
| | By Gender (Full time only) | | | |
| | Male | Person | 3,333 | 3,538 |
| | Female | Person | 4,634 | 5,120 |
| | Turnover rate | % | 3.67 | N/A |
| | Employee Training by Employment Type | | | |
| | Office Staff | Hour | 838 | 2,463 |
| Operations Staff | Hour | 9,295 | 8,468 | |
| Total | Hour | 10,133 | 10,931 | |
| Health and Safety | Occupational Health and Safety Performance | | | |
| | Lost Days Due to Work-related Injury | Day | 10,246 | 12,540 |
| | Work-related Accidents | Number | 314 | 422 |
| | Work-related Accident Rate | % | 1.32 | 1.59 |
| | Work-related Fatalities | Number | – | – |
| Environment | Total Resource Consumption | | | |
| | Electricity | kWh | 448,313.0 | 438,039.0 |
| | Fuel | Litre | 2,657,570.0 | 2,910,217.4 |
| | Water | m ³ | 2,915.0 | 3,207.9 |
| | Paper | Ream | 4,395.0 | 5,612.0 |
| | Non-biodegradable Plastic Bags | Bag | 4,393,927 | N/A |
| | Bio-degradable Plastic Bags | Bag | 5,453,020 | N/A |
| | Total Bags | Bag | 9,846,947 | N/A |
| | Greenhouse Gases Emissions | | | |
| | Scope I | tCO ₂ e | 7,059.8 | 7,594.8 |
| | Scope II | tCO ₂ e | 242.1 | 276.0 |
| | Total Emissions | tCO ₂ e | 7,301.9 | 7,870.8 |
| | Hazardous Waste (from office only) | Litre | 767 | N/A |
| Non-Hazardous Waste (from office only) | kg | 4,892 | N/A | |

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

ESG CONTENT INDEX

| KPIs | HKEx ESG Reporting Guide Requirements | Section/Remarks |
|-------------------------|--|---|
| A. Environmental | | |
| Aspect A1 | Emissions | |
| General disclosure | Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to air and greenhouse gas emissions, discharges into water and land, and generation of hazardous and non-hazardous waste | Waste Management |
| KPI A1.1 | The types of emissions and respective emissions data. | Resource Consumption |
| KPI A1.2 | Greenhouse gas emissions in total (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility). | Resource Consumption |
| KPI A1.3 | Total hazardous waste produced (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility). | Waste Management |
| KPI A1.4 | Total non-hazardous waste produced (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility). | Waste Management |
| KPI A1.5 | Description of measures to mitigate emissions and results achieved. | Strive for Improved Resource Efficiency |
| KPI A1.6 | Description of how hazardous and non-hazardous wastes are handled, reduction initiatives and results achieved. | Waste Management |
| Aspect A2 | Use of resources | |
| General disclosure | Policies on efficient use of resources including energy, water and other raw materials. | Strive for Improved Resource Efficiency |
| KPI A2.1 | Direct and/or indirect energy consumption by type (e.g. electricity, gas or oil) in total (kWh in '000s) and intensity (e.g. per unit of production volume, per facility). | Strive for Improved Resource Efficiency |
| KPI A2.2 | Water consumption in total and intensity (e.g. per unit of production volume, per facility). | Strive for Improved Resource Efficiency |
| KPI A2.3 | Description of energy use, efficiency initiatives, and results achieved. | Strive for Improved Resource Efficiency |
| KPI A2.4 | Description of whether there is any issue in sourcing water that is fit for purpose, water efficiency initiatives and results achieved. | Strive for Improved Resource Efficiency |
| KPI A2.5 | Total packaging material used for finished products (in tonnes) and, if applicable, with reference to per unit produced. | N/A |
| Aspect A3 | The environment and natural resources | |
| General disclosure | Policies on minimizing the issuers' significant impact on the environment and natural resources. | Resource Consumption/ Strive for Improved Resource Efficiency/ Sustainable Procurement |
| KPI A3.1 | Description of the significant impacts of activities on the environment and natural resources and the actions taken to manage them. | Resource Consumption/ Strive for Improved Resource Efficiency/ Sustainable Procurement |

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

| KPIs | HKEx ESG Reporting Guide Requirements | Section/Remarks |
|---------------------------------|---|--|
| B. Social | | |
| Aspect B1 | | |
| Working conditions | | |
| General disclosure | Information on: (a) policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination and other benefits and welfare | Caring For People and Community |
| KPI B1.1 | Total workforce by employment type, age group and geographical region. | Employment |
| KPI B1.2 | Employee turnover rate by age group and geographical region. | Employment |
| Aspect B2 | | |
| Health and safety | | |
| General disclosure | Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to providing a safe working environment and protecting employees from occupational hazards. | Put Safety First |
| KPI B2.1 | Number and rate of work related fatalities. | Put Safety First |
| KPI B2.2 | Lost days due to work injury. | Put Safety First |
| KPI B2.3 | Description of occupational health and safety measures adopted and how they are implemented and monitored. | Put Safety First |
| Aspect B3 | | |
| Development and training | | |
| General disclosure | Policies on improving employee's knowledge and skills for discharging duties at work. Description of training activities. | Training and Development |
| KPI B3.1 | Description of training activities provided and if relevant, the percentage of employees trained by employee category (e.g. senior management, middle management etc.). | Training and Development |
| KPI B3.2 | The average training hours completed per employee by employee category. | Caring For People and Community |
| Aspect B4 | | |
| Labour standards | | |
| General disclosure | Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to preventing child and forced labour. | Employment |
| KPI B4.1 | Description of measures to review employment practices to avoid child and forced labour. | Employment |
| KPI B4.2 | Description of steps taken to eliminate such practices when discovered. | Employment |
| Aspect B5 | | |
| Supply chain management | | |
| General disclosure | Policies on managing environmental and social risks of the supply chain. | Sustainable Procurement |
| KPI B5.1 | Number of suppliers by geographical region. | The majority of suppliers are from Hong Kong |
| KPI B5.2 | Description of practices relating to engaging suppliers, number of suppliers where the practices are being implemented, how they are implemented and monitored. | Sustainable Procurement |

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

| KPIs | HKEx ESG Reporting Guide Requirements | Section/Remarks |
|--------------------|---|--|
| Aspect B6 | Product responsibility | |
| General disclosure | Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to health and safety, advertising, labelling and privacy matters relating to products and services provided and methods of redress. | The Group complied with all applicable laws and regulations in 2016 |
| KPI B6.1 | Percentage of total products sold or shipped subject to recalls for safety and health reasons. | None during 2016 |
| KPI B6.2 | Number of products and service related complaints received and how they are dealt with. | No significant complaints received during 2016 |
| KPI B6.3 | Description of practices relating to observing and protecting intellectual property rights. | The Group observes intellectual property law |
| KPI B6.4 | Description of quality assurance process and recall procedures. | Training and Development/ Put Safety First |
| KPI B6.5 | Description of consumer data protection and privacy policies, how they are implemented and monitored. | The Group adopts stringent security control on data protection |
| Aspect B7 | Anti-Corruption | |
| General disclosure | Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to bribery, extortion, fraud and money laundering | Policy related to anti-corruption, anti-bid rigging and provision of benefits is clearly described in the Group's staff handbook |
| KPI B7.1 | Number of concluded legal cases regarding corrupt practices brought against the issuer or its employees during the reporting period and the outcomes of the cases. | None during 2016 |
| KPI B7.2 | Description of preventive measures and whistle-blowing procedures, how they are implemented and monitored. | The Group maintains a speak up policy |
| Aspect B8 | Community investment | |
| General disclosure | Policies on community engagement to understand the needs of the communities where the issuer operates and to ensure its activities take into consideration the communities' interests. | Give back to our Community |
| KPI B8.1 | Focus areas of community contribution such as education, environmental concerns, labour needs, health, culture, and sports. | Give back to our Community |
| KPI B8.2 | Resources contributed (e.g. money or time) to the focus area. | Give back to our Community |

INDEPENDENT AUDITOR'S REPORT



Independent auditor's report to the shareholders of Baguio Green Group Limited

(incorporated in the Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of Baguio Green Group Limited ("the Company") and its subsidiaries ("the Group") set out on pages 62 to 111, which comprise the consolidated statement of financial position as at 31 December 2016, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2016 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSA") issued by the HKICPA. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants ("the Code") together with any ethical requirements that are relevant to our audit of the consolidated financial statements in the Cayman Islands, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

INDEPENDENT AUDITOR'S REPORT

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

| Timing of revenue recognition | |
|---|---|
| Refer to note 8 to the consolidated financial statements and the accounting policies on page 68. | |
| The Key Audit Matter | How the matter was addressed in our audit |
| <p>Revenue from provision of professional cleaning, landscaping, pest management, waste management and recycling services is recognised when the services are rendered, with reference to the contractual terms and completion of the specific transaction assessed on the basis of the actual extent of services provided as at the reporting date as a proportion of the total services to be provided under the terms of the service contract.</p> <p>The Group enters into significant volume of service contracts with a wide range of customers. The extent of services may subsequently be altered upon request from customers.</p> <p>We identified the timing of revenue recognition as a key audit matter because revenue is one of the key performance indicators of the Group and could be subject to risk of manipulation to meet specific targets or expectations and because subsequent alterations to the services to be provided under service contracts increases the risk of error in the timing of revenue recognition.</p> | <p>Our audit procedures to assess the timing of revenue recognition included the following:</p> <ul style="list-style-type: none"> obtaining an understanding of and assessing the design, implementation and operating effectiveness of management's key internal controls in relation to revenue recognition; inspecting key customer contracts to identify terms and conditions relating to the provision of services and assessing the Group's revenue recognition policies with reference to the requirements of the prevailing accounting standards; forming expectation on the amount of revenue to be recognised for the year in respect of key customer contracts based on the terms and service periods stipulated in the contracts and comparing our expectations with the revenue recorded by the Group for the year; inspecting correspondence with customers in relation to requests to alter the services in service contracts, on a sample basis, and assessing whether the related service revenue was recognised in accordance with the agreed altered terms and the Group's revenue recognition policies; comparing, on a sample basis, specific revenue transactions recorded before and after the financial year end date with underlying documentation, including service contracts and service records, to determine whether the related revenue had been recognised in the appropriate financial period; inspecting underlying documentation for manual journal entries relating to revenue which were raised during the year which were considered to be material or met other specific risk-based criteria. |

INDEPENDENT AUDITOR'S REPORT

| Accruals for staff costs | |
|---|--|
| Refer to note 27 to the consolidated financial statements and the accounting policies on page 70. | |
| The Key Audit Matter | How the matter was addressed in our audit |
| <p>The Group's staff costs comprise salaries and other staff benefits, including untaken paid leave, long service payments and retirement scheme contributions.</p> <p>The Group has a large number of staff, the costs of which account for a very substantial portion of the Group's total expenses. The Group experiences high staff turnover, especially when new service contracts are awarded or existing service contracts expire without renewal.</p> <p>We identified accruals for staff costs as a key audit matter because the Group's business model is labour-intensive and staff costs are critical to the Group's performance and because given the large number and high turnover of the Group's staff, there is a risk that staff costs are incorrectly calculated and/or under/over-accrued at the end of the reporting period.</p> | <p>Our audit procedures to assess accruals for staff costs included the following:</p> <ul style="list-style-type: none"> • obtaining an understanding of and assessing the design, implementation and operating effectiveness of management's key internal controls relating to accruals for staff costs; • performing analytical procedures on the Group's salary expenses, which included forming an expectation of the current year's salaries and comparing our expectations with actual amounts recorded by the Group and investigating any significant differences identified; • re-calculating accruals for staff benefits, other than salaries, on a sample basis, and comparing the assumptions adopted in the calculations with relevant records maintained by the Human Resources Department; • comparing actual payments during the current year with the accruals for staff costs at the last reporting date to assess the accuracy of management's estimating process; • comparing actual payments subsequent to the reporting date with the amount of staff costs accrued at the reporting date to assess whether there were any significant under/over-accrued balances. |

INDEPENDENT AUDITOR'S REPORT

INFORMATION OTHER THAN THE CONSOLIDATED FINANCIAL STATEMENTS AND AUDITOR'S REPORT THEREON

The directors are responsible for the other information. The other information comprises all the information included in the annual report, other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the disclosure requirements of the Hong Kong Companies Ordinance and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The directors are assisted by the Audit Committee in discharging their responsibilities for overseeing the Group's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. This report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with HKSAAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

INDEPENDENT AUDITOR'S REPORT

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence and, where applicable, related safeguards.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Yip Ka Ming, Alice.

KPMG

Certified Public Accountants
8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

30 March 2017

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2016

(Expressed in Hong Kong Dollars)

| | Note | 2016 HK\$'000 | 2015 HK\$'000 |
|---|------|------------------|------------------|
| Revenue | 8 | 1,094,788 | 1,224,887 |
| Cost of services | | (999,234) | (1,129,974) |
| Gross profit | | 95,554 | 94,913 |
| Other income | 9 | 3,933 | 4,646 |
| Change in fair value less costs to sell of biological assets | 24 | 1,729 | 948 |
| Selling and marketing expenses | | (2,025) | (2,458) |
| Administrative expenses | | (63,092) | (61,766) |
| Profit from operations | | 36,099 | 36,283 |
| Finance costs | 10 | (5,340) | (7,552) |
| Profit before taxation | 11 | 30,759 | 28,731 |
| Income tax | 12 | (5,748) | (4,645) |
| Profit for the year attributable to equity shareholders of the Company | | 25,011 | 24,086 |
| Other comprehensive income: | | | |
| Items that may be reclassified subsequently to profit or loss, net of nil tax; | | | |
| Exchange differences on translation of financial statements of subsidiaries | | (120) | – |
| Change in fair value of available-for-sale financial assets | 19 | 345 | 402 |
| Other comprehensive income | | 225 | 402 |
| Total comprehensive income for the year attributable to equity shareholders of the Company | | 25,236 | 24,488 |
| Earnings per share | | | |
| Basic and diluted (HK\$) | 14 | 0.06 | 0.06 |

The notes on pages 66 to 111 form part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2016
(Expressed in Hong Kong Dollars)

| | Note | 2016 HK\$'000 | 2015 HK\$'000 |
|--|------|------------------|------------------|
| Non-current assets | | | |
| Property, plant and equipment | 16 | 156,628 | 161,734 |
| Interest in associate | 18 | 150 | – |
| Available-for-sale financial assets | 19 | 13,286 | 12,941 |
| Pledged bank deposits | 20 | – | 5,137 |
| | | 170,064 | 179,812 |
| Current assets | | | |
| Inventories | 21 | 4,942 | 4,955 |
| Trade receivables | 22 | 251,905 | 269,620 |
| Prepayments, deposits and other receivables | 23 | 21,521 | 13,147 |
| Biological assets | 24 | 9,700 | 6,820 |
| Tax recoverable | | – | 20 |
| Pledged bank deposits | 20 | 5,140 | – |
| Cash and cash equivalents | 25 | 55,735 | 90,346 |
| | | 348,943 | 384,908 |
| Current liabilities | | | |
| Trade payables | 26 | 26,979 | 23,654 |
| Accruals, deposits received and other payables | 27 | 114,473 | 120,810 |
| Bank borrowings | 28 | 82,499 | 126,177 |
| Obligations under finance leases | 29 | 21,601 | 23,726 |
| Tax payable | | 1,471 | 2,017 |
| | | 247,023 | 296,384 |
| Net current assets | | 101,920 | 88,524 |
| Total assets less current liabilities | | 271,984 | 268,336 |
| Non-current liabilities | | | |
| Bank borrowings | 28 | – | 9,204 |
| Obligations under finance leases | 29 | 35,306 | 42,440 |
| Deferred tax liabilities | 30 | 10,507 | 9,688 |
| | | 45,813 | 61,332 |
| Net assets | | 226,171 | 207,004 |
| Capital and reserves | | | |
| Share capital | 31 | 4,150 | 4,150 |
| Reserves | 32 | 222,021 | 202,854 |
| Total equity | | 226,171 | 207,004 |

Approved by the Board of Directors on 30 March 2017 and signed on its behalf by:

Ng Wing Hong
Director

Ng Yuk Kwan Phyllis
Director

The notes on pages 66 to 111 form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2016
(Expressed in Hong Kong Dollars)

| | Share capital HK\$'000 | Share premium HK\$'000 | Other reserve HK\$'000 | Available- for-sale financial assets revaluation reserve HK\$'000 | Share option reserve HK\$'000 | Translation reserve HK\$'000 | Retained earnings HK\$'000 | Total HK\$'000 |
|---|---------------------------|---------------------------|---------------------------|---|--|------------------------------------|----------------------------------|-------------------|
| At 1 January 2015 | 4,150 | 100,850 | 18,330 | (1,140) | - | - | 65,511 | 187,701 |
| Profit for the year | - | - | - | - | - | - | 24,086 | 24,086 |
| Other comprehensive income for the year | - | - | - | 402 | - | - | - | 402 |
| Total comprehensive income for the year | - | - | - | 402 | - | - | 24,086 | 24,488 |
| Dividends approved in respect of the previous year (Note 13(b)) | - | - | - | - | - | - | (5,395) | (5,395) |
| Equity-settled share-based payments | - | - | - | - | 210 | - | - | 210 |
| At 31 December 2015 | 4,150 | 100,850 | 18,330 | (738) | 210 | - | 84,202 | 207,004 |
| At 1 January 2016 | 4,150 | 100,850 | 18,330 | (738) | 210 | - | 84,202 | 207,004 |
| Profit for the year | - | - | - | - | - | - | 25,011 | 25,011 |
| Other comprehensive income for the year | - | - | - | 345 | - | (120) | - | 225 |
| Total comprehensive income for the year | - | - | - | 345 | - | (120) | 25,011 | 25,236 |
| Dividends approved in respect of the previous year (Note 13(b)) | - | - | - | - | - | - | (7,055) | (7,055) |
| Equity-settled share-based payments | - | - | - | - | 986 | - | - | 986 |
| At 31 December 2016 | 4,150 | 100,850 | 18,330 | (393) | 1,196 | (120) | 102,158 | 226,171 |

The notes on pages 66 to 111 form part of these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2016
(Expressed in Hong Kong Dollars)

| | Note | 2016 HK\$'000 | 2015 HK\$'000 |
|---|------|------------------|------------------|
| Operating activities | | | |
| Profit before taxation | | 30,759 | 28,731 |
| Adjustments for: | | | |
| Depreciation on property, plant and equipment | 16 | 23,579 | 24,561 |
| Loss on disposal of property, plant and equipment | 11 | 701 | 1,409 |
| Equity-settled share-based payments | 11 | 986 | 210 |
| Change in fair value less costs to sell of biological assets | 24 | (1,729) | 948 |
| Interest income | 9 | (136) | (10) |
| Finance costs | 10 | 5,340 | 7,552 |
| Changes in working capital: | | | |
| Decrease/(increase) in inventories | | 13 | (1,286) |
| Increase in biological assets | | (1,151) | (7,305) |
| Decrease/(increase) in trade receivables | | 17,715 | (24,825) |
| (Increase)/decrease in prepayments, deposits and other receivables | | (3,374) | 1,371 |
| Increase in trade payables | | 3,325 | 6,690 |
| (Decrease)/increase in accruals, deposits received and other payables | | (6,337) | 15,331 |
| Cash generated from operations | | 69,691 | 53,377 |
| Income tax paid | | (5,455) | (2,826) |
| Net cash generated from operating activities | | 64,236 | 50,551 |
| Investing activities | | | |
| Interest received | | 136 | 10 |
| (Increase)/decrease in pledged bank deposits | | (3) | 2,100 |
| Proceeds from disposal of property, plant and equipment | | 7,049 | 12,573 |
| Payment for the purchase of property, plant and equipment | | (8,045) | (10,763) |
| Capital contribution to associate | | (150) | – |
| Payment for deposits | | (6,000) | – |
| Refund of deposits | | 1,000 | – |
| Net cash (used in)/generated from investing activities | | (6,013) | 3,920 |
| Financing activities | | | |
| Proceeds from new bank borrowings | | 828,886 | 802,040 |
| Repayments of bank borrowings | | (881,768) | (783,009) |
| Interest paid | | (3,126) | (4,776) |
| Dividend paid to equity shareholders of the Company | | (7,055) | (5,395) |
| Interest paid for finance leases | | (2,214) | (2,776) |
| Repayments of obligations under finance leases | | (27,437) | (31,574) |
| Net cash used in financing activities | | (92,714) | (25,490) |
| Net (decrease)/increase in cash and cash equivalents | | (34,491) | 28,981 |
| Cash and cash equivalents at 1 January | | 90,346 | 61,365 |
| Effect of foreign exchange rate changes | | (120) | – |
| Cash and cash equivalents at 31 December | 25 | 55,735 | 90,346 |

The notes on pages 66 to 111 form part of these financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong Dollars unless otherwise indicated)

1. GENERAL INFORMATION

The Company was incorporated as exempted company with limited liability in the Cayman Islands on 8 November 2013. The ultimate holding company of the Company is Baguio Green (Holding) Limited, which was incorporated in the British Virgin Islands (“BVI”). The registered office of the Company is located at Cricket Square, Hutchins Drive, PO Box 2681, Grand Cayman KY1-1111, Cayman Islands and its principal place of business in Hong Kong is located at Unit A, 4/F., Dragon Industrial Building, No. 93 King Lam Street, Lai Chi Kok, Kowloon, Hong Kong.

The Company had its primary listing on the Main Board of the Stock Exchange of Hong Kong Limited on 22 May 2014.

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.

The consolidated financial statements comprise the Company and its subsidiaries (together referred to as the “Group”) and the Group’s interest in an associate and are presented in Hong Kong dollars (“HK\$”), which is also the functional currency of the Company. All values are rounded to the nearest thousand, unless otherwise stated.

2. SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

The consolidated financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (“HKFRSs”), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (“HKASs”) and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”) and accounting principles generally accepted in Hong Kong. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities (“Listing Rules”) on the Stock Exchange of Hong Kong Limited and by the Hong Kong Companies Ordinance (“CO”). Significant accounting policies adopted by the Group are disclosed below.

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Group. Note 3 provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these financial statements.

(b) Basis of preparation

The consolidated financial statements have been prepared on the historical cost basis except for biological assets and certain financial instruments that are measured at fair values at the end of each reporting period, as explained in the accounting policies below.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong Dollars unless otherwise indicated)

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(b) Basis of preparation *(Continued)*

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of HKFRS 2, leasing transactions that are within the scope of HKAS 17, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in HKAS 2 or value in use in HKAS 36.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices include within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable for the asset or liability.

(c) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities (including structured entities) controlled by the Company and its subsidiaries. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Group gains control until the date when the Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income are attributed to the equity shareholders of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the equity shareholders of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong Dollars unless otherwise indicated)

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(d) Associates

An associate is an entity in which the Group has significant influence, but not control or joint control, over its management, including participation in the financial and operating policy decisions.

An investment in an associate is accounted for in the consolidated financial statements under the equity method, unless it is classified as held for sale (or included in a disposal group that is classified as held for sale). Under the equity method, the investment is initially recorded at cost, adjusted for any excess of the Group's share of the acquisition-date fair values of the associate's identifiable net assets over the cost of the investment (if any). Thereafter, the investment is adjusted for the post acquisition change in the Group's share of the associate's net assets and any impairment loss relating to the investment (see Note 2(l)). Any acquisition-date excess over cost, the Group's share of the post-acquisition, post-tax results of the associate and any impairment losses for the year are recognised in profit or loss, whereas the Group's share of the post-acquisition post-tax items of the associate's other comprehensive income is recognised in other comprehensive income.

When the Group's share of losses exceeds its interest in the associate, the Group's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate. For this purpose, the Group's interest is the carrying amount of the investment under the equity method together with the Group's long-term interests that in substance form part of the Group's net investment in the associate.

Unrealised profits and losses resulting from transactions between the Group and its associate are eliminated to the extent of the Group's interest in the associate, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in profit or loss.

If an investment in an associate becomes an investment in a joint venture or vice versa, retained interest is not remeasured. Instead, the investment continues to be accounted for under the equity method.

In all other cases, when the Group ceases to have significant influence over an associate, it is accounted for as a disposal of the entire interest in that associate, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former associate at the date when significant influence is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset.

(e) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for services provided in the normal course of business, net of discount.

The Group recognised revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the Group's activities as described below.

Services income are recognised in the accounting period in which the services are rendered, by reference to completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided.

For services that are provided on ad-hoc basis, service income is recognised upon completion of the provision of such ad-hoc services.

Interest income from a financial asset is accrued on a time basis by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong Dollars unless otherwise indicated)

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(e) Revenue recognition *(Continued)*

Government grants are recognised in the statement of financial position initially when there is reasonable assurance that they will be received and that the Group will comply with the conditions attaching to them. Grants that compensate the Group for expenses incurred are recognised as income in profit or loss on a systematic basis in the same periods in which the expenses are incurred. Grants that compensate the Group for the cost of an asset are deducted from the carrying amount of the asset and consequently are effectively recognised in profit or loss over the useful life of the asset by way of reduced depreciation expense.

(f) Leasing

Leases are classified as finance leases whenever the terms of the lease substantially transfer all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessor

Amounts due from lessees under finance leases are recognised as receivables at the amount of the Group's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group's net investment outstanding in respect of the leases.

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term.

The Group as lessee

Assets held under finance leases are initially recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated statement of financial position as a finance lease obligation.

Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognised immediately in profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Group's general policy on borrowing costs (see Note 2(g)). Contingent rentals are recognised as expenses in the periods in which they are incurred.

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the periods in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

(g) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong Dollars unless otherwise indicated)

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(h) Employee benefits

(i) Short term employee benefits and contributions to defined contribution retirement schemes

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement schemes and the cost of non-monetary benefits are charged to consolidated statement of profit or loss and other comprehensive income in the year in which the associated services are rendered by employees.

(ii) Equity-settled share-based payments

The fair value of share options granted to employees is recognised as an employee cost with a corresponding increase in share option reserve within equity. The fair value is measured at grant date using the binomial option pricing model, taking into account the terms and conditions upon which the options were granted. Where the employees have to meet vesting conditions before becoming unconditionally entitled to the options, the total estimated fair value of the options is spread over the vesting period, taking into account the probability that the options will vest.

During the vesting period, the number of share options that is expected to vest is reviewed. Any resulting adjustment to the cumulative fair value recognised in prior years is charged/credited to the profit or loss for the year of the review, unless the original employee expenses qualified for recognition as an asset, with a corresponding adjustment to the share option reserve. On vesting date, the amount recognised as an expense is adjusted to reflect the actual number of options that vest (with a corresponding adjustment to the share option reserve) except where forfeiture is only due to not achieving vesting conditions that relate to the market price of the Company's shares. The equity amount is recognised in the share option reserve until either the option is exercised (when it is transferred to the share premium) or the option expires (when it is released directly to retained earnings).

(i) Cash and cash equivalents

For the purposes of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand, deposits held at call with banks, cash investments with a maturity of three months or less from date of investment and bank overdrafts.

(j) Taxation

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities.

Current tax is based on taxable profit for the year. Taxable profit differs from "profit before taxation" as reported in the consolidated statement of profit or loss and comprehensive income because of items of income or expenses that are taxable or deductible in other years and items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statement and the corresponding tax base used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill, the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit, and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the difference will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong Dollars unless otherwise indicated)

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(j) Taxation *(Continued)*

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the end of the reporting period. Deferred tax assets and liabilities are not discounted. Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly to equity, in which case, the current and deferred tax is also recognised in other comprehensive income or directly in equity, respectively.

Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the entity intends to settle its current tax assets and liabilities on a net basis.

(k) Property, plant and equipment

Property, plant and equipment are stated in the consolidated statement of financial position at cost less accumulated depreciation and any impairment losses.

The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after the property, plant and equipment have been put into operation, such as repair and maintenance and overhaul costs, is normally charged to the consolidated statement of profit or loss and other comprehensive income in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the property, plant and equipment, the expenditure is capitalised as an additional cost of that property, plant and equipment.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its estimated residual value, if any, over its estimated useful life. The estimated useful lives for each class of property, plant and equipment are as follows:

| | |
|--------------------------------|---|
| Leasehold properties | Over the shorter of term of lease or 50 years |
| Motor vehicles | 10 years |
| Machinery and equipment | 1 to 10 years |
| Office furniture and equipment | 1 to 10 years |

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, if any, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at the end of each reporting period.

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong Dollars unless otherwise indicated)

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(l) Impairment of tangible assets and investments in equity securities

At the end of the reporting period, the Group reviews the carrying amounts of the following assets to determine whether there is any indication that those assets have suffered an impairment loss:

- property, plant and equipment;
- interest in associate accounted for under the equity method in the consolidated financial statements (see Note 2(d)); and
- investments in subsidiaries in the Company's statement of financial position.

If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any.

Recoverable amount is the higher of fair value less costs of disposal and value in use. When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

An impairment loss is recognised in profit or loss if the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs of disposal (if measurable) or value in use (if determinable).

An impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

(m) Inventories

Inventories are stated at lower of cost and net realisable value.

Cost represents the invoiced cost of inventories and is calculated using the weighted average cost formula. Net realisable value is the estimated selling price in the ordinary course of business less estimated costs necessary to make the sale.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong Dollars unless otherwise indicated)

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(n) Provisions and contingent liabilities

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle that obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

Provisions shall be reviewed at the end of each reporting period and adjusted to reflect the current best estimate. If it is no longer probable that an outflow of resources embodying economic benefits will be required to settle the obligation, the provision shall be reversed.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

When it is probable that the costs of services to fulfill the obligations under the contracts will exceed the total contract revenue, a provision for onerous contracts would be made. In estimating such provision, management takes into account the costs to fulfill the obligations under the contracts and any compensation or penalties arising from failure of fulfilling such obligations.

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that are not recognised because it is not probable that an outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the notes to the consolidated financial statements unless the probability of outflow of economic resources is remote. When a change in the probability of an outflow occurs so that outflow is probable, it will then be recognised as a provision.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong Dollars unless otherwise indicated)

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(o) Financial instruments

Financial assets and financial liabilities are recognised in the consolidated statement of financial position when a group entity becomes a party to the contractual provisions of the instruments. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

The Group's financial assets are classified into the following two categories: available-for-sale financial assets and loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace are recognised and derecognised on a trade date basis.

Available-for-sale financial assets ("AFS financial assets")

AFS financial assets are non-derivatives that are either designated as AFS or are not classified as (a) loans and receivables, (b) held-to-maturity investments or (c) financial assets at fair value through profit or loss.

Listed equity instruments by the Group that are traded in an active market are classified as available-for-sale and are stated at fair value at the end of each reporting period. Fair value is determined in the manner described in Note 19. Changes in the carrying amount of AFS financial assets relating to changes in foreign currency rates, interest income calculated using the effective interest method and dividends on AFS equity investments are recognised in profit or loss. Other changes in the carrying amount of AFS financial assets are recognised in other comprehensive income and accumulated under the heading of available-for-sale assets revaluation reserve. When the AFS financial asset is disposed of, the cumulative gain or loss previously accumulated in the available-for-sale assets revaluation reserve is reclassified to profit or loss.

Dividends on AFS financial assets are recognised in profit or loss when the Group's right to receive the dividends is established.

The fair value of AFS financial assets denominated in a foreign currency is determined in that foreign currency and translated at the spot rate prevailing at the end of each reporting period. The foreign exchange gains and losses that are recognised in profit or loss are determined based on the amortised cost of the monetary asset.

AFS financial assets that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured at cost less any identified impairment losses.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong Dollars unless otherwise indicated)

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(o) Financial instruments *(Continued)*

Financial assets *(Continued)*

Loan and receivables

Loan and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loan and receivables (including trade receivables, deposits, other receivables, pledged bank deposit and cash and bank balances) are initially measured at fair value plus any directly attributable transaction costs. Subsequently to initial recognition, they are measured at amortised cost using the effective interest method, less any impairment.

Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Income is recognised on an effective interest method for debt instruments other than those financial assets designated as at financial assets at fair value through profit or loss.

Impairment of financial assets

Financial assets that are stated at cost or amortised cost are reviewed at the end of each reporting period to determine whether there is objective evidence of impairment. Objective evidence of impairment includes observable data that comes to the attention of the Group about one or more of the following loss events:

- (a) significant financial difficulty of the counterparty;
- (b) breach of contract, such as default or delinquency in interest or principal payments;
- (c) it becoming probable that the counterparty will enter bankruptcy or financial re-organisation; and
- (d) the disappearance of an active market for that financial asset because of financial difficulties.

For AFS financial assets, the cumulative loss that has been recognised in the available-for-sale financial assets revaluation reserve is reclassified to profit or loss. The amount of the cumulative loss that is recognised in profit or loss is the difference between the acquisition cost (net of any principal repayment and amortisation) and current fair value, less any impairment loss on that asset previously recognised in profit or loss.

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of the estimated future cash flows, discounted at the financial asset's original effective interest rate.

For certain categories of financial asset, such as trade receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis where these financial assets share similar risk characteristics, such as similar past due status. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the credit period, as well as observable changes in national or local economic conditions that correlate with default on receivables.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong Dollars unless otherwise indicated)

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(o) Financial instruments *(Continued)*

Financial assets *(Continued)*

Impairment of financial assets *(Continued)*

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables whose recovery is considered doubtful but not remote, where the carrying amount is reduced through the use of an allowance account. When the recovery a trade receivable is considered remote, the amount considered irrecoverable is written off against the trade receivables directly and any amounts held in the allowance account relating to that doubtful debt are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in profit or loss.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Derecognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group continues to recognise the asset to the extent of its continuing involvement and recognises an associated liability. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

On derecognition of a financial asset other than in its entirety, the Group allocates the previous carrying amount of the financial asset between the part it continues to recognise, and the part it no longer recognises based on the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognised and the sum of the consideration received for the part no longer recognised and any cumulative gain or loss that had been recognised in other comprehensive income allocated is recognised in profit or loss. A cumulative gain or loss that had been recognised in other comprehensive income is allocated between the part that continues to be recognised and the part that is no longer recognised based on the relative fair values of those parts.

Financial liabilities and equity instruments

Debt and equity instruments issued by the Group are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group are recognised at the proceeds received, net of direct issue costs.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong Dollars unless otherwise indicated)

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(o) Financial instruments *(Continued)*

Financial liabilities and equity instruments *(Continued)*

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest expense is recognised on an effective interest basis other than those financial liabilities designated as at financial liabilities at fair value through profit or loss.

Other financial liabilities

Other financial liabilities (including trade payables, accruals, deposits received and other payables, obligations under finance leases, bank overdrafts and bank borrowings) are initially measured at fair value less any directly attributable transaction costs. Subsequent to initial recognition, these liabilities are measured at amortised cost using the effective interest method.

Derecognition of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

Financial Guarantee Contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due in accordance with the terms of a debt instrument.

Where the Group issues a financial guarantee, the fair value of the guarantee is initially recognised as deferred income within accruals, deposits received and other payables. The fair value of financial guarantees issued at the time of issuance is determined by reference to fees charged in an arm's length transaction for similar services, when such information is obtainable, or is otherwise estimated by reference to interest rate differentials, by comparing the actual rates charged by lenders when the guarantee is made available with the estimated rates that lenders would have charged, had the guarantees not been available, where reliable estimates of such information can be made. Where consideration is received or receivable for the issuance of the guarantee, the consideration is recognised in accordance with the Group's policies applicable to that category of asset. Where no such consideration is received or receivable, an immediate expense is recognised in profit or loss on initial recognition of any deferred income.

The amount of the guarantee initially recognised as deferred income is amortised in profit or loss over the term of the guarantee as income from financial guarantees issued. In addition, provisions are recognised in accordance with Note 2(n) if and when (i) it becomes probable that the holder of the guarantee will call upon the group under the guarantee, and (ii) the amount of that claim on the Group is expected to exceed the amount currently carried in accruals, deposits received and other payables in respect of that guarantee i.e. the amount initially recognised, less accumulated amortisation.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong Dollars unless otherwise indicated)

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(p) Biological assets

Biological assets are stated at fair value less costs to sell, with any resultant gain or loss recognised in profit or loss. Costs to sell are the incremental costs directly attributable to the disposal of an asset, excluding finance costs and income taxes.

(q) Translation of foreign currencies

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the end of the reporting period. Exchange gains and losses are recognised in profit or loss.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was measured.

The results of foreign operations are translated into Hong Kong dollars at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Statement of financial position items are translated into Hong Kong dollars at the closing foreign exchange rates at the end of the reporting period. The resulting exchange differences are recognised in other comprehensive income and accumulated separately in equity in the translation reserve.

On disposal of a foreign operation, the cumulative amount of the exchange differences relating to that foreign operation is reclassified from equity to profit or loss when the profit or loss on disposal is recognised.

(r) Segment reporting

Operating segments, and the amounts of each segment item reported in the financial statements, are identified from the financial information provided regularly to the Group's chief operating decision-maker for the purpose of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

Individual material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong Dollars unless otherwise indicated)

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(s) Related parties

- (i) A person, or close member of that person's family, is related to the Group if that person:
 - (1) has control or joint control over the Group;
 - (2) has significant influence over the Group; or
 - (3) is a member of the key management personnel of the Group or the Group's parent.
- (ii) An entity is related to the Group if any of the following conditions applies:
 - (1) the entity and the Group are members of the same group (which means that each parent, subsidiary and follow subsidiary is related to the others).
 - (2) one entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
 - (3) both entities are joint ventures of the same third party.
 - (4) one entity is a joint venture of a third party and the other entity is an associate of the third entity.
 - (5) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group.
 - (6) the entity is controlled or jointly controlled by a person identified in (i).
 - (7) a person identified in (i)(1) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).
 - (8) the entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the Group's parent.

Close family members of an individual are those family members who may be expected to influence, or influenced by, that person in their dealings with the entity.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong Dollars unless otherwise indicated)

3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

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

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period. These include the following which may be relevant to the Group.

| | Effective for accounting periods beginning on or after |
|---|---|
| Amendments to HKAS 7, <i>Statement of cash flows: Disclosure initiative</i> | 1 January 2017 |
| Amendments to HKAS 12, <i>Income taxes: Recognition of deferred tax assets for unrealised losses</i> | 1 January 2017 |
| HKFRS 9, <i>Financial instruments</i> | 1 January 2018 |
| HKFRS 15, <i>Revenue from contracts with customers</i> | 1 January 2018 |
| Amendments to HKFRS 2, <i>Share-based payment: Classification and measurement of share-based payment transactions</i> | 1 January 2018 |
| HKFRS 16, <i>Leases</i> | 1 January 2019 |

The Group is in the process of making an assessment of what the impact of these amendments and new standards is expected to be in the period of initial application. So far the Group considers the adoption of Amendments to HKAS 7 and 12 and HKFRS 2 will not have a significant impact on the consolidated financial statements. Further details of the expected impacts for the adoption of HKFRS 9, 15 and 16 are discussed below. As the Group has not completed its assessment, further impacts may be identified in due course and will be taken into consideration when determining whether to adopt any of these new requirements before their effective date and which transitional approach to take, where there are alternative approaches allowed under the new standards.

HKFRS 9, Financial instruments

HKFRS 9 will replace the current standard on accounting for financial instruments, HKAS 39, *Financial instruments: Recognition and measurement*. HKFRS 9 introduces new requirements for classification and measurement of financial assets, calculation of impairment of financial assets and hedge accounting. On the other hand, HKFRS 9 incorporates without substantive changes the requirements of HKAS 39 for recognition and derecognition of financial instruments and the classification of financial liabilities.

Based on the assessment so far, the Group considers that the initial application of HKFRS 9 will not have a significant impact on the Group's results of operations and financial position.

HKFRS 15, Revenue from contracts with customers

HKFRS 15 establishes a comprehensive framework for recognising revenue from contracts with customers. HKFRS 15 will replace the existing revenue standards, HKAS 18, *Revenue*, which covers revenue arising from sale of goods and rendering of services, and HKAS 11, *Construction contracts*, which specifies the accounting for revenue from construction contracts.

Based on the assessment so far, the Group considers that the initial application of HKFRS 15 will not have a significant impact on the Group's results of operations and financial position.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong Dollars unless otherwise indicated)

3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS *(Continued)* HKFRS 16, Leases

As disclosed in Note 2(f), currently the Group classifies leases into finance leases and operating leases and accounts for the lease arrangements differently, depending on the classification of the lease. The Group enters into some leases as the lessee.

HKFRS 16 is not expected to impact significantly on the way that lessors account for their rights and obligations under a lease. However, once HKFRS 16 is adopted, lessees will no longer distinguish between finance leases and operating leases. Instead, subject to practical expedients, lessees will account for all leases in a similar way to current finance lease accounting, i.e. at the commencement date of the lease the lessee will recognise and measure a lease liability at the present value of the minimum future lease payments and will recognise a corresponding “right-of-use” asset. After initial recognition of this asset and liability, the lessee will recognise interest expense accrued on the outstanding balance of the lease liability, and the depreciation of the right-of-use asset, instead of the current policy of recognising rental expenses incurred under operating leases on a systematic basis over the lease term. As a practical expedient, the lessee can elect not to apply this accounting model to short-term leases (i.e. where the lease term is 12 months or less) and to leases of low-value assets, in which case the rental expenses would continue to be recognised on a systematic basis over the lease term.

HKFRS 16 will primarily affect the Group’s accounting as a lessee of leases for certain land and buildings which are currently classified as operating leases. The application of the new accounting model is expected to lead to an increase in both assets and liabilities and to impact on the timing of the expense recognition in profit or loss over the period of the lease. As disclosed in Note 35, at 31 December 2016 the Group’s future minimum lease payments under non-cancellable operating leases amounted to HK\$9,312,000, the majority of which is payable either between 1 and 5 years after the reporting date or in more than 5 years. Some of these amounts may therefore need to be recognised as lease liabilities, with corresponding right-of-use assets, once HKFRS 16 is adopted. The Group will need to perform a more detailed analysis to determine the amounts of new assets and liabilities arising from operating lease commitments on adoption of HKFRS 16, after taking into account the applicability of the practical expedient and adjusting for any leases entered into or terminated between now and the adoption of HKFRS 16 and the effects of discounting.

4. ACCOUNTING ESTIMATES

The preparation of financial statements in conformity with HKFRSs requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revision to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong Dollars unless otherwise indicated)

4. ACCOUNTING ESTIMATES *(Continued)*

Key sources of estimation uncertainty

Notes 6 and 33 contain information about the assumptions and their risk factors relating to fair value of financial instruments and share options granted. Other key sources of estimation uncertainty are as follows:

(a) Useful lives of property, plant and equipment

Management determines the estimated useful lives and related depreciation expenses for the Group's property, plant and equipment. This estimate is based on the historical experience of the useful lives of the property, plant and equipment of similar nature and functions. It could change significantly as a result of technical innovations. Management will revise the depreciation expenses where useful lives are different to previously estimated, or it will write off or write down technically obsolete or non-strategic assets that have been abandoned.

(b) Income taxes

Determining income tax provisions involves judgement on the future tax treatment of certain transactions. The Group carefully evaluates tax implications of transactions and tax provisions are set up accordingly. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax provisions in the year in which such determination is made.

5. 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong Dollars unless otherwise indicated)

5. SEGMENT INFORMATION *(Continued)*

Segment revenue and results

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

| | Cleaning services business HK\$'000 | Landscaping services business HK\$'000 | Pest management business HK\$'000 | Waste management and recycling business HK\$'000 | Total HK\$'000 |
|--|--|---|--------------------------------------|---|-------------------|
| Year ended 31 December 2016 | | | | | |
| Revenue from external customers and reportable segment revenue | 803,365 | 123,395 | 52,488 | 115,540 | 1,094,788 |
| Segment results | 49,239 | 20,917 | 6,899 | 16,474 | 93,529 |
| Other income | | | | | 3,933 |
| Change in fair value less costs to sell of biological assets | | | | | 1,729 |
| Administrative expenses | | | | | (63,092) |
| Finance costs | | | | | (5,340) |
| Profit before taxation | | | | | 30,759 |

| | Cleaning services business HK\$'000 | Landscaping services business HK\$'000 | Pest management business HK\$'000 | Waste management and recycling business HK\$'000 | Total HK\$'000 |
|--|--|---|--------------------------------------|---|-------------------|
| Year ended 31 December 2015 | | | | | |
| Revenue from external customers and reportable segment revenue | 911,062 | 144,080 | 80,896 | 88,849 | 1,224,887 |
| Segment results | 53,026 | 24,513 | 5,178 | 9,738 | 92,455 |
| Other income | | | | | 4,646 |
| Change in fair value less costs to sell of biological assets | | | | | 948 |
| Administrative expenses | | | | | (61,766) |
| Finance costs | | | | | (7,552) |
| Profit before taxation | | | | | 28,731 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong Dollars unless otherwise indicated)

5. SEGMENT INFORMATION *(Continued)*

Segment assets and liabilities

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

| | Cleaning services business HK\$'000 | Landscaping services business HK\$'000 | Pest management business HK\$'000 | Waste management and recycling business HK\$'000 | Total HK\$'000 |
|-------------------------------|--|---|--------------------------------------|---|-------------------|
| As at 31 December 2016 | | | | | |
| Segment assets | 305,119 | 64,346 | 33,923 | 105,213 | 508,601 |
| Unallocated | | | | | 10,406 |
| Total assets | | | | | 519,007 |
| Segment liabilities | 187,954 | 29,634 | 21,993 | 50,792 | 290,373 |
| Unallocated | | | | | 2,463 |
| Total liabilities | | | | | 292,836 |

| | Cleaning services business HK\$'000 | Landscaping services business HK\$'000 | Pest management business HK\$'000 | Waste management and recycling business HK\$'000 | Total HK\$'000 |
|-------------------------------|--|---|--------------------------------------|---|-------------------|
| As at 31 December 2015 | | | | | |
| Segment assets | 324,921 | 60,013 | 58,183 | 97,147 | 540,264 |
| Unallocated | | | | | 24,456 |
| Total assets | | | | | 564,720 |
| Segment liabilities | 239,516 | 30,305 | 36,991 | 48,125 | 354,937 |
| Unallocated | | | | | 2,779 |
| Total liabilities | | | | | 357,716 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong Dollars unless otherwise indicated)

5. SEGMENT INFORMATION (Continued)

Other segment information

| | Cleaning services business HK\$'000 | Landscaping services business HK\$'000 | Pest management business HK\$'000 | Waste management and recycling business HK\$'000 | Unallocated HK\$'000 | Total HK\$'000 |
|---|--|---|--------------------------------------|---|-------------------------|-------------------|
| For the year ended 31 December 2016 | | | | | | |
| Depreciation of property, plant and equipment | 9,620 | 992 | 2,362 | 10,462 | 143 | 23,579 |
| Additions to non-current assets | 6,552 | 2,564 | 184 | 16,673 | 250 | 26,223 |
| Loss on disposal of property, plant and equipment | 156 | 248 | 112 | 184 | 1 | 701 |

| | Cleaning services business HK\$'000 | Landscaping services business HK\$'000 | Pest management business HK\$'000 | Waste management and recycling business HK\$'000 | Unallocated HK\$'000 | Total HK\$'000 |
|---|--|---|--------------------------------------|---|-------------------------|-------------------|
| For the year ended 31 December 2015 | | | | | | |
| Depreciation of property, plant and equipment | 11,016 | 1,016 | 3,104 | 9,326 | 99 | 24,561 |
| Additions to non-current assets | 13,111 | 933 | 202 | 14,040 | 214 | 28,500 |
| Loss on disposal of property, plant and equipment | 747 | 362 | 16 | 282 | 2 | 1,409 |

Geographical information

No geographical information is presented as all of the Group's businesses are carried out in Hong Kong and the Group's revenue from external customers is generated in Hong Kong during the years ended 31 December 2016 and 2015.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong Dollars unless otherwise indicated)

5. SEGMENT INFORMATION *(Continued)*

Information about major customers

For the year ended 31 December 2016, the Group's revenue of HK\$646,680,000 (2015: HK\$837,765,000) for various segments was derived from two customers (2015: two), each of whom has individually accounted for over 10% of the Group's total revenue, which are disclosed as follows:

| | 2016 HK\$'000 | 2015 HK\$'000 |
|------------|------------------|------------------|
| Customer A | 286,846 | 452,516 |
| Customer B | 359,834 | 385,249 |
| | 646,680 | 837,765 |

6. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

| | 2016 HK\$'000 | 2015 HK\$'000 |
|-------------------------------------|------------------|------------------|
| Financial assets | | |
| Available-for-sale financial assets | 13,286 | 12,941 |
| Loans and receivables | | |
| – Pledged bank deposits | 5,140 | 5,137 |
| – Trade receivables | 251,905 | 269,620 |
| – Deposits | 4,527 | 4,344 |
| – Other receivables | 8,746 | 3,317 |
| – Cash and cash equivalents | 55,735 | 90,346 |

| | 2016 HK\$'000 | 2015 HK\$'000 |
|--|------------------|------------------|
| Financial liabilities | | |
| Amortised cost | | |
| – Trade payables | 26,979 | 23,654 |
| – Accruals, deposits received and other payables | 114,473 | 120,810 |
| – Bank borrowings | 82,499 | 135,381 |
| – Obligations under finance leases | 56,907 | 66,166 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong Dollars unless otherwise indicated)

6. FINANCIAL INSTRUMENTS *(Continued)*

(b) Financial risk management

Exposure to market risk (including foreign currency risk and interest rate risk), credit risk and liquidity risk arises in the normal course of the Group's business. The Group's exposure to these risks and the financial risk management policies and practices used by the Group to manage these risks are described below.

Market risk

(i) Foreign currency risk

The Group has minimal exposures to foreign currency risk as most of its business transactions, assets and liabilities are principally denominated in Hong Kong Dollar. The Group currently does not have a foreign currency hedging policy in respect of foreign currency transactions, assets and liabilities. The Group will monitor its foreign currency exposure closely and will consider hedging significant foreign currency exposure should the need arise.

(ii) Interest rate risk

The Group's cash flow interest rate risk relates primarily to the Group's pledged bank deposits, deposits with banks, obligations under finance leases and bank borrowings. Borrowings issued at variable rates and at fixed rates expose the Group to cash flow interest rate risk and fair value interest rate risk respectively. The Group does not use financial derivatives to hedge against the interest rate risk. The Group's interest rate profile as monitored by management is set out below.

The following table details the interest rate profile of the Group's net borrowings (being interest-bearing financial liabilities less pledged bank deposits and deposits with banks) at the end of the reporting period.

| | 2016 | | 2015 | |
|-----------------------------------|-------------------------|-----------------|-------------------------|-----------------|
| | Effective interest rate | Amount HK\$'000 | Effective interest rate | Amount HK\$'000 |
| Net fixed rate borrowings: | | | | |
| Obligations under finance leases | 3.26%–4.73% | 56,907 | 3.26%–4.73% | 66,166 |
| Less: Pledged bank deposits | 0.01%–0.15% | (5,140) | 0.01%–0.15% | (5,137) |
| Deposits with banks | 3.46%–4.05% | (5,058) | – | – |
| | | 46,709 | | 61,029 |
| Variable rate borrowings: | | | | |
| Bank borrowings | 1.21%–5.75% | 82,499 | 1.19%–5.75% | 135,381 |
| Total net borrowings | | 129,208 | | 196,410 |

Sensitivity analysis

At 31 December 2016, it is estimated that a general increase/decrease of 50 basis point in interest rate, with all other variables were held constant, would have decreased/increased the Group's profit after taxation and retained earnings by approximately HK\$344,000 (2015: HK\$565,000).

The sensitivity analysis above indicates the annualised impact on the Group's profit after taxation and retained earnings that would arise assuming that the change in interest rates had occurred at the end of the reporting period and had been applied to floating rates instruments which expose the Group to cash flow interest rate risk at that date. The analysis does not take into account exposure to fair value interest rate risk arising from fixed rate instruments as the Group does not hold any fixed rate instruments which are measured at fair value in the financial statements. The analysis is performed on the same basis for 2015.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong Dollars unless otherwise indicated)

6. FINANCIAL INSTRUMENTS *(Continued)*

(b) Financial risk management *(Continued)*

Credit risk

At the end of each reporting period, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties arises from the carrying amount of the respective recognised financial assets in the consolidated statement of financial position.

The Group's credit risk is primarily attributable to trade receivables, prepayments, deposits and other receivables. In order to minimise the credit risk, management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis and follow-up action is taken to recover overdue debts. In addition, the management reviews the recoverable amount of each individual debt at the end of each reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors consider that the Group's credit risk is adequately managed and mitigated.

The Group had certain concentration of credit risk as 35% (2015: 36%) and 68% (2015: 76%) of the Group's total trade receivables were due from the largest customer and the five largest customers respectively as at 31 December 2016. The Group's credit risk exposure is limited as the Group trades only with customers with an appropriate credit history and good reputation. The management monitored the financial background and creditability of those debtors on an ongoing basis.

Liquidity risk

The Group has to maintain a suitable level of liquidity to finance the daily operation, capital expenditure and repayment of borrowings. The Group's policy is to regularly monitor current and expected liquidity requirements and its compliance with lending covenants to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

As at 31 December 2016, the Group had unutilised banking facilities of HK\$121,827,000 (2015: HK\$92,402,000).

The following tables show the remaining contractual maturities at the end of the reporting period of the Group's financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the end of the reporting period) and the earliest date the Group can be required to pay.

For loans subject to repayment on demand clauses which can be exercised at the bank's sole discretion, the analysis shows the cash outflow based on the contractual repayment schedule and, separately, the impact to the timing of the cash outflows of the lenders were to invoke unconditional rights to call the loans with immediate effect.

| | Within 1 year or on demand HK\$'000 | Over 1 year but within 5 years HK\$'000 | Total contractual undiscounted cash flow HK\$'000 | Carrying amount HK\$'000 |
|--|--|---|---|--------------------------------|
| As at 31 December 2016 | | | | |
| Trade payables | 26,979 | – | 26,979 | 26,979 |
| Accruals, deposits received and other payables | 114,473 | – | 114,473 | 114,473 |
| Obligations under finance leases | 23,188 | 36,821 | 60,009 | 56,907 |
| Bank borrowings | 77,193 | 6,189 | 83,382 | 82,499 |
| | 241,833 | 43,010 | 284,843 | 280,858 |
| Adjustments to present cash flows on bank borrowings based on lender's right to demand repayment | 5,306 | (6,189) | (883) | |
| | 247,139 | 36,821 | 283,960 | |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong Dollars unless otherwise indicated)

6. FINANCIAL INSTRUMENTS (Continued)

(b) Financial risk management (Continued)

Liquidity risk (Continued)

| | Within 1 year or on demand HK\$'000 | Over 1 year but within 5 years HK\$'000 | Total contractual undiscounted cash flow HK\$'000 | Carrying amount HK\$'000 |
|--|--|---|---|--------------------------------|
| As at 31 December 2015 | | | | |
| Trade payables | 23,654 | – | 23,654 | 23,654 |
| Accruals, deposits received and other payables | 120,810 | – | 120,810 | 120,810 |
| Obligations under finance leases | 25,824 | 44,555 | 70,379 | 66,166 |
| Bank borrowings | 132,902 | 9,995 | 142,897 | 135,381 |
| | 303,190 | 54,550 | 357,740 | 346,011 |
| Adjustments to present cash flows on bank borrowings based on lender's right to demand repayment | 403 | (426) | (23) | |
| | 303,593 | 54,124 | 357,717 | |

(c) Fair value measurement

(i) Financial assets and liabilities measured at fair value

Fair value hierarchy

The following table presents the fair value of the Group's financial instruments measured at the end of the reporting period on a recurring basis, categorised into the three-level fair value hierarchy as defined in HKFRS 13, *Fair value measurement*. The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

Level 1 valuations: Fair value measured using only Level 1 inputs, i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date

Level 2 valuations: Fair value measured using Level 2 inputs, i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available

Level 3 valuations: Fair value measured using significant unobservable inputs

The Group's finance team assesses the valuations for the investments in life insurance which is categorised into Level 3 of the fair value hierarchy. Consultation with the insurance company is carried out when appropriate in respect of the valuation assessment. The Group prepares analysis of changes in fair value measurement at each interim and annual reporting date, which is reviewed and approved by the Board of Directors. Discussion of the valuation process and results with the Board of Directors is held twice a year, to coincide with the reporting dates.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong Dollars unless otherwise indicated)

6. FINANCIAL INSTRUMENTS (Continued)

(c) Fair value measurement (Continued)

(i) Financial assets and liabilities measured at fair value (Continued)

| | As at 31 December 2016 | | | Total HK\$'000 |
|--|------------------------|---------------------|---------------------|-------------------|
| | Level 1 HK\$'000 | Level 2 HK\$'000 | Level 3 HK\$'000 | |
| Available-for-sale financial assets | | | | |
| Investments in life insurance | – | – | 13,286 | 13,286 |

| | As at 31 December 2015 | | | Total HK\$'000 |
|--|------------------------|---------------------|---------------------|-------------------|
| | Level 1 HK\$'000 | Level 2 HK\$'000 | Level 3 HK\$'000 | |
| Available-for-sale financial assets | | | | |
| Investments in life insurance | – | – | 12,941 | 12,941 |

During the years ended 31 December 2016 and 2015, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3. The Group's policy is to recognise transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.

Reconciliation of Level 3 fair value measurements

| | 2016 HK\$'000 | 2015 HK\$'000 |
|---|------------------|------------------|
| Investments in life insurance: | | |
| Balance as at 1 January | 12,941 | 12,539 |
| Gains recognised in other comprehensive income | 345 | 402 |
| Balance as at 31 December | 13,286 | 12,941 |

(ii) Fair values of financial assets and liabilities carried at other than fair value

The carrying amounts of the Group's financial instruments carried at cost or amortised cost were not materially different from their fair values as at 31 December 2016 and 2015.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong Dollars unless otherwise indicated)

7. CAPITAL MANAGEMENT

The Group's primary objective when managing capital is to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders of the Group and benefits for other stakeholders, by pricing products and services commensurately with the level of risk and by securing access to finance at a reasonable cost.

The Group actively and regularly reviews and manage its capital structure to maximise the returns to maintain a balance between the higher shareholder returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions. In order to maintain or adjust the capital structure, the Group may adjust the dividend payments to shareholders, issue new shares or obtain new bank borrowings. Neither the Group nor any of its subsidiaries are subject to externally imposed capital requirements, except for banking facilities which require the fulfillment of covenants relating to certain of the Group's financial ratio as disclosed in Note 28 to the financial statements.

The capital structure of the Group mainly consists of debts, which include bank borrowings and obligations under finance leases, and equity attributable to equity shareholders of the Company, comprising issued share capital and reserves respectively. 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 a gearing ratio. This ratio is expressed by as a percentage of total borrowings over the total equity. The Group's overall strategy remains unchanged during the year.

The gearing ratio at 31 December 2016 and 2015 are as follows:

| | 2016 HK\$'000 | 2015 HK\$'000 |
|-----------------------------|------------------|------------------|
| Total borrowings (note (i)) | 139,406 | 201,547 |
| Total equity (note (ii)) | 226,171 | 207,004 |
| Gearing ratio | 62% | 97% |

Notes:

- (i) Total borrowings included bank borrowings and obligations under finance leases as disclosed in Notes 28 and 29;
- (ii) Total equity includes share capital and all reserves as at 31 December 2016 and 2015.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong Dollars unless otherwise indicated)

8. REVENUE

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

| | 2016 HK\$'000 | 2015 HK\$'000 |
|---|------------------|------------------|
| Cleaning services | 803,365 | 911,062 |
| Landscaping services | 123,395 | 144,080 |
| Pest management services | 52,488 | 80,896 |
| Waste management and recycling services | 115,540 | 88,849 |
| | 1,094,788 | 1,224,887 |

9. OTHER INCOME

| | 2016 HK\$'000 | 2015 HK\$'000 |
|--------------------|------------------|------------------|
| Government grants* | 3,593 | 4,002 |
| Interest income | 136 | 10 |
| Sundry income | 204 | 634 |
| | 3,933 | 4,646 |

* Government grants of HK\$3,593,000 (2015: HK\$4,002,000) were granted during the year ended 31 December 2016 in respect of phasing out certain diesel commercial vehicles by the Group. There were no unfulfilled conditions and other contingencies attached to the receipt of those grants. There is no assurance that the Group will continue to receive such grant in the future.

10. FINANCE COSTS

| | 2016 HK\$'000 | 2015 HK\$'000 |
|----------------------------------|------------------|------------------|
| Interest on: | | |
| Bank overdrafts | 2 | 6 |
| Bank loans | 3,124 | 4,770 |
| Obligations under finance leases | 2,214 | 2,776 |
| | 5,340 | 7,552 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong Dollars unless otherwise indicated)

11. PROFIT BEFORE TAXATION

Profit before taxation has been arrived at after charging:

| | 2016 HK\$'000 | 2015 HK\$'000 |
|---|------------------|------------------|
| Auditors' remuneration: | | |
| Audit services | 1,200 | 780 |
| Other services | 80 | 160 |
| Depreciation of property, plant and equipment: | | |
| Owned by the Group | 11,508 | 13,000 |
| Held under finance leases | 12,071 | 11,561 |
| Loss on disposal of property, plant and equipment | 701 | 1,409 |
| Cost of consumable goods | 44,443 | 51,195 |
| Staff costs (including directors' remuneration): | | |
| Wages, salaries and other benefits | 836,884 | 958,537 |
| Provision for long service payments | 2,559 | 1,878 |
| Provision for untaken paid leave | 9,622 | 10,509 |
| Contributions to defined contribution retirement scheme | 28,516 | 32,955 |
| Equity-settled share-based payments | 986 | 210 |
| | 878,567 | 1,004,089 |
| Operating lease rentals: minimum lease payments | | |
| Hire of machinery and motor vehicles | 19,597 | 18,086 |
| Land and buildings | 4,909 | 4,264 |
| | 24,506 | 22,350 |

12. INCOME TAX

(a) Income tax charged to profit or loss represents:

| | 2016 HK\$'000 | 2015 HK\$'000 |
|--|------------------|------------------|
| Current tax — Hong Kong Profits Tax | | |
| Provision for the year | 4,929 | 5,068 |
| Deferred tax | | |
| Origination and reversal of temporary differences (<i>Note 30</i>) | 819 | (423) |
| | 5,748 | 4,645 |

The provision for Hong Kong Profits Tax for the year ended 31 December 2016 is calculated at 16.5% (2015: 16.5%) of the estimated assessable profits for the year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong Dollars unless otherwise indicated)

12. INCOME TAX (Continued)

(b) Reconciliation between tax expense and accounting profit at applicable tax rates:

| | 2016 HK\$'000 | 2015 HK\$'000 |
|--|------------------|------------------|
| Profit before taxation | 30,759 | 28,731 |
| Notional tax on profit before taxation, calculated at the rates applicable to profits in the tax jurisdictions concerned | 5,084 | 4,741 |
| Tax effect of non-taxable income | (318) | (882) |
| Tax effect of non-deductible expenses | 469 | 616 |
| Tax loss not recognised | 603 | 250 |
| Utilisation of tax loss not recognised in prior years | (90) | – |
| Tax reduction | – | (80) |
| | 5,748 | 4,645 |

13. DIVIDENDS

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

| | 2016 HK\$'000 | 2015 HK\$'000 |
|---|------------------|------------------|
| Final dividend proposed after the end of the reporting period of HK1.7 cents (2015: HK1.7 cents) per ordinary share | 7,055 | 7,055 |

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

| | 2016 HK\$'000 | 2015 HK\$'000 |
|--|------------------|------------------|
| Final dividend in respect of the previous financial year, approved and paid during the year, of HK1.7 cents (2015: HK1.3 cents) per ordinary share | 7,055 | 5,395 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong Dollars unless otherwise indicated)

14. EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of the basic earnings per share for the year ended 31 December 2016 is based on the profit for the year attributable to ordinary equity shareholders of the Company of HK\$25,011,000 (2015: HK\$24,086,000) and the weighted average number of 415,000,000 (2015: 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 2016 and 2015 were the same as the basic earnings per share as there were no potential dilutive ordinary shares in existence during the years.

15. DIRECTORS' EMOLUMENTS AND FIVE HIGHEST PAID INDIVIDUALS

Directors' emoluments

Directors' emoluments disclosed with reference to section 383(1) of the CO and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation are as follows:

| | Directors' fees HK\$'000 | Salaries, allowances and other benefits HK\$'000 | Directors' quarter HK\$'000 | Discretionary bonus HK\$'000 | Retirement scheme contributions HK\$'000 | Sub-total HK\$'000 | Equity-settled share-based payments HK\$'000 | Total HK\$'000 |
|---|-----------------------------|---|--------------------------------|---------------------------------|---|-----------------------|---|-------------------|
| For the year ended 31 December 2016 | | | | | | | | |
| Executive directors: | | | | | | | | |
| Mr. Ng Wing Hong | - | 2,078 | - | - | 18 | 2,096 | - | 2,096 |
| Ms. Ng Yuk Kwan Phyllis | - | 1,436 | 576 | 450 | 184 | 2,646 | 56 | 2,702 |
| Mr. Ng Wing Chuen | - | 1,026 | - | 86 | - | 1,112 | 47 | 1,159 |
| Ms. Leung Shuk Ping | - | 934 | - | 220 | 18 | 1,172 | 42 | 1,214 |
| Ms. Chan Shuk Kuen | - | 898 | - | 165 | 18 | 1,081 | 42 | 1,123 |
| Ms. Cheung Siu Chun | - | 1,062 | - | 230 | 123 | 1,415 | 47 | 1,462 |
| Independent non-executive directors: | | | | | | | | |
| Mr. Sin Ho Chiu | 140 | - | - | - | - | 140 | 27 | 167 |
| Dr. Law Ka Hung | 140 | - | - | - | - | 140 | 27 | 167 |
| Mr. Lau Chi Yin Thomas | 140 | - | - | - | - | 140 | 27 | 167 |
| | 420 | 7,434 | 576 | 1,151 | 361 | 9,942 | 315 | 10,257 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong Dollars unless otherwise indicated)

15. DIRECTORS' EMOLUMENTS AND FIVE HIGHEST PAID INDIVIDUALS (Continued)

Directors' emoluments (Continued)

| | Directors' fees | Salaries, allowances and other benefits | Directors' quarter | Discretionary bonus | Retirement scheme contributions | Sub-total | Equity-settled share-based payments | Total |
|--------------------------------------|-----------------|---|--------------------|---------------------|---------------------------------|-----------|-------------------------------------|----------|
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| For the year ended | | | | | | | | |
| 31 December 2015 | | | | | | | | |
| Executive directors: | | | | | | | | |
| Mr. Ng Wing Hong | - | 2,015 | - | - | 18 | 2,033 | - | 2,033 |
| Ms. Ng Yuk Kwan Phyllis | - | 1,393 | 576 | 400 | 209 | 2,578 | 12 | 2,590 |
| Mr. Ng Wing Chuen | - | 995 | - | 83 | 9 | 1,087 | 10 | 1,097 |
| Ms. Leung Shuk Ping | - | 907 | - | 200 | 18 | 1,125 | 9 | 1,134 |
| Ms. Chan Shuk Kuen | - | 871 | - | 150 | 18 | 1,039 | 9 | 1,048 |
| Ms. Cheung Siu Chun | - | 1,031 | - | 200 | 95 | 1,326 | 10 | 1,336 |
| Independent non-executive directors: | | | | | | | | |
| Mr. Sin Ho Chiu | 120 | - | - | 10 | - | 130 | 6 | 136 |
| Dr. Law Ka Hung | 120 | - | - | 10 | - | 130 | 6 | 136 |
| Mr. Lau Chi Yin Thomas | 120 | - | - | 10 | - | 130 | 6 | 136 |
| | 360 | 7,212 | 576 | 1,063 | 367 | 9,578 | 68 | 9,646 |

During the years ended 31 December 2016 and 2015, no emoluments were paid by the Group to the directors as an inducement to join or upon joining the Group or as compensation for loss of office. There was no arrangement under which a director waived or agreed to waive any emoluments during the years ended 31 December 2016 and 2015.

Five highest paid individuals

For the years ended 31 December 2015 and 2016, the five highest paid individuals of the Group are directors whose emoluments are disclosed in Note 15.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong Dollars unless otherwise indicated)

16. PROPERTY, PLANT AND EQUIPMENT

| | Leasehold properties HK\$'000 | Furniture and fixtures HK\$'000 | Equipment and machinery HK\$'000 | Motor vehicles HK\$'000 | Total HK\$'000 |
|--|-------------------------------------|--|---|-------------------------------|-------------------|
| Cost | | | | | |
| As at 1 January 2015 | 21,403 | 16,361 | 25,535 | 182,132 | 245,431 |
| Additions | – | 3,932 | 6,610 | 17,958 | 28,500 |
| Disposals | – | (96) | (4,585) | (26,012) | (30,693) |
| As at 31 December 2015 and 1 January 2016 | 21,403 | 20,197 | 27,560 | 174,078 | 243,238 |
| Additions | – | 983 | 4,661 | 20,579 | 26,223 |
| Disposals | – | (66) | (3,168) | (12,419) | (15,653) |
| As at 31 December 2016 | 21,403 | 21,114 | 29,053 | 182,238 | 253,808 |
| Accumulated depreciation | | | | | |
| As at 1 January 2015 | 3,122 | 11,108 | 13,269 | 46,155 | 73,654 |
| Charge for the year | 551 | 2,968 | 7,268 | 13,774 | 24,561 |
| Written back on disposals | – | (93) | (4,268) | (12,350) | (16,711) |
| As at 31 December 2015 and 1 January 2016 | 3,673 | 13,983 | 16,269 | 47,579 | 81,504 |
| Charge for the year | 551 | 2,483 | 6,425 | 14,120 | 23,579 |
| Written back on disposals | – | (66) | (2,774) | (5,063) | (7,903) |
| As at 31 December 2016 | 4,224 | 16,400 | 19,920 | 56,636 | 97,180 |
| Net book value | | | | | |
| As at 31 December 2016 | 17,179 | 4,714 | 9,133 | 125,602 | 156,628 |
| As at 31 December 2015 | 17,730 | 6,214 | 11,291 | 126,499 | 161,734 |

The leasehold properties are situated on land in Hong Kong held under medium term leases.

As at 31 December 2016, the leasehold properties with carrying amount of HK\$17,179,000 (2015: approximately HK\$17,730,000) were mortgaged for banking facilities granted to the Group.

As at 31 December 2016, the carrying amount of motor vehicles held under finance leases amounted to HK\$105,654,000 (2015: HK\$104,119,000).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong Dollars unless otherwise indicated)

17. PARTICULARS OF SUBSIDIARIES

As at 31 December 2016, details of the Company's subsidiaries which principally affected the results, assets or liabilities of the Group set out below. The class of shares held is ordinary unless otherwise stated.

| Name of subsidiary | Place and date of incorporation / establishment and principal country of operation | Issued and paid up capital | Percentage of equity interest attributable to the Company | | Principal activities |
|---|--|----------------------------|---|------------|---|
| | | | Direct % | Indirect % | |
| Baguio Cleaning Services Company Limited | Hong Kong, 7 May 1982 | HK\$10,000,000 | – | 100% | Provision of cleaning services |
| Baguio Landscaping Services Limited | Hong Kong, 10 January 1995 | HK\$2,000,000 | – | 100% | Provision of landscaping services |
| Baguio Pest Management Limited | Hong Kong, 28 January 2005 | HK\$200,000 | – | 100% | Provision of pest management services |
| Baguio Waste Management & Recycling Limited | Hong Kong, 28 January 2008 | HK\$10,000 | – | 100% | Provision of waste management and recycling services |
| Tak Tai Enviroscope Limited | Hong Kong, 21 August 1984 | HK\$8,100,000 | – | 100% | Provision of plant nursing, landscaping and related services |
| Modern Automobile Company Limited | Hong Kong, 26 August 2004 | HK\$10,000 | – | 100% | Provision of automobile repair services |
| Baguio Green Technology Limited | Hong Kong, 7 October 2011 | HK\$10,000 | – | 100% | Development and exploration of green technology products |
| 碧瑤綠色科技（深圳）有限公司# | People's Republic of China ("PRC"), 10 November 2015 | RMB1,670,210 | – | 100% | Development and exploration of environmental and recycling business |

registered as a wholly-foreign owned enterprise in PRC

18. INTEREST IN ASSOCIATE

| | 2016 HK\$'000 | 2015 HK\$'000 |
|---------------------|------------------|------------------|
| Share of net assets | 150 | – |

The following list contains the particulars of the associate, which is an unlisted corporate entity whose quoted market price is not available:

| Name of associate | Form of business structure | Place of incorporation and operation | Particulars of issued and paid up capital | Proportion of ownership interest | | | Principal Activity |
|------------------------------|----------------------------|--------------------------------------|---|----------------------------------|---------------------|----------------------|---|
| | | | | Group's effective interest | held by the Company | held by a subsidiary | |
| SBE Waste Management Limited | Incorporated | Hong Kong | HK\$500,000 | 30% | – | 30% | Provision of waste management services (Note) |

Note: SBE Waste Management Limited was established by the Group and overseas strategic partners for the tendering of waste management projects.

The above associate is accounted for using the equity method in the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong Dollars unless otherwise indicated)

19. AVAILABLE-FOR-SALE FINANCIAL ASSETS

| | 2016 HK\$'000 | 2015 HK\$'000 |
|--|------------------|------------------|
| Investments in life insurance, at fair value | 13,286 | 12,941 |

Investments in life insurance represents investments in life insurance policies for the key management, executed in Hong Kong. There are no fixed maturity and no quoted market price for such investments. The return of the investments will be based on the guarantee minimum return rate. As at 31 December 2016, the investments in life insurance of HK\$13,286,000 (2015: HK\$12,941,000) was pledged for banking facilities granted to the Group.

The fair values are determined based on the surrender value of the life insurance policies at the end of each reporting period.

During the year ended 31 December 2016, a fair value gain of HK\$345,000 (2015: HK\$402,000) was recognised and credited to other comprehensive income.

20. PLEDGED BANK DEPOSITS

The amount represents deposits pledged to banks to secure bank borrowings that will be fully repaid in 2017, at when the pledged deposits will be released. Accordingly such deposits were classified as non-current assets as at 31 December 2015 and reclassified to current assets as at 31 December 2016.

21. INVENTORIES

| | 2016 HK\$'000 | 2015 HK\$'000 |
|------------------|------------------|------------------|
| Consumable goods | 4,942 | 4,955 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong Dollars unless otherwise indicated)

22. TRADE RECEIVABLES

| | 2016 HK\$'000 | 2015 HK\$'000 |
|-------------------|------------------|------------------|
| Trade receivables | 251,905 | 269,620 |

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

| | 2016 HK\$'000 | 2015 HK\$'000 |
|-----------------------------------|------------------|------------------|
| Within 60 days | 189,624 | 231,343 |
| Over 60 days but within 120 days | 53,575 | 24,381 |
| Over 120 days but within 365 days | 7,651 | 13,702 |
| Over 365 days | 1,055 | 194 |
| | 251,905 | 269,620 |

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.

Included in the Group's trade receivables are balances totalling HK\$33,448,000 (2015: HK\$23,666,000) as at 31 December 2016 in respect of non-government organisations which were past due but not impaired with the following ageing analysis:

| | 2016 HK\$'000 | 2015 HK\$'000 |
|-----------------------------------|------------------|------------------|
| Overdue by: | | |
| Within 60 days | 22,869 | 18,125 |
| Over 60 days but within 120 days | 5,902 | 3,226 |
| Over 120 days but within 365 days | 3,886 | 2,121 |
| Over 365 days | 791 | 194 |
| | 33,448 | 23,666 |

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, management believes that no impairment allowance is necessary in respect of these balances as there have not been a significant change in credit risk and the balances are still considered fully recoverable. The Group does not hold any collateral over those balances. No impairment loss was recognised by the Group at 31 December 2016 (2015: Nil).

The Group's trade receivables of HK\$72,057,000 (2015: HK\$113,167,000) as at 31 December 2016 were pledged for certain banking facilities granted to the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong Dollars unless otherwise indicated)

23. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

| | 2016 HK\$'000 | 2015 HK\$'000 |
|-------------------|------------------|------------------|
| Prepayments | 8,248 | 5,486 |
| Deposits | 4,527 | 4,344 |
| Other receivables | 8,746 | 3,317 |
| Total | 21,521 | 13,147 |

Included in deposits as at 31 December 2016 are performance deposits of HK\$1,512,000 (2015: HK\$1,273,000) in respect of certain service contracts of the Group, which are interest-free and recoverable at the end of the service contracts.

Included in other receivables as at 31 December 2016 is an amount of HK\$5,000,000 (2015: Nil) due from Shanghai Genyuan Environmental Co., Limited ("Shanghai Genyuan", a company principally engaged in harmless treatment of organic wastes and resources utilisation in the PRC) in respect of a refundable deposit in relation to the proposed acquisition of certain equity interest in Shanghai Genyuan. The proposed acquisition was terminated during the current year as the Group could not reach an agreement with the seller on certain crucial terms. The amount as at 31 December 2016 is unsecured, interest free and repayable within one year based on the repayment schedule agreed with Shanghai Genyuan.

All other prepayments, deposits and other receivables are expected to be recovered or recognised as expense within one year.

24. BIOLOGICAL ASSETS

Movements of biological assets are summarised as follows:

| | 2016 HK\$'000 | 2015 HK\$'000 |
|---|------------------|------------------|
| Plants and flowers | | |
| Balance as at 1 January | 6,820 | 463 |
| Purchases | 1,652 | 5,427 |
| Usage in services | (54) | (18) |
| Disposal | (447) | – |
| Change in fair value less costs to sell | 1,729 | 948 |
| Balance as at 31 December | 9,700 | 6,820 |

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 2016 and 2015 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. The biological assets were classified as Level 2 under the fair value hierarchy.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong Dollars unless otherwise indicated)

25. CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise:

| | 2016 HK\$'000 | 2015 HK\$'000 |
|------------------------|------------------|------------------|
| Deposits with banks | 5,058 | – |
| Cash and bank balances | 50,677 | 90,346 |
| | 55,735 | 90,346 |

As at 31 December 2016, the balances that were placed with banks or on hand in the PRC and included in the cash and bank balances amounted to HK\$716,000 (2015: HK\$1,000,000). Remittance of funds out of the PRC is subject to the exchange restriction imposed by the PRC government.

26. TRADE PAYABLES

| | 2016 HK\$'000 | 2015 HK\$'000 |
|----------------|------------------|------------------|
| Trade payables | 26,979 | 23,654 |

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

| | 2016 HK\$'000 | 2015 HK\$'000 |
|---------------------------------|------------------|------------------|
| Within 30 days | 15,906 | 15,744 |
| Over 30 days but within 60 days | 6,635 | 2,894 |
| Over 60 days but within 90 days | 535 | 672 |
| Over 90 days | 3,903 | 4,344 |
| | 26,979 | 23,654 |

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

27. ACCRUALS, DEPOSITS RECEIVED AND OTHER PAYABLES

| | 2016 HK\$'000 | 2015 HK\$'000 |
|-------------------|------------------|------------------|
| Accruals | | |
| — staff costs | 101,879 | 110,197 |
| — others | 12,418 | 9,672 |
| | 114,297 | 119,869 |
| Deposits received | 170 | 530 |
| Other payables | 6 | 411 |
| | 114,473 | 120,810 |

All of the accruals, deposits received and other payables are expected to be settled or recognised as income within one year or repayable on demand.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong Dollars unless otherwise indicated)

28. BANK BORROWINGS

The analysis of the carrying amount of the bank borrowings is as follows:

| | 2016 HK\$'000 | 2015 HK\$'000 |
|--|------------------|------------------|
| Current liabilities | | |
| Current portion of term loans from banks | 76,522 | 125,774 |
| Non-current portion of term loans from banks repayable on demand | 5,977 | 403 |
| | 82,499 | 126,177 |
| Non-current liabilities | | |
| Non-current portion of term loans from banks | – | 9,204 |
| | 82,499 | 135,381 |

At the end of the reporting period, the bank borrowings were secured as follows:

| | 2016 HK\$'000 | 2015 HK\$'000 |
|-----------|------------------|------------------|
| Secured | 72,499 | 135,381 |
| Unsecured | 10,000 | – |
| | 82,499 | 135,381 |

The secured bank loans of the Group as at 31 December 2016 and 2015 were secured by:

- (i) pledged bank deposits of HK\$5,140,000 as at 31 December 2016 (2015: HK\$5,137,000);
- (ii) mortgage of the Group's leasehold land and buildings of HK\$17,179,000 as at 31 December 2016 (2015: HK\$17,730,000);
- (iii) pledge of the Group's available-for-sale financial assets of HK\$13,286,000 as at 31 December 2016 (2015: HK\$12,941,000); and
- (iv) pledge of the Group's trade receivables of HK\$72,057,000 as at 31 December 2016 (2015: HK\$113,167,000).

The bank loans of the Group of HK\$82,499,000 as at 31 December 2016 (2015: HK\$135,381,000) bear interest ranging from 1.21% to 5.75% (2015: 1.19% to 5.75%) per annum.

Banking facilities of HK\$129,900,000 (2015: HK\$188,219,000) as at 31 December 2016 are subject to the fulfilment of covenants relating to certain of the Group's financial ratios. If the Group were to breach the covenants, the drawn down facilities would become payable on demand. As at 31 December 2016, such facilities were utilised to the extent of HK\$45,973,000 (2015: HK\$117,817,000). The Group regularly monitors its compliance with these covenants. As at 31 December 2016, none of the covenants relating to the drawn down facilities had been breach (2015: Nil). Further details of the Group's management of liquidity risk are set out in Note 6(b).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong Dollars unless otherwise indicated)

29. OBLIGATIONS UNDER FINANCE LEASES

The Group leased certain of its motor vehicles under finance leases. At the end of the reporting period, the Group had obligations under finance leases repayable as follows:

| | 2016 HK\$'000 | 2015 HK\$'000 |
|---|------------------|------------------|
| Minimum lease payments under finance leases | | |
| — within one year | 23,188 | 25,824 |
| — after one year but within five years | 36,821 | 44,555 |
| | 60,009 | 70,379 |
| Less: Future interest expenses | (3,102) | (4,213) |
| Present value of lease obligations | 56,907 | 66,166 |

| | 2016 HK\$'000 | 2015 HK\$'000 |
|---|------------------|------------------|
| Present value of minimum lease payment under finance leases | | |
| — within one year | 21,601 | 23,726 |
| — after one year but within five years | 35,306 | 42,440 |
| | 56,907 | 66,166 |

As at 31 December 2016, the obligations under finance leases of the Group of HK\$56,907,000 (2015: HK\$66,166,000) were guaranteed by the Company and a subsidiary of the Company.

30. DEFERRED TAXATION

The components of deferred tax (assets)/liabilities recognised in the consolidated statement of financial position and the movements during the year are as follows:

| | Accelerated tax depreciation HK\$'000 | Tax losses HK\$'000 | Total HK\$'000 |
|--|--|------------------------|-------------------|
| As at 1 January 2015 | 16,629 | (6,518) | 10,111 |
| Charged/(credited) to profit or loss (Note 12) | 505 | (928) | (423) |
| As at 31 December 2015 and 1 January 2016 | 17,134 | (7,446) | 9,688 |
| Charged to profit or loss (Note 12) | 729 | 90 | 819 |
| As at 31 December 2016 | 17,863 | (7,356) | 10,507 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong Dollars unless otherwise indicated)

30. DEFERRED TAXATION *(Continued)*

Reconciliation to the consolidated statement of financial position is as follows:

| | 2016 HK\$'000 | 2015 HK\$'000 |
|---|------------------|------------------|
| Deferred tax liabilities recognised in the consolidated statement of financial position | 10,507 | 9,688 |

Deferred tax assets not recognised

As at 31 December 2016, the Group has not recognised deferred tax assets in respect of the estimated unused tax losses of HK\$8,274,000 (2015: HK\$4,617,000) as it is not probable that future taxable profits against which the losses can be utilised will be available in the relevant tax jurisdiction and entity. The tax losses do not expire under current tax legislation.

31. SHARE CAPITAL

| | Number of shares '000 | Nominal value HK\$'000 |
|--|-----------------------------|------------------------------|
| Authorised: <i>Ordinary shares of HK\$0.01 each</i> As at 1 January 2015, 31 December 2015, 1 January 2016 and 31 December 2016 | 1,000,000 | 10,000 |
| Issued and fully paid: <i>Ordinary shares of HK\$0.01 each</i> As at 1 January 2015, 31 December 2015, 1 January 2016 and 31 December 2016 | 415,000 | 4,150 |

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong Dollars unless otherwise indicated)

32. RESERVE

Movements in components of equity

The reconciliation between the opening and closing balances of each component of the Group's consolidated equity is set out in the consolidated statement of changes in equity. Details of the changes in the Company's individual components of equity between the beginning and the end of the year are set out in Note 40 to the financial statements.

Nature and purpose of reserves

(i) **Share premium**

The application of the share premium account is governed by the Company Law of Cayman Islands.

(ii) **Share option reserve**

This reserve represents the grant date fair value of unexercised share options granted to eligible persons, including any full-time and part-time employee, director, consultant or advisor of the Group that was recognised in accordance with the accounting policy in Note 2(h)(ii).

(iii) **Other reserve**

Other reserve represents the difference between the nominal value of the shares issued by the Company in exchange for the nominal value of the share capital of its subsidiary arising from the reorganisation in prior years.

(iv) **Available-for-sale financial assets revaluation reserve**

The reserve comprises the cumulative net change in the fair value of available-for-sale financial assets held at the end of the reporting period and is dealt with in accordance with the accounting policies in Note 2(o).

(v) **Translation reserve**

The translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations. The reserve is dealt with in accordance with the accounting policies set out in Note 2(q).

33. SHARE OPTION SCHEME

The Company has a share option scheme which was adopted on 24 April 2014 whereby the directors of the Company are authorised, at their discretion, to invite employees of the Group or others who contribute to the development and growth of the Group, to take up options at nominal consideration to subscribe for shares of the Company. The options vest after two years from the date of grant and are then exercisable within a period up to 23 April 2024. Each option gives the holder the right to subscribe for one ordinary share in the Company.

A summary of the share option scheme of the Company are set out in the section headed "Share Option Scheme" in the Report of the Directors of the annual report.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong Dollars unless otherwise indicated)

33. SHARE OPTION SCHEME (Continued)

The following table discloses details of the Company's share options in issue under the share option scheme during the year.

| Name of category of participant | Date of grant | Exercise period | Exercise price per share HK\$ | At 1 January 2016 | Number of options | | |
|--|---------------|-------------------------|-------------------------------|-------------------|-------------------------|------------------------|---------------------|
| | | | | | Granted during the year | Lapsed during the year | At 31 December 2016 |
| Directors | 16-10-2015 | 16-10-2017 to 23-4-2024 | 1.00 | 1,624,000 | - | - | 1,624,000 |
| Employees | 16-10-2015 | 16-10-2017 to 23-4-2024 | 1.00 | 3,592,000 | - | (100,000) | 3,492,000 |
| Total: | | | | 5,216,000 | - | (100,000) | 5,116,000 |
| Weighted average exercise price (HK\$) | | | | 1.00 | - | 1.00 | 1.00 |

The vesting period of the share option is from 16 October 2015 to 15 October 2017.

No share option was exercised during the years ended 31 December 2016 and 2015, while 100,000 share options were lapsed due to resignation of employee during the year ended 31 December 2016.

The fair value of services received in return for share options granted is measured by reference to the fair value of share options granted. The estimate of the fair value of the share options granted is measured based on the Binomial Option Pricing Model with the following assumptions adopted in this model:

| | |
|--------------------------------|-----------------|
| Date of grant | 16 October 2015 |
| Fair value at measurement date | HK\$0.39 |
| Share price | HK\$0.94 |
| Exercise price | HK\$1.00 |
| Expected volatility | 44.58% |
| Option life | 10 years |
| Expected dividends | 1.383% |
| Risk-free interest rate | 1.473% |

The expected volatility is based on the historical volatility, adjusted for any expected changes to future volatility based on publicly available information. Expected dividends are based on historical dividends. Changes in the subjective input assumptions could materially affect the fair value estimate.

Share options were granted under a service condition. This condition has not been taken into account the grant date fair value measurement of the services received. There were no market conditions associated with the share options granted.

The Group recognised equity-settled share-based payments of HK\$986,000 (2015: HK\$210,000) arising from options vested during the year ended 31 December 2016.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong Dollars unless otherwise indicated)

34. RETIREMENT BENEFIT COSTS

Defined contribution retirement scheme

The Group operates a Mandatory Provident Fund Scheme (“MPF Scheme”) for all its qualifying employees in Hong Kong under the Mandatory Provident Fund Schemes Ordinance. The assets of the MPF Scheme are held separately from those of the Group in funds under the control of trustees. Under the MPF Scheme, the employer and its employees are each required to make contributions to the scheme at 5% of the employees’ relevant income, subject to a cap of monthly relevant income of HK\$30,000. Contributions to the scheme vest immediately. The only obligation of the Group with respect of MPF Scheme is to make the required contributions under the MPF Scheme. No forfeited contribution is available to reduce the contribution payable in the future years.

The total expenses recognised in profit or loss included contributions to defined contribution retirement scheme for the Group of HK\$28,516,000 (2015: HK\$32,955,000) for the year ended 31 December 2016.

35. OPERATING LEASE COMMITMENT

At the end of the reporting period, the Group had total future minimum lease payments under non-cancellable operating leases payable as follows:

| | 2016 HK\$'000 | 2015 HK\$'000 |
|--------------------------------------|------------------|------------------|
| Within one year | 4,594 | 2,650 |
| After one year but within five years | 3,255 | 3,339 |
| After five years | 1,463 | 2,164 |
| | 9,312 | 8,153 |

The Group entered into commercial leases for certain land and office buildings. These leases run for an initial period of one to ten years. None of the leases includes contingent rentals.

36. MAJOR NON-CASH TRANSACTION

Additions to property, plant and equipment of approximately HK\$18,178,000 (2015: HK\$17,737,000) for the year ended 31 December 2016 was made under the finance leases.

37. RELATED PARTY TRANSACTIONS

Save as disclosed elsewhere in these financial statements, the Group entered into the following material related party transactions.

- (a) Compensation paid to key management personnel of the Group, including director’s remuneration as detailed in Note 15.

| | 2016 HK\$'000 | 2015 HK\$'000 |
|-------------------------------------|------------------|------------------|
| Short term employee benefits | 9,581 | 9,211 |
| Retirement scheme contributions | 361 | 367 |
| Equity-settled share-based payments | 315 | 68 |
| | 10,257 | 9,646 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong Dollars unless otherwise indicated)

37. RELATED PARTY TRANSACTIONS (Continued)

| (b) | Nature of related party relationship | Nature of transaction | Interested director | 2016 HK\$'000 | 2015 HK\$'000 |
|-----|---|--|---------------------|------------------|------------------|
| | The company owned by close member of director and shareholder | Purchase of cleaning equipment and materials | Mr. Ng Wing Hong | 1,460 | 1,419 |
| | Common director and shareholder | Information technology service fee | Mr. Ng Wing Hong | 1,002 | 3,153 |
| | Director and shareholder | Rental expenses | Mr. Ng Wing Hong | 576 | 576 |

(c) Applicability of the Listing Rules relating to connected transactions

The related party transactions as disclosed in Note 37(b) above constitute continuing connected transactions as defined in Chapter 14A of the Listing Rules. The disclosures defined by Chapter 14A of the Listing Rules are provided in section "Connected Transactions" of the Directors' Report.

38. CAPITAL COMMITMENTS OUTSTANDING NOT PROVIDED FOR IN THE FINANCIAL STATEMENTS

| | 2016 HK\$'000 | 2015 HK\$'000 |
|--|------------------|------------------|
| Capital expenditure in respect of the acquisition of motor vehicles contracted for | | |
| — Within one year | — | 1,367 |
| Capital expenditure in respect of the addition of equipment and machinery contracted for | | |
| — Within one year | 702 | 7 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong Dollars unless otherwise indicated)

39. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

| | 2016 HK\$'000 | 2015 HK\$'000 |
|-----------------------------------|------------------|------------------|
| Non-current assets | | |
| Investments in subsidiaries | 817 | 144 |
| Current assets | | |
| Prepayments and other receivables | 5,076 | 102 |
| Amounts due from subsidiaries | 102,761 | 108,387 |
| Cash and cash equivalents | 352 | 530 |
| | 108,189 | 109,019 |
| Current liabilities | | |
| Accruals and other payables | 1,996 | 2,645 |
| Amount due to a subsidiary | 403 | 106 |
| | 2,399 | 2,751 |
| Net current assets | 105,790 | 106,268 |
| Net assets | 106,607 | 106,412 |
| Capital and reserves | | |
| Share capital | 4,150 | 4,150 |
| Reserves | 102,457 | 102,262 |
| Total equity | 106,607 | 106,412 |

Approved by the Board of Directors on 30 March 2017 and signed on its behalf by:

Ng Wing Hong
Director

Ng Yuk Kwan Phyllis
Director

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong Dollars unless otherwise indicated)

40. CHANGES IN EQUITY OF THE COMPANY

| | Share Capital HK\$'000 | Share Premium HK\$'000 | Share option reserve HK\$'000 | (Accumulated losses)/ retained earnings HK\$'000 | Total HK\$'000 |
|--|------------------------------|------------------------------|--|--|-------------------|
| As at 1 January 2015 | 4,150 | 100,850 | – | (14,113) | 90,887 |
| Profit and total comprehensive income for the year | – | – | – | 20,710 | 20,710 |
| Dividends approved in respect of the previous year (Note 13(b)) | – | – | – | (5,395) | (5,395) |
| Equity-settled share-based payments | – | – | 210 | – | 210 |
| As at 31 December 2015 and 1 January 2016 | 4,150 | 100,850 | 210 | 1,202 | 106,412 |
| Profit and total comprehensive income for the year | – | – | – | 6,264 | 6,264 |
| Dividends approved in respect of the previous year (Note 13(b)) | – | – | – | (7,055) | (7,055) |
| Equity-settled share-based payments | – | – | 986 | – | 986 |
| As at 31 December 2016 | 4,150 | 100,850 | 1,196 | 411 | 106,607 |

At 31 December 2016, the aggregate amount of reserves available for distribution to equity shareholders of the Company amounted to HK\$102,457,000 (2015: HK\$102,262,000).

41. CONTINGENT LIABILITIES

In prior years, a legal action was taken against the Group for a claim of HK\$3,230,000 in respect of a personal injury taken place in the servicing area of the Group. The claim was still outstanding and the Group was in the process of negotiation with the claimant for the settlement as at 31 December 2016. Subsequently in January 2017, the Group received a revised claim of HK\$5,956,000 based on an updated assessment of the loss by the claimant as a result of the injury. Based on the advice from the Group's legal counsel, the Group estimated that it would be liable to pay HK\$900,000 for the settlement of the claim and accordingly, such amount was provided for as at 31 December 2016 and included in the Group's consolidated statement of financial position as "Accruals, deposits received and other payables".

42. IMMEDIATE AND ULTIMATE CONTROLLING PARTY

At 31 December 2016, the directors consider the immediate parent and ultimate controlling company of the Group to be Baguio Green (Holding) Limited, which is incorporated in the British Virgin Islands. Baguio Green (Holding) Limited does not produce financial statements available for public use and is controlled by Mr Ng Wing Hong, a director of the Company.

43. APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements were approved and authorised for issue by the Board of Directors on 30 March 2017.

FIVE-YEAR FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years, as extracted from the audited consolidated financial statements in this annual report and the Prospectus, is set out below:

| | Year ended 31 December | | | | |
|--|------------------------|------------------|------------------|------------------|------------------|
| | 2016 HK\$'000 | 2015 HK\$'000 | 2014 HK\$'000 | 2013 HK\$'000 | 2012 HK\$'000 |
| Results | | | | | |
| Revenue | 1,094,788 | 1,224,887 | 1,028,711 | 821,259 | 644,714 |
| Profit before taxation | 30,759 | 28,731 | 25,012 | 70,366 | 34,656 |
| Income tax expense | (5,748) | (4,645) | (7,331) | (7,865) | (5,776) |
| Profit for the year | 25,011 | 24,086 | 17,681 | 62,501 | 28,880 |
| Attributable to: Equity shareholders of the Company | 25,011 | 24,086 | 17,681 | 62,501 | 28,880 |

| | As at 31 December | | | | |
|--|-------------------|------------------|------------------|------------------|------------------|
| | 2016 HK\$'000 | 2015 HK\$'000 | 2014 HK\$'000 | 2013 HK\$'000 | 2012 HK\$'000 |
| Assets and liabilities | | | | | |
| Total assets | 519,007 | 564,720 | 517,547 | 393,702 | 286,399 |
| Total liabilities | (292,836) | (357,716) | (329,846) | (297,019) | (248,607) |
| | 226,171 | 207,004 | 187,701 | 96,683 | 37,792 |
| Attributable to: Equity shareholders of the Company | 226,171 | 207,004 | 187,701 | 96,683 | 37,792 |

碧瑤綠色集團有限公司
Baguio Green Group Limited