



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



年報 2017 Annual Report

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# 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

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

## COMPANY WEBSITE ADDRESS

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

## STOCK CODE

1397

Dear Shareholders

On behalf of the board of directors (the "Board") of Baguio Green Group Limited (the "Company", and together with its subsidiaries, the "Group", or "Baguio"), it is my pleasure to present the consolidated results of the Group for the year ended 31 December 2017 (the "Year" or "2017").

## New Chapter

2017 opens a new chapter for the Group in recycling. Subsequent to the 7-years contract in July 2017 for operating the animal waste composting plant in Ngau Tam Mei, the Group was also granted in July 2017 a 20-years lease in Eco-Park to build a treatment plant to recycle plastic bottles; in November two 5-years Glass Management Contracts for recycling glass bottles generated in Hong Kong Island and New Territories respectively; in December two one-off pilot contracts for recycling Christmas trees, peach blossom trees and bamboos which otherwise would be disposed to dumping sites. These contracts signify remarkable inroads made by the Group in the local recycling industry which has just started to emerge under the great pressure of depleting landfill and the rejection of importing of unprocessed wastes into Mainland China. As the first mover in setting up treatment facilities for plastic bottles, glass bottles and horticultural wastes and the only operator of the animal waste processing plant in Hong Kong, the Group is now the most comprehensive recycler in Hong Kong, occupying the strategic highland for the emerging local recycling industry.

## Vision for Local Recycling Industry

The Group firmly believes that local waste recycling facilities will become basic necessity for every developed city. As no more country will accept untreated wastes of others, local waste being treated locally and recycled into local products will become a global norm sooner or later. Hong Kong is no exception. In fact, Hong Kong Government has taken great efforts in the past decade to transform Hong Kong from a city-of-landfill to a city-of-recycling. Many of these efforts have taken grounds in 2017 as mentioned above. With the onset of the Municipal Waste Charging Scheme in late 2019 and the global trend of restricting exported wastes, the Group believes that there will be a transformation of the recycling landscape in Hong Kong in the coming few years, for which the Group is well prepared for the coming opportunities.

In addition to above, the Group is also putting efforts to build a comprehensive collection network for recyclables covering the whole territory in Hong Kong. We believe that such network will be a crucial and a much-needed infrastructure for the recycling industry in Hong Kong. The Group's current fleet of over 300 vehicles has given us a good competitive advantage over our competitors to build this network.

Recycling will be a new driving force fuelling the new growth and profits of the Group in the coming years.

## Core Business

Our four core business lines showed considerable growth in 2017. However, with the intensifying competition and soaring labour costs, 2017 was also a challenging year for our existing business, especially the labour-intensive cleaning services. Facing such challenge, we managed to achieve satisfactory results by leveraging on our leading market position, efficient operating scale, strong brand equity as well as established financing channels. The Group sees great potential in the landscaping business as there is rising requirement of greening in various private and public works. To capture more market share in this sector, the Group has expanded the nursery in China to secure the supply and quality of planting materials. The Group believes that its core business will grow continuously in 2018 despite the worsening market competition.

Lastly, the Group would continue to explore the possibilities of merger and acquisition and potential cooperation with strategic partners to widen its service portfolio and geographical footprint in an attempt to deliver long term shareholder value.

# CHAIRMAN'S STATEMENT

## Appreciation

I would like to take this opportunity to express my heartfelt gratitude to our Baguio team for their continuous contribution to the Group's achievement. I would also extend my heartiest thanks to our shareholders, customers and business partners for their continuous support, and our fellow directors for their guidance. Looking ahead, we will work together with all stakeholders to drive the Group's growth and to maximise our shareholders' returns.

## Ng Wing Hong

*Chairman of the Board*

Hong Kong  
28 March 2018

## 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 providers 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

Baguio, being the industry leader in Hong Kong’s integrated environmental services, has been providing comprehensive environmental services ranging from cleaning, landscaping, pest management, and waste management and recycling. For the Group, the Year marked a year of venturing and expansion into new business segments, thanks to new policies, changing market demand, as well as its latest project development. Under the increasingly keen competition in the market, the Group was able to solidify its leading market position through its experiences in environmental services, highly effective management, and its dedication in tapping into new markets.

With resources conservation now becoming a global trend, the Group has also firmly entrenched itself in recycling services. In April 2017, the Group has entered into a servicing contract with HK Jockey Club, pursuant to which the Group is responsible for collecting and delivering animal manure to the Animal Waste Composting Plant (the “AWCP”) at Ngau Tam Mei for composting. In July 2017, Baguio again stretched the boundary of its services offerings and partnered with The Jardine Engineering Corporation Limited to win the contract from the Electrical and Mechanical Services Department to operate AWCP in composting the collected animal waste and turning it into organic compost. The above two contracts denoted our quality services and expansive services offerings in collecting animal waste, further demonstrating our ability to serve every step of the recycling supply chain, from waste collection to downstream waste reprocessing and reusing. The Group also successfully gained the contract from the Environmental Protection Department (the “EPD”) of Hong Kong to recycle yard waste namely Christmas tree and peach blossoms.

In addition, Baguio has again showcased its competitive edge, as it has successfully become the first contractor being awarded a glass management contract in Hong Kong. The Group obtained two glass management contracts from the EPD in respect of the recycling of glass bottle for Hong Kong Island (including Islands District) and the New Territories regions in October 2017, each for a term of 5 years. Under the said glass management contracts, Baguio is responsible to collect waste glass containers, and turn them to reusable materials, which will be used locally in Hong Kong or exported to overseas markets.

Meanwhile, in August 2017, the Group was awarded the tender lease of lot T6 in EcoPark, a 6,500 square meters piece of land, in return offering a great opportunity for the Group to expand its plastic waste recycling business. It is expected that the lease will commence in mid 2018 for a period of 20 years, and the Group aims to establish a recycling plant on the lot for transforming locally-generated plastic PET (Polyethylene terephthalate) and PE (Polyethylene) bottles, to useful raw materials. The Group believes that plastic recycling is the global trend with enormous market potential. With the Group’s extensive industry experiences, advanced technological capabilities and strong track records in large scale tendering, it is expected that Baguio would be able to enjoy first-mover advantage for future tenders, while contributing to government’s environmental advocacy and serving the purpose of community education.

Regarding its landscaping business, the Group expects a strong demand in the coming years, especially after the introduction of greening policy from the government. Apart from being awarded the yard waste collection contract in collecting Christmas tree and peach blossoms for the EPD, the Group has also expanded its plant nursery areas in Zhongshan, the People’s Republic of China (the “PRC”), to a total of 2,850,000 sq. ft., to ensure the quality, quantity, and variety of plants supplying to its customers and projects. Coupled with the support of Baguio’s experienced arborist and horticulturalist teams, the revenue from the landscaping segment enjoyed a significant increase of 26.2% during the Year. By riding on Baguio’s solid business foundation and well-established reputation in Hong Kong, these accomplishments would allow the Group to further sharpen its capabilities in landscaping while further expanding its market share.

## Market Review

According to the EPD, the landfills in Hong Kong were initially intended to serve until 2020, but could be exhausted way ahead of schedule if there is no immediate action to reduce current waste loads. To tackle the problem, the Hong Kong SAR Government has implemented corresponding measures in the past few years, advocating the idea of green consumption to the general public with the aim of raising public awareness of proper waste management. Specifically, policies such as the Municipal Solid Waste Charging Scheme (expected to be introduced in 2019 earliest), The Producer Responsibility Scheme on Glass Beverage Bottles Recycling, Food Waste Hong Kong Scheme and the upcoming commissioning of the organic waste treatment facility in Siu Ho Wan, are all encouraging the public and community to participate in source separation of waste, to minimize waste disposal, and to promote resources recovery. The aforementioned measures demonstrated the government's determination in advancing the development of the recycling industry, which has laid an ideal operating environment for Baguio's one-stop waste management and recycling business.

Riding on its established presence in Hong Kong, Baguio is also endeavoured to seek business opportunities in the environmental service and related markets in the PRC. In recent years, the PRC Government has been strongly advocating the environmental protection in order to build a "Beautiful China", with an ever-growing emphasis from various dimensions such as legislation, initiatives and urban planning. Such efforts included the revision of the "Environmental Protection Law" (《環境保護法》), the formulation of the "13th Five-Year" Eco-Environmental Protection Plan (《「十三五」生態環境保護規劃》), and the rolling out of an action plan for waste management. In the face of the severe pollution issues in the PRC, it represented an untapped market with great market potentials, providing the perfect opportunity for the Group to establish a strong foothold in the environmental industry in the PRC.

## Results

For the Year, the Group's revenue was approximately HK\$1,207.6 million, indicating a stable growth of approximately 10.3% from approximately HK\$1,094.8 million for the corresponding period of 2016, mainly attributable to the Group's dedicated efforts in gaining new and renewal contracts. Gross profit slightly increased by approximately 1.9% to approximately HK\$97.3 million (2016: approximately HK\$95.6 million) and gross profit margin decreased by 0.6 percentage points to approximately 8.1% (2016: 8.7%), as the rise in statutory minimum wage to HK\$34.5 per hour since 1 May 2017 has inevitably affected the cost level of the Group. Profit attributable to shareholders of the Company amounted to approximately HK\$20.6 million, representing a year-on-year decline of approximately 17.6% (2016: approximately HK\$25.0 million), with net profit margin decreased by 0.6 percentage points to approximately 1.7% (2016: 2.3%). Earnings per share was 5 HK cents (2016: 6 HK cents).

## Final Dividend

The Board recommends the payment of a final dividend for the Year at HK1.4 cents (2016: HK1.7 cents) per share, totalling HK\$5,810,000 (2016: HK\$7,055,000), subject to approval by the Shareholders of the Company (the "Shareholders") at the forthcoming annual general meeting (the "Annual General Meeting") of the Company to be held on 8 June 2018. If so approved by the Shareholders, it is expected that the final dividend will be paid out on or around 3 July 2018 to the Shareholders whose names appear on the register of members of the Company on 14 June 2018.

## Revenue breakdown of major business segments

	31 December 2016		For the year ended 31 December 2017		Change
	Revenue (HK\$ million)	% of total revenue	Revenue (HK\$ million)	% of total revenue	
Cleaning	803.4	73.4%	<b>903.1</b>	<b>74.8%</b>	+12.4%
Landscaping	123.4	11.3%	<b>155.7</b>	<b>12.9%</b>	+26.2%
Pest management	52.5	4.8%	<b>39.5</b>	<b>3.3%</b>	-24.8%
Waste management and recycling	115.5	10.5%	<b>109.3</b>	<b>9.0%</b>	-5.3%
<b>Total</b>	<b>1,094.8</b>	<b>100.0%</b>	<b>1,207.6</b>	<b>100.0%</b>	+10.3%

# MANAGEMENT DISCUSSION AND ANALYSIS

## Gross profit margin of major business segments

	For the year ended 31 December 2016	For the year ended 31 December 2017	Change
	Gross profit margin	Gross profit margin	
Cleaning	6.4%	<b>6.2%</b>	-0.2p.p
Landscaping	17.0%	<b>16.4%</b>	-0.6p.p
Pest management	13.1%	<b>12.6%</b>	-0.5p.p
Waste management and recycling	14.4%	<b>9.9%</b>	-4.5p.p
Overall	8.7%	<b>8.1%</b>	-0.6p.p

Riding on our professional management, quality services and stringent control in safety precaution, the Group continued to maintain a high tender success rate at approximately 37% in 2017 (2016: 35%). In terms of business segment, the Group had delivered encouraging results in cleaning and landscaping services. The Group successfully renewed four contracts with the Leisure and Cultural Services Department of Hong Kong for provision of cleaning and supporting services in May 2017. Other than the provision of general cleaning services, we continuously strived for enlarging our services scope to enhance our competitiveness. During the Year, the Group obtained the new contracts from hospitals for provision of domestic and portering services and a new contract from an air-line company to provide store packing services covering the beverage packing, delivery of carts to loading bay, stock taking, and deboxing. In the waste management and recycling segment, in spite of the expiration of two waste collection contracts and initial operating expenses incurred from new contracts affecting the gross profit margin, we continue to widen and deepen our recycling business. Other than the provision of collection services for three-coloured recycling bins in all 18 districts of Hong Kong, we commenced the stable waste collection services with Jockey Club and the operation of the AWCP in composting the collected animal waste and turning it into organic compost. In addition, the glass management contracts for Hong Kong Island and the New Territories Districts have also commenced in November 2017.

## Contracts on-hand

As of 31 December 2017, the Group has a total amount of approximately HK\$2,246.4 million worth of unexpired contracts on hand, of which, approximately HK\$1,133.0 million will be recognised by the end of 2018, approximately HK\$661.2 million will be recognised in 2019 and the rest of approximately HK\$452.2 million will be recognised in 2020 and beyond.

	Backlog contract value (HK\$ million)	Contract value to be recognised by 31 December 2018 (HK\$ million)	Contract value to be recognised by 31 December 2019 (HK\$ million)	Contract value to be recognised in 2020 and beyond (HK\$ million)
Cleaning services	1,380.7	873.0	421.8	85.9
Landscaping services	276.6	130.2	97.9	48.5
Pest management services	55.7	34.3	21.4	–
Waste management and recycling services	533.4	95.5	120.1	317.8
Total	2,246.4	1,133.0	661.2	452.2



# MANAGEMENT DISCUSSION AND ANALYSIS

## HUMAN RESOURCES

As at 31 December 2017, the Group employed 8,853 employees, including both full time and part time (31 December 2016: 7,967). 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.

## PROSPECTS

Looking into 2018, the Group will endeavour to materialise its expansion in the PRC while pursuing a stable growth in its core businesses in Hong Kong. Baguio, as the market leader in environmental services in Hong Kong, will continue to uphold its core philosophy of creating a "Green & Clean" environment for the society, contributing to the promotion of waste recycling in Hong Kong, while striving to capture opportunities arising under the schemes promulgated by the Hong Kong SAR Government.

The Group will continue to look into the potentials to establish processing facilities and to further expand its footprints in the recycling business. By seeking collaboration with industry experts, the Group will be able to advance in the recycling market by incorporating industry-forward technologies and experiences, and accelerate the development of Hong Kong's recycling industry.

At the same time, the Group aims to further advance the establishment of the recycling plant in EcoPark, with a keen eye on the market trend and demand for recyclables, including glass, plastic raw material and relevant products, and other recyclables, in order to be well-positioned to participate in the soon-vibrant resource recycling market in Hong Kong. With higher degree of automation and more experiences in such business, we expect that there would be a gradual increase of the weight of our recycling segment in terms of the proportion of revenue and contribution amongst our business segments.

Riding on Baguio's strong track record of quality services, the Group believes that the synergies between the four business segments provide a solid foundation for sustainable development. Looking forward to 2018, the Group will remain prudent, yet optimistic, in exploring new business opportunities in order to further cement its leading market position.

## FINANCIAL REVIEW

### Revenue

The Group's revenue for the years ended 31 December 2017 and 2016 was approximately HK\$1,207.6 million and HK\$1,094.8 million, respectively, representing an increase of approximately 10.3%. The increase was mainly due to more renewed contracts and new contracts gained during the Year in our services segments of cleaning and landscaping. On the other hand, revenue in our pest management and waste management and recycling service segment had dropped as some contracts of these segments had expired during the Year with other new contracts commencing near the end of Year.

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 2017 and 2016, the cost of services of the Group amounted to approximately HK\$1,110.3 million and HK\$999.2 million respectively, representing approximately 91.9% and 91.3% 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 increased slightly due to the rise in statutory minimum wage during the Year.

## Gross Profit

The Group's gross profit for the Year was approximately HK\$97.3 million, representing an increase of approximately 1.9% from approximately HK\$95.6 million for the year ended 31 December 2016. The increase was mainly due to the increase in the Group's revenue.

## Gross Profit Margin

The gross profit margins of the Group for the years ended 31 December 2017 and 2016 were approximately 8.1% and 8.7% respectively. As mentioned above, the decrease in gross profit margin was mainly due to the rise in statutory minimum wage 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 2017 and 2016 were approximately HK\$2.0 million and HK\$1.7 million respectively, representing an increase of approximately 17.2%. 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 2017 and 2016 were approximately HK\$1.8 million and HK\$2.0 million respectively, representing a decrease of approximately 12.4%, and accounting for approximately 0.1% of each year's total revenue.

## Administrative Expenses

The administrative expenses incurred by the Group for the years ended 31 December 2017 and 2016 were approximately HK\$68.8 million and HK\$63.1 million respectively, representing an increase of approximately 9.0%, and approximately 5.7% and 5.8% 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. As disclosed in note 23 to the consolidated financial statements, a provision of approximately HK\$2.3 million was made at 31 December 2017.

## Finance Costs

The finance costs of the Group amounted to approximately HK\$4.3 million and HK\$5.3 million for the years ended 31 December 2017 and 2016 respectively, representing approximately 0.4% and approximately 0.5% of the Group's revenue in the respective year. The decrease was mainly due to the decrease in the average level of bank borrowings and the competitive borrowings rates obtained by the Group during the Year.

## Profit for the Year Attributable to Equity Shareholders of The Company

The Group's profit attributable to the Shareholders of the Company for each of the year ended 31 December 2017 and 2016 was the approximately HK\$20.6 million and HK\$25.0 million respectively, representing a decrease of approximately 17.6%. The decrease was primarily due to the factors described above.

# MANAGEMENT DISCUSSION AND ANALYSIS

## 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\$27.4 million (2016: HK\$64.2 million). The Group had available cash and bank balances amounting to approximately HK\$48.0 million as at 31 December 2017 (31 December 2016: HK\$55.7 million), representing a decrease of approximately 13.9% from 31 December 2016. The Group's bank borrowings amounted to approximately HK\$108.7 million as at 31 December 2017 (31 December 2016: HK\$82.5 million), representing an increase of approximately 31.8% from 31 December 2016. As at 31 December 2017, the Group's finance lease payables were approximately HK\$42.4 million (31 December 2016: HK\$56.9 million) for financing the acquisition of motor vehicles for operation use. During the Year, no financial instruments were used for hedging purposes (2016: Nil).

As at 31 December 2017, the Group's total current assets and current liabilities were approximately HK\$369.4 million (31 December 2016: HK\$348.9 million) and HK\$280.4 million (31 December 2016: HK\$247.0 million) respectively, while the current ratio was approximately 1.3 times (31 December 2016: approximately 1.4 times).

The gearing ratio of the Group was approximately 0.6 times as at 31 December 2017 (31 December 2016: 0.6 times), which was calculated based on the total interest-bearing bank borrowings and obligations under finance leases over total equity of the Group.

## CAPITAL EXPENDITURES AND CAPITAL COMMITMENT

For the Year, our capital expenditures which mainly included additions in motor vehicles, equipment and office premises amounted to approximately HK\$38.3 million (2016: HK\$26.2 million). These capital expenditures were funded by borrowings from banks 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 2017, the Group had capital commitment contracted for of approximately HK\$3.3 million (31 December 2016: HK\$0.7 million) and capital commitment authorised but not contracted for of approximately HK\$100.0 million (31 December 2016: Nil).

## CONTINGENT LIABILITIES

As at 31 December 2017, the Group did not have any material contingent liabilities.

# MANAGEMENT DISCUSSION AND ANALYSIS

## USE OF PROCEEDS

The shares of the Company were listed on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) on 22 May 2014 and the Company raised net proceeds of approximately HK\$90.0 million. 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 2017, the net proceeds were used for the following purposes:

### Summary of use of proceeds

	Available (HK\$ million)	Utilised (HK\$ million)	Unutilised (HK\$ million)
Acquisition of vehicles and equipment for expanding and broadening for existing services	18.4	18.4	–
Development and expansion of waste management and recycling services	9.9	9.9	–
Enhancing operation efficiency and quality services	11.7	11.7	–
Working capital and other general purposes	35.0	35.0	–
Development in glass and plastic management projects	15.0	8.6	6.4
	90.0	83.6	6.4

As at 31 December 2017, the unutilised proceeds were deposited in licensed banks in Hong Kong.

## CHARGES ON THE GROUP’S ASSETS

As at 31 December 2017, the amounts payable under finance leases within one year amounted to approximately HK\$18.3 million (31 December 2016: HK\$21.6 million), and that after one year but within five years amounted to approximately HK\$24.1 million (31 December 2016: HK\$35.3 million).

As at 31 December 2017, the obligations under finance leases of the Group were guaranteed by the Company and a subsidiary of the Company.

In addition, we have (i) pledged bank deposits of approximately HK\$5.1 million as at 31 December 2017 (31 December 2016: HK\$5.1 million); (ii) mortgage of the Group’s leasehold land and buildings of approximately HK\$29.9 million as at 31 December 2017 (31 December 2016: HK\$17.2 million); (iii) pledge of the Group’s available-for-sale financial assets of approximately HK\$13.6 million as at 31 December 2017 (31 December 2016: HK\$13.3 million); and (iv) pledge of the Group’s trade receivables of approximately HK\$37.8 million as at 31 December 2017 (31 December 2016: HK\$72.1 million).

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

## ACQUISITION, DISPOSAL AND SIGNIFICANT INVESTMENT HELD

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

## INTELLECTUAL PROPERTIES

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

# BIOGRAPHICAL DETAILS OF DIRECTORS

## EXECUTIVE DIRECTORS

**Ng Wing Hong (吳永康)**, aged 63, 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 49, 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 67, 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 45, 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 49, 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 reward management, resourcing and staffing, talent management, employees' compensation, performance management and employee relations.

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 53, 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 62, 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 62, 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 59, 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 2017.

## 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 35 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 36 to 62 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 2017 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 68. The Directors recommended the payment of a final dividend of HK1.4 cents per share, totalling approximately HK\$5,810,000, to be paid on or around 3 July 2018, to the shareholders of the Company (the "Shareholders") whose names appear on the register of members of the Company on 14 June 2018.

## 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 2017, the Company's reserve available for distribution, calculated in accordance with the Companies Law of the Cayman Islands amounted to approximately HK\$102.0 million, of which approximately HK\$5.8 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 the 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.



## 9. BANK BORROWINGS

Particulars of the bank borrowings of the Group as at 31 December 2017 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 of the Company (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 2017 and of the assets and liabilities of the Group as at 31 December 2017 and for the previous four financial years are set out on page 118.

## 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. Ng Wing Hong, Ms. Ng Yuk Kwan Phyllis and Mr. Ng Wing Chuen 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.

## 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.

## 18. SUBSTANTIAL SHAREHOLDERS' INTEREST

As at 31 December 2017, 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 <sup>(Note 1)</sup>	276,464,000	66.62
Chan Shuk Kuen	Family interest <sup>(Note 2)</sup>	276,464,000	66.62
Ng Yuk Kwan Phyllis	Beneficial owner <sup>(Note 3)</sup>	25,000,000	6.02
Mak Che Fai Lawrence	Family interest <sup>(Note 4)</sup>	25,000,000	6.02
Baguio Green (Holding) Limited	Beneficial owner <sup>(Note 1)</sup>	275,000,000	66.27
RAYS Capital Partners Limited	Investment manager/Beneficial owner/ Interest of controlled corporation <sup>(Note 6)</sup>	28,912,000	6.97
Ruan David Ching-chi	Interest of controlled corporation <sup>(Note 5)</sup>	28,912,000	6.97
Asian Equity Special Opportunities Portfolio Master Fund Limited	Beneficial owner <sup>(Note 6)</sup>	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 1,464,000 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) Ruan David Ching-chi had a 50% equity interest in RAYS Capital Partners Limited. Therefore, he is deemed to be 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.

Save as disclosed above, as at 31 December 2017, the Company had not been notified of any other persons having any interest or short positions in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company under section 336 of the SFO.

## 19. DIRECTORS' INTERESTS DISCLOSEABLE UNDER THE SFO

As at 31 December 2017, 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 2017, 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 8 October 2015, 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 October 2015 and expiring on 30 September 2017, 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. 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\$432,000, 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 set out in the Company's announcement dated 29 December 2016.

During the Year, the approximate total amount of purchases under the Supply Agreement was approximately HK\$1,437,000, 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 set out in 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.

During the Year, the transaction amounts of the IT product and services provided by NSL to the Group was approximately HK\$1,236,000, which did not exceed the HK\$4,000,000 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.

## 22. MAJOR CUSTOMERS AND MAJOR SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for 64.5% (2016: 69.0%) of the total sales for the year and sales to the largest customer included therein amounted to 32.3% (2016: 32.9%). Purchases from the Group's five largest suppliers accounted for 24.88% (2016: 23.1%) of the total purchases for the year and purchases from the largest supplier included therein amounted to 6.7% (2016: 5.3%).

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;

- (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.

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.

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 176,000 (2016: 100,000) share options lapsed during the Year due to resignation of employees who had been granted share options.



# REPORT OF THE DIRECTORS

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				As at 31 December 2017	Exercise period	Exercise price per share (HK\$)
		As at 1 January 2017	Granted during the Year	Lapsed during the Year				
<b>Directors</b>								
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	
<b>Subtotal</b>		1,624,000	-	-	1,624,000			
<b>Other Eligible Participants (in aggregate)</b>								
Other employees	16/10/2015	3,492,000	-	(176,000)	3,316,000	16/10/2017- 23/04/2024	1.00	
<b>Subtotal</b>		3,492,000	-	(176,000)	3,316,000			
<b>Total</b>		5,116,000	-	(176,000)	4,940,000			

Note:

(1) The share options vested 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.

## 28. SHARE AWARD PLAN

On 12 December 2017, the Company adopted a share award plan (“Share Award Plan”). The purpose of the plan is to recognise and reward the contributions of certain eligible participants to the growth and development of the Group and to give incentives in order to retain them for the continual operation and development of the Group and to attract suitable personnel for further development of the Group.

No shares have been granted under the Share Award Plan up to the date of this report.

Details of the Share Award Plan are set out in the Company’s announcements dated 12 December 2017, 15 January 2018 and 16 January 2018.

## 29. 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.

## 30. EVENTS AFTER THE REPORTING PERIOD

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

## 31. 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 35 of this annual report.

## 32. 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.

## 33. 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.

## 34. AUDITORS

KPMG retire and, being eligible, offer themselves for reappointment. A resolution for the reappointment of KPMG as auditors of the Company is to be proposed at the forthcoming annual general meeting of the Company.

On behalf of the Board

**Mr. Ng Wing Hong**

*Chairman*

Hong Kong, 28 March 2018

The Board is pleased to present the Corporate Governance Report for the year ended 31 December 2017.

## 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 2017, 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 2017.

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.

## 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
<b>Executive Directors</b>		
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	✓	✓
<b>Independent non-executive directors</b>		
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 2017 and for the year ended 31 December 2017, 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 2016, considering the interim results of the Company for the six months ended 30 June 2017 and planning the annual audit of the Company for the year ended 31 December 2017 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 2018.

## 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
<b>Executive Directors</b>				
Mr. Ng Wing Hong	6/6	2/2	1/1	2/3
Ms. Ng Yuk Kwan Phyllis	6/6	1/2	1/1	0/0
Mr. Ng Wing Chuen	6/6	0/0	0/0	0/0
Ms. Leung Shuk Ping	6/6	0/0	0/0	0/0
Ms. Chan Shuk Kuen	6/6	0/0	0/0	0/0
Ms. Cheung Siu Chun	6/6	1/2	1/1	3/3
<b>Independent non-executive directors</b>				
Mr. Sin Ho Chiu	6/6	2/2	1/1	3/3
Dr. Law Ka Hung	6/6	2/2	1/1	3/3
Mr. Lau Chi Yin Thomas	6/6	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:

- (a) 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;
- (b) to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;
- (c) to review and monitor the training and continuous professional development of the directors and senior management; and
- (d) to develop, review and monitor the code of conduct applicable to the directors and employees.

## 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 pages 66 to 67 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.

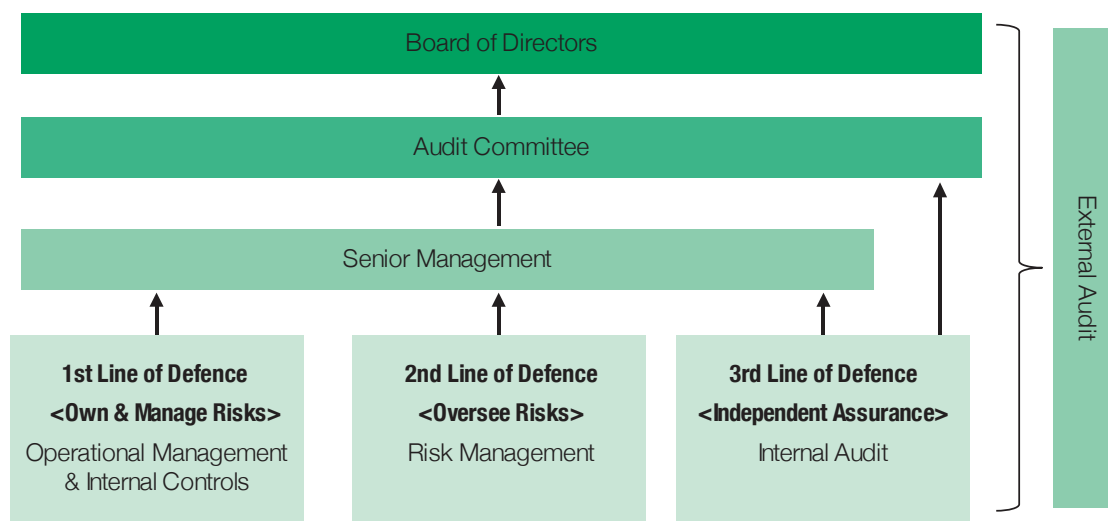


## Our Enterprise Risk Management Framework and Governance Structure

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 to review the Group’s key procedures, system and controls. 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**

During the Year, we continued to consider 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 complied 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. Continual review and refinement of policies, process and structures are being conducted. In light of the changing external and internal environment, the monitoring of “emerging risk” will be a focus. 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.

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.

## 10. HANDLING AND DISSEMINATION OF INSIDE INFORMATION

For the purpose of handling and disseminating inside information in accordance with the Listing Rules and the Securities and Futures Ordinance (Cap 571 of the Laws of Hong Kong), the Group has taken various procedures and measures, including arousing the awareness to preserve confidentiality of inside information within the Group, sending blackout period and securities dealing restrictions notification to the relevant directors and employees regularly, disseminating information to specified persons on a need-to-know basis and regarding closely to the "Guidelines on Disclosure of Inside Information" issued by the Securities and Futures Commission in June 2012.

## 11. AUDITORS' REMUNERATION

For the Year, KPMG charged the Group approximately HK\$1.3 million for the provision of audit services, and approximately HK\$102,000 for other non-audit services respectively.

## 12. 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.

## 13. 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.

## 14. 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.

## 15. 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

We are proud to present to our stakeholders the third annual Environmental, Social and Governance (“ESG”) report, which details our ongoing achievements and initiatives regarding the ESG aspects faced by our operations.

This report was prepared in compliance with the ESG Reporting Guidelines stipulated under Appendix 27 of the Listing Rules.

## Reporting Period and Scope

Supplementing our annual report, this report discloses performance and progress on ESG from 1 January to 31 December 2017 (“the reporting year”). The scope of this report covers the Company and its subsidiaries.

## Feedback

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.

The Group considers sustainability as a direction for its long-term development. We would highly appreciate any comments on improving the content and delivery of the information provided in this report.

## Contacts

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**“We strive to provide a cleaner, greener and more sustainable environment”**

## MESSAGE FROM THE CEO

Dear stakeholders,

The Group is pleased to be presenting to you the third ESG Report. With an operating history dating back to 1980, Baguio has many ways trailblazed the domestic environmental services industry. Striving to bringing a “Clean & Green” Hong Kong, we are one of the firsts to disclose our ESG performance on a voluntary basis. We have continued to strengthen our measurement and disclosure of the environmental and social performance indicators since then, embedding sustainability values in our long-term strategies.

### Contributing to a circular economy

During the year, the Hong Kong SAR Government has set on implementing the Municipal Solid Waste Charging Scheme by 2019, which is projected to raise the demand for waste recycling services. And from the recent enactment of the mandatory Producer Responsibility Scheme on glass beverage containers to full-fledged construction of organic waste treatment facilities, it is encouraging to see Hong Kong is pushing forward to re-construct its economy to one founded on the values of sustainable development.

*“As we continue to broaden our services in waste management and recycling, we are making strides in advancing the development of a circular economy by readily taking on waste recycling projects that entail total waste management solutions.”*

As we continue to broaden our services in waste management and recycling, we are making strides in advancing the development of a circular economy by readily taking on waste recycling projects that entail total waste management solutions. Our plastic and glass beverage bottle treatment are to propel the entire recycling processing chain from upstream collection to downstream remanufacturing. We are also proud to provide stable waste collection service to Hong Kong Jockey Club and operate the Animal Waste Composting Plant (AWCP) at Ngau Tam Mei, which treats animal waste into organic compost for landscaping operation. By taking charge of the entire processing chain, the Group is confident in playing a leading role in the progression of the waste recycling and management movement in Hong Kong.

### Embracing technology to achieve greener operations

Sustainability in Baguio is about embedding environmental stewardship and social citizenship in our daily operations. We are constantly striving for ways to streamline our resource consumption. In addition to replacing all our office lights to the more efficient LED alternative which has contributed to a drop of 25% in office power consumption, we have embraced the use of technology through the implementation of a Geographical Information System (GIS) this year. The system enables locational intelligence in fleet scheduling, which enhances the optimization of our resources planning through functionalities such as map creation, planning, visualization and analysis. From the year 2018, we commence its gradual roll out into our daily operations of over 300 vehicles, which is not only to raise our fuel efficiency but also ultimately reduce vehicle exhaust emissions.

### Striving for operational excellence

Our employees are the ambassadors of Baguio. We recognise the critical role they play in contributing to customer satisfaction and a sustainable business. As such, we have been constantly reviewing employee career development programme to maintain a stable workforce and conduct a range of internal and external trainings.

In particular, aiming to promote the development of professionalism in our industry, we are the pioneer in our industry to send our employees to apply for the Recognition of Prior Learning Mechanism offered by the Qualifications Framework. After undergoing 6-month long training of both technical and soft skills, our 22 participants all successfully attained “Level 4 in Property Management Industry — Management of Cleaning Work” during the year, which is of equivalence to an attainment of a Professional Diploma. In addition to elevating their position for future promotion opportunities, the entire accreditation journey has greatly enhanced their self-esteem.

Work safety is our priority. While we are constantly reviewing our training effectiveness in the occupational health and safety arena, we have organised a “Train the Trainer” Programme, aiming to deepen further the safety education for our employees. Pledging dutiful appointment, the qualified trainers of the programme are to develop up-to-standard training sessions according to the needs of the workforce. In addition, periodic meetings with our suppliers and sub-contractors ensure our safety and compliance standards are aligned to secure the safety of operations beyond our organisational boundary.

## Empowering the disabled community

Sustainability is also about building an inclusive and harmonious society. The Group believes in the empowerment of the disabled community and is positioned to offer occupations that can accommodate to workers with special needs. Other than continuous support for the Work Orientation and Placement Scheme of the Labour Department, we collaborated with iEnterprise Foundation this year to provide more job opportunities to the disabled community members. Besides continuous community investments, the Group recognizes community engagement is crucial in stimulating the recycling movement among the public.

Looking to the journey ahead, the Group is thrilled to be advancing the forefront of sustainable development through our waste management business arm. We will continue to sustain service quality and operational efficiency throughout all our business, while maximizing stakeholder interests.

Thank you for your continuous support.

By Order of the Board

### **Phyllis Ng**

*Chief Executive Officer*

Hong Kong, 28 March 2018



**OUR CORE VALUES AND CULTURE**

***Social Responsibility***

***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.

***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.

***Customer First*** —

Customers are the ultimate assessor of our success. The success of the 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.



## AWARDS AND RECOGNITION

The Group continues to be recognised for its efforts across many different fronts. The following table lists out those achieved during the reporting period.

Organiser	Award
<b>Environmental Responsibility</b>	
World Green Organisation	Sustainable Business Award 2017
World Green Organisation	Green Office and Eco-Healthy Workplace Awards Labelling Scheme Spring 2017
Bank of China & The Federation of Hong Kong Industries	Corporate Environmental Leadership Awards 2016 — ECO Challenger
Friends of the Earth	Certificate of Appreciation — No Car Day 2017
Hong Kong Waste Management Association	Certificate of Appreciation
Environmental Campaign Committee	Wastewi\$e Certificate — Excellence Level
Hong Kong Green Building Council Ltd	Intensive Training Series on BEAM Plus Existing Buildings Management Aspects” Seminar — Certificate of Appreciation
People Service Centre	Certificate of Appreciation
<b>Health and Safety</b>	
The CLP Group	Appreciation of Team Participation — CLP Power Safety, Health and Environmental Quiz 2017 — Contractor Stream Competition
7-Eleven — Combined Distribution Centre	Certificate of Occupational Safety & Health
Sun Fook Kong Construction Group	Sun Fook Kong Safety Awards Scheme 2017 — Certificate to Zero Accident Achievement (Jan — Sept 2017)
<b>Socio-Economic Contribution</b>	
The Federation of Hong Kong Industries	“Industry Cares” 2017 — Caring Certificate
Hong Kong Economic Journal & PR ASIA	Listed Company Award of Excellence 2017 (Main Board)
CTU Training Centre	15th Outstanding Partner Awards
Hong Kong Council of Social Service	Caring Company 2016/17 — Tak Tai Enviroscape Limited
Hong Kong Council of Social Service	Caring Company 2016/17 — Baguio Green Group Limited
Hong Kong Council of Social Service	Caring Company 2016/17 — Waste Management & Recycling Limited
Hong Kong Council of Social Service	Caring Company 2016/17 — Baguio Pest Management Limited
Hong Kong Council of Social Service	5 years+ Caring Company 2016/17 — Baguio Landscaping Services Limited
Hong Kong Council of Social Service	5 years+ Caring Company 2016/17 — Baguio Cleaning Services Company Limited
LEO Club of Kowloon Tong & Trend Catering Limited	Certificate of Appreciation — Volunteer Service

Organiser	Award
<b>Employer of Choice</b>	
The Labour and Welfare Bureau (LWB), The Rehabilitation Advisory Committee, The Hong Kong Joint Council for People with Disabilities & The Hong Kong Council of Social Service	18 Districts Caring Employers 2017 Award (Special Award for being awarded for 5 consecutive years or above) — Baguio Cleaning Services Co. Limited
Labour Department — Selective Placement Division	Work Orientation & Placement Scheme — Certificate of Appreciation — Baguio Cleaning Services Company Limited
Employee Retraining Board	ERB Merit Award for Employers
The Hong Kong General Chamber of Small and Medium Business	Partner Employer Award
Island District Office/H.K.S.K.H. Tung Chung Integrated Services	Certificate of Appreciation — Tung Chung Job Fair 2017

## MEMBERSHIPS AND CHARTERS

The Group is actively involved in a number of initiatives and charters promoting sustainable development in economic, environmental and social aspects. Our subsidiaries are corporate members of the relevant industry associations, NGOs and charters listed below:

- All-China Environmental Federation
- Business Environment Council
- Environmental Contractors Management Association
- Federation of Hong Kong Industries
- Green Council — Hong Kong Green Purchasing Charter
- 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 Limited
- 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
- Proper Operation of Refuse Collection Vehicles Steering Committee — Charter
- The Chamber of Hong Kong Listed Companies
- World Green Organisation — Paper Towel Saving Campaign Charter

## CORPORATE GOVERNANCE

Sound corporate governance practices are fundamental to the management of the Group's environmental and social affairs. The Board is committed to upholding the highest 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 2017, 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 Listing Rules.

The Board currently comprises a total of 9 members, with 6 executive directors, and 3 independent non-executive directors. For full details of all the Board committees, including responsibilities, please refer to our Corporate Governance Report from page 26 to 35 of this annual report.

## OUR SUSTAINABILITY FRAMEWORK AND APPROACH

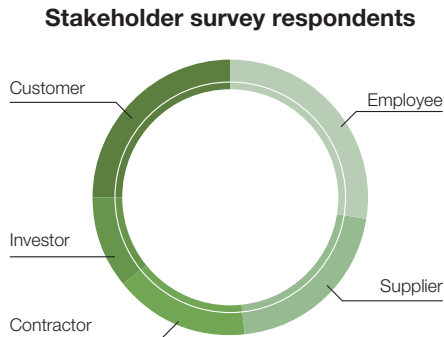
The Group has established a solid framework which directs the Group's sustainability approach. Our sustainability framework, consists of five core elements, namely staff, business performance, corporate governance, environment and community. Decision-making regarding ESG is spearheaded by a workgroup including CEO, CFO, and other directors and senior managers, overseeing the Group's environmental and social matters, internal control, audit and risk management respectively. The implementation of our sustainability strategy is executed by various departments and committees, including the Department of Safety, Health, Environment and Quality ("SHEQ") and the working group for CSR.

We understand sustainability is about listening and responding to our stakeholder groups. As such, we have established appropriate channels to learn their needs and concerns and, as far as possible, align them to our sustainability strategy. The following summarises the key issues which concern our stakeholder groups and the forms of communication we utilize.

Stakeholder Group	Issue	Engagement Channels	2017 developments
Investors and shareholders	<ul style="list-style-type: none"> <li>Long-term shareholder value creation</li> <li>Corporate governance</li> <li>Risk management and internal control</li> <li>Business operation</li> <li>Disclosure</li> </ul>	<ul style="list-style-type: none"> <li>Investor conferences and roadshows</li> <li>Annual general meeting</li> <li>Financial reports and press releases</li> <li>ESG report</li> </ul>	<ul style="list-style-type: none"> <li>Developing the municipal waste management and recycling business                             <ul style="list-style-type: none"> <li>Glass waste</li> <li>Plastic waste</li> <li>Organic waste</li> </ul> </li> </ul>
Employees	<ul style="list-style-type: none"> <li>Training and development</li> <li>Remuneration</li> <li>Occupational health and safety (OHS)</li> </ul>	<ul style="list-style-type: none"> <li>Corporate activities and events</li> <li>Employee grievance mechanism</li> <li>Feedback of training workshops</li> <li>Education and support</li> </ul>	<ul style="list-style-type: none"> <li>Train-the-Trainer OHS sessions</li> <li>Support the recognition of Qualifications Framework</li> </ul>
The Government	<ul style="list-style-type: none"> <li>Legal compliance and corporate governance</li> <li>Labour protection</li> <li>Business ethics</li> </ul>	<ul style="list-style-type: none"> <li>Compliance to laws and regulations</li> <li>Active response to government policy</li> <li>Ongoing communication with relevant government departments</li> </ul>	<ul style="list-style-type: none"> <li>Continued full compliance with all applicable laws and legislations</li> </ul>
Customers	<ul style="list-style-type: none"> <li>Service quality</li> </ul>	<ul style="list-style-type: none"> <li>Bi-annual customer surveys</li> <li>Maintain high service level</li> <li>Websites</li> <li>Feedback from front-line employees</li> </ul>	<ul style="list-style-type: none"> <li>90% of the respondents to the customer survey rated the overall quality of our services as satisfactory or above</li> </ul>
Suppliers	<ul style="list-style-type: none"> <li>Corporate reputation</li> <li>Responsible sourcing</li> </ul>	<ul style="list-style-type: none"> <li>Site visits and assessments</li> <li>Annual Interviews and appraisals</li> </ul>	<ul style="list-style-type: none"> <li>Ongoing green procurement practice</li> </ul>
Environmental NGOs	<ul style="list-style-type: none"> <li>Efficient use of resources</li> <li>Proper handling of waste and effluents</li> <li>Minimizing carbon and other air emissions</li> </ul>	<ul style="list-style-type: none"> <li>Lead public environmental education</li> <li>Promote waste segregation</li> </ul>	<ul style="list-style-type: none"> <li>Investment in GIS system to optimize fleet scheduling</li> <li>Office lighting retrofit to more efficient LED alternative</li> </ul>

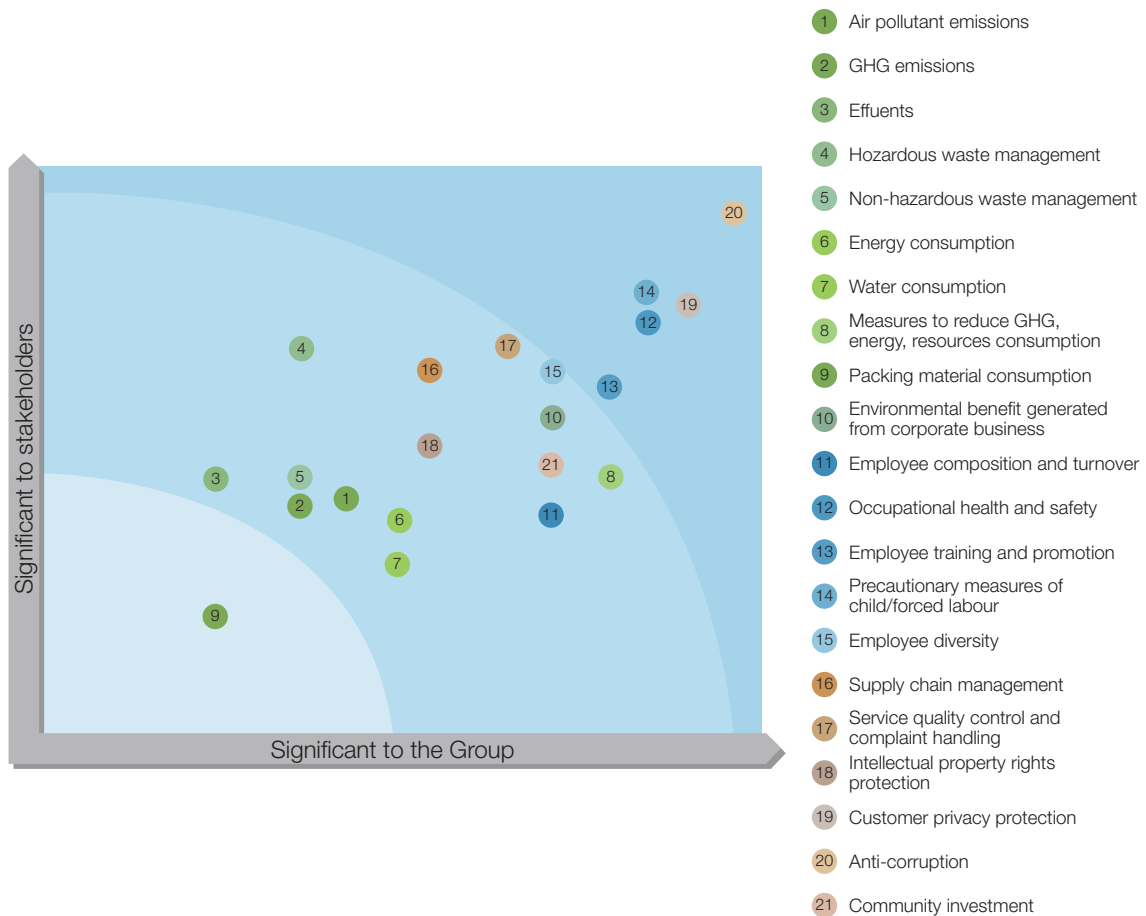
## MATERIALITY ASSESSMENT

Further to our last year's online survey conducted to gauge the significance and relevance of sustainability issues to our stakeholder groups, we took a step further this year to understand the views of our external stakeholder groups including our customers, investors, suppliers and contractors (with the below distribution). It is pleasing the survey has recorded an overall response rate of over 50% from 142 surveys administered.



Allocating equal weighting to the score responses of each stakeholder group, their average scores plot on the Significance to Stakeholders axis of the materiality matrix below. The Significance to the Group axis plots the average scores given by the Group's senior management who possess understanding of the Group's entire operations at a higher level to consider its business longevity.

Top material issues indicated by our results are "Anti-corruption", "Customer privacy protection", "Occupational health & safety", "Precautionary measures of child/forced labour", "Employee training and promotion", which are given greater focus in our report this year.



## BUSINESS ETHICS

*Living up to our core value of integrity, our anti-corruption practice is upheld by our Speak-up policy which functions as a whistle-blowing channel for our employees.*

Employing over 8,000 staff, the Group operates in a service-oriented industry. Although the nature of our business activities is not involved with activities that are at high-risk of corrupt conduct, the sheer scale of human touch in our operations does necessitate strict guidance on anti-corruption prevention.

### Upholding anti-corruption practices

In our Employee Handbook, we articulate upmost integrity in our invitations for tender and quotation to ensure against all anti-competitive activities. The offering, soliciting or acceptance of benefits that includes money (or profit), gifts, loans, compensation, employment, services, or favours, is strictly prohibited. In the case of any non-compliance, it is expected associated employees to bear full responsibility and the contract in question to become immediately ineffective.

In the event of potential conflict between the interests of the Group and oneself, all employees are required to declare the matter via the Group's "Conflict of Interests Return Form" as to avert against accusations of partiality or abuse of power. During festive seasons, the Group reminds employees in advance extravagant or frequent entertainment provided by business partners should not be accepted, as well as any form of benefits which value exceeds a set limit.

Besides our Speak-up policy which functions as a whistle-blowing channel for our employees, the observance of our anti-corruption practice is upheld through our ethical training orientation for all new-comers every two years by external expertise. Moreover, relevant in-house trainings are organised to enhance the ethical knowledge of our supervisors and managers. In the reporting year, the Group has encountered no cases of non-compliance with legislations regarding anti-corruption and anti-competition.

### Safeguarding confidentiality matters

With regard to all bidding contracts, our employees are expected to uphold the strictest confidentiality on its conditions and prohibited to engage in any act of tampering or manipulation through collusion or any other dishonest arrangements. Employees that are in regular contact with sensitive information are required to sign a letter of confidentiality.

In order to safeguard the interests of the Group, all employees shall not disclose verbally or in writing of any form the Group's confidential information such as trade secrets, business plans and status or investment intents. Employees are only to make use of any confidential information in accordance with the methods and scope specified, and shall seek written authorization consent for purposes otherwise.

The Group also operates in full compliance with all relevant laws and legislations related to the protection of customer data privacy and security as well as intellectual property rights.



## ENVIRONMENTAL STEWARDSHIP

*Our services are not only about delivering a clean environment but one that is delivered by greener processes, upholding environmental stewardship.*

The Group's environmental management system is led and managed by our SHEQ department which has put in place a systematic framework certified to adhere to the ISO14001 standards. In 2017, the Group strictly complied with all applicable environmental laws and regulations in Hong Kong and has demonstrated the environmental stewardship in society by promoting circularity with our business expansion into recycling.

### Taking the lead in waste management

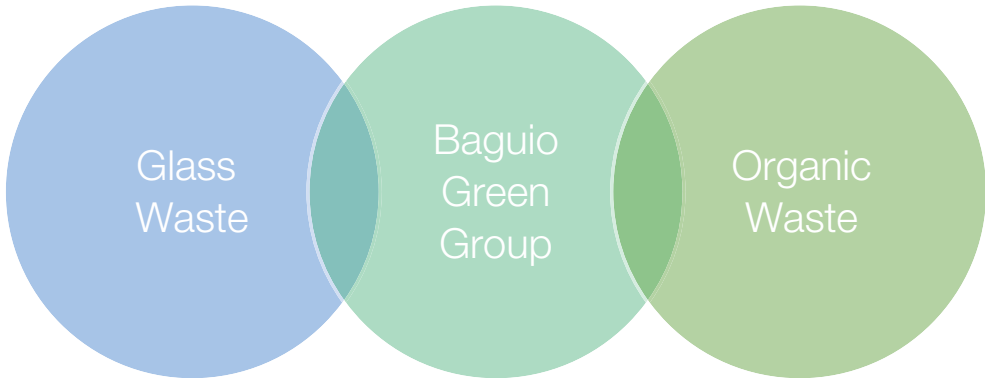
The waste management and recycling industry plays an immense role in promoting the development of a sustainable economy and society. They are the sole networks by which the remnants of our consumptive society may be channelled back as inputs of production chains which not only reduces pressure on our landfills but as well as reduces the impact of raw material extraction.

Although still a minor component of our business activities, over the past years the Group has enlarged its scope of services in waste management and recycling. And we will continue to enhance our operation to achieve higher recycling rate of our Recycling Plant in Fanling by replacing inefficient equipment to ones with higher capacity.

Our services now encompass total waste solutions for glass and plastic as well as organic waste including food and yard waste. In May 2017, we procured our first food waste truck which is equipped with advanced functions to facilitate the collection and separation of food waste to enhance the efficiency.

In addition, with the imminent Municipal Solid Waste Charging Scheme set to come into full effect by late 2019, the Group has not held back from exploring the potential green opportunities presented. The Scheme is projected to generate the use of 2 million plastic bags per day. Collaborating with a number of institutions such as the Hong Kong Productivity Council, the Group is actively exploring technology avenues by which plastic waste can be feasibly converted to the bags required by the Scheme.

The Group's waste management arm, Baguio Waste Management & Recycling Limited, is registered with the Environmental Protection Department (EPD) as a licensed collector of chemical, clinical as well as food waste. It is also licensed under the Hong Kong Quality Assurance Agency (HKQAA) as a registered waste recycler and collector.



## The Group and the Glass waste loop

With the Mandatory Producer Responsibility Scheme (“PRS”) on glass beverage containers in effect from last year, the Group is pleased to have acquired the contract with Environmental Protection Department (“EPD”) to manage the collection and recycling of glass containers. As the pioneers in glass waste recycling, the Group is to serve the Hong Kong Island and island districts as well as the New Territories.

Leveraging on our integrated waste management established footholds, the Group is to cover all scopes of glass management — from establishing a network of collection point from commercial and industrial premises, to delivery of the containers to our treatment centre, and finally the conversion of the waste to cullet (refined crushed glass) that is ready to be re-cast into new bottles, or be part of construction materials.

As the Group recognises a stable supply of waste glass is highly contingent on the mobilization of the public, the Group is to roll out a participation incentive scheme to encourage citizens to return rinsed glass containers to collection points. Various channels of engagement are to be implemented such as an exclusive website and social media platforms unveiling an interactive map to locate and request collection points. Regular activities such as competitions among housing estates as well as among schools, are to be held.

## The Group and the Organic waste loop

This year, the Group has been confirmed for the provision of organic waste treatment services. We run the full operation of the Animal Waste Composting Plant at Ngau Tam Mei in treating collected horse manure from the Hong Kong Jockey Club into organic compost. Our seasoned compost curing processes ensure the nutrient-rich waste is looped back to the beginnings of nature’s lifecycle, as well as alleviating the burden on our landfills. Other forms of organic waste such as livestock waste and yard waste comprising mainly of grass clippings and leaves, shall be considered to be delivered to the plant for treatment in the near future.

## Resource consumption and reduction

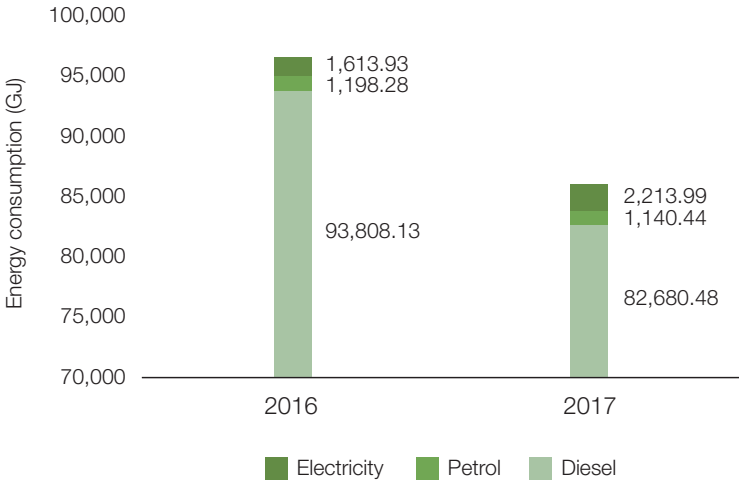
Our primary source of consumption concerns the usage of fuel by our fleet of over 300 vehicles that ensure our smooth operations. In line with the Group’s continuous strive for improvement, early this year the Group has successfully implemented a Geographical Information System (GIS) platform enabling location intelligence that optimizes our fleet management in resources planning. Using input information regarding the destination and timing of routes, the number and length of trips is optimised which can translate into lower fuel usage. From next year, it is to be gradually integrated into our daily operations to greater streamline our operations, as well as ultimately reduce vehicle gas emissions. Apart from the GIS platform, fuel usage is also lessened through systematic maintenance of our vehicles that ensure they are in top conditions performing at highest efficiency.

*In 2017, 25% less electricity used at headquarters, from conversion to LED*

Although not as significant of a consumption, chemical use for the Group’s cleaning and pest management services is being minimized with the embracement of new products. The use of a new chemical dispenser ensures precise measurements which not only minimizes the consumption but also prevents waste residues. This is of particular implication as the negative environmental impacts associated with the production and use of chemicals is significant.

In our business operations, diesel consumption constitutes over 95% of our total energy profile. Compared to the previous year, our total energy consumption has decreased 11% from 96,620 GJ to 86,035 GJ, primarily due to our drop in diesel consumption. This year at our headquarters, we are proud to have taken to replace all our office lights to the more efficient LED alternative, which has contributed to an approximate 25% drop in office power consumption. The energy savings also be attributed to the more effective maintenance of our office equipment, as well as the dissemination of regular email reminders to staff on energy-saving habits. However, our overall electricity consumption has risen by 37% as compared to the previous year, which is largely due to the addition of new project sites this year, including the operation of the Ngau Tam Mei Animal Waste Composting Plant.

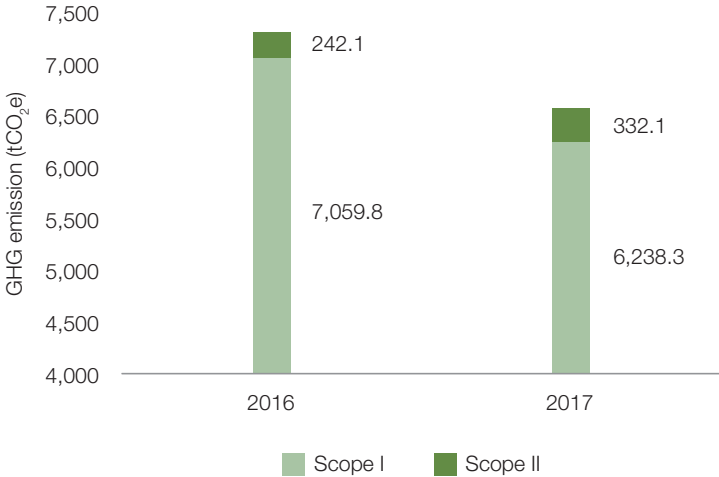
### Our energy consumption



### Air emissions

Delivering clean and green operations mean taking our carbon footprint into consideration. Our energy consumption entirely composes our carbon footprint. Thus, likewise to our energy profile, our total carbon emissions decreased compared to the previous year, from a total of 7,302 tCO<sub>2</sub>e to 6,570 tCO<sub>2</sub>e.

### Our carbon emissions





Besides our greenhouse gas emissions, we are well aware of the potential environmental and health impacts of our vehicle exhaust gas emissions. For the reporting year, our fleet operations has recorded 0.04 tonnes of sulphur oxide emissions, 22.31 tonnes of nitrogen oxides and 1.72 tonnes of particulate matter. We devote resources into the upgrading of our vehicles to those compliant with higher emission standards. As of year end, around four-fifths of our vehicles were compliant to the Euro V and VI standards.

### Managing our own waste

As much as it is important to effectively deal with waste from our clients, the Group is well aware of the importance of managing our own waste — both hazardous and non-hazardous. We have in place a waste discharge policy which ensures the safe and secure disposal of our waste diesel oil and waste chemicals. In 2017, a total of 8,000 litre of hazardous waste, composed entirely of spent lube oil, was disposed of in full compliance with the local waste disposal ordinance.

The generation of non-hazardous waste at the Group occur at our office premises, which mainly constitutes of paper waste. We collect and recycle paper, metal and plastic waste to minimize our impacts on our landfills. This year 2,924 kg of paper, 82 kg of metal, 87 kg of plastic waste were collected.



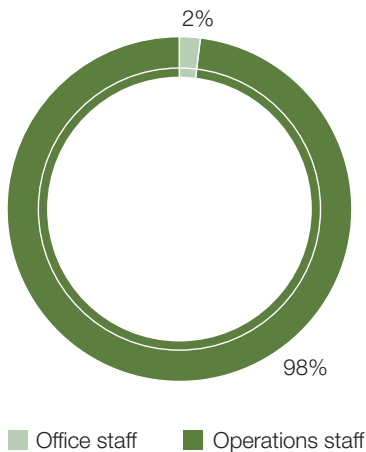
## CARING FOR PEOPLE

The powerhouse behind the Group's sustainable businesses and operations is none other than our dedicated employees. Through their dedication and efforts, the Group has been able to flourish and establish itself as one of the largest local environmental services provider.

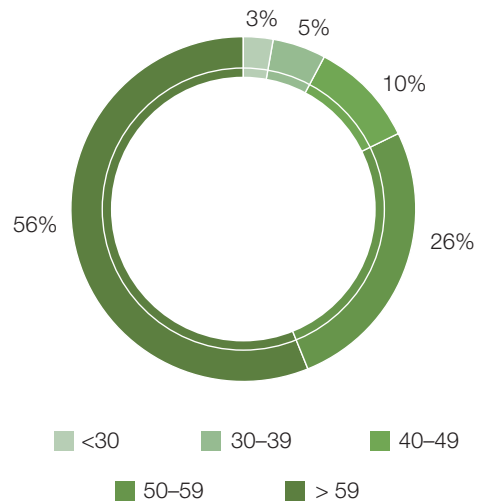
### Employment

As at December 31, 2017 the Group employs a total figure of 8,853 staff represented by the work profile below. All human resources practices comply with Hong Kong labour legislations including but not limited to employment, compensation, benefits, dismissal, working hours, and rest periods. Our Employee Handbook details our policies to ensure the practices and procedures of talent management are conducted in a transparent and fair manner, regardless of employee's race, gender, colour, marital and family status, or disabilities. We have a Speak-up policy that is overseen by the Complaint and Appeal Committee specially launched last year, to ensure staff grievances and opinions are processed strictly to policy protocol. The committee obligates all cases to be handled in a fair and just manner with the highest level of confidentiality, while cases of greater magnitude that violate the law are directed to relevant government departments.

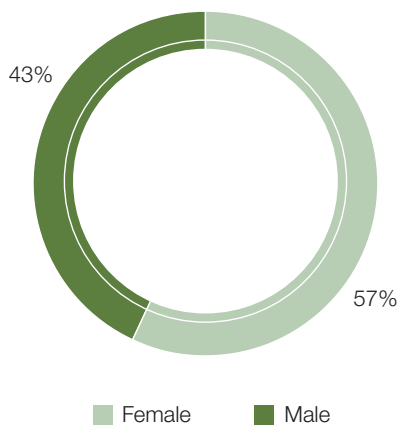
**Workforce Profile**



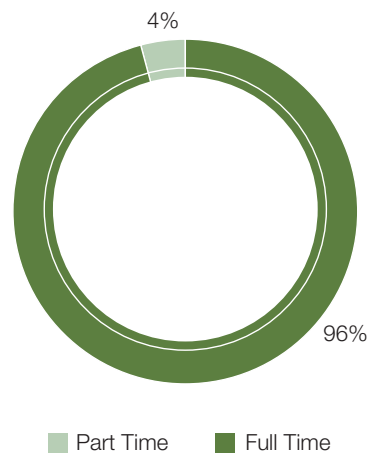
**Age Profile**



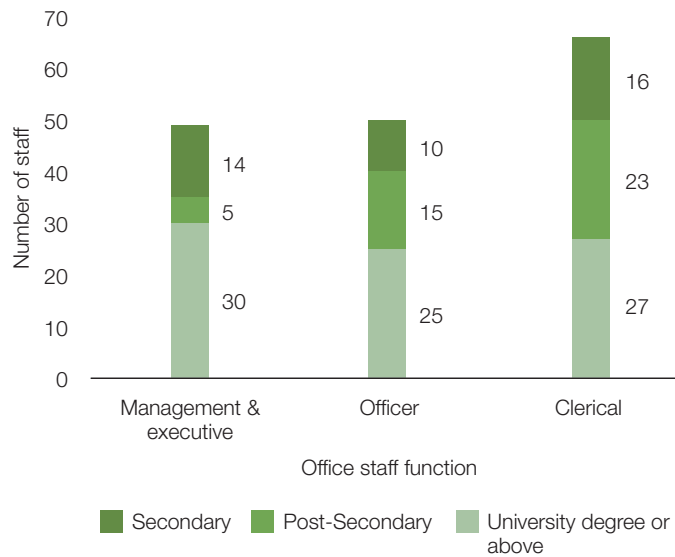
**Gender Profile**



**Employee Profile**



**Office Staff Education Background**



## Talent Management

As one of the cornerstones of our core values, we continually seek to provide our employees with opportunities of continuous learning and self-development. Placing the holistic development of our employees at top priority, we are one of the industry first-movers to devote substantial resources in this area.

The Group has rolled out a career ladder policy since 2016 to identify and support the necessary knowledge and skills sets for potential staff to fledge their career advancement in the company. Through the provision of a range of internal and external trainings, our employees are provided the opportunity to enhance their professional development. This year we recorded total training hours of 14,791 hours, which amounts to 6,356 when excluding safety training hours. Tailor-made workshops and programs have encouraged staff to improve their professional skills in areas such as leadership, team-working, customer service, business writing and information technology security.

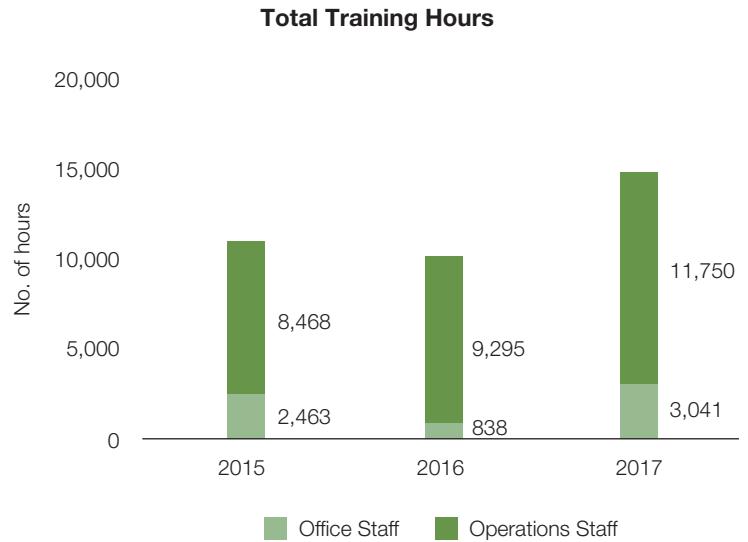
## Recognition of Prior Learning (RPL) Mechanism

Under the Qualifications Framework launched by the Education Bureau in 2008, the Recognition of Prior Learning (RPL) Mechanism enables practitioners with various backgrounds to obtain formal recognition of their work experiences and competencies acquired on-the-job. The RPL Mechanism is beneficial to candidates who do not possess high academic attainment but have acquired substantial practical experience in industry.

In order to strengthen and build up our employee talent pool, we actively encourage our employees to seek professional accreditation through the Recognition of Prior Learning Mechanism under the Qualifications Framework (QF). Striving to go beyond industry norms, we are the pioneer among our peers to devote resources to assist in their accreditation journey. On possessing at least six years of relevant experience, staff are eligible to apply for the Recognition of Prior Learning mechanism in the functional area of Property Management Industry – Management of Cleaning Work (Level 4) administered by the Vocational Training Council. Undergoing half-year training of both technical and soft skills amounting 713 training hours, this year our 22 colleagues satisfied the requirements of the aforementioned professional accreditation, which is of equivalence to an attainment of a Professional Diploma. Besides developing professionalism in the industry, the entire accreditation journey elevates the employees' position for promotion opportunities, as well as enhancing their self-esteem.

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

With respect to training on general business conduct, we place paramount emphasis on upholding the highest ethics standard. All new-comers undergo comprehensive training regarding bribery, discrimination and personal data privacy matters, while existing staff keep abreast of the latest updates through series of training held by external expertise every two years.



Celebration of successful QF attainment at our Annual Dinner

## Welfare and Benefits

The Group's Employee Handbook outlines staff welfare and benefits such as the provision of medical insurance and training funds. To build employee integration and team-building, regular volunteer and leisure activities organised by the Group promote work-life balance. From festival and birthday celebrations to various recreational contests, social bonding and interaction is greatly encouraged among our employees. In 2017, noteworthy staff activities held include the Sowers Run 2017 as well as our corporate team-building event with 132 staff participants. At the Sowers Run 2017, team bonding was strengthened through the successful completion of the charity marathon, which garnered in two awards for Corporate Team Fundraising (Award of Silver Foot) as well as Corporate Participation (Bronze Award).



2017 Sowers Run



Training for Sowers Run



Poon Choi Dinner



Christmas Party



## Occupational Health and Safety

Operating in a labour-intensive industry, the Group makes ceaseless efforts in ensuring our occupational health and safety practices are of topmost standards. Our safety management system is grounded on stringent policies and guidelines to mitigate the diverse risks with small and great consequences our employees are exposed to throughout daily operations.

### Baguio's Train-the-trainer programme

As part of Baguio's ongoing commitment to improve our performance in OHS, this year we commissioned the start of the Train-the-trainer Programme. On top of the continuous training programs to our frontline staff, the Group believed it was important to raise the bar a notch more as so the trainers themselves are aware of the latest trends and practices in the industry.

The Train-the-trainer Programme, spearheaded by the Group's operations manager, trains the supervisors, project officers and assistants responsible for carrying out staff induction training as well as regular safety training sessions for workers.

Two training sessions have been delivered to a total of 61 staff members in the months of March and June this year. Not only did the sessions ensure all responsible persons were clear on the statutory requirements but also on the most updated set of Baguio's safety code of conduct.

Pledging dutiful appointment, the qualified trainers have so far developed a total of 2,065 hours of up-to-standard training sessions according to the needs of the workforce, and serve as leading roles to build a corporate culture of safety first throughout the Baguio workplace.

Our SHEQ department oversees the entire safety management system such that our policies comply with all applicable labour and safety legislations including the Occupational Health & Safety Ordinance of the law of Hong Kong. Accreditation with the de-facto standard OHSAS 18001 ensures that our safety management system is under periodic review and robust mechanisms are in place to drive continuous improvement. All our staff are trained according to our Occupational Health Safety and Environmental Guidelines. The Group recorded a total of 8,435 hours of safety training hours this year, which is approximately a 50% jump from 2016. In the reporting year, there were no confirmed cases of work-related fatalities, while the number of accidents dropped by 21% compared to the previous year.

The Group's Occupational Health & Safety and Environmental Guidelines, available in four languages, provide a comprehensive code of conduct for work activities carried out in daily operations. The guidelines are based on thorough risk assessments of each activity including but not limited to machinery operation, chemical handling and working at heights. In addition, new procedures are initiated and enacted as deemed necessary such as the Vehicle Repair and Maintenance Management procedure passed last year to ensure the optimal maintenance of our fleets.

## STRIVING FOR OPERATIONAL EXCELLENCE

*As a leading industry player in providing large-scale cleaning services, pest management and landscaping, robust quality management at the Group is critical. Our ISO-qualified Integrated Management System, certified to meet the ISO 9001, 14001, OHSAS 18001 standards, serves to ensure we are on track to strive for operational excellence.*

### Enhancing Customer Satisfaction

At the Group, we provide our customers with various channels to express their views and opinions on our service quality. Our customer complaint handling system maintains an intranet log of all submitted cases and ensures their prompt handling and follow-up. According to set-out principles, the cases are assigned to the most relevant personnel and formal follow-up responses are issued via the intranet system. Complaints regarding dissatisfactory service or workmanship are all subject to formal follow-up procedures. To strive for continuous improvement, our customer complaint handling system is subject to yearly review.

In order to track the quality of our services in a systematic manner, the Group conducts a service quality evaluation survey with representative samples of customers on a monthly basis. Collected responses are analysed every half-year period, with the most recent half-year period yielding close to 40% response rate.

The survey, reaching out to customers across all four of our business arms, is composed of a complete set of performance evaluation questions in three categories: service provision, management, frontline workers. From the availability of contingency plans to environmental awareness, the survey covers a comprehensive assessment of our services.

In comparison with survey results last year, it is encouraging to find 90% of customer respondents rated the overall quality of our services as satisfactory or above. The determination of the most satisfied customers has allowed us to identify our strengths and thus better strategize our future approaches across our customer portfolio.

### Sustainable Procurement

Besides demonstrating environmental stewardship downstream, we encourage the best practices upstream. We are a member of the Green Purchasing Charter of the Green Council, which warrants our commitment in three areas: the formulation of Green Purchasing policies, implementation of sustainable Green Purchasing strategies, as well as promote its principals along our chain of operations.

*In 2017,  
70% of procured plastic  
bags were bio-  
degradable – up 15%  
from 2016*

Our Green Purchasing policy and strategies advocate the purchase of certified environmental friendly labels such as Energy Star, Green Seal, as well as products with recycled content and reduced packaging. With regard to our chemical procurement, we strive to raise the procurement of those more environmental-friendly water-based solvents. This year, in terms of purchase spending over 17% of chemicals and pesticides purchased were an eco-friendly alternative, while 70% of plastic bags purchased were biodegradable. Moreover, approximately 60% of procured paper were recycled products (with not less than 50% recycled content), which is almost double of that in the previous year. With our continued commitment, we aspire the gradual proliferation of the principles of sustainable procurement throughout the industry and society.

## Supplier Management

In our endeavour for quality service delivery, the management of our suppliers and subcontractors are of equal significance. All our suppliers and subcontractors are evaluated annually as to maintain a list of approved suppliers. We tender from reputable suppliers that supply commodities aligned with our safety and environmental standards. Our suppliers are encouraged to establish recognized management systems such as the ISO standards to effectively manage their quality, environmental and OHS (Occupational Health & Safety) matters.

In addition, as to facilitate effective two-way dialogue with subcontractors, we hold annual interviews with an appropriate selection taking into consideration the projects throughout the year. This yearly engagement channel provides a discussion platform to identify how our business partners can continue to make advancements in service performance.

## Engaging our Community

The Group's operations are highly integrated with the fabric of our society — our recycling front substantially relies on the level of environmental awareness among the public, while our frontline staff largely compose the lower class of society. Every year, we engage with our community to deliver positive impact on both environmental and social issues. As a tribute to our continuous efforts, our two subsidiaries in cleaning and landscaping services are proud to have been named "Caring Company" by The Hong Kong Council of Social Service for the seventh consecutive year.

## Galvanising environmental action

The Group is an active pioneer in supplying services that promote the circularity of our economy. From the commercial sector to general households, transition towards a circular economy demands change at all sectors of society. In continuance to the previous year, the Baguio Group has been appointed as the recycling partner of the "Plastic Container Recycling Programme" launched last year under the A.S. Watson Group and World Green Organisation. We provide free-of-charge plastic waste collection services to over 200 Watson stores in Hong Kong, which not only alleviates burden on our landfills but also further raises the level of environmental awareness throughout the city.

Environmental awareness among our employees were enhanced through volunteerism for the Polyfoam Recycling Scheme initiated by the Hong Kong Association of Youth Development, as well as at the 2017 Tree-planting Challenge organised by Friends of the Earth. Similar to last year, our volunteer team participated at the World Green Organisation's annual Green Walk that promoted a greener lifestyle by minimising transportation use.

## Inspiring the next generation

Our youngsters are to lead the next phase of development in society. In partnership with the Hong Kong Employment Development Service, Baguio volunteers took part in the Career Counseling Seminar targeting secondary school students and provided first-hand experiences via educational site visits with regard to the Group's business activities. During the year, two such sessions were held in March and December, amounting to a total of 50 volunteer hours. In addition, in corporation with Hong Kong Children & Youth Services, our volunteer team took to bring smiles to children from underprivileged backgrounds by holding a bowling fun day.

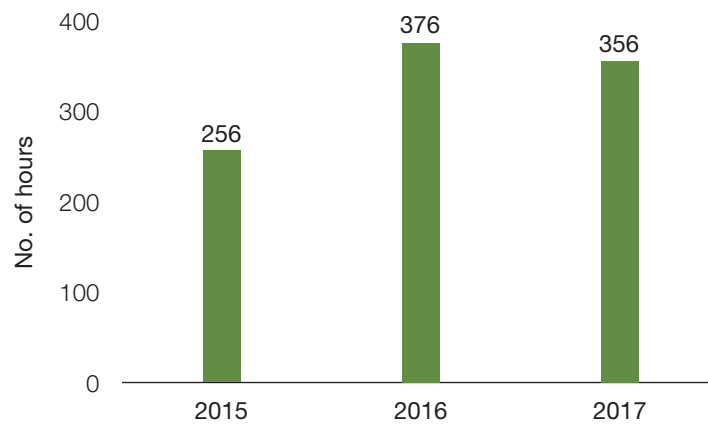
## Caring for the underprivileged and disadvantaged

The Group has direct contact with the underprivileged of our society and thus has much opportunity to make a difference to their lives, including those of our own employees. To enrich their lives and foster closer bonds, this year Leo Club of Kowloon Tong took the lead to organize a dinner event during the Chinese new year season, which Baguio supported by liaising staff's attendance. The Group also volunteered and contributed to the shoe donation program of the Caritas charity organisation.

Moreover, other than our continuous support to the "Work Orientation and Placement Scheme" of the Labour Department which aims to encourage employment of the disabled community members, we sought to make more difference this year. In collaboration with iEnterprise Foundation, we provided more job opportunities to the disabled community allowing them to find greater empowerment and fulfilment in society. Our employees with special needs are not only loyal employees of the Group, but also trustworthy working partners. Through our commitment to provide equal employment opportunities, we hope to do our part to build a more inclusive society.



## Volunteer hours



WGO Annual Green Walk



Polyfoam Recycling Scheme staff volunteers



Bowling fun day



Chinese new year dinner

## Summary of Community Activities in 2017

Date	Partner Organisation	Activity	Volunteer hours
Jan 8	Green Council	The Fourteenth Green Carnival 2017	4
Jan 25	Leo Club of Kowloon Tong	CNY Dinner for frontline cleaners	150
Feb 17	Greeners Action	Red Pocket Reuse & Recycle Program	8
Mar 20	Hong Kong Employment Development Service Limited	Career Counseling Seminar and Site Visit	25
Apr 30	Friends of the Earth (HK)	Tree Planting Challenge 2017	2
Jul 22	Hong Kong Association of Youth Development (Tsuen Wan District Branch)	Missing Link — Polyfoam Recycling Scheme	28
Aug 12	Hong Kong Children & Youth Services	Happy Summer Time — Amazing Bowling	85
Oct 23–Nov 3	Caritas	Shoe Donation Program	3
Nov 5	World Green Organisation	Green Walk Hong Kong 2017	6
Dec 4	Hong Kong Employment Development Service Limited	Career Counseling Seminar and Site Visit	25
Jan–Dec	World Green Organisation & A.S. Watson	Plastic Bottle Recycling Scheme	20
Total			356



## Performance Data Summary

		Unit	2017	2016	2015
Employment	Head count at Year End	Person	<b>8,853</b>	7,967	8,658
	By Employment type				
	Full-time	Person	<b>8,498</b>	7,315	7,698
	Part-time	Person	<b>355</b>	652	960
	By Workforce Profile				
	Office Staff	Person	<b>165</b>	152	147
	Operations Staff	Person	<b>8,688</b>	7,815	8,511
	By Age group				
	Under 30	Person	<b>232</b>	193	216
	30–39	Person	<b>405</b>	335	396
	40–49	Person	<b>887</b>	798	1,006
50–59	Person	<b>2,342</b>	2,210	2,571	
60 or above	Person	<b>4,987</b>	4,431	4,469	
By Gender					
Male	Person	<b>3,764</b>	3,333	3,538	
Female	Person	<b>5,089</b>	4,634	5,120	
Training and Development	Training hours	Hour	<b>14,791</b>	10,133	10,931
	By Employment Type				
	Office staff	Hour	<b>3,041</b>	838	2,463
Operations staff	Hour	<b>11,750</b>	9,295	8,468	
Health & Safety	Lost days due to work injury	Day	<b>13,292</b>	10,246	12,540
	Work-related accidents (cases of over 3 lost days)	Number	<b>247</b>	314	422
	Work-related accident rate	per 100,000 working hours	<b>1.40</b>	1.32	1.59
	Confirmed work-related fatalities	Number	<b>0</b>	0	0

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

		Unit	2017	2016	2015	
Environment	Total Resource Consumption					
	Electricity	kWh	<b>614,996</b>	448,313	438,039	
	Diesel	Litre	<b>2,309,188</b>	2,619,973	2,910,217	
	Petrol	Litre	<b>35,782</b>	37,597	N/A	
	Water	m <sup>3</sup>	<b>2,975</b>	2,915	3,208	
	Paper (Total)	Ream	<b>4,529</b>	4,395	5,612	
	Paper with recycled content	Ream	<b>2,715</b>	N/A	N/A	
	Non-biodegradable plastic bags	Bag	<b>5,980,460</b>	4,393,927	N/A	
	Bio-degradable plastic bags	Bag	<b>13,978,799</b>	5,453,020	N/A	
	Greenhouse Gas Emission					
	Scope I	tCO <sub>2</sub> e	<b>6,238.33</b>	7,059.80	7,594.80	
	Scope II	tCO <sub>2</sub> e	<b>332.10</b>	242.1	276	
	Total Emissions	tCO <sub>2</sub> e	<b>6,570.43</b>	7,301.90	7,870.80	
	Air Emissions					
	Nitrogen oxides	tonnes	<b>0.04</b>	N/A	N/A	
	Sulphur oxides	tonnes	<b>22.31</b>	N/A	N/A	
	Particulate matter	tonnes	<b>1.72</b>	N/A	N/A	
	Hazardous waste					
	Engine oil disposed (spent lube oil)	litre	<b>8,000</b>	2,000	N/A	
	Chemical disposed	kg	<b>0</b>	652.8	N/A	
	Pesticide disposed	kg	<b>0</b>	0	N/A	
	Non-hazardous waste					
Office — general	kg	<b>2,419.1</b>	N/A	N/A		
Office — paper collected for recycling	kg	<b>2,924.5</b>	3,417.5	N/A		
Office — metal collected for recycling	kg	<b>82.3</b>	86.7	N/A		
Office — plastic collected for recycling	kg	<b>86.6</b>	91.3	N/A		
Community	Volunteer hours	hours	<b>356</b>	376	256	

## ESG CONTENT INDEX

KPIs	HKEx ESG Reporting Guide Requirements	Section/Remarks
<b>A. Environmental</b>		
<b>Aspect A1</b>	<b>Emissions</b>	
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.	<b>Environmental Stewardship</b>
KPI A1.1	The types of emissions and respective emissions data.	<b>Air emissions; Performance Data Summary</b>
KPI A1.2	Greenhouse gas emissions in total (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	<b>Air emissions; Performance Data Summary</b>
KPI A1.3	Total hazardous waste produced and, where appropriate, intensity (e.g. per unit of production volume, per facility).	<b>Managing our own waste; Performance Data Summary</b>
KPI A1.4	Total non-hazardous waste produced (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	<b>Managing our own waste; Performance Data Summary</b>
KPI A1.5	Description of measures to mitigate emissions and results achieved	<b>Resource consumption and reduction</b>
KPI A1.6	Description of how hazardous and non-hazardous wastes are handled, reduction initiatives and results achieved.	<b>Managing our own waste</b>
<b>Aspect A2</b>	<b>Use of resources</b>	
General disclosure	Policies on efficient use of resources including energy, water and other raw materials.	<b>Environmental Stewardship</b>
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).	<b>Resource consumption and reduction; Performance Data Summary</b>
KPI A2.2	Water consumption in total and intensity (e.g. per unit of production volume, per facility).	<b>Performance Data Summary</b>
KPI A2.3	Description of energy use efficiency initiatives and results achieved.	<b>Resource consumption and reduction; Performance Data Summary</b>
KPI A2.4	Description of whether there is any issue in sourcing water that is fit for purpose, water efficiency initiatives and results achieved.	<b>Resource Consumption and Emissions</b>
KPI A2.5	Total packaging material used for finished products (in tonnes) and, if applicable, with reference to per unit produced.	N/A
<b>Aspect A3</b>	<b>The environment and natural resources</b>	
General disclosure	Policies on minimizing the issuers' significant impact on the environment and natural resources.	<b>Taking the lead in waste management; Sustainable Procurement</b>
KPI A3.1	Description of the significant impacts of activities on the environment and natural resources and the actions taken to manage them.	<b>Taking the lead in waste management; Sustainable Procurement</b>

KPIs	HKEx ESG Reporting Guide Requirements	Section/Remarks
<b>B. Social</b>		
<b>Aspect B1</b>		
<b>Working conditions</b>		
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 compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination, and other benefits and welfare.	<b>Employment; Welfare and Benefits</b>
KPI B1.1	Total workforce by employment type, age group and geographical region.	<b>Employment; Performance Data Summary</b>
KPI B1.2	Employee turnover rate by age group and geographical region.	N/A
<b>Aspect B2</b>		
<b>Health and safety</b>		
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.	<b>Occupational Health and Safety</b>
KPI B2.1	No. and rate of work related fatalities.	<b>Performance Data Summary</b>
KPI B2.2	Lost days due to work injury.	<b>Performance Data Summary</b>
KPI B2.3	Description of occupational health and safety measures adopted and how they are implemented and monitored.	<b>Occupational Health and Safety</b>
<b>Aspect B3</b>		
<b>Development and training</b>		
General disclosure	Policies on improving employees' knowledge and skills for discharging duties at work. Description of training activities.	<b>Talent Management</b>
KPI B3.1	The percentage of employees trained by gender and employee category (e.g. senior management, middle management).	<b>Talent Management; Performance Data Summary</b>
KPI B3.2	The average training hours completed per employee by gender and employee category.	N/A
<b>Aspect B4</b>		
<b>Labour standards</b>		
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.	<b>Employment</b>
KPI B4.1	Description of measures to review employment practices to avoid child and forced labour.	<i>Policies are in place to ensure we do not hire any form of child and forced labour.</i>
KPI B4.2	Description of steps taken to eliminate such practices when discovered.	<i>Policies are in place to ensure we do not hire any form of child and forced labour.</i>
<b>Aspect B5</b>		
<b>Supply chain management</b>		
General disclosure	Policies on managing environmental and social risks of the supply chain	<b>Supplier Management</b>
KPI B5.1	Number of suppliers by geographical region.	<i>The majority of suppliers are from Hong Kong</i>
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.	<b>Supplier Management</b>



KPIs	HKEx ESG Reporting Guide Requirements	Section/Remarks
<b>Aspect B6</b>	<b>Product responsibility</b>	
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.	<b>Striving for Operational Excellence</b>
KPI B6.1	Percentage of total products sold or shipped subject to recalls for safety and health reasons	N/A
KPI B6.2	Number of products and service related complaints received and how they are dealt with	<b>Enhancing Customer Satisfaction</b>
KPI B6.3	Description of practices relating to observing and protecting intellectual property rights.	<b>Business Ethics</b>
KPI B6.4	Description of quality assurance process and recall procedures	<b>Striving for Operational Excellence</b>
KPI B6.5	Description of consumer data protection and privacy policies, how they are implemented and monitored.	<b>Business Ethics</b>
<b>Aspect B7</b>	<b>Anti-Corruption</b>	
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.	<b>Business Ethics</b>
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.	<b>Business Ethics</b>
KPI B7.2	Description of preventive measures and whistle-blowing procedures, how they are implemented and monitored.	<b>Business Ethics</b>
<b>Aspect B8</b>	<b>Community investment</b>	
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.	<b>Engaging our Community</b>
KPI B8.1	Focus areas of contribution to the community (e.g. education, environmental concerns, labour needs, health, culture, sport).	<b>Engaging our Community</b>
KPI B8.2	Resources contributed (e.g. money or time) to the focus area.	<b>Engaging our Community</b>



## 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 68 to 117, which comprise the consolidated statement of financial position as at 31 December 2017, 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 2017 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 note 2(e).	
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"> <li>obtaining an understanding of and assessing the design, implementation and operating effectiveness of management's key internal controls in relation to revenue recognition;</li> <li>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;</li> <li>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;</li> <li>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;</li> <li>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;</li> <li>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.</li> </ul>

# INDEPENDENT AUDITOR'S REPORT

Accruals for staff costs	
Refer to note 27 to the consolidated financial statements and the accounting policies on note 2(h).	
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"> <li>• obtaining an understanding of and assessing the design, implementation and operating effectiveness of management's key internal controls relating to accruals for staff costs;</li> <li>• 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;</li> <li>• 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;</li> <li>• 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;</li> <li>• 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.</li> </ul>

# 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

28 March 2018

# CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2017

(Expressed in Hong Kong Dollars)

	Note	2017 HK\$'000	2016 HK\$'000
<b>Revenue</b>	8	<b>1,207,640</b>	1,094,788
Cost of services		<b>(1,110,294)</b>	(999,234)
<b>Gross profit</b>		<b>97,346</b>	95,554
Other income	9	<b>1,046</b>	3,933
Change in fair value less costs to sell of biological assets	24	<b>2,026</b>	1,729
Selling and marketing expenses		<b>(1,774)</b>	(2,025)
Administrative expenses		<b>(68,800)</b>	(63,092)
<b>Profit from operations</b>		<b>29,844</b>	36,099
Finance costs	10	<b>(4,293)</b>	(5,340)
<b>Profit before taxation</b>	11	<b>25,551</b>	30,759
Income tax	12	<b>(4,935)</b>	(5,748)
<b>Profit for the year attributable to equity shareholders of the Company</b>		<b>20,616</b>	25,011
<b>Other comprehensive income:</b>			
<b>Items that may be reclassified subsequently to profit or loss, net of nil tax;</b>			
Exchange differences on translation of financial statements of subsidiaries		<b>134</b>	(120)
Change in fair value of available-for-sale financial assets	19	<b>310</b>	345
<b>Other comprehensive income</b>		<b>444</b>	225
<b>Total comprehensive income for the year attributable to equity shareholders of the Company</b>		<b>21,060</b>	25,236
<b>Earnings per share</b>			
Basic and diluted (HK\$)	14	<b>0.05</b>	0.06

The notes on pages 72 to 117 form part of these financial statements.

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2017  
(Expressed in Hong Kong Dollars)

	Note	2017 HK\$'000	2016 HK\$'000
<b>Non-current assets</b>			
Property, plant and equipment	16	167,210	156,628
Interest in associate	18	–	150
Available-for-sale financial assets	19	13,596	13,286
Prepayments and deposits	23	5,764	–
		<b>186,570</b>	170,064
<b>Current assets</b>			
Inventories	21	4,539	4,942
Trade receivables	22	285,889	251,905
Prepayments, deposits and other receivables	23	13,830	21,521
Biological assets	24	12,031	9,700
Pledged bank deposits	20	5,141	5,140
Cash and cash equivalents	25	47,983	55,735
		<b>369,413</b>	348,943
<b>Current liabilities</b>			
Trade payables	26	21,125	26,979
Accruals, deposits received and other payables	27	131,051	114,473
Bank borrowings	28	108,712	82,499
Obligations under finance leases	29	18,289	21,601
Tax payable		1,218	1,471
		<b>280,395</b>	247,023
<b>Net current assets</b>		<b>89,018</b>	101,920
<b>Total assets less current liabilities</b>		<b>275,588</b>	271,984
<b>Non-current liabilities</b>			
Obligations under finance leases	29	24,067	35,306
Deferred tax liabilities	30	10,630	10,507
		<b>34,697</b>	45,813
<b>Net assets</b>		<b>240,891</b>	226,171
<b>Capital and reserves</b>			
Share capital	31	4,150	4,150
Reserves	32	236,741	222,021
<b>Total equity</b>		<b>240,891</b>	226,171

Approved by the Board of Directors on 28 March 2018 and signed on its behalf by:

**Ng Wing Hong**  
Director

**Ng Yuk Kwan Phyllis**  
Director

The notes on pages 72 to 117 form part of these financial statements.

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2017  
(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 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
<b>At 31 December 2016</b>	<b>4,150</b>	<b>100,850</b>	<b>18,330</b>	<b>(393)</b>	<b>1,196</b>	<b>(120)</b>	<b>102,158</b>	<b>226,171</b>
At 1 January 2017	<b>4,150</b>	<b>100,850</b>	<b>18,330</b>	<b>(393)</b>	<b>1,196</b>	<b>(120)</b>	<b>102,158</b>	<b>226,171</b>
Profit for the year	–	–	–	–	–	–	20,616	20,616
Other comprehensive income for the year	–	–	–	310	–	134	–	444
Total comprehensive income for the year	–	–	–	310	–	134	20,616	21,060
Dividends approved in respect of the previous year (Note 13(b))	–	–	–	–	–	–	(7,055)	(7,055)
Equity-settled share-based payments	–	–	–	–	715	–	–	715
<b>At 31 December 2017</b>	<b>4,150</b>	<b>100,850</b>	<b>18,330</b>	<b>(83)</b>	<b>1,911</b>	<b>14</b>	<b>115,719</b>	<b>240,891</b>

The notes on pages 72 to 117 form part of these financial statements.

# CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2017  
(Expressed in Hong Kong Dollars)

	Note	2017 HK\$'000	2016 HK\$'000
<b>Operating activities</b>			
Profit before taxation		25,551	30,759
Adjustments for:			
Depreciation on property, plant and equipment	16	24,025	23,579
Loss on disposal of property, plant and equipment	11	264	701
Equity-settled share-based payments	11	715	986
Change in fair value less costs to sell of biological assets	24	(2,026)	(1,729)
Interest income	9	(92)	(136)
Finance costs	10	4,293	5,340
Changes in working capital:			
Decrease in inventories		403	13
Increase in biological assets		(305)	(1,151)
(Increase)/decrease in trade receivables		(33,984)	17,715
Decrease/(increase) in prepayments, deposits and other receivables		2,868	(3,374)
(Decrease)/increase in trade payables		(5,854)	3,325
Increase/(decrease) in accruals, deposits received and other payables		16,578	(6,337)
<b>Cash generated from operations</b>		<b>32,436</b>	69,691
Income tax paid		(5,065)	(5,455)
<b>Net cash generated from operating activities</b>		<b>27,371</b>	64,236
<b>Investing activities</b>			
Interest received		92	136
Increase in pledged bank deposits		(1)	(3)
Proceeds from disposal of property, plant and equipment		3,478	7,049
Payment for the purchase of property, plant and equipment		(30,368)	(8,045)
Capital contribution to associate		–	(150)
Proceeds from disposal of associate		150	–
Prepayment for the property, plant and equipment		(941)	–
Payment for deposits		–	(6,000)
Refund of deposits		–	1,000
<b>Net cash used in investing activities</b>		<b>(27,590)</b>	(6,013)
<b>Financing activities</b>			
Proceeds from new bank borrowings		725,069	828,886
Repayments of bank borrowings		(698,856)	(881,768)
Interest paid for bank borrowings		(2,605)	(3,126)
Dividend paid to equity shareholders of the Company		(7,055)	(7,055)
Interest paid for finance leases		(1,688)	(2,214)
Repayments of obligations under finance leases		(22,522)	(27,437)
<b>Net cash used in financing activities</b>		<b>(7,657)</b>	(92,714)
<b>Net decrease in cash and cash equivalents</b>		<b>(7,876)</b>	(34,491)
<b>Cash and cash equivalents at 1 January</b>		<b>55,735</b>	90,346
Effect of foreign exchange rate changes		124	(120)
<b>Cash and cash equivalents at 31 December</b>	25	<b>47,983</b>	55,735

The notes on pages 72 to 117 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.

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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong Dollars unless otherwise indicated)

## 2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (b) Basis of preparation *(Continued)*

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 other 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 statements 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
Leasehold improvements	Over the shorter of term of lease or 12 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.

### (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.



# 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

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. 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. Fair value is determined in the manner described in Note 19.

#### *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.

# 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**

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.

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.

# 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)*

##### ***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.

##### ***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.

# 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)*

##### *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.

### (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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong Dollars unless otherwise indicated)

## 2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (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.

### (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 be 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 several amendments to HKFRSs that are first effective for the current accounting period of the Group. None of these impact on the accounting policies of the Group. However, additional disclosure has been included in Note 25 to satisfy the new disclosure requirements introduced by the amendments to HKAS 7, *Statement of cash flows: Disclosure initiative*, which require entities to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes.

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.

	<b>Effective for accounting periods beginning on or after</b>
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
HK(IFRIC) 22, <i>Foreign currency transactions and advance consideration</i>	1 January 2018
HKFRS 16, <i>Leases</i>	1 January 2019
HK(IFRIC) 23, <i>Uncertainty over income tax treatments</i>	1 January 2019

The Group is in the process of making an assessment of what the impact of these amendments, new standards and interpretations is expected to be in the period of initial application. So far the Group has identified some aspects of the new standards which may have a significant impact on the consolidated financial statements. Further details of the expected impacts are discussed below. While the assessment has been substantially completed for HKFRS 9 and HKFRS 15, the actual impacts upon the initial adoption of the standards may differ as the assessment completed to date is based on the information currently available to the Group, and further impacts may be identified before the standards are initially applied in the Group's interim financial report for the six months ended 30 June 2018. The Group may also change its accounting policy elections, including the transition options, until the standards are initially applied in that financial report.

### 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, including the measurement of impairment for 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 and measurement 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 property, plant and equipment 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 2017 the Group’s future minimum lease payments under non-cancellable operating leases amounted to HK\$51,262,000, 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
<b>Year ended 31 December 2017</b>					
Revenue from external customers and reportable segment revenue	903,107	155,700	39,469	109,364	1,207,640
Segment results	54,420	25,580	4,958	10,614	95,572
Other income					1,046
Change in fair value less costs to sell of biological assets					2,026
Administrative expenses					(68,800)
Finance costs					(4,293)
Profit before taxation					25,551

	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
<b>Year ended 31 December 2016</b>					
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

# 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
<b>As at 31 December 2017</b>					
Segment assets	345,560	78,296	30,059	96,711	550,626
Unallocated					5,357
Total assets					555,983
Segment liabilities	233,587	25,827	17,426	37,201	314,041
Unallocated					1,051
Total liabilities					315,092

	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
<b>As at 31 December 2016</b>					
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

# 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
<b>For the year ended 31 December 2017</b>						
Depreciation of property, plant and equipment	10,583	1,186	1,844	10,265	147	24,025
Additions to non-current assets	33,003	2,043	261	3,941	32	39,280
Loss/(gain) on disposal of property, plant and equipment	67	73	(133)	42	215	264

	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
<b>For the year ended 31 December 2016</b>						
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

### 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 2017 and 2016.

# 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 2017, the Group's revenue of HK\$678,335,000 (2016: HK\$646,680,000) for various segments was derived from two customers (2016: two), each of whom has individually accounted for over 10% of the Group's total revenue, which are disclosed as follows:

	2017 HK\$'000	2016 HK\$'000
Customer A	288,075	286,846
Customer B	390,260	359,834
	<b>678,335</b>	646,680

## 6. FINANCIAL INSTRUMENTS

### (a) Categories of financial instruments

	2017 HK\$'000	2016 HK\$'000
<b>Financial assets</b>		
Available-for-sale financial assets	13,596	13,286
Loans and receivables		
– Pledged bank deposits	5,141	5,140
– Trade receivables	285,889	251,905
– Deposits	7,342	4,527
– Other receivables	5,715	8,746
– Cash and cash equivalents	47,983	55,735

	2017 HK\$'000	2016 HK\$'000
<b>Financial liabilities</b>		
Amortised cost		
– Trade payables	21,125	26,979
– Accruals, deposits received and other payables	131,051	114,473
– Bank borrowings	108,712	82,499
– Obligations under finance leases	42,356	56,907

# 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.

	2017		2016	
	Effective interest rate	Amount HK\$'000	Effective interest rate	Amount HK\$'000
<b>Net fixed rate borrowings:</b>				
Obligations under finance leases	3.54%–3.82%	42,356	3.26%–4.73%	56,907
Less: Pledged bank deposits	0.01%–0.15%	(5,141)	0.01%–0.15%	(5,140)
Deposits with banks	1.35%	(485)	3.46%–4.05%	(5,058)
		<b>36,730</b>		<b>46,709</b>
<b>Variable rate borrowings:</b>				
Bank borrowings	2.00%–3.50%	108,712	1.21%–5.75%	82,499
Total net borrowings		<b>145,442</b>		<b>129,208</b>

#### Sensitivity analysis

At 31 December 2017, 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\$454,000 (2016: HK\$344,000).

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 2016.

# 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 32% (2016: 35%) and 64% (2016: 68%) of the Group's total trade receivables were due from the largest customer and the five largest customers respectively as at 31 December 2017. 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 2017, the Group had unutilised banking facilities of HK\$151,309,466 (2016: HK\$121,827,000).

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	Over 5 years HK\$'000	Total contractual undiscounted cash flow HK\$'000	Carrying amount HK\$'000
<b>As at 31 December 2017</b>					
Trade payables	21,125	–	–	21,125	21,125
Accruals, deposits received and other payables	131,051	–	–	131,051	131,051
Obligations under finance leases	19,575	24,841	–	44,416	42,356
Bank borrowings	96,472	10,915	2,499	109,886	108,712
	<b>268,223</b>	<b>35,756</b>	<b>2,499</b>	<b>306,478</b>	<b>303,244</b>
Adjustments to present cash flows on bank borrowings based on lender's right to demand repayment	12,240	(10,915)	(2,499)	(1,174)	
	<b>280,463</b>	<b>24,841</b>	<b>–</b>	<b>305,304</b>	

# 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	Over 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	

### (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 2017			Total HK\$'000
	Level 1 HK\$'000	Level 2 HK\$'000	Level 3 HK\$'000	
<b>Available-for-sale financial assets</b>				
Investments in life insurance	–	–	13,596	13,596

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

During the years ended 31 December 2017 and 2016, 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*

	2017 HK\$'000	2016 HK\$'000
<b>Investments in life insurance:</b>		
Balance as at 1 January	13,286	12,941
Gains recognised in other comprehensive income	310	345
Balance as at 31 December	13,596	13,286

#### (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 2017 and 2016.



# 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 2017 and 2016 are as follows:

	2017 HK\$'000	2016 HK\$'000
Total borrowings (note (i))	151,068	139,406
Total equity (note (ii))	240,891	226,171
Gearing ratio	63%	62%

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 2017 and 2016.

# 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:

	2017 HK\$'000	2016 HK\$'000
Cleaning services	903,107	803,365
Landscaping services	155,700	123,395
Pest management services	39,469	52,488
Waste management and recycling services	109,364	115,540
	<b>1,207,640</b>	1,094,788

## 9. OTHER INCOME

	2017 HK\$'000	2016 HK\$'000
Government grants*	622	3,593
Interest income	92	136
Sundry income	332	204
	<b>1,046</b>	3,933

\* Government grants of HK\$622,000 (2016: HK\$3,593,000) were granted during the year ended 31 December 2017 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

	2017 HK\$'000	2016 HK\$'000
<b>Interest on:</b>		
Bank overdrafts	310	2
Bank loans	2,295	3,124
Obligations under finance leases	1,688	2,214
	<b>4,293</b>	5,340

# 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:

	2017 HK\$'000	2016 HK\$'000
Auditors' remuneration:		
Audit services	1,260	1,200
Other services	102	80
Depreciation of property, plant and equipment:		
Owned by the Group	12,094	11,508
Held under finance leases	11,931	12,071
Loss on disposal of property, plant and equipment	264	701
Cost of consumable goods	45,451	44,443
Staff costs (including directors' remuneration):		
Wages, salaries and other benefits	945,837	836,884
Provision for long service payments	422	2,559
Provision for untaken paid leave	7,900	9,622
Contributions to defined contribution retirement scheme	30,634	28,516
Equity-settled share-based payments	715	986
	<b>985,508</b>	878,567
Operating lease rentals: minimum lease payments		
Hire of machinery and motor vehicles	25,763	19,597
Land and buildings	5,550	4,909
	<b>31,313</b>	24,506

## 12. INCOME TAX

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

	2017 HK\$'000	2016 HK\$'000
Current tax — Hong Kong Profits Tax		
Provision for the year	4,812	4,929
Deferred tax		
Origination and reversal of temporary differences ( <i>Note 30</i> )	123	819
	<b>4,935</b>	5,748

The provision for Hong Kong Profits Tax for the year ended 31 December 2017 is calculated at 16.5% (2016: 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:

	2017 HK\$'000	2016 HK\$'000
Profit before taxation	25,551	30,759
Notional tax on profit before taxation, calculated at the rates applicable to profits in the tax jurisdictions concerned	4,132	5,084
Tax effect of non-taxable income	(80)	(318)
Tax effect of non-deductible expenses	946	469
Tax loss not recognised	335	603
Utilisation of tax loss not recognised in prior years	–	(90)
Recognition of temporary difference not recognised in prior years	430	–
Recognition of unused tax losses not recognised in prior years	(828)	–
	4,935	5,748

## 13. DIVIDENDS

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

	2017 HK\$'000	2016 HK\$'000
Final dividend proposed after the end of the reporting period of HK1.4 cents (2016: HK1.7 cents) per ordinary share	5,810	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

	2017 HK\$'000	2016 HK\$'000
Final dividend in respect of the previous financial year, approved and paid during the year, of HK1.7 cents (2016: HK1.7 cents) per ordinary share	7,055	7,055

# 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 2017 is based on the profit for the year attributable to ordinary equity shareholders of the Company of HK\$20,616,000 (2016: HK\$25,011,000) and the weighted average number of 415,000,000 (2016: 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 2017 and 2016 are the same as the basic earnings per share as there were no potential dilutive ordinary shares in existence during the years presented.

## 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
<b>For the year ended 31 December 2017</b>								
<b>Executive directors:</b>								
Mr. Ng Wing Hong	-	2,125	-	-	18	2,143	-	2,143
Ms. Ng Yuk Kwan Phyllis	-	1,602	432	520	193	2,747	45	2,792
Mr. Ng Wing Chuen	-	1,057	-	100	-	1,157	37	1,194
Ms. Leung Shuk Ping	-	965	-	270	18	1,253	33	1,286
Ms. Chan Shuk Kuen	-	929	-	200	18	1,147	33	1,180
Ms. Cheung Siu Chun	-	1,097	-	265	129	1,491	37	1,528
<b>Independent non-executive directors:</b>								
Mr. Sin Ho Chiu	145	-	-	-	-	145	21	166
Dr. Law Ka Hung	145	-	-	-	-	145	21	166
Mr. Lau Chi Yin Thomas	145	-	-	-	-	145	21	166
	435	7,775	432	1,355	376	10,373	248	10,621

# 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 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

During the years ended 31 December 2017 and 2016, 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 2017 and 2016.

### Five highest paid individuals

For the years ended 31 December 2016 and 2017, 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	Leasehold improvements HK\$'000	Total HK\$'000
<b>Cost</b>						
As at 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 and 1 January 2017	<b>21,403</b>	<b>21,114</b>	<b>29,053</b>	<b>182,238</b>	–	<b>253,808</b>
Additions	<b>13,378</b>	<b>2,008</b>	<b>5,705</b>	<b>16,181</b>	<b>1,067</b>	<b>38,339</b>
Disposals	–	(205)	(5,945)	(7,575)	–	(13,725)
Exchange adjustments	–	15	–	–	–	15
As at 31 December 2017	<b>34,781</b>	<b>22,932</b>	<b>28,813</b>	<b>190,844</b>	<b>1,067</b>	<b>278,437</b>
<b>Accumulated depreciation</b>						
As at 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 and 1 January 2017	<b>4,224</b>	<b>16,400</b>	<b>19,920</b>	<b>56,636</b>	–	<b>97,180</b>
Charge for the year	<b>664</b>	<b>2,387</b>	<b>6,126</b>	<b>14,764</b>	<b>84</b>	<b>24,025</b>
Written back on disposals	–	(182)	(5,846)	(3,955)	–	(9,983)
Exchange adjustments	–	5	–	–	–	5
As at 31 December 2017	<b>4,888</b>	<b>18,610</b>	<b>20,200</b>	<b>67,445</b>	<b>84</b>	<b>111,227</b>
<b>Net book value</b>						
<b>As at 31 December 2017</b>	<b>29,893</b>	<b>4,322</b>	<b>8,613</b>	<b>123,399</b>	<b>983</b>	<b>167,210</b>
As at 31 December 2016	17,179	4,714	9,133	125,602	–	156,628

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

As at 31 December 2017, the leasehold properties with carrying amount of HK\$29,893,000 (2016: HK\$17,179,000) were mortgaged for banking facilities granted to the Group.

As at 31 December 2017, the carrying amount of motor vehicles held under finance leases amounted to HK\$85,599,000 (2016: HK\$105,654,000).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong Dollars unless otherwise indicated)

## 17. PARTICULARS OF SUBSIDIARIES

As at 31 December 2017, 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

	2017 HK\$'000	2016 HK\$'000
Share of net assets	–	150

The following list contains the particulars of the associate as at 31 December 2016, which was an unlisted corporate entity whose quoted market price was 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 was accounted for using the equity method in the consolidated financial statements.

The associate was disposed of during the year ended 31 December 2017 at a consideration of HK\$150,000.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong Dollars unless otherwise indicated)

## 19. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	2017 HK\$'000	2016 HK\$'000
Investments in life insurance, at fair value	<b>13,596</b>	13,286

Investments in life insurance represent 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 2017, the investments in life insurance of HK\$13,596,000 (2016: HK\$13,286,000) were 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 2017, a fair value gain of HK\$310,000 (2016: HK\$345,000) was recognised and credited to other comprehensive income.

## 20. PLEDGED BANK DEPOSITS

The amount represents deposits pledged to banks to secure bank borrowings.

## 21. INVENTORIES

	2017 HK\$'000	2016 HK\$'000
Consumable goods	<b>4,539</b>	4,942

## 22. TRADE RECEIVABLES

	2017 HK\$'000	2016 HK\$'000
Trade receivables	<b>285,889</b>	251,905

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:

	2017 HK\$'000	2016 HK\$'000
Within 60 days	<b>212,469</b>	189,624
Over 60 days but within 120 days	<b>63,016</b>	53,575
Over 120 days but within 365 days	<b>9,273</b>	7,651
Over 365 days	<b>1,131</b>	1,055
	<b>285,889</b>	251,905

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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong Dollars unless otherwise indicated)

## 22. TRADE RECEIVABLES *(Continued)*

Included in the Group's trade receivables are balances totalling HK\$41,214,000 (2016: HK\$33,448,000) as at 31 December 2017 in respect of non-government organisations which were past due but not impaired with the following ageing analysis:

	2017 HK\$'000	2016 HK\$'000
Overdue by:		
Within 60 days	34,573	22,869
Over 60 days but within 120 days	4,550	5,902
Over 120 days but within 365 days	1,838	3,886
Over 365 days	253	791
	<b>41,214</b>	<b>33,448</b>

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 2017 (2016: Nil).

The Group's trade receivables of HK\$37,757,000 (2016: HK\$72,057,000) as at 31 December 2017 were pledged for certain banking facilities granted to the Group.

## 23. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2017 HK\$'000	2016 HK\$'000
Prepayments	6,537	8,248
Deposits	7,342	4,527
Other receivables	5,715	8,746
	<b>19,594</b>	<b>21,521</b>
Less: Non-current prepayments	(941)	–
Non-current deposits	(4,823)	–
	<b>(5,764)</b>	<b>–</b>
	<b>13,830</b>	<b>21,521</b>

Included in non-current portion of deposits as at 31 December 2017 are performance deposits of HK\$1,380,000 (2016: Nil) and rental deposits of HK\$3,443,000 (2016: Nil), in respect of certain service contracts and rental contracts of the Group, which are recoverable at the end of the service contracts and rental contracts.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong Dollars unless otherwise indicated)

## 23. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES *(Continued)*

Included in other receivables as at 31 December 2017 is a gross amount of HK\$4,500,000 (2016: HK\$5,000,000) due from Shanghai Genyuan Environmental Co., Limited ("Shanghai Genyuan", a company principally engaged in harmless treatment of organic wastes and resources utilisation in the 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 year ended 31 December 2016 as the Group could not reach an agreement with the seller on certain crucial terms. During the year ended 31 December 2017, the Group agreed with Shanghai Genyuan on the repayment schedule of the outstanding balance but certain scheduled payments were subsequently defaulted. The Group has taken legal action against Shanghai Genyuan and the guarantors, and a provision of HK\$2,250,000 was made in the current year.

All of the current portion of 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:

	2017 HK\$'000	2016 HK\$'000
Plants and flowers		
Balance as at 1 January	9,700	6,820
Purchases	634	1,652
Usage in services	(317)	(54)
Disposal	(12)	(447)
Change in fair value less costs to sell	2,026	1,729
Balance as at 31 December	12,031	9,700

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 2017 and 2016 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 AND OTHER CASH FLOW INFORMATION

Cash and cash equivalents comprise:

	2017 HK\$'000	2016 HK\$'000
Deposits with banks	485	5,058
Cash and bank balances	47,498	50,677
	<b>47,983</b>	55,735

As at 31 December 2017, the balances that were placed with banks or on hand in the PRC and included in the cash and bank balances amounted to HK\$642,000 (2016: HK\$716,000). Remittance of funds out of the PRC is subject to the exchange restriction imposed by the PRC government.

### Reconciliation of liabilities arising from financing activities

The table below details changes in the Group's liabilities from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are liabilities for which cash flows were, or future cash flows will be, classified in the Group's consolidated statement of cash flows as cash flows from financing activities.

	Bank borrowings HK\$'000 (Note 28)	Obligations under finance leases HK\$'000 (Note 29)	Total HK\$'000
<b>At 1 January 2017</b>	82,499	56,907	139,406
<b>Changes from financing cash flows:</b>			
Proceeds from new bank loans	725,069	–	725,069
Repayment of bank loans	(698,856)	–	(698,856)
Interest paid for bank borrowings	(2,605)	–	(2,605)
Capital element of finance lease rentals paid	–	(22,522)	(22,522)
Interest element of finance lease rentals paid	–	(1,688)	(1,688)
Total changes from financing cash flows	23,608	(24,210)	(602)
<b>Other changes:</b>			
New finance leases (Note 36)	–	7,971	7,971
Interest expenses (Note 10)	2,605	1,688	4,293
Total other changes	2,605	9,659	12,264
<b>At 31 December 2017</b>	<b>108,712</b>	<b>42,356</b>	<b>151,068</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong Dollars unless otherwise indicated)

## 26. TRADE PAYABLES

	2017 HK\$'000	2016 HK\$'000
Trade payables	21,125	26,979

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

	2017 HK\$'000	2016 HK\$'000
Within 30 days	12,413	15,906
Over 30 days but within 60 days	6,634	6,635
Over 60 days but within 90 days	805	535
Over 90 days	1,273	3,903
	21,125	26,979

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

## 27. ACCRUALS, DEPOSITS RECEIVED AND OTHER PAYABLES

	2017 HK\$'000	2016 HK\$'000
Accruals of staff costs	116,678	101,879
Deposits received	391	170
Other accrual expenses and payables	13,982	12,424
	131,051	114,473

In prior years, there was a legal action taken against the Group in relation to a personal injury in servicing area at the Group and a provision of HK\$900,000 was included in "Accrual, deposits received and other payables" as at 31 December 2016. The case was settled in 2017 and all related liabilities were fully provided in prior years.

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:

	2017 HK\$'000	2016 HK\$'000
<b>Current liabilities</b>		
Current portion of term loans from banks	95,966	76,522
Non-current portion of term loans from banks repayable on demand	12,746	5,977
	<b>108,712</b>	82,499

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

	2017 HK\$'000	2016 HK\$'000
Secured	108,712	72,499
Unsecured	–	10,000
	<b>108,712</b>	82,499

The secured bank loans of the Group as at 31 December 2017 and 2016 were secured by:

- (i) pledged bank deposits of HK\$5,141,000 as at 31 December 2017 (2016: HK\$5,140,000);
- (ii) mortgage of the Group's leasehold land and buildings of HK\$29,893,000 as at 31 December 2017 (2016: HK\$17,179,000);
- (iii) pledge of the Group's available-for-sale financial assets of HK\$13,596,000 as at 31 December 2017 (2016: HK\$13,286,000); and
- (iv) pledge of the Group's trade receivables of HK\$37,757,000 as at 31 December 2017 (2016: HK\$72,057,000).

The bank loans of the Group of HK\$108,712,000 as at 31 December 2017 (2016: HK\$82,499,000) bear interest ranging from 2.00% to 3.50% (2016: 1.21% to 5.75%) per annum.

Banking facilities of HK\$128,133,000 (2016: HK\$129,900,000) as at 31 December 2017 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 2017, such facilities were utilised to the extent of HK\$36,824,000 (2016: HK\$45,973,000). The Group regularly monitors its compliance with these covenants. As at 31 December 2017, none of the covenants relating to the drawn down facilities had been breach (2016: 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:

	2017 HK\$'000	2016 HK\$'000
Minimum lease payments under finance leases		
— within one year	19,575	23,188
— after one year but within five years	24,841	36,821
	<b>44,416</b>	60,009
Less: Future interest expenses	<b>(2,060)</b>	(3,102)
Present value of lease obligations	<b>42,356</b>	56,907

	2017 HK\$'000	2016 HK\$'000
Present value of minimum lease payment under finance leases		
— within one year	18,289	21,601
— after one year but within five years	24,067	35,306
	<b>42,356</b>	56,907

As at 31 December 2017, the obligations under finance leases of the Group of HK\$42,356,000 (2016: HK\$56,907,000) 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 2016	17,134	(7,446)	9,688
Charged to profit or loss (Note 12)	729	90	819
As at 31 December 2016 and 1 January 2017	<b>17,863</b>	<b>(7,356)</b>	<b>10,507</b>
Charged/(credited to) to profit or loss (Note 12)	<b>1,203</b>	<b>(1,080)</b>	<b>123</b>
As at 31 December 2017	<b>19,066</b>	<b>(8,436)</b>	<b>10,630</b>

# 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:

	2017 HK\$'000	2016 HK\$'000
Deferred tax liabilities recognised in the consolidated statement of financial position	10,630	10,507

### Deferred tax assets not recognised

As at 31 December 2017, the Group has not recognised deferred tax assets in respect of the estimated unused tax losses of HK\$5,282,000 (2016: HK\$8,274,000) 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
<b>Authorised:</b> <i>Ordinary shares of HK\$0.01 each</i> As at 1 January 2016, 31 December 2016, 1 January 2017 and 31 December 2017	1,000,000	10,000
<b>Issued and fully paid:</b> <i>Ordinary shares of HK\$0.01 each</i> As at 1 January 2016, 31 December 2016, 1 January 2017 and 31 December 2017	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 2017	Number of options		
					Granted during the year	Lapsed during the year	At 31 December 2017
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	3,492,000	-	(176,000)	3,316,000
Total:				5,116,000	-	(176,000)	4,940,000
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 2017 and 2016, while 176,000 (2016: 100,000) share options were lapsed due to resignation of employee during the year ended 31 December 2017.

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\$715,000 (2016: HK\$986,000) arising from options vested during the year ended 31 December 2017.

# 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\$30,634,000 (2016: HK\$28,516,000) for the year ended 31 December 2017.

## 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:

	2017 HK\$'000	2016 HK\$'000
Within one year	6,374	4,594
After one year but within five years	12,819	3,255
After five years	32,069	1,463
	<b>51,262</b>	9,312

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

## 36. MAJOR NON-CASH TRANSACTION

Additions to property, plant and equipment of approximately HK\$7,971,000 (2016: HK\$18,178,000) for the year ended 31 December 2017 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.

	2017 HK\$'000	2016 HK\$'000
Short term employee benefits	9,997	9,581
Retirement scheme contributions	376	361
Equity-settled share-based payments	248	315
	<b>10,621</b>	10,257

# 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	2017 HK\$'000	2016 HK\$'000
	The company owned by close member of director and shareholder	Purchase of cleaning equipment and materials	Mr. Ng Wing Hong	1,437	1,460
	Common director and shareholder	Information technology service fee	Mr. Ng Wing Hong	1,236	1,002
	Director and shareholder	Rental expenses	Mr. Ng Wing Hong	432	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

	2017 HK\$'000	2016 HK\$'000
Capital expenditure in respect of the additions of property, plant and equipment		
— Contracted for within one year	3,266	702
Capital expenditure in respect of the additions of equipment and machinery for glass management contracts		
— Authorised but not contracted for	20,000	—
Capital expenditure in respect of the construction of recycling plant for EcoPark project		
— Authorised but not contracted for	80,000	—
	<b>103,266</b>	702

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong Dollars unless otherwise indicated)

## 39. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	2017 HK\$'000	2016 HK\$'000
<b>Non-current assets</b>		
Investments in subsidiaries	1,283	817
<b>Current assets</b>		
Prepayments and other receivables	2,326	5,076
Amounts due from subsidiaries	144,701	102,761
Cash and cash equivalents	220	352
	147,247	108,189
<b>Current liabilities</b>		
Accruals and other payables	223	1,996
Amount due to a subsidiary	42,126	403
	42,349	2,399
<b>Net current assets</b>	104,898	105,790
<b>Net assets</b>	106,181	106,607
<b>Capital and reserves</b>		
Share capital	4,150	4,150
Reserves	102,031	102,457
<b>Total equity</b>	106,181	106,607

Approved by the Board of Directors on 28 March 2018 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	Retained earnings/ (accumulated losses) HK\$'000	Total HK\$'000
As at 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 and 1 January 2017	<b>4,150</b>	<b>100,850</b>	<b>1,196</b>	<b>411</b>	<b>106,607</b>
Profit and total comprehensive income for the year	-	-	-	5,914	5,914
Dividends approved in respect of the previous year (Note 13(b))	-	-	-	(7,055)	(7,055)
Equity-settled share-based payments	-	-	715	-	715
<b>As at 31 December 2017</b>	<b>4,150</b>	<b>100,850</b>	<b>1,911</b>	<b>(730)</b>	<b>106,181</b>

At 31 December 2017, the aggregate amount of reserves available for distribution to equity shareholders of the Company amounted to HK\$102,031,000 (2016: HK\$102,457,000).

## 41. IMMEDIATE AND ULTIMATE CONTROLLING PARTY

At 31 December 2017, 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.

## 42. APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements were approved and authorised for issue by the Board of Directors on 28 March 2018.

## 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				
	2017 HK\$'000	2016 HK\$'000	2015 HK\$'000	2014 HK\$'000	2013 HK\$'000
<b>Results</b>					
Revenue	<b>1,207,640</b>	1,094,788	1,224,887	1,028,711	821,259
Profit before taxation	<b>25,551</b>	30,759	28,731	25,012	70,366
Income tax expense	<b>(4,935)</b>	(5,748)	(4,645)	(7,331)	(7,865)
Profit for the year	<b>20,616</b>	25,011	24,086	17,681	62,501
Attributable to: Equity shareholders of the Company	<b>20,616</b>	25,011	24,086	17,681	62,501

	As at 31 December				
	2017 HK\$'000	2016 HK\$'000	2015 HK\$'000	2014 HK\$'000	2013 HK\$'000
<b>Assets and liabilities</b>					
Total assets	<b>555,983</b>	519,007	564,720	517,547	393,702
Total liabilities	<b>(315,092)</b>	(292,836)	(357,716)	(329,846)	(297,019)
	<b>240,891</b>	226,171	207,004	187,701	96,683
Attributable to: Equity shareholders of the Company	<b>240,891</b>	226,171	207,004	187,701	96,683

碧瑤綠色集團有限公司  
Baguio Green Group Limited