



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

2018 中期報告 INTERIM REPORT



Clean & Green



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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 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, ShangBu 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 SHARE REGISTRAR

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

PRINCIPAL BANKER

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

FINANCIAL HIGHLIGHTS

| | For the six months ended 30 June | | Percentage change |
|---|----------------------------------|------------------|-------------------|
| | 2018 HK\$'000 | 2017 HK\$'000 | |
| Revenue | | | |
| Cleaning | 518,240 | 423,850 | +22.3% |
| Landscaping | 85,329 | 72,452 | +17.8% |
| Pest management | 23,456 | 20,692 | +13.4% |
| Waste management and recycling | 60,974 | 54,128 | +12.6% |
| | 687,999 | 571,122 | +20.5% |
| Cost of services | (640,636) | (519,368) | +23.3% |
| Gross profit | 47,363 | 51,754 | -8.5% |
| Profit from operations | 16,972 | 20,244 | -16.2% |
| Profit attributable to equity shareholders of the Company | 12,560 | 15,132 | -17.0% |
| Basic earnings per share (HK cents) | 3.03 | 3.65 | |

MANAGEMENT DISCUSSION AND ANALYSIS

The board of directors (the “Directors” and the “Board” respectively) of Baguio Green Group Limited (the “Company”, and together with its subsidiaries, the “Group” or “Baguio”) is pleased to present the interim report of the Company for the six months ended 30 June 2018 (the “Period”).

MARKET REVIEW

The first half of 2018 was challenging to Baguio as it experienced a more intense competition from local and regional players particularly in the cleaning business. However, it didn't prevent Baguio from devoting its commitment in exploring opportunities in the recycling business and stepping up from a recyclable waste collector to be one of the key players in processing of recyclable wastes in Hong Kong. Glass containers and plastic bottles are two types of wastes which the Government (the “Government”) of the Hong Kong Special Administrative Region (“HKSAR”) targeted in the first phase of environmental protection plan. In the past few years, the Government has been working in full swing to introduce multi-pronged environmental protection policies and programs, such as the Producer Responsibility Scheme (“PRS”) on glass beverage containers, the proposed PRS on plastic bottles and the Municipal solid Waste Charging Scheme. Furthermore, the Government has been enhancing the funding and promotion on developing new technologies for waste recycling, with an aim to establish one-stop solutions to minimise waste disposal and to promote resources recycling. All the above create an ideal operating environment for Baguio's one-stop waste management and recycling business.

With a strong belief that resources recycling is the most efficient solution to Hong Kong's waste problem, the Group has, since 2014, been targeting to develop one-stop waste management and recycling solutions. The Group has successfully built its extensive waste collection network in the past four years and now, the Group is ready to steer forward to the next stage, waste processing, and eventually, the goal is to transform the processed recyclables into useful raw materials.

BUSINESS REVIEW

Baguio is a leading integrated environmental services provider with its footprint in a wide scope of comprehensive environmental service segments, ranging from cleaning, landscaping and pest management to waste management and recycling in Hong Kong. While the environmental service industry, especially the cleaning business sector, faced a keen competition in the first half of 2018, the Group's gross profit was adversely affected. The Group has been adopting new technologies to enhance the operation efficiency and better contract management to improve the gross profit margin. In the meantime, the Group is speeding up the development plan of its waste management and recycling business.

Further from gaining its first glass management contract and obtaining a tender lease in EcoPark for expanding its plastic waste recycling business in 2017, the Group, in the first half of 2018, kicked off the establishment of a glass and plastic bottles collection network. In addition, the Group also devoted resources to enhance public education and promotion, as well as enforce its operational support and fleet size. The glass processing factory in Tuen Mun commenced operation in May 2018. The Group is also planning to enhance the use of mobile applications to enhance the operational efficiency and accuracy. Although the initial expenses in these new projects would temporarily narrow the segment profit, Baguio believes that the waste recycling segment will be the future growth driver and the efforts made at this stage will be rewarded. With an extensive network and a strong operational support team, Baguio is ready to welcome the business opportunities brought by the PRS to be implemented in 2019 and 2020 respectively.

Results

For the Period, revenue of the Group was approximately HK\$688.0 million, representing a growth of approximately 20.5% from approximately HK\$571.1 million for the same period in 2017. This was mainly attributable to the Group's genuine efforts in gaining new and renewal contracts. Gross profit decreased by approximately 8.5% to approximately HK\$47.4 million (1H2017: HK\$51.8 million), and gross profit margin decreased by approximately 2.2 percentage point (“p.p.”) to approximately 6.9% (1H2017: 9.1%). Decline in gross profit margin was mainly due to the increase in labor costs, particular in the cleaning segment. Profit attributable to equity shareholders of the Company amounted to approximately HK\$12.6 million, representing a decline of approximately 17.0% year-on-year for the Period (1H2017: HK\$15.1 million) while the net profit margin decreased by approximately 0.8 p.p to approximately 1.8% (1H2017: 2.6%). Earnings per share was 3.03 HK cents (1H2017: 3.65 HK cents).

Interim Dividend

The Directors do not recommend the payment of an interim dividend for the Period (1H2017: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

Revenue Breakdown of Major Business Segments

| | For the six months ended 30 June 2018 | | 2017 | | Change |
|--------------------------------|---------------------------------------|--------------------|------------------------|--------------------|--------|
| | Revenue (HK\$ Million) | % of total revenue | Revenue (HK\$ Million) | % of total revenue | |
| Cleaning | 518.2 | 75.3% | 423.8 | 74.2% | +22.3% |
| Landscaping | 85.3 | 12.4% | 72.5 | 12.7% | +17.8% |
| Pest management | 23.5 | 3.4% | 20.7 | 3.6% | +13.4% |
| Waste management and recycling | 61.0 | 8.9% | 54.1 | 9.5% | +12.6% |
| Total | 688.0 | 100.0% | 571.1 | 100.0% | +20.5% |

Gross Profit Margin of Major Business Segments

| | For the six months ended 30 June | | Change |
|--------------------------------|----------------------------------|-------|-----------|
| | 2018 | 2017 | |
| Cleaning | 4.7% | 7.2% | -2.5 p.p. |
| Landscaping | 17.3% | 16.9% | +0.4 p.p. |
| Pest management | 11.6% | 12.0% | -0.4 p.p. |
| Waste management and recycling | 9.4% | 12.4% | -3.0 p.p. |
| Overall | 6.9% | 9.1% | -2.2 p.p. |

During the Period, the Group was able to secure tender contracts with its existing and new customers to drive overall revenue upwards. The Group has delivered satisfactory growth in the overall service segments, especially in its cleaning and landscaping segments by achieving approximately 22.3% and 17.8% revenue growth respectively. With the increasing demand for professional landscaping and arboriculture services, the landscaping segment still maintained higher gross profit margin. The overall gross profit margin dropped from 9.1% to 6.9% mainly due to increase in labor costs, especially in the cleaning segment. Initial operating expenses incurred with the new glass management contracts in the recycling segment also affected the gross profit margin. We shall continue to widen and deepen our recycling business which we expect to exhibit major growth in the near future.

Contracts on hand

As of 30 June 2018, the Group had a total amount of approximately HK\$2,067.1 million worth of unexpired contracts on hand, among which, approximately HK\$700.9 million would be recognised by the end of 2018; approximately HK\$870.2 million would be recognised in 2019 and the rest of approximately HK\$496.0 million would be recognised in 2020 and beyond.

| | Unexpired 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 | 1,272.3 | 508.3 | 606.0 | 158.0 |
| Landscaping services | 259.6 | 114.7 | 108.7 | 36.2 |
| Pest management services | 40.5 | 16.1 | 24.1 | 0.3 |
| Waste management and recycling services | 494.7 | 61.8 | 131.4 | 301.5 |
| Total | 2,067.1 | 700.9 | 870.2 | 496.0 |

MANAGEMENT DISCUSSION AND ANALYSIS

AWARDS

During the Period, the Group has been recognised by many renowned institutes and the following awards have been granted:

| Date | Issuer of Award | Award |
|----------|---|--|
| Jan 2018 | Hong Kong Airport Authority | Appreciation for Participation in Airfield and Baggage Hall Safety Campaign 2017 |
| Jan 2018 | Green Council | Certificate of Appreciation — Green Run 2018 |
| Jan 2018 | Sower Action | Corporate Participation — Bronze Award (Sowers Action Challenging 12 Hours — Charity Marathon 2017) |
| Jan 2018 | Sower Action | Corporate Team Fundraising — Silver Award (Sowers Action Challenging 12 Hours — Charity Marathon 2017) |
| Jan 2018 | Sun Fook Kong Construction Group | Sun Fook Kong Safety Awards Scheme 2017 — Certificate to Zero Accident Achievement (Oct 2016 ~ Mar 2017) |
| Jan 2018 | Sun Fook Kong Construction Group | Sun Fook Kong Safety Awards Scheme 2017 — Certificate to Zero Accident Achievement (Apr ~ Sept 2017) |
| Feb 2018 | Green Council | Certificate of Appreciation — Green Carnvial 2018 |
| Feb 2018 | 7-Eleven — Combined Distribution Centre | Certificate of Occupational Safety and Health |
| Feb 2018 | Wisdom Regeneration | Certificate of Appreciation — ECF-Come and Join us Waste Reduction |
| Mar 2018 | Employee Retraining Board | ERB Merit Award for Employers |
| Mar 2018 | People Service Centre | Certificate of Appreciation — Fest Food Share Program |
| Mar 2018 | Hong Kong Council of Social Service | 5 years+ Caring Company 2017/18 — Baguio Cleaning Services Company Limited |
| Mar 2018 | Hong Kong Council of Social Service | 5 years+ Caring Company 2017/18 — Baguio Landscaping Services Limited |
| Mar 2018 | Hong Kong Council of Social Service | 5 years+ Caring Company 2017/18 — Baguio Pest Management Limited |
| Mar 2018 | Hong Kong Council of Social Service | 5 years+ Caring Company 2017/18 — Waste Management and Recycling Limited |
| Mar 2018 | Hong Kong Council of Social Service | Caring Company 2017/18 — Baguio Green Group Limited |
| Mar 2018 | Hong Kong Council of Social Service | Caring Company 2017/18 — Tak Tai Enviroscape Limited |
| Mar 2018 | Environmental Campaign Committee | Hong Kong Green Organisation Certification — Wastewi\$e Certificate — Excellence Level |

MANAGEMENT DISCUSSION AND ANALYSIS

| Date | Issuer of Award | Award |
|-----------|---|---|
| Mar 2018 | Hong Kong Children & Youth Services | Caring for Communities Award 2017 |
| Mar 2018 | Technological and Higher Education Institute of Hong Kong | Certificate of Appreciation |
| Mar 2018 | Hong Kong Airport Authority | HKIA Environmental Management Recognition Scheme (Excellence Class) — Merit Award |
| May 2018 | Environmental Campaign Committee | Hong Kong Awards for Environmental Excellence (Manufacturing and Industrial Services) Certificate of Merit |
| May 2018 | Employee Retraining Board | Manpower Developer Award Scheme |
| May 2018 | Qualifications Framework Secretariat | QF Star Employer 2018 |
| May 2018 | Bank of China and The Federation of Hong Kong Industries | Corporate Environmental Leadership Awards 2017 — EcoPartner + EcoPioneer (3 Years +) |
| June 2018 | Green Council | Certificate of Appreciation Bronze Sponsor |
| June 2018 | Quality Building Award | Quality Building Award 2018 — Certificate of Grand Award (HK Residential Multiple Buildings)— Hung Fuk Estate |
| June 2018 | Quality Building Award | Quality Building Award 2018 — Certificate of Quality Excellence Award — Hung Fuk Estate |
| June 2018 | Green Council | Hong Kong Green Day 2018 Closing Ceremony — Certificate of Appreciation |

CORPORATE SOCIAL RESPONSIBILITY ACTIVITIES

In addition to focusing on its professional services to improve the living standard of Hong Kong citizens, the Group strived to contribute to the society together with our employees. The following sets out some of the activities participated or organised by the Group during the Period.

| Date | Organiser of Activity | Activity |
|----------|--------------------------|--------------------------------------|
| Jan 2018 | Green Council | Green Run 2018 |
| Feb 2018 | Green Council | Green Carnival 2018 |
| Feb 2018 | Greener Action | Red Pocket Reuse and Recycle Program |
| May 2018 | World Green Organisation | Tree Partner Eco-Adventure Programme |
| Jun 2018 | Green Council | Hong Kong Green Day 2018 |
| Jun 2018 | World Green Organisation | Green Hero Alliance Program |
| Jun 2018 | UN World Environment Day | Beat Plastic Pollution Family Day |

PROSPECTS

Looking into the second half of 2018, Baguio will continue to uphold its core philosophy to maintain a “Clean & Green” environment for the society. The Group will continue to focus on its core business in Hong Kong, primarily in the waste management and recycling business. Meanwhile, the Group will keep venturing into potential business opportunities in the People’s Republic of China (the “PRC”) market, especially in the Greater Bay Area, as it believes the demand for green and environmental protection services in the PRC will continue to grow. With the positive outlook of the environmental industry in Hong Kong and the PRC, coupled with its network, advanced operating systems as well as its successful track record, the Group believes it is in a good position and has absolute advantages for future business development.

As a leading environmental services provider in Hong Kong, Baguio will continue to strengthen its position in the existing cleaning, landscaping, pest control and waste management businesses to maintain a strong and sustainable growth, while actively expand its capacity and capability in recyclables collection, sorting and processing of a wider scope of recyclables, including plastics, glass bottles and horticultural waste which the HKSAR is particularly concerned with. Given the imminent waste and landfill problems in Hong Kong and the Government’s determination to increase the recycling rate, there will be a lot of new opportunities emerging from the recycling industry. Riding on its existing collection network and resources, together with its extensive experience in the waste management industry and its long-term working relationship with the Government, the Group believes it is in an advance position to capture these emergent opportunities.

Looking ahead, Baguio will constantly seek projects with growth potential and good opportunities for mergers and acquisitions through integrating and improving the existing business portfolio, constantly summing up experience and keeping track of market trends, thus to make continuous contribution to the protection of global environment. The Group will also continue to keep a keen eye for potential strategic partnership or investment, in order to further unleash business synergies and to deliver greater and sustainable returns to the shareholders of the Company.

FINANCIAL REVIEW

Revenue

The Group’s revenue for each of the six-month periods ended 30 June 2018 and 2017 were approximately HK\$688.0 million and HK\$571.1 million respectively, representing an increase of approximately 20.5%. The increase was mainly due to the overall increase in revenue in our services segments of cleaning and landscaping with increase in number of contracts and orders during the Period.

Cost of Services

For each of the six-month periods ended 30 June 2018 and 2017, the cost of services amounted to approximately HK\$640.6 million and HK\$519.4 million respectively, representing approximately 93.1% and approximately 90.9% of the Group’s revenue for the corresponding periods respectively. The cost of services primarily comprised of direct wages, direct overhead expenses, material consumables and sub-contracting fees. The cost of services in proportion to the Group’s revenue increased due to increase in labor costs in the market.

Gross Profit

The Group’s gross profit for the Period was approximately HK\$47.4 million, representing a decrease of approximately 8.5% from approximately HK\$51.8 million for the corresponding period in 2017. The decrease was mainly due to the keen competition in the market, coupled with an increase in labor costs, especially in cleaning segment. The proportion of increment in cost of services was higher than the increase in revenue.

Gross Profit Margin

The gross profit margins of the Group for each of the six-month periods ended 30 June 2018 and 2017 were approximately 6.9% and approximately 9.1% respectively. The decrease in gross profit margin was mainly due to the increase in direct labor costs in light of the labor intensive nature of our businesses.

MANAGEMENT DISCUSSION AND ANALYSIS

Change in Fair Value Less Costs to Sell of Biological Assets

The Group's biological assets consist of trees, plants and flowers located at the Group's nurseries in the PRC and Hong Kong. The gain in fair value of biological assets for each of the six-month periods ended 30 June 2018 and 2017 were approximately HK\$1.5 million and HK\$1.3 million respectively, representing an increase of approximately 11.7%. The Group continued to store and plant these biological assets for future landscaping projects.

Selling and Marketing Expenses

The selling and marketing expenses of the Group for each of the six-month periods ended 30 June 2018 and 2017 were approximately HK\$1.0 million and HK\$0.6 million respectively. The increase was mainly due to the increased promotional activities and channels to promote our recycling business and to enhance the public awareness of environmental protection and waste recycling.

Administrative Expenses

The administrative expenses of the Group for each of the six-month periods ended 30 June 2018 and 2017 were approximately HK\$31.2 million and HK\$32.7 million respectively, representing approximately 4.5% and approximately 5.7% of the respective period's revenue. The Group continued to implement its budget cost control measures for administrative expenses during the Period. A provision of approximately HK\$2.3 million was made for the six-month period ended 30 June 2017.

Finance Costs

The finance costs amounted to approximately HK\$2.3 million and HK\$2.1 million for each of the six-month periods ended 30 June 2018 and 2017 respectively, representing approximately 0.3% and 0.4% of the Group's revenue respectively.

Profit for the Period Attributable to Equity Shareholders of The Company

The Group's net profit attributable to equity shareholders of the Company for each of the six-month periods ended 30 June 2018 and 2017 were approximately HK\$12.6 million and HK\$15.1 million respectively, representing a decrease of approximately 17.0%. The decrease was mainly due to the above-mentioned reasons.

CAPITAL STRUCTURE

The share capital of the Group comprises only ordinary shares. The capital structure of the Group mainly consists of borrowings from banks and obligations under finance leases and equity attributable to equity shareholders of the Group, comprising issued share capital and reserves.

The Directors review the capital structure regularly, taking into consideration of the cost of capital and the risks associated with the capital. The Group considers the cost of capital and the risks associated with each class of capital to monitor its capital structure on the basis of gearing ratio.

LIQUIDITY AND FINANCIAL RESOURCES

The Group derives cash flows from operating activities principally from rendering comprehensive range of environmental services. For the Period, we had net cash generated from operating activities of approximately HK\$2.7 million (1H2017: \$42.9 million). As at 30 June 2018, the Group had available cash and bank balances amounting to approximately HK\$38.3 million (31 December 2017: HK\$48.0 million), representing a decrease of approximately 20.3% from 31 December 2017.

As at 30 June 2018, the Group's total current assets and current liabilities were approximately HK\$404.8 million (31 December 2017: HK\$369.4 million) and HK\$327.6 million (31 December 2017: HK\$280.4 million) respectively, while the current ratio was approximately 1.2 times (31 December 2017: 1.3 times).

As at 30 June 2018, the Group's finance lease payables were approximately HK\$32.9 million (31 December 2017: HK\$42.4 million) for financing the acquisition of motor vehicles for operational usage. During the Period, no financial instruments were used for hedging purposes.

MANAGEMENT DISCUSSION AND ANALYSIS

The gearing ratio of the Group was approximately 0.7 times as at 30 June 2018 (31 December 2017: 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.

As at 30 June 2018, the Group had unutilised banking facilities of approximately HK\$176.1 million (31 December 2017: HK\$151.3 million).

FOREIGN CURRENCY EXPOSURE

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

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. During the period between the date of the listing of the shares of the Company to 30 June 2018, 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 | 15.0 | – |
| | 90.0 | 90.0 | – |

CAPITAL COMMITMENT

As at 30 June 2018, the Group had capital commitment contracted for of approximately HK\$5.2 million (31 December 2017: HK\$3.3 million) in respect of the acquisition of motor vehicles, equipment and machinery and capital commitment authorised, but not contracted for of approximately HK\$92.4 million (31 December 2017: HK\$100.0 million).

CHARGES ON THE GROUP'S ASSETS

As at 30 June 2018, the amounts payable under finance leases within one year was approximately HK\$15.9 million (31 December 2017: HK\$18.3 million), and in the second to fifth year inclusive was approximately HK\$17.1 million (31 December 2017: HK\$24.1 million).

As at 30 June 2018, 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 30 June 2018 (31 December 2017: HK\$5.1 million); (ii) mortgage of the Group's leasehold land and buildings of approximately HK\$29.4 million as at 30 June 2018 (31 December 2017: HK\$29.9 million); (iii) pledge of the Group's financial assets at fair value through profit or loss of approximately HK\$13.7 million as at 30 June 2018 (31 December 2017: available-for-sale financial assets of HK\$13.6 million); and (iv) pledge of the Group's trade receivables of approximately HK\$52.7 million as at 30 June 2018 (31 December 2017: HK\$37.8 million).

MANAGEMENT DISCUSSION AND ANALYSIS

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

CONTINGENT LIABILITIES

As at 30 June 2018, the Group did not have any material contingent liabilities.

ACQUISITION, DISPOSAL AND SIGNIFICANT INVESTMENT HELD

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

HUMAN RESOURCES

As at 30 June 2018, the Group employed 9,602 employees. Remuneration packages were generally structured by reference to market terms and individual qualifications and experience.

During the Period, various training activities, such as training on operational safety, office and management skills, have been conducted to improve the front-end quality of services and office support. In addition, employees are also encouraged and subsidised to attend job-related seminars and course organised by professional and/or educational institutions to ensure the smooth and effective management of the Group's business.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30 JUNE 2018 — UNAUDITED
(EXPRESSED IN HONG KONG DOLLARS)

| | Note | For the six months ended 30 June | |
|---|------|-------------------------------------|------------------|
| | | 2018 HK\$'000 | 2017 HK\$'000 |
| Revenue | 4 | 687,999 | 571,122 |
| Cost of services | | (640,636) | (519,368) |
| Gross profit | | 47,363 | 51,754 |
| Other income | | 344 | 447 |
| Change in fair value less costs to sell of biological assets | | 1,468 | 1,314 |
| Selling and marketing expenses | | (1,030) | (583) |
| Administrative expenses | | (31,173) | (32,688) |
| Profit from operations | | 16,972 | 20,244 |
| Finance costs | 5 | (2,281) | (2,129) |
| Profit before taxation | 6 | 14,691 | 18,115 |
| Income tax | 7 | (2,131) | (2,983) |
| Profit for the period attributable to equity shareholders of the Company | | 12,560 | 15,132 |
| Other comprehensive income: | | | |
| Items that may be reclassified subsequently to profit or loss, net of nil tax: | | | |
| Exchange differences on translation of financial statements of subsidiaries | | (69) | 35 |
| Change in fair value of available-for-sale financial assets (<i>note (ii)</i>) | | - | 112 |
| Other comprehensive income | | (69) | 147 |
| Total comprehensive income for the period attributable to equity shareholders of the Company | | 12,491 | 15,279 |
| Earnings per share | | | |
| Basic and diluted (HK cents) | 9 | 3.03 | 3.65 |

notes:

- (i) The Group has initially applied HKFRS 15 and HKFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information is not restated. See note 3.
- (ii) This amount arose under the accounting policies applicable prior to 1 January 2018. As part of the opening balance adjustments as at 1 January 2018 the balance of this reserve has been reclassified to retained earnings and will not be reclassified to profit or loss in any future periods. See note 3(b).

The notes on pages 16 to 34 form part of this interim financial report.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 30 JUNE 2018 — UNAUDITED
(EXPRESSED IN HONG KONG DOLLARS)

| | Note | At 30 June 2018 HK\$'000 | At 31 December 2017 HK\$'000 |
|---|------|-----------------------------------|---------------------------------------|
| Non-current assets | | | |
| Property, plant and equipment | 10 | 177,286 | 167,210 |
| Available-for-sale financial assets | | – | 13,596 |
| Financial assets at fair value through profit or loss | | 13,700 | – |
| Prepayments and deposits | | 7,668 | 5,764 |
| | | 198,654 | 186,570 |
| Current assets | | | |
| Inventories | | 4,504 | 4,539 |
| Contract assets | | 6,658 | – |
| Trade receivables | 11 | 315,048 | 285,889 |
| Prepayments, deposits and other receivables | 12 | 20,171 | 13,830 |
| Biological assets | | 15,070 | 12,031 |
| Pledged bank deposits | | 5,140 | 5,141 |
| Cash and bank equivalents | | 38,250 | 47,983 |
| | | 404,841 | 369,413 |
| Current liabilities | | | |
| Trade payables | 13 | 26,718 | 21,125 |
| Accruals, deposits received and other payables | | 150,000 | 131,051 |
| Bank borrowings | 14 | 133,074 | 108,712 |
| Obligations under finance leases | 15 | 15,867 | 18,289 |
| Tax payable | | 1,946 | 1,218 |
| | | 327,605 | 280,395 |
| Net current assets | | 77,236 | 89,018 |
| Total assets less current liabilities | | 275,890 | 275,588 |
| Non-current liabilities | | | |
| Obligations under finance leases | 15 | 17,077 | 24,067 |
| Deferred tax liabilities | | 11,241 | 10,630 |
| | | 28,318 | 34,697 |
| Net assets | | 247,572 | 240,891 |
| Capital and reserves | | | |
| Share capital | 16 | 4,150 | 4,150 |
| Reserves | | 243,422 | 236,741 |
| Total equity | | 247,572 | 240,891 |

The notes on pages 16 to 34 form part of this interim financial report.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 30 JUNE 2018 — UNAUDITED
(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 2017 | 4,150 | 100,850 | 18,330 | (393) | 1,196 | (120) | 102,158 | 226,171 |
| Profit for the period | - | - | - | - | - | - | 15,132 | 15,132 |
| Other comprehensive income for the period | - | - | - | 112 | - | 35 | - | 147 |
| Total comprehensive income for the period | - | - | - | 112 | - | 35 | 15,132 | 15,279 |
| Dividends approved in respect of the previous year (<i>note 8</i>) | - | - | - | - | - | - | (7,055) | (7,055) |
| Equity-settled share-based payments | - | - | - | - | 457 | - | - | 457 |
| At 30 June 2017 | 4,150 | 100,850 | 18,330 | (281) | 1,653 | (85) | 110,235 | 234,852 |
| At 31 December 2017 | 4,150 | 100,850 | 18,330 | (83) | 1,911 | 14 | 115,719 | 240,891 |
| Impact on initial application of HKFRS 9 (<i>note 3(b)</i>) | - | - | - | 83 | - | - | (83) | - |
| Adjusted at 1 January 2018 | 4,150 | 100,850 | 18,330 | - | 1,911 | 14 | 115,636 | 240,891 |
| Profit for the period | - | - | - | - | - | - | 12,560 | 12,560 |
| Other comprehensive income for the period | - | - | - | - | - | (69) | - | (69) |
| Total comprehensive income for the period | - | - | - | - | - | (69) | 12,560 | 12,491 |
| Dividends approved in respect of the previous year (<i>note 8</i>) | - | - | - | - | - | - | (5,810) | (5,810) |
| Share options lapsed | - | - | - | - | (108) | - | 108 | - |
| At 30 June 2018 | 4,150 | 100,850 | 18,330 | - | 1,803 | (55) | 122,494 | 247,572 |

The notes on pages 16 to 34 form part of this interim financial report.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE SIX MONTHS ENDED 30 JUNE 2018 — UNAUDITED
(EXPRESSED IN HONG KONG DOLLARS)

| | For the six months ended 30 June | |
|---|----------------------------------|------------------|
| | 2018 HK\$'000 | 2017 HK\$'000 |
| Net cash generated from operating activities | 2,677 | 42,896 |
| Investing activities | | |
| Payment for the purchase of property, plant and equipment | (27,218) | (6,207) |
| Other cash flows arising from investing activities | 2,856 | 2,377 |
| Net cash used in investing activities | (24,362) | (3,830) |
| Financing activities | | |
| Proceeds from new bank borrowings | 462,355 | 302,009 |
| Repayment of bank borrowings | (437,993) | (319,338) |
| Dividend paid to equity shareholders of the Company | – | (7,055) |
| Other cash flows used in financing activities | (12,341) | (13,828) |
| Net cash generated from/(used in) financing activities | 12,021 | (38,212) |
| Net (decrease)/increase in cash and cash equivalents | (9,664) | 854 |
| Cash and cash equivalents at the beginning of the period | 47,983 | 55,735 |
| Effect of foreign exchange rates changes | (69) | 35 |
| Cash and cash equivalents at the end of the period | 38,250 | 56,624 |

The notes on pages 16 to 34 form part of this interim financial report.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(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 (Holdings) Limited, which was incorporated in the British Virgin Islands. The registered office of the Company is located at Cricket Square, Hutchins Drive, PO Box 2681, Grand Cayman KY1-1111, Cayman Islands and its principal place of business in Hong Kong is located at Unit A, 4/F., Dragon Industrial Building, No. 93 King Lam Street, Lai Chi Kok, Kowloon, Hong Kong.

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

2. BASIS OF PREPARATION

This interim financial report has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, including compliance with Hong Kong Accounting Standard (“HKAS”) 34, *Interim financial reporting*, issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”). It was authorised for issue on 30 August 2018.

This interim financial report has been prepared in accordance with the same accounting policies adopted in the 2017 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2018 annual financial statements. Details of any changes in accounting policies are set out in note 3.

The preparation of an interim financial report in conformity with HKAS 34 requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates.

This interim financial report contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2017 annual financial statements. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for a full set of financial statements prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”).

This interim financial report is unaudited, but has been reviewed by KPMG in accordance with Hong Kong Standard on Review Engagements 2410, *Review of interim financial information performed by the independent auditor of the entity*, issued by the HKICPA. KPMG’s independent review report to the Board of Directors is included on page 35.

The financial information relating to the financial year ended 31 December 2017 that is included in the interim financial report as comparative information does not constitute the Company’s annual consolidated financial statements for that financial year but is derived from those financial statements.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(EXPRESSED IN HONG KONG DOLLARS UNLESS OTHERWISE INDICATED)

3. CHANGES IN ACCOUNTING POLICIES

(a) Overview

The HKICPA has issued a number of new HKFRSs and amendments to HKFRSs that are first effective for the current accounting period of the Group. Of these, the following developments are relevant to the Group's financial statements:

- HKFRS 9, *Financial instruments*
- HKFRS 15, *Revenue from contracts with customers*
- HK(IFRIC) 22, *Foreign currency transactions and advance consideration*

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

The Group has been impacted by HKFRS 9 in relation to classification of financial assets and measurement of credit losses, and impacted by HKFRS 15 in relation to timing of revenue recognition, capitalisation of contract costs, significant financing benefit obtained from customers and presentation of contract assets and contract liabilities. Details of the changes in accounting policies are discussed in note 3(b) for HKFRS 9 and note 3(c) for HKFRS 15.

Under the transition methods chosen, the Group recognises cumulative effect of the initial application of HKFRS 9 and HKFRS 15 as an adjustment to the opening balance of equity at 1 January 2018. Comparative information is not restated.

(b) HKFRS 9, *Financial instruments*

HKFRS 9 replaces HKAS 39, *Financial instruments: recognition and measurement*. It sets out the requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items.

The Group has applied HKFRS 9 retrospectively to items that existed at 1 January 2018 in accordance with the transition requirements. The Group has recognised the cumulative effect of initial application as an adjustment to the opening equity at 1 January 2018. Therefore, comparative information continues to be reported under HKAS 39.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(EXPRESSED IN HONG KONG DOLLARS UNLESS OTHERWISE INDICATED)

3. CHANGES IN ACCOUNTING POLICIES *(Continued)*

(b) HKFRS 9, *Financial instruments* *(Continued)*

(i) **Classification of financial assets and financial liabilities**

HKFRS 9 categories financial assets into three principal classification categories: measured at amortised cost, at fair value through other comprehensive income (“FVOCI”) and at fair value through profit or loss (“FVPL”). These supersede HKAS 39’s categories of held-to-maturity investments, loans and receivables, available-for-sale financial assets and financial assets measured at FVPL. The classification of financial assets under HKFRS 9 is based on the business model under which the financial asset is managed and its contractual cash flow characteristics.

Non-equity investments held by the Group are classified into one of the following measurement categories:

- amortised cost, if the investment is held for the collection of contractual cash flows which represent solely payments of principal and interest. Interest income from the investment is calculated using the effective interest method;
- FVOCI, if the contractual cash flows of the investment comprise solely payments of principal and interest and the investment is held within a business model whose objective is achieved by both the collection of contractual cash flows and sale. Changes in fair value are recognised in other comprehensive income, except for the recognition in profit or loss of expected credit losses, interest income (calculated using the effective interest method) and foreign exchange gains and losses. When the investment is derecognised, the amount accumulated in other comprehensive income is recycled from equity to profit or loss; or
- FVPL, if the investment does not meet the criteria for being measured at amortised cost or FVOCI. Changes in the fair value of the investment (including interest) are recognised in profit or loss.

The impacts of transition to HKFRS 9 to the Group in respect of the classification of financial assets are as follows:

- investments in life insurance held by the Group of HK\$13,596,000 at 31 December 2017, which were classified as available-for-sale financial assets under HKAS 39, were reclassified as financial assets at FVPL at 1 January 2018; and
- debit balance of available-for-sale financial assets revaluation reserve amounting to HK\$83,000 at 31 December 2017 was transferred to retained earnings at 1 January 2018.

The classification and carrying amounts for the Group’s financial liabilities at 1 January 2018 have not been impacted by the initial application of HKFRS 9.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(EXPRESSED IN HONG KONG DOLLARS UNLESS OTHERWISE INDICATED)

3. CHANGES IN ACCOUNTING POLICIES *(Continued)*

(b) HKFRS 9, *Financial instruments* *(Continued)*

(ii) Credit losses

HKFRS 9 replaces the “incurred loss” model in HKAS 39 with the expected credit losses (“ECL”) model. The ECL model requires an ongoing measurement of credit risk associated with a financial asset and therefore recognises ECLs earlier than under the “incurred loss” accounting model in HKAS 39.

The Group applies the new ECL model to the following items:

- financial assets measured at amortised cost (including cash and cash equivalents, deposits, trade and other receivables); and
- contract assets as defined in HKFRS 15 (see note 3(c)).

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all expected cash shortfalls (i.e. the difference between the cash flows due to the Group in accordance with the contract and the cash flows that the Group expects to receive).

The expected cash shortfalls of trade and other receivables and contract assets are discounted using the effective interest rate determined at initial recognition or an approximation thereof where the effect of discounting is material.

The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

In measuring ECLs, the Group takes into account reasonable and supportable information that is available without undue cost or effort. This includes information about past events, current conditions and forecasts of future economic conditions.

ECLs are measured on either of the following bases:

- 12-month ECLs: these are losses that are expected to result from possible default events within the 12 months after the reporting date; and
- lifetime ECLs: these are losses that are expected to result from all possible default events over the expected lives of the items to which the ECL model applies.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(EXPRESSED IN HONG KONG DOLLARS UNLESS OTHERWISE INDICATED)

3. CHANGES IN ACCOUNTING POLICIES (Continued)

(b) HKFRS 9, *Financial instruments* (Continued)

(ii) Credit losses (Continued)

Measurement of ECLs (Continued)

Loss allowances for trade receivables and contract assets are always measured at an amount equal to lifetime ECLs. ECLs on these financial assets are estimated using a provision matrix based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors and an assessment of both the current and forecast general economic conditions at the reporting date.

For all other financial instruments (including loan commitments issued), the Group recognises a loss allowance equal to 12-month ECLs unless there has been a significant increase in credit risk of the financial instrument since initial recognition, in which case the loss allowance is measured at an amount equal to lifetime ECLs.

Significant increases in credit risk

In assessing whether the credit risk of a financial instrument has increased significantly since initial recognition, the Group compares the risk of default occurring on the financial instrument assessed at the reporting date with that assessed at the date of initial recognition. The Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly since initial recognition:

- failure to make payments of principal or interest on their contractually due dates;
- an actual or expected significant deterioration in a financial instrument's external or internal credit rating (if available);
- an actual or expected significant deterioration in the operating results of the debtor; and
- existing or forecast changes in the technological, market, economic or legal environment that have a significant adverse effect on the debtor's ability to meet its obligation to the Group.

Depending on the nature of the financial instruments, the assessment of a significant increase in credit risk is performed on either an individual basis or a collective basis. When the assessment is performed on a collective basis, the financial instruments are grouped based on shared credit risk characteristics, such as past due status and credit risk ratings.

ECLs are remeasured at each reporting date to reflect changes in the financial instrument's credit risk since initial recognition. Any change in the ECL amount is recognised as an impairment gain or loss in profit or loss. The Group recognises an impairment gain or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(EXPRESSED IN HONG KONG DOLLARS UNLESS OTHERWISE INDICATED)

3. CHANGES IN ACCOUNTING POLICIES *(Continued)*

(b) HKFRS 9, *Financial instruments* *(Continued)*

(ii) **Credit losses** *(Continued)*

Basis of calculation of interest income on credit-impaired financial assets

Interest income is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit-impaired, in which case interest income is calculated based on the amortised cost (i.e. the gross carrying amount less loss allowance) of the financial asset.

At each reporting date, the Group assesses whether a financial asset is credit-impaired. A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable events:

- significant financial difficulties of the debtor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- it becoming probable that the borrower will enter into bankruptcy or other financial reorganisation; or
- significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor.

Write-off policy

The gross carrying amount of a financial asset or contract asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the Group determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off.

Subsequent recoveries of an asset that was previously written off are recognised as a reversal of impairment in profit or loss in the period in which the recovery occurs.

Opening balance adjustment

There has been no impact on the Group as a result of this change in accounting policy.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(EXPRESSED IN HONG KONG DOLLARS UNLESS OTHERWISE INDICATED)

3. CHANGES IN ACCOUNTING POLICIES *(Continued)*

(c) HKFRS 15, *Revenue from contracts with customers*

HKFRS 15 establishes a comprehensive framework for recognising revenue and some costs from contracts with customers. HKFRS 15 replaces HKAS 18, *Revenue*, which covered revenue arising from sale of goods and rendering of services, and HKAS 11, *Construction contracts*, which specified the accounting for construction contracts.

The Group has elected to use the cumulative effect transition method by recognising any material impact on the initial application as an adjustment to the opening balance of equity at 1 January 2018. Therefore, comparative information has not been restated and continues to be reported under HKAS 11 and HKAS 18. As allowed by HKFRS 15, the Group has applied the new requirements only to contracts that were not completed before 1 January 2018.

Further details of the nature and effect of the changes on previous accounting policies are set out below:

(i) **Timing of revenue recognition**

Previously, revenue arising from provision of services was recognised over time.

According to HKFRS 15, revenue is recognised when the customer obtains control of the promised good or service in the contract. This may be at a single point in time or over time. HKFRS 15 identifies the following three situations in which control of the promised good or service is regarded as being transferred over time:

- A. When the customer simultaneously receives and consumes the benefits provided by the entity's performance, as the entity performs;
- B. When the entity's performance creates or enhances an asset (for example work in progress) that the customer controls as the asset is created or enhanced;
- C. When the entity's performance does not create an asset with an alternative use to the entity and the entity has an enforceable right to payment for performance completed to date.

The adoption of HKFRS 15 does not have a significant impact on when the Group recognises revenue from provision of services.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(EXPRESSED IN HONG KONG DOLLARS UNLESS OTHERWISE INDICATED)

3. CHANGES IN ACCOUNTING POLICIES *(Continued)*

(c) HKFRS 15, *Revenue from contracts with customers* *(Continued)*

(ii) Significant financing component

HKFRS 15 requires an entity to adjust the transaction price for the time value of money when a contract contains a significant financing component, regardless of whether the payments from customers are received significantly in advance of revenue recognition or significantly deferred.

There has been no impact on the Group as a result of this change in policy.

(iii) Presentation of contract assets and liabilities

According to HKFRS 15, a receivable is recognised only if the Group has an unconditional right to consideration. If the Group recognises the related revenue before being unconditionally entitled to the consideration for the promised goods and services in the contract, then the entitlement to consideration is classified as a contract asset. Similarly, a contract liability, rather than a payable, is recognised when a customer pays consideration, or is contractually required to pay consideration and the amount is already due, before the Group recognises the related revenue. For a single contract with the customer, either a net contract asset or a net contract liability is presented. For multiple contracts, contract assets and contract liabilities of unrelated contracts are not presented on a net basis.

Previously, contract balances relating to service contracts in progress were presented in the statement of financial position as trade receivables.

To reflect the above changes in presentation, the Group has reclassified the contract balances of HK\$2,201,000, which were previously included in trade receivables, are now included under contract assets at 1 January 2018 as a result of the adoption of HKFRS 15. The reclassification has no effect to the opening balances of the Group's equity at 1 January 2018.

(d) HK(IFRIC) 22, *Foreign currency transactions and advance consideration*

This interpretation provides guidance on determining "the date of the transaction" for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) arising from a transaction in which an entity receives or pays advance consideration in a foreign currency.

The Interpretation clarifies that "the date of the transaction" is the date on initial recognition of the non-monetary asset or liability arising from the payment or receipt of advance consideration. If there are multiple payments or receipts in advance of recognising the related item, the date of the transaction for each payment or receipt should be determined in this way. The adoption of HK(IFRIC)22 does not have any material impact on the financial position and the financial results of the Group.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(EXPRESSED IN HONG KONG DOLLARS UNLESS OTHERWISE INDICATED)

4. SEGMENT INFORMATION

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

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

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

Segment revenue and results

Segment results represent the earnings from each segment before interest, taxation and administrative expenses including directors' emoluments and exclude other income 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 |
|---|--|---|--------------------------------------|---|-------------------|
| Six months ended 30 June 2018 | | | | | |
| Revenue from external customers and reportable segment revenue recognised over time | 518,240 | 85,329 | 23,456 | 60,974 | 687,999 |
| Segment results | 23,642 | 14,645 | 2,720 | 5,326 | 46,333 |
| Other income | | | | | 344 |
| Change in fair value less costs to sell of biological assets | | | | | 1,468 |
| Administrative expenses | | | | | (31,173) |
| Finance costs | | | | | (2,281) |
| Profit before taxation | | | | | 14,691 |

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(EXPRESSED IN HONG KONG DOLLARS UNLESS OTHERWISE INDICATED)

4. SEGMENT INFORMATION *(Continued)*

Segment revenue and results *(Continued)*

| | Cleaning services business HK\$'000 | Landscaping services business HK\$'000 | Pest management business HK\$'000 | Waste management and recycling business HK\$'000 | Total HK\$'000 |
|---|--|---|--------------------------------------|---|-------------------|
| Six months ended 30 June 2017 | | | | | |
| Revenue from external customers and reportable segment revenue recognised over time | 423,850 | 72,452 | 20,692 | 54,128 | 571,122 |
| Segment results | 29,855 | 12,209 | 2,474 | 6,633 | 51,171 |
| Other income | | | | | 447 |
| Change in fair value less costs to sell of biological assets | | | | | 1,314 |
| Administrative expenses | | | | | (32,688) |
| Finance costs | | | | | (2,129) |
| Profit before taxation | | | | | 18,115 |

Segment assets and liabilities

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

| | Cleaning services business HK\$'000 | Landscaping services business HK\$'000 | Pest management business HK\$'000 | Waste management and recycling business HK\$'000 | Total HK\$'000 |
|---------------------------|--|---|--------------------------------------|---|-------------------|
| As at 30 June 2018 | | | | | |
| Segment assets | 373,299 | 83,176 | 27,984 | 108,615 | 593,074 |
| Unallocated | | | | | 10,421 |
| Total assets | | | | | 603,495 |
| Segment liabilities | 270,455 | 27,050 | 16,365 | 35,408 | 349,278 |
| Unallocated | | | | | 6,645 |
| Total liabilities | | | | | 355,923 |

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(EXPRESSED IN HONG KONG DOLLARS UNLESS OTHERWISE INDICATED)

4. SEGMENT INFORMATION *(Continued)*

Segment assets and liabilities *(Continued)*

| | Cleaning services business HK\$'000 | Landscaping services business HK\$'000 | Pest management business HK\$'000 | Waste management and recycling business HK\$'000 | Total HK\$'000 |
|------------------------|--|---|--------------------------------------|---|-------------------|
| As at 31 December 2017 | | | | | |
| 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 |

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 interim period.

5. FINANCE COSTS

| | For the six months ended 30 June | |
|----------------------------------|----------------------------------|------------------|
| | 2018 HK\$'000 | 2017 HK\$'000 |
| Interest on: | | |
| Bank overdrafts | 18 | 5 |
| Bank loans | 1,621 | 1,221 |
| Obligations under finance leases | 642 | 903 |
| | 2,281 | 2,129 |

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(EXPRESSED IN HONG KONG DOLLARS UNLESS OTHERWISE INDICATED)

6. PROFIT BEFORE TAXATION

| | For the six months ended 30 June | |
|--|----------------------------------|------------------|
| | 2018 HK\$'000 | 2017 HK\$'000 |
| Profit before taxation is arrived at after charging/(crediting): | | |
| Depreciation | 13,468 | 11,796 |
| Loss on disposal of property, plant and equipment | 17 | 174 |
| Cost of consumables goods | 21,988 | 19,372 |
| Government grants* | (202) | (276) |
| Staff costs (including directors' remuneration): | | |
| Wages, salaries and other benefits | 541,881 | 444,572 |
| Provision/(reversal of) for long service payments | 4,487 | (745) |
| Provision for untaken paid leave | 6,084 | 3,056 |
| Contributions to defined contribution retirement scheme | 17,012 | 14,705 |
| Equity-settled share-based payments | – | 457 |
| | 569,464 | 462,045 |
| Operating lease rentals: minimum lease payments | | |
| Machinery and motor vehicles | 15,330 | 11,065 |
| Land and buildings | 2,907 | 2,748 |
| | 18,237 | 13,813 |

* Government grants of HK\$202,000 (six months ended 30 June 2017: HK\$276,000) were granted during the six months ended 30 June 2018 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.

7. INCOME TAX

| | For the six months ended 30 June | |
|-----------------------|----------------------------------|------------------|
| | 2018 HK\$'000 | 2017 HK\$'000 |
| Current tax: | | |
| Hong Kong Profits Tax | 1,519 | 2,664 |
| Deferred tax | 612 | 319 |
| | 2,131 | 2,983 |

The provision for Hong Kong Profits Tax is calculated by applying the estimated annual effective tax rate of 16.5% (six months ended 30 June 2017: 16.5%) on the estimated assessable profit for the six months ended 30 June 2018.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(EXPRESSED IN HONG KONG DOLLARS UNLESS OTHERWISE INDICATED)

8. DIVIDENDS

| | For the six months ended 30 June | |
|---|----------------------------------|----------|
| | 2018 | 2017 |
| | HK\$'000 | HK\$'000 |
| Final dividend in respect of the previous financial year, was approved and recognised during the following interim period, of HK1.4 cents (six months ended 30 June 2017: HK1.7 cents) per ordinary share | 5,810 | 7,055 |

The directors of the Company do not recommend the payment of any interim dividend for the six months ended 30 June 2018 (six months ended 30 June 2017: Nil).

9. EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of the basic earnings per share is based on the profit for the period attributable to ordinary equity shareholders of the Company of HK\$12,560,000 (six months ended 30 June 2017: HK\$15,132,000) and the weighted average number of 415,000,000 (six months ended 30 June 2017: 415,000,000) ordinary shares in issue during the interim period.

(b) Diluted earnings per share

Diluted earnings per share were same as the basic earnings per share as there were no potential dilutive ordinary shares in existence during the interim period.

10. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2018, the Group acquired items of property, plant and equipment with aggregate cost of HK\$26,409,000 (six months ended 30 June 2017: HK\$9,183,000), and disposed items of property, plant and equipment with aggregate carrying value of HK\$2,864,000 (six months ended 30 June 2017: HK\$2,476,000).

11. TRADE RECEIVABLES

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:

| | At 30 June 2018 HK\$'000 | At 31 December 2017 HK\$'000 |
|-----------------------------------|-----------------------------------|---------------------------------------|
| Within 60 days | 236,256 | 212,469 |
| Over 60 days but within 120 days | 66,480 | 63,016 |
| Over 120 days but within 365 days | 12,288 | 9,273 |
| Over 365 days | 24 | 1,131 |
| | 315,048 | 285,889 |

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.

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 has not been a significant change in credit risk and the balances are considered fully recoverable. The Group does not hold any collateral over those balances. No impairment loss was recognised by the Group at 30 June 2018 (31 December 2017: Nil).

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(EXPRESSED IN HONG KONG DOLLARS UNLESS OTHERWISE INDICATED)

12. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

Included in prepayments, deposits and other receivables as at 30 June 2018 is a gross amount of HK\$4,500,000 (31 December 2017: HK\$4,500,000) due from Shanghai Genyuan Environmental Co., Limited ("Shanghai Genyuan", a company principally engaged in harmless treatment of organic wastes and resources utilisation in the People's Republic of China) 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 as at 30 June 2018 (31 December 2017: HK\$2,250,000).

13. TRADE PAYABLES

The following is an ageing analysis of trade payables based on the invoice date at the end of each reporting period:

| | At 30 June 2018 HK\$'000 | At 31 December 2017 HK\$'000 |
|---------------------------------|-----------------------------------|---------------------------------------|
| Within 30 days | 18,606 | 12,413 |
| Over 30 days but within 60 days | 4,849 | 6,634 |
| Over 60 days but within 90 days | 758 | 805 |
| Over 90 days | 2,505 | 1,273 |
| | 26,718 | 21,125 |

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

14. BANK BORROWINGS

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

| | At 30 June 2018 HK\$'000 | At 31 December 2017 HK\$'000 |
|--|-----------------------------------|---------------------------------------|
| Current liabilities | | |
| Current portion of term loans from banks | 112,920 | 95,966 |
| Non-current portion of term loans from banks repayable on demand | 20,154 | 12,746 |
| | 133,074 | 108,712 |

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(EXPRESSED IN HONG KONG DOLLARS UNLESS OTHERWISE INDICATED)

14. BANK BORROWINGS (Continued)

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

| | At 30 June 2018 HK\$'000 | At 31 December 2017 HK\$'000 |
|-----------|-----------------------------------|---------------------------------------|
| Secured | 103,544 | 108,712 |
| Unsecured | 29,530 | – |
| | 133,074 | 108,712 |

The secured bank loans of the Group as at 30 June 2018 and 31 December 2017 were secured by:

- pledged bank deposits of HK\$5,140,000 as at 30 June 2018 (31 December 2017: HK\$5,141,000);
- mortgage of the Group's leasehold land and buildings of HK\$29,392,000 as at 30 June 2018 (31 December 2017: HK\$29,893,000);
- pledge of the Group's financial assets at fair value through profit or loss of HK\$13,700,000 as at 30 June 2018 (31 December 2017: available-for-sale financial assets of HK\$13,596,000); and
- pledge of the Group's trade receivables of HK\$52,696,000 as at 30 June 2018 (31 December 2017: HK\$37,757,000).

The bank loans of the Group of HK\$133,074,000 as at 30 June 2018 (31 December 2017: HK\$108,712,000) bear interest ranging from 2.00% to 4.83% (31 December 2017: 2.00% to 3.50%) per annum.

15. OBLIGATIONS UNDER FINANCE LEASES

The Group leased certain of its motor vehicles under finance leases. As at 30 June 2018, the amounts payable under finance leases within one year and in the second to fifth year were HK\$15,867,000 (31 December 2017: HK\$18,289,000) and HK\$17,077,000 (31 December 2017: HK\$24,067,000) respectively.

16. SHARE CAPITAL

| | Number of shares '000 | Nominal value HK\$'000 |
|--|-----------------------------|------------------------------|
| Authorised: <i>Ordinary shares of HK\$0.01 each</i> As at 1 January 2017, 31 December 2017, 1 January 2018 and 30 June 2018 | 1,000,000 | 10,000 |
| Issued and fully paid: <i>Ordinary shares of HK\$0.01 each</i> As at 1 January 2017, 31 December 2017, 1 January 2018 and 30 June 2018 | 415,000 | 4,150 |

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(EXPRESSED IN HONG KONG DOLLARS UNLESS OTHERWISE INDICATED)

17. FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS

(a) 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.

| | At 30 June 2018 | | | Total HK\$'000 |
|--|---------------------|---------------------|---------------------|-------------------|
| | Level 1 HK\$'000 | Level 2 HK\$'000 | Level 3 HK\$'000 | |
| Financial assets at fair value through profit or loss | | | | |
| Investments in life insurance | – | – | 13,700 | 13,700 |

| | At 31 December 2017 | | | Total HK\$'000 |
|--|---------------------|---------------------|---------------------|-------------------|
| | Level 1 HK\$'000 | Level 2 HK\$'000 | Level 3 HK\$'000 | |
| Available-for-sale financial assets | | | | |
| Investments in life insurance | – | – | 13,596 | 13,596 |

During the six months ended 30 June 2018, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3 (2017: Nil). 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.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(EXPRESSED IN HONG KONG DOLLARS UNLESS OTHERWISE INDICATED)

17. FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS *(Continued)*

(a) Financial assets and liabilities measured at fair value *(Continued)*

Reconciliation of Level 3 fair value measurements

| | For the six months ended | |
|--|--------------------------|----------|
| | 30 June | |
| | 2018 | 2017 |
| | HK\$'000 | HK\$'000 |
| Investments in life insurance: | | |
| Opening balance | 13,596 | 13,286 |
| Gains recognised in profit or loss | 104 | – |
| Gains recognised in other comprehensive income | – | 112 |
| Closing balance | 13,700 | 13,398 |

(b) 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 30 June 2018 and 31 December 2017.

18. 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:

| | At | At |
|--------------------------------------|----------|-------------|
| | 30 June | 31 December |
| | 2018 | 2017 |
| | HK\$'000 | HK\$'000 |
| Within one year | 6,961 | 6,374 |
| After one year but within five years | 14,912 | 12,819 |
| After five years | 30,899 | 32,069 |
| | 52,772 | 51,262 |

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

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(EXPRESSED IN HONG KONG DOLLARS UNLESS OTHERWISE INDICATED)

19. CAPITAL COMMITMENTS OUTSTANDING NOT PROVIDED FOR IN THE INTERIM FINANCIAL REPORT

| | At 30 June 2018 HK\$'000 | At 31 December 2017 HK\$'000 |
|--|-----------------------------------|---------------------------------------|
| Capital expenditure in respect of the additions of property, plant and equipment —Contracted for within one year | 3,495 | 3,266 |
| Capital expenditure in respect of the additions of equipment and machinery for glass management contracts —Authorised but not contracted for —Contracted for within one year | 14,627 786 | 20,000 — |
| Capital expenditure in respect of the construction of recycling plant for EcoPark project —Authorised but not contracted for —Contracted for within one year | 77,768 925 | 80,000 — |
| | 97,601 | 103,266 |

20. RELATED PARTY TRANSACTIONS

Save as disclosed elsewhere in this interim financial report, the Group entered into the following material related party transactions during the interim period:

- (a) Compensation paid to key management personnel who were directors of the Company was as follows:

| | For the six months ended 30 June | |
|-------------------------------------|-------------------------------------|------------------|
| | 2018 HK\$'000 | 2017 HK\$'000 |
| Short term employee benefits | 4,466 | 4,286 |
| Retirement scheme contributions | 237 | 222 |
| Equity-settled share-based payments | — | 156 |
| | 4,703 | 4,664 |

- (b)

| Nature of related party relationship | Nature of transaction | Interested director | For the six months ended 30 June | |
|---|--|---------------------|-------------------------------------|------------------|
| | | | 2018 HK\$'000 | 2017 HK\$'000 |
| The company owned by close member of director and shareholder | Purchase of cleaning equipment and materials | Mr. Ng Wing Hong | 701 | 518 |
| Common director and shareholder | Information technology service fee | Mr. Ng Wing Hong | 731 | 863 |
| Director and shareholder | Rental expenses | Mr. Ng Wing Hong | — | 288 |

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(EXPRESSED IN HONG KONG DOLLARS UNLESS OTHERWISE INDICATED)

21. POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE SIX MONTHS ENDED 30 JUNE 2018

A number of amendments and new standards are effective for annual periods beginning after 1 January 2018 and earlier application is permitted. The Group has not early adopted any new or amended standards in preparing this interim financial report.

The Group has the following update to the information provided in the last annual financial statements in respect of HKFRS 16, *Leases*, which may have a significant impact on the Group's consolidated financial statements.

HKFRS 16, *Leases*

As discussed in the 2017 annual financial statements, 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. Upon the adoption of HKFRS 16, where the Group is the lessee under the lease the Group will be required to account for all leases in a similar way to current finance lease accounting, i.e. recognise and measure a lease liability at the present value of the minimum future lease payments and recognise a corresponding "right-of-use" asset at the commencement date of the lease, subject to practical expedients. HKFRS 16 will primarily affect the Group's accounting as a lessee of leases for items of property, plant and equipment which are currently classified as operating leases.

As disclosed in note 18, at 30 June 2018, the Group's future minimum lease payments under non-cancellable operating leases amounted to HK\$52,772,000, among which HK\$49,124,000 is payable after 6 months from the reporting date. Upon the initial adoption of HKFRS 16 at 1 January 2019, the present value of most of the future minimum lease payments that are payable after 6 months will be recognised as lease liabilities, with corresponding right-of-use assets recognised as non-current assets. 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.

INDEPENDENT REVIEW REPORT



REVIEW REPORT TO THE BOARD OF DIRECTORS OF BAGUIO GREEN GROUP LIMITED

(Incorporated in the Cayman Islands with limited liability)

INTRODUCTION

We have reviewed the interim financial report set out on pages 12 to 34 which comprises the consolidated statement of financial position of Baguio Green Group Limited as of 30 June 2018 and the related consolidated statement of profit or loss and other comprehensive income and statement of changes in equity and condensed consolidated statement of cash flows for the six-month period then ended and explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34, *Interim financial reporting*, issued by the Hong Kong Institute of Certified Public Accountants. The directors are responsible for the preparation and presentation of the interim financial report in accordance with Hong Kong Accounting Standard 34.

Our responsibility is to form a conclusion, based on our review, on the interim financial report and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

SCOPE OF REVIEW

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410, *Review of interim financial information performed by the independent auditor of the entity*, issued by the Hong Kong Institute of Certified Public Accountants. A review of the interim financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly we do not express an audit opinion.

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the interim financial report as at 30 June 2018 is not prepared, in all material respects, in accordance with Hong Kong Accounting Standard 34, *Interim financial reporting*.

KPMG

Certified Public Accountants

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

30 August 2018

OTHER INFORMATION

SUBSTANTIAL SHAREHOLDERS' INTERESTS

As at 30 June 2018, as far as is known to the Directors 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 of Part XV of the Securities and Futures Ordinance (Cap. 571) ("SFO") or as otherwise notified to the Company:

| Name | Capacity/ Nature of Interest | Number of Issued Shares Held | Approximate Percentage Holding (%) |
|---|--|------------------------------------|--|
| Ng Wing Hong | Interest of controlled corporation/ Beneficial owner ^(Note 1) | 276,464,000 | 66.62 |
| Chan Shuk Kuen | Family interest ^(Note 2) | 276,464,000 | 66.62 |
| Ng Yuk Kwan Phyllis | Beneficial owner ^(Note 3) | 25,000,000 | 6.02 |
| Mak Che Fai Lawrence | Family interest ^(Note 4) | 25,000,000 | 6.02 |
| Baguio Green (Holding) Limited | Beneficial owner ^(Note 1) | 275,000,000 | 66.27 |
| RAYS Capital Partners Limited | Investment manager/Beneficial owner/ Interest of controlled corporation ^(Note 6) | 28,912,000 | 6.97 |
| Ruan David Ching-chi | Interest of controlled corporation ^(Note 5) | 28,912,000 | 6.97 |
| Asian Equity Special Opportunities Portfolio Master Fund Limited | Beneficial owner ^(Note 6) | 28,464,000 | 6.86 |

Notes:

- (1) The entire issued share capital of Baguio Green (Holding) Limited is beneficially owned by Mr. Ng Wing Hong. Therefore, Mr. Ng Wing Hong is deemed to be interested in all the 275,000,000 shares of the Company ("Shares") held by Baguio Green (Holding) Limited. Mr. Ng Wing Hong is a controlling shareholder (as defined under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules")) and an executive Director. In addition, Mr. Ng Wing Hong also directly held 1,464,000 Shares.
- (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.
- (3) Ms. Ng Yuk Kwan Phyllis directly held 25,000,000 Shares. Ms. Ng Yuk Kwan Phyllis is an executive Director.
- (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 30 June 2018, 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.

OTHER INFORMATION

DIRECTOR'S INTERESTS DISCLOSEABLE UNDER THE SFO

As at 30 June 2018, 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 37 in the section "Share Option Scheme" below. In addition, as at 30 June 2018, Ms. Cheung Siu Chun, an executive Director and the company secretary of the Company, held 800,000 Shares. Apart from the foregoing, none of the Directors and chief executive 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.

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: | <ul style="list-style-type: none">(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: | <p>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").</p> <p>Options lapsed in accordance with the Share Option Scheme will not be counted for the purpose of the Scheme Limit.</p> <p>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.</p> |

OTHER INFORMATION

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: | <p>The Exercise Price is to be determined by the Board provided always that it shall be at least the higher of:</p> <ul style="list-style-type: none">(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: | <p>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.</p> |
| Maximum entitlement of each eligible participant: | <p>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.</p> |
| Exercise price: | <p>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.</p> |
| Minimum holding period: | <p>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.</p> |
| Period within which the securities must be taken up under an option: | <p>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.</p> |
| The remaining life of the Share Option Scheme: | <p>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.</p> |

OTHER INFORMATION

No share option was granted during the Period, while 280,000 share options were lapsed during the Period due to the resignation of employees who had been granted share options.

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

| Name or category of participants | Date of grant (Note 1) | Number of underlying shares comprised in share options | | | | As at 30 June 2018 | Exercise period | Exercise price per share (HK\$) |
|---|---------------------------|---|---------------------------------|--------------------------------|-----------|---------------------------|--------------------|--|
| | | As at 1 January 2018 | Granted during the Period | Lapsed during the Period | | | | |
| Directors | | | | | | | | |
| Ms. Ng Yuk Kwan Phyllis | 16/10/2015 | 292,000 | - | - | 292,000 | 16/10/2017- 23/04/2024 | 1.00 | |
| Mr. Ng Wing Chuen | 16/10/2015 | 240,000 | - | - | 240,000 | 16/10/2017- 23/04/2024 | 1.00 | |
| Ms. Leung Shuk Ping | 16/10/2015 | 216,000 | - | - | 216,000 | 16/10/2017- 23/04/2024 | 1.00 | |
| Ms. Chan Shuk Kuen | 16/10/2015 | 216,000 | - | - | 216,000 | 16/10/2017- 23/04/2024 | 1.00 | |
| Ms. Cheung Siu Chun | 16/10/2015 | 240,000 | - | - | 240,000 | 16/10/2017- 23/04/2024 | 1.00 | |
| Mr. Sin Ho Chiu | 16/10/2015 | 140,000 | - | - | 140,000 | 16/10/2017- 23/04/2024 | 1.00 | |
| Dr. Law Ka Hung | 16/10/2015 | 140,000 | - | - | 140,000 | 16/10/2017- 23/04/2024 | 1.00 | |
| Mr. Lau Chi Yin Thomas | 16/10/2015 | 140,000 | - | - | 140,000 | 16/10/2017- 23/04/2024 | 1.00 | |
| Subtotal | | 1,624,000 | - | - | 1,624,000 | | | |
| Other Eligible Participants (in aggregate) | | | | | | | | |
| Other employees | 16/10/2015 | 3,316,000 | - | (280,000) | 3,036,000 | 16/10/2017- 23/04/2024 | 1.00 | |
| Subtotal | | 3,316,000 | - | (280,000) | 3,036,000 | | | |
| Total | | 4,940,000 | - | (280,000) | 4,660,000 | | | |

Note:

(1) The share options vested on 16 October 2017.

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 were granted during the Period.

OTHER INFORMATION

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as otherwise disclosed in this report, at no time during the Period 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, the Company's holding companies or any of the Company's 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.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the Period, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

CORPORATE GOVERNANCE

The Company is committed to maintain high standards of corporate governance to safeguard the interests of shareholders and to enhance corporate value and accountability. The Company had complied with all applicable code provisions under the Corporate Governance Code (the "CG Code") as set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules") throughout the Period. The Company will continue to review and enhance its corporate governance practices to ensure compliance with the CG Code.

CHANGE IN INFORMATION OF DIRECTORS

During the Period, there was no change in information of the directors of the Company which is required to be disclosed pursuant to Rule 13.51B of the Listing Rules.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules as its own code of conduct regarding directors' securities transactions. Having made specific enquiries with all Directors, each of the Directors has confirmed that he/she has complied with the required standards as set out in the Model Code throughout the six months ended 30 June 2018.

AUDIT COMMITTEE

The primary duties of the audit committee of the Company ("Audit Committee") is to review the effectiveness of the Group's financial reporting process and risk management and internal control systems, and to oversee the audit and review process of the external auditor. The Audit Committee currently consists of three independent non-executive Directors.

The Audit Committee has reviewed with the management of the Company the accounting principles and practices adopted by the Group, and discussed risk management and internal controls and financial reporting matters including a review of the interim results of the Group for the Period.

DISCLOSURE OF INFORMATION ON WEBSITE OF THE STOCK EXCHANGE AND THE COMPANY

This interim report (in both English and Chinese versions) is available to any shareholder in printed form and on the websites of the Stock Exchange (<http://www.hkex.com.hk>) and the Company (<http://www.baguio.com.hk>). In order to protect the environment, the Company highly recommends shareholders to elect to receive electronic copy of this interim report.

This document is published in English version and Chinese translation version. In case of any inconsistency of meanings of the words or terms between the English version and the Chinese translation version, the English version shall prevail.

碧瑤綠色集團有限公司
Baguio Green Group Limited