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 年報
ANNUAL REPORT

Clean & Green

CONTENTS

CORPORATE INFORMATION

EXECUTIVE DIRECTORS

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

INDEPENDENT NON-EXECUTIVE DIRECTORS

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

AUTHORIZED REPRESENTATIVES

Mr. Ng Wing Hong
Ms. Cheung Siu Chun

AUDIT COMMITTEE

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

REMUNERATION COMMITTEE

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

NOMINATION COMMITTEE

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

COMPANY SECRETARY

Ms. Cheung Siu Chun

LEGAL AND COMPLIANCE ADVISERS

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

AUDITORS

KPMG

REGISTERED OFFICE

Cricket Square, Hutchins Drive
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Cayman Islands

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Kowloon, Hong Kong

PLACE OF BUSINESS IN THE PEOPLE'S REPUBLIC OF CHINA

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PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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P.O. Box 2681
Grand Cayman, KY1-1111
Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR

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Level 22, Hopewell Centre
183 Queen's Road East
Hong Kong

PRINCIPAL BANKERS

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

COMPANY WEBSITE ADDRESS

http://www.baguio.com.hk

STOCK CODE

1397

Dear Shareholders,

On behalf of the board of directors (the "Board") of Baguio Green Group Limited (the "Company", and together with its subsidiaries, the "Group" or "Baguio"), it is my pleasure to present the consolidated results of the Group for the year ended 31 December 2018 (the "Year").

Breakthrough in Recycling Business

I am very much delighted to begin my Chairman Statement with an encouraging news as it is a significant part of our plan in growing our recycling business. Capitalizing on our efforts made in 2018, Baguio intended to form a partnership with ALBA Group Asia Limited and Swire Beverages Holdings Limited, by forming a JV, to operate a state-of-the-art recycling facility for plastic waste, the very first plastic recycling centre in Hong Kong. Lower-than-expected plastic bottle recycling rate and heavy reliance on exporting plastic recyclables have long been a headache to Hong Kong because we did not have our own plastic recycling facility, which is a critical part of a recycling process. With the support of this collaboration, a large-scale, technological-advanced and environmentally sustainable facility will be available for processing recyclables locally. As it is expected that this plant will be ready for operation in late-2020, the plant will be able to capture the opportunity brought by the onset of the Municipal Solid Waste Charging Scheme and the proposed Producer Responsibility Scheme on plastic bottles.

Baguio has continued to put in effort to expand the other parts of its recycling business, including glass bottle, animal wastes and horticultural wastes in 2018. For instance, our glass bottle management facility commenced operation and passed the trial run in 2018. On top, we have input a lot of effort and formed a strong and widespread waste collection network, and has gained experience in running waste management facilities. These valuable assets have kept Baguio above the competition and built a solid foundation for Baguio to expand to other waste materials.

We strongly believe that resources recycling is the most efficient solution to keep waste away from landfills. Underpinning by more welcoming environmental measures and policies to the recycling industry, as well as the glass bottles and plastic bottles recycling facilities which we have and are going to set up, Hong Kong can locally recycle its own waste and produce green end-products for local consumption, and will be more resilient to external limitations, such as oil price, restriction on waste import and etc., and in return, our recycling rate will increase. This will benefit the recycling industry players, including Baguio, and Hong Kong as a whole.

Enhance Operational Efficiency by Unholding Professional Qualification

Our core business fronts remained on an upturn trend. However, market competition of Hong Kong environmental services industry, particularly the cleaning business, and labour cost pressure continued to be increasingly fierce in 2018. To stand out from price competition, we went further and set a higher target in upgrading our team's standard of professional qualification of all business segments via regular vocational training, assessments and accreditation, as well as enhanced the involvement of technology, information system and automation. We expect that these measures will increase our competitive edge and post a lessening influence towards our profitability such that our business will sustain in the long run.

We noticed that the government departments of the HKSAR have refined their outsourcing arrangements, effective from 1 April 2019. New tender evaluation system will weigh heavier on technical assessment under the scoring system. In addition, labor welfare and working environment are getting more and more attention and protection. In the long run, we believe that this reform will provide a more regulated and favourable operating environment towards scale contractors, like Baguio, who has outstanding servicing quality, high operational efficiency and sound management system, to obtain new contracts.

Prospects

Fostering by the upcoming greening policies and large scale infrastructure projects, the Group also sees great potentials in the landscaping business, arisen from increasing demand of greening services in various public and private works. With the support of our professional landscaping and arborist teams and the 2.6 million square feet nursery farm in China. Baguio would be well-equipped to capture future market opportunities. Lastly, the Group would continue to explore the possibilities of mergers and acquisitions and strategic collaborations, with a view to further widen its service portfolio and geographical footprint in an attempt to deliver long term shareholder value.

Appreciation

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

Ng Wing Hong
Chairman of the Board

Hong Kong
28 March 2019

ABOUT BAGUIO

Baguio is mainly engaged in providing professional cleaning, landscaping, pest management and waste management and recycling services. Close to 40 years of experiences, an established reputation, a seasoned management team and comprehensive resources, Baguio is one of the largest integrated environmental services providers in Hong Kong in terms of revenue. As a dominant player, the Group has competitive advantages in gaining contracts and projects across different sectors including government departments, semi-government entities, public utility companies as well as non-governmental organizations ("NGOs") and private companies.

MARKET REVIEW

In view of population growth and economic development, Hong Kong's municipal solid waste ("MSW") generation has been continuously increasing, with its daily per capita domestic waste generation rate remaining at a significantly higher level comparing to neighboring Asian cities at similar degree of economic development. To tackle this problem, Hong Kong, as an international city, is obligated to take a more proactive approach in motivating the public to achieve waste recycling and waste reduction, as to divert recyclables away from landfills. After carefully considering the global trend, the Hong Kong Special Administrative Region (the "HKSAR") Government (the "Government") has implemented a basket of initiatives such as the Producer Responsibility Scheme ("PRS") on glass beverage containers, a proposed PRS on plastic bottles and the MSW Charging Scheme, etc., all encouraging the public and community to participate in source separation of waste as to minimize waste disposal and promote resources recovery. On the other hand, as the Government strives to create a welcoming competitive environment for the environmental services industry in the HKSAR, it has been actively refining the tendering process, with an aim to transforming it into an open, fair and transparent procedure. The aforementioned measures demonstrated the Government's determination in advancing the development of the recycling industry, laying an ideal operating environment for Baguio's one-stop waste management and recycling business.

BUSINESS REVIEW

The Year was challenging to Baguio as Baguio experienced a more intense competition from local and regional players particularly in the cleaning business sector. The Group's gross profit was adversely affected. However, this 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. Although the initial expenses in these new projects would temporarily narrow the segment profit, Baguio believes that the waste cycling and processing segment will be the future growth driver and the efforts made at this stage will be rewarded.

Close to 40 years, Baguio has been tapping into different environmental service markets and successfully built a holistic and highly synergistic environmental services portfolio, ranging from cleaning, landscaping and pest management, to waste management and recycling. 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 kicked off the establishment of a glass and plastic bottles collection network during the Year. The glass waste treatment plant in Tuen Mun commenced operation in May 2018 and it adopted the advanced technology to produce glass cullets which can be used for the production of eco-friendly materials such as eco-paving blocks.

For waste composting, we continue to provide services to collect and deliver animal manure to the Animal Waste Composting Plant (the "AWCP") at Ngau Tam Mei and to operate the AWCP in composting the collected animal waste and turning it into organic compost which is then sold to third parties or reused in our landscaping business. In addition, Baguio has again showcased its competitive edge, as it has for the third time consecutively gained the contracts from the Environmental Protection Department of Hong Kong to recycle yard waste, namely Christmas tree and peach blossoms. Riding on its well-established collection network, Baguio is able to extend its recycling services to stable waste, yard waste, and glass and plastic wastes. Such service extension further demonstrated the Group's dedication and capability in tapping into new markets.

As for its landscaping business, the Group is expecting a strong demand in the coming years, especially after the introduction of greening policy from the Government. As there is an increasing trend of Government entities outsourcing landscaping contracts to professional services providers in the recent years, together with the rising living standard and the increasing demand for a cleaner living environment, Baguio is expecting a growing demand of landscaping services from the commercial, industrial, government and residential sectors, which will provide a strong growth momentum for the Group's business.

In order to stand out from the competition under an ever-changing and increasingly-regulated business environment, Baguio will continue to improve its management system, professional vocation training, and IT system. With its extensive network, strong operational support, advanced technological capabilities and strong track records in large scale tendering, Baguio would be able to enjoy first-mover advantage for future tenders.

Results

For the Year, the Group's revenue was approximately HK$1,429.5 million, indicating a stable growth of approximately 18.4% from approximately HK$1,207.6 million for the corresponding period of 2017, mainly attributable to the Group's dedicated efforts in gaining new and renewal contracts. Gross profit decreased by approximately 4.5% to approximately HK$92.9 million (2017: HK$97.3 million) and gross profit margin decreased by 1.6 percentage points ("p.p") to approximately 6.5% (2017: 8.1%). Decline in gross profit margin was mainly due to the increase in labor costs, particular in the cleaning segment. In addition, we continued to widen and deepen our recycling business where initial operating expenses were incurred for the new glass treatment plant and the building of collection network. Profit attributable to shareholders of the Company amounted to approximately HK$17.9 million, representing a year-on-year decline of approximately 13.2% (2017: HK$20.6 million), with net profit margin decreased by 0.5 p.p to approximately 1.2% (2017: 1.7%). Earnings per share was HK4.3 cents (2017: HK5.0 cents).

Final Dividend

The Board recommends the payment of a final dividend for the Year at HK0.7 cents (2017: HK1.4 cents) per ordinary share, totalling HK$2,905,000 (2017: HK$5,810,000), subject to approval by the shareholders of the Company (the "Shareholders") at the forthcoming annual general meeting (the "Annual General Meeting") of the Company to be held on 13 June 2019. If so approved by the Shareholders, it is expected that the final dividend will be paid out on or around 5 July 2019 to the Shareholders whose names appear on the register of members of the Company on 20 June 2019.

Revenue breakdown of major business segments

	For the year ended				
	31 December 2018		31 December 2017		
	Revenue (HK$ million)	% of total revenue	Revenue (HK$ million)	% of total revenue	Change
Cleaning	**1,065.1**	**74.5%**	903.1	74.8%	+17.9%
Landscaping	**186.1**	**13.0%**	155.7	12.9%	+19.5%
Pest management	**44.3**	**3.1%**	39.5	3.3%	+12.3%
Waste management and recycling	**134.0**	**9.4%**	109.3	9.0%	+22.5%
Total	**1,429.5**	**100.0%**	1,207.6	100.0%	+18.4%

Gross profit margin of major business segments

	For the year ended 31 December 2018 Gross profit margin	For the year ended 31 December 2017 Gross profit margin	Change
Cleaning	**4.3%**	6.2%	–1.9 p.p
Landscaping	**16.2%**	16.4%	–0.2 p.p
Pest management	**10.9%**	12.6%	–1.7 p.p
Waste management and recycling	**8.9%**	9.9%	–1.0 p.p
Overall	**6.5%**	8.1%	–1.6 p.p

Riding on our professional management, quality services and stringent control in safety precaution, the Group continued to maintain a high tender success rate at approximately 38% in 2018 (2017: 37%). During the Year, 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 waste management and recycling as well as landscaping segments by achieving approximately 22.5% and 19.5% revenue growth respectively. With the increasing demand for professional landscaping and arboriculture services, the landscaping segment still maintained high gross profit margin. The overall gross profit margin dropped from approximately 8.1% to approximately 6.5% mainly due to increase in labor costs, especially in the cleaning segment and the initial operating expenses were incurred for the glass treatment facility and collection network.

In addition, the Group successfully obtained three contracts from the Food and Environmental Hygiene Department of Hong Kong for provision of cleaning and supporting services and renewed a contract with the Airport Authority Hong Kong. Other than the provision of general cleaning services, we continuously strived to expand our services scope in order to enhance our competitiveness. In the waste management and recycling segment, although the initial operating expenses incurred for the new glass treatment plant and the building of collection network with the new glass management contracts 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 31 December 2018, the Group had a total amount of approximately HK$1,701.2 million worth of unexpired contracts on hand, of which, approximately HK$1,028.3 million will be recognised by the end of 2019, approximately HK$393.3 million will be recognised in 2020 and the rest of approximately HK$279.6 million will be recognised in 2021 and beyond.

	Backlog contract value (HK$ million)	Contract value to be recognised by 31 December 2019 (HK$ million)	Contract value to be recognised by 31 December 2020 (HK$ million)	Contract value to be recognised in 2021 and beyond (HK$ million)
Cleaning services	956.4	690.1	201.7	64.6
Landscaping services	243.2	174.7	57.0	11.5
Pest management services	28.1	26.3	1.3	0.5
Waste management and recycling services	473.5	137.2	133.3	203.0
Total	1,701.2	1,028.3	393.3	279.6

HUMAN RESOURCES

As at 31 December 2018, the Group employed 8,715 employees (2017: 8,853 employees), including both full time and part time. Remuneration packages are generally structured by reference to market terms, individual qualifications and experience.

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

PROSPECTS

Looking forward, Baguio will continue to uphold its core philosophy to maintain a "Clean & Green" environment for the society, and remain focused on its core businesses in Hong Kong, especially in the waste management and recycling business. Supported by the green measures and policies from the Government, the Group believes that total waste management solution would become an enormous market for the Group to tap into.

Riding on Baguio's existing collection network and resources, as well as its well-established reputation and extensive experience in the waste management industry, the Group is glad to announce that it will be partnering with ALBA Group Asia Limited ("ALBA"), and Swire Beverages Holdings Limited ("Swire Beverages") to form a joint venture ("JV") for the operation of a state-of-the-art recycling facility for plastic waste in Hong Kong, which is expected to commence operations in the third quarter of 2020. The facility is planned to be able to process the entire domestic volume of post-consumer plastic beverage plastic bottles and personal care plastic bottles, which are collectable in the foreseeable future. As the JV will ride on the strength of Baguio's domestic collection network in Hong Kong, ALBA's recycling technology expertise and Swire Beverages' strength in the domestic beverages market, the Group believes that this has placed the Group in an advanced position in capturing future opportunities from related segments, while offering the platform for it to expand upstream and downstream along the waste management value chain. For further details of the JV, please refer to the announcement of the Company dated 21 January 2019.

In addition to its solid business foundation in Hong Kong, Baguio also sees huge potential in the environmental services market in the People's Republic of China ("PRC"), especially in the Greater Bay Area, as the demand for green and environmental protection services in the area is likely to grow. The Group will leverage its market-leading position in Hong Kong, as well as its strong operational knowhow, advanced management system and proven track record in order to secure future tender in the PRC. Adding that to the already-sustainable businesses in Hong Kong, the Group is in a good position to be thriving in the future.

Baguio will also keep a keen eye for potential strategic partnership or investment, along with suitable mergers and acquisitions to integrate and improve its existing business portfolio, as to accumulate operational experiences, reach out to niche markets, and eventually, making continuous contribution to the protection of global environment. Through the aforementioned strategies, the Group will aim to further unleash business synergies, and deliver greater and sustainable returns to the Shareholders.

FINANCIAL REVIEW

Revenue

The Group's revenue for the years ended 31 December 2018 and 2017 was approximately HK$1,429.5 million and HK$1,207.6 million, respectively, representing an increase of approximately 18.4%. The increase was mainly due to the overall increase in revenue in all services segments.

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

Cost of Services

For the years ended 31 December 2018 and 2017, the cost of services of the Group amounted to approximately HK$1,336.6 million and HK$1,110.3 million respectively, representing approximately 93.5% and 91.9% of the Group's revenue for the corresponding years respectively. The cost of services primarily comprised direct wages, direct overhead expenses, consumables and sub-contracting fees. The cost of services in proportion to the Group's revenue has increased due to increase in labor costs in the market and the initial operating expenses incurred for the glass treatment facility and collection network during the Year.

Gross Profit

The Group's gross profit for the Year was approximately HK$92.9 million, representing a decrease of approximately 4.5% from approximately HK$97.3 million for the year ended 31 December 2017. The decrease was mainly due to the keen competition in the market, coupled with an increase in labor costs, especially in the cleaning segment. The increment in cost of services was higher than that in revenue.

Gross Profit Margin

The gross profit margins of the Group for the years ended 31 December 2018 and 2017 were approximately 6.5% and 8.1% respectively. As mentioned above, 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 business during the Year.

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 the Group's biological assets for the years ended 31 December 2018 and 2017 were approximately HK$7.8 million and HK$2.0 million respectively, representing an increase of approximately 2.8 times. This is due to the continuing accumulation and growth of the biological assets in the nurseries for future landscaping projects.

Selling and Marketing Expenses

The selling and marketing expenses of the Group for the years ended 31 December 2018 and 2017 were approximately HK$2.9 million and HK$1.8 million respectively, representing an increase of approximately 63.1%. 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 the years ended 31 December 2018 and 2017 were approximately HK$73.7 million and HK$68.8 million respectively, representing an increase of approximately 7.2%, and approximately 5.2% and 5.7% of the respective year's total revenue. The increase was mainly due to the increase in overhead with expansion of office premises and the increase of the number of administrative staff for the development of glass management and building the recycling network. The Group continues to implement its budget cost control measures for administrative expenses during the Year. As disclosed in note 6(b) to the consolidated financial statements, a loss allowance of approximately HK$2.3 million was recognised for the year ended 31 December 2017 (2018: Nil).

Finance Costs

The finance costs of the Group amounted to approximately HK$5.8 million and HK$4.3 million for the years ended 31 December 2018 and 2017 respectively, representing approximately 0.4% of each year's total revenue.

Profit for the Year Attributable to Equity Shareholders of The Company

The Group's profits attributable to the equity shareholders of the Company for the years ended 31 December 2018 and 2017 was the approximately HK$17.9 million and HK$20.6 million respectively, representing a decrease of approximately 13.2%. The decrease was primarily due to the factors described above.

FOREIGN CURRENCY EXPOSURE

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

LIQUIDITY AND FINANCIAL RESOURCES

The Group derives cash flow from operating activities principally from rendering a comprehensive range of environmental services. For the Year, we had net cash used in operating activities of approximately HK$5.5 million (2017: generated from operating activities of HK$27.4 million). The Group had available cash and bank balances amounting to approximately HK$36.1 million as at 31 December 2018 (2017: HK$48.0 million), representing a decrease of approximately 24.8%.

As at 31 December 2018, the Group's total current assets and current liabilities were approximately HK$454.5 million (2017: HK$369.4 million) and HK$422.8 million (2017: HK$280.4 million) respectively, while the current ratio was approximately 1.1 times (2017: approximately 1.3 times). The liquidity position is maintained at a healthy level.

As at 31 December 2018, the Group's bank borrowings amounted to approximately HK$218.3 million (2017: HK$108.7 million), representing an increase of approximately 100.8%; the Group's finance lease payables were approximately HK$23.8 million (2017: HK$42.4 million) representing a decrease of approximately 43.7%, for financing the acquisition of motor vehicles for operation use. During the Year, no financial instruments were used for hedging purposes (2017: Nil).

The gearing ratio of the Group was approximately 1.0 times as at 31 December 2018 (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 Company.

CAPITAL EXPENDITURES AND CAPITAL COMMITMENT

For the Year, capital expenditures, which mainly included additions in office premises, motor vehicles and equipment, amounted to approximately HK$89.6 million (2017: HK$38.3 million). Capital expenditures of approximately HK$6.4 million in relation to the development of glass management project were funded by the proceeds of the initial public offering of the shares of the Company. Other capital expenditures were funded by banks, finance companies and funds generated from our operating activities.

As at 31 December 2018, the Group had capital commitment contracted for of approximately HK$5.4 million (2017: HK$3.3 million) and capital commitment authorised but not contracted for of approximately HK$90.0 million (2017: HK$100.0 million).

CONTINGENT LIABILITIES

As at 31 December 2018, the Group did not have any material contingent liabilities.

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 31 December 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	–

CHARGES ON THE GROUP'S ASSETS

As at 31 December 2018, the amounts payable under finance leases within one year amounted to approximately HK$12.4 million (2017: HK$18.3 million), and that after one year but within five years amounted to approximately HK$11.4 million (2017: HK$24.1 million).

As at 31 December 2018, the obligations under finance leases of the Group were guaranteed by the Company and a subsidiary of the Company.

In addition as at 31 December 2018, we have (i) pledged bank deposits of approximately HK$6.1 million (2017: HK$5.1 million); (ii) mortgage of the Group's leasehold land and buildings of approximately HK$75.7 million (2017: HK$29.9 million); (iii) pledge of the other property, plant and equipment of approximately HK$26.5 million (2017: Nil); (iv) pledge of the Group's financial assets at fair value through profit or loss of approximately HK$13.9 million (2017: available-for-sale financial assets of HK$13.6 million); (v) pledge of the Group's trade receivables of approximately HK$78.1 million (2017: HK$37.8 million); and (vi) pledge of the Group's contract assets arising from performance under glass management contracts of approximately HK$7.0 million (2017: Nil).

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

ACQUISITION, DISPOSAL AND SIGNIFICANT INVESTMENT HELD

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

EXECUTIVE DIRECTORS

Ng Wing Hong (吳永康), aged 64, is the Chairman and an Executive Director of the Company. Mr. Ng was appointed as our Executive Director and the Chairman on 23 January 2014. Mr. Ng is also one of the founders and controlling shareholders of our Group. Mr. Ng has over 40 years of experience in the environmental service industry and is primarily responsible for the overall management, strategic planning and business development of our Group. In 1980, Mr. Ng together with his brother, Mr. Ng Wing Sun formed a partnership under the name of Baguio Cleaning Services Company Limited which started off as a cleaning service provider in Hong Kong.

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

Ng Yuk Kwan Phyllis (吳玉群), aged 50, is an Executive Director, the Chief Executive Officer and Compliance Officer of the Company. She was appointed as our Executive Director and Chief Executive Officer on 23 January 2014. She joined our Group as an Assistant General Manager in November 1995 and was promoted as a General Manager in February 2000. Ms. Ng has over 20 years of experience in the environmental service industry and is primarily responsible for the overall management of our Group and for overseeing the corporate development department and project development department.

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

Ng Wing Chuen (吳永全), aged 68, is an Executive Director of the Company. He was appointed as our Executive Director on 23 January 2014. He joined our Group since 1982 as one of Baguio Cleaning Services Company Limited's directors. He is currently in charge of the overall management and strategic planning of our Group. Prior to joining our Group, Mr. Ng had served at various banks and other financial institutions, including Hong Kong Chinese Bank Limited.

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

Leung Shuk Ping (梁淑萍), aged 46, is an Executive Director of the Company. She was appointed as our Executive Director on 23 January 2014. She joined our Group in August 1997 as a secretary and resigned in October 2010 with her last position as a Senior Administration Manager. She rejoined our group as the Operation Director in June 2012. Ms. Leung has over 16 years' of experience in administration and business management. She currently oversees the operation department, administration department, IT department, SHEQ department and fleet management department of our Group.

Ms. Leung was awarded a Certificate in Business Management in January 2001 and a Diploma in Business Management in April 2008 from the School of Continuing Education Hong Kong Baptist University. She completed the IMS Internal Auditor Course for ISO 9001:2008 and ISO 14001:2004 and OHSAS 18001:2007 held by the British Standards Institution in December 2013. She completed the Pest Control and Pesticide Safety for Industrial Undertakings course organised by Hong Kong Polytechnic University in 2009. She completed the Certificate Programme on Inventory Management organised by the Hong Kong Management Association on July 1991. She was admitted as an associate of The Hong Kong Institute of Directors (the "Institute") in May 2014 and awarded a Diploma in Company Direction in October 2018 by the Institute.

Chan Shuk Kuen (陳淑娟), aged 50, is an Executive Director of the Company. She was appointed as our Executive Director on 23 January 2014. Ms. Chan joined our Group in May 2006 as Human Resources Manager and was promoted as Senior Human Resources Manager in December 2008 and as Human Resource Director in July 2012. Ms. Chan oversees the full spectrum of human resources functions including reward management, resourcing and staffing, talent management, employees' compensation, performance management and employee relations.

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

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

Cheung Siu Chun (張笑珍), aged 54, is an Executive Director, Chief Financial officer and Company Secretary of the Company. She was appointed as an Executive Director, Chief Financial Officer and Company Secretary on 23 January 2014. She joined our Group in November 1999 as our Financial Controller and resigned in November 2004. She rejoined our Group in August 2005 and in July 2012, she became our Finance Director. Ms. Cheung currently oversees the Group's finance department, purchasing department and logistics department and is responsible for the Group's accounting, cost control, corporate finance and cash management affairs.

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

INDEPENDENT NON-EXECUTIVE DIRECTORS

Sin Ho Chiu (冼浩釗), aged 63, was appointed as an Independent Non-executive Director of the Company on 24 April 2014 and he is also the chairman of our Remuneration Committee. He has been the legal representative of Shanghai GrafTech Trading Company Limited since February 2011, the sales director and general manager of GrafTech Hong Kong Limited since May 2011 and the legal representative of the Beijing representative office of GrafTech Hong Kong Ltd since May 2017. From October 2001 to April 2011, Mr. Sin served and was promoted as the business director-Asia Pacific in GrafTech International Trading Inc. Between September 1999 and September 2001, Mr. Sin served as the treasurer and controller of Union Carbide Asia Pacific Inc. Between September 1987 and August 1999, Mr. Sin served as the finance manager of Union Carbide Asia Limited.

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

Dr. Law Ka Hung (羅家熊), aged 63, was appointed as an Independent Non-executive Director of the Company on 24 April 2014 and also the chairman of our Nomination Committee. He has been appointed as independent non-executive director of HKC International Holdings Limited (stock code: 248) since December 2012.

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

Lau Chi Yin Thomas (劉志賢), aged 60, was appointed as an Independent Non-executive Director of the Company on 24 April 2014 and is also the chairman of our Audit Committee. Mr. Lau has been the executive director and responsible officer of Jolmo Capital Limited, a licenced corporation of the Securities and Futures Commission of Hong Kong, with main areas of business in advising on securities, corporate finance and asset management, since January 2008 and March 2005 respectively. He has been serving as a member of the Disciplinary Committee Panel of the Social Workers Registration Board since January 2008. Between April 2008 and September 2011, Mr. Lau was appointed as a director of Zhanjiang Guolian Aquatic Products Co., Ltd. (湛江國聯水產開發股份有限公司) (Shenzhen stock code: 300094). Between April 2008 and December 2011, Mr. Lau was appointed as the supervisor of Zhuhai Winbase International Chemical Tank Terminal Co., Ltd. (珠海恒基達鑫國際化工倉儲股份有限公司) (Shenzhen stock code: 002492).

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

The Board is pleased to present the report of the Directors and the audited consolidated financial statements of the Group for the year ended 31 December 2018.

1. PRINCIPAL ACTIVITIES

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

2. BUSINESS REVIEW

A review of the Group's business during the Year is provided in the section headed "Management Discussion and Analysis" on pages 5 to 11 of this annual report. A description of the Group's corporate governance and the Group's risk management and internal control system is provided in the section headed "Corporate Governance Report" on pages 25 to 35 of this annual report. A discussion on the Group's environmental policies, relationships with its key stakeholders and the relevant laws and regulations that have a significant impact on the Group are provided in the section headed "Environmental, Social and Governance Report" on pages 36 to 64 of this annual report.

3. SEGMENT INFORMATION

An analysis of the Group's revenue and contribution to results by principal operating activities and the Group's assets and liabilities by reportable segments of operations for the year ended 31 December 2018 is set out in note 5 to the consolidated financial statements. All of the Group's businesses were carried out in Hong Kong during the Year and all of the Group's revenue from external customers was generated in Hong Kong during the Year.

4. RESULTS AND DIVIDENDS

The results of the Group for the Year are set out in the consolidated statement of profit or loss and other comprehensive income on page 70 of this annual report. The Directors recommended the payment of a final dividend of HK0.7 cents per ordinary share, totalling approximately HK$2,905,000, to be paid on or around 5 July 2019, to the shareholders of the Company (the "Shareholders") whose names appear on the register of members of the Company on 20 June 2019.

The Board considers sustainable returns to shareholders whilst retaining adequate reserves for the Group's future development to be an objective. Under the policy on payment of dividends adopted by the Company, dividends may be recommended, declared and paid to shareholders from time to time. In summary, the declaration of dividends and the dividend amount shall be determined at the sole and absolute discretion of the Board taking into account the following factors:

- Group's financial results and general financial condition;
- the level of the Group's debts to equity ratio and return on equity;
- liquidity position and capital requirement of the Group;
- the Group's current and future operations;
- the Group's business development strategies and future expansion plans;
- the general market conditions;
- any relevant requirements of the Listing Rules and applicable laws, rules and regulations and the memorandum and articles of association of the company; and
- any other factors that the Board considers relevant.

5. RESERVES

Details of movements in the reserves of the Company and of the Group during the year are set out in note 40 to the consolidated financial statements and in the consolidated statement of changes in equity on page 72, respectively.

6. SHARE CAPITAL

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

7. DISTRIBUTABLE RESERVES

As at 31 December 2018, the Company's reserve available for distribution, calculated in accordance with the Companies Law of the Cayman Islands amounted to approximately HK$102.2 million, of which approximately HK$2.9 million has been proposed be paid to the Shareholders as a final dividend for the Year. Under the laws of Cayman Islands, the share premium account is distributable to the shareholders of the Company provided that immediately following the date on which the dividend is proposed to the distributed, the Company will be in a position to pay off its debts as and when fall due in the ordinary course of business. The share premium account may also be distributed in the form of fully paid bonus shares.

8. PROPERTY, PLANT AND EQUIPMENT

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

9. BANK BORROWINGS

Particulars of the bank borrowings of the Group as at 31 December 2018 are set out in the note 28 to the consolidated financial statements.

10. PRE-EMPTIVE RIGHTS

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

11. PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

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

12. FINANCIAL SUMMARY

A summary of the results for the year ended 31 December 2018 and of the assets and liabilities of the Group as at 31 December 2018 and for the previous four financial years are set out on page 128 of this annual report.

13. DIRECTORS

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

Executive Directors:
Mr. Ng Wing Hong *(Chairman)*
Ms. Ng Yuk Kwan Phyllis *(Chief Executive Officer and Compliance Officer)*
Mr. Ng Wing Chuen
Ms. Leung Shuk Ping
Ms. Chan Shuk Kuen
Ms. Cheung Siu Chun *(Chief Financial Officer and Company Secretary)*

Independent Non-executive Directors:
Mr. Sin Ho Chiu
Dr. Law Ka Hung
Mr. Lau Chi Yin Thomas

Pursuant to Article 84(1) of the Articles of Association of the Company, Ms. Leung Shuk Ping, Ms. Chan Shuk Kuen and Ms. Cheung Siu Chun are subject to retirement by rotation at the forthcoming annual general meeting and, being eligible, to offer themselves for re-election.

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

14. BIOGRAPHICAL DETAILS OF DIRECTORS

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

15. DIRECTORS' SERVICE CONTRACTS

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

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

None of the Directors proposed for re-election at the forthcoming annual general meeting has a service contract with the Company or any of its subsidiaries which is not determinable by the Company within one year without payment of compensation (other than statutory compensation).

16. PERMITTED INDEMNITY PROVISION

A permitted indemnity provision for the benefit of the Directors and officers of the Group is currently in force and remained in force throughout the financial year.

Throughout the year, the Company has maintained appropriate directors and officers liability insurance cover providing indemnity against liability, including but not limited to liability in respect of legal action against the Directors and officers thereby sustained or incurred arising from or incidental to execution of duties of his/her offices.

17. DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

No contracts of significance in relation to the Group's business to which the Company or its subsidiaries was a party and in which a Director had a material interest, either directly or indirectly, subsisted at the end of the Year or at any time during the Year except as disclosed under the section headed "Connected Transactions" on pages 19 to 20 in this report of the Directors and note 37 to the consolidated financial statements.

18. DIRECTORS' INTERESTS IN COMPETING BUSINESS

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

19. SUBSTANTIAL SHAREHOLDERS' INTEREST

As at 31 December 2018, so 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 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)*	278,128,000	67.02
Chan Shuk Kuen	Family interest *(Note 2)*	278,128,000	67.02
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 Listing Rules) and an executive Director. In addition, Mr. Ng Wing Hong also directly held 3,128,000 shares of the Company.

(2) Ms. Chan Shuk Kuen is the spouse of Mr. Ng Wing Hong and is therefore deemed to be interested in all the Shares held/ owned by Mr. Ng Wing Hong (by himself or through Baguio Green (Holding) Limited) by virtue of the SFO. Ms. Chan Shuk Kuen is an executive Director.

(3) Ms. Ng Yuk Kwan Phyllis directly held 25,000,000 shares of the Company. Ms. Ng Yuk Kwan Phyllis is an executive Director.

(4) Mr. Mak Che Fai Lawrence is the spouse of Ms. Ng Yuk Kman Phyllis and is therefore deemed to be interested in all the shares held by Ms. Ng Yuk Kuan Phyllis.

(5) Ruan David Ching-chi had a 50% equity interest in RAYS Capital Partners Limited. Therefore, he is deemed to be interested in all the Shares held by RAYS Capital Partners Limited.

(6) Asian Equity Special Opportunities Portfolio Master Fund Limited ("Asian Equity") is wholly-owned by RAYS Capital Partners Limited. Therefore, RAYS Capital Partners Limited is deemed to be interested in all the Shares held by Asian Equity.

Save as disclosed above, as at 31 December 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.

20. DIRECTORS' INTERESTS DISCLOSEABLE UNDER THE SFO

As at 31 December 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 pages 21 to 23 in the section "Share Option Scheme" below. In addition, as at 31 December 2018, Ms. Cheung Siu Chun, an executive Director and the company secretary of the Company, held 800,000 shares of the Company. Other than as disclosed here, none of the Directors 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.

21. CONNECTED TRANSACTIONS

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

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

(A) Baguio Cleaning Services Company Limited ("Baguio Cleaning") and Cleanic Cleaning Equipment Limited ("CCE") (which is owned as to approximately 74% by Mr. Ng Wing Sun, the brother of Mr. Ng Wing Hong), entered into a supply agreement (the "Supply Agreement") on 27 January 2014 pursuant to which CCE has agreed to supply cleaning equipment and materials to the Group for use in our ordinary course of business for three years and further entered into a supplemental Supply Agreement on 29 December 2016 to extend for a period of 35 months commencing from 26 January 2017 up to and including 31 December 2019. Details are set out in the Company's announcement dated 29 December 2016.

During the Year, the approximate total amount of purchases under the Supply Agreement was approximately HK$1,072,000, which did not exceed the HK$3,500,000 annual cap for the Year.

(B) Baguio Cleaning and Nexus Solutions Limited ("NSL") entered into an IT service agreement (the "IT Agreement") on 28 January 2014 pursuant to which NSL has agreed to provide information technology services to our Group with hardware and networking support for three years and further entered into a supplemental IT Agreement on 29 December 2016 to extend for a period of 35 months commencing from 27 January 2017 up to and including 31 December 2019. Details are set out in the announcement of the Company dated 29 December 2016.

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

During the Year, the transaction amounts of the IT product and services provided by NSL to the Group was approximately HK$1,751,000, which did not exceed the HK$4,000,000 annual cap for the year.

Pursuant to Rule 14A.55 of the Listing Rules, the Independent Non-executive Directors have reviewed the above continuing connected transactions and confirmed that these continuing connected transactions were entered into (i) in the ordinary and usual course of business of the Group; (ii) on normal commercial terms or, if there are not sufficient comparable transactions to judge whether they are on normal commercial terms, on terms no less favourable to the Group than terms available to or from (as appropriate) independent third parties; and (iii) in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

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

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

22. CONTRACTS OF SIGNIFICANCE

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

(i) No contract of significance between the Company or any of its subsidiaries and a controlling shareholder of the Company or any of its subsidiaries subsisted during the Year or at the end of the Year; and

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

23. MAJOR CUSTOMERS AND MAJOR SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for 64.2% (2017: 64.5%) of the total sales for the year and sales to the largest customer included therein amounted to 28.3% (2017: 32.3%). Purchases from the Group's five largest suppliers accounted for 28.2% (2017: 24.9%) of the total purchases for the year and purchases from the largest supplier included therein amounted to 8.6% (2017: 6.7%).

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

24. MANAGEMENT CONTRACTS

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

25. EMOLUMENT AND REMUNERATION POLICY

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

26. REMUNERATION OF DIRECTORS AND FIVE INDIVIDUALS WITH HIGHEST EMOLUMENTS

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

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

27. SHARE OPTION SCHEME

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

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

Purpose:	To enable the Board to grant options to selected Eligible Persons (an "Eligible Person" means any employee or proposed employee (whether full time or part time employee, including any director) of any member of the Group or any invested entity, any supplier of goods or services, any customer, any person or entity that provide research, development or other technical support, any shareholders or any participants who contribute to the development and growth of the Group or any invested entity) as incentives or rewards for their contribution or potential contribution to the Group and/or to recruit and retain high caliber Eligible Persons and to attract human resources that are valuable to the Group.
Eligible Participants:	(i) the Board may, at its absolute discretion and on such terms as it may think fit, grant options to any Eligible Person to subscribe at the Exercise Price (as defined in the paragraph "Exercise Price" of this section) for such number of Shares as it may determine in accordance with the terms of the Share Option Scheme; (ii) the basis of eligibility of any of the Eligible Persons to the grant of options shall be determined by the Board from time to time on the basis of his contribution or potential contribution to the development and growth of the Group.
Total number of securities available for issue under the Share Option Scheme:	The maximum number of Shares which may be issued upon exercise of options to be granted under the Share Option Scheme and any other share option schemes of the Company (excluding, for this purpose, options which have lapsed in accordance with the terms of the Share Option Scheme or any other share option schemes of the Company) must not in aggregate exceed 10% of the Shares in issue on the date of the listing of the shares of the Company, i.e. 40,000,000 Shares (the "Scheme Limit"). Options lapsed in accordance with the Share Option Scheme will not be counted for the purpose of the Scheme Limit. The Scheme Limit may be refreshed at any time by obtaining approval of the shareholders of the Company ("Shareholders") in general meeting provided that the refreshed limit must not exceed 10% of the Shares in issue at the date of the Shareholders' approval of such limit. Options previously granted under the Share Option Scheme or any other share option scheme of the Company (including those outstanding, cancelled or lapsed in accordance with the terms of the Share Option Scheme or any other share option schemes of the Company or those exercised) will not be counted for the purpose of calculating the refreshed limit.

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

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

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

(i) the closing price of the Shares as stated in the daily quotations sheet issued by the Stock Exchange on the date of offer for the grant of the option (which is deemed to be the date of grant if the offer for the grant of the option is accepted by the Eligible Person), which must be a trading day; and

(ii) the average closing price of the Shares as stated in the daily quotations sheets issued by the Stock Exchange for the five business days immediately preceding the date of grant, provided that the Exercise Price shall in no event be less than the nominal amount of one Share.

Amount payable on acceptance of the option and the period within which such payment must be made: An offer for grant of options must be accepted within twenty one days inclusive of the day on which such offer was made. The amount payable to the Company on acceptance of the offer for the grant of an option is HK$1.00.

Maximum entitlement of each eligible participant: The maximum number of Shares issued and to be issued upon exercise of options granted and to be granted under the Share Option Scheme and any other share option schemes of the Company to any Eligible Person (including cancelled, exercised and outstanding options), in any 12-month period up to the date of grant shall not exceed 1% of the Shares in issue from time to time (the "Participant Limit"). Any further grant of options in excess of such limit must be separately approved by Shareholders with such Eligible Person and his associates abstaining from voting. The Company shall send a circular to the Shareholders which contains the information required by the Listing Rules.

Exercise price: The Board is entitled to determine the price per Share payable on the exercise of an option according to the terms of the Share Option Scheme.

Minimum holding period: The Board is entitled to determine whether there is any minimum holding period, and whether there is any performance target which must be achieved, before an option granted under the Share Option Scheme is exercised.

Period within which the securities must be taken up under an option: In respect of any option, such period as the Board may in its absolute discretion determine, save that such period shall not be more than 10 years from the date of the grant of the option and in the absence of such determination, the period commencing from the acceptance date of the option and ending (i) in accordance with the Share Option Scheme; or (ii) on the day immediately preceding the tenth anniversary of the date of grant.

The remaining life of the Share Option Scheme:	The Share Option Scheme remains in force for a period of 10 years commencing on 24 April 2014 unless terminated earlier by Shareholders in general meeting.

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

No share option was granted during the Year, while 356,000 (2017: 176,000) share options lapsed during the Year due to resignation of employees who had been granted share options.

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

		Number of underlying shares comprised in share options					
Name or category of participants	**Date of grant** *(Note 1)*	**As at 1 January 2018**	**Exercised during the Year**	**Lapsed during the Year**	**As at 31 December 2018**	**Exercise period**	**Exercise price per share (HK$)**
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	–	(356,000)	2,960,000	16/10/2017–23/04/2024	1.00
Subtotal		3,316,000	–	(356,000)	2,960,000		
Total		4,940,000	–	(356,000)	4,584,000		

Note:

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

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

28. SHARE AWARD PLAN

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

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

29. RIGHTS TO ACQUIRE COMPANY'S SECURITIES

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

30. EVENTS AFTER THE REPORTING PERIOD

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

31. CORPORATE GOVERNANCE

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

Information on the corporate governance practices adopted by the Company is set out in the Corporate Governance Report on pages 25 to 35 of this annual report.

32. SUFFICIENCY OF PUBLIC FLOAT

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

33. AUDIT COMMITTEE

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

34. AUDITORS

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

On behalf of the Board

Mr. Ng Wing Hong
Chairman

Hong Kong, 28 March 2019

The Board is pleased to present the Corporate Governance Report for the year ended 31 December 2018.

1. COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

The Board is committed to achieving high standards of corporate governance to safeguard the interests of the Company's shareholders and to enhance corporate value and accountability. For the year ended 31 December 2018, the Company has applied the principles and complied with the applicable code provisions of the CG Code as set out in Appendix 14 to the Listing Rules.

2. MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules.

Specific enquiries have been made to all the Directors and the Directors have confirmed that they have complied with the Model Code for the year ended 31 December 2018.

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

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

3. BOARD OF DIRECTORS

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

Executive Directors:
Mr. Ng Wing Hong *(Chairman)*
Ms. Ng Yuk Kwan Phyllis *(Chief Executive Officer and Compliance Officer)*
Mr. Ng Wing Chuen
Ms. Leung Shuk Ping
Ms. Chan Shuk Kuen
Ms. Cheung Siu Chun *(Chief Financial Officer and Company Secretary)*

Independent Non-executive Directors:
Mr. Sin Ho Chiu
Dr. Law Ka Hung
Mr. Lau Chi Yin Thomas

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

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

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

Chairman and Chief Executive Officer

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

Independent Non-executive Directors

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

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

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

Responsibilities, Accountabilities and Contributions of the Board and Management

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

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

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

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

Directors and Officer's Liabilities

The Company has arranged for appropriate insurance coverage in respect of legal action against the Directors and officers against losses or liabilities sustained or incurred arising from or incidental to execution of their duties. The insurance coverage is reviewed on an annual basis or any intervals as deemed appropriate by the Board.

Directors' Continuous Professional Development

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

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

4. BOARD DIVERSITY POLICY

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

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

The Board will review the Board Diversity Policy on a regular basis to ensure its continual effectiveness.

5. BOARD COMMITTEES

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

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

Remuneration Committee

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

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

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

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

Members of the remuneration committee are:

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

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

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

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

Nomination Committee

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

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

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

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

The Nomination Committee has also adopted a nomination policy (the "Nomination Policy") which sets out the selection criteria and procedure of appointing and re-appointing and re-appointing a Director. The selection criteria used in assessing the suitability of a candidate include, inter alia, his/her academic background and professional qualifications, relevant experience in the industry, character and integrity and whether he/she can contribute to the diversity of the Board as detailed in the Diversity Policy. The procedure of appointing and re-appointing a Director is summarized as follows:

— nomination and invitation of suitable candidates by any member of the Nomination Committee or the Board;

— evaluation of the candidate by the Board based on all selection criteria as set out in the Nomination Policy;

— performing due diligence in respect of each candidate and making recommendation for the Board's consideration and approvals;

— in case of nomination of an independent non-executive Director, assessing the candidate's independence under the relevant Code Provisions and the Listing Rules;

— where nominating an independent non-executive Director for election at general meetings, having due consideration of matters under Code Provision A.5.5;

— in the context of re-appointment of retiring Directors, reviewing the candidate's overall contribution and performance and making recommendations to the Board and/or the shareholders for consideration in connection with his/her re-election at general meeting; and

— convening a meeting of the Board to consider the appointment or re-appointment of the candidate as a Director.

Members of the nomination committee are:

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

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

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

Audit Committee

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

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

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

Members of the audit committee are:

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

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

The audit committee reviewed, together with senior management and the external auditors, the financial statements for the six months ended 30 June 2018 and for the year ended 31 December 2018, the accounting principles and practices adopted by the Company, statutory compliance, other financial reporting matters, risk management and internal control systems and continuing connected transactions of the Company.

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

During the Year, the audit committee had held two meetings for considering the annual results of the Company for the year ended 31 December 2017 and considering the interim results of the Company for the six months ended 30 June 2018. All members of the Audit Committee have attended the above meetings.

The committee has recommended to the Board (which endorsed the recommendation) that, subject to shareholders' approval at the Company's forthcoming annual general meeting, KPMG be re-appointed as the Company's external auditors for 2019.

6. ATTENDANCE RECORDS OF DIRECTORS AND COMMITTEE MEMBERS

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

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

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

7. CORPORATE GOVERNANCE FUNCTIONS

The Board has the following responsibilities:

(a) to develop and review the Company's policies and practices on corporate governance; and to review the compliance with the CG Code and disclosures in the corporate governance report;

(b) to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;

(c) to review and monitor the training and continuous professional development of the directors and senior management; and

(d) to develop, review and monitor the code of conduct applicable to the directors and employees.

8. FINANCIAL REPORTING

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

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

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

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

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

The statement by the independent auditors of the Company regarding their reporting responsibilities on the consolidated financial statements of the Company is set out in the Independent Auditors' Report on pages 68 to 69 of this annual report.

9. RISK MANAGEMENT AND INTERNAL CONTROL

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

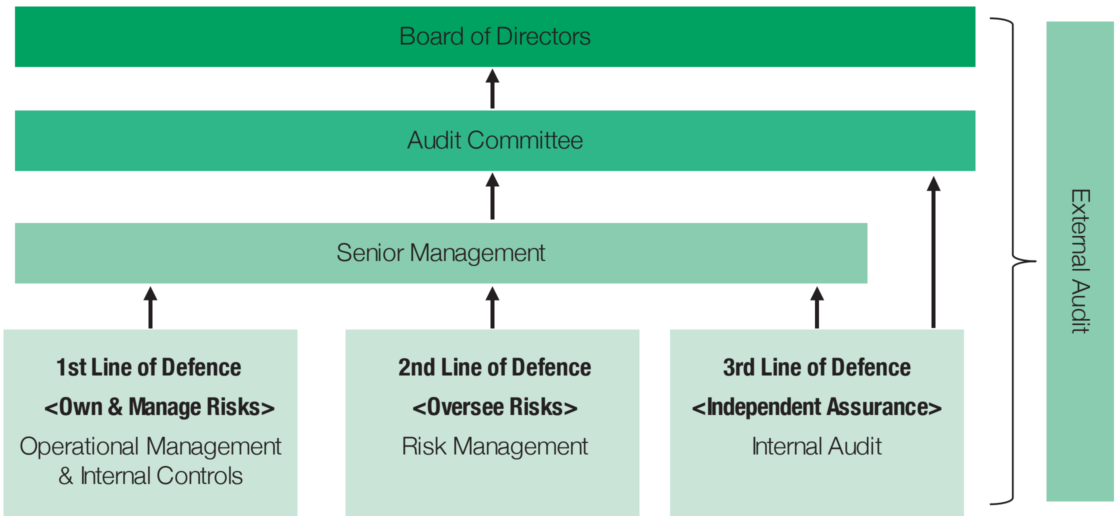
During the Year, the Board, through the Audit Committee, conducted a review of the effectiveness of the risk management and internal control systems of the Group, including the adequacy of resources, staff qualifications and experience, training programmes and budget of the Group's accounting, internal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

Our Enterprise Risk Management Framework and Governance Structure

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

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

Baguio Risk Governance Structure



1st Line of Defense — Operational Management & Internal Controls

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

2nd Line of Defence — Risk Management

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

3rd Line of Defence — Internal Audit

The third line of defence refers to the internal audit function of the Group. The internal audit provides an independent and objective assurance of the Group's risk management and internal control system. The internal audit function reports directly to the Audit Committee and dotted line to the Group's senior management. During the Year, the Group engaged Deloitte Advisory (Hong Kong) Ltd as outsourced independent service provider to perform internal audit on an annual basis with an internal audit plan to review the Group's key procedures, system and controls. Key findings and recommendations for improvement and the corresponding implementation are regularly reported to the Board through the Audit Committee.

External Auditors

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

Principal Risks

During the Year, other than the principal risks which we set in last year, in view of the continuous change in the business environment, we consider the risk of cyber attacks and corporate reputation are vital important to the Group. Relevant risks are classified into areas of strategic and business risks, operational risks, financial risks and compliance risks.

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

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

Our Risk Control Mechanism

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

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

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

10. HANDLING AND DISSEMINATION OF INSIDE INFORMATION

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

11. AUDITORS' REMUNERATION

For the Year, KPMG charged the Group approximately HK$1.4 million for the audit services, and approximately HK$106,000 for the other non-audit services respectively.

12. COMPANY SECRETARY

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

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

13. SHAREHOLDERS' RIGHTS

Procedures for shareholders to convene an extraordinary general meeting

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

Procedures for putting forward proposals at general meetings

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

Procedures for directing shareholders' enquiries to the Board

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

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

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

14. COMMUNICATION WITH SHAREHOLDERS AND INVESTOR RELATIONS

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

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

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

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

15. COMPLIANCE OF NON-COMPETITION UNDERTAKING

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

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

ABOUT THE ESG REPORT

This is our fourth Environmental, Social and Governance ("ESG") report which describes how we continue to strive to ensure our business operations have a positive impact on the society and the environment. It is prepared in compliance with ESG Reporting Guidelines stipulated under Appendix 27 of the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange.

Reporting Period and Scope

This report dwells on our ESG related initiatives and achievements for the period from 1 January to 31 December 2018 ("the reporting period"). The Group and all its subsidiaries are included in the reporting scope, unless otherwise mentioned. All information originated from the Company's financial reports and official documents.

It is a priority for the Board to report and address the Group's ESG performance in a transparent manner. The Board has reviewed and approved the report in respect of the Group's material sustainability related issues and the associated risks and opportunities, with due diligence.

Feedback

Ongoing communication with our stakeholders is an integral part of our sustainability strategy. It is, therefore, critical for us to receive your feedback regarding our ESG initiatives and the report's content.

Contacts

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

Telephone: (852) 2541 3388

Fax: (852) 2544 8668

Email: info@baguio.com.hk

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

MESSAGE FROM THE CEO

Dear stakeholders,

We are delighted to showcase not only our sustainability efforts during the year, but also our extensive waste collection network built over the past four years in this fourth ESG Report. As we always believe, by contributing to a "Clean and Green" Hong Kong, we are able to create shared value, benefiting both our business as well as the city as a whole. From 2019 and onwards, we are ready to steer forward to the next stage — waste processing.

Focusing on customers

Transforming from a recyclable waste collector to one of the key players in processing of recyclable wastes in Hong Kong, the Group has pushed forward the waste glass recycling venture with full force in 2018. With stricter waste import regulations globally, it is critical for the Group to produce high-grade goods acceptable to end-users and the trade. Our new glass waste treatment plant in Tuen Mun adopts the state-of-the-art technology to produce glass cullet which are used for the production of eco-friendly material such as eco-paving blocks.

Our monthly customer survey allows us to improve on an ongoing basis. The average response rate achieved this year was 36.7%. In comparison to results of the previous year, the proportion of respondents that rated the overall quality of services satisfactory or above has risen by 1.7% to 91%.

"As we always believe, by contributing to a "Clean and Green" Hong Kong, we are able to create shared value, benefiting both our business as well as the city as a whole"

Managing environmental impact

The Group adheres to the core value of self-improvement when managing its own environmental impacts. We are always on the look-out for ways in which environment friendliness of our operations could be enhanced. At our new Tuen Mun glass recycling plant, we have installed a 3D bio-filtration system that treats wastewater generated after washing collection bins. Strain on our water resources is greatly reduced, given as much as 90% of the wastewater is channelled back for reuse. Moreover, noise generated by the traditional mechanical crushers at the plant is drastically minimized with a patented implosion technology. At our new office premises, the Group has invested in smart control systems that optimize the air conditioning energy usage, during expansion of its headquarters this year.

"Our average vehicular fuel consumption has dropped 9% from 0.332 litre/km last year to 0.303 litre/km"

Since the major source of energy consumption is our fleet operation, it is in our best interest to enhance the efficiency of our fleet operations, this year, 7 of our service contracts adopted the Geographical Information System ("GIS") platform to optimize route arrangements. Our average vehicular fuel consumption has dropped 9% from 0.332 litre/km last year to 0.303 litre/km.

This year, the Group has marked a significant milestone in its sustainable development journey. Further to our committed participation in the Green Purchasing Charter ("Green Council"), the Group has pledged as a Founding Member of the newly-established Sustainable Procurement Charter. Working towards model practices of the ISO 20400 Sustainable Procurement Standards, we are to be in a leading position to guide the local business community towards a comprehensive approach to sustainable procurement.

Devoting to our people

Focusing on the holistic development of our staff, we have been striving hard to establish professional recognition for the lines of work we operate in. This year, we supported the accreditation journey of 18 employees in the landscaping and horticulture division under the Recognition of Prior Learning (RPL) Mechanism of the Qualifications Framework (QF). For its continued unwavering support, the Group was awarded "QF Star Employer" this year at the QF Partnerships Commendation Ceremony.

Regarding health and safety, we have taken new initiatives in 2018 to assist in the rehabilitation of injured employees. Close communication with injured staff is maintained via home visits and escorts to medical appointments. We also joined the Joyful @ Healthy Workplace Charter organised by the OHS Council to safeguard mental health. In-house activities, including "Work Life Balance Week" were organised to staff, concerning topics such as relaxation and healthy eating.

Raising public awareness

Waste recycling requires city-wide collaboration. Raising public awareness, therefore, holds the key to succeed. As an ongoing effort, we launched a total of 138 public participative events amassing around 4,000 participants in 2018, in which approximately 62 tonnes of glass bottles were collected. We have also deployed a convenient online platform on which the public may find updates on collection points and latest events.

Looking ahead

We enter 2019 with a focused mission, a sharpened positioning and a firm confidence in our strategy. With the introduction of multi-pronged environmental protection policies and programs, we aim to make the most from this ideal operating environment, striving to develop one-stop waste management and recycling solutions. I would like to take this opportunity to thank you all our staff for the great work they do every day and the support from all our stakeholders.

By Order of the Board

Phyllis Ng
Chief Executive Officer

Hong Kong, 28 March 2019

AWARDS AND RECOGNITION

Bearing our share of social responsibility, we have been striving to be a responsible corporate citizen. The following table lists out the accolades and recognitions received during the reporting period.

Organiser	Award
Environmental Responsibility	
Alaya Consulting	Hong Kong ESG Reporting Awards (HERA) 2018 — Best ESG report small cap: Merit Award
Bank of China and The Federation of Hong Kong Industries	Corporate Environmental Leadership Awards 2017 — EcoPartner + EcoPioneer (3 Years +)
Environmental Campaign Committee	Hong Kong Green Organisation Certification — Wastewi$e Certificate — Excellence Level
Environmental Campaign Committee	Hong Kong Awards for Environmental Excellence (Manufacturing and Industrial Services) Certificate of Merit
Green Council	Corporate Green Governance Award — Stakeholder Engagement
Green Council	Certificate of Appreciation — Green Run 2018
Green Council	Certificate of Appreciation — Green Carnival 2018
Green Council	Certificate of Appreciation Bronze Sponsor (Green Day 2018)
Green Council	Hong Kong Green Day 2018 Closing Ceremony — Certificate of Appreciation
ISA Hong Kong Chapter	Appreciation for support in Hong Kong Tree Climbing Championship
Nature Fun x Happy Farm 2018	Certificate of Appreciation
Sower Action	Corporate Participation — Bronze Award (Sowers Action Challenging 12 Hours — Charity Marathon 2017)
Sower Action	Corporate Team Fundraising — Silver Award (Sowers Action Challenging 12 Hours — Charity Marathon 2017)
Wisdom Regeneration	Certificate of Appreciation — ECF — Come and Join us Waste Reduction
World Green Organisation	Green Office and Eco-Healthy Workplace Awards Labelling Scheme Spring 2018
World Green Organisation	Certificate of Appreciation — Green WALK Hong Kong 2018
Employer of Choice	
Employee Retraining Board	ERB Merit Award for Employers
Employee Retraining Board	Manpower Developer Award Scheme
Labour and Welfare Bureau	Social Capital Builder Logo Award
Qualifications Framework Secretariat	QF Star Employer 2018
The Hong Kong General Chamber of Small and Medium Business	Partner Employer Award

Organiser	Award
Health and Safety	
Hong Kong Airport Authority	Appreciation for Participation in Airfield and Baggage Hall Safety Campaign 2017
Occupational Safety and Health Bureau	Occupational Safety and Health Quiz Game 2018 — Corporate Group
Sun Fook Kong Construction Group	Sun Fook Kong Safety Awards Scheme 2017 — Certificate for Zero Accident Achievement (Oct 2016 — Mar 2017)
Sun Fook Kong Construction Group	Sun Fook Kong Safety Awards Scheme 2017 — Certificate for Zero Accident Achievement (Apr — Sep 2017)
7-Eleven — Combined Distribution Centre	Certificate for Occupational Safety and Health
Socio-Economic Contribution	
Caritas Jockey Club Everbright Home cum Luk Chan Suk Wing Day Care Centre for the Elderly	Certificate of Appreciation — Elderly Care
Lei Cheng Uk Estate Owners' Corporation	Certificate of Appreciation
Hong Kong Confederation of Trade Unions	The 16th Outstanding Students and Excellent Partners
Hong Kong Council of Social Service	5 years+ Caring Company 2017/18 — Baguio Cleaning Services Company Limited
Hong Kong Council of Social Service	5 years+ Caring Company 2017/18 — Baguio Landscaping Services Limited
Hong Kong Council of Social Service	5 years+ Caring Company 2017/18 — Baguio Pest Management Limited
Hong Kong Council of Social Service	5 years+ Caring Company 2017/18 — Waste Management and Recycling Limited
Hong Kong Council of Social Service	Caring Company 2017/18 — Baguio Green Group Limited
Hong Kong Council of Social Service	Caring Company 2017/18 — Tak Tai Enviroscape Limited
Hong Kong Children & Youth Services	Caring for Communities Award 2018 — Baguio Green Group Limited
Hong Kong Children & Youth Services	Caring for Communities Award 2018 — Baguio Pest Management Limited
Hong Kong Children & Youth Services	Caring for Communities Award 2018 — Waste Management and Recycling Limited
Hong Kong Economic Journal	Listed Company Award of Excellence 2018 (Main Board)
People Service Centre	Certificate of Appreciation — Fest Food Share Program
Hong Kong Airport Authority	HKIA Environmental Management Recognition Scheme (Excellence Class) — Merit Award
Quality Building Award	Quality Building Award 2018 — Certificate of Grand Award (HK Residential Multiple Buildings) — Hung Fuk Estate
Quality Building Award	Quality Building Award 2018 — Certificate of Quality Excellence Award — Hung Fuk Estate
Roadshow & AM730	ListCo Award of Excellence 2018

Organiser	Award
Technological and Higher Education Institute of Hong Kong	Certificate of Appreciation
The Federation of Hong Kong Industries	"Industry Cares" 2018 — Caring Certificate
The Federation of Hong Kong Industries	"Industry Cares" 2018 — 3+ year Award

MEMBERSHIPS AND CHARTERS

The Group and its subsidiaries advocate sustainable development as corporate members of industry associations, NGOs and charters listed below:

- All-China Environmental Federation
- Business Environment Council
- Environmental Contractors Management Association
- Federation of Hong Kong Industries
- Green Council — Hong Kong Green Purchasing Charter
- Green Council — Sustainable Procurement Charter
- Hong Kong Environmental Industry Association
- Hong Kong General Chamber of Commerce
- Hong Kong Greening Contractors Association
- Hong Kong Pest Management Association
- Hong Kong Waste Disposal Industry Association
- Hong Kong Waste Management Association
- Labour Department — Good Employer Charter
- National Pest Management Association
- Occupational Safety & Health Council — Green Cross Group
- Occupational Safety & Health Council — Joyful @ Healthy Workplace Charter
- Pest Control Personnel Association of Hong Kong
- Proper Operation of Refuse Collection Vehicles Steering Committee — The Charter on Proper Operation of Refuse Collection Vehicles
- The Chamber of Hong Kong Listed Companies
- WGO — Paper Towel-saving Campaign

CORPORATE GOVERNANCE

Corporate citizenship needs to be grounded on sound corporate governance practices. The Group has robust systems in place to deliver performance to its shareholders with reliability and integrity. During the reporting period, the Group has fully adhered to all applicable provisions of the Corporate Governance Code (the "CG Code") as set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange.

The Board currently consists of a total of 9 members, with 6 executive directors, and 3 independent non-executive directors. For full details of all the Board committees, including responsibilities, please refer to our Corporate Governance Report (from pages 25 to 35) in the annual report.

OUR SUSTAINABILITY APPROACH

The Group's vision for a "cleaner and greener" city is encapsulated in its sustainability approach. Our ESG working group, spearheaded by our CEO and CFO, reviews and refines the Group's strategy to address the most material of environmental and social aspects. The working group is also tasked with the responsibility to keep abreast with the latest industry development and disclosure requirement on ESG, reporting to the Board regarding current and potential material ESG issues. Representatives from each department are responsible to coordinate and implement action plans which bring our strategies to fruition.

The crux of sustainable development is about balancing the interests of key stakeholder groups, and we strive to achieve that by regularly engaging communication with our stakeholders through an array of channels throughout the year. This year in particular, we reached out to our customers for feedback on our sustainability performance. The following outlines the major issues of interest and concern to our stakeholder groups and how we have responded accordingly during the reporting period.

Striving for Excellence

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

	Stakeholder Group	Issue	Engagement Channels	2018 developments
	Investors and shareholders	• Long-term shareholder value creation • Corporate governance • Risk management and internal control • Business operations • Disclosure	• Investor conferences and roadshows • Annual general meeting • Financial reports and press releases • ESG report	• Developing the waste recycling business o Glass waste o Plastic waste o Organic waste
	Employees	• Training and development • Remuneration • Occupational health and safety	• Corporate activities and events • Employee grievance mechanism • Feedback from training workshops • Education and support	• Awarded "QF Star Employer" • Joyful @ Healthy Workplace Charter • Train-the-Trainer OHS sessions
Self-improvement Integrity Customer first	The Government	• Legal compliance and corporate governance • Public's environmental awareness • Labour protection • Business ethics	• Compliance with laws and regulations • Active response to government policy • Ongoing communication with relevant government departments	• Glass management contract collaboration • Continued full compliance with all applicable laws and legislations
	Customers	• Service quality • Recycling services • Energy conservation and renewable energy • Collaboration with environmental organisations	• Monthly customer surveys • Maintain high service level • Websites • Feedback from front-line employees	• 91% of the respondents to the customer survey rated the overall quality of our services as satisfactory or above • Landscaping project awarded Quality Excellence Award of Quality Building Award 2018

Stakeholder Group	Issue	Engagement Channels	2018 developments
Suppliers & Subcontractors	• Corporate reputation • Safety and quality requirements • Responsible sourcing	• Site visits and assessments • Annual Interviews and appraisals	• Ongoing green procurement practice
Community	• Contribute to sustainable and harmonious development of our society • Recycling services	• Recycling educational booths • Support charity organisations • Participate in voluntary work	• Key activities in 2018 o Glass Bottle Recycling x Charity Donation o Promotional booth at Eco Expo Asia o Tree Partner Eco-Adventure Programme
Environmental NGOs	• Recycling services • Proper handling of waste and effluents • Minimizing carbon and other air emissions	• Lead public environmental education • Promote waste segregation	• 7 service contracts adopted GIS system to optimize fleet scheduling • Water re-use at Glass waste recycling plant

MATERIALITY ASSESSMENT

The annual materiality assessment forms an integral part of ESG risk identification. Only by learning the priorities of our key stakeholder groups including customers, employees, business partners, suppliers and contractors, we are able to comprehend a fuller picture of the environmental and social landscape we are facing and the associated risks and opportunities that we need to manage.

We have undertaken four major steps to determine our material topics encompassing Identification, Prioritization, Validation and Review. Every year, the Group reviews the topics identified and the process for ongoing improvement.

Identification

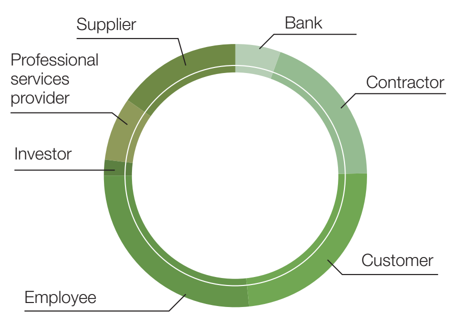
The Group has commissioned an independent sustainability consultancy to conduct the materiality assessment. In addition to the HKEX ESG Reporting Guide, the latest sustainability developments and peer analysis were also taken into consideration when identifying sustainability topics relevant to the Group's operations. This year, three more topics deemed relevant to the Group were ecological conservation, green procurement and employee communication.

Prioritisation

To determine the materiality of these relevant sustainability topics, an online survey was administered to both our internal and external stakeholder groups (composed as below). Each respondent was asked to score the influence of each sustainability topic on his/her assessments and decisions. The Significance to Stakeholders axis of the materiality matrix below plots the average scores according to weighting assigned by the management.

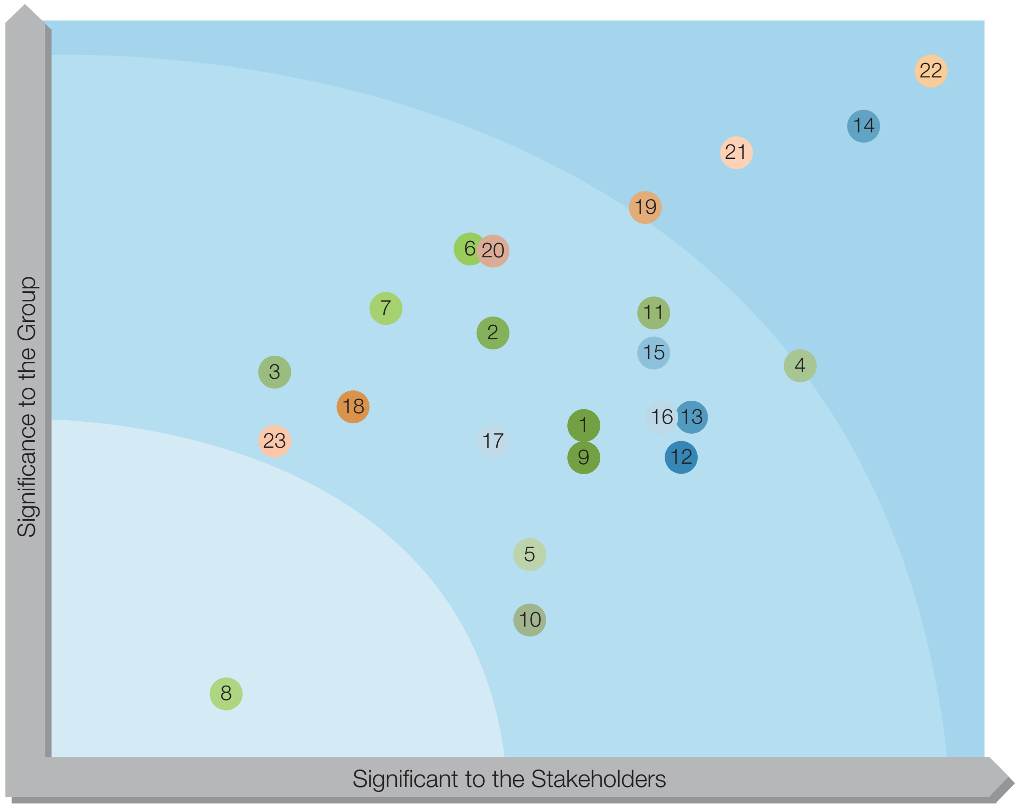
The Significance to Group axis plots the average scores collected from the top management of the Group. Overall, we have achieved a response rate of 78% among 114 survey questionnaires distributed.

Stakeholder survey respondents



Validation

This year, the Group's top three material aspects remain as "Anti-corruption", "Occupational health & safety" and "Customer privacy protection", while "Hazardous waste management" and "Service quality control" rank next. The outcome has been validated by the Group's management; the materiality results have informed the report content to better address our stakeholders' concerns.



- 1 Air emissions mc reduction
- 2 Effluent discharges management & reduction
- 3 GHG emission management & reduction
- 4 Hazardous waste management & reduction
- 5 Non-hazardous waste management & reduction
- 6 Energy management & reduction
- 7 Water management & reduction
- 8 Packaging material consumption
- 9 Ecological conservation
- 10 Green procurement
- 11 Environmental benefit generated from corporate business
- 12 Employee retention and benefits
- 13 Employee communication channels
- 14 Occupatonal health and safety
- 15 Employee training and promotion
- 16 Precautionary measures of child/forced labour
- 17 Employee diversity
- 18 Supply chain management
- 19 Service quality control and complaint handling
- 20 Intellectual property rights protection
- 21 Customer privacy protection
- 22 Anti-corruption
- 23 Community investment

BUSINESS ETHICS

The Group has zero tolerance for corruption, extortion, fraud and money laundering, and has clearly communicated the relevant policies to all employees.

Upholding anti-corruption practices

To ensure the Group operates according to the highest standards of ethical conduct, all staff members are required to strictly follow the code of conduct stipulated in our Employee Handbook. According to the Prevention of Bribery Ordinance, offering, soliciting or acceptance of advantages and entertainments is strictly prohibited. During festive seasons, the Human Resources Department disseminates email reminders that extravagant or frequent entertainment provided by business partners or any form of benefits whose value exceeds a set limit should not be accepted. In cases of non-compliance, a verbal warning or warning letter is issued and even dismissal of the associated employees is considered in severe cases.

In the event of conflict of interest, all employees are required to declare the matter via the Group's "Conflict of Interests Return Form", so as to avoid engaging in business, investments or activities that might conflict with interests of the Group.

Regarding fair play as its greatest asset, the Group complies with the Competition Ordinance enacted by the Competition Commission of Hong Kong. We adhere to upmost integrity when inviting tenders and quotations to ensure no anti-competitive activities happen. In the case of any non-compliance, it is expected that associated employees bear full responsibility and the contract in question becomes immediately ineffective.

Our anti-corruption policy is reinforced by the provision of relevant training across the Group. All new-comers undergo ethical training orientation, while current staff keep abreast of latest updates through a series of training events held by external experts every two years. Our Speak-up Policy functions as a whistle-blowing channel, and this year the Group's operations strictly complied with all applicable laws and regulations relating to bribery, extortion, fraud and money laundering.

Safeguarding confidentiality matters

In light of recent corporate scandals related to personal data protection, the Group has placed paramount importance on data confidentiality. Our Protection of Personal Data (Privacy) Guidelines observes sound principles in the collection, use, disclosure and retention of personal data. We stipulate clearly the purposes of its collection to data providers and, retain data only as long as necessary with appropriate security measures. We operate in full compliance with the Personal Data (Privacy) Ordinance and have clearly communicated the requirements to all employees.

With regard to the bidding process, employees are provided strict guidance on what constitutes a breach of confidentiality, act of tampering or manipulation or any other dishonest arrangement. Employees are expected to use any confidential information only in accordance with the methods and scope specified and seek written authorization consent for purposes otherwise. As another line of security, employees that are in regular contact with sensitive information are required to sign a letter of confidentiality.

During the reporting period, the Group did not encounter any cases of infringement of laws and legislations related to data privacy and security as well as intellectual property rights[1].

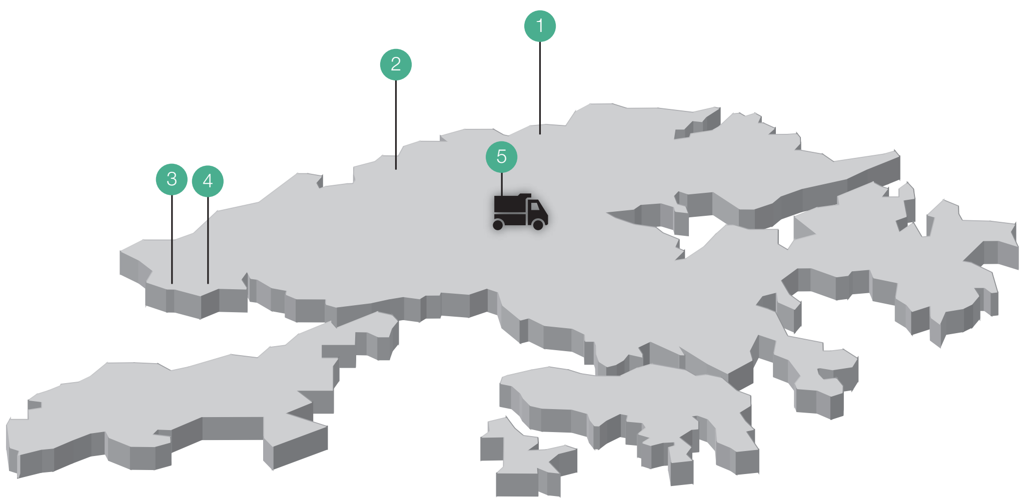
[1] List of applicable laws and regulations available in ESG Content Index.

ENVIRONMENTAL STEWARDSHIP

Alongside our efforts for contributing to a "clean and green" Hong Kong, we are laying the groundwork to drive the city's recycling capability.

Building a circular economy

With all of our landfills projected to reach maximum capacity in 2020[2], waste reduction and recycling are the city's highest priorities. Facing this dire waste situation, the Group is proud to be part of the solution as we have been contributing in laying the groundwork for a transformational shift to a circular economy.



1. **Fan Ling — Waste Management and Destruction Centre**
   Equipped with shredding machines for various materials (paper, metal, wood, glass, plastic) and a 32m-long sorting line, the Centre produces output material compliant with European Standards for further processing into useful products.

2. **Ngau Tam Mei — Animal Waste Composting Plant**
   Our Ngau Tam Mei Animal Waste Plant treats animal waste, mainly stable waste generated from the operations of the Hong Kong Jockey Club, into organic compost which is sold to third parties or reused in our landscaping business.

3. **Tuen Mun — Waste Glass Bottle Recycling Plant**
   The newest addition to our recycling efforts, our Tuen Mun glass plant applies the latest technology to produce glass cullet ready to be given a new life as eco-friendly material.

4. **Eco-Park, Tuen Mun — Waste Plastic Bottle treatment facility (completed in late-2020)**
   Keen to advocate "Local waste, local recycling", our Waste Plastic Bottle treatment facility is to convert plastic waste bottles into products for further manufacturing.

5. **Food waste collection truck**
   In operation since mid-2017, our food waste collection truck is custom-designed to handle and deliver food waste to designated recyclers.

[2] Reference: https://www.epd.gov.hk/epd/english/environmentinhk/waste/waste_maincontent.html

Focus: closing the glass waste loop

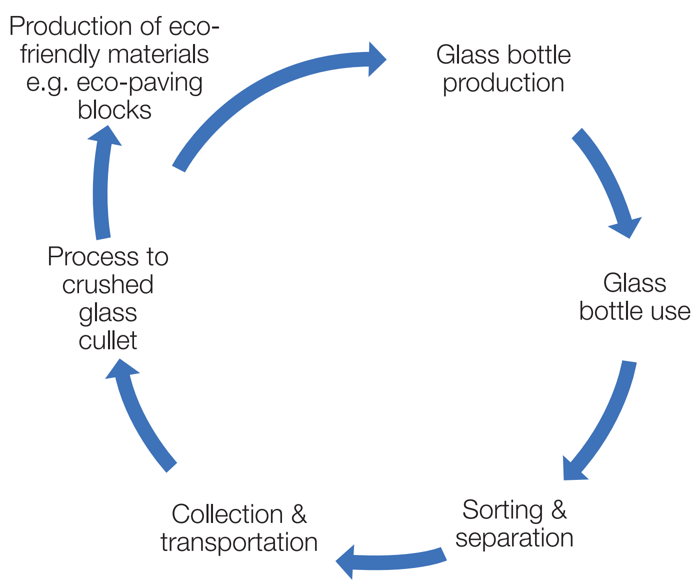
Although not as ubiquitous as its plastic alternative, glass bottles serve their purposes due to their inert properties. However, that also means the 291 tons[3] (equivalent to approx. 970 thousand 330 ml beer bottles) of glass waste that end up in our landfills daily remain in the state they were brought in as it does not biodegrade, thus putting immense strain on our already exhausted landfills.

This year, the Group has fledged full flight into the city's combat for glass waste recycling. Awarded the glass management contract by the Environmental Protection Department (EPD), the Group is responsible for collection and processing of waste glass containers in the Island and New Territories regions. An extensive collection network has been established spanning restaurants and bars, industrial and commercial buildings, schools as well as public and private housing estates. In particular, the Group has received positive response from the bar sector, where glass is the biggest source of waste. Prior to Baguio's entrance at the scene, existing recycling services were restricted to specific regions and could not handle the high volume of waste generated. Through direct communication with bars and restaurants, glass collection arrangement is optimized leading to a win-win partnership that accelerates our transition to a circular economy.

Water re-use at our new glass plant

Our new Tuen Mun facility is installed with 3D bio-filtration system which treats wastewater generated after washing the collection bins. With a treatment capacity of 1,200 L daily, as much as 90% can be channelled back for reuse, thereby putting less strain on our water resources.

The cradle to cradle process



3 Reference: https://www.wastereduction.gov.hk/sites/default/files/msw2017.pdf

Kindling the recycling spirit

In order to mobilize the public, the Group launched a total of 138 public participation events amassing around 4,000 participants throughout the year. Joining hands with the media, NGOs and educational and industrial associations, the events were tailor-made to reach out to each local community.

Participants became aware of the glass collection points in the vicinity, as well as of the proper measures (thorough cleansing and no caps!) prior to disposal. With approximately 62 tonnes of glass bottles collected during the events, it was encouraging to observe such keen participation. Visit http://gmc.baguio.com.hk/?lang=en for a list of over 1,600 collection points and latest engagement activities

Tackling our environmental impact

The Group's environmental impacts are managed by the SHEQ department which administers our ISO14001 environmental management system, ensuring strict compliance with all applicable environmental laws and regulations[4] in Hong Kong and Mainland regions. We employ the following measures to ensure compliance and mitigate the environmental impact across our business services.

Air quality

Regular maintenance is carried out on all vehicles, plants and equipment and power generators to ensure safe emission levels. On-site air quality is maintained by using diesel with low-sulphur content. More than four-fifths of our vehicles comply with Euro V and VI standards, which with the latest systems that minimize emissions of tailpipe air pollutants. At our animal waste plant, we use rotary in-vessel aerobic composter that enables better odor control.

Waste management

Any chemical, construction waste and animal waste is handled according to statutory requirements. In the reporting period, the hazardous waste generated comprised 4,000 litres of spent lube oil, securely transported and disposed of by licensed chemical waste collectors.

On our office premises, we generated 3,147 kg of municipal waste this reporting period. With greater internal efforts this year, we managed to collect more recyclables: 3,724 kg paper, 82 kg metal and 106 kg plastic.

Noise control

Across our business operations, we prioritise the purchase and use of quieter machinery. Our project planning stage arranges noise-emitting operations to be conducted at overlapping times and away from any sensitive receivers. At our waste glass bottle recycling plant, state-of-the-art implosion technology is employed which produces much less noise nuisance as compared to traditional mechanical crushers.

Wastewater management

At all site of operations, we minimize the use of water for cleaning and reuse water whenever possible. Wastewater is collected in a designated area to prevent the formation of stagnant pools of water. We conduct regular cleaning of the drainage systems, in particular prior to and after a rainstorm event. Chemical spillage into drainage is prevented by enclosing operations area with sandbags or similar means.

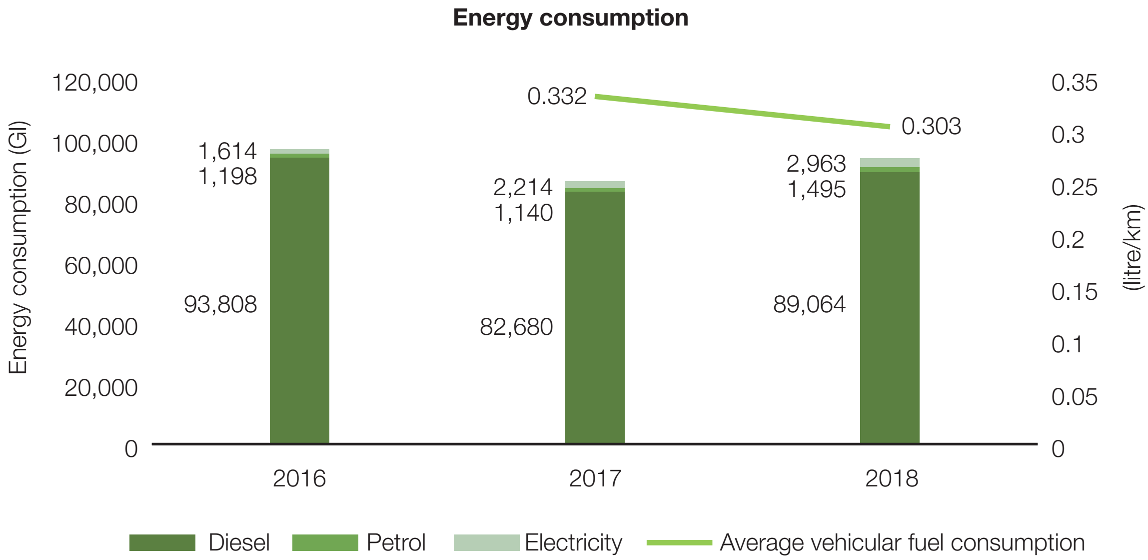
Ecological impacts

Particularly pertinent to our pest management division, the Group deploys services that minimise invasive and chemical-based approaches. For example, biological control and bio-pesticide control is prioritised before the use of low-toxicity chemicals.

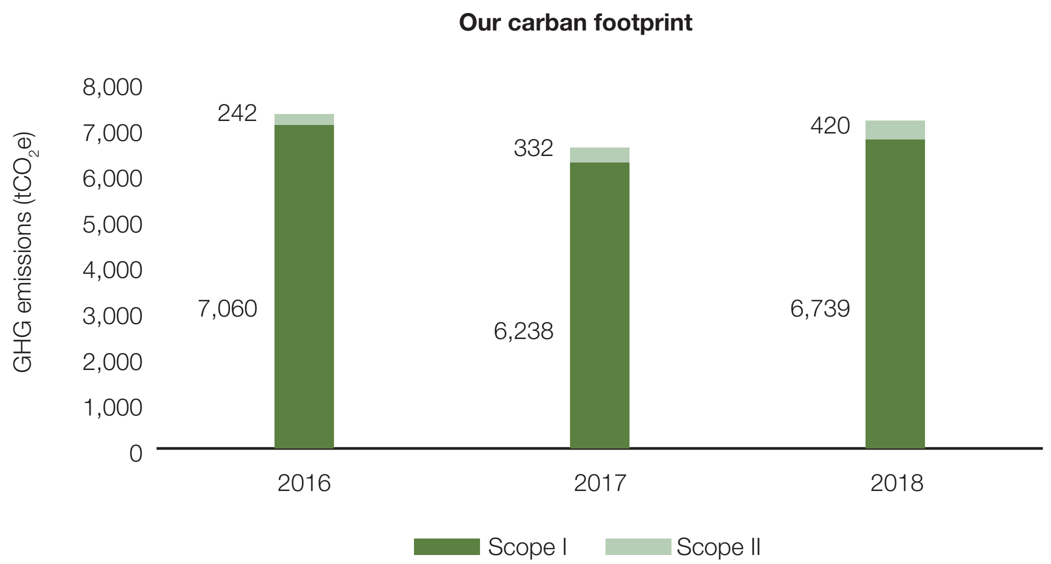
[4] List of applicable laws and regulations available in ESG Content Index.

Minimising our resource consumption

We consume resources when deploying our services. The major source of energy consumption is the operations of our fleet of over 320 vehicles. Since it is always in our best interest to enhance the efficiency of our fleet operations, we decided to embrace technology. Following the success of our pilot programme last year, this year 7 of our service contracts has adopted the GIS platform to optimize route arrangements. Less fuel is consumed, and air emissions are reduced. The following shows the change in our energy consumption over the past years. Our absolute energy consumption has risen due to our expansion in the recycling business this year[5]. However with continued efforts to enhance fleet efficiency, we are pleased to find our average vehicular fuel consumption has dropped 9% from 0.332 litre/km last year to 0.303 litre/km.



Our carbon footprint is fully represented by our energy consumption. Scope 1 emissions is composed of fuel consumption, while Scope 2 emissions represent electricity usage. The following shows the change in our carbon footprint over the past years. The rise in Scope 1 emissions is attributed to the higher diesel usage this year with greater operational activities.



5 Please consult the performance data summary for data boundary for each year.

As an environmental advocate, the Group attaches great importance to building a green office culture. This year marks the 5th year of our participation in World Green Organisation (WGO)'s Green Office and Eco-Healthy Workplace Awards Labelling Scheme. We have deployed smart control on the air-conditioning systems in our new office. Harnessing data such as occupancy level and local weather data, the smart solution optimises temperature setting. Achieving an overall score greater than the average scheme participant, our office was particularly commended for consistent staff engagement regarding sustainable practices.

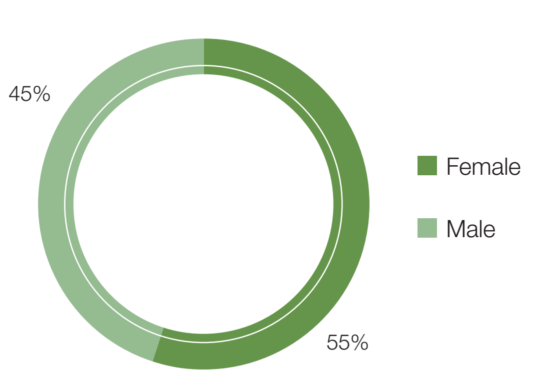
CARING FOR PEOPLE

Owing our steadfast growth to our loyal staff, the Group has never overlooked the needs of its employees. It is our utmost priority to address their views and concerns.

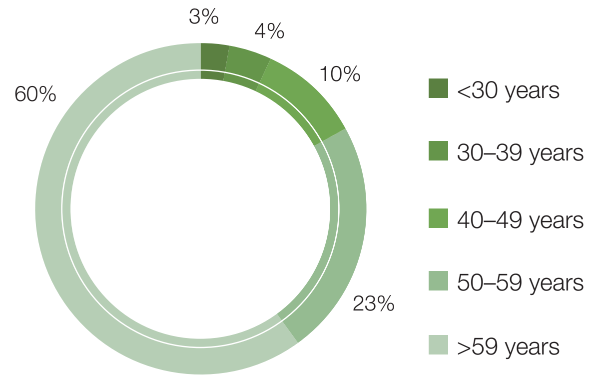
Labour Practices

As of year-end in 2018 the Group employs a total of 8,715 staff, which is slight drop of 1.6% from last year. We recognise the importance of offering conditions that address the needs and concerns of our staff. Our Employee Handbook articulates policies that strictly adhere to Hong Kong labour legislations[6]. All recruitment and employment procedures are conducted with impartiality regardless of employee's race, gender, color, marital and family status, or disabilities. The Group's Complaint and Appeal committee follows a Speak-up policy that provides a channel for our staff to express their opinions and grievances. All cases submitted are reviewed and follow through proper protocol that ensures the highest level of confidentiality.

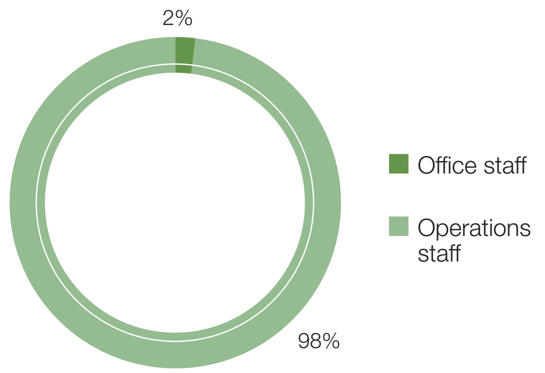
Gender Profile



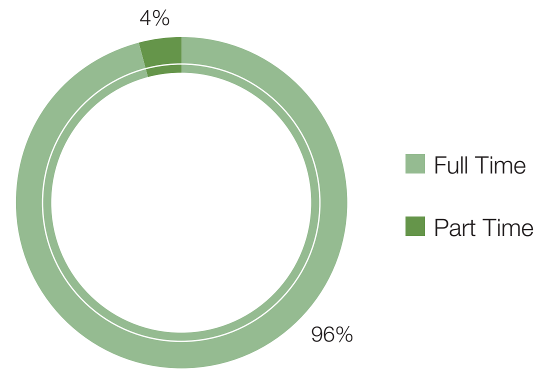
Age Profile



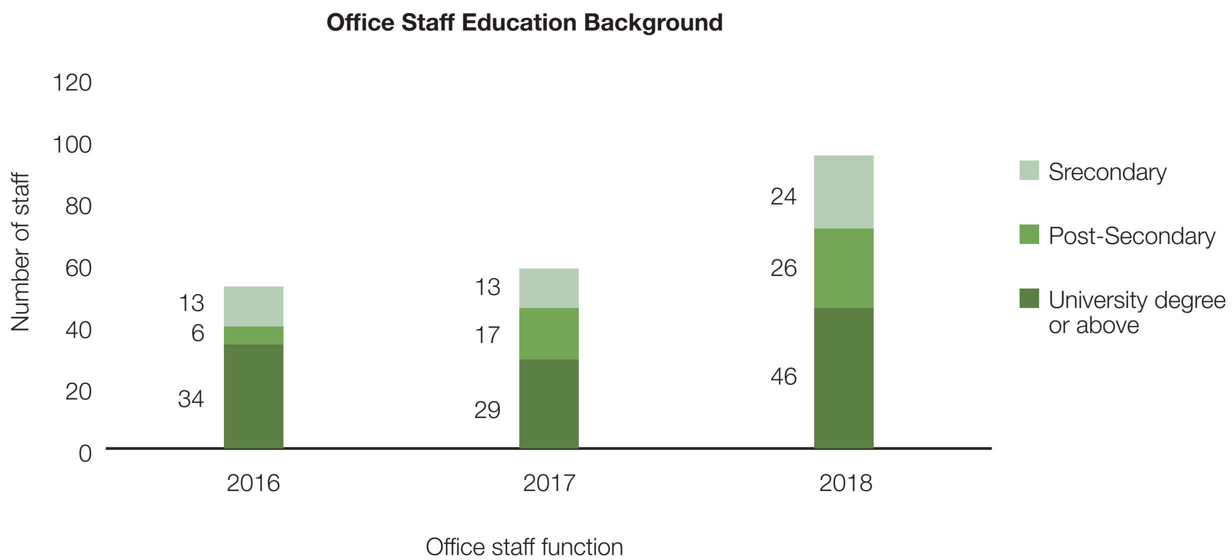
Workforce Profile



Employee Profile



6 List of applicable laws and regulations available in ESG Content Index.



During the reporting period, the Group was not aware of any violation of relevant laws and regulations that have a significant impact on the Group relating to compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination and other benefits and welfare. There were no significant fines nor non-monetary sanctions due to statutory non-compliance.

Welfare and Benefits

Standing where we are now, the Group recognises that this would not have been possible without the efforts of all our staff. The Employee Handbook outlines staff welfare and benefits such as the provision of medical insurance and training subsidies. Keen to promote work-life balance, a steady stream of leisure and social activities are organised. This year, some notable programs held include teambuilding activities, company annual dinner, as well as other celebratory events.

Baguio Annual Dinner 2018

This year, the Group's employees engaged in activities that not only promoted staff cohesion, but also delivered green impacts. We held our very first barter trade week where our office staff freely exchanged unused items from their homes. The Group's employees also participated in "Green Run 2018" organised by the Green Council.

Baguio Barter Trade week

Retirement party

Green Run 2018

Baguio Teambuilding 2018

Talent Management

We believe our greatest assets are our employees. Placing focus on holistic long-term development of its staff, the Group channels substantial resources into reinforcing talent grooming initiatives.

The cornerstone of our talent management approach is to provide transparency in career progression within the Group. Established in 2016, the Group's career ladder policy details the pathway options offered to staff to become competent leaders in their respective disciplines. Moreover, our staff performance appraisal system is subject to regular review to ensure fair and open assessment and recognition.

2018 QF award ceremony

The Group provides a range of internal and external trainings supporting the development of professional knowledge and skill sets. During the reporting period, a total of 5,010 training hours were recorded of which more than two-fifths was taken by office staff. In addition to fundamental operations-based skills, this year's training focus was shifted to high-level strategic topics with regard to human resources and business development.

The Group is leading the industry to establish professional recognition for the lines of work we operate in. We guide our employees end-to-end through the process for professional accreditation under the Recognition of Prior Learning (RPL) Mechanism under the Qualifications Framework. Launched by the Education Bureau in 2008, the RPL mechanism facilitates professional recognition of a practitioner's work experience and competencies acquired on-the-job. This year, we supported the accreditation journey of our employees in the landscaping and horticulture division. With at least 6 years of relevant work experience under their belt, the candidates went through a total of 411 hours of training for test preparation. Equivalent to the academic recognition of the Professional Diploma, 18 candidates all successfully attained Level 4 in Horticultural Work Management. The Group was recognized for ceaseless efforts and awarded "QF Star Employer" this year at the Qualifications Framework Partnerships Commendation Ceremony 2018.

Occupational Health and Safety

Safeguarding the health and safety of its employees is the Group's foremost priority. The SHEQ department is in-charge of our safety matters in accordance with the OHSAS 18001 standard. Our safety management system is routinely reviewed to ensure compliance with all applicable labour and safety legislations[7] in Hong Kong and the Mainland.

Comprehensive safety training is provided to the workforce according to our Occupational Health & Safety and Environmental Guidelines. Addressing the needs of our employees, the Guideline is available in four languages. Thorough guidance is provided to mitigate risks inherent in daily operational duties, such as machinery operation, chemicals handling and working at heights. During the reporting period, we have documented 17,766 days lost due to injuries. This year, the Group took to enhancing our rehabilitation services to curb rising lost days due to injuries. Depending on the number of days taken, we have established a guideline to accelerate the recovery process. We maintain close communication with the injured staff such as through home visits and medical appointments escorts.

Focus on mental health

In light of the growing importance of mental health, the Group decided to take part in the Joyful @ Healthy Workplace Charter this reporting period organised by the Occupational Health and Safety Council. In-house activities including "Work Life Balance Week", are organised to staff concerning topics such as relaxation and healthy eating.

Various parent-child activities are organized to enhance the employee family relationship. Moreover, as a charter-signing organisation, free health check-up kits can be rented from the OHS Council.

7 List of applicable laws and regulations available in ESG Content Index.

During the year, the Group regrets to report a case of fatality in which an employee encountered a tragic traffic accident. Formal investigative procedures reveal no malfunctioning of the vehicle. We offer our sincere condolences and provide full support to the concerned family. To mitigate against accidents of similar nature, we have reinforced the importance of adhering to safety policies throughout the organisation.

The Group continues to strengthen its safety-first corporate culture. Launched last year, the Group's Train-the-Trainer Programme focuses on ensuring safety training contents are current and up-to-date. During the reporting period, we recorded 8,181 hours of safety-related training.

STRIVING FOR OPERATIONAL EXCELLENCE

The Group is dedicated to embracing new technology and approaches to reach greater heights of efficiency. Our ISO-qualified Integrated Management System keeps us on track to attain operational excellence.

Enhance Customer Satisfaction

The Group has established comprehensive channels to not just collect customer feedback, but to address their feedbacks with the greatest ease possible. Subject to annual review, our customer complaints handling system is managed on intranet logs enabling swift follow-up actions. All submitted cases regarding workmanship are reviewed under outlined protocols to ensure proper rectification ensues.

To facilitate a proactive approach to addressing clients' views, the Group draws views from representative samples of our customer portfolio on half-yearly basis, from monthly service quality surveys. The survey encompasses a full-spectrum evaluation of our service quality under three major categories: service provision, management and frontline workers. The views of our customers from all four business divisions are collected. This year, an average response rate of as much as 36.7% was achieved. In comparison to results in 2017, the proportion of respondents that rated the overall quality of services satisfactory or above has risen by 1.7% to 91%. The biannual analysis exercise ensures the complete picture is always under the radar, allowing us to identify our strengths and weaknesses.

Enhancing operational efficiency — iButton

We conduct regular reviews of our workflow processes and adopt new systems and technology whenever it is necessary. This year, 96% of our fleet of over 320 vehicles have been installed with iButton systems.

The electronic key system allows authorized drivers to be identified. Our fleet of vehicles covers more than 10 types that serve a range of purposes. Adoption of the iButton is a fool-proof measure that raises the efficiency of the complex operations of our fleet of vehicles.

Recognition for our landscaping services — Quality Building Award 2018

The Group's subsidiary, Tai Tak Enviroscape, primarily engages in projects related to tree works, greening, turfing and landscape design. With steadfast dedication and efforts, this year our soft landscaping works on the public housing development, Hung Fuk Estate, contributed to its recognition under the Quality Building Award 2018.

The project was a Grand Award Winner of the Hong Kong Residential (Multiple Buildings) category. Amongst all Grand Award Winners, the project received the Quality Excellence Award, the most prestigious award presented in recognition of top overall quality.

Supplier Management

The Group partners with an extensive network of sub-contractors and suppliers to deliver quality services. We review the list of approved sub-contractors and suppliers on an annual basis to examine whether they meet our requirements on safety and environmental standards. All partners are encouraged to establish ISO-certified management systems regarding quality, safety and environmental aspects.

In order to drive continuous improvement, the Group conducts annual interviews with a selected panel of subcontractors and suppliers. The session facilitates two-way dialogue that brings heads together to address recurring obstacles and further advance service performance. This year, both parties have agreed to exert even greater efforts to ensure safe frontline operations.

Sustainable Procurement

In conjunction with the Sustainable Procurement Charter established by the Green Council, the Group, as a Founding Member of the Charter, is committed to working towards model practices of the ISO 20400 Sustainable Procurement Standards. The Group is in the process of formulating a top management-endorsed sustainable procurement system that would require high-risk supply chain partners to take action to improve their ESG performance. Through the application of various sustainable principles, such as the Life Cycle Costing principle, the Group endeavours to continually assess supply chain practices for the best-in-industry advancements.

The Group has been a member of the Green Council's Green Purchasing Charter. Year on year, our commitment to a Green Purchasing policy has brought substantial impact to procurement choices. We advocate the purchase of products with eco-labels such as Energy Star, Green Seal, as well as products with recycled content and minimal packaging.

During the reporting period, we raised our purchase of biodegradable plastic bags to 97%, while close to three-fifths of our pesticide purchases were of the eco-friendly alternative. We also continued to procure paper composed of at least 50% recycled content, accounting for four-fifths of the total quantity this year — an additional 20% compared to 2017's proportion of three-fifths. For the Group, green procurement practice has already been embedded into our daily operations.

In 2018, close to 100% of procured chemicals were eco-friendly alternatives

ENGAGING OUR COMMUNITY

As one of the leading environmental services groups in Hong Kong, we have taken the lead to promote the city's environmental awareness. This year, we continue to put our focus on raising the public awareness on recycling networks around the city. For our continued care and attention of our society's needs, four of our subsidiaries have been recognised as "5 years+ Caring Company" under the Hong Kong Council of Social Service.

Cultivating green habits

In conjunction with the theme of the Eco Expo Asia this year — "Waste Less Save More for a Low-carbon Future" with "Waste Management and Recycling", the Group utilized recyclable materials to build and decorate its booth. We also launched an online game, "Recyclable Material Weight Guessing" and the "Glass Bottle Barter" activity to raise eco-awareness among participants.

Glass Bottle Recycling x Charity Donation

The Group is seeking to deliver positive impact on both environmental and social levels. Launched in October this year, Baguio has set up recycling bins and educational booths at housing estates and district councils.

Furthermore, to encourage the community to take action, the Group makes donations to the Heep Hong Society and Hong Chi Association which are proportionate to glass waste (by weight) collected by participating parties. Individuals can also exchange their glass bottles for bartering stamps and redeem against daily necessity items. The campaign is ongoing until March 2019, aiming to bring synergistic benefits to communities.

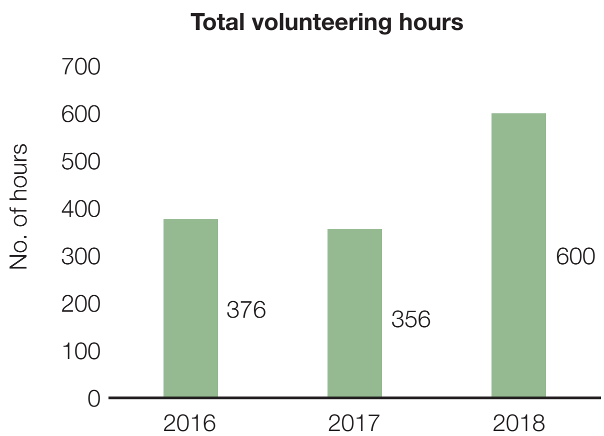
Eco Expo Asia 2018

Tree Partner Eco-Adventure Program

Driving environmental action

Leading by example to promote green values, the Group takes tangible actions that have positive environmental impact. We subsidized and participated in the "Tree Partner Eco-Adventure Program" to plant 70 native tree seedlings in the country park. Moreover, our volunteers joined the eco-tour that raised their understanding of the ecological value of planting native species.

The Group volunteers also devoted more than 100 hours at the Lung Kwu Tan Beach Clean-up organised with the Hong Kong Children & Youth Services. Clearing up our coastal areas from plastic and glass debris, we became a united team and together hands-on confronted the importance of driving the city's recycling efforts. Moreover, our staff volunteers served the community through participation at career counselling seminars and site visits for students with special needs, organised by the Hong Kong Employment Development Service.



Summary of Community Activities in 2018

Date	Partner Organisation	Volunteering activity	Hours
Jan 14	Green Council	Green Run 2018	96
Feb 4	Green Council	Green Carnival 2018	64
Feb 18	Greener Action	Red Packet Reuse & Recycle Program	8
May 19	World Green Organisation	Tree Partner Eco-Adventure Programme	100
Jun 5	Green Council	Hong Kong Green Day 2018	80
Jun 16	World Green Organisation	Green Hero Alliance Program	4
Jun 19	UN World Environment Day	Beat Plastic Pollution Family Day	4
Aug 24	–	Baguio Barter Trade	51
Sep 15	Caritas Jockey Club Everbright Home cum Look Chan Suk Wing Day Care Centre for the Elderly	Connecting with nature — Green explorers	60
Nov 17	Hong Kong Children & Youth Services	Lung Kwu Tan Beach Clean-up	108
Nov 26	Hong Kong Employment Development Service Limited	Career Counseling Seminar and Site Visit	25
Total			600

Performance Data Summary

		Unit	2018	2017	2016
Employment	Group-wide	Person	**8,715**	8,853	7,967
	By Employment type				
	Full-time	Person	**8,389**	8,498	7,315
	Part-time	Person	**326**	355	652
	By Workforce profile				
	Office Staff	Person	**208**	165	152
	Operations Staff	Person	**8,507**	8,688	7,815
	By Age group				
	Under 30	Person	**247**	232	193
	30–39	Person	**380**	405	335
	40–49	Person	**845**	887	798
	50–59	Person	**2,043**	2,342	2,210
	60 or above	Person	**5,200**	4,987	4,431
	By Gender				
	Male	Person	**3,897**	3,764	3,333
	Female	Person	**4,818**	5,089	4,634
Turnover rate	Group-wide	%	**3.53**	2.16	3.67
Training and Development	Training hours	Hour	**13,191**	14,791	10,133
	By Workforce Profile				
	Office staff	Hour	**2,147**	3,041	838
	Operations staff (including safety training)	Hour	**11,044**	11,750	9,295
Health & Safety	Days lost due to work injury	Day	**17,766**	13,292	10,246
	Work-related accidents (cases of over 3 lost days)	Number	**317**	247	314
	Work-related accident rate	Cases per 100,000 working hours	**1.59**	1.40	1.32
	Confirmed work-related fatalities	Number	**1**	–	–

		Unit	2018	2017	2016
Environment	Total Resource Consumption				
	Electricity	kWh	**822,948**[8]	614,996	448,313
	Diesel	Litre	**2,487,467**	2,309,188	2,619,973
	Petrol	Litre	**46,897**	35,782	37,597
	Water	m^3	**8,418**[9]	2,975	2,915
	Paper (Total)	Ream	**4,942**	4,529	4,395
	Paper with recycled content	Ream	**3,925**	2,715	N/A
	Non-biodegradable plastic bags	Bag	**446,500**	5,980,460	4,393,927
	Bio-degradable plastic bags	Bag	**14,948,620**	13,978,799	5,453,020
	Energy intensity (average vehicular fuel consumption)	(litre/km)	**0.303**	0.332	N/A
	Greenhouse Gas Emission				
	Scope I	tCO_2e	**6,739.43**	6,238.33	7,059.80
	Scope II	tCO_2e	**419.70**	332.10	242.10
	Total Emissions	tCO_2e	**7,159.13**	6,570.43	7,301.90
	Air Emissions				
	Sulphur oxides	tonnes	**0.04**	0.04	N/A
	Nitrogen oxides	tonnes	**26.28**	22.31	N/A
	Particulate matter	tonnes	**2.06**	1.72	N/A
	Hazardous waste				
	Engine oil disposed (spent lube oil)	liter	**4,000**	8,000	2,000
	Chemical disposed	kg	**–**	–	652.8
	Pesticide disposed	kg	**–**	–	–
	Non-hazardous waste				
	Office — general	kg	**3,147.0**	2,415.5	N/A
	Office — paper collected for recycling	kg	**3,724.4**	2,924.5	3,417.5
	Office — metal collected for recycling	kg	**81.7**	82.3	86.7
	Office — plastic collected for recycling	kg	**105.7**	86.6	91.3
Community	Volunteer hours	hours	**600**	356	376

8 2018 electricity data boundary has been expanded to include our headquarters office expansion, Ngau Tam Mei Animal Waste plant and several other sites.

9 2018 water data boundary has been expanded to include our headquarters office expansion, Ngau Tam Mei Animal Waste plant and one other site.

ESG CONTENT INDEX

KPIs	HKEX ESG Reporting Guide Requirements	Section/Remarks
A. Environmental		
Aspect A1	**Emissions**	
General disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to air and greenhouse gas emissions, discharges into water and land, and generation of hazardous and non-hazardous waste.	**Environmental Stewardship** During the reporting period, the Group was not aware of any violation of applicable laws and was not subject to any significant fines or non-monetary sanctions due to non-compliance. *Applicable Hong Kong laws:* Air Pollution Control Ordinance; Waste Disposal Ordinance; Water Pollution Control Ordinance; Hazardous Chemicals Control Ordinance; Noise Control Ordinance; Ozone Layer Protection Ordinance; Motor Vehicle Idling (Fixed Penalty) Ordinance; Road Traffic Ordinance; Environmental Impact Assessment Ordinance
KPI A1.1	The types of emissions and respective emissions data.	**Performance Data Summary**
KPI A1.2	Greenhouse gas emissions in total (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	**Minimising resource consumption; Performance Data Summary**
KPI A1.3	Total hazardous waste produced and, where appropriate, intensity (e.g. per unit of production volume, per facility).	**Performance Data Summary**
KPI A1.4	Total non-hazardous waste generated (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	**Performance Data Summary**
KPI A1.5	Description of measures to mitigate emissions and results achieved.	**Minimising resource consumption; Tackling our environmental impact; Focus: Closing the glass waste loop**
KPI A1.6	Description of how hazardous and non-hazardous wastes are handled, reduction initiatives and results achieved.	**Tackling our environmental impact**

KPIs	HKEX ESG Reporting Guide Requirements	Section/Remarks
Aspect A2	**Use of resources**	
General disclosure	Policies on efficient use of resources including energy, water and other raw materials.	**Environmental Stewardship**
KPI A2.1	Direct and/or indirect energy consumption by type (e.g. electricity, gas or oil) in total (kWh in '000s) and intensity (e.g. per unit of production volume, per facility).	**Minimising resource consumption; Performance Data Summary**
KPI A2.2	Water consumption in total and intensity (e.g. per unit of production volume, per facility).	**Performance Data Summary**
KPI A2.3	Description of energy use efficiency initiatives and results achieved.	**Minimising our resource consumption**
KPI A2.4	Description of whether there is any issue in sourcing water that is fit for purpose, water efficiency initiatives and results achieved.	**Minimising our resource consumption;** **Focus: closing the glass waste loop** The Group sources water solely from municipal water supplies, having no issue in sourcing water that is fit for purpose.
KPI A2.5	Total packaging material used for finished products (in tonnes) and, if applicable, with reference to per unit produced.	**Performance Data Summary**
Aspect A3	**The environment and natural resources**	
General disclosure	Policies on minimizing the issuers' significant impact on the environment and natural resources.	**Environmental Stewardship**
KPI A3.1	Description of significant impacts of activities on the environment and natural resources and the actions taken to manage them.	**Environmental Stewardship**
B. Social		
Aspect B1	**Working conditions**	
General disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination, and other benefits and welfare.	**Employment; Welfare and Benefits** During the reporting period, the Group was not aware of any violation of applicable laws and was not subject to any significant fines or non-monetary sanctions due to non-compliance. *Applicable Hong Kong laws:* Employment Ordinance, Minimum Wage Ordinance, Sex Discrimination Ordinance, Disability Discrimination Ordinance, Family Status Discrimination Ordinance, Race Discrimination Ordinance
KPI B1.1	Total workforce by employment type, age group and geographical region.	**Performance Data Summary**
KPI B1.2	Employee turnover rate by age group and geographical region.	**Performance Data Summary**

KPIs	HKEX ESG Reporting Guide Requirements	Section/Remarks
Aspect B2	**Health and safety**	
General disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to providing a safe working environment and protecting employees from occupational hazards.	**Occupational Health and Safety** During the reporting period, the Group was not aware of any violation of applicable laws and was not subject to any significant fines or non-monetary sanctions due to non-compliance. *Applicable Hong Kong laws:* Occupational Health and Safety Ordinance; Factories and Industrial Undertakings Ordinance; Employees' Compensation Ordinance; Fire Safety (Buildings) Ordinance
KPI B2.1	No. and rate of work-related fatalities	**Performance Data Summary**
KPI B2.2	Days lost due to work injury.	**Performance Data Summary**
KPI B2.3	Description of occupational health and safety measures adopted and how they are implemented and monitored.	**Occupational Health and Safety**
Aspect B3	**Development and training**	
General disclosure	Policies on improving employees' knowledge and skills for discharging duties at work. Description of training activities.	**Talent Management**
KPI B3.1	The percentage of employees trained by gender and employee category (e.g. senior management, middle management)	**Total no. of training hours available in Performance Data Summary**
KPI B3.2	The average training hours completed per employee by gender and employee category.	
Aspect B4	**Labour standards**	
General disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to preventing child and forced labour.	**Employment** During the reporting period, the Group was not aware of any violation of applicable laws, and was not subject to any significant fines or non-monetary sanctions due to non-compliance. *Applicable Hong Kong laws:* Employment of Young Persons (Industry) Regulations; Employment of Children Regulations
KPI B4.1	Description of measures to review employment practices to avoid child and forced labour.	*Policies are in place to ensure we do not hire any form of child and forced labour. The HR Department uses HRMS system to verify HKID cards.*
KPI B4.2	Description of steps taken to eliminate such practices when discovered.	

KPIs	HKEX ESG Reporting Guide Requirements	Section/Remarks
Aspect B5	**Supply chain management**	
General disclosure	Policies on managing environmental and social risks of the supply chain.	**Supplier Management**
KPI B5.1	Number of suppliers by geographical region.	The Group's major suppliers reside mostly in Hong Kong and China.
KPI B5.2	Description of practices relating to engaging suppliers, number of suppliers where the practices are being implemented, how they are implemented and monitored.	**Supplier Management**
Aspect B6	**Product responsibility**	
General disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to health and safety, advertising, labelling and privacy matters relating to products and services provided and methods of redress.	**Striving for Operational Excellence** During the reporting period, the Group was not aware of any violation of applicable laws and was not subject to any significant fines or non-monetary sanctions due to non-compliance. *Applicable Hong Kong laws:* The Trade Descriptions Ordinance Personal Data (Privacy) Ordinance
KPI B6.1	Percentage of total products sold or shipped subject to recalls for safety and health reasons.	The Group renders integrated environmental services and does not encounter product recall due to health and safety reasons.
KPI B6.2	Number of products and service related complaints received and how they are dealt with.	**Enhancing Customer Satisfaction**
KPI B6.3	Description of practices relating to observing and protecting intellectual property rights.	**Business Ethics**
KPI B6.4	Description of quality assurance process and recall procedures.	**Striving for Operational Excellence**
KPI B6.5	Description of consumer data protection and privacy policies, how they are implemented and monitored.	**Business Ethics**
Aspect B7	**Anti-Corruption**	
General disclosure	Information on: (c) the policies; and (d) compliance with relevant laws and regulations that have a significant impact on the issuer relating to bribery, extortion, fraud and money laundering.	**Business Ethics** During the reporting period, the Group was not aware of any violation of applicable laws and was not subject to any significant fines or non-monetary sanctions due to non-compliance. *Applicable Hong Kong laws:* Prevention of Bribery Ordinance The Competition Ordinance
KPI B7.1	Number of concluded legal cases regarding corrupt practices brought against the issuer or its employees during the reporting period and the outcomes of the cases.	**Business Ethics**
KPI B7.2	Description of preventive measures and whistle-blowing procedures, how they are implemented and monitored.	**Business Ethics**

KPIs	HKEX ESG Reporting Guide Requirements	Section/Remarks
Aspect B8	**Community investment**	
General disclosure	Policies on community engagement to understand the needs of the communities where the issuer operates and to ensure its activities take into consideration the communities' interests.	**Engaging our Community**
KPI B8.1	Focus areas of contribution to the community (e.g. education, environmental concerns, labour needs, health, culture, sport).	**Engaging our Community**
KPI B8.2	Resources contributed (e.g. money or time) to the focus area.	**Engaging our Community**

KPMG

Independent auditor's report to the shareholders of Baguio Green Group Limited
(incorporated in the Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of Baguio Green Group Limited (the "Company") and its subsidiaries (the "Group") set out on pages 70 to 127, which comprise the consolidated statement of financial position as at 31 December 2018, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2018 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

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

KEY AUDIT MATTERS

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

Revenue recognition	
Refer to note 8 to the consolidated financial statements and the accounting policies on note 2(d).	
The Key Audit Matter	**How the matter was addressed in our audit**
Revenue from provision of professional cleaning, landscaping, pest management, waste management and recycling services is recognised when the services are rendered, with reference to the contractual terms and completion of the specific transaction assessed on the basis of the actual extent of services provided as at the reporting date as a proportion of the total services to be provided under the terms of the service contract. The Group enters into significant volume of service contracts with a wide range of customers. The extent of services may subsequently be altered upon request from customers. We identified revenue recognition as a key audit matter because revenue is one of the key performance indicators of the Group and could be subject to risk of manipulation to meet specific targets or expectations and because subsequent alterations to the services to be provided under service contracts increases the risk of error in the timing of revenue recognition.	Our audit procedures to assess the timing of revenue recognition included the following: • obtaining an understanding of and assessing the design, implementation and operating effectiveness of management's key internal controls in relation to revenue recognition; • inspecting, on a sample basis, customer contracts to identify terms and conditions relating to the provision of services and assessing the Group's revenue recognition policies with reference to the requirements of the prevailing accounting standards; • forming expectation on the amount of revenue to be recognised for the year in respect of key customer contracts based on the terms and service periods stipulated in the contracts and comparing our expectations with the revenue recorded by the Group for the year; • inspecting correspondence with customers in relation to requests to alter the services in service contracts, on a sample basis, and assessing whether the related service revenue was recognised in accordance with the agreed altered terms and the Group's revenue recognition policies; • comparing, on a sample basis, specific revenue transactions recorded before and after the financial year end date with underlying documentation, including service contracts and service records, to determine whether the related revenue had been recognised in the appropriate financial period; • inspecting underlying documentation for manual journal entries relating to revenue which were raised during the year which were considered to be material or met other specific risk-based criteria.

Accruals for staff costs	
Refer to note 27 to the consolidated financial statements and the accounting policies on note 2(g).	
The Key Audit Matter	**How the matter was addressed in our audit**
The Group's staff costs comprise salaries and other staff benefits, including untaken paid leave and long service payments. The Group has a large number of staff, the costs of which account for a very substantial portion of the Group's total expenses. The Group experiences high staff turnover, especially when new service contracts are awarded or existing service contracts expire without renewal. We identified accruals for staff costs as a key audit matter because the Group's business model is labour-intensive and staff costs are critical to the Group's performance and because given the large number and high turnover of the Group's staff, there is a risk that staff costs are incorrectly calculated and/or under/over-accrued at the end of the reporting period.	Our audit procedures to assess accruals for staff costs included the following: • obtaining an understanding of and assessing the design, implementation and operating effectiveness of management's key internal controls relating to accruals for staff costs; • performing analytical procedures on the Group's salary expenses, which included forming an expectation of the current year's salaries and comparing our expectations with actual amounts recorded by the Group and investigating any significant differences identified; • re-calculating accruals for staff benefits, other than salaries, on a sample basis, and comparing the assumptions adopted in the calculations with relevant records maintained by the Human Resources Department; • comparing actual payments during the current year with the accruals for staff costs at the last reporting date to assess the accuracy of management's estimating process; • comparing actual payments subsequent to the reporting date with the amount of staff costs accrued at the reporting date to assess whether there were any significant under/over-accrued balances.

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

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

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

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

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

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

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

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

28 March 2019

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2018
(Expressed in Hong Kong Dollars)

	Note	**2018 HK$'000**	2017 HK$'000
Revenue	*8*	**1,429,480**	1,207,640
Cost of services		**(1,336,550)**	(1,110,294)
Gross profit		**92,930**	97,346
Other income	*9*	**978**	1,046
Change in fair value less costs to sell of biological assets	*24*	**7,785**	2,026
Selling and marketing expenses		**(2,893)**	(1,774)
Administrative expenses		**(73,748)**	(68,800)
Profit from operations		**25,052**	29,844
Finance costs	*10*	**(5,780)**	(4,293)
Profit before taxation	*11*	**19,272**	25,551
Income tax	*12*	**(2,830)**	(4,935)
Profit for the year		**16,442**	20,616
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		**(151)**	134
Change in fair value of available-for-sale financial assets *(note (ii))*	*18*	**–**	310
Other comprehensive income		**(151)**	444
Total comprehensive income for the year		**16,291**	21,060
Profit for the year attributable to:			
Equity shareholders of the Company		**17,893**	20,616
Non-controlling interests		**(1,451)**	–
		16,442	20,616
Total comprehensive income for the year attributable to:			
Equity shareholders of the Company		**17,742**	21,060
Non-controlling interests		**(1,451)**	–
		16,291	21,060
Earnings per share			
Basic and diluted (HK cents)	*14*	**4.31**	4.97

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.

The notes on pages 74 to 127 form part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2018
(Expressed in Hong Kong Dollars)

	Note	2018 HK$'000	2017 HK$'000
Non-current assets			
Property, plant and equipment	*16*	**222,794**	167,210
Available-for-sale financial assets	*18*	**–**	13,596
Financial assets at fair value through profit or loss	*18*	**13,893**	–
Prepayments and deposits	*23*	**6,637**	5,764
		243,324	186,570
Current assets			
Inventories	*20*	**3,902**	4,539
Contract assets	*21*	**10,526**	–
Trade receivables	*22*	**352,779**	285,889
Prepayments, deposits and other receivables	*23*	**22,439**	13,830
Tax recoverable		**1,819**	–
Biological assets	*24*	**20,772**	12,031
Pledged bank deposits	*19*	**6,143**	5,141
Cash and cash equivalents	*25*	**36,105**	47,983
		454,485	369,413
Current liabilities			
Trade payables	*26*	**30,921**	21,125
Accruals, deposits received and other payables	*27*	**160,540**	131,051
Bank borrowings	*28*	**218,314**	108,712
Obligations under finance leases	*29*	**12,437**	18,289
Tax payable		**608**	1,218
		422,820	280,395
Net current assets		**31,665**	89,018
Total assets less current liabilities		**274,989**	275,588
Non-current liabilities			
Obligations under finance leases	*29*	**11,400**	24,067
Deferred tax liabilities	*30*	**11,727**	10,630
		23,127	34,697
Net assets		**251,862**	240,891
Capital and reserves			
Share capital	*31*	**4,150**	4,150
Reserves	*32*	**248,673**	236,741
Total equity attributable to equity shareholders of the Company		**252,823**	240,891
Non-controlling interests		**(961)**	–
Total equity		**251,862**	240,891

Approved by the Board of Directors on 28 March 2019 and signed on its behalf by:

Ng Wing Hong
Director

Ng Yuk Kwan Phyllis
Director

The notes on pages 74 to 127 form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2018
(Expressed in Hong Kong Dollars)

	Attributable to equity shareholders of the Company									
	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	Non-controlling interests HK$'000	Total equity HK$'000
At 1 January 2017	4,150	100,850	18,330	(393)	1,196	(120)	102,158	226,171	–	226,171
Profit for the year	–	–	–	–	–	–	20,616	20,616	–	20,616
Other comprehensive income for the year	–	–	–	310	–	134	–	444	–	444
Total comprehensive income for the year	–	–	–	310	–	134	20,616	21,060	–	21,060
Dividends approved in respect of the previous year *(Note 13(b))*	–	–	–	–	–	–	(7,055)	(7,055)	–	(7,055)
Equity-settled share-based payments	–	–	–	–	715	–	–	715	–	715
At 31 December 2017	4,150	100,850	18,330	(83)	1,911	14	115,719	240,891	–	240,891
Impact on initial application of HKFRS 9 *(Note 3(a)(i))*	**-**	**-**	**-**	**83**	**-**	**-**	**(83)**	**-**	**-**	**-**
Adjusted at 1 January 2018	**4,150**	**100,850**	**18,330**	**-**	**1,911**	**14**	**115,636**	**240,891**	**-**	**240,891**
Profit for the year	**-**	**-**	**-**	**-**	**-**	**-**	**17,893**	**17,893**	**(1,451)**	**16,442**
Other comprehensive income for the year	**-**	**-**	**-**	**-**	**-**	**(151)**	**-**	**(151)**	**-**	**(151)**
Total comprehensive income for the year	**-**	**-**	**-**	**-**	**-**	**(151)**	**17,893**	**17,742**	**(1,451)**	**16,291**
Dividends approved in respect of the previous year *(Note 13(b))*	**-**	**-**	**-**	**-**	**-**	**-**	**(5,810)**	**(5,810)**	**-**	**(5,810)**
Share options lapsed	**-**	**-**	**-**	**-**	**(138)**	**-**	**138**	**-**	**-**	**-**
Capital contributions received by non-wholly owned subsidiary from non-controlling shareholder	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**490**	**490**
At 31 December 2018	**4,150**	**100,850**	**18,330**	**-**	**1,773**	**(137)**	**127,857**	**252,823**	**(961)**	**251,862**

The notes on pages 74 to 127 form part of these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2018
(Expressed in Hong Kong Dollars)

	Note	**2018 HK$'000**	2017 HK$'000
Operating activities			
Profit before taxation		**19,272**	25,551
Adjustments for:			
Depreciation on property, plant and equipment	*16*	**28,522**	24,025
Credit losses on trade receivables	*11*	**139**	–
Loss on disposal of property, plant and equipment	*11*	**219**	264
Equity-settled share-based payments	*11*	**–**	715
Change in fair value less costs to sell of biological assets	*24*	**(7,785)**	(2,026)
Change in fair value of investments in life insurance		**(297)**	–
Interest income	*9*	**(16)**	(92)
Finance costs	*10*	**5,780**	4,293
Changes in working capital:			
Decrease in inventories		**637**	403
Increase in biological assets		**(956)**	(305)
Increase in contract assets		**(8,325)**	–
Increase in trade receivables		**(69,230)**	(33,984)
(Increase)/decrease in prepayments, deposits and other receivables		**(8,558)**	2,868
Increase/(decrease) in trade payables		**9,796**	(5,854)
Increase in accruals, deposits received and other payables		**29,489**	16,578
Cash (used in)/generated from operations		**(1,313)**	32,436
Income tax paid		**(4,162)**	(5,065)
Net cash (used in)/generated from operating activities		**(5,475)**	27,371
Investing activities			
Interest received		**16**	92
Increase in pledged bank deposits		**(1,002)**	(1)
Proceeds from disposal of property, plant and equipment		**5,283**	3,478
Payment for the purchase of property, plant and equipment		**(88,887)**	(30,368)
Proceeds from disposal of associate		**–**	150
Prepayment for the property, plant and equipment		**(924)**	(941)
Net cash used in investing activities		**(85,514)**	(27,590)
Financing activities			
Proceeds from new bank borrowings		**1,136,929**	725,069
Repayments of bank borrowings		**(1,027,327)**	(698,856)
Interest paid for bank borrowings		**(4,651)**	(2,605)
Dividend paid to equity shareholders of the Company		**(5,810)**	(7,055)
Capital contributions received by non-wholly owned subsidiary from non-controlling shareholder		**490**	–
Interest paid for finance leases		**(1,129)**	(1,688)
Repayments of obligations under finance leases		**(19,251)**	(22,522)
Net cash generated from/(used in) financing activities		**79,251**	(7,657)
Net decrease in cash and cash equivalents		**(11,738)**	(7,876)
Cash and cash equivalents at 1 January		**47,983**	55,735
Effect of foreign exchange rate changes		**(140)**	124
Cash and cash equivalents at 31 December	*25*	**36,105**	47,983

The notes on pages 74 to 127 form part of these financial statements.

1. GENERAL INFORMATION

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

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

The consolidated financial statements comprise the Company and its subsidiaries (together referred to as the "Group") and are presented in Hong Kong Dollars ("HK$"), which is also the functional currency of the Company. All values are rounded to the nearest thousand, unless otherwise stated.

2. SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

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

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

(b) Basis of preparation

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

The preparation of financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

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

Major sources of estimation uncertainty in the application of HKFRSs are discussed in note 4.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(b) Basis of preparation *(Continued)*

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

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

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;

- Level 2 inputs are inputs, other than quoted prices include within Level 1, that are observable for the asset or liability, either directly or indirectly; and

- Level 3 inputs are unobservable for the asset or liability.

(c) Basis of consolidation

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

— has power over the investee;

— is exposed, or has rights, to variable returns from its involvement with the investee; and

— has the ability to use its power to affect its returns.

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

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

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(c) Basis of consolidation *(Continued)*

Non-controlling interests represent the equity in a subsidiary not attributable directly or indirectly to the Company, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. For each business combination, the Group can elect to measure any non-controlling interests either at fair value or at the non-controlling interests' proportionate share of the subsidiary's net identifiable assets.

Non-controlling interests are presented in the consolidated statement of financial position within equity, separately from equity attributable to the equity shareholders of the Company. Non-controlling interests in the results of the Group are presented on the face of the consolidated statement of profit or loss and other comprehensive income as an allocation of the total profit or loss and total comprehensive income for the year between non-controlling interests and the equity shareholders of the Company. Loans from holders of non-controlling interests and other contractual obligations towards these holders are presented as financial liabilities in the consolidated statement of financial position in accordance with Note 2(o).

In the Company's statement of financial position, an investment in a subsidiary is stated at cost less impairment losses (see Note 2(k)(iii)), unless the investment is classified as held for sale.

(d) Revenue and other income

Income is classified by the Group as revenue when it arises from the provision of services in the ordinary course of the Group's business.

Revenue is recognised when control over a service is transferred to the customer at the amount of promised consideration to which the Group is expected to be entitled, excluding those amounts collected on behalf of third parties. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

Where the contract contains a financing component which provides a significant financing benefit to the customer for more than 12 months, revenue is measured at the present value of the amount receivable, discounted using the discount rate that would be reflected in a separate financing transaction with the customer, and interest income is accrued separately under the effective interest method.

Further details of the Group's revenue and other income recognition policies are described below.

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

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

Interest income is recognised as it accrues using the effective interest method. For financial assets measured at amortised cost that are not credit-impaired, the effective interest rate is applied to the gross carrying amount of the asset. For credit impaired financial assets, the effective interest rate is applied to the amortised cost (i.e. gross carrying amount net of loss allowance) of the asset (see Note 2(k)(i)).

Rental income receivable under operating leases is recognised in profit or loss in equal instalments over the periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the use of the leased asset. Lease incentives granted are recognised in profit or loss as an integral part of the aggregate net lease payments receivable. Contingent rentals are recognised as income in the accounting period in which they are earned.

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

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(e) Leasing

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

The Group as lessor

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

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

The Group as lessee

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

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

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

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

(f) Borrowing costs

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

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

(g) Employee benefits

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

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

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(g) Employee benefits *(Continued)*

(ii) Equity-settled share-based payments

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

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

(h) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Cash and cash equivalents are assessed for expected credit losses ("ECL") in accordance with the policy set out in note 2(k)(i).

(i) Taxation

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

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(i) Taxation *(Continued)*

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

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

(j) Property, plant and equipment

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

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

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

Leasehold properties	Over the shorter of term of lease or 50 years
Motor vehicles	10 years
Machinery and equipment	1 to 10 years
Office furniture and equipment	1 to 10 years
Leasehold improvements	Over the shorter of term of lease or 12 years

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

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

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(k) Credit losses and impairment of assets

(i) Credit losses from financial instruments and contract assets

(A) Policy applicable from 1 January 2018

The Group recognises a loss allowance for ECL on the following items:

— financial assets measured at amortised cost (including cash and cash equivalents and trade and other receivables); and

— contract assets as defined in HKFRS 15 (see Note 2(m)).

Financial assets measured at fair value are not subject to the ECL assessment.

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.

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, 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.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(k) Credit losses and impairment of assets *(Continued)*

(i) Credit losses from financial instruments and contract assets *(Continued)*

(A) Policy applicable from 1 January 2018 *(Continued)*

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. In making this reassessment, the Group considers that a default event occurs when the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held). 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.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(k) Credit losses and impairment of assets *(Continued)*

(i) Credit losses from financial instruments and contract assets *(Continued)*

(A) Policy applicable from 1 January 2018 *(Continued)*

Basis of calculation of interest income

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;

— significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; or

— the disappearance of an active market for that financial asset because of the financial difficulties of the issuer.

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.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(k) Credit losses and impairment of assets *(Continued)*

(i) Credit losses from financial instruments and contract assets *(Continued)*

(B) Policy applicable prior to 1 January 2018

Prior to 1 January 2018, an "incurred loss" model was used to measure impairment losses on financial assets not classified as at FVPL (e.g. trade and other receivables, available-for-sale investments and held-to-maturity debt securities). Under the "incurred loss" model, financial assets that were stated at amortised cost were reviewed at the end of each reporting period to determine whether there was objective evidence of impairment. Objective evidence of impairment includes observable data that came to the attention of the Group about one or more of the following loss events:

— significant financial difficulty of the counterparty;

— breach of contract, such as default or delinquency in interest or principal payments;

— it becoming probable that the counterparty will enter bankruptcy or financial re-organisation; and

— the disappearance of an active market for that financial asset because of financial difficulties of the issuer.

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(k) Credit losses and impairment of assets *(Continued)*

(i) Credit losses from financial instruments and contract assets *(Continued)*

(B) Policy applicable prior to 1 January 2018 *(Continued)*

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

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

(ii) Credit losses from financial guarantees issued

Financial guarantees are contracts that require the issuer (i.e. the guarantor) to make specified payments to reimburse the beneficiary of the guarantee (the "holder") for a loss the holder incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

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

Subsequent to initial recognition, the amount initially recognised as deferred income is amortised in profit or loss over the term of the guarantee as income from financial guarantees issued.

(A) Policy applicable from 1 January 2018

The Group monitors the risk that the specified debtor will default on the contract and recognises a provision when ECLs on the financial guarantees are determined to be higher than the amount carried in accruals, deposits received and other payables in respect of the guarantees (i.e. the amount initially recognised, less accumulated amortisation).

To determine ECLs, the Group considers changes in the risk of default of the specified debtor since the issuance of the guarantee. A 12-month ECL is measured unless the risk that the specified debtor will default has increased significantly since the guarantee is issued, in which case a lifetime ECL is measured. The same definition of default and the same assessment of significant increase in credit risk as described in Note 2(k)(i) apply.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(k) Credit losses and impairment of assets *(Continued)*

(ii) Credit losses from financial guarantees issued *(Continued)*

(A) Policy applicable from 1 January 2018 *(Continued)*

As the Group is required to make payments only in the event of a default by the specified debtor in accordance with the terms of the instrument that is guaranteed, an ECL is estimated based on the expected payments to reimburse the holder for a credit loss that it incurs less any amount that the Group expects to receive from the holder of the guarantee, the specified debtor or any other party. The amount is then discounted using the current risk-free rate adjusted for risks specific to the cash flows.

(B) Policy applicable prior to 1 January 2018

Prior to 1 January 2018, a provision would be recognised if and when it became probable that (i) the holder of the guarantee would call upon the Group under the guarantee and (ii) the amount of the claim on the Group was expected to exceed the amount carried in accruals, deposits received and other payables in respect of the guarantee.

(iii) Impairment of other non-current assets

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

— property, plant and equipment; and

— investments in subsidiaries in the Company's statement of financial position.

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

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

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

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

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

(l) Inventories

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

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

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(m) Contract assets and contract liabilities

A contract asset is recognised when the Group recognises revenue (see Note 2(d)) before being unconditionally entitled to the consideration under the payment terms set out in the contract. Contract assets are assessed for ECL in accordance with the policy set out in Note 2(k)(i) and are reclassified to receivables when the right to the consideration has become unconditional (see Note 2(o)).

A contract liability is recognised when the customer pays consideration before the Group recognises the related revenue (see Note 2(d)). A contract liability would also be recognised if the Group has an unconditional right to receive consideration before the Group recognises the related revenue. In such cases, a corresponding receivable would also be recognised (see Note 2(o)).

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.

When the contract includes a significant financing component, the contract balance includes interest accrued under the effective interest method.

(n) Provisions and contingent liabilities

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

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

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

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

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(o) Financial instruments

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

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

Financial assets

All regular way purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace are recognised and derecognised on a trade date basis.

Investments in life insurance

(A) Policy applicable from 1 January 2018

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;

— Fair value through other comprehensive income ("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

— Fair value through profit or loss ("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.

(B) Policy applicable prior to 1 January 2018

Investments in life insurance were classified as available-for-sale financial assets ("AFS financial assets"). AFS financial assets are non-derivatives that are either designated as AFS or are not classified as (a) loans and receivables, (b) held-to-maturity investments or (c) financial assets at FVPL.

Changes in the carrying amount of AFS financial assets relating to changes in foreign currency rates, interest income calculated using the effective interest method and dividends on AFS equity investments are recognised in profit or loss. Other changes in the carrying amount of AFS financial assets are recognised in other comprehensive income and accumulated under the heading of available-for-sale assets revaluation reserve. When the AFS financial asset is disposed of, the cumulative gain or loss previously accumulated in the available-for-sale assets revaluation reserve is reclassified to profit or loss.

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

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(o) Financial instruments *(Continued)*

Financial assets *(Continued)*

Investments in life insurance *(Continued)*

(B) Policy applicable prior to 1 January 2018 *(Continued)*

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

AFS financial assets that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured at cost less any identified impairment losses. Fair value is determined in the manner described in Note 18.

Trade and other receivables

A receivable is recognised when the Group has an unconditional right to receive consideration. A right to receive consideration is unconditional if only the passage of time is required before payment of that consideration is due. If revenue has been recognised before the Group has an unconditional right to receive consideration, the amount is presented as a contract asset (see Note 2(m)).

Trade and other receivables are initially measured at fair value plus any directly attributable transaction costs. Subsequently to initial recognition, they are measured at amortised cost using the effective interest method, less allowance for credit losses (see Note 2(k)(i)).

Financial liabilities and equity instruments

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

Equity instruments

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

Trade and other payables

Trade and other payables are initially measured at fair value less any directly attributable transaction costs. Except for financial guarantee liabilities measured in accordance with Note 2(k)(ii), subsequent to initial recognition, trade and other payables are measured at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

Interest-bearing borrowings

Interest-bearing borrowings are measured initially at fair value less transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost using the effective interest method. Interest expense is recognised in accordance with the Group's accounting policy for borrowing costs (see Note 2(f)).

(p) Biological assets

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

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(q) Translation of foreign currencies

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

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. The transaction date is the date on which the Group initially recognises such non-monetary assets or liabilities. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was measured.

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

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

(r) Segment reporting

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

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

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(s) Related parties

(i) A person, or close member of that person's family, is related to the Group if that person:

(1) has control or joint control over the Group;

(2) has significant influence over the Group; or

(3) is a member of the key management personnel of the Group or the Group's parent.

(ii) An entity is related to the Group if any of the following conditions applies:

(1) the entity and the Group are members of the same group (which means that each parent, subsidiary and follow subsidiary is related to the others).

(2) one entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(3) both entities are joint ventures of the same third party.

(4) one entity is a joint venture of a third party and the other entity is an associate of the third entity.

(5) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group.

(6) the entity is controlled or jointly controlled by a person identified in (i).

(7) a person identified in (i)(1) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

(8) the entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the Group's parent.

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

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

(a) Changes in accounting policies for the year ended 31 December 2018

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.

(i) 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.

Classification of financial assets and financial liabilities

HKFRS 9 categories financial assets into three principal classification categories: measured at amortised cost, at FVOCI and at FVPL. These supersede HKAS 39's categories of held-to-maturity investments, loans and receivables, AFS 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.

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 AFS 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.

For an explanation of how the Group classifies and measures financial assets under HKFRS 9, see accounting policy in Note 2(o).

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

(a) Changes in accounting policies for the year ended 31 December 2018 *(Continued)*

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

Credit losses

HKFRS 9 replaces the "incurred loss" model in HKAS 39 with the 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 and trade and other receivables); and

— contract assets as defined in HKFRS 15 (see Note 2(m)).

For further details on the Group's accounting policy for credit losses, see Notes 2(k)(i) and (ii).

There has been no impact on the Group's opening balances as at 1 January 2018 as a result of this change in accounting policy.

(ii) 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 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:

(A) 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:

— When the customer simultaneously receives and consumes the benefits provided by the entity's performance, as the entity performs;

— 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;

— 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.

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

(a) Changes in accounting policies for the year ended 31 December 2018 *(Continued)*

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

(B) 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.

(C) 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 (see Note 2(m)).

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.

(iii) 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.

(Expressed in Hong Kong Dollars unless otherwise indicated)

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

(b) Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended 31 December 2018

Up to the date of issue of these financial statements, the HKICPA has issued a number of amendments, new standards and interpretations which are not yet effective for the year ended 31 December 2018 and which have not been adopted in these financial statements. These include the following which may be relevant to the Group.

	Effective for accounting periods beginning on or after
HKFRS 16, *Leases*	1 January 2019
HK(IFRIC) 23, *Uncertainty over income tax treatments*	1 January 2019
Annual Improvements to HKFRSs 2015-2017 Cycle	1 January 2019

The Group is in the process of making an assessment of what the impact of these amendments, new standards and interpretations is expected to be in the period of initial application. So far the Group has identified some aspects of HKFRS 16 which may have a significant impact on the consolidated financial statements. Further details of the expected impacts are discussed below. While the assessment has been substantially completed for HKFRS 16, the actual impact upon the initial adoption of this standard may differ as the assessment completed to date is based on the information currently available to the Group, and further impacts may be identified before the standard is initially applied in the Group's interim financial report for the six months ended 30 June 2019. The Group may also change its accounting policy elections, including the transition options, until the standard is initially applied in that financial report.

HKFRS 16, *Leases*

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

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

HKFRS 16 is effective for annual periods beginning on or after 1 January 2019. As allowed by HKFRS 16, the Group plans to use the practical expedient to grandfather the previous assessment of which existing arrangements are, or contain, leases. The Group will therefore apply the new definition of a lease in HKFRS 16 only to contracts that are entered into on or after the date of initial application.

The Group plans to elect to use the modified retrospective approach for the adoption of HKFRS 16 and will recognise the cumulative effect of initial application as an adjustment to the opening balance of equity at 1 January 2019 and will not restate the comparative information. As disclosed in Note 35(b), at 31 December 2018 the Group's future minimum lease payments under non-cancellable operating leases amounted to HK$50,664,000, the majority of which is payable in either between 1 to 5 years after the reporting date or in more than 5 years. Upon the initial adoption of HKFRS 16, the opening balances of lease liabilities and the corresponding right-of-use assets will be adjusted to HK$38,423,000 and HK$38,423,000 respectively, after taking account the effects of discounting, as at 1 January 2019.

4. ACCOUNTING ESTIMATES

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

(a) Useful lives of property, plant and equipment

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

(b) Income taxes

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

5. SEGMENT INFORMATION

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

— Cleaning services business

— Landscaping services business

— Pest management business

— Waste management and recycling business

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

5. SEGMENT INFORMATION *(Continued)*

Segment revenue and results

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

	Cleaning services business HK$'000	Landscaping services business HK$'000	Pest management business HK$'000	Waste management and recycling business HK$'000	Total HK$'000
Year ended 31 December 2018					
Revenue from external customers and reportable segment revenue recognised over time	**1,065,136**	**186,084**	**44,314**	**133,946**	**1,429,480**
Segment results	**44,285**	**30,200**	**4,883**	**10,669**	**90,037**
Other income					**978**
Change in fair value less costs to sell of biological assets					**7,785**
Administrative expenses					**(73,748)**
Finance costs					**(5,780)**
Profit before taxation					**19,272**

	Cleaning services business HK$'000	Landscaping services business HK$'000	Pest management business HK$'000	Waste management and recycling business HK$'000	Total HK$'000
Year ended 31 December 2017					
Revenue from external customers and reportable segment revenue recognised over time	903,107	155,700	39,469	109,364	1,207,640
Segment results	54,420	25,580	4,958	10,614	95,572
Other income					1,046
Change in fair value less costs to sell of biological assets					2,026
Administrative expenses					(68,800)
Finance costs					(4,293)
Profit before taxation					25,551

5. SEGMENT INFORMATION *(Continued)*

Segment assets and liabilities

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

	Cleaning services business HK$'000	Landscaping services business HK$'000	Pest management business HK$'000	Waste management and recycling business HK$'000	Total HK$'000
As at 31 December 2018					
Segment assets	**429,398**	**106,432**	**26,105**	**131,647**	**693,582**
Unallocated					**4,227**
Total assets					**697,809**
Segment liabilities	**359,663**	**29,921**	**14,701**	**40,427**	**444,712**
Unallocated					**1,235**
Total liabilities					**445,947**

	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

5. SEGMENT INFORMATION *(Continued)*

Other segment information

	Cleaning services business HK$'000	Landscaping services business HK$'000	Pest management business HK$'000	Waste management and recycling business HK$'000	Unallocated HK$'000	Total HK$'000
For the year ended 31 December 2018						
Depreciation of property, plant and equipment	**14,168**	**1,711**	**1,707**	**10,765**	**171**	**28,522**
Additions to non-current assets	**71,911**	**2,538**	**59**	**16,019**	**16**	**90,543**
Loss/(gain) on disposal of property, plant and equipment	**(70)**	**167**	**(273)**	**394**	**1**	**219**

	Cleaning services business HK$'000	Landscaping services business HK$'000	Pest management business HK$'000	Waste management and recycling business HK$'000	Unallocated HK$'000	Total HK$'000
For the year ended 31 December 2017						
Depreciation of property, plant and equipment	10,583	1,186	1,844	10,265	147	24,025
Additions to non-current assets	33,003	2,043	261	3,941	32	39,280
Loss/(gain) on disposal of property, plant and equipment	67	73	(133)	42	215	264

Geographical information

All of the Group's businesses are carried out in Hong Kong and the Group's revenue from external customers is generated in Hong Kong during the years ended 31 December 2018 and 2017.

5. SEGMENT INFORMATION *(Continued)*

Information about major customers

For the year ended 31 December 2018, the Group's revenue of HK$784,043,000 (2017: HK$678,335,000) for various segments was derived from two customers (2017: two), each of whom has individually accounted for over 10% of the Group's total revenue, which are disclosed as follows:

	2018 HK$'000	2017 HK$'000
Customer A	**404,450**	288,075
Customer B	**379,593**	390,260
	784,043	678,335

6. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

	2018 HK$'000	2017 HK$'000
Financial assets		
Available-for-sale financial assets	**–**	13,596
Financial assets at fair value through profit or loss	**13,893**	–
Amortised cost (2017: loans and receivables)		
— Trade receivables	**352,779**	285,889
— Deposits	**7,680**	7,342
— Other receivables	**5,660**	5,715
— Pledged bank deposits	**6,143**	5,141
— Cash and cash equivalents	**36,105**	47,983

	2018 HK$'000	2017 HK$'000
Financial liabilities		
Amortised cost		
— Trade payables	**30,921**	21,125
— Accruals, deposits received and other payables	**160,540**	131,051
— Bank borrowings	**218,314**	108,712
— Obligations under finance leases	**23,837**	42,356

6. FINANCIAL INSTRUMENTS *(Continued)*

(b) Financial risk management

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

Market risk

(i) Foreign currency risk

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

(ii) Interest rate risk

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

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

	2018		2017	
	Effective interest rate	**Amount HK$'000**	Effective interest rate	Amount HK$'000
Net fixed rate borrowings				
Obligations under finance leases	**2.97%–3.47%**	**23,837**	3.54%–3.82%	42,356
Less: Pledged bank deposits	**0.20%–0.45%**	**(6,143)**	0.01%–0.15%	(5,141)
Deposits with banks	**–**	**–**	1.35%	(485)
		17,694		36,730
Variable rate borrowings				
Bank borrowings	**2.53%–5.77%**	**218,314**	2.00%–3.50%	108,712
Total net borrowings		**236,008**		145,442

Sensitivity analysis

At 31 December 2018, it is estimated that a general increase/decrease of 50 basis point in interest rate, with all other variables were held constant, would have decreased/increased the Group's profit after taxation and retained earnings by approximately HK$911,000 (2017: HK$454,000).

The sensitivity analysis above indicates the annualised impact on the Group's profit after taxation and retained earnings that would arise assuming that the change in interest rates had occurred at the end of the reporting period and had been applied to floating rates instruments which expose the Group to cash flow interest rate risk at that date. The analysis does not take into account exposure to fair value interest rate risk arising from fixed rate instruments as the Group does not hold any fixed rate instruments which are measured at fair value in the financial statements. The analysis is performed on the same basis for 2017.

6. FINANCIAL INSTRUMENTS *(Continued)*

(b) Financial risk management *(Continued)*

Credit risk

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

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

The Group had certain concentration of credit risk as 28% (2017: 32%) and 59% (2017: 64%) of the Group's contract assets and trade receivables were due from the largest customer and the five largest customers respectively as at 31 December 2018. The Group's credit risk exposure is limited as the Group trades only with customers with an appropriate credit history and good reputation. The management monitored the financial background and creditability of those debtors on an ongoing basis.

For contract assets and trade receivables due from quasi-government organisations and The Government of the Hong Kong Special Administrative Region, there was no history of default and the Group considers the credit risk for such assets to be insignificant.

For the remaining trade receivables due from non-government organisations, the Group measures loss allowance at amount equal to lifetime ECLs for each business segment. The ECLs as at 31 December 2018 are based on the expected loss rates determined with reference to the historical actual loss on the trade receivables for each business segment. Expected loss rates ranging from 0.01% to 1.74% were applied to such trade receivables for cleaning services, landscaping services together with waste management and recycling businesses. As there was no history of default from customers for the pest management business, the Group considers the credit risk of such customers to be insignificant and no loss allowance was recognised as at 31 December 2018.

Expected loss rates are based on actual loss experience over the past 4 years for each business segment. These rates are adjusted to reflect differences between economic conditions during the period over which the historic data has been collected, current conditions and the Group's view of economic conditions over the expected lives of the receivables.

In respect of other receivables, there was a gross amount of 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 PRC) in respect of a refundable deposit in relation to the proposed acquisition of certain equity interest in Shanghai Genyuan as at 31 December 2018. 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 loss allowance of HK$2,250,000 continued to be recognised as at 31 December 2018 (2017: HK$2,250,000), based on the latest development of the case.

6. FINANCIAL INSTRUMENTS *(Continued)*

(b) Financial risk management *(Continued)*

Credit risk *(Continued)*

Comparative information under HKAS 39

Prior to 1 January 2018, an impairment loss was recognised only when there was objective evidence of impairment (see Note 2(k)(i)(B) — policy applicable prior to 1 January 2018).

Trade receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, management believes that no impairment allowance is necessary in respect of these balances as there have not been a significant change in credit risk and the balances are still considered fully recoverable. No impairment loss on trade receivables was recognised by the Group at 31 December 2017.

In respect of other receivables, a provision of HK$2,250,000 was made as at 31 December 2017 against the receivables from Shanghai Genyuan of HK$4,500,000 based on the latest development of the legal action.

Liquidity risk

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

As at 31 December 2018, the Group had unutilised banking facilities of HK$72,229,000 (2017: HK$151,309,000).

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

6. FINANCIAL INSTRUMENTS *(Continued)*

(b) Financial risk management *(Continued)*

Liquidity risk *(Continued)*

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

	Within 1 year or on demand HK$'000	Over 1 year but within 5 years HK$'000	Over 5 years HK$'000	Total contractual undiscounted cash flow HK$'000	Carrying amount HK$'000
As at 31 December 2018					
Trade payables	**30,921**	**–**	**–**	**30,921**	**30,921**
Accruals, deposits received and other payables	**160,540**	**–**	**–**	**160,540**	**160,540**
Bank borrowings	**176,113**	**32,959**	**10,928**	**220,000**	**218,314**
Obligations under finance leases	**13,011**	**11,745**	**–**	**24,756**	**23,837**
	380,585	**44,704**	**10,928**	**436,217**	**433,612**
Adjustments to present cash flows on bank borrowings based on lender's right to demand repayment	**42,201**	**(32,959)**	**(10,928)**	**(1,686)**	
	422,786	**11,745**	**–**	**434,531**	

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

6. FINANCIAL INSTRUMENTS *(Continued)*

(c) Fair value measurement

(i) Financial assets and liabilities measured at fair value

Fair value hierarchy

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

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

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

Level 3 valuations: Fair value measured using significant unobservable inputs

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

	As at 31 December 2018			
	Level 1 HK$'000	**Level 2 HK$'000**	**Level 3 HK$'000**	**Total HK$'000**
Financial assets at fair value through profit or loss				
Investments in life insurance	**–**	**–**	**13,893**	**13,893**

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

During the years ended 31 December 2018 and 2017, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3. The Group's policy is to recognise transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.

6. FINANCIAL INSTRUMENTS *(Continued)*

(c) Fair value measurement *(Continued)*

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

Reconciliation of Level 3 fair value measurements

	2018 HK$'000	2017 HK$'000
Investments in life insurance		
Balance as at 1 January	**13,596**	13,286
Gains recognised in profit or loss	**297**	–
Gains recognised in other comprehensive income	**–**	310
Balance as at 31 December	**13,893**	13,596

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

The carrying amounts of the Group's financial instruments carried at cost or amortised cost were not materially different from their fair values as at 31 December 2018 and 2017.

7. CAPITAL MANAGEMENT

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

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

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

The gearing ratio at 31 December 2018 and 2017 are as follows:

	2018 HK$'000	2017 HK$'000
Total borrowings *(Note (i))*	**242,151**	151,068
Total equity	**251,862**	240,891
Gearing ratio	**96%**	63%

Note:

(i) Total borrowings included bank borrowings and obligations under finance leases as disclosed in Notes 28 and 29.

8. REVENUE

(a) Disaggregation of revenue

The principal activity of the Group is environmental and related service. Disaggregation of revenue from contracts with customers within the scope of HKFRS 15 by major service lines is as follows:

	2018 HK$'000	2017 HK$'000
Cleaning services	**1,065,136**	903,107
Landscaping services	**186,084**	155,700
Pest management services	**44,314**	39,469
Waste management and recycling services	**133,946**	109,364
	1,429,480	1,207,640

The Group initially applied HKFRS 15 using the cumulative effect method. Under this method, the comparative information is not restated and was prepared in accordance with HKAS 18 (see Note 3(a)(ii)).

Disaggregation of revenue from contracts with customers by the timing of revenue recognition and geographic information of revenue is disclosed in Note 5.

(b) Revenue expected to be recognised in the future arising from contracts with customers in existence at the reporting date

As at 31 December 2018, the aggregated amounts of transaction price allocated to the remaining performance obligations under the Group's existing contracts are as follows:

	Cleaning services HK$'000	**Landscaping services HK$'000**	**Pest management services HK$'000**	**Waste management and recycling services HK$'000**	**Total HK$'000**
Expected to be recognised within one year	690,070	174,727	26,324	137,166	1,028,287
Expected to be recognised after one year	266,355	68,481	1,796	336,306	672,938
	956,425	243,208	28,120	473,472	1,701,225

The amounts represent revenue expected to be recognised in the future from the Group's service contracts for the respective services. The Group will recognise the expected revenue in future when services are rendered, which is expected to occur over the next 12 to 67 months.

9. OTHER INCOME

	2018 HK$'000	2017 HK$'000
Change in fair value of investments in life insurance	**297**	–
Government grants*	**313**	622
Interest income	**16**	92
Rental income	**126**	–
Sundry income	**226**	332
	978	1,046

* Government grants of HK$313,000 (2017: HK$622,000) were granted during the year ended 31 December 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.

10. FINANCE COSTS

	2018 HK$'000	2017 HK$'000
Interest on:		
Bank overdrafts	**34**	310
Bank loans	**4,617**	2,295
Obligations under finance leases	**1,129**	1,688
	5,780	4,293

11. PROFIT BEFORE TAXATION

Profit before taxation has been arrived at after charging:

	2018 HK$'000	2017 HK$'000
Auditors' remuneration:		
Audit services	**1,405**	1,260
Other services	**106**	102
Cost of consumable goods	**57,871**	45,451
Credit losses on trade receivables	**139**	–
Depreciation of property, plant and equipment:		
Owned by the Group	**19,421**	12,094
Held under finance leases	**9,101**	11,931
Loss on disposal of property, plant and equipment	**219**	264
Staff costs (including directors' remuneration):		
Wages, salaries and other benefits	**1,107,245**	945,837
Provision for long service payments	**7,745**	422
Provision for untaken paid leave	**13,032**	7,900
Contributions to defined contribution retirement scheme	**35,195**	30,634
Equity-settled share-based payments	**–**	715
	1,163,217	985,508
Operating lease rentals: minimum lease payments		
Hire of machinery and motor vehicles	**34,625**	25,763
Land and buildings	**8,355**	5,550
	42,980	31,313

12. INCOME TAX

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

	2018 HK$'000	2017 HK$'000
Current tax — Hong Kong Profits Tax		
Provision for the year	**2,239**	4,812
Over-provision in respect of prior years	**(508)**	–
	1,731	4,812
Current tax — PRC Enterprise Income Tax		
Provision for the year	**2**	–
	1,733	4,812
Deferred tax		
Origination and reversal of temporary differences *(Note 30)*	**1,097**	123
	2,830	4,935

In March 2018, the Hong Kong Government introduced a two-tiered profits tax rate regime by enacting the Inland Revenue (Amendment) (No. 3) Ordinance 2018 (the "Ordinance"). Under the two-tiered profits tax rate regime, the first HK$2 million of assessable profits of a qualifying Hong Kong subsidiary within the Group is taxed at 8.25% and the remaining assessable profits are taxed at 16.5%. The Ordinance is effective from the year of assessment 2018/19.

Accordingly, the provision for Hong Kong Profits Tax for the year ended 31 December 2018 is calculated in accordance with the two-tiered profits tax rate regime (2017: a single tax rate of 16.5% was applied).

The provision for Hong Kong Profits Tax for 2018 has also taken into account a reduction granted by the Hong Kong SAR Government of 75% of the tax payable for the year of assessment 2017/18. The Group is eligible for the maximum reduction of $30,000 (2017: a maximum reduction of $20,000 was granted for the year of assessment 2016/17 and was taken into account in calculating the provision for 2017) for each Hong Kong subsidiaries within the Group. Taxation for overseas subsidiaries is charged at the appropriate current rates of taxation ruling in the relevant countries.

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

	2018 HK$'000	2017 HK$'000
Profit before taxation	**19,272**	25,551
Notional tax on profit before taxation, calculated at the rates applicable to profits in the tax jurisdictions concerned *(Note)*	**2,996**	4,132
Tax effect of non-taxable income	**(56)**	(80)
Tax effect of non-deductible expenses	**398**	946
Tax loss not recognised	**–**	335
Recognition of temporary difference not recognised in prior years	**–**	430
Recognition of unused tax losses not recognised in prior years	**–**	(828)
Over-provision in respect of prior years	**(508)**	–
	2,830	4,935

Note: The calculation of notional tax for profits in Hong Kong has taken into consideration the two-tiered profits tax rate regime as mentioned in Note 12(a) above for the year ended 31 December 2018, whereas a single tax rate of 16.5% was applied for the year ended 31 December 2017.

13. DIVIDENDS

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

	2018 HK$'000	2017 HK$'000
Final dividend proposed after the end of the reporting period of HK0.7 cents (2017: HK1.4 cents) per ordinary share	**2,905**	5,810

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

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

	2018 HK$'000	2017 HK$'000
Final dividend in respect of the previous financial year, approved and paid during the year, of HK1.4 cents (2017: HK1.7 cents) per ordinary share	**5,810**	7,055

14. EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of the basic earnings per share for the year ended 31 December 2018 is based on the profit for the year attributable to ordinary equity shareholders of the Company of HK$17,893,000 (2017: HK$20,616,000) and the weighted average number of 415,000,000 (2017: 415,000,000) ordinary shares in issue during the year.

(b) Diluted earnings per share

Diluted earnings per share for the years ended 31 December 2018 and 2017 are the same as the basic earnings per share as there were no potential dilutive ordinary shares in existence during the years presented.

15. DIRECTORS' EMOLUMENTS AND FIVE HIGHEST PAID INDIVIDUALS

Directors' emoluments

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

	Directors' fees HK$'000	Salaries, allowances and other benefits HK$'000	Directors' quarter HK$'000	Discretionary bonus HK$'000	Retirement scheme contributions HK$'000	Sub-total HK$'000	Equity-settled share-based payments HK$'000	Total HK$'000
For the year ended 31 December 2018								
Executive Directors								
Mr. Ng Wing Hong	–	2,176	–	–	18	2,194	–	2,194
Ms. Ng Yuk Kwan Phyllis	–	2,046	–	338	205	2,589	–	2,589
Mr. Ng Wing Chuen	–	1,094	–	–	–	1,094	–	1,094
Ms. Leung Shuk Ping	–	999	–	189	18	1,206	–	1,206
Ms. Chan Shuk Kuen	–	937	–	140	18	1,095	–	1,095
Ms. Cheung Siu Chun	–	1,137	–	186	137	1,460	–	1,460
Independent Non-executive Directors								
Mr. Sin Ho Chiu	195	–	–	–	–	195	–	195
Dr. Law Ka Hung	195	–	–	–	–	195	–	195
Mr. Lau Chi Yin Thomas	195	–	–	–	–	195	–	195
	585	8,389	–	853	396	10,223	–	10,223

	Directors' fees HK$'000	Salaries, allowances and other benefits HK$'000	Directors' quarter HK$'000	Discretionary bonus HK$'000	Retirement scheme contributions HK$'000	Sub-total HK$'000	Equity-settled share-based payments HK$'000	Total HK$'000
For the year ended 31 December 2017								
Executive Directors								
Mr. Ng Wing Hong	–	2,125	–	–	18	2,143	–	2,143
Ms. Ng Yuk Kwan Phyllis	–	1,602	432	520	193	2,747	45	2,792
Mr. Ng Wing Chuen	–	1,057	–	100	–	1,157	37	1,194
Ms. Leung Shuk Ping	–	965	–	270	18	1,253	33	1,286
Ms. Chan Shuk Kuen	–	929	–	200	18	1,147	33	1,180
Ms. Cheung Siu Chun	–	1,097	–	265	129	1,491	37	1,528
Independent Non-executive Directors								
Mr. Sin Ho Chiu	145	–	–	–	–	145	21	166
Dr. Law Ka Hung	145	–	–	–	–	145	21	166
Mr. Lau Chi Yin Thomas	145	–	–	–	–	145	21	166
	435	7,775	432	1,355	376	10,373	248	10,621

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

Directors' emoluments *(Continued)*

During the years ended 31 December 2018 and 2017, no emoluments were paid by the Group to the directors as an inducement to join or upon joining the Group or as compensation for loss of office. There was no arrangement under which a director waived or agreed to waive any emoluments during the years ended 31 December 2018 and 2017.

Five highest paid individuals

For the years ended 31 December 2018 and 2017, the five highest paid individuals of the Group are directors whose emoluments are disclosed in Note 15.

16. PROPERTY, PLANT AND EQUIPMENT

	Leasehold properties HK$'000	Furniture and fixtures HK$'000	Equipment and machinery HK$'000	Motor vehicles HK$'000	Leasehold improvements HK$'000	Total HK$'000
Cost						
As at 1 January 2017	21,403	21,114	29,053	182,238	–	253,808
Additions	13,378	2,008	5,705	16,181	1,067	38,339
Disposals	–	(205)	(5,945)	(7,575)	–	(13,725)
Exchange adjustments	–	15	–	–	–	15
As at 31 December 2017 and 1 January 2018	**34,781**	**22,932**	**28,813**	**190,844**	**1,067**	**278,437**
Additions	**46,907**	**7,354**	**11,903**	**21,403**	**2,052**	**89,619**
Disposals	**–**	**(14)**	**(1,762)**	**(9,520)**	**–**	**(11,296)**
Exchange adjustments	**–**	**(17)**	**–**	**–**	**–**	**(17)**
As at 31 December 2018	**81,688**	**30,255**	**38,954**	**202,727**	**3,119**	**356,743**
Accumulated depreciation						
As at 1 January 2017	4,224	16,400	19,920	56,636	–	97,180
Charge for the year	664	2,387	6,126	14,764	84	24,025
Written back on disposals	–	(182)	(5,846)	(3,955)	–	(9,983)
Exchange adjustments	–	5	–	–	–	5
As at 31 December 2017 and 1 January 2018	**4,888**	**18,610**	**20,200**	**67,445**	**84**	**111,227**
Charge for the year	**1,138**	**2,836**	**7,336**	**16,926**	**286**	**28,522**
Written back on disposals	**–**	**(13)**	**(1,373)**	**(4,408)**	**–**	**(5,794)**
Exchange adjustments	**–**	**(6)**	**–**	**–**	**–**	**(6)**
As at 31 December 2018	**6,026**	**21,427**	**26,163**	**79,963**	**370**	**133,949**
Net book value						
As at 31 December 2018	**75,662**	**8,828**	**12,791**	**122,764**	**2,749**	**222,794**
As at 31 December 2017	29,893	4,322	8,613	123,399	983	167,210

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

As at 31 December 2018, the leasehold properties with carrying amount of HK$75,662,000 (2017: HK$29,893,000) were mortgaged for banking facilities granted to the Group; and the other property, plant and equipment with carrying amount of HK$26,486,000 (2017: Nil) were pledged as a security for the Group's banking facilities.

As at 31 December 2018, the carrying amount of motor vehicles together with equipment and machinery held under finance leases amounted to HK$67,006,000 (2017: HK$85,599,000).

(Expressed in Hong Kong Dollars unless otherwise indicated)

17. PARTICULARS OF SUBSIDIARIES

As at 31 December 2018, details of the Company's subsidiaries which principally affected the results, assets or liabilities of the Group set out below. The class of shares held is ordinary unless otherwise stated.

Name of subsidiary	Place of incorporation/ operation	Registered/ issued and paid up capital	Proportion of the Company's ownership Direct	Indirect	Principal activities
Baguio Cleaning Services Company Limited	Hong Kong	HK$10,000,000	–	100%	Provision of cleaning services
Baguio Green Technology Limited	Hong Kong	HK$10,000	–	100%	Development and exploration of green technology products
Baguio Landscaping Services Limited	Hong Kong	HK$2,000,000	–	100%	Provision of landscaping services
Baguio Pest Management Limited	Hong Kong	HK$200,000	–	100%	Provision of pest management services
Baguio Waste Management & Recycling Limited	Hong Kong	HK$10,000	–	100%	Provision of waste management and recycling services
Batio Glass Recycling Limited	Hong Kong	HK$1,000,000	–	51%	Provision of glass recycling services
Modern Automobile Company Limited	Hong Kong	HK$10,000	–	100%	Provision of automobile repair services
Tak Tai Enviroscope Limited	Hong Kong	HK$8,100,000	–	100%	Provision of plant nursing, landscaping and related services
碧瑤綠色科技（深圳）有限公司#	People's Republic of China ("PRC")	RMB1,000,000	–	100%	Development and exploration of environmental and recycling business

Registered as a wholly-foreign owned enterprise in PRC.

18. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS AND AVAILABLE-FOR-SALE FINANCIAL ASSETS

	31 December 2018 HK$'000	1 January 2018 HK$'000	31 December 2017 HK$'000
Financial assets at fair value through profit or loss			
Investments in life insurance	**13,893**	**13,596**	–
Available-for-sale financial assets			
Investments in life insurance	**–**	**–**	13,596

Investments in life insurance represent investments in life insurance policies for the key management, executed in Hong Kong. There are no fixed maturity and no quoted market price for such investments. The return of the investments will be based on the guarantee minimum return rate. As at 31 December 2018, the investments in life insurance of HK$13,893,000 (2017: HK$13,596,000) were pledged for banking facilities granted to the Group.

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

The investments in life insurance were reclassified to financial assets at fair value through profit or loss upon initial application of HKFRS 9 at 1 January 2018 (see Note 3(a)(i)).

During the year ended 31 December 2018, a fair value gain of HK$297,000 was recognised and credited to profit or loss (2017: a fair value gain of HK$310,000 was recognised and credited to other comprehensive income).

19. PLEDGED BANK DEPOSITS

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

20. INVENTORIES

	2018 HK$'000	2017 HK$'000
Consumable goods	**3,902**	4,539

21. CONTRACT ASSETS

	31 December 2018 HK$'000	1 January 2018 HK$'000	31 December 2017 HK$'000
Contract assets			
Arising from performance under glass management contracts	**6,985**	**–**	–
Arising from performance under landscaping contracts	**3,541**	**2,201**	–
	10,526	**2,201**	–

The Group has initially applied HKFRS 9 and HKFRS 15 using the cumulative effect method and adjusted the opening balances as at 1 January 2018. Upon the adoption of HKFRS 15, some of the trade receivables, for which the Group's entitlement to the consideration was conditional on achieving certain milestones of the service contracts were reclassified from trade receivables (Note 22) to contract assets (see Note 3(a)(ii)).

The service fees under the glass management contracts are received after the processed glass has been delivered to the designated locations specified in the contracts. The landscaping contracts include payment schedules which require stage payments over the service periods once milestones are reached.

As at 31 December 2018, contract assets of HK$3,444,000 are expected to be recovered after one year.

As at 31 December 2018, the Group's contract assets arising from performance under glass management contracts of HK$6,985,000 (2017: Nil) were pledged for certain banking facility granted to the Group.

22. TRADE RECEIVABLES

	31 December 2018 HK$'000	1 January 2018 HK$'000	31 December 2017 HK$'000
Trade receivables, net of loss allowance	**352,779**	**283,688**	285,889

Upon the adoption of HKFRS 15, some of the trade receivables, for which the Group's entitlement to the consideration was conditional on achieving certain milestones of the service contracts were reclassified to contract assets and disclosed in Note 21 (see Note 3(a)(ii)).

22. TRADE RECEIVABLES *(Continued)*

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

	2018 HK$'000	2017 HK$'000
Within 60 days	**259,559**	212,469
Over 60 days but within 120 days	**68,719**	63,016
Over 120 days but within 365 days	**23,355**	9,273
Over 365 days	**1,146**	1,131
	352,779	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.

As at 31 December 2018, included in the Group's trade receivables in respect of non-government organisations which were past due and net of loss allowance are balances totalling HK$50,014,000 (2017: HK$41,214,000) with the following ageing analysis:

	2018 HK$'000	2017 HK$'000
Overdue by:		
Within 60 days	**32,288**	34,573
Over 60 days but within 120 days	**5,463**	4,550
Over 120 days but within 365 days	**11,669**	1,838
Over 365 days	**594**	253
	50,014	41,214

Further details on the Group's credit policy and credit risk arising from trade receivables are set out in Note 6(b).

The Group's trade receivables of HK$78,132,000 (2017: HK$37,757,000) as at 31 December 2018 were pledged for certain banking facilities granted to the Group.

23. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2018 HK$'000	2017 HK$'000
Prepayments	**15,736**	6,537
Deposits	**7,680**	7,342
Other receivables	**5,660**	5,715
	29,076	19,594
Less: Non-current prepayments	**(1,865)**	(941)
Non-current deposits	**(4,772)**	(4,823)
	(6,637)	(5,764)
	22,439	13,830

Included in non-current portion of deposits as at 31 December 2018 are performance deposits of HK$1,241,000 (2017: HK$1,380,000) and rental deposits of HK$3,531,000 (2017: HK$3,443,000), in respect of certain service contracts and rental contracts of the Group, which are recoverable at the end of the service contracts and rental contracts.

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

24. BIOLOGICAL ASSETS

Movements of biological assets are summarised as follows:

	2018 HK$'000	2017 HK$'000
Plants and flowers		
Balance as at 1 January	**12,031**	9,700
Purchases	**3,726**	634
Usage in services	**(2,648)**	(317)
Disposal	**(122)**	(12)
Change in fair value less costs to sell	**7,785**	2,026
Balance as at 31 December	**20,772**	12,031

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

The fair value of biological assets of the Group as at 31 December 2018 and 2017 has been arrived at the basis of a valuation carried out at that date by the independent valuer and the independent valuer has appropriate qualifications and experiences in providing biological assets valuation services.

The fair value less costs to sell of plants and flowers are determined using the market based approach which assumes sales of biological assets in their existing state and making reference to similar sales or offerings or listings of comparable assets on the market. The biological assets were classified as Level 2 under the fair value hierarchy.

25. CASH AND CASH EQUIVALENTS AND OTHER CASH FLOW INFORMATION

Cash and cash equivalents comprise:

	2018 HK$'000	2017 HK$'000
Deposits with banks	**–**	485
Cash and bank balances	**36,105**	47,498
	36,105	47,983

As at 31 December 2018, the balances that were placed with banks or on hand in the PRC and included in the cash and bank balances amounted to HK$562,000 (2017: HK$642,000). Remittance of funds out of the PRC is subject to the exchange restriction imposed by the PRC government.

Reconciliation of liabilities arising from financing activities

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

	Bank borrowings HK$'000 *(Note 28)*	**Obligations under finance leases** HK$'000 *(Note 29)*	**Total** HK$'000
As at 1 January 2018	108,712	42,356	151,068
Changes from financing cash flows:			
Proceeds from new bank borrowings	1,136,929	–	1,136,929
Repayments of bank borrowings	(1,027,327)	–	(1,027,327)
Interest paid for bank borrowings	(4,651)	–	(4,651)
Capital element of finance lease rentals paid	–	(19,251)	(19,251)
Interest element of finance lease rentals paid	–	(1,129)	(1,129)
Total changes from financing cash flows	104,951	(20,380)	84,571
Other changes:			
New finance leases *(Note 36)*	–	732	732
Interest expenses *(Note 10)*	4,651	1,129	5,780
Total other changes	4,651	1,861	6,512
As at 31 December 2018	**218,314**	**23,837**	**242,151**

25. CASH AND CASH EQUIVALENTS AND OTHER CASH FLOW INFORMATION *(Continued)*

Reconciliation of liabilities arising from financing activities *(Continued)*

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

26. TRADE PAYABLES

	2018 HK$'000	2017 HK$'000
Trade payables	**30,921**	21,125

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

	2018 HK$'000	2017 HK$'000
Within 30 days	**16,561**	12,413
Over 30 days but within 60 days	**10,913**	6,634
Over 60 days but within 90 days	**987**	805
Over 90 days	**2,460**	1,273
	30,921	21,125

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

27. ACCRUALS, DEPOSITS RECEIVED AND OTHER PAYABLES

	2018 HK$'000	2017 HK$'000
Accruals of staff costs	**139,252**	116,678
Deposits received	**796**	391
Other accrual expenses and payables	**20,492**	13,982
	160,540	131,051

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

28. BANK BORROWINGS

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

	2018 HK$'000	2017 HK$'000
Current liabilities		
Current portion of term loans from banks	**174,667**	95,966
Non-current portion of term loans from banks repayable on demand	**43,647**	12,746
	218,314	108,712

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

	2018 HK$'000	2017 HK$'000
Secured	**175,197**	108,712
Unsecured	**43,117**	–
	218,314	108,712

28. BANK BORROWINGS *(Continued)*

The secured bank loans of the Group as at 31 December 2018 were secured by:

(i) pledged bank deposits of HK$6,143,000 (2017: HK$5,141,000);

(ii) mortgage of the Group's leasehold land and buildings of HK$75,662,000 (2017: HK$29,893,000);

(iii) pledge of the other property, plant and equipment of HK$26,486,000 (2017: Nil);

(iv) pledge of the Group's financial assets at fair value through profit or loss of HK$13,893,000 (2017: available-for-sale financial assets of HK$13,596,000);

(v) pledge of the Group's trade receivables of HK$78,132,000 (2017: HK$37,757,000); and

(vi) pledge of the Group's contract assets arising from performance under glass management contracts of HK$6,985,000 (2017: Nil).

As at 31 December 2018, the bank loans of the Group of HK$218,314,000 (2017: HK$108,712,000) bear interest ranging from 2.53% to 5.77% (2017: 2.00% to 3.50%) per annum.

As at 31 December 2018, banking facilities of HK$153,902,000 (2017: HK$128,133,000) are subject to the fulfilment of covenants relating to certain of the Group's financial ratios. If the Group were to breach the covenants, the drawn down facilities would become payable on demand. As at 31 December 2018, such facilities were utilised to the extent of HK$100,672,000 (2017: HK$36,824,000). The Group regularly monitors its compliance with these covenants. As at 31 December 2018, none of the covenants relating to the drawn down facilities had been breach (2017: Nil). Further details of the Group's management of liquidity risk are set out in Note 6(b).

29. OBLIGATIONS UNDER FINANCE LEASES

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

	2018 HK$'000	2017 HK$'000
Minimum lease payments under finance leases		
— within one year	**13,011**	19,575
— after one year but within five years	**11,745**	24,841
	24,756	44,416
Less: Future interest expenses	**(919)**	(2,060)
Present value of lease obligations	**23,837**	42,356

	2018 HK$'000	2017 HK$'000
Present value of minimum lease payment under finance leases		
— within one year	**12,437**	18,289
— after one year but within five years	**11,400**	24,067
	23,837	42,356

As at 31 December 2018, the obligations under finance leases of the Group of HK$23,837,000 (2017: HK$42,356,000) were guaranteed by the Company and a subsidiary of the Company.

30. DEFERRED TAXATION

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

	Accelerated tax depreciation and biological assets HK$'000	Tax losses HK$'000	Total HK$'000
As at 1 January 2017	17,863	(7,356)	10,507
Charged/(credited to) to profit or loss *(Note 12)*	1,203	(1,080)	123
As at 31 December 2017 and 1 January 2018	**19,066**	**(8,436)**	**10,630**
Charged/(credited to) to profit or loss *(Note 12)*	**3,370**	**(2,273)**	**1,097**
As at 31 December 2018	**22,436**	**(10,709)**	**11,727**

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

	2018 HK$'000	2017 HK$'000
Deferred tax liabilities recognised in the consolidated statement of financial position	**11,727**	10,630

Deferred tax assets not recognised

As at 31 December 2018, the Group has not recognised deferred tax assets in respect of the estimated unused tax losses of HK$521,000 (2017: HK$5,282,000) as it is not probable that future taxable profits against which the losses can be utilised will be available in the relevant tax jurisdiction and entity. The tax losses do not expire under current tax legislation.

31. SHARE CAPITAL

	Number of shares '000	Nominal value HK$'000
Authorised:		
Ordinary shares of HK$0.01 each		
As at 1 January 2017, 31 December 2017, 1 January 2018 and 31 December 2018	1,000,000	10,000
Issued and fully paid:		
Ordinary shares of HK$0.01 each		
As at 1 January 2017, 31 December 2017, 1 January 2018 and 31 December 2018	415,000	4,150

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

32. RESERVE

Movements in components of equity

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

Nature and purpose of reserves

(i) Share premium

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

(ii) Share option reserve

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

(iii) Other reserve

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

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

This reserve comprised the cumulative net change in the fair value of available-for-sale financial assets and was dealt with in the accounting policies in Note 2(o) 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(a)(i).

(v) Translation reserve

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

33. SHARE OPTION SCHEME

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

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

(Expressed in Hong Kong Dollars unless otherwise indicated)

33. SHARE OPTION SCHEME *(Continued)*

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

Name of category of participant	Date of grant	Exercise period	Exercise price per share HK$	Number of share options At 1 January 2018	Exercised during the year	Lapsed during the year	At 31 December 2018
Directors	16/10/2015	16/10/2017 to 23/4/2024	1.00	1,624,000	–	–	1,624,000
Employees	16/10/2015	16/10/2017 to 23/4/2024	1.00	3,316,000	–	(356,000)	2,960,000
			Total:	4,940,000	–	(356,000)	4,584,000
Weighted average exercise price (HK$)				1.00	–	1.00	1.00

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

No share option was exercised during the years ended 31 December 2018 and 2017, while 356,000 (2017: 176,000) share options were lapsed due to resignation of employees during the year ended 31 December 2018.

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

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

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

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

The Group recognised equity-settled share-based payments of HK$715,000 (2018: Nil) arising from options vested during the year ended 31 December 2017.

34. RETIREMENT BENEFIT COSTS

Defined contribution retirement scheme

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

The total expenses recognised in profit or loss included contributions to defined contribution retirement scheme for the Group of HK$35,195,000 (2017: HK$30,634,000) for the year ended 31 December 2018.

35. OPERATING LEASE COMMITMENT

(a) Operating leases receivable

As at 31 December 2018, the Group had total future minimum lease payments under non-cancellable operating leases receivable as follows:

	2018 **HK$'000**	2017 HK$'000
Within one year	**816**	–
After one year but within five years	**476**	–
	1,292	–

(b) Operating leases payable

As at 31 December 2018, the Group had total future minimum lease payments under non-cancellable operating leases payable as follows:

	2018 **HK$'000**	2017 HK$'000
Within one year	**7,221**	6,374
After one year but within five years	**12,919**	12,819
After five years	**30,524**	32,069
	50,664	51,262

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

36. MAJOR NON-CASH TRANSACTION

Additions to property, plant and equipment of approximately HK$732,000 (2017: HK$7,971,000) for the year ended 31 December 2018 was made under the finance leases.

37. RELATED PARTY TRANSACTIONS

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

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

	2018 HK$'000	2017 HK$'000
Short term employee benefits	**9,827**	9,997
Retirement scheme contributions	**396**	376
Equity-settled share-based payments	**–**	248
	10,223	10,621

(b)

Nature of related party relationship	Nature of transaction	Interested director	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	**1,072**	1,437
Common director and shareholder	Information technology service fee	Mr. Ng Wing Hong	**1,751**	1,236
Director and shareholder	Rental expenses	Mr. Ng Wing Hong	**–**	432

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

The related party transactions in respect of purchase of cleaning equipment and materials and information technology service fee as disclosed in Note 37(b) above constitute continuing connected transactions as defined in Chapter 14A of the Listing Rules. The disclosures defined by Chapter 14A of the Listing Rules are provided in section "Connected Transactions" of the Directors' Report.

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

	2018 HK$'000	2017 HK$'000
Capital expenditure in respect of the additions of property, plant and equipment		
— Contracted for within one year	**4,438**	3,266
Capital expenditure in respect of the additions of equipment and machinery for glass management contracts		
— Authorised but not contracted for	**12,210**	20,000
— Contracted for within one year	**23**	–
	12,233	20,000
Capital expenditure in respect of the construction of recycling plant for EcoPark project		
— Authorised but not contracted for	**77,768**	80,000
— Contracted for within one year	**925**	–
	78,693	80,000
	95,364	103,266

39. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	2018 HK$'000	2017 HK$'000
Non-current assets		
Investments in subsidiaries	**1,283**	1,283
Current assets		
Prepayments and other receivables	**2,326**	2,326
Amounts due from subsidiaries	**162,560**	144,701
Cash and cash equivalents	**350**	220
	165,236	147,247
Current liabilities		
Accruals and other payables	**121**	223
Amounts due to subsidiaries	**60,067**	42,126
	60,188	42,349
Net current assets	**105,048**	104,898
Net assets	**106,331**	106,181
Capital and reserves		
Share capital	**4,150**	4,150
Reserves	**102,181**	102,031
Total equity	**106,331**	106,181

Approved by the Board of Directors on 28 March 2019 and signed on its behalf by:

Ng Wing Hong
Director

Ng Yuk Kwan Phyllis
Director

40. CHANGES IN EQUITY OF THE COMPANY

	Share Capital HK$'000	Share Premium HK$'000	Share option reserve HK$'000	Retained earnings/ (accumulated losses) HK$'000	Total HK$'000
As at 1 January 2017	4,150	100,850	1,196	411	106,607
Profit and total comprehensive income for the year	–	–	–	5,914	5,914
Dividends approved in respect of the previous year *(Note 13(b))*	–	–	–	(7,055)	(7,055)
Equity-settled share-based payments	–	–	715	–	715
As at 31 December 2017 and 1 January 2018	**4,150**	**100,850**	**1,911**	**(730)**	**106,181**
Profit and total comprehensive income for the year	**–**	**–**	**–**	**5,960**	**5,960**
Dividends approved in respect of the previous year *(Note 13(b))*	**–**	**–**	**–**	**(5,810)**	**(5,810)**
Share options lapsed	**–**	**–**	**(138)**	**138**	**–**
As at 31 December 2018	**4,150**	**100,850**	**1,773**	**(442)**	**106,331**

At 31 December 2018, the aggregate amount of reserves available for distribution to equity shareholders of the Company amounted to HK$102,181,000 (2017: HK$102,031,000).

41. IMMEDIATE AND ULTIMATE CONTROLLING PARTY

At 31 December 2018, the directors consider the immediate parent and ultimate controlling company of the Group to be Baguio Green (Holding) Limited, which is incorporated in the BVI. Baguio Green (Holding) Limited does not produce financial statements available for public use and is controlled by Mr. Ng Wing Hong, a director of the Company.

42. APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements were approved and authorised for issue by the Board of Directors on 28 March 2019.

FIVE-YEAR FINANCIAL SUMMARY

	Year ended 31 December				
	2018	2017	2016	2015	2014
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Results					
Revenue	**1,429,480**	1,207,640	1,094,788	1,224,887	1,028,711
Profit before taxation	**19,272**	25,551	30,759	28,731	25,012
Income tax expense	**(2,830)**	(4,935)	(5,748)	(4,645)	(7,331)
Profit for the year	**16,442**	20,616	25,011	24,086	17,681
Attributable to:					
Equity shareholders of the Company	**17,893**	20,616	25,011	24,086	17,681
Non-controlling interests	**(1,451)**	–	–	–	–
Profit for the year	**16,442**	20,616	25,011	24,086	17,681

	As at 31 December				
	2018	2017	2016	2015	2014
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Assets and liabilities					
Total assets	**697,809**	555,983	519,007	564,720	517,547
Total liabilities	**(445,947)**	(315,092)	(292,836)	(357,716)	(329,846)
	251,862	240,891	226,171	207,004	187,701
Attributable to:					
Equity shareholders of the Company	**252,823**	240,891	226,171	207,004	187,701
Non-controlling interests	**(961)**	–	–	–	–
Total equity	**251,862**	240,891	226,171	207,004	187,701

碧瑤綠色集團有限公司
Baguio Green Group Limited