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BAGUIO GREEN GROUP LIMITED

碧瑤綠色集團有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1397)

**INTERIM RESULTS ANNOUNCEMENT
FOR THE SIX MONTHS ENDED 30 JUNE 2023**

FINANCIAL HIGHLIGHTS

| | For the six months ended 30 June | | |
|---|----------------------------------|----------|--------|
| | 2023 | 2022 | Change |
| | HK\$'000 | HK\$'000 | |
| Revenue | 1,106,855 | 714,122 | +55.0% |
| Gross profit | 86,390 | 57,680 | +49.8% |
| Other income, gains and losses | 3,173 | 20,937 | -84.8% |
| Profit for the period | 21,741 | 17,118 | +27.0% |
| Basic and diluted earnings per share (HK cents) | 5.26 | 4.29 | |

The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2023 (1H2022: Nil).

The board of directors (the “Directors” and the “Board” respectively) of Baguio Green Group Limited (the “Company”, and together with its subsidiaries, the “Group” or “Baguio”) is pleased to announce the unaudited, consolidated interim results of the Group for the six months ended 30 June 2023 (the “Period”).

MARKET REVIEW

In the first half of 2023, the HKSAR Government (the “Government”) announced the cancellation of the quarantine arrangement for inbound visitors, together with the full resumption of normal travel between Hong Kong and the Mainland, as well as the recovery of exchanges between Hong Kong and the Mainland and the rest of the world, resulting in a significant improvement in overall economic sentiments. However, global inflation spurred higher interest rates and geopolitical instability slowed the pace of Hong Kong’s economic recovery. Although the oil price fell from its peak, it was still at a relatively high level, which posted significant challenges to cost control. Despite the challenging operating environment, after three years of the pandemic, the increasing awareness of public health among the Hong Kong people boosted the demand for cleaning services, which continued to create opportunities for the cleaning business of the Group.

In order to achieve the target of “Zero Landfill” in Hong Kong by 2035 as set out in the Waste Blueprint for Hong Kong 2035, the Government during the Period announced that the Municipal Solid Waste (MSW) charging scheme will be implemented in April next year, supporting the development of the Group’s recycling business.

According to the 2023-2024 Budget announced by the Government, Hong Kong is proactively promoting the green economy and the application of green technology, and is committed to becoming an international green technology and financial center, which will bring vast room for development for the Group’s green technology business.

The Group’s core businesses, including cleaning, waste management, recycling, green technology, landscaping, and pest management, are closely related to the livelihood of the general public. With the Government’s public consultation on Lantau Tomorrow, as well as the gradual completion of new residential projects in phases in the Northern Metropolis, during the Period, it is expected that the new development areas will have rigid demand for the businesses of Baguio and generate opportunities for the Group’s core businesses.

BUSINESS REVIEW

The Group’s core business, cleaning services, recorded a significant growth in the first half of 2023. Revenue from cleaning services increased by 72.8% to approximately HK\$861.5 million, accounting for approximately 77.8% of the Group’s total revenue during the Period. Total revenue was approximately HK\$1,106.9 million, representing an increase of 55.0% as compared to the same period in 2022.

With regard to our cleaning business, the Group secured new contracts in a total amount of approximately HK\$1,780 million, including but not limited to the following cleaning service contracts:

- Contract in relation to North Lantau Hospital, Caritas Medical Centre and Kwai Chung Hospital
- Contract in relation to streets and public toilets in Tsuen Wan District
- Contract in relation to markets in Tai Po District, Southern District, Sham Shui Po District and Kowloon City District
- Department of Health contract in relation to clinics in Kowloon East and Kowloon West
- Contract in relation to the leisure venues in Islands District
- Contract in relation to the aprons and runways of Hong Kong International Airport

The Group's street cleaning services cover a total of eight districts in Hong Kong (Tsuen Wan, Mong Kok, Sha Tin, Yuen Long, Western, Eastern, Sham Shui Po and Tai Po districts), serving a population of approximately 3 million, marking Baguio's leading position in the Hong Kong cleaning services market. The Group's cleaning business cover a wide range of different places, such as airports, sports venues, hospitals, parks, markets, schools, housing estates, and private institutions, demonstrating the Group's strong execution capabilities.

In terms of waste management and recycling business, the Group provided waste collection services to five districts during the Period, including Tsuen Wan, Wong Tai Sin, Mong Kok, Wan Chai and Eastern districts, serving a population of approximately 1.6 million. The Group is contracted by the Environmental Protection Department ("EPD") to handle around 5,000 recycling spots (including plastic, glass bottles, metals and waste paper) across Hong Kong. During the Period, Baguio continued to provide plastic collection services for three districts (Eastern, Kwun Tong and Central & Western) under the EPD Plastic Recycling Pilot Scheme contract. Baguio also provides plastic collection services for Recycling Stations of "GREEN@COMMUNITY" and Reverse Vending Machines, which were introduced by EPD and other institutions in Hong Kong. In addition, the Group also provides collection and management services of glass bottles for Hong Kong Island, the New Territories and Islands District.

After strategic deployment in recent years, the green technology business achieved rapid and remarkable results and began to generate profitable contributions during the Period. The Group made impressive progress in providing the Government with Smart Recycling Machines (“SRMs”) and a Big Data Analytics Platform. SRMs are now available in different places of Hong Kong, providing the public with a convenient recycling experience 24 hours a day and helping to increase the overall recycling volume in Hong Kong. The Government is proactively considering to increase the number of SRMs to meet the huge demand for recycling arising from the launch of the MSW charging scheme in April next year.

During the Period, the Group was awarded a contract by the Food and Environmental Hygiene Department of the Government for the provision of people counting services servicing at over 800 public toilets, aqua privies and bathhouses through the system powered by Time-of-flight and Internet of Things technologies to assist the Government in monitoring flow and optimising service standard. Data are collected and analysed on a dedicated Big Data Platform, providing the Government a comprehensive and holistic perspective with current utilisation insights and predictive analytics. This information will support the future strategic development of public toilets, including service standard enhancement, and redeployment and refurbishment of public toilet facilities in Hong Kong.

Last year, the Group was awarded EPD’s first contract for using bioconversion technology (Black Soldier Flies) to help solve Hong Kong’s chicken manure problem. The project has commenced production. The Group is actively exploring the application of bioconversion technology to food waste, so as to capture enormous business opportunities.

With regard to recyclable food waste collection services, the Group provides recyclable food waste collection services in Kowloon District and New Territories West. With the aim of increasing the collection and recycling of food waste, Baguio has deployed a designated team to outreach community, educate stakeholders and establish a comprehensive collection network to make food waste recycling easy and convenient for the public. Food waste collected will be delivered to O•PARK1 in Siu Ho Wan located on Lantau Island where it will be turned into renewable energy. Among the total four EPD’s similar contracts granted by EPD, the Group has secured half of them, highlighting Baguio’s position as Hong Kong’s market leader in food waste collection.

For the landscaping services, the Group was awarded a professional tree transplanting contract for the Urban Council Centenary Garden during the Period. In addition, the Group also provides landscaping services to the Hong Kong University of Science and Technology, the Hong Kong Science Park, the Government and a wide range of private clients including shopping malls, hotels and large private residences. For pest management business, during the Period, the Group won pest management service contracts for a number of tertiary institutions, including the University of Hong Kong, the Hong Kong University of Science and Technology and Lingnan University.

Interim Dividend

The Directors do not recommend the payment of an interim dividend for the Period (1H2022: Nil).

Revenue Breakdown of Major Business Segments

| | For the six months ended 30 June | | | | Change |
|-----------------------------------|----------------------------------|-----------------------|---------------------------|-----------------------|---------------|
| | 2023 | | 2022 | | |
| | Revenue (HK\$ million) | % of total revenue | Revenue (HK\$ million) | % of total revenue | |
| Cleaning | 861.5 | 77.8% | 498.6 | 69.8% | +72.8% |
| Waste management and recycling | 137.2 | 12.4% | 111.8 | 15.7% | +22.7% |
| Landscaping | 61.4 | 5.6% | 56.9 | 8.0% | +8.1% |
| Pest management | 46.8 | 4.2% | 46.8 | 6.5% | -0.2% |
| Total | 1,106.9 | 100.0% | 714.1 | 100.0% | +55.0% |

Gross Profit Margin of Major Business Segments

| | For the six months ended 30 June | | |
|--------------------------------|-------------------------------------|-------|------------|
| | 2023 | 2022 | Change |
| Cleaning | 7.2% | 9.9% | -2.7 p.p. |
| Waste management and recycling | 8.7% | 0.3% | +8.4 p.p. |
| Landscaping | 18.0% | 5.7% | +12.3 p.p. |
| Pest management | 3.3% | 10.2% | -6.9 p.p. |
| Overall | 7.8% | 8.1% | -0.3 p.p. |

During the Period, the Group was driven by its strong performance with an increase in revenue of approximately 72.8% from the cleaning segment. This encouraging result was attributable to the Group's enormous effort in securing new contracts with the Government for the provision of cleaning services. In addition, with the award of new contracts from the waste management and recycling segment together with higher profit margins and effective cost control in the landscaping segment, the profit margins for these segments were improved satisfactorily.

However, high service level demand in the pest management services market with keen competition also affects the gross profit margin.

The overall gross profit margin of the Group slightly decreased approximately from 8.1% to 7.8%, but with an increase in revenue, the overall gross profit of the Group were improved approximately from HK\$57.7 million to HK\$86.4 million.

Contracts on Hand

As of 30 June 2023, the Group had a total of approximately HK\$4,557.2 million worth of unexpired contracts on hand, among which, approximately HK\$1,148.9 million would be recognised by the end of 2023; approximately HK\$1,814.8 million would be recognised in 2024 and the rest of approximately HK\$1,593.5 million would be recognised in 2025 and beyond.

| | Backlog contract value (HK\$ million) | Contract value to be recognised by 31 December 2023 (HK\$ million) | Contract value to be recognised by 31 December 2024 (HK\$ million) | Contract value to be recognised in 2025 and beyond (HK\$ million) |
|---|--|---|---|--|
| Cleaning services | 3,645.1 | 934.9 | 1,507.3 | 1,202.9 |
| Waste management and recycling services | 583.2 | 117.9 | 159.8 | 305.5 |
| Landscaping services | 173.1 | 55.7 | 78.2 | 39.2 |
| Pest management services | 155.8 | 40.4 | 69.5 | 45.9 |
| Total | 4,557.2 | 1,148.9 | 1,814.8 | 1,593.5 |

PROSPECTS

In the first half of 2023, new contracts awarded to the Group amounted to a total of HK\$2.04 billion. As a result, the Group recorded a historical high for its contracts on hand of approximately HK\$4.56 billion (as of 30 June 2023), representing an increase of approximately 27.0% from approximately HK\$3.59 billion as of 31 December 2022, providing strong revenue growth in the second half of 2023 and the subsequent years.

Among the contracts on hand, approximately HK\$1.15 billion is expected to be recognised as revenue in the second half of 2023, and the revenue for the first half of 2023 amounts to approximately HK\$1.11 billion. As compared to the revenue for last year (approximately HK\$1.79 billion), the growth in revenue shows that the Group is developing with strong momentum.

With the “Municipal Solid Waste (MSW) Charging Scheme” scheduled to be launched in April next year, it is expected to further motivate the public to recycle and to increase the recycling volume, which is conducive to the development of the industry. With the expected implementation of the “Producer Responsibility Scheme on Plastic Beverage Containers” in two years enshrining the principle of “Polluter Pays” and the vision of “Eco-responsibility”, the recycling rate of plastic beverage containers is expected to have a significant increase. The two schemes are expected to directly drive the growth of Baguio’s recycling business and create solid returns from our investment in recycling facilities which creates a strong entry barrier to the competition. With the introduction of relevant policies conducive to the recycling market, it is expected that the recycling market will grow by 2 to 3 times in 3 years, and recycling business is expected to become a growth driver for the Company.

The Government has clearly stated in the Waste Blueprint for Hong Kong 2035 that the goal is to achieve “Zero Landfill” by 2035. At present, plastics and food waste account for about 20% and 30% respectively of the waste disposed to landfills in Hong Kong. Baguio shares a common vision with the Government in promoting a circular economy by giving new life to plastics, food waste and other recyclables.

In partnership with Jardine Engineering Corporation Limited, the Group formed a Pilot Biochar Production Plant at the EcoPark in Tuen Mun which will commence operation in the second half of the year. By converting garden waste into high-quality biochar with pyrolysis technology for various applications, the production plant effectively “turns waste into useful resources”.

Regarding our green technology business, Baguio offers smart city, Internet of Things, big data, AI and biotechnology solutions, and expects its green technology business to become a future growth engine.

Since the launch of ESG⁺ last year, Baguio has helped clients of different listed companies to promote the “Environmental, Social and Governance” policies, enabling customers to use the Group’s sustainable environmental services while supporting green procurement to achieve a circular economy.

As for the landscaping business, the Government has actively promoted the construction of the Northern Metropolis and Lantau Tomorrow in recent years, which will bring business opportunities to the Group’s landscaping services.

The Group is also actively exploring suitable mergers and acquisitions, joint ventures or new business projects in Hong Kong and beyond to accelerate future business growth and deliver substantial and long-term returns to shareholders.

FINANCIAL REVIEW

Revenue

The Group’s revenue for the six-month periods ended 30 June 2023 and 2022 amounted to approximately HK\$1,106.9 million and HK\$714.1 million respectively, representing an increase of approximately 55.0%. The increase was mainly due to the increase in revenue in the cleaning segment together with the waste management and recycling segment, with an increase in the number of contracts and orders during the Period.

Cost of Services

For the six-month periods ended 30 June 2023 and 2022, the cost of services amounted to approximately HK\$1,020.5 million and HK\$656.4 million respectively, representing approximately 92.2% and approximately 91.9% of the Group’s total revenue for the corresponding periods respectively. The cost of services is primarily comprised of direct wages, direct overhead expenses and material consumables.

Gross Profit

The Group's gross profit for the Period was approximately HK\$86.4 million, representing an increase of approximately 49.8% from approximately HK\$57.7 million for the corresponding period in 2022.

Gross Profit Margin

The gross profit margins of the Group for the six-month periods ended 30 June 2023 and 2022 were approximately 7.8% and approximately 8.1% respectively. As mentioned above, there was a strong performance in cleaning, waste management and recycling together with landscaping segments. In addition, profit margin was also affected by high service level demand in the pest management services market with keen competition.

Other Income, Gains and Losses

The other income, gains and losses of the Group for the six-month periods ended 30 June 2023 and 2022 were approximately HK\$3.2 million and HK\$20.9 million respectively, representing a decrease of approximately 84.8%. The substantial decrease was mainly related to the decrease in subsidies received from the Hong Kong Government during the Period.

Selling and Marketing Expenses

The selling and marketing expenses of the Group for the six-month periods ended 30 June 2023 and 2022 were approximately HK\$1.2 million and HK\$0.8 million respectively. These expenses are mainly for promotional activities and channels to promote our recycling business and to enhance public awareness of environmental protection and waste recycling.

Administrative Expenses

The administrative expenses of the Group for the six-month periods ended 30 June 2023 and 2022 were approximately HK\$56.5 million and HK\$48.2 million respectively, representing an increase of approximately 17.3%, and approximately 5.1% and approximately 6.7% of the respective period's total revenue. The increase was mainly due to the increase in wages and allowances for staff and the office overhead to support new business development, and to strengthen and expand the enterprise resource planning ("ERP") system enhancing competitiveness. The Group continued to implement its budget cost control measures for administrative expenses during the Period.

Finance Costs

The finance costs of the Group for the six-month periods ended 30 June 2023 and 2022 were approximately HK\$5.3 million and HK\$2.7 million respectively, representing approximately 0.5% and approximately 0.4% of the Group's total revenue respectively. The increase was mainly due to the increase in the level of working capital loans and the interest rate on bank borrowings during the Period.

Profit for the Period Attributable to Equity Shareholders of the Company

The Group's net profit attributable to equity shareholders of the Company for the six-month periods ended 30 June 2023 and 2022 amounted to approximately HK\$21.8 million and HK\$17.8 million respectively, representing an increase of approximately 22.7%. The increase was mainly due to the factors described above.

CAPITAL STRUCTURE

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

The Directors review the capital structure regularly, taking into consideration the cost of capital and the risks associated. 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 its gearing ratio.

LIQUIDITY AND FINANCIAL RESOURCES

The Group derives cash flows from operating activities principally from rendering a comprehensive range of environmental services. For the Period, we had net cash generated from operating activities of approximately HK\$111.0 million (1H2022: HK\$50.1 million). As at 30 June 2023, the Group had available cash and bank balances amounting to approximately HK\$63.2 million (31 December 2022: HK\$29.0 million), representing an increase of approximately 118.0% from 31 December 2022.

As at 30 June 2023, the Group's total current assets and current liabilities were approximately HK\$553.5 million (31 December 2022: HK\$530.9 million) and HK\$506.0 million (31 December 2022: HK\$490.0 million) respectively, while the current ratio was approximately 1.1 times (31 December 2022: 1.1 times). The liquidity position of the Group is maintained at a healthy level.

As at 30 June 2023, the Group's bank borrowings amounted to approximately HK\$146.0 million (31 December 2022: HK\$176.4 million), representing a decrease of approximately 17.2%; the Group's lease liabilities were approximately HK\$39.4 million (31 December 2022: HK\$41.4 million), representing a decrease of approximately 4.8%, for recognising the lease contracts in respect of certain lands, office buildings and nurseries; the Group's other loan from a non-controlling shareholder of a subsidiary amounted to approximately HK\$7.2 million (31 December 2022: HK\$5.6 million), representing an increase of approximately 28.6%, for financing the acquisition of property, plant and equipment for operational usage. During the Period, no financial instruments were used for hedging purposes.

As at 30 June 2023, the gearing ratio of the Group was approximately 0.6 times (31 December 2022: 0.7 times), which was calculated based on the total interest-bearing bank borrowings, lease liabilities and other loan over the total equity of the Group.

As at 30 June 2023, the Group had unutilised banking facilities of approximately HK\$373.1 million (31 December 2022: HK\$331.6 million).

FOREIGN CURRENCY EXPOSURE

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

CAPITAL COMMITMENT

As at 30 June 2023, the Group had capital commitment contracted for of approximately HK\$5.0 million (31 December 2022: HK\$6.0 million).

CHARGES ON THE GROUP'S ASSETS

As at 30 June 2023, the amounts payable under lease liabilities within one year were approximately HK\$10.2 million (31 December 2022: HK\$10.2 million), that after one year but with five years were approximately HK\$13.7 million (31 December 2022: HK\$14.5 million), and that after five years were approximately HK\$15.5 million (31 December 2022: HK\$16.7 million).

In addition as at 30 June 2023, the Group had (i) pledged bank deposits of approximately HK\$7.2 million (31 December 2022: HK\$7.2 million); (ii) pledge of cash and cash equivalents of approximately HK\$0.2 million (31 December 2022: HK\$0.4 million); (iii) mortgage of the land and buildings of approximately HK\$63.7 million (31 December 2022: HK\$65.1 million); (iv) pledge of the financial assets at fair value through profit or loss of approximately HK\$14.9 million (31 December 2022: HK\$2.6 million); (v) pledge of the trade receivables of approximately HK\$128.8 million (31 December 2022: HK\$104.6 million); and (vi) pledge of the contract assets of approximately HK\$5.4 million (31 December 2022: HK\$4.9 million).

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

CONTINGENT LIABILITIES

As at 30 June 2023, the Group did not have any material contingent liabilities.

ACQUISITION, DISPOSAL AND SIGNIFICANT INVESTMENT HELD

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

HUMAN RESOURCES

As at 30 June 2023, the Group employed 8,963 employees (31 December 2022: 8,894 employees), including both full-time and part-time employees. Remuneration packages were generally structured by reference to market terms together with individual qualifications and experience.

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

The unaudited consolidated interim financial results of the Group for the six months ended 30 June 2023 together with the comparative figures of 2022 are as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2023 — UNAUDITED

(EXPRESSED IN HONG KONG DOLLARS)

| | Note | For the six months ended 30 June | |
|---|------|----------------------------------|------------------|
| | | 2023 HK\$'000 | 2022 HK\$'000 |
| Revenue | 4 | 1,106,855 | 714,122 |
| Cost of services | | <u>(1,020,465)</u> | <u>(656,442)</u> |
| Gross profit | | 86,390 | 57,680 |
| Other income, gains and losses | | 3,173 | 20,937 |
| Change in fair value less costs to sell of biological assets | | – | (2,161) |
| Selling and marketing expenses | | (1,210) | (769) |
| Administrative expenses | | <u>(56,505)</u> | <u>(48,170)</u> |
| Profit from operations | | 31,848 | 27,517 |
| Finance costs | 5 | (5,341) | (2,723) |
| Share of losses of a joint venture | | – | <u>(1,747)</u> |
| Profit before taxation | 6 | 26,507 | 23,047 |
| Income tax | 7 | <u>(4,766)</u> | <u>(5,929)</u> |
| Profit for the period | | 21,741 | 17,118 |
| Other comprehensive income: | | | |
| Items that may be reclassified subsequently to profit or loss: | | | |
| Exchange differences on translation of financial statements of subsidiaries, net of nil tax | | <u>(113)</u> | <u>(104)</u> |
| Total comprehensive income for the period | | <u>21,628</u> | <u>17,014</u> |

| | For the six months ended 30 June | |
|---|---|----------------------|
| | 2023 | 2022 |
| <i>Note</i> | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Profit for the period attributable to: | | |
| Equity shareholders of the Company | 21,834 | 17,796 |
| Non-controlling interests | <u>(93)</u> | <u>(678)</u> |
| | <u>21,741</u> | <u>17,118</u> |
| Total comprehensive income for the period attributable to: | | |
| Equity shareholders of the Company | 21,721 | 17,692 |
| Non-controlling interests | <u>(93)</u> | <u>(678)</u> |
| | <u>21,628</u> | <u>17,014</u> |
| Earnings per share | | |
| Basic and diluted (HK cents) | <i>9</i> <u>5.26</u> | <u>4.29</u> |

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2023 – UNAUDITED

(EXPRESSED IN HONG KONG DOLLARS)

| | | At 30 June 2023 | At 31 December 2022 |
|---|-------------|-----------------------|---------------------------|
| | <i>Note</i> | HK\$'000 | HK\$'000 |
| Non-current assets | | | |
| Property, plant and equipment | | 267,321 | 277,976 |
| Right-of-use assets | | 37,546 | 40,544 |
| Intangible assets | | 8,200 | – |
| Interest in a joint venture | | – | – |
| Financial assets at fair value through profit or loss | | 14,916 | 14,872 |
| Prepayments, deposits and other receivables | | 32,304 | 29,508 |
| Deferred tax assets | | 2,122 | 2,343 |
| | | 362,409 | 365,243 |
| Current assets | | | |
| Inventories | | 2,865 | 3,050 |
| Contract assets | | 11,674 | 10,723 |
| Trade receivables | 10 | 430,203 | 452,134 |
| Prepayments, deposits and other receivables | | 28,632 | 19,288 |
| Tax recoverable | | 1,589 | 1,280 |
| Biological assets | | 8,207 | 8,292 |
| Pledged bank deposits | | 7,188 | 7,176 |
| Cash and cash equivalents | | 63,177 | 28,982 |
| | | 553,535 | 530,925 |
| Current liabilities | | | |
| Trade payables | 11 | 33,562 | 36,758 |
| Contract liabilities | | 4,768 | 410 |
| Accruals, deposits received and other payables | | 304,969 | 263,675 |
| Bank borrowings | | 146,038 | 176,356 |
| Lease liabilities | | 10,219 | 10,153 |
| Tax payable | | 6,464 | 2,601 |
| | | 506,020 | 489,953 |
| Net current assets | | 47,515 | 40,972 |
| Total assets less current liabilities | | 409,924 | 406,215 |

| | | At 30 June 2023 <i>HK\$'000</i> | At 31 December 2022 <i>HK\$'000</i> |
|--|-------------|--|--|
| | <i>Note</i> | | |
| Non-current liabilities | | | |
| Other payables | | 972 | 1,188 |
| Lease liabilities | | 29,136 | 31,201 |
| Provision | | 14,578 | 14,352 |
| Deferred tax liabilities | | 23,269 | 23,363 |
| | | <u>67,955</u> | <u>70,104</u> |
| Net assets | | <u>341,969</u> | <u>336,111</u> |
| Capital and reserves | | | |
| Share capital | <i>12</i> | 4,150 | 4,150 |
| Reserves | | 339,419 | 333,468 |
| | | <u>343,569</u> | <u>337,618</u> |
| Total equity attributable to equity shareholders of the Company | | 343,569 | 337,618 |
| Non-controlling interests | | (1,600) | (1,507) |
| | | <u>341,969</u> | <u>336,111</u> |
| Total equity | | <u>341,969</u> | <u>336,111</u> |

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2023 – UNAUDITED

(EXPRESSED IN HONG KONG DOLLARS)

| | Attributable to equity shareholders of the Company | | | | | | Total | Non-controlling interests | Total equity |
|--|--|----------------|---------------|----------------------|---------------------|-------------------|----------------|---------------------------|----------------|
| | Share capital | Share premium | Other reserve | Share option reserve | Translation reserve | Retained earnings | | | |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | |
| At 1 January 2022 | 4,150 | 100,850 | 18,330 | 1,572 | 7 | 161,675 | 286,584 | (3) | 286,581 |
| Profit for the period | - | - | - | - | - | 17,796 | 17,796 | (678) | 17,118 |
| Other comprehensive income for the period | - | - | - | - | (104) | - | (104) | - | (104) |
| Total comprehensive income for the period | - | - | - | - | (104) | 17,796 | 17,692 | (678) | 17,014 |
| Capital contributions received by a non-wholly owned subsidiary from a non-controlling shareholder | - | - | - | - | - | - | - | 800 | 800 |
| Dividends approved in respect of the previous year (note 8) | - | - | - | - | - | (3,735) | (3,735) | - | (3,735) |
| Equity-settled share-based payments | - | - | - | 281 | - | - | 281 | - | 281 |
| Share options lapsed | - | - | - | (49) | - | 49 | - | - | - |
| At 30 June 2022 | 4,150 | 100,850 | 18,330 | 1,804 | (97) | 175,785 | 300,822 | 119 | 300,941 |
| At 1 January 2023 | 4,150 | 100,850 | 18,330 | 1,493 | (202) | 212,997 | 337,618 | (1,507) | 336,111 |
| Profit for the period | - | - | - | - | - | 21,834 | 21,834 | (93) | 21,741 |
| Other comprehensive income for the period | - | - | - | - | (113) | - | (113) | - | (113) |
| Total comprehensive income for the period | - | - | - | - | (113) | 21,834 | 21,721 | (93) | 21,628 |
| Dividends approved in respect of the previous year (note 8) | - | - | - | - | - | (15,770) | (15,770) | - | (15,770) |
| Share options lapsed | - | - | - | (328) | - | 328 | - | - | - |
| At 30 June 2023 | 4,150 | 100,850 | 18,330 | 1,165 | (315) | 219,389 | 343,569 | (1,600) | 341,969 |

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2023 – UNAUDITED

(EXPRESSED IN HONG KONG DOLLARS)

| | For the six months ended 30 June | |
|---|-------------------------------------|-----------------|
| | 2023 | 2022 |
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Net cash generated from operating activities | 111,016 | 50,090 |
| Investing activities | | |
| Payment for the purchase of property, plant and equipment | (29,107) | (72,844) |
| Other cash flows (used in)/arising from investing activities | (7,830) | 2,359 |
| Net cash used in investing activities | (36,937) | (70,485) |
| Financing activities | | |
| Proceeds from new bank borrowings | 863,332 | 647,075 |
| Repayment of bank borrowings | (893,650) | (611,825) |
| Other cash flows used in financing activities | (9,292) | (3,358) |
| Net cash (used in)/generated from financing activities | (39,610) | 31,892 |
| Net increase in cash and cash equivalents | 34,469 | 11,497 |
| Cash and cash equivalents at the beginning of the period | 28,982 | 32,254 |
| Effect of foreign exchange rates changes | (274) | (318) |
| Cash and cash equivalents at the end of the period | 63,177 | 43,433 |

NOTES

1. GENERAL INFORMATION

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

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

2. BASIS OF PREPARATION

The interim financial results set out in this announcement do not constitute the Group's interim financial report for the six months ended 30 June 2023, but are extracted from that interim financial report.

The interim financial report has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, including compliance with Hong Kong Accounting Standard (“HKAS”) 34, *Interim financial reporting*, issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”). It was authorised for issue on 29 August 2023.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2022 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2023 annual financial statements. Details of any changes in accounting policies are set out in note 3.

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

The interim financial report contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2022 annual financial statements. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for a full set of financial statements prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”).

The interim financial report is unaudited, but has been reviewed by KPMG in accordance with Hong Kong Standard on Review Engagements 2410, *Review of interim financial information performed by the independent auditor of the entity*, issued by the HKICPA.

The financial information relating to the financial year ended 31 December 2022 that is included in the interim financial report as comparative information does not constitute the Company's annual consolidated financial statements for that financial year but is derived from those financial statements.

3. CHANGES IN ACCOUNTING POLICIES

(a) New and amended HKFRSs

The Group has applied the following new and amended HKFRSs issued by the HKICPA to the interim financial report for the current accounting period:

- HKFRS 17, *Insurance contracts*
- Amendments to HKAS 1, *Presentation of financial statements* and HKFRS Practice Statement 2, *Making materiality judgements: Disclosure of accounting policies*
- Amendments to HKAS 8, *Accounting policies, changes in account estimates and errors: Definition of accounting estimates*
- Amendments to HKAS 12, *Income taxes: Deferred tax related to assets and liabilities arising from a single transaction*

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

(b) New HKICPA guidance on the accounting implications of the abolition of the MPF-LSP offsetting mechanism

In July 2023, the HKICPA published “Accounting implications of the abolition of the MPF-LSP offsetting mechanism in Hong Kong” that provides guidance on the accounting considerations relating to the abolition of the MPF – LSP offsetting mechanism. The Group has commenced the processes on impact assessment. However, the impact is not reasonably estimable at the time the interim financial report is authorised for issue, as the Group has yet to fully complete its assessment of the impact of the HKICPA guidance.

4. SEGMENT INFORMATION

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

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

Information regarding the Group’s reportable segments is presented below. The prior period segment information for comparative purpose has been restated as a result of the changes in the Group’s internal organisation, and therefore resulting in an alteration in the composition of the reportable segments.

Segment revenue and results

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

| | Cleaning services business <i>HK\$'000</i> | Waste management and recycling business <i>HK\$'000</i> | Landscaping services business <i>HK\$'000</i> | Pest management business <i>HK\$'000</i> | Total <i>HK\$'000</i> |
|---|---|---|--|---|--|
| Six months ended 30 June 2023 | | | | | |
| Disaggregated by timing of revenue recognition | | | | | |
| – over time | 861,471 | 135,272 | 61,433 | 46,771 | 1,104,947 |
| – point in time | – | 1,908 | – | – | 1,908 |
| Revenue from external customers | 861,471 | 137,180 | 61,433 | 46,771 | 1,106,855 |
| Inter-segment revenue | 207 | 369 | 129 | 264 | 969 |
| Reportable segment revenue | 861,678 | 137,549 | 61,562 | 47,035 | 1,107,824 |
| Segment results | 61,770 | 11,947 | 11,108 | 1,565 | 86,390 |
| Other income, gains and losses | | | | | 3,173 |
| Selling and marketing expenses | | | | | (1,210) |
| Administrative expenses | | | | | (56,505) |
| Finance costs | | | | | (5,341) |
| Profit before taxation | | | | | 26,507 |
| | | | | | |
| | Cleaning services business <i>HK\$'000</i> (restated) | Waste management and recycling business <i>HK\$'000</i> (restated) | Landscaping services business <i>HK\$'000</i> (restated) | Pest management business <i>HK\$'000</i> (restated) | Total <i>HK\$'000</i> (restated) |
| Six months ended 30 June 2022 | | | | | |
| Disaggregated by timing of revenue recognition | | | | | |
| – over time | 498,607 | 93,765 | 56,848 | 46,842 | 696,062 |
| – point in time | – | 18,060 | – | – | 18,060 |
| Revenue from external customers | 498,607 | 111,825 | 56,848 | 46,842 | 714,122 |
| Inter-segment revenue | 163 | 882 | 48 | 1,627 | 2,720 |
| Reportable segment revenue | 498,770 | 112,707 | 56,896 | 48,469 | 716,842 |
| Segment results | 49,161 | 364 | 3,218 | 4,937 | 57,680 |
| Other income, gains and losses | | | | | 20,937 |
| Change in fair value less costs to sell of biological assets | | | | | (2,161) |
| Selling and marketing expenses | | | | | (769) |
| Administrative expenses | | | | | (48,170) |
| Finance costs | | | | | (2,723) |
| Share of losses of a joint venture | | | | | (1,747) |
| Profit before taxation | | | | | 23,047 |

Segment assets and liabilities

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

| | Cleaning services business <i>HK\$'000</i> | Waste management and recycling business <i>HK\$'000</i> | Landscaping services business <i>HK\$'000</i> | Pest management business <i>HK\$'000</i> | Total <i>HK\$'000</i> |
|-------------------------------|---|---|--|---|--------------------------|
| As at 30 June 2023 | | | | | |
| Segment assets | 607,684 | 176,446 | 87,859 | 31,591 | 903,580 |
| Unallocated | | | | | <u>12,364</u> |
| Total assets | | | | | <u><u>915,944</u></u> |
| Segment liabilities | 406,882 | 96,951 | 22,086 | 29,552 | 555,471 |
| Unallocated | | | | | <u>18,504</u> |
| Total liabilities | | | | | <u><u>573,975</u></u> |
| | | | | | |
| | Cleaning services business <i>HK\$'000</i> | Waste management and recycling business <i>HK\$'000</i> | Landscaping services business <i>HK\$'000</i> | Pest management business <i>HK\$'000</i> | Total <i>HK\$'000</i> |
| As at 31 December 2022 | | | | | |
| Segment assets | 611,699 | 175,200 | 68,538 | 36,583 | 892,020 |
| Unallocated | | | | | <u>4,148</u> |
| Total assets | | | | | <u><u>896,168</u></u> |
| Segment liabilities | 405,704 | 98,028 | 21,899 | 31,720 | 557,351 |
| Unallocated | | | | | <u>2,706</u> |
| Total liabilities | | | | | <u><u>560,057</u></u> |

Geographical information

The following sets out information about the geographical region of the Group's revenue from external customers, which is based on the location to which the services and goods are delivered.

| | For the six months ended 30 June | |
|----------------|-------------------------------------|-----------------|
| | 2023 | 2022 |
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Hong Kong | 1,106,301 | 702,110 |
| Mainland China | – | 6,458 |
| Southeast Asia | 554 | 5,554 |
| | 1,106,855 | 714,122 |

5. FINANCE COSTS

| | For the six months ended 30 June | |
|-------------------|-------------------------------------|-----------------|
| | 2023 | 2022 |
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Interest on: | | |
| Bank borrowings | 4,551 | 1,931 |
| Bank overdrafts | 5 | 1 |
| Lease liabilities | 575 | 679 |
| Others | 210 | 112 |
| | 5,341 | 2,723 |

6. PROFIT BEFORE TAXATION

| | For the six months ended 30 June | |
|--|-------------------------------------|-----------------|
| | 2023 | 2022 |
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Profit before taxation is arrived at after charging/(crediting): | | |
| Cost of consumable goods | 30,403 | 37,104 |
| Depreciation: | | |
| Owned property, plant and equipment | 37,062 | 20,699 |
| Right-of-use assets | 6,929 | 7,475 |
| COVID-19-related rent concessions received | – | (973) |
| Gain on disposal of property, plant and equipment | (165) | (1,387) |
| Government grants* | (567) | (13,345) |
| Reversal of credit losses on trade receivables | (96) | (1,820) |
| | <u>823,720</u> | <u>520,516</u> |
| Staff costs (including directors' remuneration): | | |
| Wages, salaries and other benefits | 823,720 | 520,516 |
| Provision for long service and severance payments | 43,193 | 11,254 |
| Provision for untaken paid leave | 6,703 | 6,702 |
| Contributions to defined contribution retirement scheme | 25,416 | 16,397 |
| Equity-settled share-based payments | – | 281 |
| | <u>899,032</u> | <u>555,150</u> |
| Short-term lease payments not included in the measurement of lease liabilities: | | |
| Machinery and motor vehicles | 27,395 | 22,814 |
| Land and buildings | 2,026 | 3,140 |
| | <u>29,421</u> | <u>25,954</u> |

* During the reporting period, the Group recognised the government grants as follows:

- (i) Employment Support Scheme, which aims to retain employment and combat COVID-19, under the Anti-epidemic Fund of the Government of nil (six months ended 30 June 2022: HK\$7,696,000). The purpose of the funding was to provide financial support to enterprises to retain their employees or more employees when the business revives. Under the terms of the grant, the Group was required employ a sufficient number of employees with reference to its proposed employee headcounts in each subsidy month;
- (ii) subsidies from the Green Employment Scheme of the Environment and Ecology Bureau of HK\$386,000 (six months ended 30 June 2022: HK\$567,000);
- (iii) subsidies for phasing out certain diesel commercial vehicles by the Group of nil (six months ended 30 June 2022: HK\$5,017,000); and
- (iv) other subsidies of HK\$181,000 (six months ended 30 June 2022: HK\$65,000).

There were neither unfulfilled conditions nor other contingencies attached to the receipt of those grants. There is no assurance that the Group will continue to receive such grant in the future.

7. INCOME TAX

| | For the six months ended 30 June | |
|-------------------------------------|---|---------------------|
| | 2023 | 2022 |
| | HK\$'000 | HK\$'000 |
| Current tax – Hong Kong Profits Tax | 4,640 | 882 |
| Deferred tax | 126 | 5,047 |
| | <u>4,766</u> | <u>5,929</u> |

The provision for Hong Kong Profits Tax is calculated at 16.5% (six month ended 30 June 2022: 16.5%) of the estimated assessable profits for the six months ended 30 June 2023, except for one subsidiary of the Group which is a qualifying corporation under the two-tiered Profits Tax rate regime. For this subsidiary, the first HK\$2 million of assessable profits are taxed at 8.25% and the remaining assessable profits are taxed at 16.5%. The provision for Hong Kong Profits Tax for this subsidiary was calculated at the same basis in 2022.

8. DIVIDENDS

| | For the six months ended 30 June | |
|--|-------------------------------------|-----------------|
| | 2023 | 2022 |
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Final dividend in respect of the previous financial year, was approved and recognised during the interim period, of HK3.8 cents (six months ended 30 June 2022: HK0.9 cents) per ordinary share | <u>15,770</u> | <u>3,735</u> |

The directors of the Company do not recommend the payment of any interim dividend for the six months ended 30 June 2023 (six months ended 30 June 2022: Nil).

9. EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of the basic earnings per share is based on the profit for the six months ended 30 June 2023 attributable to ordinary equity shareholders of the Company of HK\$21,834,000 (six months ended 30 June 2022: HK\$17,796,000) and the weighted average number of 415,000,000 (six months ended 30 June 2022: 415,000,000) ordinary shares in issue during the interim period.

(b) Diluted earnings per share

Diluted earnings per share for the six months ended 30 June 2023 and 2022 are the same as the basic earnings per share as there were no potential dilutive ordinary shares in existence during the interim periods.

10. TRADE RECEIVABLES

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

| | At 30 June 2023 <i>HK\$'000</i> | At 31 December 2022 <i>HK\$'000</i> |
|-----------------------------------|--|--|
| Within 60 days | 366,816 | 359,602 |
| Over 60 days but within 120 days | 45,475 | 79,293 |
| Over 120 days but within 365 days | 12,752 | 12,311 |
| Over 365 days | <u>5,160</u> | <u>928</u> |
| | <u>430,203</u> | <u>452,134</u> |

In general, for the contracts with some quasi-government organisations and The Government of the Hong Kong Special Administrative Region, the Group has no specific credit terms in accordance with the tender terms. For other contracts, the Group normally allows a credit period ranging from 30 to 60 days depending on the customers' creditworthiness and the length of business relationship.

11. TRADE PAYABLES

The ageing analysis of trade payables, based on the invoice date at the end of the reporting period, is as follow:

| | At 30 June 2023 <i>HK\$'000</i> | At 31 December 2022 <i>HK\$'000</i> |
|---------------------------------|--|--|
| Within 30 days | 21,496 | 21,214 |
| Over 30 days but within 60 days | 3,809 | 10,595 |
| Over 60 days but within 90 days | 1,183 | 861 |
| Over 90 days | 7,074 | 4,088 |
| | <u>33,562</u> | <u>36,758</u> |

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

12. SHARE CAPITAL

| | Number of shares '000 | Nominal value <i>HK\$'000</i> |
|--|-----------------------------|-------------------------------------|
| Authorised: | | |
| <i>Ordinary shares of HK\$0.01 each</i> | | |
| As at 1 January 2022, 31 December 2022, 1 January 2023 and 30 June 2023 | <u>1,000,000</u> | <u>10,000</u> |
| Issued and fully paid: | | |
| <i>Ordinary shares of HK\$0.01 each</i> | | |
| As at 1 January 2022, 31 December 2022, 1 January 2023 and 30 June 2023 | <u>415,000</u> | <u>4,150</u> |

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

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

CORPORATE GOVERNANCE

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

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules as its own code of conduct regarding directors' securities transactions. Having made specific enquiries with all Directors, each of the Directors has confirmed that he/she has complied with the required standards as set out in the Model Code throughout the six months ended 30 June 2023.

AUDIT COMMITTEE

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

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

PUBLICATION OF INTERIM RESULTS AND INTERIM REPORT

This interim results announcement will be published on the websites of the Stock Exchange (www.hkex.com.hk) and the Company (www.baguio.com.hk). The interim report of the Company for the Period will be despatched to the shareholders of the Company as well as published on the websites of the Stock Exchange and the Company in due course.

By order of the Board of
Baguio Green Group Limited
Ng Wing Hong
Chairman

Hong Kong, 29 August 2023

As at the date of this announcement, the Board comprises Mr. Ng Wing Hong, Ms. Ng Yuk Kwan Phyllis and Ms. Leung Shuk Ping as executive Directors of the Company and Mr. Sin Ho Chiu, Mr. Lau Chi Yin Thomas and Professor Cheng Edwin Tai Chiu as independent non-executive Directors of the Company.