



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



2020

Annual Report 年報

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CORPORATE INFORMATION

EXECUTIVE DIRECTORS

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

(resigned with effect from 18 February 2021)

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
*(Public Interest Entity Auditor registered in accordance
with the Financial Reporting Council Ordinance)*

REGISTERED OFFICE

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

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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Kowloon, Hong Kong

PLACE OF BUSINESS IN THE PEOPLE'S REPUBLIC OF CHINA

Room 201, Building A, Qianwan 1st Road
Qianhai Shenzhen-Hong Kong Cooperation Zone
Nanshan District, Shenzhen, Guangdong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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

HONG KONG BRANCH SHARE REGISTRAR

Tricor Investor Services Limited
Level 54, 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

CHAIRMAN'S STATEMENT

BRINGING SMART TECHNOLOGY TO ENABLE SUSTAINABLE INTEGRATED ENVIRONMENTAL SERVICES

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 2020 (the "Year").

For Hong Kong, 2020 was a year of challenge and gloom. The pandemic, which affected every sector of society, served as a wake-up call to the public on the importance of a sustainable living environment. Every coin has two sides and the difficulties created by the pandemic have also dramatically raised social awareness about the importance of having a "Clean & Green" environment and circular economy.

As Hong Kong's leading provider of integrated environmental services, Baguio has made every effort to enhance its one-stop environmental services solution — from Cleaning, Recycling, Waste Management & Collection, and Horticulture & Landscaping to Integrated Pest Management. To cope with our ever-evolving society, Baguio has moved with the times by incorporating new and more advanced technology in its operations. A medium to long-term plan was formulated to consolidate and integrate different technology platforms to enhance service quality and efficiency in the areas of working performance, communications, and management.

PROMOTING PRODUCTIVITY EXCELLENCE THROUGH DIGITALIZATION

Since 1980, Baguio has pursued a vision: "To be the most comprehensive and reliable environmental services group in Hong Kong." We are committed to delivering the best and most professional services to our customers. We recognized that the key to successfully realizing our vision is effective management and communication among different functional units and business lines. Leveraging innovation and technology in enterprise operations and management is the "catalyst" to boosting our overall business performance and productivity. Currently, we have adopted various information technology solutions including: "iAttendency" platform for employee management; "iButton" and Geographical Information System (GIS) platform for fleet management and route optimization; and our ERP system to enhance productivity and fully digitalize the entire business processes.

We believe that implementing smart technology and digitalization is a long-term endeavor that will make Baguio's integrated environmental services much more efficient, thereby raising service credibility and reducing costs.

BIG DATA ANALYSIS TO BUILD A SUSTAINABLE FUTURE

Given Baguio's extensive experience, comprehensive geographic coverage, and one-stop cleaning and waste management facilities in Hong Kong, we were invited to participate in numerous government tenders for environmental services. We are pleased that the Hong Kong Government has outlined its vision for "Waste Reduction • Resources Circulation • Zero Landfill" in the *Waste Blueprint for Hong Kong 2035* ("Waste Blueprint") published in February 2021. This sets out the strategies, goals and measures needed to cope with Hong Kong's waste-management challenges through to 2035. The Government aims to work closely with the industry and the community to reduce municipal waste disposal, raise the waste-recovery rate, and achieve zero wastage to landfills by developing sufficient waste-to-energy facilities — ultimately creating a circular economy. We believe that these clear waste-reduction targets, together with plans to extend the community recycling network in 18 districts through creating more Recycling Stations, Recycling Stores and Recycling Spots, will all raise public awareness about waste recycling. They will also significantly increase the volume of recyclable waste such as plastics and glass bottles being processed by recyclers.

CHAIRMAN'S STATEMENT

To fully tap into the recycling sector and its enormous growth opportunities, technology will play a vital role. Our vision is to pursue a carbonless economy and make every piece of waste traceable by leveraging our fast-growing waste-management technology platform. It will be the ultimate factor in determining who wins in this competitive market, especially when engaging with tech-savvy millennials and Gen Z who are key growth drivers of sustainability and the circular economy. We aim to collect a vast range of data during the recycling process from waste collection and disposal to recycling. This will enable corporations to track their carbon footprint, including where recyclables end up, the volume of greenhouse gas emitted, and the energy being used en route to the final destination. In recent collaborations with Hong Kong Airport Authority and other waste management clients, Baguio has provided recycling analysis which details the volume of waste, treatment of waste, and carbon-footprint data for the entire waste-management process. Such waste management data allows clients to formulate and improve their sustainability plans through more objective and comprehensive analysis.

In the future, our corporate clients will be able to use our smart waste-management platform to connect with their office backend systems — allowing for smart waste management. At the same time, we hope that our technology platform will serve as a platform where recycling enthusiasts can come together with new and innovative recycling initiatives, further raising public awareness of waste recycling. The “iRecycle” platform, which was exclusively developed by Baguio, represents a major step forward for the Group in applying artificial intelligence (AI) and big data analysis to its recycling business. This has enabled us to maximize coverage and efficiency by encouraging more households to participate in recycling during these dark and difficult times.

We believe that the demanding market conditions will purge poor performers who lack proper environmental systems and operations. This will open up new opportunities for Baguio which has several unique advantages — from its unrivalled expertise and investment in digitalization and innovation, to owning the most extensive service network and world-class recycling facilities.

A FEW WORDS OF APPRECIATION

Finally, I would like to extend my most sincere gratitude and appreciation to the Board; to our employees for their continued support, hard work, dedication and positivity during these difficult times; and to all our customers and business partners for their trust in and support of the Group. Looking forward, we will endeavor to deliver satisfactory returns to our shareholders.

Ng Wing Hong

Chairman of the Board

Hong Kong
30 March 2021

MANAGEMENT DISCUSSION AND ANALYSIS

ABOUT BAGUIO

Baguio is the largest provider of integrated environmental services in Hong Kong in terms of revenue-generating services, including professional cleaning, landscaping, pest management, waste management and recycling. With more than four decades of experience, an established reputation, a seasoned management team and comprehensive resources, the Group has long been working with clients from different sectors, including government departments, semi-government entities, public utility companies as well as non-governmental organizations (“NGOs”) and private companies.

MARKET REVIEW

Facing the global outbreak of the COVID-19 pandemic, Hong Kong, as a densely populated city, has done a better job than many countries in controlling the spread of the virus by demonstrating a high level of resilience and awareness of personal and environmental hygiene. Nonetheless, the Hong Kong economy has been hit hard by four waves of coronavirus infections resulting in a record fall of 6.1% in GDP for the full year of 2020.

With consumers restricted by lockdown measures, the surge in consumption of online shopping, food delivery and personal protective equipment (PPE) has drastically increased the amount of household waste, especially single-use items and disposable plastics. According to statistics provided by an environmental protection body, the weekly amount of single-use plastics tableware and food container waste reached 100 million pieces during the Year, 1.2 times higher than in 2019.

The Hong Kong recycling industry has also faced a challenging external environment brought on by global regulatory developments, such as the complete ban of imported plastic waste launched by China in 2018, which severely affected the export of most residential recyclables in Hong Kong, and the recent incorporation of Basel Convention plastic waste regulatory changes by the Environmental Protection Department (EPD) into domestic law. The latter imposes more stringent import criteria on scrap plastic loads from other countries and consequently brought the planned shipment of tonnes of scrap plastics to a halt. As a consequence, it is expected that more recycling factories without proper licensing, legal status or environmental protection systems will cease to operate, giving rise to opportunities for large-scale and regulated recycling players under market to consolidate and move over the long term.

BUSINESS REVIEW

As a major integrated environmental service provider and a significant employer with a large number of frontline staff in Hong Kong, Baguio has remained at the forefront in confronting many types of challenges endured by the environmental industry and labour market during the course of pandemic. Under COVID-19, Baguio has carried out stringent infection control measures to safeguard the well-being of operational staff, including providing all necessary PPE, such as medical surgical masks, alcohol sanitizer and gloves. However, the shortage of PPE during the initial outbreak drove up the cost of supplies, which added further pressure on our operational expenses. Although the price of PPE has stabilized, we expect the added expense of protective paraphernalia for staff to continue.

During the Year, the Group was awarded several service tenders from large private corporations and public institutions for high quality one-stop cleaning and waste management services. As hygiene and sanitary conditions has become an important prerequisite in maintaining a favourable operating environment during the pandemic, large corporations are demanding higher quality one-stop cleaning, waste management and pest control services. This is a primary advantage for the Group in tapping into a larger market segment. During the Year, the pest control business has remained stable due to the unyielding demand for related services. During the COVID-19 pandemic, the need for pest control services has surged, with demand from commercial buildings such as offices, hotels and restaurants bolstered by increased hygiene awareness.

MANAGEMENT DISCUSSION AND ANALYSIS

The landscaping business was severely affected during the Year as the demand for landscape construction and maintenance were weakened by the delay of projects. Under the keen market competition, the Group anticipates the competition for landscaping services to continue to be fierce and the profitability will continue to deteriorate as more competitors enter the sector. Leveraging our trusted service and the high standard of landscaping the Group has provided for many years, our strategy is to seek higher quality projects with better returns in order to maintain our market reputation and position. The greening policies associated with town planning rolled out by the government will be highly beneficial for the industry.

In terms of waste management and recycling, during the Year, Baguio never ceased to evolve or promote our services in order to stay abreast of growing market opportunities. For example, we ramped up our waste collection services to better cater to rising social needs. Our waste collection service now spans clinical waste collection from community testing centres, collection of household plastic and glass bottles, and collection of waste paper from Community Recycling Centres, Community Green Stations, recycling spots formed by NGOs, street corner recycling shops, mobile recyclers and frontline collectors.

However, 2020 has been devastating for the entire recycling industry in Hong Kong. As a policy-driven industry, the ongoing delays in the deliberation of Municipal Solid Waste Charging Scheme has hindered the progress of sustainability development of recycling in the city. In addition, the restrictions on the restaurants and bars under the social distancing measures during the pandemic has further affected the supply of recyclable waste.

During the Year, the Group secured contracts with the Environmental Protection Department for providing collection and recycling services of paper recyclable materials as well as the contracts with the Airport Authority of Hong Kong and extended our provision of services from general waste collection to food waste collection and recycling services. In the meantime, the revenue from clinical waste collection jumped rapidly, mainly due to the recent increasing market demand for clinical waste collection services resulting from the successive introduction of various pandemic prevention and control measures against Coronavirus Infectious Disease 2019 (COVID-19) in Hong Kong, such as the opening of quarantine centres in Lei Yue Mun Park & Holiday Village and the implementation of Universal Community Testing Programme with voluntary participation. All of these measures have led to an increase in the collection of clinical waste and an increase in the demand for cleaning services of related facilities.

Nonetheless, the coronavirus crisis has dealt a double whammy to the recycling industry, as the collection of empty bottles came to a near halt as bars, restaurants and nightclubs were closed or suspended during the lockdown.

As one of the leading recycling services providers, Baguio has a long-term vision in facilitating public awareness on waste recycling. We created the iRecycle platform which is powered by blockchain technology for the purpose of 1) connecting green industry stakeholders such as waste producers, merchants, waste collectors and recyclers; 2) arousing green awareness amongst the public and 3) promoting and enhancing proper and hygienic public recycling behavior.

In 2020, we successfully collected 176,564 plastic bottles (Type 1 — PET and Type 2 — HDPE) and 30,447 glass bottles through “iRecycle”. iRecycle’s registered users can earn points (iDollar) in return for discount coupons which are redeemable through our merchant partners. With the support of our partners, such as Shell Hong Kong Limited (Shell) and Crown Gas Stoves (Holdings) Company Limited (CGS), more than 50 bottle collection points and “door-to-door bottle collection services” were launched. Apart from plastic and glass bottles, Baguio is striving to expand its recycling network and broaden the type of recyclables by exploring the processing of other materials such as PP plastic containers (Type 5) and paper.

MANAGEMENT DISCUSSION AND ANALYSIS

Results

For the Year, the Group's revenue was approximately HK\$1,131.8 million, representing a decrease of approximately 19.0% from approximately HK\$1,397.5 million for 2019. Gross profit decreased by approximately 9.8% to approximately HK\$63.5 million (2019: HK\$70.5 million) and gross profit margin increased by 0.6 percentage points ("p.p.") to approximately 5.6% (2019: 5.0%). The Group's loss attributable to shareholders of the Company of approximately HK\$11.0 million for the preceding year turned into a profit of approximately HK\$51.4 million for the Year, changing from net loss margin of approximately 0.8% for the preceding year to net profit margin of approximately 4.5%. Such substantial increase in the Group's profit was mainly from the receipts of subsidy under the Employment Support Scheme of the Hong Kong Government partially offset by a decrease in gross profit due to keen competition during the Year. Earnings per share was HK12.4 cents (2019: Loss per share HK2.7 cents).

Final Dividend

The Board recommends the payment of a final dividend for the Year at HK3.6 cents (2019: Nil) per ordinary share, totalling HK\$14,940,000 (2019: Nil), 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 27 May 2021. If so approved by the Shareholders, it is expected that the final dividend will be paid on or around 2 July 2021 to the Shareholders whose names appear on the register of members of the Company on 17 June 2021.

Revenue breakdown of major business segments

	For the year ended				Change
	31 December 2020		31 December 2019		
	Revenue (HK\$ million)	% of total revenue	Revenue (HK\$ million)	% of total revenue	
Cleaning	679.5	60.0%	977.3	69.9%	-30.5%
Landscaping	172.4	15.2%	184.2	13.2%	-6.4%
Pest management	111.3	9.9%	71.2	5.1%	+56.3%
Waste management and recycling	168.6	14.9%	164.8	11.8%	+2.3%
Total	1,131.8	100.0%	1,397.5	100.0%	-19.0%

Gross profit margin of major business segments

	For the year ended			Change
	31 December 2020	31 December 2019		
Cleaning	4.5%	2.6%		+1.9 p.p.
Landscaping	10.8%	11.8%		-1.0 p.p.
Pest management	5.8%	7.7%		-1.9 p.p.
Waste management and recycling	4.7%	10.7%		-6.0 p.p.
Overall	5.6%	5.0%		+0.6 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 37% in 2020 (2019: 38%). We continuously strived to expand our services scope in order to enhance our competitiveness. In term of business segments, the Group has delivered satisfactory growth in its pest management by achieving approximately 56.3% revenue growth though the profit margin has dropped due to keen competition. This encouraging result was attributable to the Group's enormous effort in securing new contracts. The demand for professional landscaping and arboriculture services is still keen. However, due to the progress delays of the landscaping projects and increase in cost, the profit margin for the landscaping segment dropped from approximately 11.8% for 2019 to approximately 10.8% for 2020.

MANAGEMENT DISCUSSION AND ANALYSIS

The decline in revenue of cleaning segment was mainly attributable to the expiry of several sizable cleaning services contracts. In order to maintain a reasonable profit margin, the Group has been working to expand its clientele to include more public institutions and private residential estates. During the Year, the Group secured a new contract with the Hospital Authority for the provision of domestic and transportation service for Caritas Medical Centre, Kwai Chung Hospital and North Lantau Hospital, and new contracts with other government departments, including the Hong Kong Police Force and Correctional Services Department, for the provision of cleaning services.

The Group recorded an increase in the overall gross profit margin from approximately 5.0% to 5.6%. The increase was mainly due to the decrement in cost of services which was relatively higher than that in revenue, especially in the cleaning segment.

Contracts on hand

As of 31 December 2020, the Group had a total amount of approximately HK\$1,662.4 million worth of unexpired contracts on hand, of which, approximately HK\$843.3 million will be recognised by the end of 2021, approximately HK\$617.7 million will be recognised in 2022 and the rest of approximately HK\$201.4 million will be recognised in 2023 and beyond.

	Backlog contract value (HK\$ million)	Contract value to be recognised by 31 December 2021 (HK\$ million)	Contract value to be recognised by 31 December 2022 (HK\$ million)	Contract value to be recognised in 2023 and beyond (HK\$ million)
Cleaning services	1,119.8	562.2	428.3	129.3
Landscaping services	111.9	84.1	22.8	5.0
Pest management services	187.8	92.5	71.5	23.8
Waste management and recycling services	242.9	104.5	95.1	43.3
Total	1,662.4	843.3	617.7	201.4

MANAGEMENT DISCUSSION AND ANALYSIS

AWARDS

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

Date	Issued of Award	Award
Jan 2020	Sun Fook Kong Construction Group	Sun Fook Kong Safety Awards Scheme 2019 — Certificate to Zero Accident Achievement (Oct 2018–Mar 2019)
Jan 2020	Sun Fook Kong Construction Group	Sun Fook Kong Safety Awards Scheme 2019 — Certificate to Zero Accident Achievement (Apr–Sept 2019)
Jan 2020	7-Eleven — Combined Distribution Centre	Certificate of Occupational Safety & Health
Feb 2020	Hong Kong International Airport	Appreciation of participation — Airfield and Baggage Hall Safety Campaign 2019
May 2020	Environmental Campaign Committee	Hong Kong Green Organisation Certification — Wastewi\$e Certificate — Excellence Level
Jun 2020	Hong Kong Council of Social Service	5 years+ Caring Company 2019/20 — Baguio Cleaning Services Company Limited
Jun 2020	Hong Kong Council of Social Service	5 years+ Caring Company 2019/20 — Baguio Landscaping Services Limited
Jun 2020	Hong Kong Council of Social Service	5 years+ Caring Company 2019/20 — Baguio Pest Management Limited
Jun 2020	Hong Kong Council of Social Service	5 years+ Caring Company 2019/20 — Baguio Waste Management & Recycling Limited
Jun 2020	Hong Kong Council of Social Service	5 years+ Caring Company 2019/20 — Baguio Green Group Limited
Jun 2020	Hong Kong Council of Social Service	5 years+ Caring Company 2019/20 — Tak Tai Enviro\$cape Limited
Jul 2020	Environmental Campaign Committee	Hong Kong Awards for Environmental Excellence (Manufacturing and Industrial Services) Certificate of Merit
Aug 2020	World Green Organisation	Green Office Award Labelling Scheme (GOALS)
Sept 2020	The Federation of Hong Kong Industries	“Industry Cares” 2020 — 3+ year award (Enterprise Group)
Oct 2020	Green Council	International Coastal Cleanup Hong Kong 2020 — “See the Change” — Certificate of Appreciation
Oct 2020	Bank of China (Hong Kong) & The Federation of Hong Kong Industries	Corporate Environmental Leadership Awards 2019 — EcoPartner + EcoPioneer (5 Years+)
Oct 2020	Environmental Campaign Committee	Certificated as Hong Kong Green Organisation
Oct 2020	Employee Retraining Board	Manpower Developer Award Scheme
Dec 2020	Alaya Consulting	Hong Kong ESG Reporting Awards (HERA) 2020 — Recognition for ESG Disclosure
Dec 2020	Green Council	Hong Kong Green Award 2020 — Environmental, Health and Safety Award (Large Corporation) — Gold
Dec 2020	Green Council	Hong Kong Green Award 2020 — Sustained Performance 3 years+
Dec 2020	Labour and Welfare Bureau — Community Investment and Inclusion Fund	Social Capital Builder Logo Award
Dec 2020	CORPHUB	Hong Kong’s Most Outstanding Service Award 2020 — Greater China Most Sustainable Environmental Services

MEMBERSHIPS AND CHARTERS

As we implement our sustainability strategy, our involvement in these organisations provides us with opportunities to share best practices with the industry, enabling us to pursue continuous improvement along our sustainability journey.

- Business Environment Council
- Environmental Contractors Management Association
- Environmental Protection Department — Green Event Pledge
- Federation of Hong Kong Industries
- Green Council
- 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 and Department of Health — Joyful@Healthy Workplace
- 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
- The Labour and Welfare Bureau, The Rehabilitation Advisory Committee, and The Hong Kong Joint Council for People with Disability — Talent-Wise Employment Charter
- World Green Organisation — Paper Towel Saving Campaign

PROSPECTS

The World Health Organization (WHO) has warned that COVID-19 is likely to co-exist with humans for an extended period. To alleviate the long-term impact of the pandemic, the Hong Kong Government has allocated HK\$5,903.1 million in environmental hygiene and related services in 2020–2021, representing a significant increase of 19.5%. We believe the rising demand for better hygiene will create more business opportunities for our high-quality cleaning and disinfection services, especially among government premises, commercial buildings and restaurants.

On 8 February 2021, the Hong Kong Government projected the vision of “Waste Reduction • Resources Circulation • Zero Landfill” through the Waste Blueprint for Hong Kong 2035 (“Waste Blueprint”) which delineates the strategies, goals and measures to cope with the challenges of waste management until 2035. The Government aims to work with the industry and the community to move towards reducing the per capita MSW disposal rate and raise the recovery rate in order to ultimately remove the reliance on landfills for direct waste disposal by developing adequate waste-to-energy facilities. Meanwhile, the EPD has been extending the community recycling network in 18 districts through the establishment of Recycling Stations, Recycling Stores and Recycling Spots in order to form a new community recycling network.

As an integral part of the Waste Blueprint, the EPD proposed the Producer Responsibility Scheme (PPRS) on Plastic Beverage Containers, under which a recycling levy will be collected at the beverage supplier level and rebates will be provided to people to encourage the behavior of returning used beverage containers. Collected containers will then be supplied to local recyclers to transform into marketable recycled materials.

If these government initiatives are rolled out effectively, it will be very beneficial for the Group in ensuring a stable supply of post-consumer plastic bottles for our state-of-the-art and Hong Kong’s first food-grade ready plastics recycling facility located at EcoPark, which was developed under a joint venture with ALBA Group Asia Limited and Swire Beverages Holdings Limited. This facility is expected to commence operations in the second half of 2021, upon which it is projected to process and recycle 35,000 tonnes of post-consumer PET (polyethylene terephthalate or clear beverage bottles) and HDPE (high density polyethylene or personal care bottles) annually at a rate of 100 tonnes of plastics per day.

MANAGEMENT DISCUSSION AND ANALYSIS

As a major environmental services provider and a large employer in Hong Kong, the Group remains unwavering in its commitment to continuously promote the recycling business in Hong Kong and is confident in its mission to be an industry pioneer. In fighting COVID-19, we hope to do better in serving the long-term needs in clinical waste collection in the city in order to help maintain a hassle-free testing and vaccination environment.

In the future, our iRecycle platform will also aim to achieve waste collection and recycling at the household level by investing more resources in implementing door-to-door waste collection in order to increase the incentives of practicing waste recycling at people's homes. In January 2021, Baguio iRecycle joined forces with foodpanda Hong Kong to promote free door-to-door recycling service for unwanted plastics. Adding plastic food containers to Baguio iRecycle's existing recycling collection service, the partnership could enable food delivery consumers to help make the world a much more sustainable one.

Looking forward, the Group will continue to focus on developing the waste management and recycling business, as well as strengthening our core businesses of cleaning, landscaping and pest management. We are hopeful that the Municipal Solid Waste (MSW) Charging Scheme can be passed in the near future. As a leading green company in Hong Kong, we strive to build a clean and sustainable city and, at the same time, create better returns for our Shareholders.

FINANCIAL REVIEW

Revenue

The Group's revenue for the years ended 31 December 2020 and 2019 amounted to approximately HK\$1,131.8 million and HK\$1,397.5 million respectively, representing a decrease of approximately 19.0%. The decrease was mainly due to the decrease in revenue in the cleaning services segment with some contracts expiring during the Year.

Cost of Services

For the years ended 31 December 2020 and 2019, the cost of services of the Group amounted to approximately HK\$1,068.3 million and HK\$1,327.0 million respectively, representing approximately 94.4% and 95.0% 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.

Gross Profit

The Group's gross profit for the Year was approximately HK\$63.5 million, representing a decrease of approximately 9.8% from approximately HK\$70.5 million for the year ended 31 December 2019.

Gross Profit Margin

The gross profit margins of the Group for the years ended 31 December 2020 and 2019 were approximately 5.6% and 5.0% respectively. As mentioned above, the increase in gross profit margin was mainly due to the decrement in cost of services which was relatively higher than that in revenue as a result of effective cost control.

Other Income

The other income of the Group for the years ended 31 December 2020 and 2019 were approximately HK\$95.5 million and HK\$5.2 million respectively, representing an increase of approximately 17.4 times. The substantial increase was mainly attributable to the amount of approximately HK\$84.9 million relating to the subsidies under the Anti-epidemic Fund set up by the Hong Kong Government.

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 change in fair value of the biological assets for the years ended 31 December 2020 and 2019 were approximately loss of HK\$4.0 million and gain of HK\$5.0 million respectively. The decrease in fair value was mainly due to the decrease in market prices. The Group continued to store and plant these 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 2020 and 2019 were approximately HK\$1.2 million and HK\$2.0 million respectively, representing a decrease of approximately 39.5%. These expenses are mainly for the promotional activities and channels to promote our recycling business and to enhance the public awareness of environmental protection and waste recycling.

MANAGEMENT DISCUSSION AND ANALYSIS

Administrative Expenses

The administrative expenses of the Group for the years ended 31 December 2020 and 2019 were approximately HK\$95.7 million and HK\$80.2 million respectively, representing an increase of approximately 19.3%, and approximately 8.5% and 5.7% of the respective year's total revenue. The increase was mainly due to the increase in loss on disposal and impairment of motor vehicles, a provision of receivables, and increase in wages and bonus allowances for staff. The Group continued to implement its budget cost control measures for administrative expenses during the Year.

Finance Costs

The finance costs of the Group amounted to approximately HK\$7.8 million and HK\$10.5 million for the years ended 31 December 2020 and 2019 respectively, representing approximately 0.7% of and 0.8% of the Group's total revenue respectively. The decrease was mainly due to the decrease in interest costs on bank borrowings during the Year.

Profit for the Year Attributable to Equity Shareholders of The Company

The Group's loss attributable to shareholders of the Company of approximately HK\$11.0 million for the preceding year turned into a profit of approximately HK\$51.4 million for the Year. The increase was mainly due to the government subsidy from the Anti-epidemic Fund.

FOREIGN CURRENCY EXPOSURE

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

LIQUIDITY AND FINANCIAL RESOURCES

The Group derives cash flow from operating activities principally from rendering a comprehensive range of environmental services. For the Year, we had net cash generated from operating activities of approximately HK\$162.3 million (2019: HK\$34.4 million). As at 31 December 2020, the Group had available cash and bank balances amounting to approximately HK\$28.5 million (2019: HK\$22.9 million), representing an increase of approximately 24.6%.

As at 31 December 2020, the Group's total current assets and current liabilities were approximately HK\$355.2 million (2019: HK\$423.2 million) and HK\$264.6 million (2019: HK\$419.9 million) respectively, while the current ratio was approximately 1.3 times (2019: 1.0 times). The liquidity position of the Group is maintained at a healthy level.

As at 31 December 2020, the Group's bank borrowings amounted to approximately HK\$107.6 million (2019: HK\$235.1 million), representing a decrease of approximately 54.2%; the Group's lease liabilities were approximately HK\$46.0 million (2019: HK\$46.7 million), representing a decrease of approximately 1.5%, for financing the acquisition of motor vehicles for operational usage and recognised lease liabilities related to the lease contracts in respect of certain lands, office buildings and nurseries. During the Year, no financial instruments were used for hedging purposes (2019: Nil).

As at 31 December 2020, the gearing ratio of the Group was approximately 0.5 times (2019: 1.2 times), which was calculated based on the total interest-bearing bank borrowings and lease liabilities over total equity of the Group.

CAPITAL EXPENDITURES AND CAPITAL COMMITMENT

For the Year, capital expenditures, which mainly included additions in motor vehicles and equipment, amounted to approximately HK\$17.1 million (2019: HK\$25.3 million). Capital expenditures were funded by banks, finance companies and funds generated from our operating activities.

As at 31 December 2020, the Group had capital commitment contracted for of approximately HK\$0.1 million (2019: HK\$1.2 million) and no capital commitment authorised but not contracted for (2019: Nil).

CONTINGENT LIABILITIES

As at 31 December 2020, the Group did not have any material contingent liabilities (2019: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

CHARGES ON THE GROUP'S ASSETS

As at 31 December 2020, the amounts payable under lease liabilities within one year was approximately HK\$13.3 million (2019: HK\$11.7 million), that after one year but within five years was approximately HK\$12.5 million (2019: HK\$13.2 million), and that after five years was approximately HK\$20.2 million (2019: HK\$21.7 million).

As at 31 December 2020, the lease liabilities of the Group of approximately HK\$4.2 million (2019: HK\$11.2 million) were guaranteed by the Company and a subsidiary of the Company.

In addition as at 31 December 2020, the Group had (i) pledged bank deposits of approximately HK\$6.2 million (2019: HK\$6.2 million); (ii) pledge of cash and cash equivalents of approximately HK\$1.5 million (2019: HK\$0.5 million); (iii) mortgage of the land and buildings of approximately HK\$70.4 million (2019: HK\$73.0 million); (iv) pledge of the financial assets at fair value through profit or loss of approximately HK\$2.4 million (2019: HK\$14.2 million); (v) pledge of the trade receivables of approximately HK\$59.5 million (2019: HK\$83.7 million); and (vi) pledge of the contract assets arising from performance under glass management contracts of approximately HK\$2.4 million (2019: HK\$2.7 million).

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

ACQUISITION, DISPOSAL AND SIGNIFICANT INVESTMENT HELD

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

INTELLECTUAL PROPERTIES

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

HUMAN RESOURCES

As at 31 December 2020, the Group employed 5,255 employees (2019: 7,457 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.

BIOGRAPHICAL DETAILS OF DIRECTORS

EXECUTIVE DIRECTORS

Ng Wing Hong (吳永康), aged 66, 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 Chartered Governance Institute 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. 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 52, 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 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 70, 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.

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

BIOGRAPHICAL DETAILS OF DIRECTORS

Leung Shuk Ping (梁淑萍), aged 48, 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 awarded a Diploma in Company Direction in October 2018 by The Hong Kong Institute of Directors.

Chan Shuk Kuen (陳淑娟), aged 52, was an Executive Director of the Company as at 31 December 2020 and resigned as Executive Director with effect from 18 February 2021. 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.

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. 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 56, 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, procurement 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 and became a fellow member of the Institute of Chartered Accountants in England and Wales in August 2019. 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. Ms. Cheung was also admitted as an associate member of The Chartered Governance Institute, and an associate member of the Hong Kong Institute of Chartered Secretaries in December 2016 respectively.

BIOGRAPHICAL DETAILS OF DIRECTORS

INDEPENDENT NON-EXECUTIVE DIRECTORS

Sin Ho Chiu (冼浩釗), aged 65, 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 of 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 65, was appointed as an Independent Non-executive Director of the Company on 24 April 2014 and is 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 62, was appointed as an Independent Non-executive Director of the Company on 24 April 2014 and is also the chairman of our Audit Committee. Mr. Lau has been the executive director and responsible officer of Jolmo Capital Limited, a licenced corporation of the Securities and Futures Commission of Hong Kong, with main areas of business in advising on securities, corporate finance and asset management, since January 2008 and March 2005 respectively. He has been serving as a member of the Disciplinary Committee Panel of the Social Workers Registration Board since January 2008. Between April 2008 and September 2011, Mr. Lau was appointed as a director of Zhanjiang Guolian Aquatic Products Co., Ltd. (湛江國聯水產開發股份有限公司) (Shenzhen stock code: 300094). Between April 2008 and December 2011, Mr. Lau was appointed as the supervisor of Zhuhai Winbase International Chemical Tank Terminal Co., Ltd. (珠海恒基達鑫國際化工倉儲股份有限公司) (Shenzhen stock code: 002492).

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

REPORT OF THE DIRECTORS

The Board is pleased to present the report of the Directors and the audited consolidated financial statements of the Group for the year ended 31 December 2020.

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 16 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 13 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 27 to 37 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 38 to 73 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 2020 is set out in note 4 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 80 of this annual report. The Directors recommended the payment of a final dividend of HK3.6 cents per ordinary share, totalling approximately HK\$14,940,000, to be paid on or around 2 July 2021, to the shareholders of the Company (the "Shareholders") whose names appear on the register of members of the Company on 17 June 2021.

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 43 to the consolidated financial statements and in the consolidated statement of changes in equity on page 82, respectively.

6. SHARE CAPITAL

Details of movements in the Company's share capital during the Year are set out in note 32 to the consolidated financial statements.

7. DISTRIBUTABLE RESERVES

As at 31 December 2020, the Company's reserve available for distribution, calculated in accordance with the Companies Law of the Cayman Islands amounted to approximately HK\$99.5 million, of which approximately HK\$14.9 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 13 to the consolidated financial statements.

9. BANK BORROWINGS

Particulars of the bank borrowings of the Group as at 31 December 2020 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 2020 and of the assets and liabilities of the Group as at 31 December 2020 and for the previous four financial years are set out on page 142 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 (*resigned with effect from 18 February 2021*)

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

Independent Non-executive Directors:

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

Pursuant to Article 84(1) of the Articles of Association of the Company, Mr. Ng Wing Hong, Ms. Ng Yuk Kwan Phyllis and Mr. Ng Wing Chuen are subject to retirement by rotation at the forthcoming annual general meeting and, being eligible, to offer themselves for re-election.

The Company has received an annual confirmation of independence pursuant to Rule 3.13 of the Rules governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (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 14 to 16 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 21 to 22 in this report of the Directors and note 40 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 2020, 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)	279,168,000	67.27
Chan Shuk Kuen	Family interest ^(Note 2)	279,168,000	67.27
Ng Yuk Kwan Phyllis	Beneficial owner ^(Note 3)	26,736,000	6.44
Mak Che Fai Lawrence	Family interest ^(Note 4)	26,736,000	6.44
Baguio Green (Holding) Limited	Beneficial owner ^(Note 1)	275,000,000	66.27

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 4,168,000 Shares.
- (2) Ms. Chan Shuk Kuen is the spouse of Mr. Ng Wing Hong and is therefore deemed to be interested in all the Shares held/ owned by Mr. Ng Wing Hong (by himself or through Baguio Green (Holding) Limited) by virtue of the SFO. Ms. Chan Shuk Kuen was an executive Director as at 31 December 2020 and resigned as executive Director with effect from 18 February 2021.
- (3) Ms. Ng Yuk Kwan Phyllis directly held 26,736,000 Shares. Ms. Ng Yuk Kwan Phyllis is an executive Director.
- (4) Mr. Mak Che Fai Lawrence is the spouse of Ms. Ng Yuk Kwan Phyllis and is therefore deemed to be interested in all the Shares held by Ms. Ng Yuk Kwan Phyllis.

Save as disclosed above, as at 31 December 2020, 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 2020, 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 23 to 25 in the section "Share Option Scheme" below. In addition, as at 31 December 2020, Ms. Cheung Siu Chun, an executive Director and the company secretary of the Company, held 800,000 Shares. 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

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, 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, and further entered into a second supplemental IT Agreement on 2 January 2020 to extend three years up to and including 31 December 2022. Details are set out in the announcement of the Company dated 2 January 2020.

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\$3,297,000, 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.

Other related party transactions as disclosed in note 40(c) to the consolidated financial statements in respect of purchase of cleaning equipment and materials also constitute continuing connected transactions under the Listing Rules and are regarded as de minimis transaction category pursuant to Rule 14A.76(1) of the Listing Rules.

Saved as disclosed above, there is no other related party transaction or continuing related party transaction as set out in note 40 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 50.8% (2019: 61.0%) of the total sales for the year and sales to the largest customer included therein amounted to 17.8% (2019: 26.2%). Purchases from the Group’s five largest suppliers accounted for 26.8% (2019: 28.5%) of the total purchases for the year and purchases from the largest supplier included therein amounted to 10.1% (2019: 7.6%).

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 12 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.

REPORT OF THE DIRECTORS

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 100,000 (2019: 204,000) 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:

Name or category of participants	Date of grant (Note 1)	Number of underlying shares comprised in share options				Exercise period	Exercise price per share (HK\$)
		As at 1 January 2020	Exercised during the Year	Lapsed during the Year	As at 31 December 2020		
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 (Note 2)	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	2,756,000	-	(100,000)	2,656,000	16/10/2017- 23/04/2024	1.00
Subtotal		2,756,000	-	(100,000)	2,656,000		
Total		4,380,000	-	(100,000)	4,280,000		

Note:

- (1) The share options vested on 16 October 2017.
- (2) Ms. Chan Shuk Kuen has resigned as executive director with effect from 18 February 2021.

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 share was 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, its holding companies, or 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 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 27 to 37 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, 30 March 2021

The Board is pleased to present the Corporate Governance Report for the year ended 31 December 2020.

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 2020, 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 2020.

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 eight members, with five 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. 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 14 to 16 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 (<i>resigned with effect from 18 February 2021</i>)		
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 12 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 2020 and for the year ended 31 December 2020, 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 four meetings for planning the annual audit of the Company for the years ended 31 December 2019 and 2020, considering the annual results of the Company for the year ended 31 December 2019, considering the interim results of the Company for the six months ended 30 June 2020 respectively. All members of the Audit Committee have attended the above meetings.

The committee has recommended to the Board (which endorsed the recommendation) that, subject to shareholders' approval at the Company's forthcoming annual general meeting, KPMG be re-appointed as the Company's external auditors for 2021.

6. ATTENDANCE RECORDS OF DIRECTORS AND COMMITTEE MEMBERS

	Number of meetings held during the year Attended/Eligible to attend				Annual General Meeting
	Board	Remuneration Committee	Nomination Committee	Audit Committee	
Executive Directors					
Mr. Ng Wing Hong	5/5	1/1	0/0	2/4	1/1
Ms. Ng Yuk Kwan Phyllis	5/5	0/0	1/1	2/4	1/1
Mr. Ng Wing Chuen	4/5	0/0	0/0	1/4	1/1
Ms. Leung Shuk Ping	5/5	0/0	0/0	0/0	1/1
Ms. Chan Shuk Kuen <i>(resigned with effect from 18 February 2021)</i>	0/5	0/0	0/0	0/0	0/1
Ms. Cheung Siu Chun	5/5	1/1	1/1	4/4	1/1
Independent Non-executive Directors					
Mr. Sin Ho Chiu	5/5	1/1	1/1	4/4	1/1
Dr. Law Ka Hung	5/5	1/1	1/1	4/4	1/1
Mr. Lau Chi Yin Thomas	5/5	1/1	1/1	4/4	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:

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

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 74 to 79 of this annual report.

9. RISK MANAGEMENT AND INTERNAL CONTROL

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

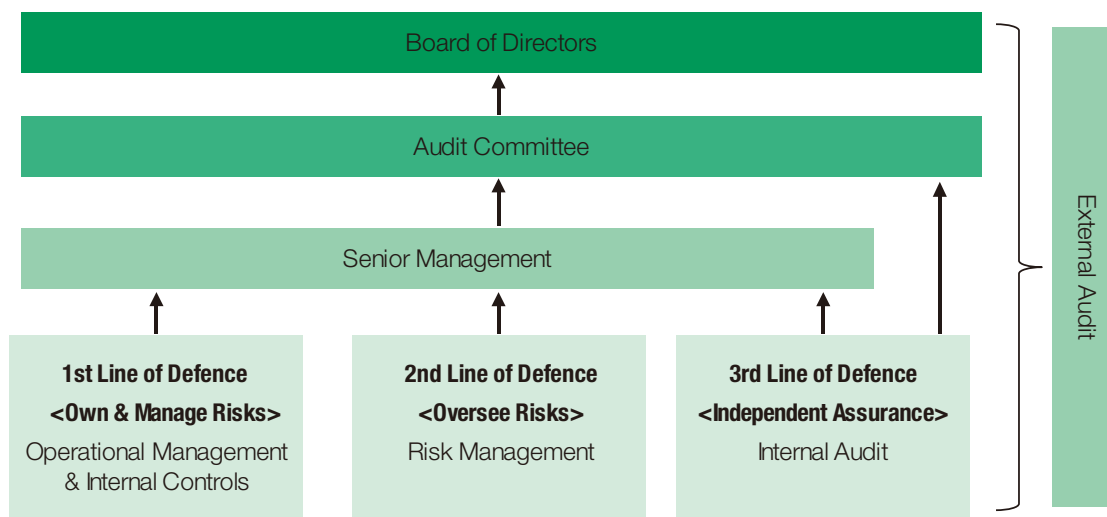
During the Year, the Board, through the Audit Committee, conducted a review of the effectiveness of the risk management and internal control systems of the Group, including the adequacy of resources, staff qualifications and experience, training programmes and budget of the Group's accounting, internal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

Our Enterprise Risk Management Framework and Governance Structure

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

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

Baguio Risk Governance Structure



1st Line of Defence — Operational Management & Internal Controls

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

2nd Line of Defence — Risk Management

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

3rd Line of Defence — Internal Audit

The third line of defence refers to the internal audit function of the Group. The internal audit provides an independent and objective assurance of the Group's risk management and internal control system. The internal audit function reports directly to the Audit Committee and dotted line to the Group's senior management. During the Year, the Group engaged RSM Consulting (Hong Kong) Limited 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

The Group will review the principal risks constantly. In view of the continuous change in business environment and global economy, the principal risks are compiled through prioritization, aggregation and filtering from a Group's perspective, taking into account of the risks from each department and business unit. In additions, the principal risks, based on different risk areas, will be classified into 4 risk areas including strategic and business risks, operational risks, financial risks and compliance risks for control and risk management respectively.

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\$1.6 million for the audit services and approximately HK\$150,000 for the other non-audit services.

12. COMPANY SECRETARY

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

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

13. SHAREHOLDERS' RIGHTS

Procedures for shareholders to convene an extraordinary general meeting

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

Since 2015, Baguio has been reporting its actions for and achievements in promoting sustainable development to its stakeholders. We are pleased to present our sixth Environmental, Social and Governance (“ESG”) report, which reaffirms our commitment to create a positive impact on the society and the environment.

This report is prepared in compliance with ESG Reporting Guidelines set out in Appendix 27 of the Rules Governing the Listing of Securities on the Main Board of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”).

Reporting Period and Scope

This report discloses the Group’s performance and initiatives on environmental and social aspects from 1 January to 31 December 2020 (“the reporting period”). The report covers performance and actions of the Group and all its subsidiaries unless otherwise mentioned.

The Board acknowledges its responsibility for ensuring the integrity of the report. To the best of its knowledge, this report addresses all material issues and fairly presents the ESG management approach and performance of the Group. This report has been reviewed and approved by the Board.

Reporting Principles

This ESG report adheres to the reporting principles of Materiality, Quantitative, Balance and Consistency which the Group has applied as below:

Materiality:	Stakeholder engagement is undertaken annually to identify the material sustainability topics. All material topics are addressed in this report.
Quantitative:	Data in this report are checked and analysed to account for year-on-year changes. Standards used for calculation of environmental KPIs are described in the Performance Data Summary.
Balance:	We prepare the report in a transparent manner in which both positive and negative performances are disclosed.
Consistency:	The data in this report are presented in a consistent manner, which allows for meaningful comparison over time.

Feedback

We value opinions of our stakeholders. Your comments and suggestions on the report and our sustainability performance are appreciated to help us improve continuously.

CORPORATE GOVERNANCE

To safeguard the interests of its stakeholders and enhance corporate value and accountability, the Group is committed to maintaining high standards of corporate governance. During the year, the Group complied with all applicable provisions of the Corporate Governance Code (the “CG Code”) stipulated in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange.

As at the date of this annual report, the Board comprises 8 members, including 5 executive directors and 3 independent non-executive directors. For further details of the Board committee, please refer pages 29 to 32 of this annual report.

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

MESSAGE FROM CEO

Dear stakeholders,

I am pleased to present Baguio's Environmental, Social and Governance ("ESG") report for the financial year of 2020, which highlights the Group's ESG performance and demonstrates our commitment to providing a cleaner, greener and more sustainable environment.

The coronavirus ("COVID-19") pandemic has brought unprecedented economic and social challenges to both the Group and the community. Amid the inevitable impacts on the Group's business, we responded quickly to the pandemic by protecting the health and safety of our employees, maintaining service quality, and implementing and advocating recycling projects.

Integrating sustainability in our core business

Sustainability is an integral part of our business. In 2020, the Group continued to make progress towards integrating "local collection, local recycling, local uses" into its core business, boosting the recycling rate in Hong Kong.

In 2020, we renewed the Government contract for collecting recyclables from around 3,000 roadside government three-coloured recycling bins in Hong Kong. Consolidating our previous experience and feedback over the years, we are committed to optimising the collection process. By developing an application installed in collection vehicles and a mobile APP, we are able to measure the volume of each bin and inspect the condition of bins.

This year, we extended our recycling business to include waste paper. Baguio was appointed by the Hong Kong Government as one of the contractors to provide waste paper collection and recycling services. A Waste Paper Recycling Centre in Sheung Shui was established for processing, aiming to turn waste into resources.

Responding to COVID-19

The COVID-19 has brought profound impacts on the economy, the market environment and business operations. Owing to the nature of our business is closely linked to the everyday life of the communities, it is our responsibility to ensure that the business services we managed are not affected and continue to operate smoothly. Our staff is at the forefront of the fight against the pandemic, and therefore their health and safety are our utmost priority. The Group has committed to upholding employees' health and work safety by providing sufficient personal protection equipment (PPE) including disposable masks and gloves to frontline staff, adopting Work From Home arrangement for office staff, installing temperature detection devices and disinfecting offices more regularly.



We have proactively explored opportunities to leverage our strengths from our business to address the social needs arising from the pandemic, turning crises into opportunities and achieving win-win benefits. In September 2020, Baguio was commissioned to collect clinical waste from the Fire Eye COVID-19 Testing Laboratory at Sun Yat Sen Memorial Park. We mobilised our vehicle and manpower resources promptly from Monday to Sunday to collect contagious clinical waste and delivering it to the designated treatment centre.

We recognised the importance of delivering reliable and high-quality services to our customers during the times of COVID-19. To protect the health of our customers, we have established an effective mechanism for customer communication and disinfection of environment in case any of our staff are tested positive or require mandatory quarantine. Responding to the foreseeable rise in demand for cleaning or disinfection services, we continue to maintain our quality standards and source hygiene and disinfection products that have a low environmental impact.

Leveraging innovation and technology to promote recycling

In April 2020, we launched “iRecycle”, a recycling mobile APP platform, aiming to promote clean recycling and build recycling habits in the community. Our goal is to raise the recycling rate in Hong Kong by adopting innovation and technology. This programme allows users to earn iDollars and redeem rewards by recycling plastic bottles or glass bottles. We are proud to share that “iRecycle” has successfully collected 176,564 plastic bottles and 30,447 glass bottles since its launch. Going forward, we will continue to optimise iRecycle to further boost the recycling rate in Hong Kong. In order to make recycling easy and convenient, we have collaborated with our partners to launch a door-to-door (D2D) recycling service. Through the D2D, we are able to make recycling “into the households”.

In addition to “iRecycle”, we have made use of social media platforms to engage the community by promoting our recycling events and advocating best recycling practices such as clean recycling and proper usage of three-coloured recycling bins.

Planning for the future

Adhering to our mission to provide a cleaner, greener and more sustainable environment, mid-term targets are set to further improve our ESG performance. We are dedicated to reducing our emissions by constantly designing greener operating models and exploring energy-saving opportunities, and optimising supply chain management by identifying environmental and social impacts associated with our value chain. Climate resilience is also an essential part of our sustainability strategy. To better prepare for severe weather events, we will assess the physical climate risks faced by the Group, identify areas for improvement and enhance the existing facilities.

Looking forward

Going forward, Baguio will continue to play an active role in contributing to the development of a circular economy in Hong Kong. Going beyond recycling, we will step up our efforts in promoting “upcycling” in the future.

This year, we took a number of important steps to promote resource recycling and respond to the pandemic. On behalf of the Board, I would like to express our gratitude to all our stakeholders for their support during these unprecedented times. We look forward to continuing working with our stakeholders to contribute to sustainable development.

By Order of the Board

Phyllis Ng

Executive Director & Chief Executive Officer

Hong Kong, 30 March 2021

OUR SUSTAINABILITY PRIORITIES



As an integrated environmental services provider, Baguio is committed to providing a cleaner, greener and more sustainable environment, and proactively integrating sustainability into its business operations. Our sustainability strategy centres on 5 priorities, including Green, Innovation, Employee Well-being, Operational Excellence and Community Engagement. In support of the United Nations’ Sustainable Development Goals (SDGs), we have reviewed the 17 SDGs against our sustainability priorities and identified 6 priority SDGs which the Group could achieve a greater contribution. The adjoining table outlined Baguio’s 2020 progress in the 5 sustainability priorities.

GREEN



Moving us towards a greener future

- Collection volume of Baguio's recycling plants in 2020:
 - 9,879** tonnes of animal waste
 - 10,311** tonnes of glass bottles
 - 2,444** tonnes of paper
- Hosted a total of 26 hours of recycling plant tour and webinar for **5** organisations
- Adopted green office initiatives, such as **expanding the recycling scope** at office to include beverage cartons, isothermic bags and fruit nets etc.
- Performance improvement** comparing to 2019:

Energy Consumption
↓ 20%

Carbon Emissions
↓ 20%

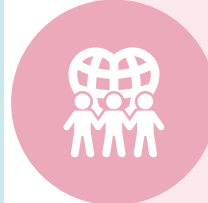
INNOVATION



Using innovation to unlock potential

- Launched the **iRecycle** mobile APP in April 2020 to promote recycling
- Implemented the **Enterprise Resource Planning (ERP) system** to improve operational efficiency
- Transformed to **online attendance management system**

COMMUNITY ENGAGEMENT



Nurturing our community and culture

- Organised **40** public incentive scheme ("PIS") events
- Actively participated in community services, recorded a total of **309** volunteering hours

EMPLOYEE WELL-BEING



Promoting health in body and mind

- Established a series of anti-pandemic measures to ensure employee health and safety
- Organised the **Work Life Balance Month** to improve both physical and mental health of employees
- Launched an **incentive scheme** in 2020 to recognise the frontline staff's performance on safety, health, environment and quality
- Achieved the drop of the work-related accident rate per 100,000 man-hours to 1.15 (The work-related accident rate per 100,000 man-hours in FY2019: 1.33)

OPERATIONAL EXCELLENCE



Building trust with our stakeholders

- Founding member of the **Sustainable Procurement Charter**
- More than **94%** of respondents rated the overall quality of service as satisfactory or above in the customer service quality survey
- Invited the Independent Commission Against Corruption ("ICAC") to provide **training for all directors and Heads of Departments**

OUR SUSTAINABILITY APPROACH

Our ESG matters are managed by the ESG working group. Spearheaded by the CEO and CFO, the ESG working group reviews the Group’s sustainability strategy, addresses ESG-related issues and reports to the Board. The Sustainability Manager, who reports to the CEO, is responsible for managing and implementing environmental, community and corporate sustainability initiatives. Other departments are responsible for managing sustainability performance related to their respective duties. This ensures we are well positioned to continually enhance our environmental performance.

To manage quality, environmental and occupational safety and health (OSH) performance, the Group has an established Integrated Management System which is certified under ISO 9001: 2015, ISO 14001: 2015 and ISO 45001: 2018 standards. Striving for operational excellence, the Group formulates quality, environmental and OSH management targets and objectives approved by the CEO.

How We Listen to Stakeholders

Stakeholder engagement is crucial to identify risks and opportunities regarding the environment, the people and the community, enabling us to continually refine our sustainability strategy and identify room for improvement on ESG performance.

We regularly engage with our stakeholders via various communication channels. During the year, we invited 6 stakeholder groups to participate in the materiality assessment survey, for understanding their concerns and opinions on our sustainability performance. The table below summarises our stakeholder communication channels and the key concerns of our stakeholders.

Investor and shareholders	Employees	The Government	Customers	Suppliers and subcontractors	Community	Environmental NGOs
Engagement Channels						
<ul style="list-style-type: none"> Investor conference and roadshows Annual general meeting Financial reports and press releases ESG report 	<ul style="list-style-type: none"> Corporate activities and events Employee grievance mechanism Feedback from training workshops Education and support 	<ul style="list-style-type: none"> Compliance with laws and regulations Active response to government policy Ongoing communication with relevant government departments 	<ul style="list-style-type: none"> Monthly customer surveys Online questionnaire Face-to-face interviews Websites and social media platforms Feedback from front-line employees 	<ul style="list-style-type: none"> Site visits and assessments Annual Interviews and appraisals 	<ul style="list-style-type: none"> Recycling educational booths Support charity organisations Participate in voluntary work 	<ul style="list-style-type: none"> Lead public environmental education Provide site visits and seminars
Major Concerns						
<ul style="list-style-type: none"> Long-term shareholder value creation Corporate governance Risk management and internal control 	<ul style="list-style-type: none"> Training and development Remuneration Occupational health and safety 	<ul style="list-style-type: none"> Legal compliance and corporate governance Public’s environmental awareness Labour protection Business ethics 	<ul style="list-style-type: none"> Service quality control Occupational health and safety Customer satisfaction 	<ul style="list-style-type: none"> Occupational health and safety Responsible sourcing Green procurement Energy conservation and waste management 	<ul style="list-style-type: none"> Recycling services Investment in the community 	<ul style="list-style-type: none"> Recycling services Waste management Emission control

MATERIALITY ASSESSMENT

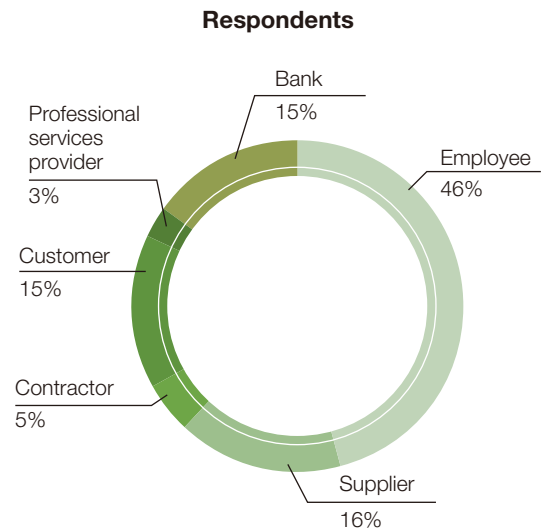
The Group commissioned an independent consultancy to conduct an annual materiality review on ESG-related topics following a process of identification, prioritisation, validation and review. This annual review enables us to identify material topics and prioritise actions to address stakeholders' concerns.

Identification

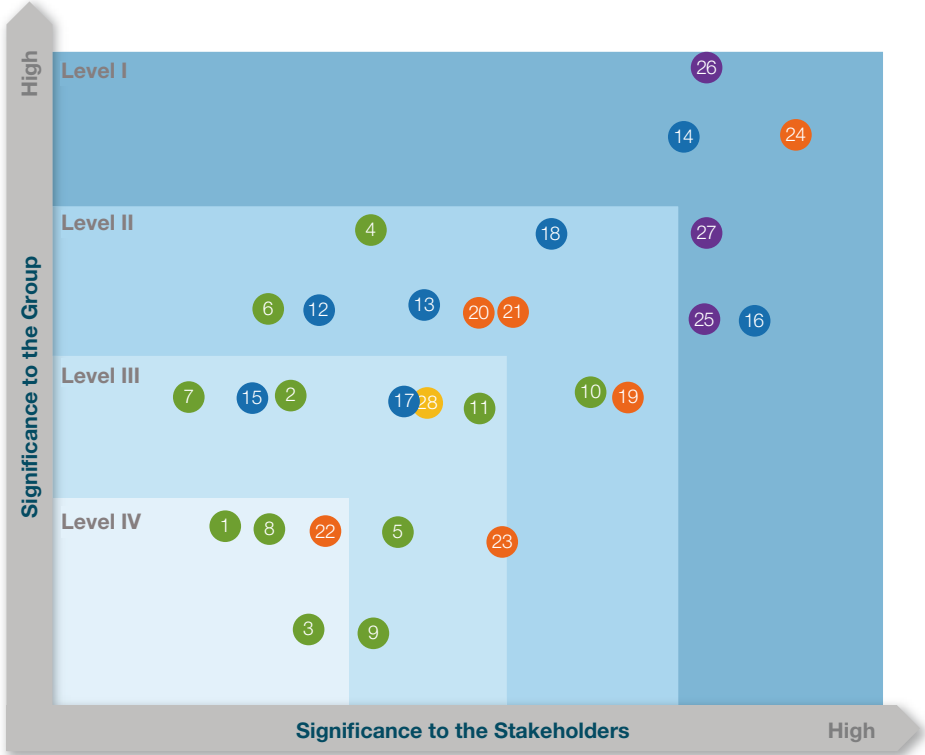
To keep abreast with the latest development of ESG, we annually review our pool of topics with reference to the HKEX ESG Reporting Guide, besides analysis of peer and industry trends. This year, a total of 28 sustainability topics were identified, of which 3 additional topics that are relevant to the Group were added, namely emergency preparedness and response, innovation and advanced technology, and collaboration and partnership.

Prioritisation

To determine the importance and significance of sustainability topics to the Group and stakeholders, we invited senior management of the Group, internal and external stakeholders to participate in an online survey. The survey results are used to prioritise the sustainability topics according to two dimensions: significance to the Group and significance to stakeholders.



Validation and Review



Level I	Level II	Level III	Level IV
<ul style="list-style-type: none"> 14 Occupational health and safety 16 Precautionary measures of child/forced labour 24 Anti-corruption 25 Service quality control and complaint handling 26 Customer satisfaction 27 Customer privacy protection 	<ul style="list-style-type: none"> 4 Hazardous waste management and reduction 6 Energy management and conservation 10 Green procurement 12 Employee retention benefits 13 Employee communication channels 18 Anti-discrimination 19 Supply chain management 20 Intellectual property rights protection 21 Emergency preparedness and response 	<ul style="list-style-type: none"> 2 Effluent discharges management and reduction 5 General waste management and reduction 7 Water management and conservation 9 Ecological conservation 11 Environmental benefits derived from corporate business 15 Employee training and promotion 17 Employee diversity 23 Collaboration and partnership 28 Community engagement and support 	<ul style="list-style-type: none"> 1 Air emissions management and reduction 3 GHG emission management and reduction 8 Packaging material consumption * 22 Innovation and advanced technology

* Newly identified sustainability topics in 2020

- Environment
- Employee Empowerment
- Operations
- Customer Services
- Community Engagement

The Group identified 6 material topics: Occupational health and safety, Precautionary measures of child/forced labour, Anti-corruption, Service quality control and complaint handling, Customer satisfaction and Customer privacy protection. The result of the materiality assessment has been validated and approved by the Group’s management.

The table on the next page shows Baguio’s material topics as well as efforts put in for responding to stakeholders’ concerns. For details, please refer to the corresponding sections in this report.

Material Topics	Baguio's Efforts in 2020	Corresponding Section
14 Occupational health and safety	<ul style="list-style-type: none"> Recorded a total of 11,203 hours of safety training Reduced work-related accident rate to 1.15 work injury per 100,000 man-hours 	EMPLOYEE WELL-BEING
16 Precautionary measures of child/forced labour	<ul style="list-style-type: none"> Full compliance with all applicable laws and regulations Performed age verification to avoid recruiting child labour 	EMPLOYEE WELL-BEING
24 Anti-corruption	<ul style="list-style-type: none"> Full compliance with all applicable laws and regulations Invited ICAC to provide training for directors and heads of departments 	OPERATIONAL EXCELLENCE
25 Service quality control and complaint handling	<ul style="list-style-type: none"> Customer complaints handling mechanism is in place to collect feedback and complaints 	OPERATIONAL EXCELLENCE
26 Customer satisfaction	<ul style="list-style-type: none"> Engaged with customers via monthly service quality surveys and face-to-face interviews with customers More than 94% of the answers in the survey were rated satisfactory or above 	OPERATIONAL EXCELLENCE
27 Customer privacy protection	<ul style="list-style-type: none"> Full compliance with all applicable laws and regulations Provided IT security training to newcomers 	OPERATIONAL EXCELLENCE

GREEN

We aim to develop projects for recycling of different types of resources and establish a traceable recycling system ingraining the goal of "local collection, local recycling, local use" into our core business.

Green Facilities at a Glance



Waste Sorting and Recycling Centre

Since 2014

- Established a Waste Sorting and Recycling Centre in Fanling
- Obtained contracts from the Government to collect and process recyclable plastics, paper and metals from **18** districts
- Consists of approximately **3,000** roadside three-coloured recycling bins



Animal Waste Composting Plant

Since 2017

- Operates Animal Waste Composting Plant in Ngau Tam Mei
- The treatment capacity is **40** tonnes per day
- Collected **9,878.7** tonnes of animal waste for recycling



Waste Glass Bottle Recycling Plant

Since 2017

- Undertook waste glass container collection and treatment services in Hong Kong Island District (including Islands District) and the New Territories District with over **2,000** collection points
- Adopted advanced glass crushing technology to produce glass cullets as eco-friendly materials
- Collected **10,311** tonnes of glass bottles for recycling in 2020
- 40 public incentive scheme (PIS) carried out



Waste Plastic Bottle Treatment Plant

Since 2019

- Commenced construction in 2019 and expect to commence operations in the third quarter of 2021
- Able to process and recycle **35,000** tonnes of PET and HDPE into food-grade ready packaging materials annually



Waste Paper Recycling Centre

Since 2020

- The recycling centre was put into operation in October 2020 for waste paper processing, including screening, sorting and bailing locally
- Appointed by the Hong Kong government as one of the contractors in waste paper collection and recycling services programme in October 2020
- Collected **2,444** tonnes of waste paper in 2020

Resource Recycling — Where We Started and Going Beyond

Baguio Green Group is committed to focusing on the recycling business and moving forward from a recyclable waste collector to one of the key players in Hong Kong. In 2014, we set up a waste sorting and recycling centre in Fanling to commence our resource recycling core business. We have been working closely with the Government on collecting recyclables and advancing local sustainable development. Dedicated to creating a Clean and Green environment, we have developed a one-stop waste management and recycling platform, and our service scope now includes collection and processing of organic wastes such as animal waste and yard waste, waste glass bottles, waste plastic bottles and waste paper, leading the city towards a circular and zero waste economy.

We achieved an extraordinary milestone in 2017 when we were appointed by the Environmental Protection Department (“EPD”) as the qualified glass management contractor to undertake waste glass container collection and treatment service and operate the Waste Glass Bottle Recycling Plant in Tuen Mun. Currently, we have more than 2,000 waste glass bottle recycling points and collected around 35,000 tonnes of waste glass containers. Also, we have taken the lead in public education programme. We held educational tours in the Plant to deepen the knowledge and arouse public green awareness on waste glass bottle recycling.

To further complement our recycling business development, we partnered to operate the first food-grade ready plastic recycling facility in Hong Kong that is expected to commence operation by the third quarter of year 2021. Once completed, the facility will be able to recycle 35,000 tonnes of post-consumer PET and HDPE annually at a rate of 100 tonnes of plastics daily.

Going beyond advocating and education, we are committed to cultivating recycling habits of the public. In this regard, “iRecycle” mobile APP, a one-stop recycling platform with a built-in reward programme has been rolled out to facilitate behavioural change in recycling practices.

This year, we regained the government contract under EPD for collecting recyclables from 18 districts in Hong Kong, which comprises approximately 3,000 roadside three-coloured recycling bins. With the contract renewal, we are devoted to providing big data to EPD proactively, such as sorting and recycling data, condition and collection volume of the bins. To optimise recycling efficiency, we have developed apps installed in each collection vehicle for capturing the collection volume of each bin and a mobile APP for inspection and reporting of collection operations. We make the best use of social media platforms to advocate “good recycling practices”, essentially for clean recycling.

Going forward, we will continue the effort in expanding other recycling business towards our ultimate goal of “Zero Landfill” and strive for upcycling in Hong Kong. The key environmental benefits of plastic and glass recycling we created are noted below.

Waste Plastic Recycling Initiative for Rebuilding Trust

Resolving the waste plastic disposal problem is of high priority in Hong Kong. Yet, the insufficient confidence of Hong Kong people in the waste plastic recycling scheme is a hindrance to intensifying the local recycling effort due to previous malpractices in handling recyclables by some contractors. We are working to restore the confidence in “Waste Plastics Recycling” and promoting the local recycling services, through operating the first food-grade ready waste plastic processing plant in Hong Kong in terms of enhancing the technology and capacity.

This year, we continue to collaborate with ALBA Group Asia Limited (“ALBA”) and Swire Beverages Holdings Limited (“Swire”) on the joint venture project for plastic waste recycling. The construction of the waste plastics processing plant is expected to be in operation in the third quarter of 2021. Upon commencement of operations, we will recycle the local consumed PET and HDPE bottles, followed by processing the recycled commodities into food-grade ready rPET flakes and high-grade rHDPE pellets, which can be reused as raw materials for industrial products and turned into food-grade packaging materials such as beverage bottles.

Currently, we are actively liaising with different stakeholders to build the collection network. For instance, plastic bottle collection from the reverse vending machines of Swire and A.S. Watson, and encouraging public recycling by economic incentive provided in “iRecycle” APP. We expect to achieve the goal of recycling 35,000 tonnes of plastic per year.

Carrying on with Awareness Raising and Education

To boost the environmental consciousness within our society, we place an all-round education strategy both internally and externally.

Having the twin purposes — environmental protection and education — as the backbone of the green facilities, education tours are arranged in our recycling plants along with the regular recycling operations. Taking glass recycling as a case, we held three education tours in the Waste Glass Bottle Recycling Plant for institutions during the year. The guided tour covers a seminar on glass bottle collection and recycling process, and foster clean recycling practices. The waste glass bottles are converted into reusable materials, such as raw material for eco-paver and public works application. We prompt glass bottle recycling by means of visualising the end-of-life treatment of glass bottles to strengthen the environmental awareness of glass bottle recycling among the public. Furthermore, incentivising the general public is crucial in running an educational campaign. This is also the purpose of the public incentive scheme (“PIS”) which is set up as a channel for the public to barter the glass bottles for daily necessities. During the year, we partnered with various organisations and carried out 40 events.

The provision of Introductory OSH training for operation staff aims to pinpoint the proper way of handling sewage and environmental practices at the workplace. To raise awareness, the training highlights the consequences of not considering the ecosystem when using chemicals and pesticides massively and discharging the sewage to the roadside trenches. The operation staff is also encouraged to adopt recycling practices throughout operation and clean recycling instructions are stipulated in the training material.

Embracing iRecycle for Stimulating Behaviour Change

Going beyond advocating and education, Baguio is committed to cultivating recycling habits of the general public. In this regard, “iRecycle” mobile APP, a one-stop recycling platform with a built-in reward programme, has been rolled out to facilitate behavioural changes on recycling practices. Such investment is mainly for promoting domestic and commercial recycling of plastic bottles (PET and HDPE) and glass bottles at designated collection points. With the support of our partners, over 176,564 plastic bottles and 30,447 glass bottles have been collected since the launch of the APP.



Baguio has been scouting out means to prompt recycling habits in the society. Noticing COVID-19 is undoubtedly changing the way we live, stay-at-home activities and thereby the individual streams of single-use waste are being accelerated during the unprecedented times. In view of this, we encompassed door-to-door recycling service to provide a more convenient and efficient way for recycling when staying home is a new trend of living.

We plan to scale up the programme through scope expansion to collect such as waste paper and aluminium as well. By incorporating innovative technologies and strategies in our core business, we desire to achieve “Make Recycling Easy” and raise the recycling rate of Hong Kong eventually.

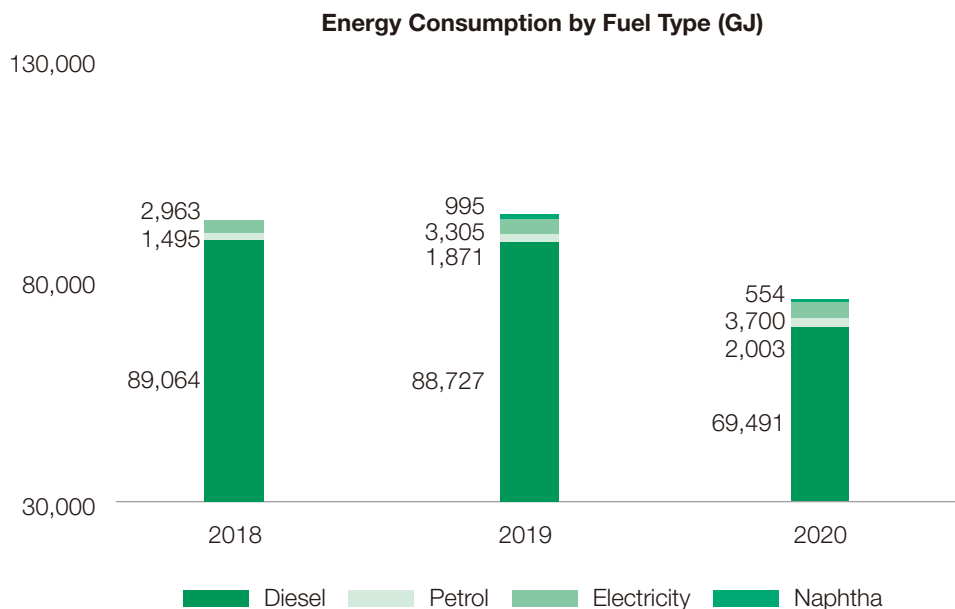
Environmental Management

Led by the Safety, Health, Environment and Quality (“SHEQ”) Department, a robust Environmental Management System certified with the ISO 14001:2015 standard is in place. We manage the environmental components of services we provide through an Integrated Management System (“IMS”) that covers the provision of cleaning services, hospital domestic and supporting services, landscaping works, horticultural maintenance, greening, tree management services, pest management services, waste management and recycling services. Within the framework of the IMS, we engage with all employees as well as sub-contractors to ensure compliance with all applicable statutory requirements. For continuous improvement, the IMS policy is reviewed and evaluated annually.

During the year, we were not aware of any non-compliance of relevant laws and regulations¹ that could have a significant impact on the Group relating to air and greenhouse gas emissions, discharges into water and land, and generation of hazardous and non-hazardous waste.

Energy Consumption

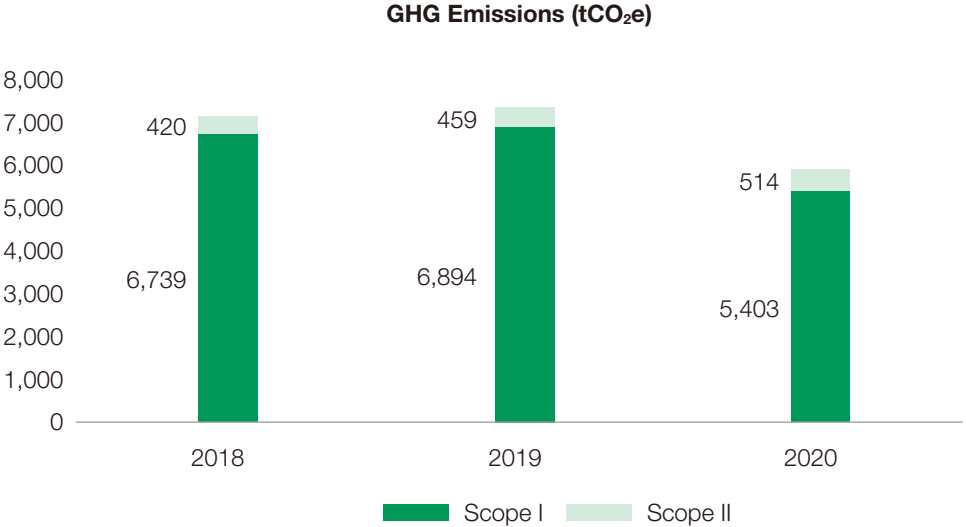
During the year, the majority of the Group’s energy consumption was attributed to fuel consumption by our fleet due to a route-based business. A total of approximately 75,748 GJ was recorded, with a decrease of 20% year on year.



¹ Please refer to the section headed **Applicable Laws and Regulations** for environment-related laws and regulations.

Carbon Emissions

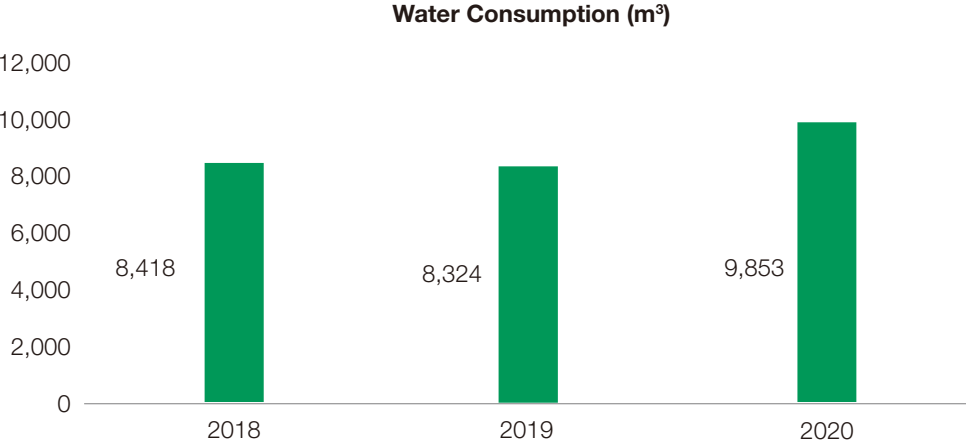
Our operations generate carbon emissions directly from fuel consumption by vehicles and machineries (Scope I) and indirectly from purchased electricity consumption (Scope II). Total amount of greenhouse gas (“GHG”) emissions during the year was approximately 5,917 tCO₂e, a decline of 20% compared to 2019. Scope I and Scope II GHG emissions were approximately 5,403 tCO₂e and 514 tCO₂e respectively.



Since a large portion of our carbon emissions is associated with the fleet operation, identifying ways to reduce fleet emissions is critical. We currently have a total of 342 vehicles of which 80% are Euro V or above. We are committed to upgrading our entire fleet to Euro 6, a more environment-friendly model, and started trying out electric vehicles to reduce roadside air emissions. To decarbonise our operations process, we are pursuing opportunities for use of renewable energy in our truck fleet and recycling plant in coming years.

Water Consumption²

The Group’s operations in office and facilities used approximately 9,853 cubic meter of water in 2020. The Group did not have any issue in sourcing water that is fit for the purpose.

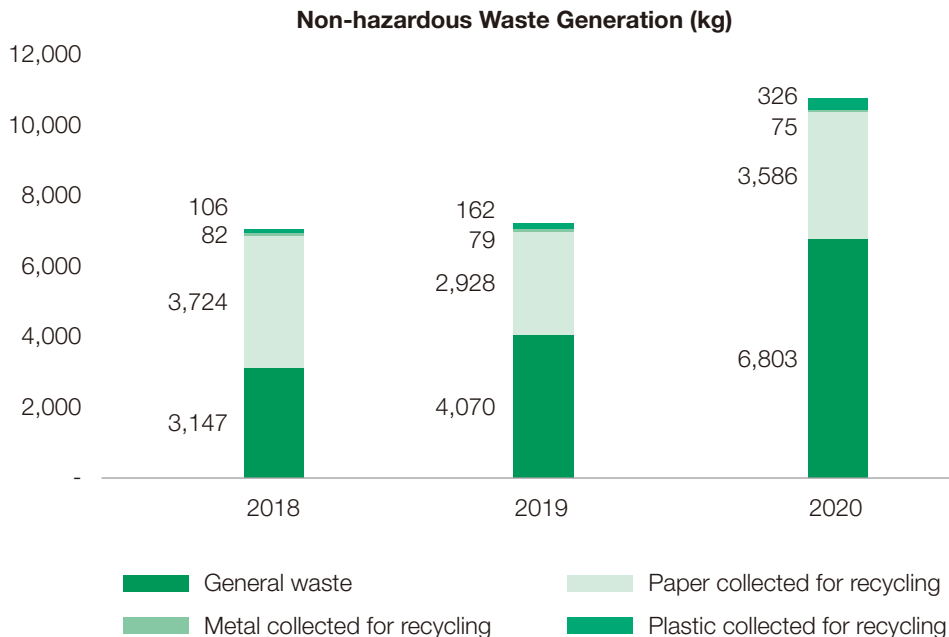


² Water consumption at waste glass bottle recycling plant was excluded in the data boundary as the consumption volume is considered as minimal.

Waste Management

The primary impact of our activities on the environment is generation of both hazardous and non-hazardous waste.

During the year, the Group's operations generated 3,600 litres of hazardous waste and approximately 10,790 kg of non-hazardous waste. To ensure our operations align with the sustainability ambition, we recycled 37% of non-hazardous waste, including paper, metals and plastics for optimising resources utilisation.



Environmental Emergency Management

Striving to reduce the unforeseen impacts of emergency situations on our operations, we have an Environmental and OSH emergency preparedness plan in place which outlines the recovery and mitigation measures. These plans address ways of handling situations arising from extreme weather conditions such as typhoons, accidental spills of chemicals and dangerous goods, and dead animal bodies handling. Specific ways of responding to emergency situations and potential environmental hazards are outlined.

INNOVATION

Baguio believes technological innovation is crucial to improve our operational efficiency. We continue to identify new technological solutions to optimise our productivity, while exploring opportunities for integrating technologies into public green awareness-raising campaigns.

Promoting Local Recycling via Mobile Recycling Platform

Baguio is committed to promoting sustainable development in Hong Kong. To motivate the public's recycling behaviour, the Group launched "iRecycle", our first mobile one-stop recycling platform to promote the recycling of plastic bottles (PET and HDPE) and glass bottles in April 2020. By recycling at designated iRecycle collection points, users can earn iDollars for redeeming various shopping, catering, entertainment and healthcare discount coupons in the mobile APP. It is hoped that the launch of iRecycle provides the public with a convenient recycling channel and creates economic incentives by the rewarding programme.

Leveraging Technology to Enhance Productivity

The Group invests in resources to improve the workflow by adopting digital transformation. During the year, the Group decided to implement a comprehensively new Enterprise Resource Planning ("ERP") system to improve the efficiency of its operations. System and program analysis are conducted during the year. The adoption of ERP system optimises the documentation of corporate data with cloud computing service, automise operational processes and enables more efficient data sharing among departments since it unifies the data and information of the Group.

Apart from the ERP system implementation, the Group went paperless by adopting an online attendance management system for front-line operation staff. Compared to the previous attendance management system under which paper forms were used for attendance tracking, the online system allows employees to record attendance using an APP. The record will be instantly uploaded to the system and this substantially reduces paper waste and manual processes.

Maintaining Quality Services

Fleet Management

An efficient fleet of vehicles is vital to meet a wide range of operational needs. Two essential tracking tools are continuously in operation to help us better manage our fleet and raise operational precision. To enhance the tracking of the fleet's operational efficiency, the Group has adopted an iButton electronic key system to identify authorised drivers. 99% of our vehicles have been installed with the iButton electronic key system, with a usage rate of around 90%. Geographical information system (GIS) platform is also adopted for optimising route arrangements of the fleet.

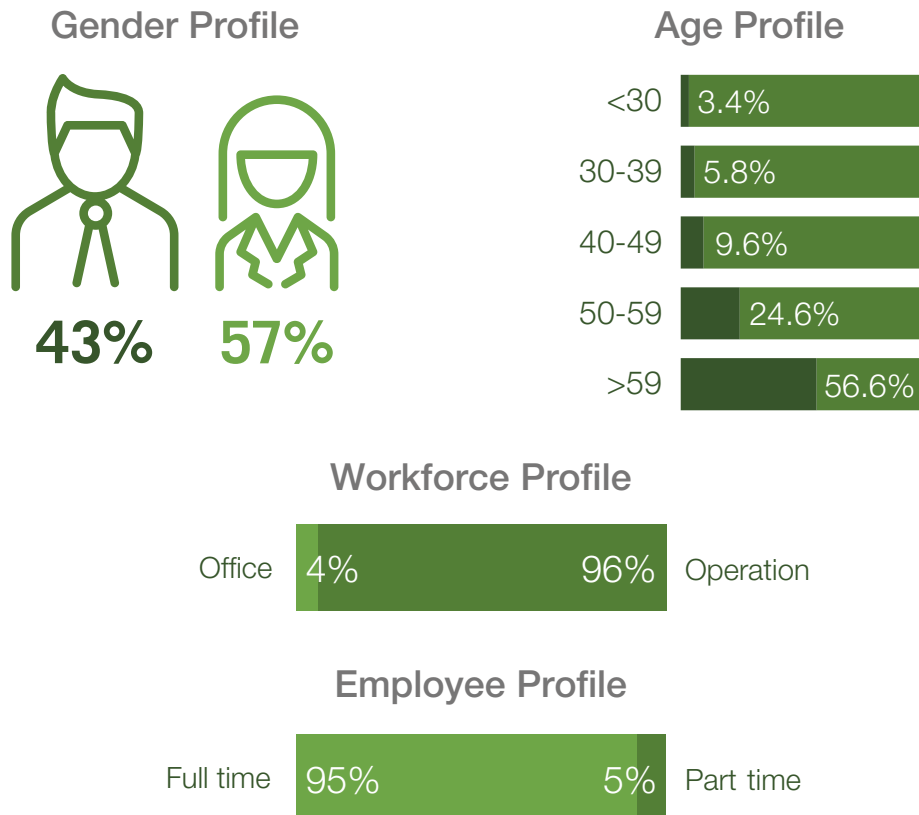
In addition to the adoption of technologies, proper conduct of our staff is equally important to achieving efficient fleet management. Adhering to our internal driving offence points system, we record points in each employee's driving record, should they commit and be convicted of any traffic offence or cause a traffic accident due to personal fault. When they accumulate a certain number of points, their driving duty will be suspended until they have passed the mandatory driving skill assessment. Serious offenders can be subject to cancellation of driving qualification or termination of employment.

EMPLOYEE WELL-BEING

Baguio regards its staff as the greatest asset of the Group. As an industry leader in environmental services, we are committed to enabling our employees to realise their full potential and grow with the Group's development.

Our Employees

As at the end of the year, the Group employed 5,255 office and operations staff in Hong Kong. We strive to provide resources and opportunities for engaged employees to work together. Our employee policies are articulated in the Employee Handbook which strictly adhere to Hong Kong labour legislations, including but not limited to the Employment Ordinance and Minimum Wage Ordinance.



Based on the principle of "Fairness, Openness and Impartiality", we adopt the equal opportunity policy in all recruitment and employment procedures. Candidates and staff of the Group are treated equally regardless of race, gender, skin colour, marital and family status, pregnancy, or disabilities. All employees are entitled to opportunities for promotion and transfer based on their work performance and abilities. Measures such as age verification using HKID card during the recruitment process are also adopted to prohibit child.

During the year, the Group was not aware of any non-compliance of relevant laws and regulations³ 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 preventing child or forced labour.

³ Please refer to the section headed **Applicable Laws and Regulations** for labour-related laws and regulations.

Employee Wellness and Well-being

Aiming to promote employee well-being and a healthy work-life balance, we have introduced a series of employee well-being initiatives at the workplace. With regard to the COVID-19 pandemic, we held the “Anti-pandemic Week” this year. Other recognisable events such as Work Life Balance Month, corporate and festival activities were organised for employee well-being. We also encourage staff to join community service activities initiated by our CSR Working Group.



Anti-pandemic Week



Dragon Boat Festival



Mid-Autumn Festival



Work Life Balance Month 2020

The Work Life Balance Month 2020 was initiated to promote a healthy working environment to our employees. We strive to promote physical health awareness of our employees through sharing healthy food recipes such as fruit juice and soup. In view of their psychological needs, we engaged our employees with team building games during the month. Educational talks on disease and mental health are also delivered on regular basis.

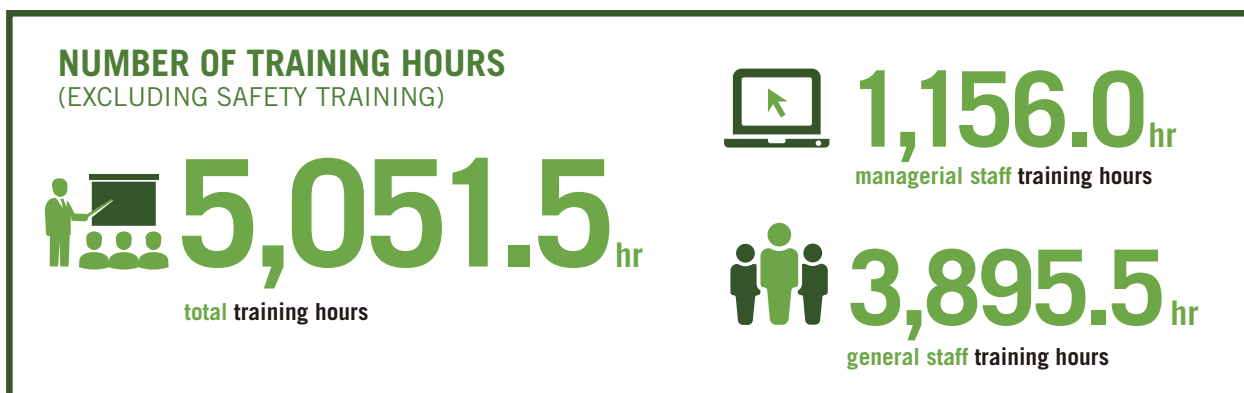


Talent Management

The Group encourages its staff to utilise their talents in the workplace. We recognise the importance of attracting talented employees and retaining them to support business growth and to maintain high level of quality service delivery.

We provide attractive remuneration packages and staff benefits, ensuring our offers remain competitive in the market. For long-term development of the staff, we strive to support the growth of employees' personal attributes and to look for opportunities to enhance career prospects. Office and operations staffs are encouraged to undergo substantial training. To equip employees with suitable operations and management attributes according to market needs and changes, a wide range of internal and external training opportunities are offered to the workforce. We expect our staff acquire professional knowledge and skill sets beneficial for their career development and take charge of their respective positions in the future.

The training focus of this year is to reinforce operating know-how and business ethics of the newly joined supervisors. The Group recorded a total of 5,051.5 training hours excluding safety training. The total number of training hours of managerial staff and general staff were 1,156 hours and 3,895.5 hours representatively.



ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

The COVID-19 pandemic has brought changes to the entire society as demand for quality environmental services surged. In light of this situation, we organised a variety of internal training during the year to strengthen the competitive advantage of the workforce by enhancing its operational knowledge, so as to support the increasingly high needs and standards for public hygiene services, monthly training is offered to drivers and pest control staff, covering professional development topics such as driving, pest control and anti-corruption, etc.

Training Topics Covered	Total Hours of Training Provided
Professional development	3,899.5
Anti-corruption training	58.5
Anti-illegal and child labour training	63.0
Orientation training	114.0
Information Technology training	744.0
Other trainings	172.5
Total	5,051.5

In 2021, more training programmes are being planned, such as managerial programmes for project management and design. We look forward to seeing more and more employees attaining professional recognition for their efforts and performance. The Group would continue to provide guidance to its employees through the Recognition of Prior Learning (“RPL”) Mechanism under the Qualifications Framework (“QF”) launched by the Education Bureau. We are currently revamping our appraisal system which will be available with specific Key Performance Indicator (“KPI”) in the coming year. It is expected to further improve our employees’ performance and career development.

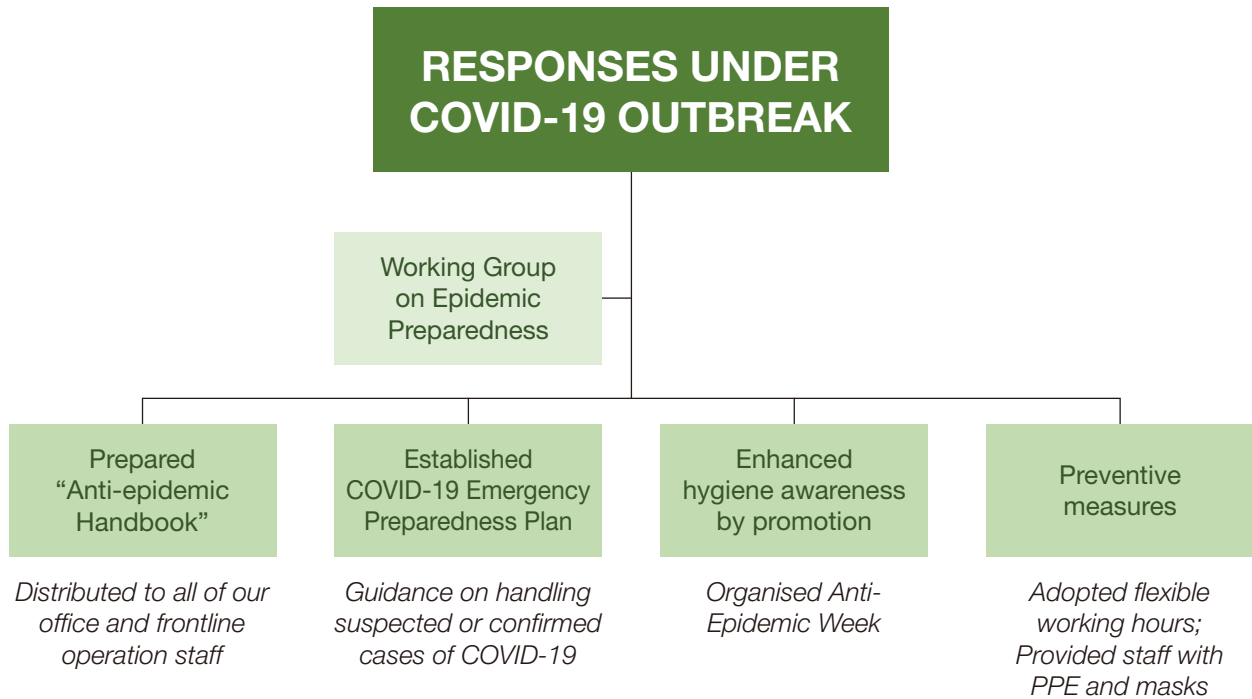
Occupational Health and Safety

Baguio’s topmost priority is to ensure the health and safety of its workforce. All safety matters of the Group are handled and implemented by the SHEQ Department, in accordance with the ISO 45001:2018 standard. Our safety management system is routinely reviewed to ensure compliance with all applicable labour and safety legislations in Hong Kong and the Mainland.

Responding to COVID-19

Since the beginning of the COVID-19 pandemic outbreak, the Group has responded with prompt actions by setting up the “COVID-19 Response Team” and implementing a series of preventive measures to safeguard the health and safety of our employees.

While contributing to efforts to combat the pandemic and maintaining uninterrupted operations, we have endeavoured to offer employees a sense of care and security, motivating them to respond proactively to the uncertainties brought by the pandemic.



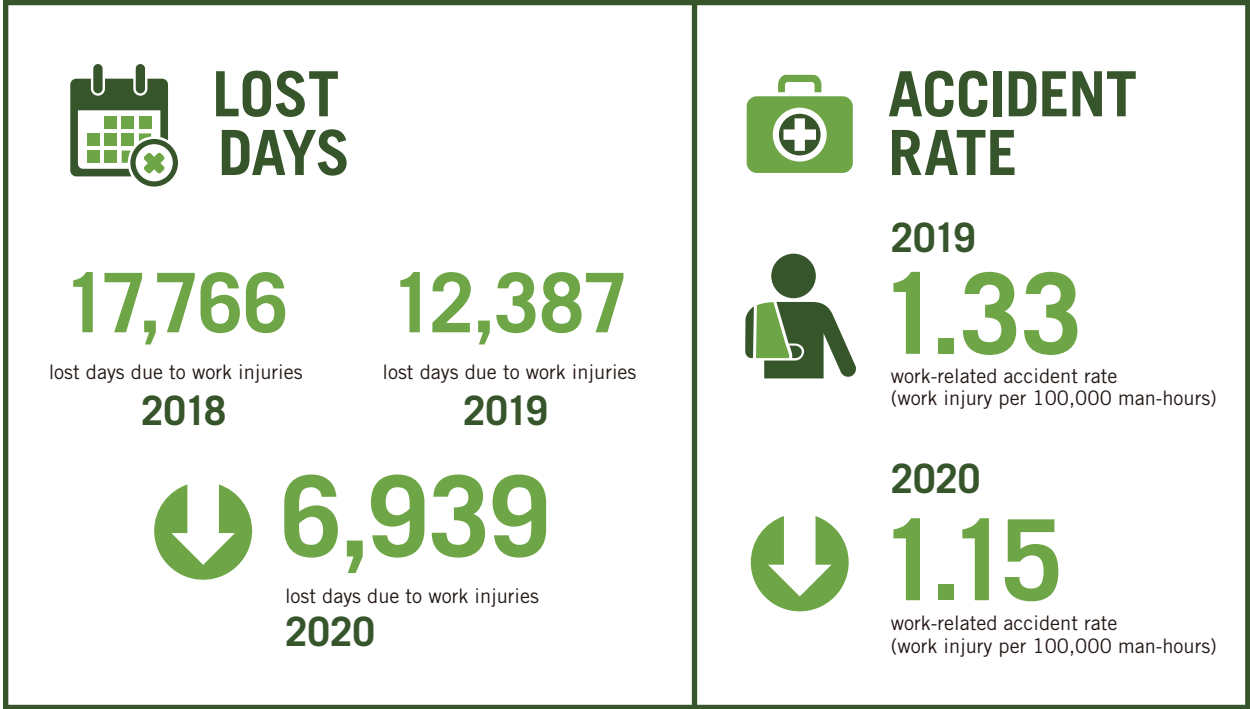
To enhance communication during the pandemic, the Group flagged up safety alerts for incident sharing across different operational teams by SMS, instant messages and QR codes. During the year, 10,449 safety alerts were sent via instant messaging application.

Workplace Safety and Occupational Health

To ensure occupational health and safety, training is offered to the workforce according to the Occupational Health & Safety and Environmental Guidelines. Quadrilingual management guidelines are prepared for the diversified workforce, mitigating risks inherent in daily operational duties which include machinery operation, chemicals handling, use of electrical appliances and working at height.



This year, a channel for reporting high-risk activities was established to minimise work-related accidents. Operational teams were required to report upcoming high-risk work to the SHEQ team, while safety inspection and random checks were conducted to ensure safety measures were well implemented in the workplace.



We continued to make Baguio a safe and healthy workplace. 6,939 lost days were documented during the year. We were grateful to report that in the year 2020, our work-related accident rate per 100,000 man-hours decreased from 1.33 in 2019 to 1.15 in 2020, with no work-related fatalities reported. Our ultimate goal is zero work injury. Under our rehabilitation management, the Group keeps close contact with injured staff and provides rehabilitation services to speed up their recovery. Steps are taken to ensure that similar incidents will not happen again in the future.

As a people-oriented company, Baguio is always committed to promoting safety awareness among frontline staff to minimise work-related injuries and fatalities. The Group has implemented a list of measures for operational safety and health. The SHEQ Competition which has been organised for 10 consecutive years recognises staff who put in efforts for improving SHEQ performance. This year, we established the “Best Safety Supervisor Award” for supervisors who actively promote operational safety and health, as well as environmental protection.



SHEQ Incentive Scheme

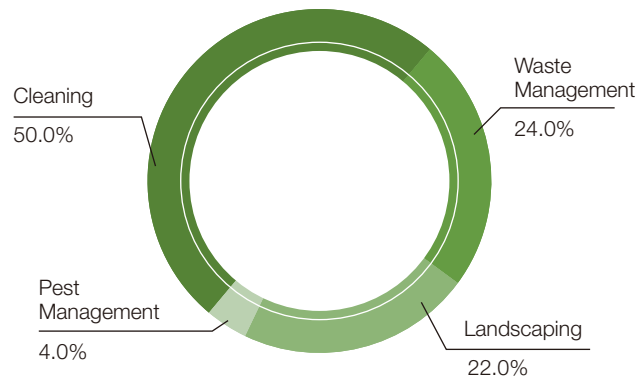
In 2020, we initiated the SHEQ Incentive Scheme. Recognising staff with outstanding SHEQ performance, the incentive scheme aims at enhancing frontline staff's performance on operational safety and health, environment, and quality. Cash rewards will be given to the operation staff if no work-related injuries happen during the entire contract period. If compliments are received from customers, the Group will also reward the employees with cash coupons to recognise their hard work. 10 cleaning contracts were selected to participate in the newly launched scheme.

Safety Training

In pursuit of occupational health and safety, we continued to conduct the "Train-the-Trainer" programme this year. A total of 11,203 hours of safety-related training was recorded by 100 qualified trainers by the end of the reporting period.

The SHEQ Department oversees and reviews periodically the Group's safety management system to ensure compliance with all applicable labour and safety regulations⁴.

Number of Qualified Trainers



⁴ Please refer to the section headed **Applicable Laws and Regulations** for labour and safety-related laws and regulations.

OPERATIONAL EXCELLENCE

Operational commitment is the key to Baguio's long-term success. The Group strives to deliver quality services and meet the ever-changing customer expectations through enhanced technologies and its ISO-certified Integrated Management System.

Our Quality Management System is certified for ISO 9001:2015 Standard. To safeguard the best interests of our customers and ensure compliance with relevant laws and regulations, we carry out regular audits to secure the quality of our services.

The Group was not aware of any non-compliance of laws and regulations⁵ that had a significant impact on the Group relating to health and safety, advertising, labelling and privacy matters relating to products and services provided and methods of redressal.

Supply Chain Management

The Group is dedicated to collaborating with a wide network of suppliers and sub-contractors who are competent to deliver quality goods and services in a responsible manner. To this end, we conduct annual reviews to assess their performance and regularly review the list of approved sub-contractors and suppliers. Moreover, tenders from reputable suppliers are invited and suppliers are encouraged to establish certified management systems including adherence to ISO standards to systematically manage safety and environmental issues.

Taking a proactive engagement approach, we conduct annual interviews with a selected panel of sub-contractors and suppliers to get a better understanding of the challenges they face. This two-way dialogue enables both parties to work together for continuous improvement in the sustainable journey.

Sustainable Procurement

Incorporating sustainable practices in our operations is a central part of our business operation. As a founding member of the Sustainable Procurement Charter, Baguio takes steps to implement sustainable procurement with reference to ISO 20400 Sustainable Procurement Standard. For instance, our staff have attended a forum on sustainable procurement provided by Green Council, as well as training courses on ISO 20400 and "How to prevent bribery and corruption" seminar. During procurement, the Group prioritises the purchase of eco-friendly products including degradable plastic bags, eco-friendly pesticides and chemicals, and paper with at least 50% recycled content. Currently, we are gradually increasing the procurement proportion of eco-friendly products by setting up annual targets. Going forward, we will continue to take on a leading role by establishing our sustainable procurement policy and code of conduct for supplier compliance.

94% of procured plastic bags are degradable

Enhancing Customer Satisfaction

Baguio spares no effort in building a strong relationship with customers and explores every option to accommodate their needs whenever possible. Customer feedback from all five business units is gathered through monthly service quality surveys and analysed on a half-yearly basis.

The survey encompasses a full spectrum evaluation of our service quality under three categories, including service performance, managerial staff performance and operation staff performance. During the year, more than 94% of the answers in the survey were rated satisfactory or above, in which the answers to each of the three categories questions rated satisfactory or above are 90%.

The Group values all feedback from its customers. To genuinely understand our customers' demands and preferences, we have carried out face-to-face interviews with them in addition to surveys. Besides, our customer complaints handling system is managed on intranet logs for swift handling and follow-up on all reported cases. This serves as another channel to collect feedback and helps maintain smooth communication.

⁵ Please refer to the section headed **Applicable Laws and Regulations** for product responsibility-related laws and regulations.

Upholding Anti-corruption Practices

Integrity is essential to maintain long-term relationships and trust with our stakeholders. Baguio is committed to the highest standards of ethics and honesty. We adopt a zero-tolerance approach to any and all corrupt behaviours including bribery, extortion, fraud and money laundering. Employees are required to strictly follow the anti-corruption guidelines stated in the Employee Handbook, which prohibit staff from accepting benefits from business partners and falsifying documents. Employees are not allowed to accept gratuities and gifts exceeding the price limit set by the Group. To avoid conflict of interest, staff is required to complete a “Conflict of Interest Declaration Form” and report to the Group if they encounter a potential conflict of interest. Legal action may be taken against related personnel if violation of law and regulations is discovered. A Business Code of Conduct will be in place for all employees which covers all anti-corruption information.

To raise employees’ awareness of anti-bribery and corruption issues, anti-corruption laws and standards are taught during orientation training. Current employees are required to attend anti-corruption and ethics training every two years, the purpose being to update and refresh memories on anti-corruption. During the year, we joined an anti-bribery and corruption webinar and invited Independent Commission Against Corruption (“ICAC”) to provide a training session for all our directors and Heads of Departments. In view of the COVID-19 situation, anti-corruption training to general employees was cancelled in 2020. However, we acknowledge the importance of ethical training. The Group shall try to resume the training next year.

The Group encourages employees to report any suspected cases of corrupt behaviours. The speak-up policy ensures employees are able to inform or submit a grievance in a confidential manner. The policy and complaint handling procedures are annually reviewed to ensure they are up to date.

During the year, the Group’s operations complied with all relevant laws and regulations⁶ relating to bribery, extortion, fraud and money laundering. The Group was not involved in any corruption cases during the year.

Safeguarding Confidential Matters

Baguio attaches great importance to data privacy. Personal information is collected and processed in compliance with the Personal Data (Privacy) Ordinance. Our Employee Handbook sets out the guidelines on confidential information handling. Without the Group’s written consent or authorisation, employees shall not disclose any confidential information to others. Relevant personnel who have regular access to sensitive information are required to sign a Declaration of Confidentiality.

To enhance employees’ understanding and awareness of the need for data privacy protection and cybersecurity, we provide IT security training to newcomers and communicate the data protection principles that apply to collection, use, disclosure and retention of personal data to office staff during orientation.

During the year, the Group did not encounter any cases of infringement of laws and regulations⁷ related to data privacy and security as well as intellectual property rights.

⁶ Please refer to the section headed **Applicable Laws and Regulations** for anti-corruption-related laws and regulations.

⁷ Please refer to the section headed **Applicable Laws and Regulations** for data-privacy-related laws and regulations.

COMMUNITY ENGAGEMENT

Baguio is a part of the community where we operate. Moving beyond day-to-day business, the Group has increasingly become involved in the neighbourhood by supporting various community wellness activities. As a specialist in environmental services, we are particularly motivated to promote awareness of recycling and green living to the public.

Baguio has been committed to fostering a better community through ongoing education, corporate volunteering, financial donation and in-kind contribution. We partner with charitable organisations and green organisations, offering our resources to empower underprivileged groups and develop a more inclusive society. In 2020, Baguio made around HK\$180,000 cash sponsorship and in-kind sponsorships including materials and recyclables collection services.

Fighting the Pandemic

We fulfilled our social responsibility during the hard time of the COVID-19 pandemic. Through participating in the “Dawn under the Epidemic • Donations of Epidemic Prevention Package” activity, our dedicated employees volunteered to distribute masks, antiseptic tissues and hand sanitisers to charity organisations including Hong Kong Blind Union and St. James’ Settlement, supporting around 300 individuals in need and alleviating the pressure of supply shortage of sanitisers and cleaning products.



Advocating Staff Volunteerism

To increase the bonding between our staff and encourage them to share our core values of giving back to the community, a range of volunteering activities with our partner organisations were launched this year. Through participating in these activities, our staff helped to reduce food waste, donate unused resources and recycle shoes to the needy. During the year, the Group organised 14 community activities, with total hours amounting to 309 hours of volunteering.



Preparation of Anti-Epidemic Kit



Mooncake Box Recycling



Preparation of Green Planting Kit

SUMMARY OF COMMUNITY ACTIVITIES IN 2020

Partner Organisation	Volunteering Activities	Volunteering Hours
Education and Development		
City One Shatin	Baguio Glass Bottle Recycling Plant Visit	6
City One Shatin	Baguio Green Recycling Services Webinar	2
Hong Kong Baptist University	Baguio Waste Sorting & Recycling Centre Visit	8
Hong Kong Jockey Club	Baguio Glass Bottle Recycling Plant Visit	4
Kwai Chung Hospital – Hospital Authority	Baguio Glass Bottle Recycling Plant Visit	4
The Open University of Hong Kong	Baguio Green Recycling Services & Innovation Webinar	2
Environmental Protection		
Hong Kong Playground Association and The Salvation Army	Shoes Recycling Campaign 2020	4
Mill Mill and Baguio Waste Sorting & Recycling Centre	Mooncake Container Recycling	2
Hong Kong Playground Association and Ngau Tau Kok Elderly Centre	Preparation of Green Planting Kit	73
Missing Link-Polyfoam Recycling Scheme	Saving Fruit Nets Action	4
The Green Earth	Night Walk for the Green Earth 2020	30
N/A (Internal Community Service)	Clean Up Hiking Trail Activity	33
Community Well-being		
Haven of Hope Christian Service	Flag day 2020	10
Food Angel	Mooncake Donation	1
Hong Kong Blind Union and St. James' Settlement	Dawn under the Epidemic • Donations of Epidemic Prevention Package	13
Hong Kong Playground Association	Donations of Epidemic Prevention Package	113
Total		309

APPLICABLE LAWS AND REGULATIONS

Aspect	Applicable Hong Kong Laws and Regulations	Section
Environment	<ul style="list-style-type: none"> • Air Pollution Control Ordinance; • Dangerous Goods Regulations; • Environmental Impact Assessment Ordinance; • Factories and Industrial Undertakings Ordinance; • Hazardous Chemicals Control Ordinance; • Motor Vehicle Idling (Fixed Penalty) Ordinance; • Noise Control Ordinance; • Ozone Layer Protection Ordinance; • Pesticides Ordinance; • Product Eco-responsibility Ordinance; • Road Traffic Ordinance; • Waste Disposal Ordinance; • Water Pollution Control Ordinance 	GREEN
Employment	<ul style="list-style-type: none"> • Disability Discrimination Ordinance; • Employment Ordinance; • Family Status Discrimination Ordinance; • Minimum Wage Ordinance; • Race Discrimination Ordinance • Sex Discrimination Ordinance; 	EMPLOYEE WELL-BEING
Labour standards	<ul style="list-style-type: none"> • Employment of Children Regulations • Employment of Young Persons (Industry) Regulations; 	EMPLOYEE WELL-BEING
Occupational health and safety	<ul style="list-style-type: none"> • Dangerous Goods Regulations; • Employees' Compensation Ordinance; • Factories and Industrial Undertakings Ordinance; • Fire Safety (Buildings) Ordinance • Occupational Health and Safety Ordinance; • Road Traffic Ordinance; • Smoking (Public Health) Ordinance 	EMPLOYEE WELL-BEING
Product responsibility	<ul style="list-style-type: none"> • Personal Data (Privacy) Ordinance • The Trade Descriptions Ordinance 	OPERATIONAL EXCELLENCE
Anti-corruption	<ul style="list-style-type: none"> • Prevention of Bribery Ordinance • The Competition Ordinance 	OPERATIONAL EXCELLENCE

PERFORMANCE DATA SUMMARY

		2020	2019	2018
Employment	Group-wide (Person)	5,255	7,457	8,715
	By Employment type			
	Full-time (Person)	5,011	7,135	8,389
	Part-time (Person)	244	322	326
	By Workforce			
	Office Staff (Person)	225	218	208
	Operations Staff (Person)	5,030	7,239	8,507
	By Age group			
	Under 30 (Person)	179	238	247
	30-39 (Person)	306	341	380
	40-49 (Person)	503	676	845
	50-59 (Person)	1,292	1,687	2,043
	60 or above (Person)	2,975	4,515	5,200
	By Gender			
	Male (Person)	2,282	3,389	3,897
Female (Person)	2,973	4,068	4,818	
	Group-wide turnover rate (%)	2.71	3.72	3.53
Training and Development	Training hours (including safety training) (Hour)	16,255	20,168	13,191
	By Workforce Profile			
	Managerial staff (Hour)	1,156	2,181	2,147
General staff (Hour)	15,099	17,987	11,044	
Health & Safety	Days lost due to work injury (Day)	6,939	12,387	17,766
	Work-related accidents (Number) (cases of over 3 lost days)	135	237	317
	Work-related accident rate (Cases per 100,000 working hours)	1.15	1.33	1.59
	Confirmed work-related fatalities (Number)	-	-	1
	Safety Training hours (Hour)	11,203	10,629	8,101

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

		2020	2019	2018
Environment	Total Resource Consumption			
	Electricity (kWh)	1,027,755	917,926 [^]	822,948
	Diesel (Litre)	1,940,805	2,478,070*	2,487,467
	Petrol (Litre)	62,856	58,962*	46,897
	Naphtha (Litre)	16,182	29,088*	–
	Water (m ³)	9,853	8,324	8,418
	Paper (Total) (Ream)	3,924	4,687	4,942
	Paper with recycled content (Ream)	3,775	4,480	3,925
	Non-degradable plastic bags (Bag)	345,700	607,100	446,500
	Degradable plastic bags (Bag)	5,548,929	10,568,661	14,948,620
	Energy intensity (average vehicular fuel consumption) (Litre/km)	0.282	0.300	0.303
	Greenhouse Gas Emission			
	Scope I (tCO ₂ e)	5,402.94	6,893.68	6,739.43
	Scope II (tCO ₂ e)	513.88	458.96	419.70
	Total Emissions (tCO ₂ e)	5,916.82	7,352.64	7,159.13
	Air Emissions			
	Sulphur oxides (Tonnes)	0.03	0.04	0.04
	Nitrogen oxides (Tonnes)	20.90	25.99	26.28
	Particulate matter (Tonnes)	1.72	2.05	2.06
	Hazardous waste			
	Engine oil disposed (spent lube oil) (Litre)	3,600	2,000	4,000
	Chemical disposed (kg)	–	–	–
	Pesticide disposed (kg)	–	–	–
	Non-hazardous waste			
	Office – general (kg)	6,802.7	4,069.7	3147.0
	Office – paper collected for recycling (kg)	3,585.5	2928.0	3724.4
	Office – metal collected for recycling (kg)	74.8	79.5	81.7
	Office – plastic collected for recycling (kg)	326.0	162.4	105.7
Community	Donations (HKD)	13,880.0	78,511.8	–
	Volunteer hours (Hour)	309	377.5	600

* The Group has been optimising its ESG data collection process. Starting from 2019, we have incorporated the stationary fuel consumption, including diesel, petrol and naphtha, into the data reporting boundary.

[^] 2019 electricity data boundary has been expanded to include our Glass Bottle Recycling Plant in Tuen Mun.

Notes:

This document follows the best practice prevalent in corporate reporting in compliance with guidelines of HKEX. Computation of the GHG footprint is based on the Corporate Accounting and Reporting Standard (revised edition) for scope 1 and 2.

Calculation standards and methodologies for carbon emissions:

- “Guidelines to Account for and Report on Greenhouses Gas Emissions and Removals for Buildings (Commercial, Residential or Institutional Purpose) in Hong Kong” published by the Environmental Protection Department (EPD) of Hong Kong Government

The sources of published emission factors for the reporting of carbon emissions are:

- Sustainability reports of China Light and Power (CLP)

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.	GREEN During the year, the Group was not aware of any non-compliance of applicable laws and regulations and was not subject to any significant fines or non-monetary sanctions due to non-compliance.
KPI A1.1	The types of emissions and respective emissions data.	GREEN – Environmental Management; 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).	GREEN – Carbon Emissions
KPI A1.3	Total hazardous waste produced and, where appropriate, intensity (e.g. per unit of production volume, per facility).	GREEN – Waste Management
KPI A1.4	Total non-hazardous waste generated (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	GREEN – Waste Management; Performance Data Summary
KPI A1.5	Description of measures to mitigate emissions and results achieved.	GREEN – Environmental Management
KPI A1.6	Description of how hazardous and non-hazardous wastes are handled, reduction initiatives and results achieved.	GREEN – Waste Management

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.	GREEN – Environmental Management
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)	GREEN – Energy Consumption; Performance Data Summary
KPI A2.2	Water consumption in total and intensity (e.g. per unit of production volume, per facility).	GREEN – Water Consumption; Performance Data Summary
KPI A2.3	Description of energy use efficiency initiatives and results achieved.	GREEN – Energy Consumption; Carbon Emissions
KPI A2.4	Description of whether there is any issue in sourcing water that is fit for purpose, water efficiency initiatives and results achieved.	GREEN – Water Consumption 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.	The Group's operations do not involve the use of packaging materials.
Aspect A3	The environment and natural resources	
General disclosure	Policies on minimising the issuers' significant impact on the environment and natural resources.	GREEN – Environmental Emergency Management
KPI A3.1	Description of significant impacts of activities on the environment and natural resources and the actions taken to manage them.	GREEN – Resource Recycling – Where We Started and Going Beyond; Environmental Emergency Management; INNOVATION – Promoting local recycling via mobile recycling platform

KPIs	HKEX ESG Reporting Guide Requirements	Section/Remarks
B. Social		
Aspect B1 Employment		
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.	EMPLOYEE WELL-BEING – Our Employees; Employee Wellness and Well-being Talent Management During the year, the Group was not aware of any non-compliance of applicable laws and was not subject to any significant fines or non-monetary sanctions due to non-compliance.
KPI B1.1	Total workforce by employment type, age group and geographical region.	EMPLOYEE WELL-BEING – Our Employees
KPI B1.2	Employee turnover rate by age group and geographical region.	EMPLOYEE WELL-BEING – Our Employees
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.	EMPLOYEE WELL-BEING – Occupational Health and Safety During the year, the Group was not aware of any non-compliance of applicable laws and was not subject to any significant fines or non-monetary sanctions due to non-compliance.
KPI B2.1	No. and rate of work-related fatalities	EMPLOYEE WELL-BEING – Occupational Health and Safety
KPI B2.2	Days lost due to work injury.	EMPLOYEE WELL-BEING – Occupational Health and Safety
KPI B2.3	Description of occupational health and safety measures adopted and how they are implemented and monitored.	EMPLOYEE WELL-BEING – 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.	EMPLOYEE WELL-BEING – Talent Management
KPI B3.1	The percentage of employees trained by gender and employee category (e.g. senior management, middle management)	EMPLOYEE WELL-BEING – Talent Management
KPI B3.2	The average training hours completed per employee by gender and employee category.	

KPIs	HKEX ESG Reporting Guide Requirements	Section/Remarks
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.	EMPLOYEE WELL-BEING – Our Employees During the year, the Group was not aware of any non-compliance of applicable laws and was not subject to any significant fines or non-monetary sanctions due to non-compliance.
KPI B4.1	Description of measures to review employment practices to avoid child and forced labour.	EMPLOYEE WELL-BEING – Our Employees
KPI B4.2	Description of steps taken to eliminate such practices when discovered.	
Aspect B5 Supply chain management		
General disclosure	Policies on managing environmental and social risks of the supply chain	OPERATIONAL EXCELLENCE – Supply Chain Management; Sustainable Procurement
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.	OPERATIONAL EXCELLENCE – Supply Chain Management; Sustainable Procurement



KPIs	HKEX ESG Reporting Guide Requirements	Section/Remarks
Aspect B6	Product responsibility	
General disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to health and safety, advertising, labelling and privacy matters relating to products and services provided and methods of redress.	<p>INNOVATION – Maintaining Quality Services;</p> <p>OPERATIONAL EXCELLENCE – Enhancing Customer Satisfaction;</p> <p>Safeguarding Confidential Matters During the year, the Group was not aware of any non-compliance of applicable laws and was not subject to any significant fines or non-monetary sanctions due to non-compliance.</p>
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	OPERATIONAL EXCELLENCE – Enhancing Customer Satisfaction
KPI B6.3	Description of practices relating to observing and protecting intellectual property rights.	OPERATIONAL EXCELLENCE – Safeguarding Confidential Matters
KPI B6.4	Description of quality assurance process and recall procedures	INNOVATION – Maintaining Quality Services
KPI B6.5	Description of consumer data protection and privacy policies, how they are implemented and monitored.	OPERATIONAL EXCELLENCE – Safeguarding Confidential Matters

KPIs	HKEX ESG Reporting Guide Requirements	Section/Remarks
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.	OPERATIONAL EXCELLENCE – Upholding Anti-corruption Practices During the year, the Group was not aware of any non-compliance of applicable laws and was not subject to any significant fines or non-monetary sanctions due to non-compliance.
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.	OPERATIONAL EXCELLENCE – Upholding Anti-corruption Practices
KPI B7.2	Description of preventive measures and whistle-blowing procedures, how they are implemented and monitored.	OPERATIONAL EXCELLENCE – Upholding Anti-corruption Practices
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.	COMMUNITY ENGAGEMENT
KPI B8.1	Focus areas of contribution to the community (e.g. education, environmental concerns, labour needs, health, culture, sport).	COMMUNITY ENGAGEMENT
KPI B8.2	Resources contributed (e.g. money or time) to the focus area.	COMMUNITY ENGAGEMENT



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 80 to 141, which comprise the consolidated statement of financial position as at 31 December 2020, 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 2020 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 ("HKSA") issued by the HKICPA. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants (the "Code") together with any ethical requirements that are relevant to our audit of the consolidated financial statements in the Cayman Islands, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

INDEPENDENT AUDITOR'S REPORT

KEY AUDIT MATTERS

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

Revenue recognition	
Refer to note 5 to the consolidated financial statements and the accounting policies on note 2(f).	
The Key Audit Matter	How the matter was addressed in our audit
<p>Revenue from provision of professional cleaning, landscaping, pest management, waste management and recycling services is recognised when the services are rendered, with reference to the contractual terms and completion of the specific transaction assessed on the basis of the actual extent of services provided as at the reporting date as a proportion of the total services to be provided under the terms of the service contract.</p> <p>The Group enters into significant volume of service contracts with a wide range of customers. The extent of services may subsequently be altered upon request from customers.</p> <p>We identified revenue recognition as a key audit matter because revenue is one of the key performance indicators of the Group and could be subject to risk of manipulation to meet specific targets or expectations and because subsequent alterations to the services to be provided under service contracts increases the risk of error in the timing of revenue recognition.</p>	<p>Our audit procedures to assess the timing of revenue recognition included the following:</p> <ul style="list-style-type: none"> obtaining an understanding of and assessing the design, implementation and operating effectiveness of management's key internal controls in relation to revenue recognition; inspecting, 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; and 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(i).	
The Key Audit Matter	How the matter was addressed in our audit
<p>The Group's staff costs comprise salaries and other staff benefits, including untaken paid leave and long service payments.</p> <p>The Group has a large number of staff, the costs of which account for a very substantial portion of the Group's total expenses. The Group experiences high staff turnover, especially when new service contracts are awarded or existing service contracts expire without renewal.</p> <p>We identified accruals for staff costs as a key audit matter because the Group's business model is labour-intensive and staff costs are critical to the Group's performance and because given the large number and high turnover of the Group's staff, there is a risk that staff costs are incorrectly calculated and/or under/over-accrued at the end of the reporting period.</p>	<p>Our audit procedures to assess accruals for staff costs included the following:</p> <ul style="list-style-type: none"> obtaining an understanding of and assessing the design, implementation and operating effectiveness of management's key internal controls relating to accruals for staff costs; performing analytical procedures on the Group's salary expenses, which included forming an expectation of the current year's salaries and comparing our expectations with actual amounts recorded by the Group and investigating any significant differences identified; re-calculating accruals for staff benefits, other than salaries, on a sample basis, and comparing the assumptions adopted in the calculations with relevant records maintained by the Human Resources Department; comparing actual payments during the current year with the accruals for staff costs at the last reporting date to assess the accuracy of management's estimating process; and 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.

Valuation on the biological assets	
Refer to note 22 to the consolidated financial statements and the accounting policies on note 2(s).	
The Key Audit Matter	How the matter was addressed in our audit
<p>At 31 December 2020, the Group had biological assets with a fair value totalling HK\$20.5 million, which comprised mainly of plants and flowers held for further growth for the usage in the Group's landscaping service contracts.</p> <p>The fair value of the biological assets was valued using market comparable approach and assessed by the directors based on an independent valuation prepared by qualified external valuer in accordance with recognised industry standards. Assessing the fair value of biological assets requires management and the external valuer to make a number of judgements, particularly relating to the valuation methodology adopted and the selection of the comparable market transactions.</p> <p>We identified the valuation of biological assets as a key audit matter because of its significance to the consolidated financial statements and because the valuation of biological assets is inherently subjective and requires significant management judgement, which increases the risk of error.</p>	<p>Our audit procedures to assess the valuation on the biological assets included the following:</p> <ul style="list-style-type: none"> • obtaining an understanding of and assessing the design and implementation of management's key internal controls in relation to valuation of biological assets; • evaluating the accuracy of the data input to the valuation report by observing, on a sample basis, the physical count of plants and flowers performed by the Group and comparing the Group's management records with the quantity and size of plant and flowers adopted by the external valuer; • assessing the external valuer's qualifications, experience and expertise in the biological assets being valued and considering their objectivity; • discussing with the external valuer and assessing the valuation methodology and key estimates and assumptions adopted in the valuations; • inspecting the valuation report prepared by the external valuer of the fair value of the biological assets and, with the assistance of our internal valuation specialist, evaluating the valuation methodology and key assumptions applied by the external valuer; and • considering the disclosures in the consolidated financial statements inspect of the valuation of biological asset with reference to the requirements of the prevailing accounting standards.

INDEPENDENT AUDITOR'S REPORT

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

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

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

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

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

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

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

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

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

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

INDEPENDENT AUDITOR'S REPORT

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

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

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

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

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

KPMG

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

30 March 2021

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2020

(Expressed in Hong Kong Dollars)

	Note	2020 HK\$'000	2019 HK\$'000
Revenue	5	1,131,781	1,397,455
Cost of services		(1,068,235)	(1,327,000)
Gross profit		63,546	70,455
Other income	6	95,537	5,181
Change in fair value less costs to sell of biological assets	22	(3,956)	5,009
Selling and marketing expenses		(1,203)	(1,990)
Administrative expenses		(95,707)	(80,240)
Profit/(loss) from operations		58,217	(1,585)
Finance costs	7	(7,768)	(10,489)
Share of losses of a joint venture	15	(1,327)	(648)
Profit/(loss) before taxation	8	49,122	(12,722)
Income tax credit	9	2,254	1,412
Profit/(loss) for the year		51,376	(11,310)
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		121	(36)
Cash flow hedge: share of net movement in the hedging reserve of a joint venture	15	414	–
Other comprehensive income		535	(36)
Total comprehensive income for the year		51,911	(11,346)
Profit/(loss) for the year attributable to:			
Equity shareholders of the Company		51,376	(11,031)
Non-controlling interests		–	(279)
		51,376	(11,310)
Total comprehensive income for the year attributable to:			
Equity shareholders of the Company		51,911	(11,067)
Non-controlling interests		–	(279)
		51,911	(11,346)
Earnings/(loss) per share			
Basic and diluted (HK cents)	11	12.38	(2.66)

The notes on pages 84 to 141 form part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2020
(Expressed in Hong Kong Dollars)

	Note	2020 HK\$'000	2019 HK\$'000
Non-current assets			
Property, plant and equipment	13	149,837	181,613
Right-of-use assets	14	54,829	63,679
Interest in a joint venture	15	8,439	9,352
Financial assets at fair value through profit or loss	17	14,348	14,176
Prepayments, deposits and other receivables	18	19,292	18,562
Deferred tax assets	31	2,367	–
		249,112	287,382
Current assets			
Inventories	19	3,180	2,635
Contract assets	20	9,451	9,042
Trade receivables	21	259,529	319,970
Prepayments, deposits and other receivables	18	26,775	32,125
Tax recoverable		1,072	2,073
Biological assets	22	20,493	28,316
Pledged bank deposits	23	6,161	6,153
Cash and cash equivalents	24	28,522	22,887
		355,183	423,201
Current liabilities			
Trade payables	25	23,899	28,001
Contract liabilities	26	1,750	–
Accruals, deposits received and other payables	27	117,790	143,118
Bank borrowings	28	107,642	235,095
Lease liabilities	29	13,254	11,745
Tax payable		218	1,982
		264,553	419,941
Net current assets			
		90,630	3,260
Total assets less current liabilities			
		339,742	290,642
Non-current liabilities			
Lease liabilities	29	32,749	34,976
Provision	30	10,548	10,152
Deferred tax liabilities	31	7,413	8,393
		50,710	53,521
Net assets			
		289,032	237,121
Capital and reserves			
Share capital	32	4,150	4,150
Reserves	33	284,882	232,971
Total equity			
		289,032	237,121

Approved by the Board of Directors on 30 March 2021 and signed on its behalf by:

Ng Wing Hong
Director

Ng Yuk Kwan Phyllis
Director

The notes on pages 84 to 141 form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2020
(Expressed in Hong Kong Dollars)

	Attributable to equity shareholders of the Company									
	Share capital	Share premium	Other reserve	Share option reserve	Translation reserve	Hedging reserve	Retained earnings	Total	Non-controlling interests	Total equity
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2019	4,150	100,850	18,330	1,773	(137)	-	127,857	252,823	(961)	251,862
Loss for the year	-	-	-	-	-	-	(11,031)	(11,031)	(279)	(11,310)
Other comprehensive income for the year	-	-	-	-	(36)	-	-	(36)	-	(36)
Total comprehensive income for the year	-	-	-	-	(36)	-	(11,031)	(11,067)	(279)	(11,346)
Acquisition of non-controlling interests in a subsidiary	-	-	-	-	-	-	(1,730)	(1,730)	1,240	(490)
Dividends approved in respect of the previous year (note 10(b))	-	-	-	-	-	-	(2,905)	(2,905)	-	(2,905)
Share options lapsed	-	-	-	(78)	-	-	78	-	-	-
At 31 December 2019 and 1 January 2020	4,150	100,850	18,330	1,695	(173)	-	112,269	237,121	-	237,121
Profit for the year	-	-	-	-	-	-	51,376	51,376	-	51,376
Other comprehensive income for the year	-	-	-	-	121	414	-	535	-	535
Total comprehensive income for the year	-	-	-	-	121	414	51,376	51,911	-	51,911
Share options lapsed	-	-	-	(39)	-	-	39	-	-	-
At 31 December 2020	4,150	100,850	18,330	1,656	(52)	414	163,684	289,032	-	289,032

The notes on pages 84 to 141 form part of these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2020
(Expressed in Hong Kong Dollars)

	Note	2020 HK\$'000	2019 HK\$'000
Operating activities			
Profit/(loss) before taxation		49,122	(12,722)
Adjustments for:			
Depreciation	8	54,609	39,180
Recognition of credit losses on other receivables	8	–	2,250
Recognition/(reversal) of credit losses on trade receivables	8	6,173	(38)
Share of losses of a joint venture	15	1,327	648
Impairment loss of property, plant and equipment	8	1,877	–
Loss on disposal of property, plant and equipment	8	5,979	64
Loss on disposal of right-of-use assets	8	167	–
Change in fair value less costs to sell of biological assets	22	3,956	(5,009)
Change in fair value of investments in life insurance	17	(172)	(283)
Interest income	6	(226)	(45)
Finance costs	7	7,768	10,489
COVID-19-related rent concessions received	6	(1,524)	–
Changes in working capital:			
(Increase)/decrease in inventories		(545)	1,267
Decrease/(increase) in biological assets		3,867	(2,535)
(Increase)/decrease in contract assets		(409)	1,484
Decrease in trade receivables		54,268	32,847
Decrease/(increase) in prepayments, deposits and other receivables		5,592	(12,046)
Decrease in trade payables		(4,102)	(2,920)
Decrease in accruals, deposits received and other payables		(25,328)	(17,422)
Increase in contract liabilities		1,750	–
Cash generated from operations		164,149	35,209
Income tax paid		(1,856)	(802)
Net cash generated from operating activities		162,293	34,407
Investing activities			
Interest received		128	18
Increase in pledged bank deposits		(8)	(10)
Proceeds from disposal of property, plant and equipment		9,749	6,039
Payment for the purchase of property, plant and equipment		(17,568)	(23,663)
Capital contribution to a joint venture		–	(10,000)
New loan to a joint venture		–	(3,300)
Net cash used in investing activities		(7,699)	(30,916)
Financing activities			
Proceeds from new bank borrowings	24(a)	992,611	1,265,662
Repayments of bank borrowings	24(a)	(1,120,064)	(1,248,881)
Interest paid for bank borrowings	24(a)	(6,063)	(8,583)
Dividend paid to equity shareholders of the Company		–	(2,905)
Payment for acquisition of additional interest in a subsidiary		–	(490)
Capital element of lease rentals paid	24(a)	(14,281)	(19,425)
Interest element of lease rentals paid	24(a)	(1,705)	(1,906)
Net cash used in financing activities		(149,502)	(16,528)
Net increase/(decrease) in cash and cash equivalents		5,092	(13,037)
Cash and cash equivalents at 1 January		22,887	36,105
Effect of foreign exchange rate changes		543	(181)
Cash and cash equivalents at 31 December	24	28,522	22,887

The notes on pages 84 to 141 form part of these financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong Dollars unless otherwise indicated)

1. GENERAL INFORMATION

The Company was incorporated 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 the Group’s interest in a joint venture 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 requirements 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 on The Stock Exchange of Hong Kong Limited (the “Listing Rules”). 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 2(c) 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 3.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong Dollars unless otherwise indicated)

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(b) Basis of preparation *(Continued)*

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of HKFRS 2, leasing transactions that are within the scope of HKFRS 16, 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) Changes in accounting policies

The HKICPA has a number of new and amended standards, that are first effective for the current accounting period of the Group.

Except for the Amendment to HKFRS 16, *Covid-19-Related Rent Concessions*, none of these developments have had a material effect on how the Group's results and financial position for the current or prior periods have been prepared or presented. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period except for the Amendment to HKFRS 16, *Covid-19-Related Rent Concessions*, which provides a practical expedient that allows a lessee to by-pass the need to evaluate whether certain qualifying rent concessions occurring as a direct consequence of the COVID-19 pandemic ("Covid-19-related rent concessions") are lease modifications and, instead, account for those rent concessions as if they were not lease modifications.

The Group has elected to early adopt the amendments and applies the practical expedient to all qualifying COVID-19-related rent concessions granted to the Group during the year. Consequently, rent concessions received have been accounted for as negative variable lease payments recognised in profit or loss in the period in which the event or condition that triggers those payments occurred (see note 14). There is no impact on the opening balance of equity at 1 January 2020.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong Dollars unless otherwise indicated)

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(d) 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.

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(r).

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong Dollars unless otherwise indicated)

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(e) Joint ventures

A joint venture is an arrangement whereby the Group and other parties contractually agree to share control of the arrangement, and have rights to the net assets of the arrangement.

An investment in a joint venture is accounted for in the consolidated financial statements under the equity method, unless it is classified as held for sale (or included in a disposal group that is classified as held for sale). Under the equity method, the investment is initially recorded at cost, adjusted for any excess of the Group's share of the acquisition-date fair values of the investee's identifiable net assets over the cost of the investment (if any). The cost of the investment includes purchase price, other costs directly attributable to the acquisition of the investment, and any direct investment into the joint venture that forms part of the Group's equity investment. Thereafter, the investment is adjusted for the post acquisition change in the Group's share of the investee's net assets and any impairment loss relating to the investment (see note 2(n)(iii)). Any acquisition date excess over cost, the Group's share of the post-acquisition, post-tax results of the investees and any impairment losses for the year are recognised in profit or loss, whereas the Group's share of the post-acquisition post-tax items of the investees' other comprehensive income is recognised in other comprehensive income.

When the Group's share of losses exceeds its interest in the joint venture, the Group's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the investee. For this purpose, the Group's interest is the carrying amount of the investment under the equity method, together with any other long-term interests that in substance form part of the Group's net investment in the joint venture (after applying the expected credit loss ("ECL") model to such other long-term interests where applicable (see note 2(n)(i)).

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong Dollars unless otherwise indicated)

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(f) 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(n)(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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong Dollars unless otherwise indicated)

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(g) Leased assets

At inception of a contract, the Group assesses whether the contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Control is conveyed where the customer has both the right to direct the use of the identified asset and to obtain substantially all of the economic benefits from that use.

(i) As a lessee

At the lease commencement date, the Group recognises a right-of-use asset and a lease liability, except for short-term leases that have a lease term of 12 months or less and leases of low-value assets. When the Group enters into a lease in respect of a low-value asset, the Group decides whether to capitalise the lease on a lease-by-lease basis. The lease payments associated with those leases which are not capitalised are recognised as an expense on a systematic basis over the lease term.

Where the lease is capitalised, the lease liability is initially recognised at the present value of the lease payments payable over the lease term, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, using a relevant incremental borrowing rate. After initial recognition, the lease liability is measured at amortised cost and interest expense is calculated using the effective interest method. Variable lease payments that do not depend on an index or rate are not included in the measurement of the lease liability and hence are charged to profit or loss in the accounting period in which they are incurred.

The right-of-use asset recognised when a lease is capitalised is initially measured at cost, which comprises the initial amount of the lease liability plus any lease payments made at or before the commencement date, and any initial direct costs incurred. Where applicable, the cost of the right-of-use assets also includes an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, discounted to their present value, less any lease incentives received. The right-of-use asset is subsequently stated at cost less accumulated depreciation and impairment losses (see notes 2(m) and 2(n)(iii)).

The lease liability is remeasured when there is a change in future lease payments arising from a change in an index or rate, or there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, or there is a change arising from the reassessment of whether the Group will be reasonably certain to exercise a purchase, extension or termination option. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The lease liability is also remeasured when there is a change in the scope of a lease or the consideration for a lease that is not originally provided for in the lease contract ("lease modification") that is not accounted for as a separate lease. In this case the lease liability is remeasured based on the revised lease payments and lease term using a revised discount rate at the effective date of the modification. The only exceptions are any rent concessions which arose as a direct consequence of the COVID-19 pandemic and which satisfied the conditions set out in paragraph 46B of HKFRS 16, *Leases*. In such cases, the Group took advantage of the practical expedient set out in paragraph 46A of HKFRS 16 and recognised the change in consideration as if it were not a lease modification.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong Dollars unless otherwise indicated)

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(g) Leased assets *(Continued)*

(ii) As a lessor

When the Group acts as a lessor, it determines at lease inception whether each lease is a finance lease or an operating lease. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to the ownership of an underlying assets to the lessee. If this is not the case, the lease is classified as an operating lease.

When a contract contains lease and non-lease components, the Group allocates the consideration in the contract to each component on a relative stand-alone selling price basis. The rental income from operating leases is recognised in accordance with note 2(f).

When the Group is an intermediate lessor, the sub-leases are classified as a finance lease or as an operating lease with reference to the right-of-use asset arising from the head lease. If the head lease is a short-term lease to which the Group applies the exemption described in note 2(g)(i), then the Group classifies the sub-lease as an operating lease.

(h) 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.

(i) Employee benefits

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

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

(ii) Equity-settled share-based payments

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong Dollars unless otherwise indicated)

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(j) 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 ECL in accordance with the policy set out in note 2(n)(i).

(k) 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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong Dollars unless otherwise indicated)

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(l) Investment property

Investment properties are land and/or building which are owned or held under a leasehold interest (see note 2(g)) to earn rental income and/or for capital appreciation. These include land held for a currently undetermined future use and property that is being constructed or developed for future use as investment property.

Investment properties are stated at cost less accumulated depreciation and impairment losses (see note 2(n)(iii)). Depreciation is calculated on the straight-line basis to write off the cost of investment property held under a leasehold interest over its estimated useful life which is the lease term of 20 years.

Useful lives and depreciation method are review and, if appropriate, adjusted at the end of each reporting period. Any gain or loss on retirement or disposal of an investment property is recognised in profit or loss on the date of retirement or disposal.

(m) Property, plant and equipment

Property, plant and equipment, including right-of-use assets arising from leases of underlying property, plant and equipment (see note 2(g)), are stated in the consolidated statement of financial position at cost less accumulated depreciation and any impairment losses (see note 2(n)(iii)).

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:

Land and buildings	Over the shorter of term of lease or 50 years
Furniture and fixtures	1 to 10 years
Motor vehicles	7 to 10 years
Equipment and machinery	1 to 10 years
Leasehold improvements	Over the shorter of term of lease or 12 years

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong Dollars unless otherwise indicated)

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(m) Property, plant and equipment *(Continued)*

Right-of-use assets are depreciated over the shorter period of the lease term and the useful life of the underlying asset. If a lease transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that the Group expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset.

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.

(n) Credit losses and impairment of assets

(i) Credit losses from financial instruments and contract assets

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(p)).

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong Dollars unless otherwise indicated)

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

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

Measurement of ECLs (Continued)

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

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

Significant increases in credit risk

In assessing whether the credit risk of a financial instrument has increased significantly since initial recognition, the Group compares the risk of default occurring on the financial instrument assessed at the reporting date with that assessed at the date of initial recognition. 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong Dollars unless otherwise indicated)

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong Dollars unless otherwise indicated)

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

(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.

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(n)(i) apply.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong Dollars unless otherwise indicated)

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

(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, including right-of-use assets;
- interest in joint ventures accounted for under the equity method in the consolidated financial statements (see note 2(e)); 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.

(o) Inventories

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong Dollars unless otherwise indicated)

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(p) Contract assets and contract liabilities

A contract asset is recognised when the Group recognises revenue (see note 2(f)) 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(n)(i) and are reclassified to receivables when the right to the consideration has become unconditional (see note 2(r)).

A contract liability is recognised when the customer pays consideration before the Group recognises the related revenue (see note 2(f)). 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(r)).

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.

(q) Provisions and contingent liabilities

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

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

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong Dollars unless otherwise indicated)

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(r) 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

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.

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(p)).

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(n)(i)).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong Dollars unless otherwise indicated)

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(r) Financial instruments *(Continued)*

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(n)(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(h)).

(s) 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.

(t) 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong Dollars unless otherwise indicated)

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(u) Hedging

The Group designates certain derivatives as hedging instruments to hedge the variability in cash flows associated with highly probable forecast transactions arising from changes in foreign exchange rates (cash flow hedges).

Where a derivative financial instrument is designated as a hedging instrument in a cash flow hedge, the effective portion of any gain or loss on the derivative financial instrument is recognised in other comprehensive income and accumulated separately in equity in the hedging reserve. The ineffective portion of any gain or loss is recognised immediately in profit or loss.

If a hedge of a forecast transaction subsequently results in the recognition of a non-financial asset such as inventory, the associated gain or loss is reclassified from equity to be included in the initial cost of the non-financial asset.

For all other hedged forecast transactions, the amount accumulated in the hedging reserve is reclassified from equity to profit or loss in the same period or periods during which the hedged cash flows affect profit or loss (such as when a forecast sale occurs or interest expense is recognised).

If a hedge no longer meets the criteria for hedge accounting (including when the hedging instrument expires or is sold, terminated or exercised), then hedge accounting is discontinued prospectively. When hedge accounting is discontinued, but the hedged forecast transaction is still expected to occur, the amount that has been accumulated in the hedging reserve remains in equity until the transaction occurs and it is recognised in accordance with the above policy. If the hedged transaction is no longer expected to take place, the amount that has been accumulated in the hedging reserve is reclassified from equity to profit or loss immediately.

(v) Segment reporting

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong Dollars unless otherwise indicated)

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(w) Related parties

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong Dollars unless otherwise indicated)

3. ACCOUNTING ESTIMATES

Notes 34 and 36 contain information about the assumptions and their risk factors relating to share options granted and fair value of financial instruments. 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.

4. SEGMENT INFORMATION

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong Dollars unless otherwise indicated)

4. 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, 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 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 2020					
Revenue from external customers and reportable segment revenue recognised over time	679,465	172,356	111,347	168,613	1,131,781
Segment results	29,438	18,647	6,492	7,766	62,343
Other income					95,537
Change in fair value less costs to sell of biological assets (note 22)					(3,956)
Administrative expenses					(95,707)
Finance costs					(7,768)
Share of losses of a joint venture					(1,327)
Profit before taxation					49,122

	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 2019					
Revenue from external customers and reportable segment revenue recognised over time	977,248	184,189	71,222	164,796	1,397,455
Segment results	24,113	21,726	5,612	17,014	68,465
Other income					5,181
Change in fair value less costs to sell of biological assets (note 22)					5,009
Administrative expenses					(80,240)
Finance costs					(10,489)
Share of losses of a joint venture					(648)
Loss before taxation					(12,722)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong Dollars unless otherwise indicated)

4. 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 2020					
Segment assets	292,163	106,696	40,267	162,909	602,035
Unallocated					2,260
Total assets					604,295
Segment liabilities	171,502	24,392	35,137	81,700	312,731
Unallocated					2,532
Total liabilities					315,263

	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 2019					
Segment assets	371,552	119,507	30,585	186,814	708,458
Unallocated					2,125
Total assets					710,583
Segment liabilities	339,946	32,037	21,322	79,078	472,383
Unallocated					1,079
Total liabilities					473,462

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong Dollars unless otherwise indicated)

4. 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 2020						
Depreciation	19,116	3,234	2,342	29,205	712	54,609
Additions to non-current assets	9,691	1,944	830	18,503	1,247	32,215
Loss/(gain) on disposal of property, plant and equipment	284	(191)	79	5,807	-	5,979
Loss on disposal of right-of-use assets	167	-	-	-	-	167

	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 2019						
Depreciation	16,665	2,556	1,635	17,553	771	39,180
Additions to non-current assets	15,354	1,591	237	10,351	166	27,699
(Gain)/loss on disposal of property, plant and equipment	(1)	118	(183)	130	-	64

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 2020 and 2019.

Information about major customers

For the year ended 31 December 2020, the Group's revenue of HK\$399,749,000 (2019: HK\$695,828,000) for various segments was derived from two customers (2019: two), each of whom has individually accounted for over 10% of the Group's total revenue, which are disclosed as follows:

	2020 HK\$'000	2019 HK\$'000
Customer A	201,043	330,043
Customer B	198,706	365,785
	399,749	695,828

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong Dollars unless otherwise indicated)

5. REVENUE

(a) Disaggregation of revenue

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

	2020 HK\$'000	2019 HK\$'000
Cleaning services	679,465	977,248
Landscaping services	172,356	184,189
Pest management services	111,347	71,222
Waste management and recycling services	168,613	164,796
	1,131,781	1,397,455

Disaggregation of revenue from contracts with customers by the timing of revenue recognition and geographic information of revenue is disclosed in note 4.

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

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
As at 31 December 2020					
Expected to be recognised within one year	562,228	84,047	92,525	104,479	843,279
Expected to be recognised after one year	557,576	27,875	95,314	138,346	819,111
	1,119,804	111,922	187,839	242,825	1,662,390

	Cleaning services HK\$'000	Landscaping services HK\$'000	Pest management services HK\$'000	Waste management and recycling services HK\$'000	Total HK\$'000
As at 31 December 2019					
Expected to be recognised within one year	452,428	117,119	88,695	131,961	790,203
Expected to be recognised after one year	267,853	22,380	97,441	201,834	589,508
	720,281	139,499	186,136	333,795	1,379,711

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 48 months (2019: next 12 to 54 months).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong Dollars unless otherwise indicated)

6. OTHER INCOME

	2020 HK\$'000	2019 HK\$'000
Administration fee income	3,401	–
Change in fair value of investments in life insurance	172	283
COVID-19-related rent concessions received	1,524	–
Exchange gain	–	386
Government grants*	84,944	313
Income relating to right-of-use assets	3,964	2,356
Interest income	226	45
Rental income	790	1,341
Sundry income	516	457
	95,537	5,181

* During the year ended 31 December 2020, 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 HK\$80,986,000 (2019: Nil). The purpose of the funding is to provide financial support to enterprises to retain their employees who would otherwise be made redundant. Under the terms of the grant, the Group is required not to make redundancies during the subsidy period and to spend all the funding on paying wages to the employees;
- (ii) Transport Trades Subsidy under the Anti-epidemic Fund of HK\$3,190,000 (2019: Nil);
- (iii) subsidies from One-off Rental Support Scheme under the Recycling Fund of HK\$375,000 (2019: Nil);
- (iv) subsidies from the Green Employment Scheme of the Environment Bureau of HK\$174,000 (2019: Nil);
- (v) subsidies for phasing out certain diesel commercial vehicles by the Group of nil (2019: HK\$313,000); and
- (vi) other subsidies under the Anti-epidemic Fund of HK\$219,000 (2019: Nil).

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. FINANCE COSTS

	2020 HK\$'000	2019 HK\$'000
Interest on:		
Bank overdrafts	8	13
Bank borrowings	6,055	8,570
Lease liabilities	1,705	1,906
	7,768	10,489

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong Dollars unless otherwise indicated)

8. PROFIT/(LOSS) BEFORE TAXATION

Profit/(loss) before taxation has been arrived at after charging/(crediting):

	2020 HK\$'000	2019 HK\$'000
Auditors' remuneration:		
Audit services	1,580	1,405
Other services	150	116
Cost of consumable goods	69,523	59,609
Recognition of credit losses on other receivables	–	2,250
Recognition/(reversal) of credit losses on trade receivables	6,173	(38)
Depreciation:		
Owned property, plant and equipment	40,057	26,224
Right-of-use assets	14,552	12,956
Loss on disposal of property, plant and equipment	5,979	64
Loss on disposal of right-of-use assets	167	–
Impairment loss on property, plant and equipment	1,877	–
Staff costs (including directors' remuneration):		
Wages, salaries and other benefits	830,857	1,095,264
Provision for long service and severance payments	24,340	18,513
Provision for untaken paid leave	9,305	10,693
Contributions to defined contribution retirement scheme	25,696	33,128
	890,198	1,157,598
Short-term lease payments not included in the measurement of lease liabilities:		
Machinery and motor vehicles	36,848	38,599
Land and buildings	2,005	4,420
	38,853	43,019

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong Dollars unless otherwise indicated)

9. INCOME TAX CREDIT

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

	2020 HK\$'000	2019 HK\$'000
Current tax — Hong Kong Profits Tax		
Provision for the year	1,114	1,963
Over-provision in respect of prior years	(35)	(45)
	1,079	1,918
Current tax — People's Republic of China ("PRC")		
Enterprise Income Tax		
Provision for the year	13	4
	1,092	1,922
Deferred tax		
Reversal of temporary differences (<i>Note 31</i>)	(3,346)	(3,334)
	(2,254)	(1,412)

The provision for Hong Kong Profits Tax for 2020 is calculated at 16.5% (2019: 16.5%) of the estimated assessable profits for the year, 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 2019.

The provision for Hong Kong Profits Tax for 2020 has also taken into account a reduction granted by the Hong Kong SAR Government for the year of assessment 2019/20. The Group is eligible for the maximum reduction of HK\$20,000 (2019: a maximum reduction of HK\$20,000 was granted for the year of assessment 2018/19 and was taken into account in calculating the provision for 2019) 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 jurisdictions.

(b) Reconciliation between tax credit and accounting profit/(loss) at applicable tax rates:

	2020 HK\$'000	2019 HK\$'000
Profit/(loss) before taxation	49,122	(12,722)
Notional tax on profit/(loss) before taxation, calculated at the rates applicable to profits in the tax jurisdictions concerned	7,924	(2,269)
Tax effect of non-taxable income	(14,062)	(126)
Tax effect of non-deductible expenses	415	565
Tax effect of tax losses not recognised	2,973	35
Over-provision in respect of prior years	(35)	(45)
Others	531	428
Income tax credit	(2,254)	(1,412)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong Dollars unless otherwise indicated)

10. DIVIDENDS

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

	2020 HK\$'000	2019 HK\$'000
Final dividend proposed after the end of the reporting period of HK3.6 cents (2019: Nil) per ordinary share	14,940	–

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

	2020 HK\$'000	2019 HK\$'000
Final dividend in respect of the previous financial year, was approved and paid during the year, of nil (2019: HK0.7 cents) per ordinary share	–	2,905

11. EARNINGS/(LOSS) PER SHARE

(a) Basic earnings/(loss) per share

The calculation of the basic earnings per share for the year ended 31 December 2020 is based on the profit for the year attributable to ordinary equity shareholders of the Company of HK\$51,376,000 (2019: loss of HK\$11,031,000) and the weighted average number of 415,000,000 (2019: 415,000,000) ordinary shares in issue during the year.

(b) Diluted earnings/(loss) per share

Diluted earnings/(loss) per share for the years ended 31 December 2020 and 2019 are the same as the basic earnings/(loss) per share as there were no potential dilutive ordinary shares in existence during the years presented.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong Dollars unless otherwise indicated)

12. 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	Discretionary bonus HK\$'000	Retirement scheme contributions HK\$'000	Total HK\$'000
For the year ended 31 December 2020					
Executive Directors					
Mr. Ng Wing Hong	-	2,180	-	-	2,180
Ms. Ng Yuk Kwan Phyllis	-	2,231	650	172	3,053
Mr. Ng Wing Chuen	-	1,097	150	-	1,247
Ms. Leung Shuk Ping	-	1,114	450	18	1,582
Ms. Chan Shuk Kuen (<i>Note</i>)	-	716	-	2	718
Ms. Cheung Siu Chun	-	1,270	450	123	1,843
Independent Non-executive Directors					
Mr. Sin Ho Chiu	210	-	-	-	210
Dr. Law Ka Hung	210	-	-	-	210
Mr. Lau Chi Yin Thomas	210	-	-	-	210
	630	8,608	1,700	315	11,253

	Directors' fees HK\$'000	Salaries, allowances and other benefits HK\$'000	Discretionary bonus HK\$'000	Retirement scheme contributions HK\$'000	Total HK\$'000
For the year ended 31 December 2019					
Executive Directors					
Mr. Ng Wing Hong	-	2,180	-	6	2,186
Ms. Ng Yuk Kwan Phyllis	-	2,227	-	192	2,419
Mr. Ng Wing Chuen	-	1,097	-	-	1,097
Ms. Leung Shuk Ping	-	1,111	-	18	1,129
Ms. Chan Shuk Kuen (<i>Note</i>)	-	960	-	18	978
Ms. Cheung Siu Chun	-	1,267	-	132	1,399
Independent Non-executive Directors					
Mr. Sin Ho Chiu	180	-	-	-	180
Dr. Law Ka Hung	180	-	-	-	180
Mr. Lau Chi Yin Thomas	180	-	-	-	180
	540	8,842	-	366	9,748

Note: Ms. Chan Shuk Kuen has resigned as executive director with effect from 18 February 2021.

During the years ended 31 December 2020 and 2019, 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 2020 and 2019.

Five highest paid individuals

For the years ended 31 December 2020 and 2019, the five highest paid individuals of the Group are directors whose emoluments are disclosed above.

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(Expressed in Hong Kong Dollars unless otherwise indicated)

13. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings 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 2019	81,688	30,255	36,048	100,695	3,119	251,805
Additions	–	2,079	6,556	16,429	263	25,327
Disposals	–	(121)	(1,027)	(12,842)	–	(13,990)
Exchange adjustments	–	(7)	–	(2)	–	(9)
Transfer from right-of-use assets	–	–	2,175	60,981	–	63,156
As at 31 December 2019 and 1 January 2020	81,688	32,206	43,752	165,261	3,382	326,289
Additions	–	4,912	5,107	5,507	1,564	17,090
Disposals	–	(781)	(9,418)	(44,337)	–	(54,536)
Exchange adjustments	–	15	–	17	–	32
Transfer from right-of-use assets	–	–	1,035	14,846	–	15,881
As at 31 December 2020	81,688	36,352	40,476	141,294	4,946	304,756
Accumulated depreciation and impairment losses						
As at 1 January 2019	6,026	21,427	23,773	44,421	370	96,017
Charge for the year	2,643	3,462	6,977	12,522	620	26,224
Written back on disposals	–	(121)	(987)	(6,779)	–	(7,887)
Exchange adjustments	–	(4)	–	–	–	(4)
Transfer from right-of-use assets	–	–	2,175	28,151	–	30,326
As at 31 December 2019 and 1 January 2020	8,669	24,764	31,938	78,315	990	144,676
Charge for the year	2,642	3,206	6,540	26,774	895	40,057
Written back on disposals	–	(779)	(9,353)	(28,676)	–	(38,808)
Exchange adjustments	–	11	–	3	–	14
Transfer from right-of-use assets	–	–	913	6,190	–	7,103
Impairment loss recognised for the year	–	–	–	1,877	–	1,877
As at 31 December 2020	11,311	27,202	30,038	84,483	1,885	154,919
Net book value						
As at 31 December 2020	70,377	9,150	10,438	56,811	3,061	149,837
As at 31 December 2019	73,019	7,442	11,814	86,946	2,392	181,613

The land and buildings are situated on land in Hong Kong held under medium term leases.

As at 31 December 2020, the land and buildings with carrying amount of HK\$70,377,000 (2019: HK\$73,019,000) were mortgaged for banking facilities granted to the Group.

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(Expressed in Hong Kong Dollars unless otherwise indicated)

13. PROPERTY, PLANT AND EQUIPMENT (Continued)

Impairment loss

As at 31 December 2020, certain motor vehicles of the Group were not fully utilised and management intended to dispose of these motor vehicles. The selling prices of these motor vehicles agreed with the buyers were lower than their carrying amounts, which indicated a potential impairment may exist for these assets. Management assessed the recoverable amounts of these motor vehicles and as a result the carrying amounts of these assets were written down to their recoverable amounts of HK\$3,530,000. Consequently, an impairment loss of HK\$1,877,000 was recognised in profit or loss. The recoverable amounts were estimated based on the motor vehicles' fair values less costs of disposal with reference to the selling prices agreed with the buyers, which is categorised as a Level 1 measurement under their fair value hierarchy as defined in HKFRS 13, *Fair value measurement*.

Changes in accounting estimates on useful lives of motor vehicles

During the year ended 31 December 2020, the Group incurred loss on disposals of property, plant and equipment of HK\$5,979,000, which was mainly contributed from the disposal of certain motor vehicles. Accordingly, management reassessed the useful lives of the motor vehicles and considered that useful lives of certain motor vehicles shall be shortened to 7 years from 10 years after taking into account the disposal loss experience, requirements under the service contracts and the current motor vehicles portfolio.

The effect of these changes on actual and expected depreciation expenses was as follows:

	2020	2021	2022	2023	Later
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Increase/(decrease) in depreciation expenses	15,337	5,259	2,743	(977)	(22,362)

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14. RIGHT-OF-USE ASSETS

	Leasehold investment properties HK\$'000	Properties leased for own use HK\$'000	Equipment and machinery HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
Cost					
As at 1 January 2019	–	38,423	2,906	102,032	143,361
Additions	–	4,060	501	73	4,634
Lease modification (<i>note 24(a)</i>)	–	(598)	–	–	(598)
Transfer to property, plant and equipment	–	–	(2,175)	(60,981)	(63,156)
Transfer	24,547	(24,547)	–	–	–
As at 31 December 2019 and 1 January 2020	24,547	17,338	1,232	41,124	84,241
Additions	–	14,373	–	274	14,647
Disposals	–	–	–	(241)	(241)
Transfer to property, plant and equipment	–	–	(1,035)	(14,846)	(15,881)
As at 31 December 2020	24,547	31,711	197	26,311	82,766
Accumulated depreciation					
As at 1 January 2019	–	–	2,390	35,542	37,932
Charge for the year	308	6,774	699	5,175	12,956
Transfer to property, plant and equipment	–	–	(2,175)	(28,151)	(30,326)
Transfer	947	(947)	–	–	–
As at 31 December 2019 and 1 January 2020	1,255	5,827	914	12,566	20,562
Charge for the year	1,231	8,079	162	5,080	14,552
Written back on disposals	–	–	–	(74)	(74)
Transfer to property, plant and equipment	–	–	(913)	(6,190)	(7,103)
As at 31 December 2020	2,486	13,906	163	11,382	27,937
Net book value					
As at 31 December 2020	22,061	17,805	34	14,929	54,829
As at 31 December 2019	23,292	11,511	318	28,558	63,679

The analysis of income and expense items in relation to leases charged/(credited) to profit or loss is as follows:

	2020 HK\$'000	2019 HK\$'000
Income relating to right-of-use assets	(3,964)	(2,356)
Depreciation charge of right-of-use assets	14,552	12,956
Interest on lease liabilities (<i>note 7</i>)	1,705	1,906
Short-term lease payments not included in the measurement of lease liabilities	38,853	43,019
COVID-19-related rent concessions received	(1,524)	–

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14. RIGHT-OF-USE ASSETS (Continued)

During the year ended 31 December 2020, the Group received rent concessions for its leased properties amounting to HK\$1,524,000 (2019: Nil) in the form of a discount on fixed payments during the period of severe social distancing and travel restriction measures introduced to contain the spread of COVID-19.

As disclosed in note 2(c), the Group has early adopted the Amendment to HKFRS 16, *Covid-19-Related Rent Concessions*, and applies the practical expedient introduced by the Amendment to the above eligible rent concessions received by the Group during the year.

Details of total cash outflow for leases, the maturity analysis of lease liabilities and the future cash outflows arising from leases not recognised as lease liabilities at the end of the reporting period are set out in notes 24(b), 29 and 38(b) respectively.

(a) Leasehold investment properties

The Group obtained the right to use a leasehold land from a government authority in Hong Kong through tenancy agreement with a term of 20 years. The leasehold land could only be used for the construction and operation of a plant (the "Plant") for the recovery, recycling and reprocessing of waste plastic.

During the year ended 31 December 2019, the Group entered into a subcontracting agreement with the joint venture, New Life Plastics Limited ("NLP"), pursuant to which, NLP was given the exclusive right to use the above leasehold land for the construction and operation of the Plant during the lease term of the land, and certain monthly fee will be paid to the Group by NLP.

Accordingly, the leasehold land has been accounted for as investment property since the date when the subcontracting agreement was entered into.

The fair value of the leasehold land as at 31 December 2020 and 2019 approximates its carrying value.

The undiscounted future payments receivable from NLP under the above-mentioned non-cancellable subcontracting agreement is as follows:

	2020 HK\$'000	2019 HK\$'000
Within one year	3,372	1,675
After one year but within five years	16,800	16,800
After five years	54,227	58,427
Total	74,399	76,902

(b) Other properties leased for own use

The Group has obtained the right to use other properties as its offices, warehouses and nurseries through tenancy agreements. The leases typically run for an initial period of 2 to 12 years (2019: 2 to 12 years).

(c) Other leases

The Group leases production equipment and machinery together with motor vehicles under leases expiring within 1 to 2 years. Some leases include an option to renew the lease when all terms are renegotiated, while some include an option to purchase the leased equipment at the end of the lease term at a price deemed to be a bargain purchase option. None of the leases includes variable lease payments.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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15. INTEREST IN A JOINT VENTURE

Details of the Group's interest in a joint venture, which is accounted for using the equity method in the consolidated financial statements, is as follows:

Name of joint venture	Form of business structure	Place of incorporation/ operation	Particulars of issued and paid up capital	Proportion of ownership interest			Principal activity
				Group's effective interest	Held by the Company	Held by a subsidiary	
NLP	Incorporated	Hong Kong	HK\$30,000,000	33.33%	–	33.33%	Provision of plastic recycling services (Note)

Note: NLP was incorporated on 26 September 2019 and is engaged in the business of constructing and operating the Plant at Lot T6 of EcoPark for the recovery, recycling and reprocessing (including, without limitation, by way of washing, crushing, grinding and flake production) of (a) polyethylene terephthalate ("PET") and high density polyethylene ("HDPE") waste bottles; and (b) other PET and HDPE waste plastic which is from time to time capable of being recovered, recycled or reprocessed by the Plant (the "Specified Waste Plastics") in Hong Kong.

NLP, the only joint venture in which the Group participates, is an unlisted corporate entity whose quoted market price is not available.

Summarised financial information of NLP and a reconciliation to the carrying amount in the consolidated financial statements are disclosed below:

	2020 HK\$'000	2019 HK\$'000
Gross amounts of NLP's		
Current assets	24,436	97,828
Non-current assets	258,633	85,571
Current liabilities	(12,855)	(17,883)
Non-current liabilities	(244,896)	(137,459)
Equity	25,318	28,057
Included in the above assets and liabilities:		
Cash and cash equivalents	21,507	97,600
Current financial liabilities (excluding trade and other payables and provisions)	(1,205)	(295)
Non-current financial liabilities (excluding trade and other payables and provisions)	(234,344)	(127,307)

	Year ended 31 December 2020 HK\$'000	Period from 26 September 2019 to 31 December 2019 HK\$'000
Revenue	–	–
Loss for the year/period	(3,982)	(1,943)
Other comprehensive income	1,243	–
Total comprehensive income	(2,739)	(1,943)
Group's share of losses of a joint venture	(1,327)	(648)
Group's share of other comprehensive income	414	–
Included in the above loss:		
Interest expense	2,429	626
Reconciled to the Group's interest in NLP		
Gross amounts of NLP's net assets	25,318	28,057
Group's effective interest	33.33%	33.33%
Group's share of NLP's net assets and carrying amount of the Group's interest	8,439	9,352

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16. PARTICULARS OF SUBSIDIARIES

As at 31 December 2020, 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	Injected/ issued and paid up capital	Proportion of the Company's ownership interest				Principal activities
			2020		2019		
			Direct	Indirect	Direct	Indirect	
Baguio Cleaning Services Company Limited	Hong Kong	HK\$10,000,000	–	100%	–	100%	Provision of cleaning services
Baguio Green Technology Limited	Hong Kong	HK\$10,000	–	100%	–	100%	Development and exploration of green technology products
Baguio Landscaping Services Limited	Hong Kong	HK\$2,000,000	–	100%	–	100%	Provision of landscaping services
Baguio Pest Management Limited	Hong Kong	HK\$200,000	–	100%	–	100%	Provision of pest management services
Baguio rPaper Limited	Hong Kong	HK\$10,000	–	100%	–	–	Provision of paper recycling services
Baguio rPlastic Limited	Hong Kong	HK\$10,000	–	100%	–	100%	Provision of source, collect and sort Specified Waste Plastics
Baguio Waste Management & Recycling Limited	Hong Kong	HK\$10,000	–	100%	–	100%	Provision of waste management and recycling services
Batio Glass Recycling Limited	Hong Kong	HK\$1,000,000	–	100%	–	100%	Provision of glass recycling services
Modern Automobile Company Limited	Hong Kong	HK\$10,000	–	100%	–	100%	Provision of automobile repair services
Tak Tai Enviroscope Limited	Hong Kong	HK\$8,100,000	–	100%	–	100%	Provision of plant nursing, landscaping and related services
碧瑤綠色科技(深圳)有限公司#	PRC	RMB1,670,210	–	100%	–	100%	Development and exploration of environmental and recycling business

Registered as a wholly-foreign owned enterprise in PRC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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17. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2020 HK\$'000	2019 HK\$'000
Financial assets at fair value through profit and loss		
Investments in life insurance	14,348	14,176

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 2020, the investments in life insurance of HK\$2,415,000 (2019: HK\$14,176,000) were pledged for banking facilities granted to the Group.

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

During the year ended 31 December 2020, a fair value gain of HK\$172,000 (2019: HK\$283,000) was recognised and credited to profit or loss.

18. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2020 HK\$'000	2019 HK\$'000
Prepayments	14,059	19,004
Deposits	7,741	5,625
Other receivables	24,267	26,058
	46,067	50,687
Less: Non-current prepayments	(678)	(201)
Non-current deposits	(4,542)	(4,882)
Loan to a joint venture	(3,300)	(3,300)
Interest receivable from a joint venture	(224)	(27)
Non-current receivable from a joint venture	(10,548)	(10,152)
Non-current portion	(19,292)	(18,562)
Current portion	26,775	32,125

Included in non-current portion of deposits as at 31 December 2020 are performance deposits of HK\$1,311,000 (2019: HK\$1,351,000) and rental deposits of HK\$3,231,000 (2019: HK\$3,531,000), 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.

The loan to a joint venture is unsecured, interest bearing at 6% per annum and repayable by September 2029, and is subject to the repayment of other financing obtained from external financial institutions by the joint venture.

Non-current receivable from a joint venture represents the right to receive payment from the joint venture in respect of the reinstatement costs relating to the leasehold land from the government authority at the end of the lease term of the leasehold land under the subcontracting agreement with the joint venture.

Included in current portion of other receivables as at 31 December 2020 is an amount due from a joint venture of HK\$4,403,000 (2019: HK\$7,857,000) which is unsecured, interest free and expected to be recovered the majority portion after one year.

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

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(Expressed in Hong Kong Dollars unless otherwise indicated)

19. INVENTORIES

	2020 HK\$'000	2019 HK\$'000
Consumable goods	3,180	2,635

20. CONTRACT ASSETS

	2020 HK\$'000	2019 HK\$'000
Arising from performance under glass management contracts	2,409	2,694
Arising from performance under landscaping contracts	7,042	6,348
	9,451	9,042

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 2020, contract assets of HK\$6,032,000 (2019: HK\$5,259,000) are expected to be recovered after one year.

As at 31 December 2020, the Group's contract assets arising from performance under glass management contracts of HK\$2,409,000 (2019: HK\$2,694,000) were pledged for certain banking facility granted to the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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21. TRADE RECEIVABLES

	2020 HK\$'000	2019 HK\$'000
Trade receivables, net of loss allowance	259,529	319,970

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:

	2020 HK\$'000	2019 HK\$'000
Within 60 days	175,562	236,313
Over 60 days but within 120 days	56,315	69,490
Over 120 days but within 365 days	21,770	13,893
Over 365 days	5,882	274
	259,529	319,970

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 2020, 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\$70,118,000 (2019: HK\$42,309,000) with the following ageing analysis:

	2020 HK\$'000	2019 HK\$'000
Overdue by:		
Within 60 days	36,022	31,758
Over 60 days but within 120 days	18,398	7,319
Over 120 days but within 365 days	11,126	3,034
Over 365 days	4,572	198
	70,118	42,309

Further details on the Group's credit policy and credit risk arising from trade receivables are set out in note 36(b).

The Group's trade receivables of HK\$59,477,000 (2019: HK\$83,662,000) as at 31 December 2020 were pledged for certain banking facilities granted to the Group.

As at 31 December 2020, included in the trade receivables is an amount due from a joint venture of HK\$8,511,000 (2019: Nil) which is unsecured, interest free and recoverable in accordance with payment terms as set out in the service agreement entered into with the joint venture.

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(Expressed in Hong Kong Dollars unless otherwise indicated)

22. BIOLOGICAL ASSETS

Movements of biological assets are summarised as follows:

	2020 HK\$'000	2019 HK\$'000
Plants and flowers		
Balance as at 1 January	28,316	20,772
Purchases	4,042	8,097
Usage in services	(6,144)	(5,471)
Disposal	(1,765)	(91)
Change in fair value less costs to sell (note 4)	(3,956)	5,009
Balance as at 31 December	20,493	28,316

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 2020 and 2019 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.

23. PLEDGED BANK DEPOSITS

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

24. CASH AND CASH EQUIVALENTS AND OTHER CASH FLOW INFORMATION

Cash and cash equivalents comprise:

	2020 HK\$'000	2019 HK\$'000
Cash and bank balances	28,522	22,887

As at 31 December 2020, the balances that were placed with banks or on hand in the PRC and included in the cash and bank balances amounted to HK\$644,000 (2019: HK\$391,000). Remittance of funds out of the PRC is subject to the exchange restriction imposed by the PRC government.

(a) 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong Dollars unless otherwise indicated)

24. CASH AND CASH EQUIVALENTS AND OTHER CASH FLOW INFORMATION (Continued)

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

	Bank borrowings HK\$'000 (note 28)	Lease liabilities HK\$'000 (note 29)	Total HK\$'000
As at 1 January 2020	235,095	46,721	281,816
Changes from financing cash flows:			
Proceeds from new bank borrowings	992,611	–	992,611
Repayments of bank borrowings	(1,120,064)	–	(1,120,064)
Interest paid for bank borrowings	(6,063)	–	(6,063)
Capital element of lease rentals paid	–	(14,281)	(14,281)
Interest element of lease rentals paid	–	(1,705)	(1,705)
Total changes from financing cash flows	(133,516)	(15,986)	(149,502)
Other changes:			
Increase in lease liabilities from entering into new leases (note 39)	–	14,647	14,647
COVID-19-related rent concessions received (note 6)	–	(1,524)	(1,524)
Interest expenses (note 7)	6,063	1,705	7,768
Effect of foreign exchange rate changes	–	440	440
Total other changes	6,063	15,268	21,331
As at 31 December 2020	107,642	46,003	153,645

	Bank borrowings HK\$'000 (note 28)	Lease liabilities HK\$'000 (note 29)	Total HK\$'000
As at 1 January 2019	218,314	62,260	280,574
Changes from financing cash flows:			
Proceeds from new bank borrowings	1,265,662	–	1,265,662
Repayments of bank borrowings	(1,248,881)	–	(1,248,881)
Interest paid for bank borrowings	(8,583)	–	(8,583)
Capital element of lease rentals paid	–	(19,425)	(19,425)
Interest element of lease rentals paid	–	(1,906)	(1,906)
Total changes from financing cash flows	8,198	(21,331)	(13,133)
Other changes:			
Increase in lease liabilities from entering into new leases (note 39)	–	4,634	4,634
Lease modification (note 14)	–	(598)	(598)
Interest expenses (note 7)	8,583	1,906	10,489
Effect of foreign exchange rate changes	–	(150)	(150)
Total other changes	8,583	5,792	14,375
As at 31 December 2019	235,095	46,721	281,816

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

(b) Total cash outflow for leases

Amounts included in the consolidated statement of cash flows for leases comprise the following:

	2020 HK\$'000	2019 HK\$'000
Within operating cash flows	38,853	43,019
Within financing cash flows	15,986	21,331
	54,839	64,350

These amounts of HK\$54,839,000 (2019: HK\$64,350,000) relate to lease rentals paid.

25. TRADE PAYABLES

	2020 HK\$'000	2019 HK\$'000
Trade payables	23,899	28,001

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

	2020 HK\$'000	2019 HK\$'000
Within 30 days	13,281	16,986
Over 30 days but within 60 days	6,450	7,963
Over 60 days but within 90 days	664	809
Over 90 days	3,504	2,243
	23,899	28,001

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

26. CONTRACT LIABILITIES

	2020 HK\$'000	2019 HK\$'000
Billings in advance of performance under recycling contracts	1,750	–

The Group receives advances from customers when they enter into the service agreements. These advances are recognised as contract liabilities until performance obligations of the relevant services are completed.

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26. CONTRACT LIABILITIES *(Continued)*

Movements in contract liabilities

	2020 HK\$'000	2019 HK\$'000
Balance as at 1 January	–	–
Increase in contract liabilities as a result of billing in advance of recycling activities	2,000	–
Decrease in contract liabilities as a result of recognising revenue during the year	(250)	–
Balance as at 31 December	1,750	–

The amount of billings in advance of performance expected to be recognised as income after more than one year is HK\$750,000 (2019: Nil).

27. ACCRUALS, DEPOSITS RECEIVED AND OTHER PAYABLES

	2020 HK\$'000	2019 HK\$'000
Accruals of staff costs	107,635	133,492
Deposits received	2,024	973
Other accrual expenses and payables	8,131	8,653
	117,790	143,118

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.

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28. BANK BORROWINGS

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

	2020 HK\$'000	2019 HK\$'000
Current liabilities		
Current portion of term loans from banks	60,582	178,788
Non-current portion of term loans from banks repayable on demand	47,060	56,307
	107,642	235,095

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

	2020 HK\$'000	2019 HK\$'000
Secured	95,896	176,424
Unsecured	11,746	58,671
	107,642	235,095

The secured bank loans of the Group as at 31 December 2020 were secured by:

- (i) pledged bank deposits of HK\$6,161,000 (2019: HK\$6,153,000);
- (ii) cash and cash equivalents of HK\$1,472,000 (2019: HK\$546,000);
- (iii) mortgage of the land and buildings of HK\$70,377,000 (2019: HK\$73,019,000);
- (iv) pledge of the financial assets at fair value through profit or loss of HK\$2,415,000 (2019: HK\$14,176,000);
- (v) pledge of the trade receivables of HK\$59,477,000 (2019: HK\$83,662,000); and
- (vi) pledge of the contract assets arising from performance under glass management contracts of HK\$2,409,000 (2019: HK\$2,694,000).

As at 31 December 2020, the bank borrowings of the Group of HK\$107,642,000 (2019: HK\$235,095,000) bear interest ranging from 1.66% to 3.10% (2019: 2.40% to 4.35%) per annum.

As at 31 December 2020, banking facilities of HK\$250,294,000 (2019: HK\$249,115,000) 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 2020, such facilities were utilised to the extent of HK\$34,294,000 (2019: HK\$102,115,000). The Group regularly monitors its compliance with these covenants. As at 31 December 2020, none of the covenants relating to the drawn down facilities had been breach (2019: Nil). Further details of the Group's management of liquidity risk are set out in note 36(b).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong Dollars unless otherwise indicated)

29. LEASE LIABILITIES

The remaining contractual maturities of the Group's lease liabilities are as follows:

	2020 HK\$'000	2019 HK\$'000
Minimum lease payments		
— within one year	14,657	13,221
— after one year but within five years	16,209	17,235
— after five years	25,229	27,524
	41,438	44,759
Less: Future interest expenses	56,095 (10,092)	57,980 (11,259)
Present value of lease liabilities	46,003	46,721
Present value of minimum lease payments		
— within one year	13,254	11,745
— after one year but within five years	12,518	13,245
— after five years	20,231	21,731
	32,749	34,976
	46,003	46,721

30. PROVISION

	2020 HK\$'000	2019 HK\$'000
Provision for reinstatement costs of leasehold land		
Balance as at 1 January	10,152	—
Additional provision made	396	10,152
Balance as at 31 December	10,548	10,152

Under the tenancy agreement of the leasehold land located with the government authority, the Group has a contractual obligation to hand back the leasehold land in its original condition. Therefore, the Group recognises a provision for these reinstatement costs, based on the best estimate of the expected reinstatement costs in respect of the modifications made to the leasehold land. The expected timing of utilising the provision is either when the Group terminates the tenancy agreement or when the tenancy agreement expires.

The Group had recognised the receivable for the right to receive payment from the joint venture in respect of the reinstatement costs, which is disclosed in note 18.

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(Expressed in Hong Kong Dollars unless otherwise indicated)

31. DEFERRED TAXATION

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

	Accelerated tax depreciation HK\$'000	Biological assets HK\$'000	Tax losses HK\$'000	Total HK\$'000
As at 1 January 2019	20,354	2,082	(10,709)	11,727
(Credited)/charged to profit or loss (note 9)	(935)	827	(3,226)	(3,334)
As at 31 December 2019 and 1 January 2020	19,419	2,909	(13,935)	8,393
(Credited)/charged to profit or loss (note 9)	(6,574)	(653)	3,881	(3,346)
Exchange adjustments	(1)	-	-	(1)
As at 31 December 2020	12,844	2,256	(10,054)	5,046

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

	2020 HK\$'000	2019 HK\$'000
Net deferred tax asset recognised	(2,367)	-
Net deferred tax liability recognised	7,413	8,393
	5,046	8,393

Deferred tax assets not recognised

As at 31 December 2020, the Group has not recognised deferred tax assets in respect of the estimated unused tax losses of HK\$18,950,000 (2019: HK\$902,000) as it is not probable that future taxable profits against which the losses can be utilised will be available in the relevant tax jurisdictions and entity. Included in unrecognised tax losses are loss of HK\$649,000 (2019: HK\$584,000) which will expire at various dates up to 2025. Other losses do not expire under current tax legislation.

32. SHARE CAPITAL

	Number of shares '000	Nominal value HK\$'000
Authorised:		
<i>Ordinary shares of HK\$0.01 each</i>		
As at 1 January 2019, 31 December 2019, 1 January 2020 and 31 December 2020	1,000,000	10,000
Issued and fully paid:		
<i>Ordinary shares of HK\$0.01 each</i>		
As at 1 January 2019, 31 December 2019, 1 January 2020 and 31 December 2020	415,000	4,150

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong Dollars unless otherwise indicated)

33. RESERVES

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 43 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(i)(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) 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(t).

(v) Hedging reserve

The hedging reserve comprises share of effective portion of the cumulative net change in the fair value of hedging instruments used in cash flow hedges of a joint venture, which are pending subsequent recognition of the hedged cash flow in accordance with the accounting policy adopted for cash flow hedges in note 2(u).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong Dollars unless otherwise indicated)

34. 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.

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 2020	Exercised during the year	Lapsed during the year	At 31 December 2020
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	2,756,000	–	(100,000)	2,656,000
Total:				4,380,000	–	(100,000)	4,280,000
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 2020 and 2019, while 100,000 (2019: 204,000) share options were lapsed due to resignation of employees during the year ended 31 December 2020.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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35. 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 manages 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 lease liabilities, 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 2020 and 2019 are as follows:

	2020 HK\$'000	2019 HK\$'000
Total borrowings (Note)	153,645	281,816
Total equity	289,032	237,121
Gearing ratio	53%	119%

Note: Total borrowings included bank borrowings and lease liabilities as disclosed in notes 28 and 29 respectively.

36. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

	2020 HK\$'000	2019 HK\$'000
Financial assets		
Financial assets at fair value through profit or loss	14,348	14,176
Amortised cost		
– Trade receivables	259,529	319,970
– Deposits	7,741	5,625
– Other receivables	13,719	15,906
– Pledged bank deposits	6,161	6,153
– Cash and cash equivalents	28,522	22,887

	2020 HK\$'000	2019 HK\$'000
Financial liabilities		
Amortised cost		
– Trade payables	23,899	28,001
– Accruals, deposits received and other payables	117,790	143,118
– Bank borrowings	107,642	235,095
– Lease liabilities	46,003	46,721

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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36. 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 interest-bearing receivables, pledged bank deposits, lease liabilities 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 interest-bearing receivables and pledged bank deposits) at the end of the reporting period.

	2020		2019	
	Effective interest rate	Amount HK\$'000	Effective interest rate	Amount HK\$'000
Net fixed rate borrowings				
Lease liabilities	2.88%–3.88%	46,003	2.88%–3.88%	46,721
Less: Loan to a joint venture	6.00%	(3,300)	6.00%	(3,300)
Pledged bank deposits	0.10%–0.15%	(6,161)	0.20%–0.45%	(6,153)
		36,542		37,268
Variable rate borrowings				
Bank borrowings	1.66%–3.10%	107,642	2.40%–4.35%	235,095
Total net borrowings		144,184		272,363

Sensitivity analysis

At 31 December 2020, 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\$449,000 (2019: increased/decreased the Group's loss after taxation and decreased/increased retained earnings by approximately HK\$982,000).

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 2019.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong Dollars unless otherwise indicated)

36. 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 credit 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 14% (2019: 26%) and 44% (2019: 62%) 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 2020. 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 allowances for trade receivables at an amount equal to lifetime ECLs, which, except for amounts due from customers with significant doubt on collection that are assessed individually, is calculated using a provision matrix. Accordingly, the Group recognised credit loss allowance of HK\$6,178,000 (2019: Nil) for customers with significant doubt on collection that is individually impaired at 31 December 2020. Apart from the amounts due from those customers, the ECLs as at 31 December 2020 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 0.92% (2019: 0.01% to 1.21%) 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 2020 (2019: Nil).

Expected loss rates are based on actual loss experience over the past 5 (2019: 5) 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.

Movements in the loss allowance account in respect of trade receivables during the year are as follows:

	2020 HK\$'000	2019 HK\$'000
Balance as at 1 January	96	139
Recognition/(reversal) of credit losses	6,173	(43)
Balance as at 31 December	6,269	96

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36. FINANCIAL INSTRUMENTS *(Continued)*

(b) Financial risk management *(Continued)*

Credit risk *(Continued)*

In respect of other receivables, as at 31 December 2020, there was a gross amount of HK\$4,500,000 (2019: HK\$4,500,000) due from Shanghai Genyuan Environmental Co., Limited (“Shanghai Genyuan”, a company principally engaged in harmless treatment of organic wastes and resources utilisation in the People’s Republic in China (“PRC”)) in respect of a refundable deposit in relation to the proposed acquisition of certain equity interest in Shanghai Genyuan. The proposed acquisition was terminated during year ended 31 December 2016 as the Group could not reach an agreement with the seller on certain crucial terms. During the year ended 31 December 2017, the Group agreed with Shanghai Genyuan on the repayment schedule of the outstanding balance but certain scheduled payments were subsequently defaulted. The Group has taken legal action against Shanghai Genyuan and the guarantors, and a loss allowance of HK\$4,500,000 was recognised in prior years considering the lengthy legal proceedings, unexpected changes or uncertainties may occur, among which HK\$2,250,000 was recognised in profit or loss during the year ended 31 December 2019.

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 2020, the Group had unutilised banking facilities of HK\$301,485,000 (2019: HK\$174,000,000).

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

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

	Within 1 year or on demand HK\$'000	After 1 year but within 5 years HK\$'000	After 5 years HK\$'000	Total contractual undiscounted cash flow HK\$'000	Carrying amount HK\$'000
As at 31 December 2020					
Trade payables	23,899	–	–	23,899	23,899
Accruals, deposits received and other payables	117,790	–	–	117,790	117,790
Bank borrowings	62,148	42,990	7,932	113,070	107,642
Lease liabilities	14,657	16,209	25,229	56,095	46,003
	218,494	59,199	33,161	310,854	295,334
Adjustments to present cash flows on bank borrowings based on lender’s right to demand repayment	45,494	(42,990)	(7,932)	(5,428)	
	263,988	16,209	25,229	305,426	

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36. FINANCIAL INSTRUMENTS *(Continued)*

(b) Financial risk management *(Continued)*

Liquidity risk *(Continued)*

	Within 1 year or on demand HK\$'000	After 1 year but within 5 years HK\$'000	After 5 years HK\$'000	Total contractual undiscounted cash flow HK\$'000	Carrying amount HK\$'000
As at 31 December 2019					
Trade payables	28,001	–	–	28,001	28,001
Accruals, deposits received and other payables	143,118	–	–	143,118	143,118
Bank borrowings	180,594	51,361	9,348	241,303	235,095
Lease liabilities	13,221	17,235	27,524	57,980	46,721
	364,934	68,596	36,872	470,402	452,935
Adjustments to present cash flows on bank borrowings based on lender's right to demand repayment	54,501	(51,361)	(9,348)	(6,208)	
	419,435	17,235	27,524	464,194	

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong Dollars unless otherwise indicated)

36. 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 2020			
	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	–	–	14,348	14,348

	As at 31 December 2019			
	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	–	–	14,176	14,176

During the years ended 31 December 2020 and 2019, 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.

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36. 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

	2020 HK\$'000	2019 HK\$'000
Investments in life insurance		
Balance as at 1 January	14,176	13,893
Gains recognised in profit or loss	172	283
Balance as at 31 December	14,348	14,176

(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 2020 and 2019.

37. 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 Group does not operate defined benefit retirement scheme.

The total expenses recognised in profit or loss included contributions to defined contribution retirement scheme for the Group of HK\$25,696,000 (2019: HK\$33,128,000) for the year ended 31 December 2020.

38. OPERATING LEASE COMMITMENT

(a) Operating leases receivable

As at 31 December 2020, the Group had total future minimum lease payments under non-cancellable leases receivable as follows:

	2020 HK\$'000	2019 HK\$'000
Within one year	–	476

(b) Operating leases payable

As at 31 December 2020, the Group had total future minimum lease payments under non-cancellable leases payable as follows:

	2020 HK\$'000	2019 HK\$'000
Within one year	715	393

39. MAJOR NON-CASH TRANSACTION

Additions to right-of-use assets of HK\$14,647,000 (2019: HK\$4,634,000) for the year ended 31 December 2020 were made under the leases arrangement.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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40. 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 directors' remuneration as detailed in note 12.

	2020 HK\$'000	2019 HK\$'000
Short term employee benefits	10,938	9,382
Retirement scheme contributions	315	366
	11,253	9,748

- (b) Transactions with a joint venture

	2020 HK\$'000	2019 HK\$'000
Income relating to right-of-use assets	3,964	2,356
Sourcing, collection and sorting waste plastics services income	13,023	–

(c)

Nature of related party relationship	Nature of transaction	Interested director	2020 HK\$'000	2019 HK\$'000
The company owned by close member of director and shareholder	Purchase of cleaning equipment and materials	Mr. Ng Wing Hong	1,005	783
Common director and shareholder	Information technology service fee	Mr. Ng Wing Hong	3,297	1,543

- (d) Applicability of the Listing Rules relating to connected transactions

The related party transactions in respect of information technology service fee as disclosed in note 40(c) 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.

In addition, the related party transactions in respect of purchase of cleaning equipment and materials paid/payable as disclosed in note 40(c) above constitute continuing connected transactions as defined in Chapter 14A of the Listing Rules but are exempt from the disclosure requirements in Chapter 14A of the Listing Rules, as they fall under the de minimis transaction category pursuant to Rule 14A.76(1) of the Listing Rules.

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

	2020 HK\$'000	2019 HK\$'000
Capital expenditure in respect of the additions of property, plant and equipment		
– Contracted for within one year	50	105
Capital expenditure in respect of the additions of equipment and machinery for glass management contracts		
– Contracted for within one year	–	183
Capital expenditure in respect of the construction of recycling plant for EcoPark project		
– Contracted for within one year	–	925
	50	1,213

42. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	2020 HK\$'000	2019 HK\$'000
Non-current assets		
Investments in subsidiaries	1,283	1,283
Current assets		
Prepayments and other receivables	78	79
Amounts due from subsidiaries	190,268	201,255
Cash and cash equivalents	455	331
	190,801	201,665
Current liabilities		
Accruals and other payables	138	158
Amounts due to subsidiaries	88,283	98,525
	88,421	98,683
Net current assets	102,380	102,982
Net assets	103,663	104,265
Capital and reserves		
Share capital	4,150	4,150
Reserves	99,513	100,115
Total equity	103,663	104,265

Approved by the Board of Directors on 30 March 2021 and signed on its behalf by:

Ng Wing Hong
Director

Ng Yuk Kwan Phyllis
Director

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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43. CHANGES IN EQUITY OF THE COMPANY

	Share capital HK\$'000	Share premium HK\$'000	Share option reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
As at 1 January 2019	4,150	100,850	1,773	(442)	106,331
Profit and total comprehensive income for the year	-	-	-	839	839
Dividends approved in respect of the previous year (<i>note 10(b)</i>)	-	-	-	(2,905)	(2,905)
Share options lapsed	-	-	(78)	78	-
As at 31 December 2019 and 1 January 2020	4,150	100,850	1,695	(2,430)	104,265
Loss and total comprehensive income for the year	-	-	-	(602)	(602)
Share options lapsed	-	-	(39)	39	-
As at 31 December 2020	4,150	100,850	1,656	(2,993)	103,663

At 31 December 2020, the aggregate amount of reserves available for distribution to equity shareholders of the Company amounted to HK\$99,513,000 (2019: HK\$100,115,000).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong Dollars unless otherwise indicated)

44. IMMEDIATE AND ULTIMATE CONTROLLING PARTY

At 31 December 2020, 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.

45. POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2020

Up to the date of issue of these financial statements, the HKICPA has issued a number of amendments, and a new standard, HKFRS 17, *Insurance contracts*, which are not yet effective for the year ended 31 December 2020 and which have not been adopted in these financial statements. These developments include the following which may be relevant to the Group.

	Effective for accounting periods beginning on or after
Amendments to HKFRS 3, <i>Reference to the Conceptual Framework</i>	1 January 2022
Amendments to HKAS 16, <i>Property, Plant and Equipment: Proceeds before Intended Use</i>	1 January 2022
Amendments to HKAS 37, <i>Onerous Contracts — Cost of Fulfilling a Contract</i>	1 January 2022
Annual Improvements to HKFRSs 2018-2020 Cycle	1 January 2022
Amendments to HKAS 1, <i>Classification of Liabilities as Current or Non-current</i>	1 January 2023

The Group is in the process of making an assessment of what the impact of these developments is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the financial statements.

46. APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements were approved and authorised for issue by the Board of Directors on 30 March 2021.

FIVE-YEAR FINANCIAL SUMMARY

	Year ended 31 December				
	2020 HK\$'000	2019 HK\$'000	2018 HK\$'000	2017 HK\$'000	2016 HK\$'000
Results					
Revenue	1,131,781	1,397,455	1,429,480	1,207,640	1,094,788
Profit/(loss) before taxation	49,122	(12,722)	19,272	25,551	30,759
Income tax credit/(expense)	2,254	1,412	(2,830)	(4,935)	(5,748)
Profit/(loss) for the year	51,376	(11,310)	16,442	20,616	25,011
Attributable to:					
Equity shareholders of the Company	51,376	(11,031)	17,893	20,616	25,011
Non-controlling interests	–	(279)	(1,451)	–	–
Profit/(loss) for the year	51,376	(11,310)	16,442	20,616	25,011

	As at 31 December				
	2020 HK\$'000	2019 HK\$'000	2018 HK\$'000	2017 HK\$'000	2016 HK\$'000
Assets and liabilities					
Total assets	604,295	710,583	697,809	555,983	519,007
Total liabilities	(315,263)	(473,462)	(445,947)	(315,092)	(292,836)
	289,032	237,121	251,862	240,891	226,171
Attributable to:					
Equity shareholders of the Company	289,032	237,121	252,823	240,891	226,171
Non-controlling interests	–	–	(961)	–	–
Total equity	289,032	237,121	251,862	240,891	226,171

碧瑤綠色集團有限公司
Baguio Green Group Limited