

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

2023

ANNUAL REPORT
年報





CONTENTS

Corporate Information	2
Chairman's Statement	3
Management Discussion and Analysis	5
Biographical Details of Directors and Senior Management	15
Report of the Directors	19
Corporate Governance Report	30
Independent Auditor's Report	43
Consolidated Statement of Profit or Loss and Other Comprehensive Income	48
Consolidated Statement of Financial Position	49
Consolidated Statement of Changes in Equity	50
Consolidated Statement of Cash Flows	51
Notes to the Consolidated Financial Statements	52
Five-Year Financial Summary	114

CORPORATE INFORMATION

EXECUTIVE DIRECTORS

Mr. Ng Wing Hong
Ms. Ng Yuk Kwan Phyllis
Mr. Ng Wing Chuen
(resigned with effect from 31 May 2023)
Ms. Leung Shuk Ping
Ms. Cheung Siu Chun
(resigned with effect from 1 May 2023)

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Sin Ho Chiu
Dr. Law Ka Hung *(resigned with effect from 31 May 2023)*
Mr. Lau Chi Yin Thomas
Professor Cheng Edwin Tai Chiu
(appointed with effect from 31 May 2023)

AUTHORIZED REPRESENTATIVES

Mr. Ng Wing Hong
Ms. Cheung Siu Chun
(resigned with effect from 1 May 2023)
Mr. Chan Pak Hang
(appointed with effect from 1 May 2023)

AUDIT COMMITTEE

Mr. Lau Chi Yin Thomas *(Chairman)*
Mr. Sin Ho Chiu
Dr. Law Ka Hung *(resigned with effect from 31 May 2023)*
Professor Cheng Edwin Tai Chiu
(appointed with effect from 31 May 2023)

REMUNERATION COMMITTEE

Mr. Sin Ho Chiu *(Chairman)*
Mr. Lau Chi Yin Thomas
Dr. Law Ka Hung *(resigned with effect from 31 May 2023)*
Professor Cheng Edwin Tai Chiu
(appointed with effect from 31 May 2023)
Mr. Ng Wing Hong

NOMINATION COMMITTEE

Dr. Law Ka Hung
(Chairman, resigned with effect from 31 May 2023)
Professor Cheng Edwin Tai Chiu
(Chairman, appointed with effect from 31 May 2023)
Mr. Sin Ho Chiu
Mr. Lau Chi Yin Thomas
Ms. Ng Yuk Kwan Phyllis

COMPANY SECRETARY

Ms. Cheung Siu Chun
(resigned with effect from 1 May 2023)
Mr. Chan Pak Hang
(appointed with effect from 1 May 2023)

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 Accounting and 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

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

PLACE OF BUSINESS IN THE PEOPLE'S REPUBLIC OF CHINA

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
17/F, Far East Finance Centre
16 Harcourt Road
Hong Kong

PRINCIPAL BANKER

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

COMPANY WEBSITE ADDRESS

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

STOCK CODE

01397

CHAIRMAN'S STATEMENT

Dear Shareholders,

On behalf of the board of directors (the “Directors” and the “Board” respectively) of Baguio Green Group Limited (the “Company”, and together with its subsidiaries, the “Group” or “Baguio”), it is my pleasure to present the consolidated results of the Group for the year ended 31 December 2023 (the “Year”).

2024 mark the 44 years of Baguio's establishment, Baguio has become one of the market leaders in terms of cleaning, recycling, waste management, green technology, pest management and landscaping in Hong Kong.

Build a Greener World

In view of the current significant environmental issues and challenges around the world, as a demonstration of Hong Kong's commitment to sustainable development, the Hong Kong Government (“Government”) has announced that Hong Kong will strive to achieve carbon neutrality by 2050 and set the medium-term decarbonisation target to reduce Hong Kong's carbon emissions by 50% from the level in 2005 by 2035. In recent years, the Government published a number of blueprints, including the Hong Kong Climate Action Plan 2050, the Waste Blueprint for Hong Kong 2035, the Hong Kong Roadmap on Popularisation of Electric Vehicles and the Clean Air Plan for Hong Kong 2035, to help Hong Kong fulfill the goals and commitments under the Paris Agreement.

With the focus on sustainable development, over the years, the recycling business in Hong Kong developed both vertically and horizontally, including the upstream, midstream and downstream capacities covering collection, sorting, treatment and turning waste into useful resources, as well as operation of a number of recycling facilities in Hong Kong. In recent years, the coverage of recycling extended from solid waste (glass bottles and various types of plastics) to the treatment of animal waste and wood waste, resulting in rapid growth of business. Baguio has made contributions to the sustainable development of Hong Kong.

Achievement of the 2035 “Zero Landfill” Goal in Hong Kong

To achieve the goal of “Zero Landfill” by 2035, the Government is committed to promoting all citizens to engage in waste reduction and separation for recycling. With the implementation of the “Waste Charging” on 1 August 2024, and a series of waste reduction policies such as the “Producer Responsibility Scheme on Plastic Beverage Containers and Beverage Cartons”, which are expected to be implemented within a few years and will radically change the recycling habits of citizens, the Group believes that the quality and quantity of recyclables will be improved significantly, which will generate growth momentum for the recycling and green technology businesses. With years of investment in the establishment of recycling services and competitive barriers, more business development opportunities are expected in the future.

CHAIRMAN'S STATEMENT

Digitisation, Automation and Technological Development

In recent years, Baguio takes the lead in innovatively introducing a number of digitisation and automation technology solutions, to significantly enhance management capabilities and operational efficiency. The successful application of a number of Internet of Things technologies enabled the Group to provide customers with real-time important information and promote its digitised development.

In order to solve environmental problems, Baguio emphasises the importance of technological developments and actively collaborates with major universities and research institutes for joint developments. Baguio's green technology products, including smart recycling bins, food waste recycling machines, and people counting systems, could be found everywhere in Hong Kong, creating a green smart city for Hong Kong. The Group expects that the green technology business will become one of the important growth drivers.

Great Potential of the Northern Metropolis and San Tin Technopole

According to the 2023 Policy Address, the "Northern Metropolis" is a new engine for Hong Kong's future development, providing about 500,000 new housing units and 500,000 new jobs after full development. The Northern Metropolis will bring about rigid demand and offers substantial business opportunities for the Group's core businesses, including cleaning, waste management, recycling, green technology, pest management and landscaping.

Proactive Exploration of Room for Development

While continuously increasing its local market share, the Group will actively explore suitable mergers and acquisitions, joint ventures or new business projects in Hong Kong and beyond to strategically expand its business coverage and further enhance the Group's market share in the industry.

Social Recognition of Service Quality

Baguio is committed to creating a quality environment for citizens. With its professional and integrated environmental services, Baguio has won around 40 awards in 2023, including the "Hong Kong Top Service Brand Award".

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 hard work, dedication and positive attitude; and to all our customers and business partners for their trust in and support of the Group. Looking forward, we will endeavor to deliver considerable returns to our shareholders.

Ng Wing Hong

Chairman of the Board

Hong Kong
27 March 2024

MANAGEMENT DISCUSSION AND ANALYSIS

MARKET REVIEW

In early 2023, with the lift of the quarantine order and mask order, all social distancing measures were officially ended, and the society returned to normal. The HKSAR Government (the “Government”) announced full resumption of free travel, which marks the end of the three years COVID-19 pandemic. After the pandemic, citizens’ awareness of public health generally increased, and the demand for cleaning services continued to be strong. However, global inflation spurred higher interest rates and geopolitical instability slowed the pace of Hong Kong’s economic recovery.

In the past year, the frequent occurrence of extreme weather has aroused public awareness of the importance of environmental protection, climate change and sustainable development, which has benefited the development of the Group’s core businesses. In order to achieve the target of “Zero Landfill” in Hong Kong by 2035 as set out in the Waste Blueprint for Hong Kong 2035, the Government during the Year announced that the “Municipal Solid Waste (MSW) charging scheme” (“Waste Charging”) will be officially implemented on 1 August 2024, supporting the rapid development of the Group’s recycling and green technology businesses.

BUSINESS REVIEW

The Group’s core business, cleaning services, recorded a significant growth during the Year. Revenue from cleaning services increased by 37.3% to approximately HK\$1,827.3 million, accounting for approximately 78.5% of the Group’s total revenue. Total revenue was approximately HK\$2,327.5 million, representing an increase of 29.8% as compared to the same period in 2023, successfully driving revenue growth of the Group.

The Group’s Government-related street cleaning services cover a total of eight districts (Tuen Wan, Mong Kok, Sha Tin, Yuen Long, Western, Eastern, Sham Shui Po and Tai Po districts), serving a population of approximately 3 million, marking Baguio’s leading position in the Hong Kong cleaning services market. During the Year, the Group’s Government market related cleaning services cover a total of five districts (Tai Po, Southern, Sham Shui Po, Kowloon City and Wong Tai Sin districts). During the Year, the Group’s Government-related leisure venues cleaning services cover the Islands, Sham Shui Po, Sai Kung and Yau Tsim Mong districts. The Group’s other cleaning sites covered hospitals (North Lantau Hospital, Caritas Medical Centre and Kwai Chung Hospital), clinics (clinics of the Department of Health in Kowloon East and Kowloon West), Hong Kong International Airport, schools, housing estates and private institutions, demonstrating that the Group’s professional services are widely recognized.

In terms of waste management, the Group provided Government-related waste collection services to five districts, including Tuen Wan, Wong Tai Sin, Mong Kok, Wan Chai and Eastern districts, serving a population of approximately 1.6 million.

In preparation for the implementation of Waste Charging, the Government has already awarded a number of relevant contracts, which provided growth momentum for the Group’s recycling and green technology businesses during the Year.

In terms of recycling, the Group is contracted by the Environmental Protection Department (“EPD”) of the Government to handle around 5,000 recycling spots (including plastic, glass bottles, metals, waste paper and food waste) across Hong Kong, and is one of the market leaders. The Group was granted by EPD during the Year to provide collection services for recycling bins in public places and schools. Baguio continued to provide plastic collection services for Eastern, Kwun Tong and Central & Western districts under the EPD Plastic Recycling Pilot Scheme contract. Baguio also provides plastic collection services for Recycling Stations of “GREEN@COMMUNITY” and Reverse Vending Machines, which were introduced by EPD and other institutions in Hong Kong. In addition, the Group also provides collection and management services of glass bottles for Hong Kong Island, the New Territories and Islands district. With regard to recyclable food waste collection services, the Group was engaged by the EPD to provide recyclable food waste collection services in Kowloon district and New Territories West, and is one of the market leaders in Hong Kong in providing recyclable food waste collection services.

MANAGEMENT DISCUSSION AND ANALYSIS

After strategic deployment in recent years, the green technology business achieved rapid growth. The Group made impressive progress in providing the Government with smart recycling machines and a big data analytics platform. Smart recycling machines are now available in different places of Hong Kong, providing the public with a convenient recycling experience 24 hours a day and helping to increase the overall recycling volume in Hong Kong.

In addition, in early 2024, the Group won two contracts to provide smart food waste recycling machines and maintenance services for large private residential estates, helping residents to recycle food waste efficiently and reduce Waste Charging expenses.

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

The Group's bioconversion technology (Black Soldier Flies) project has successfully "converted waste into useful resources", which not only solves the problem of chicken manure in Hong Kong, but also supplies converted insect protein and organic fertilizer for fisheries and agriculture in Hong Kong.

In partnership with Jardine Engineering Corporation Limited, the Pilot Biochar Production Plant at the EcoPark in Tuen Mun commenced trial operation in the Year. By converting yard waste into high-quality biochar with pyrolysis technology for various applications, the production plant effectively "turns waste into useful resources".

As for the landscaping business, the Group won the Yuen Long barrage and flood barrier improvement works and the Tuen Ma Line Extension - Tuen Mun Swimming Pool reconfiguration project. In addition, the Group's landscaping services cover some large private residences, schools, shopping malls, hotels, the Hong Kong Science Park and the Hong Kong University of Science and Technology.

For pest management business, the Group provided pest management services in Wong Tai Sin, Tai Po and Yau Tsim districts during the Year. During the Year, the Group provided termite control and monitoring services to 29 monuments under the Antiquities and Monuments Office and 24 temples under the Chinese Temples Committee respectively.

MANAGEMENT DISCUSSION AND ANALYSIS

Results

For the Year, the Group's revenue was approximately HK\$2,327.5 million, representing an increase of approximately 29.8% from approximately HK\$1,793.1 million for 2022. Gross profit increased by approximately 36.5% to approximately HK\$206.1 million (2022: HK\$151.0 million) and gross profit margin increased by 0.5 percentage points ("p.p.") to approximately 8.9% (2022: 8.4%). Profit attributable to equity shareholders of the Company amounted to approximately HK\$47.1 million, representing in a year-on-year decrease of approximately 12.3% (2022: HK\$53.7 million), with net profit margin decreased by 0.8 p.p. to approximately 2.1% (2022: 2.9%). Earnings per share was HK11.4 cents (2022: HK12.9 cents).

Final Dividend

The Board recommends the payment of a final dividend for the Year at HK3.4 cents (2022: HK3.8 cents) per ordinary share, totalling HK\$14,110,000 (2022: HK\$15,770,000), subject to approval by the shareholders of the Company (the "Shareholders") at the forthcoming annual general meeting (the "Annual General Meeting") of the Company to be held on Friday, 31 May 2024. If so approved by the Shareholders, it is expected that the final dividend will be paid on or around Monday, 8 July 2024 to the Shareholders whose names appear on the register of members of the Company on Monday, 24 June 2024.

Revenue breakdown of major business segments

	For the year ended				
	31 December 2023		31 December 2022		Change
	Revenue (HK\$ million)	% of total revenue	Revenue (HK\$ million)	% of total revenue	
Cleaning	1,827.3	78.5%	1,330.7	74.2%	+37.3%
Waste management and recycling	278.9	12.0%	243.2	13.6%	+14.7%
Landscaping	130.6	5.6%	122.2	6.8%	+6.9%
Pest management	90.7	3.9%	97.0	5.4%	-6.5%
Total	2,327.5	100%	1,793.1	100.0%	+29.8%

Gross profit margin of major business segments

	For the year ended		
	31 December 2023	31 December 2022	Change
Cleaning	8.8%	9.6%	-0.8 p.p.
Waste management and recycling	7.6%	0.4%	+7.2 p.p.
Landscaping	14.6%	8.9%	+5.7 p.p.
Pest management	4.6%	11.6%	-7.0 p.p.

MANAGEMENT DISCUSSION AND ANALYSIS

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 36.3% in 2023 (2022: 43.7%).

We continuously strive to expand our services scope in order to enhance our competitiveness. During the Year, the Group was driven by the strong performance with the increase in revenue of approximately 37.3% from cleaning segment. This remarkable growth was attributable to the Group's enormous effort in securing new contracts with the Food and Environmental Hygiene Department, Department of Health and the Leisure and Cultural Services Department for the provision of cleaning services.

During the Year, the Group successfully secured contracts from the EPD for providing recycling services, leading to an increase in revenue of approximately 14.7% in the waste management and recycling segment. Additionally, the implementation of effective cost control measures led to a notable improvement in the profit margin for this segment with a substantial increase from approximately 0.4% to 7.6%.

Furthermore, the award of new contracts from landscaping with higher profit margin and effective cost control, the profit margin for this segment was improved satisfactorily from approximately 8.9% to 14.6%.

However, the pest management market faced challenges due to the high demand for service levels and intense competition. The intense competition in the pest management market, along with the challenging market conditions further hindered the tender results of new contracts.

The overall gross profit amount and margin of the Group were increased from approximately HK\$151.0 million to HK\$206.1 million, and from approximately 8.4% to 8.9% respectively.

Contracts on hand

As of 31 December 2023, the Group had a total amount of approximately HK\$4,430.8 million worth of unexpired contracts on hand, of which, approximately HK\$2,238.0 million will be recognised by the end of 2024, approximately HK\$1,540.1 million will be recognised in 2025 and the rest of approximately HK\$652.7 million will be recognised in 2026 and beyond. From January to March 2024, the Group has been awarded additional contracts of total value over HK\$1,329.1 million. As of 27 March 2024, the estimated total value of the unexpired contracts on hand is approximately HK\$5,127.3 million.

	Backlog contract value HK\$'million	Contract value to be recognised by 31 Dec 2024 HK\$'million	Contract value to be recognised by 31 Dec 2025 HK\$'million	Contract value to be recognised in 2026 and beyond HK\$'million
Cleaning services	3,637.9	1,873.7	1,296.0	468.2
Waste management and recycling services	499.0	183.2	150.4	165.4
Landscaping services	175.5	109.6	46.9	19.0
Pest management services	118.4	71.5	46.8	0.1
Total	4,430.8	2,238.0	1,540.1	652.7

MANAGEMENT DISCUSSION AND ANALYSIS

AWARDS

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

Date	Issued of Award	Award
Jan 2023	Green Council	Green Carnival 2023 - Certificate of Appreciation
Feb 2023	Hong Kong Council of Social Service	5 years+ Caring Company 2022/23 - Baguio Green Group Limited
Feb 2023	Hong Kong Council of Social Service	5 years+ Caring Company 2022/23 - Tak Tai Enviroscape Limited
Feb 2023	Hong Kong Council of Social Service	10 years+ Caring Company 2022/23 - Baguio Waste Management & Recycling Limited
Feb 2023	Hong Kong Council of Social Service	10 years+ Caring Company 2022/23 - Baguio Pest Management Limited
Feb 2023	Hong Kong Council of Social Service	10 years+ Caring Company 2022/23 - Baguio Landscaping Services Limited
Feb 2023	Hong Kong Council of Social Service	10 years+ Caring Company 2022/23 - Baguio Cleaning Services Company Limited
Feb 2023	Hong Kong Council of Social Service	Caring Company 2022/23 - Baguio iRecycle Limited
Feb 2023	Hong Kong Brand Development Council	Hong Kong Top Service Brand Awards
Mar 2023	CorpHub	Hong Kong's Most Outstanding Service Award 2023 - Certificate of Hall of Fame
Mar 2023	Promoting Happiness Index Foundation	Happiness at work 2023 - Happy Company
May 2023	Qualifications Framework Secretariat	QF Star Employer - Baguio Cleaning Services Company Limited
Jun 2023	Hong Kong Arbitration Society	Certificate of Appreciation - The Charter of Harmony HK
Jul 2023	V-STEPUP Limited	The Smartest Business Award 2023 - The Excellence ESG Solutions Service Pioneer
Jul 2023	Green Council	UNSDG Achievement Awards 2023 - Merit
Jul 2023	Bank of China & The Federation of Hong Kong Industries	Corporate Environmental Leadership Awards 2022 - EcoPartner & EcoPioneer (5 Years +) - Baguio Green Group Limited
Jul 2023	Bank of China & The Federation of Hong Kong Industries	Corporate Environmental Leadership Awards 2022 - EcoChallenger - Baguio iRecycle Limited
Jul 2023	on.cc	Elite Listed Enterprise Awards 2022 (Innovative Environmental Service)
Jul 2023	Business GoVirtual Hong Kong	Certificate of Appreciation
Jul 2023	Qualifications Framework Secretariat	QF Star Supporter - Baguio Green Group
Jul 2023	Hong Kong Waste Disposal Industry Association	"2023年愛護環境心送暖" - Certificate of Appreciation (Care for the environment and warm the hearts 2023)
Jul 2023	World Green Organisation	Green Office Award Labelling Scheme - Certificate of Recognition
Aug 2023	Employee Retraining Board	Manpower Developer Award Scheme - Manpower Developer
Aug 2023	Sowers Action	Sowers Action Charity Golf Tournament 2023 - Gold Sponsor
Aug 2023	JCI City	The 27th Innovative Entrepreneur Awards
Sep 2023	The Federation of Hong Kong Industries	Industry Cares 2023 - Caring Certificate (SME Group) - Baguio iRecycle Limited
Sep 2023	The Federation of Hong Kong Industries	Industry Cares 2023 - 5+ Year Award (Enterprise Group) - Baguio Green Group Limited

MANAGEMENT DISCUSSION AND ANALYSIS

Date	Issued of Award	Award
Oct 2023	The Hong Kong Polytechnic University (PolyU)	Annual Employability Forum 2023 - Certificate of Appreciation
Oct 2023	Chun Wo – Kwan Lee Joint Venture	Site Safety Performance Award for Sub Contractor (Third Quarter of 2023) - Tak Tai EnviroScape Limited
Oct 2023	Hong Kong Property Services Alliance	Outstanding Practitioner Election 2023 - Certificate of Appreciation
Oct 2023	Innovation & Technology Commission	2023 Hong Kong Sustainable Development Innovation and Technology Award - Certificate to shortlisted participant
Nov 2023	Hong Kong Metropolitan University - School of Science & Technology	2023 HKMU S&T Career Fair - Certificate of Appreciation
Nov 2023	Hong Kong Management Association	Certificate of Excellence (Large Organization Category) of the Hong Kong Sustainability Award 2023
Nov 2023	Standard Chartered Bank	2023 Standard Chartered Corporate Achievement Awards: Sustainable Corporate (Environmental) – Outstanding Award
Nov 2023	Television Broadcasts Limited	TVB ESG Awards 2023 - Special Recognition
Dec 2023	Selective Placement Division, Labour Department	Work Orientation & Placement Scheme 2022 - Certificate of Appreciation
Dec 2023	Discovery Bay	Discovery Bay Recycling Day 2023 - Appreciation of Supporting
Dec 2023	Environmental Campaign Committee	Hong Kong Green Organisation Certification - Wastewi\$e Certificate - Good Level
Dec 2023	Environmental Campaign Committee	Certificated as Hong Kong Green Organisation

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. Memberships:

Memberships:

- Business Environment Council
- Environmental Contractors Management Association
- Federation of Hong Kong Industries
- GBA Youth Entrepreneurs Association
- Hong Kong Brand Development Council
- Hong Kong Cleaning Association
- Hong Kong Environmental Industry Association
- Hong Kong ESG Club
- Hong Kong Federation of Restaurants & Related Trades Limited
- 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 Association)
- Hong Kong Waste Management Association
- ISA Hong Kong Chapter
- National Pest Management Association
- Occupational Safety & Health Council
- Pest Control Personnel Association of Hong Kong
- The Chamber of Hong Kong Listed Companies

MANAGEMENT DISCUSSION AND ANALYSIS

Charters:

- Environmental Protection Department — Green Event Pledge
- Equal Opportunities Commission — The Racial Diversity & Inclusion Charter for Employers
- Green Council — Sustainable Procurement Charter
- Occupational Safety & Health Council, Department of Health — Joyful Healthy Workplace
- Proper Operation of Refuse Collection Vehicles Steering Committee — The Charter on Proper Operation of Refuse Collection Vehicles
- The Labour and Welfare Bureau (LWB), The Rehabilitation Advisory Committee, The Hong Kong Joint Council for People with Disability — Talent-Wise Employment Charter
- World Green Organization — Paper Towel Saving Campaign

PROSPECTS

In 2023, new contracts awarded to the Group amounted to a total of HK\$3.10 billion. As a result, the Group's contracts on hand reached approximately HK\$4.43 billion, representing an increase of approximately 23.3% from approximately HK\$3.59 billion as of 31 December 2022, providing strong revenue growth in the subsequent years. With reference to the contracts on hand as of 31 December 2023, HK\$2.24 billion contract value will be recognised as revenue in 2024.

With the Waste Charging to be officially launched on 1 August 2024, it is expected to further motivate the public to recycle and to increase the recycling volume. The Group is expected to benefit from the policy, which will bring significant contributions to the recycling and green technology businesses.

Currently, food waste recycling machines are installed in only 35% of public housing estates in Hong Kong. The Government intends to extend the installation of such machines to all public housing estates in Hong Kong in 2024. In the private housing sector, the initiative is still in its initial phase. With Waste Charging set to effect, the Government is proactively offering financial aids for private housing estates to install food waste recycling machines through the Recycling Fund and the Environment and Conservation Fund. Under the strong advocacy of the Government and the expected market demand created by the Waste Charging, it is believed that the Group's smart recycling machines, food waste recycling machines and related smart technology business will bring huge business opportunities.

In addition to the Waste Charging, the Government is also proactively promoting the "Producer Responsibility Scheme on Plastic Beverage Containers and Beverage Cartons", which is expected to be launched within two to three years. With the implementation of the law, producers of beverage will add a deposit to the selling price and refund the deposit when consumers return the containers. The recycling volume is expected to have a significant increase. The launch of the Waste Charging and this scheme will directly drive the growth of Baguio's recycling business and create solid returns for its investment in recycling facilities over the years which creates a strong entry barrier to competitors.

The Group will actively explore the private sector and expand its core businesses in a wider range through the Group's one-stop services to expand the growth of its core businesses. As the Hong Kong Stock Exchange will increase climate-related disclosure requirements for listed companies in their ESG reports, more companies will be required to fully incorporate sustainability elements into their daily operations. We will continue to bring diversified green environmental services and sustainable procurement solutions to our customers through our "ESG+" services, and build a sustainable and low-carbon society with our customers.

According to the 2023 Policy Address, the Northern Metropolis is a new engine for the future development of Hong Kong and will provide about 500,000 new housing units after fully developed, which is believed to bring opportunities to the Group's core businesses.

Looking forward, the Group will continue to increase its market share in all businesses and proactively engage in expansion in Hong Kong and beyond. In addition, it will actively explore suitable mergers and acquisitions, joint ventures or new business projects to accelerate future business growth and deliver substantial and long-term returns to shareholders.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

Revenue

The Group's revenue for the years ended 31 December 2023 and 2022 amounted to approximately HK\$2,327.5 million and HK\$1,793.1 million respectively, representing an increase of approximately 29.8%. The increase was mainly due to the increase in revenue in our services segments of cleaning, waste management and recycling and landscaping, with increase in number of contracts and orders during the Year.

Cost of Services

For the years ended 31 December 2023 and 2022, the cost of services of the Group amounted to approximately HK\$2,121.4 million and HK\$1,642.1 million respectively, representing approximately 91.1% and 91.6% of the Group's revenue for the corresponding years respectively. The cost of services primarily comprised of direct wages, direct overhead expenses, material consumables and sub-contracting fees. As aforesaid, the increase in the number of contracts and orders during the Year led to an increase in the Group's workforce with a total of 10,229 employees (2022: 8,894 employees) resulting in higher staff costs.

Gross Profit

The Group's gross profit for the Year was approximately HK\$206.1 million, representing an increase of approximately 36.5% from approximately HK\$151.0 million for the year ended 31 December 2022.

Gross Profit Margin

The gross profit margins of the Group for the years ended 31 December 2023 and 2022 were approximately 8.9% and 8.4% respectively. The increase in gross profit margin was mainly due to the increase of new contracts with high profit margin and effective cost control during the Year.

Other Income, Gain and Losses

The other income, gain and losses of the Group for the years ended 31 December 2023 and 2022 were approximately HK\$4.5 million and HK\$29.8 million respectively, representing a decrease of approximately 84.9%. The substantial decrease was mainly due to no subsidies being received from the Employment Support Scheme under the Anti-epidemic Fund granted by the Government during the Year (2022: HK\$11,320,000).

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 2023 and 2022 were approximately loss of HK\$3.2 million and HK\$2.5 million respectively. The decrease in fair value was mainly due to the decrease in market price.

MANAGEMENT DISCUSSION AND ANALYSIS

Selling and Marketing Expenses

The selling and marketing expenses of the Group for the years ended 31 December 2023 and 2022 were approximately HK\$2.4 million and HK\$2.2 million respectively, representing an increase of approximately 9.1%. These expenses were mainly for the promotional activities and channels to promote our waste management and recycling business and to enhance the public awareness of environmental protection and waste recycling.

Administrative Expenses

The administrative expenses of the Group for the years ended 31 December 2023 and 2022 were approximately HK\$128.7 million and HK\$100.9 million respectively, representing an increase of approximately 27.6%, and approximately 5.5% of the respective year's total revenue. The increase was mainly due to the increase in wages and allowances for staff and office overhead to support new business development. 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\$13.7 million and HK\$8.2 million for the years ended 31 December 2023 and 2022 respectively, representing approximately 0.6% of and 0.5% of the Group's total revenue respectively. The increase was mainly due to the increase in the level of working capital loan and interest rate on bank borrowings during the Year.

Profit for the Year Attributable to Equity Shareholders of The Company

The Group's net profit attributable to equity shareholders of the Company for the years ended 31 December 2023 and 2022 approximately HK\$47.1 million and HK\$53.7 million respectively, representing an decrease of approximately 12.3%. The decrease was mainly due to the factors described above.

FOREIGN CURRENCY EXPOSURE

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

LIQUIDITY AND FINANCIAL RESOURCES

The Group derives cash flow from operating activities principally from rendering a comprehensive range of environmental services. For the Year, we had net cash generated from operating activities of approximately HK\$96.3 million (2022: HK\$90.4 million). As at 31 December 2023, the Group had available cash and bank balances amounting to approximately HK\$41.4 million (2022: HK\$29.0 million), representing an increase of approximately 42.8%.

As at 31 December 2023, the Group's total current assets and current liabilities were approximately HK\$684.0 million (2022: HK\$530.9 million) and HK\$576.0 million (2022: HK\$490.0 million) respectively, while the current ratio was approximately 1.2 times (2022: 1.1 times). The liquidity position of the Group is maintained at a healthy level.

As at 31 December 2023, the Group's bank borrowings amounted to approximately HK\$182.7 million (2022: HK\$176.4 million), representing an increase of approximately 3.6%; the Group's lease liabilities were approximately HK\$36.6 million (2022: HK\$41.4 million), representing a decrease of approximately 11.6%, for recognised lease liabilities related to the lease contracts in respect of certain lands, office buildings and nurseries; the Group's other loan from a non-controlling shareholder of a subsidiary amounted to approximately HK\$1.6 million (2022: HK\$5.6 million) for financing the acquisition of property, plant and equipment for operational usage and repayment to a non-controlling shareholder of a subsidiary amounted to approximately HK\$3.2 million (2022: Nil). During the Year, no financial instruments were used for hedging purposes (2022: Nil).

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

MANAGEMENT DISCUSSION AND ANALYSIS

CAPITAL EXPENDITURES AND CAPITAL COMMITMENT

For the Year, capital expenditures, which mainly included additions in motor vehicles and equipment, amounted to approximately HK\$43.3 million (2022: HK\$138.7 million). Capital expenditures were funded by banks and funds generated from our operating activities.

As at 31 December 2023, the Group had capital commitment contracted for of approximately HK\$0.2 million (2022: HK\$6.0 million).

CONTINGENT LIABILITIES

As at 31 December 2023, the Group did not have any material contingent liabilities (2022: Nil).

CHARGES ON THE GROUP'S ASSETS

As at 31 December 2023, the amounts payable under lease liabilities within one year was approximately HK\$8.3 million (2022: HK\$10.2 million), that after one year but within five years was approximately HK\$12.4 million (2022: HK\$14.5 million), and that after five years was approximately HK\$15.9 million (2022: HK\$16.7 million).

As at 31 December 2023, the lease liabilities of the Group of nil (2022: nil) were guaranteed by the Company and a subsidiary of the Company.

In addition as at 31 December 2023, the Group had (i) pledged bank deposits of approximately HK\$7.2 million (2022: HK\$7.2 million); (ii) pledge of cash and cash equivalents of approximately HK\$51,000 (2022: HK\$0.4 million); (iii) mortgage of the land and buildings of approximately HK\$62.4 million (2022: HK\$65.1 million); and (iv) pledge of the trade receivables of approximately HK\$160.2 million (2022: HK\$104.6 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.

FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

As at 31 December 2023, the Group did not have any future plans for material investments or capital assets.

INTELLECTUAL PROPERTIES

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

HUMAN RESOURCES

As at 31 December 2023, the Group employed 10,229 employees (2022: 8,894 employees), including both full time and part time employees. Remuneration packages are generally structured by reference to market terms together with 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 together with office support and management. In addition, employees were 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 AND SENIOR MANAGEMENT

DIRECTORS

Executive Directors

Ng Wing Hong (吳永康), aged 69, 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. He is a director of all subsidiaries of the Company.

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 Chartered Governance Institute in August 1994. He became a fellow member of The Hong Kong Chartered Governance Institute in March 2014. Mr. Ng is the brother of Ms. Ng Yuk Kwan Phyllis and Mr. Ng Wing Chuen (formerly an Executive Director who resigned with effect from 31 May 2023).

Ng Yuk Kwan Phyllis (吳玉群), aged 55, 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 25 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. She is a director of certain subsidiaries of the Company.

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 (formerly an Executive Director who resigned with effect from 31 May 2023).

Leung Shuk Ping (梁淑萍), aged 51, 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 20 years of experience in administration and business management. She currently oversees the operation department, administration 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 in July 1991. She was awarded a Diploma in Company Direction in October 2018 by The Hong Kong Institute of Directors.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Independent Non-executive Directors

Sin Ho Chiu (冼浩釗), aged 68, 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 served as the sales director and general manager of GrafTech Hong Kong Limited from May 2011 to March 2022 and the legal representative of the Beijing representative office of GrafTech Hong Kong Ltd from May 2017 to March 2022. From February 2011 to August 2021, Mr. Sin served as the legal representative of Shanghai GrafTech Trading Company Limited. 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.

Lau Chi Yin Thomas (劉志賢), aged 65, 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 is currently a responsible officer of United Gain Investment Limited, a licenced corporation of the Securities and Futures Commission of Hong Kong, with main areas of business in advising on securities and asset management. Between April 2008 and September 2011, Mr. Lau was 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 a member of the supervisory board 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). He has been appointed as a member of the Disciplinary Committee Panel of the Social Workers Registration Board since January 2008.

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 a member of the International CFA Institute as well as a member of the Hong Kong Society of Financial Analysts. Mr. Lau is a holder of CFA Certificate in ESG Investing and also a Certified ESG Analyst (CESGA) of the European Federation of Financial Analysts Societies (EFFAS).

Cheng Edwin Tai Chiu (鄭大昭), aged 66, was appointed as an Independent Non-executive Director of the Company on 31 May 2023 and he is also the chairman of our Nomination Committee. He is currently Dean of the Faculty of Business, Fung Yiu King-Wing Hang Bank Professor in Business Administration and Chair Professor of Management in The Hong Kong Polytechnic University. Having worked in the higher education field for more than 40 years, Professor Cheng has published over 1,000 papers in international journals such as *California Management Review*, *Journal of Operations Management*, *Management Science*, *MIS Quarterly*, *Operations Research*, *Organization Science*, and *Production and Operations Management*. Professor Cheng was rated as the most prominent author in Operations Management research in Asia (in terms of Bonacich power centrality) over the period 2001-2015 by the *International Journal of Production Economics* and was named one of the “most cited scientists” in All Fields, Computer Science, Economics and Business and Engineering over the period from 2010-2020 (top 1% in terms of citation count) by the *ISI Web of Science* in 2021. Professor Cheng also regularly provides advice on management and executive development training to public and private organizations.

Professor Cheng obtained a Bachelor of Science (Engineering) degree from the University of Hong Kong in November 1979, a Master of Science (Industrial Management) degree from the University of Birmingham in December 1980, a Doctor of Philosophy degree from the University of Cambridge in March 1984, and a Doctor of Science degree from the University of Cambridge in May 2007. Professor Cheng has been admitted as a chartered fellow of the Chartered Institute of Logistics and Transport since February 2013, a fellow of the Hong Kong Institution of Engineers since November 2016, and a fellow of the Hong Kong Academy of Engineering Science since December 2018. He was awarded the Education Leadership Award in the 5th Asia's Education Excellence Award in August 2014 in Singapore.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

SENIOR MANAGEMENT

Chan Pak Hang (陳百恆), aged 44, serves as the Chief Financial Officer and Company Secretary since May 2023. Responsible for Financial Reporting, FP&A, Treasury, Legal, and Compliance, he brings over 19 years of expertise in accounting, finance, auditing, and legal matters. Before joining Baguio Green Group, Mr. Chan held notable positions at KPMG, CK Hutchison Holdings Limited (HKEX: 00001), The Hong Kong and China Gas Company Limited (HKEX: 00003), and The Wharf Holdings Limited (HKEX: 00004).

Mr. Chan holds a Bachelor of Information Engineering and a Master of Philosophy from the Chinese University of Hong Kong. He attained a Bachelor of Laws (LL.B.) degree from the Manchester Metropolitan University and the Postgraduate Certificate in Laws (PCLL) from the University of Hong Kong.

With memberships in the Hong Kong Institute of Certified Public Accountants (HKICPA), the Association of Chartered Certified Accountants (ACCA), the Hong Kong Institute of Arbitrators (HKIARB), and as a Certified Financial Analyst Charterholder (CFA Charterholder), Mr. Chan is also a fellow member of the Taxation Institute of Hong Kong (FTIHK).

Chow Kam Hung Ronnie (周榆桐), aged 50, was appointed as Chief Strategy Officer in November 2021. He oversees strategy, corporate development, M&A, investment, investor relations, innovation and development of green technology business of the Group.

Over 25 years of experience in financial market, M&A, investment, strategy and management. Mr. Chow has participated in various large-scale international M&A transactions, strategic consultancy engagements, cross-border financing, and massive bank restructuring and advisory deals. He has extensive management experience and worked in various international conglomerates, including HSBC Group, AXA Group, Accenture, etc.

Mr. Chow graduated from the University of Hong Kong with a First Class Honours degree. He is also a graduate of the Business & Sustainability Programme of the University of Cambridge. He has various professional qualifications, including Chartered Financial Analyst (CFA), Certified Environmental, Social and Governance Analyst (CESGA), Fellow Life Management Institute (FLMI), Associate of the Hong Kong Institute of Bankers (AHKIB).

Dr. Ng Wai Man (吳偉文博士), aged 49, was appointed as Chief Administrative Officer in April 2023. Dr Ng is responsible for Administration, Information Technology, Procurement, and sustainability department.

Dr. Ng has over 20 years of experience in transformation, enterprise risk management, compliance and auditing, procurement and cybersecurity and IT management.

Dr. Ng was awarded an honorary Doctorate of management from Lincoln University; Master of science in Computer Science from Victoria University. Dr. Ng is the China Intermediate-level professional Engineer, fellow member of the Institute of Public Accountants and fellow Certified Management Accountant.

Ho Sing Fai (何成輝), aged 44, was appointed as Head of Human Resources in August 2020. Mr. Ho oversees the full spectrum of human resources functions including resourcing and staffing, talent management, compensations and benefit, performance management, employee relations and reward management.

Mr. Ho has over 20 years of experience in service industry, customer relations, learning & development, culture change and human resources management.

Mr. Ho was awarded a Master degree of Science in Strategic Human Resources Management from the Hong Kong Baptist University.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Dr. Wong Siu Man (黃紹文博士), aged 53, was appointed as General Manager – Recycling in July 2019. Dr. Wong oversees the full spectrum of glass bottles recycling, iRecycle business including mobile app promotion, relationship management and business development. Dr. Wong was appointed as the Head of ESG services in March 2023, and he oversees the iRecycle business and also the business development of integrated ESG services of the Group.

Dr. Wong has over 25 years of experience in business development, corporate training, marketing and management in Hong Kong and China in different industries including financial planning, luxury retail, tertiary education and telecommunications.

Dr. Wong was awarded a Bachelor degree of Business Administration in Marketing from the Hong Kong Baptist University, a Master degree of Art in Communication from the Hong Kong Baptist University, a Master degree of Social Science in Counseling from The University of South Australia, a Bachelor degree of Science in Psychology from the Upper Iowa University, and a Doctor of Philosophy degree in Enterprise Management from The Shanghai University of Finance and Economic.

Lam Chi Keung (林志強), aged 59 is General Manager of Recycling Business Unit. He was appointed as the General Manager of rPlastic Company in March 2022. Mr. Lam oversees the full spectrum of plastic recycling operations, including facilities management, operational cost control, and stakeholder relations. His role has been expanded to manage other recycling facilities and operations including glass bottle recycling, organic animal waste bioconversion, food waste collection, Biochar operation since March 2023.

Mr. Lam has over 30 years' senior managerial experience and executive leadership roles with multinational conglomerates which include AEG Daimler Benz, General Electric Company, Ingersoll Rand Company, CECO Environmental Company.

Mr. Lam earned his Bachelor Degree of Electrical Engineering from the Hong Kong Polytechnic University. He was also awarded a Certificate of Entrepreneurial General Manager Program by the Duke University USA and a Diploma of Executive Management by the Hong Kong University of Science & Technology.

Mr. Lam possesses Electrical Engineering profession with Chartered Engineer of Engineering Council and Corporate Member of MIET, UK. He is also certified with Lean Six Sigma Black Belt.

Wong Yat Ming (黃一鳴), age 52, was appointed as General Manager – Cleaning in May 2023. Mr. Wong is responsible for the full spectrum of cleaning operations, including facilities management, operational cost control, and stakeholder relations. Mr. Wong has more than 25 years of experience in civil construction, infrastructure project management, and major in public facility operation, logistic, cleaning, and catering services.

Mr. Wong was awarded a Bachelor degree in Civil Engineering from Monash University and a bachelor of science in health & Safety from Curtin University. Mr. Wong is a Chartered Member of Institute of Occupational Safety & Health, National Profession Engineers Register, Australia, Charter Professional Engineer of the Institution of Engineers, Australia-Civil and member of Institution of Engineers, Australia in Civil College.

Lui Po Yi (呂寶儀), aged 57, was appointed as Assistant General Manager – Landscaping in October 2018. Ms. Lui is responsible for the overall management of Baguio Landscaping Services Limited and Tak Tai Enviroscape Limited.

Ms. Lui has over 25 years of experience in operations management, including business and sales operations, procurement and vendor management, governance and compliance in public listed companies. Ms. Lui has a solid background in project management, quality assurance and business process improvement.

Ms. Lui was awarded a Bachelor degree in Social Science (Honors), Anthropology & Economics from The Chinese University of Hong Kong. She completed the IMS Internal Auditor Course for ISO 9001:2015 and ISO 14001:2015 and ISO 45001:2018 held by the British Standards Institution. Ms. Lui is the vice-chairman of Hong Kong Greening Contractors Association since 2019.

Kwan Hoi Hong (關海航), aged 55, was appointed as Assistant General Manager – Cleaning in April 2021. Mr. Kwan oversees the full spectrum of cleaning operations, including facilities management, operational cost control, and stakeholder relations. Mr. Kwan graduated from The University of California, Davis with a Bachelor degree of Science in Managerial Economics. Mr. Kwan has extensive experience in the manufacturing industry and factory management, especially in process improvement, quality control and system implementation between Hong Kong and China.

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 2023.

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 14 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 30 to 42 of this annual report. The Group firmly believes that sustainability plays an important role in its development and is actively applying its ideas to every detail of the business operations and devoted to delivering a better future for the society and the Company as well. The Group will publish an independent sustainability report according to Environmental, Social and Governance Reporting Guide as set out in Appendix C2 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") on the websites of the Stock Exchange and the Company in April 2024.

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 2023 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 and Mainland China 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 48 of this annual report. The Directors recommended the payment of a final dividend of HK3.4 cents per ordinary share, totalling approximately HK\$14,110,000, to be paid on or around 8 July 2024, to the shareholders of the Company (the "Shareholders") whose names appear on the register of members of the Company on 24 June 2024.

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.

5. DIVIDEND POLICY

Dividend Policy aims to set out the approach to achieve the intention of the Company to create long term value for the shareholders of the Company through maintaining a balance between dividend distribution, preserving adequate liquidity and reserve to meet the working capital requirement and capturing future growth opportunities.

The Board may propose/declare the payment of dividend(s) after taking into account the following matter 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;

REPORT OF THE DIRECTORS

- 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.

The Board will review the Dividend Policy from time to time to ensure the effectiveness of the Dividend Policy. The Board will update, amend and/or modify the Dividend Policy at any time in the interest of the Company and the shareholders of the Company.

6. 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 50, respectively.

7. 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.

8. DISTRIBUTABLE RESERVES

As at 31 December 2023, the Company's reserve available for distribution, calculated in accordance with the Companies Law of the Cayman Islands amounted to approximately HK\$102.2 million, of which approximately HK\$14.1 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 be 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.

9. 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.

10. BANK BORROWINGS

Particulars of the bank borrowings of the Group as at 31 December 2023 are set out in the note 28 to the consolidated financial statements.

11. 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.

12. 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.

13. FINANCIAL SUMMARY

A summary of the results for the year ended 31 December 2023 and of the assets and liabilities of the Group as at 31 December 2023 and for the previous four financial years are set out on page 114 of this annual report.

REPORT OF THE DIRECTORS

14. 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 (*resigned with effect from 31 May 2023*)

Ms. Leung Shuk Ping

Ms. Cheung Siu Chun (*resigned with effect from 1 May 2023*)

Independent Non-executive Directors:

Mr. Sin Ho Chiu

Dr. Law Ka Hung (*resigned with effect from 31 May 2023*)

Mr. Lau Chi Yin Thomas

Professor Cheng Edwin Tai Chiu (*appointed with effect from 31 May 2023*)

Pursuant to Article 84(1) of the Articles of Association of the Company, Mr. Ng Wing Hong and Ms. Ng Yuk Kwan Phyllis 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 Listing Rules from each of the Independent Non-executive Directors and, as at the date of this report, still considers them to be independent.

15. BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Brief biographical details of the Directors and senior management as of the date of publication of this report are set out on pages 15 to 18 of this annual report.

16. 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).

17. 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.

18. 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 23 to 24 in this report of the Directors and note 40 to the consolidated financial statements.

REPORT OF THE DIRECTORS

19. 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.

20. SUBSTANTIAL SHAREHOLDERS' INTEREST

As at 31 December 2023, 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)	279,256,000	67.29
Chan Shuk Kuen	Family interest ^(Note 2)	279,256,000	67.29
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
David Michael Webb	Interest of controlled corporation/ Beneficial owner ^(Note 5)	20,812,000	5.01
Preferable Situation Assets Limited ("PSA")	Beneficial owner ^(Note 5)	11,566,800	2.79

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 4,256,000 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.
- (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.
- (5) The entire issued share capital of PSA is wholly owned by Mr. David Michael Webb. Therefore, Mr. David Michael Webb is deemed to be interested in all the 11,566,800 Shares held by PSA. In addition, Mr. David Michael Webb also directly held 9,245,200 Shares.

Save as disclosed above, as at 31 December 2023, 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.

REPORT OF THE DIRECTORS

21. DIRECTORS' INTERESTS DISCLOSEABLE UNDER THE SFO

As at 31 December 2023, the shareholding interests of Mr. Ng Wing Hong 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 25 to 27 in the section “Share Option Scheme” below. 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.

22. 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, and further entered into a third supplemental IT Agreement on 3 January 2023 to extend three years up to and including 31 December 2025. Details are set out in the announcement of the Company dated 3 January 2023.

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\$5,366,000, which did not exceed the HK\$6,000,000 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) (ii), (iii) and (iv) to the consolidated financial statements in respect of information technology service fee, purchase of cleaning equipment and materials together with rental expenses and other services fee 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.

REPORT OF THE DIRECTORS

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.

23. 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.

24. MAJOR CUSTOMERS AND MAJOR SUPPLIERS

In the Year under review, sales to the Group’s five largest customers accounted for 76.6% (2022: 67.7%) of the total sales for the year and sales to the largest customer included therein amounted to 55.1% (2022: 44.3%). Purchases from the Group’s five largest suppliers accounted for 39.7% (2022: 35.6%) of the total purchases for the Year and purchases from the largest supplier included therein amounted to 14.1% (2022: 10.6%).

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.

25. 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.

26. 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.

27. 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.

REPORT OF THE DIRECTORS

28. 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.

REPORT OF THE DIRECTORS

	<p>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.</p>
Price for Subscription of Shares:	<p>The Exercise Price is to be determined by the Board provided always that it shall be at least the higher of:</p> <ul style="list-style-type: none">(i) the closing price of the Shares as stated in the daily quotations sheet issued by the Stock Exchange on the date of offer for the grant of the option (which is deemed to be the date of grant if the offer for the grant of the option is accepted by the Eligible Person), which must be a trading day; and(ii) the average closing price of the Shares as stated in the daily quotations sheets issued by the Stock Exchange for the five business days immediately preceding the date of grant, provided that the Exercise Price shall in no event be less than the nominal amount of one Share.
Amount payable on acceptance of the option and the period within which such payment must be made:	<p>An offer for grant of options must be accepted within twenty one days inclusive of the day on which such offer was made. The amount payable to the Company on acceptance of the offer for the grant of an option is HK\$1.00.</p>
Maximum entitlement of each eligible participant:	<p>The maximum number of Shares issued and to be issued upon exercise of options granted and to be granted under the Share Option Scheme and any other share option schemes of the Company to any Eligible Person (including cancelled, exercised and outstanding options), in any 12-month period up to the date of grant shall not exceed 1% of the Shares in issue from time to time (the "Participant Limit"). Any further grant of options in excess of such limit must be separately approved by Shareholders with such Eligible Person and his associates abstaining from voting. The Company shall send a circular to the Shareholders which contains the information required by the Listing Rules.</p>
Exercise price:	<p>The Board is entitled to determine the price per Share payable on the exercise of an option according to the terms of the Share Option Scheme.</p>
Minimum holding period:	<p>The Board is entitled to determine whether there is any minimum holding period, and whether there is any performance target which must be achieved, before an option granted under the Share Option Scheme is exercised.</p>
Period within which the securities must be taken up under an option:	<p>In respect of any option, such period as the Board may in its absolute discretion determine, save that such period shall not be more than 10 years from the date of the grant of the option and in the absence of such determination, the period commencing from the acceptance date of the option and ending (i) in accordance with the Share Option Scheme; or (ii) on the day immediately preceding the tenth anniversary of the date of grant.</p>
The remaining life of the Share Option Scheme:	<p>The Share Option Scheme remains in force for a period of 10 years commencing on 24 April 2014 unless terminated earlier by Shareholders in general meeting.</p>

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, while 848,000 share options were lapsed during the Year due to the resignation of employees who had been granted share options.

REPORT OF THE DIRECTORS

At the end of the reporting period, there were 36,988,000 (1 January 2023: 36,140,000) share options available for grant under the share option scheme. The total number of shares available for issue under the Share Option Scheme is 40,000,000 shares, representing approximately 9.64% of the total number of shares of the Company in issue as at the date of this report.

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					Outstanding as at 31 December 2023	Exercise period	Exercise price per share (HK\$)
		Outstanding as at 1 January 2023	Granted during the Year	Exercised during the Year	Cancelled/ lapsed during the Year	Outstanding as at 31 December 2023			
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 (Note 3)	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. Cheung Siu Chun (Note 2)	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 (Note 3)	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	
Sub-total		1,408,000	-	-	(620,000)	788,000			
Other Eligible Participants (in aggregate)									
Other employees	16/10/2015	2,452,000	-	-	(228,000)	2,224,000	16/10/2017– 23/04/2024	1.00	
Sub-total		2,452,000	-	-	(228,000)	2,224,000			
Total		3,860,000	-	-	(848,000)	3,012,000			

Notes:

- (1) The share options, those granted on 16 October 2015, vested on 16 October 2017.
- (2) Ms. Cheung Siu Chun resigned as executive Director with effect from 1 May 2023.
- (3) Mr. Ng Wing Chuen and Dr. Law Ka Hung resigned as an executive Director and independent non-executive Director respectively with effect from 31 May 2023.
- (4) The closing prices of the shares of the Company quoted on the Stock Exchange immediately before the date of grant of share options on 16 October 2015 was HK\$0.94.

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

REPORT OF THE DIRECTORS

29. SHARE AWARD PLAN

The Company adopted a share award plan (the “Share Award Plan”) on 12 December 2017. Details of which were disclosed in the announcements dated 12 December 2017 and 15 January 2018. The purposes of the plan is to recognise and reward the contribution of certain eligible participants, to give incentives to eligible participants 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.

A summary of the Share Award Plan of the Company is as follows:

Eligible participants

Eligible participants include any individual, being an employee, director, officer, consultant or adviser of any member of the Group or any other person whom the Board of Directors of the Company or its delegate(s) considers, in their sole discretion, to have contributed or will contribute to the Group.

Total number of shares available for issue

The total number of shares which may be awarded for each financial year under the Share Award Plan and any other share option scheme(s) of the Company shall not exceed 10% of the total number of shares of the Company in issue at the beginning of such financial year.

Maximum entitlement of each participant

The total number of shares issued and to be issued under the Share Award Plan and any other share option scheme(s) of the Company (including exercised, cancelled and outstanding options) to each participant in any 12-month period up to and including the date of grant shall not exceed 1% of the total number of shares of the Company in issue as at the date of grant.

Any further grant in excess of this 1% limit must be separately approved by shareholders with such grantee and his associates abstaining from voting. The Company shall send a circular to the shareholders which contains the information required by the Listing Rules.

Vesting period of awarded shares

The Board may from time to time while the Share Award Plan is in force and subject to all applicable laws, determine such vesting criteria and conditions or periods for the award to be vested.

Subject to the terms and conditions of the Share Award Plan and the fulfilment of all vesting conditions to the vesting of the awarded shares of the Company on such selected participant, the respective awarded shares of the Company shall vest in such selected participant.

Payment on acceptance of award

None.

Basis of determining the purchase price of shares awarded

Not applicable as there is no purchase price under the Share Award Plan.

Remaining life of the Share Award Plan

Subject to any early termination determined by the board in accordance with the rules of the Share Award Plan, the Share Award Plan is valid and effective for a term of 10 years commencing on its adoption date (i.e. 12 December 2017 to 11 December 2027).

The Company has not granted any share awards under the Share Award Plan since its adoption date.

REPORT OF THE DIRECTORS

30. 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.

31. EVENTS AFTER THE REPORTING PERIOD

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

32. 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 C1 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 30 to 42 of this annual report.

33. CHANGE OF DIRECTOR'S INFORMATION

Upon specific enquiry by the Company and following confirmations from the Directors, there is no change in the information of the Directors required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules for the year ended 31 December 2023 and up to the date of this report.

34. 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.

35. 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.

36. AUDITORS

KPMG will retire and, being eligible, will 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, 27 March 2024

CORPORATE GOVERNANCE REPORT

The Board is pleased to present the Corporate Governance Report for the year ended 31 December 2023.

1. CORPORATE GOVERNANCE PRACTICES

The Company is committed to maintaining high standards of corporate governance. The board of directors (the “Board”) of the Company believes that good governance is essential to achieving the Group’s objectives of maximizing shareholders’ value and safeguarding the interests of the shareholders. During the Year, the Company has complied with all code provisions as set out in the Corporate Governance Code (the “Code”) contained in Appendix C1 of the Listing Rules.

2. CORPORATE CULTURE

A positive and progressive corporate culture across the Group is vital for the Company to achieve its purpose towards the sustainable growth. It is the role of the Board to foster the Group’s corporate culture with the core principles of integrity and accountability to guide the behaviours of its employees and ensure that the Company’s purpose, values and business strategies are aligned to it.

3. 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 C3 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 2023.

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.

4. BOARD OF DIRECTORS

The Board currently comprises a total of six members, with three 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*)

Ms. Leung Shuk Ping

Independent Non-executive Directors:

Mr. Sin Ho Chiu

Mr. Lau Chi Yin Thomas

Professor Cheng Edwin Tai Chiu

Mr. Ng Wing Hong and Ms. Ng Yuk Kwan Phyllis are siblings.

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 and Senior Management” on pages 15 to 18 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-half 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.

Board Independence

The Company recognises that board independence is critical to good corporate governance and board effectiveness. The participation of Independent Non-executive Directors in the Board brings independent and objective judgment on issues relating to the Group's strategy, performance, conflicts of interest and management process to ensure that the interests of all Shareholders have been duly considered. To ensure independent views and input are available to the Board, the following mechanisms are established by the Board:

- Three out of the six directors are independent non-executive directors which represents more than one-half of the Board. The chairman of remuneration committee, nomination committee, and audit committee are independent non-executive directors. All independent non-executive directors continue to devote adequate time contribution to the Company;
- All independent non-executive directors share their views and opinions through regular quarterly Board/Committee meetings;
- The Chairman meets with all independent non-executive directors at least annually without the presence of other directors which provides a platform for the Chairman to listen to independent views on various issues concerning the Group;
- External independent professional advice would be provided to independent non-executive directors upon reasonable request to assist them to perform their duties to the Company;
- Directors are provided with monthly reports covering highlights of the Company's major business and financial updates to keep abreast of the Group's business performance and enable them to bring informed decisions in the best interest of the Company and the Shareholders; and
- The Nomination Committee will continue to assess the continued independence of existing independent non-executive directors on an annual basis. All independent non-executive directors are required to confirm in writing annually their compliance of independence requirements pursuant to Rule 3.13 of the Listing Rules.
- The independent non-executive directors whom had served more than 9 years should be subject to a separate resolution to be approved by shareholders. The Company shall disclose the length of tenure of each such independent non-executive director in the circular to shareholders.

CORPORATE GOVERNANCE REPORT

During the Year, the Board reviewed the implementation and effectiveness of the abovementioned mechanisms and considered that such mechanisms remain effective.

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 as well as the updated corporate governance policies and also directors' duties and responsibilities. The following shows the training of each of the directors received during the Year:

	Attending seminars/webinars	Reading materials
Executive Directors		
Mr. Ng Wing Hong	✓	✓
Ms. Ng Yuk Kwan Phyllis		✓
Ms. Leung Shuk Ping		✓
Independent Non-executive Directors		
Mr. Sin Ho Chiu	✓	✓
Mr. Lau Chi Yin Thomas	✓	✓
Professor Cheng Edwin Tai Chiu	✓	

5. DIVERSITY AND WORKFORCE

The Board has adopted a board diversity policy which sets out the approach to achieve diversity on the Board.

The Board takes 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.

In addition, the Board promotes the importance of gender diversity, the current composition of the Board consists of 4 males and 2 females. The Board is of the view that the existing gender diversity in respect of the Board is sufficient, and that the nomination policy of the Company can ensure that there will be a pipeline of potential successors to the Board which continues the existing gender diversity in the Board.

As at 31 December 2023, the gender ratio of the workforce of the Group was 42.3%: 57.7% male to female. As to senior management, our Assistant General Manager in Landscaping Segment is female. Although the Company does not currently have a specific diversity policy on hiring employees or appointing senior management, as an equal opportunity employer, the Company applies the principle of "Fairness, Openness and Impartiality" to all employment practices, as mentioned in the paragraphs of **Upholding Our Employees** from pages 40 to 51 of the Sustainability Report. The Board is satisfied that the Company has achieved gender diversity in its workforce.

6. BOARD COMMITTEES

The Board has established a remuneration committee, a nomination committee, an audit committee and a sustainability steering 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. No director should be involved in deciding that director's own remuneration.

The committee consults the Chairman and the Chief Executive Officer about remuneration proposals for other executive Directors.

CORPORATE GOVERNANCE REPORT

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*)
Professor Cheng Edwin Tai Chiu (*Independent non-executive Director*)
Mr. Ng Wing Hong (*Executive Director*)

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

During the Year, the remuneration committee had held two meetings to discuss and review the remuneration packages of the Directors and senior management of the Company.

Details of emoluments of the Directors and five highest paid individuals are set out in note 12 to the consolidated financial statements.

The remuneration paid to members of senior management by band during the year is set out below:

	Number of employee	
	2023	2022
Less than HK\$1,000,001	1	3
HK\$1,000,001 – HK\$1,500,000	6	3
HK\$1,500,001 – HK\$2,000,000	–	–
HK\$2,000,001 – HK\$2,500,000	2	1

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, 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.

CORPORATE GOVERNANCE REPORT

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 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 B.3.1 under Part 2 of Appendix C1;
- 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:

Professor Cheng Edwin Tai Chiu (*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 two meetings to review the structure, size and composition of the Board.

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, 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*)

Professor Cheng Edwin Tai Chiu (*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 2023 and for the year ended 31 December 2023, the accounting principles and practices adopted by the Company, statutory compliance, other financial reporting matters, risk management and internal control systems and continuing connected transactions of the Company.

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

During the Year, the Audit Committee had held two meetings for considering the annual results of the Company for the year ended 31 December 2022 and considering the interim results of the Company for the six months ended 30 June 2023 respectively.

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 2024.

Sustainability Steering Committee

The Company attaches great importance to sustainability. Our sustainability steering committee was established during the Year to manage and monitor the sustainability matters. The purpose of the committee is to devise and review the Company's sustainability direction and strategy, and reports to the Board of Directors.

Duties of the committee:

- acting as a bridge of communication among the Board of Directors, ESG Working Group, business units and departments of the Company;
- disseminating sustainability-related decisions and advice made by the Board of Directors to ESG Working Group, business units and departments of the Company effectively, accurately, and clearly;
- incorporating sustainability issues into the consideration of the Company's potential risks and business development opportunities;
- setting sustainability directions and targets of the Company, and assisting business units and departments in the implementation of the related policies; and
- reporting the Company's sustainability performance and progress to the Board of Directors regularly.

Striving for effective implementation of sustainability strategy, the ESG working group is also formed by representatives from business units and departments of the Company to facilitate conveyance of commitment, derive related work, and ensure continuous performance improvement.

CORPORATE GOVERNANCE REPORT

Members of the Sustainability Steering Committee are:

Ms. Ng Yuk Kwan Phyllis (*Executive director*) (*Chairman*)
Ms. Leung Shuk Ping (*Executive director*)
Mr. Sin Ho Chiu (*Independent Non-executive director*)
Mr. Lau Chi Yin Thomas (*Independent Non-executive director*)
Professor Cheng Tai Chiu (*Independent Non-executive director*)
Mr. Chan Pak Hang (*Chief Financial Officer*)
Mr. Chow Kam Hung Ronnie (*Chief Strategy Officer*)
Dr. Ng Wai Man (*Chief Administrative Officer*)
Mr. Ho Shing Fai (*Head of Human Resources*)
Ms. Ho Mei Yan (*Assistant Manager of Sustainability Department*)

The Chairman of the committee has the right to appoint representatives from business units and departments as committee members or attend committee meetings, when deemed necessary.

The terms of reference of the sustainability steering committee are available on the website of the Company.

During the Year, the Sustainability Steering Committee had held 3 meetings to devise and to review the Company's sustainability direction and strategy.

The Group will publish an independent sustainability report according to the Environmental, Social and Governance Reporting Guide as set out in Appendix C2 to the Listing Rules on the websites of the Stock Exchange and the Company in April 2024.

7. ATTENDANCE RECORDS OF DIRECTORS AND COMMITTEE MEMBERS

During the Year, a total of three board meetings were held. The attendance of each Director at the board meetings and general meetings during the Year is set out below:

	Number of meetings held during the year Attended/Eligible to attend				Annual General Meeting
	Board Meeting	Remuneration Committee	Nomination Committee	Audit Committee	
Executive Directors					
Mr. Ng Wing Hong	3/3	2/2	2/2	2/2	1/1
Ms. Ng Yuk Kwan Phyllis	3/3	2/2	2/2	2/2	1/1
Mr. Ng Wing Chuen ⁽¹⁾	1/3				1/1
Ms. Leung Shuk Ping	2/3				1/1
Ms. Cheung Siu Chun ⁽²⁾	2/3	2/2	2/2	1/2	
Independent non-executive directors					
Mr. Sin Ho Chiu	3/3	2/2	2/2	2/2	1/1
Dr. Law Ka Hung ⁽³⁾	2/3	2/2	2/2	1/2	1/1
Mr. Lau Chi Yin Thomas	3/3	2/2	2/2	2/2	1/1
Professor Cheng Edwin Tai Chiu ⁽⁴⁾	1/3			1/2	1/1

Notes:

- (1) Resigned as Executive director with effect from 31 May 2023
- (2) Resigned as Executive director with effect from 1 May 2023
- (3) Resigned as Independent non-executive director with effect from 31 May 2023
- (4) Appointed as Independent non-executive director with effect from 31 May 2023

CORPORATE GOVERNANCE REPORT

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.

8. CORPORATE GOVERNANCE FUNCTIONS

The Board has the following responsibilities:

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

9. 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 43 to 47 of this annual report.

CORPORATE GOVERNANCE REPORT

10. 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.

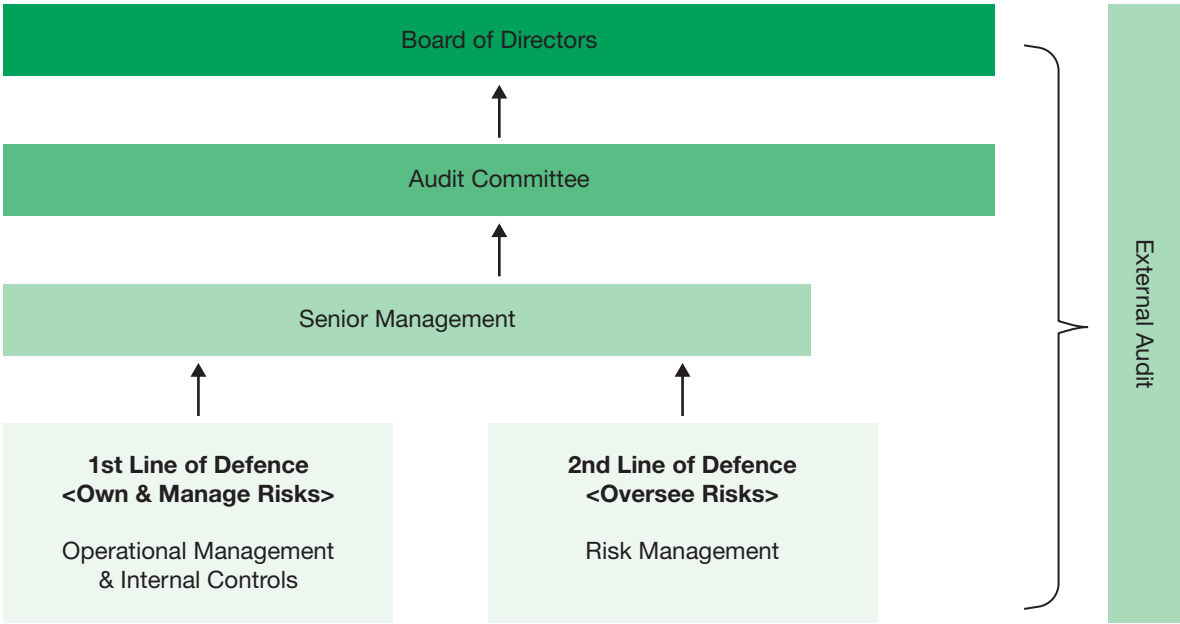
During the Year, the Board, through the Audit Committee, conducted a review of the effectiveness of the risk management and internal control systems of the Group, including the adequacy of resources, staff qualifications and experience, training programmes and budget of the Group’s accounting, internal controls and financial reporting functions as well as those relating to the Company’s ESG performance and reporting. In this respect, the Audit Committee communicates any material issues to the Board. The Board is of the view that the risk management and internal control systems of the Group are effective and adequate.

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 controls functions.

Baguio Risk Governance Structure



1st Line of Defence – Operational Management & Internal Controls

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

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, compliance risks and ESG 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.

CORPORATE GOVERNANCE REPORT

11. 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.

12. AUDITORS' REMUNERATION

For the Year, KPMG charged the Group approximately HK\$1.9 million for the audit services and approximately HK\$162,000 for other non-audit services.

13. WHISTLEBLOWING POLICY AND ANTI-BRIBERY AND ANTI-CORRUPTION POLICY

The Board has adopted the Whistleblowing Policy and system in accordance with the principles set out in the corporate governance code D.2.6 for employees and those who deal with the Group to raise concern, in confidence and anonymity, if required and appropriate, with the Audit Committee of the Company about possible improprieties in any matter related to the Group. The Board has also adopted the Anti-Bribery and Anti-Corruption Policy setting out responsibilities of the Group's employees to identify and prevent bribery and corruption incidents in order to protect the integrity and reputation of the Group.

14. COMPANY SECRETARY

The company secretary of the Company, Mr. Chan Pak Hang, is the Chief Finance Officer of the Company. The biographical details of Mr. Chan are set out under the section headed “Biographical Details of Directors and Senior Management” of this annual report.

According to the requirements of Rule 3.29 of the Listing Rules, Mr. Chan 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. He reports to the Chairman and is responsible for advising the Board on governance matters.

15. SHAREHOLDERS' RIGHTS

Procedures for shareholders to convene an extraordinary general meeting

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

Procedures for putting forward proposals at general meetings

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

Procedures for directing shareholders' enquiries to the Board

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

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

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

16. 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.

The Board reviews the shareholders' communication policy on a regular basis to ensure its effectiveness, particularly with regards to the requirements of Part 2 of Appendix C1 in the Corporate Governance Code. The Board has reviewed the implementation and effectiveness of the shareholders' communication policy during its meetings, and is of the view that the shareholders' communication policy has been effectively implemented based on the measures adopted above.

17. 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.

INDEPENDENT AUDITOR'S REPORT

FOR THE YEAR ENDED 31 DECEMBER 2023



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 48 to 113, which comprise the consolidated statement of financial position as at 31 December 2023, 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, comprising material accounting policy information and other explanatory information.

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 2023 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

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

KEY AUDIT MATTERS

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

INDEPENDENT AUDITOR'S REPORT

FOR THE YEAR ENDED 31 DECEMBER 2023

Timing of 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

Revenue from provision of professional cleaning, landscaping, pest management and 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 a proportion of the total services to be provided under the terms of the service contract.

The Group enters into significant volume of service contracts with a wide range of customers. The extent of services may subsequently be altered upon requests from customers.

We identified the timing of revenue recognition as a key audit matter because revenue is one of the key performance indicators of the Group and could be subject to risk of manipulation to meet specific targets or expectations and because subsequent alterations to the services to be provided under service contracts increases the risk of error in the timing of revenue recognition.

Our audit procedures to assess the timing of revenue recognition during the year included the following:

- obtaining an understanding 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;
- inspecting, on a sample basis, service contracts, service records and/or settlement records ("underlying documentation") relating to the revenue recognised during the year and assessing whether the related revenue was recognised in accordance with 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 to determine the related revenue had been recognised in the appropriate financial period;
- inspecting underlying documentation for revenue related manual journal entries raised during the year which were met specific risk-based criteria.

INDEPENDENT AUDITOR'S REPORT

FOR THE YEAR ENDED 31 DECEMBER 2023

Post-employment benefit obligations

Refer to note 37 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

The Group has a large number of staff, the costs of which (comprising salaries, other benefits and post-employment benefits including long service payments, severance payments and gratuity payments) 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.

The post-employment benefit obligations are assessed by the directors using the projected unit credit method based on an valuation prepared by qualified external actuary in accordance with recognised industry standards. Assessing the post-employment benefit obligations required management and the external actuary to make a number of estimates.

We identified post-employment benefit obligations as a key audit matter because the Group's business model is labour-intensive and the significant management estimates involved in the post-employment benefit obligations.

Our audit procedures to assess post-employment benefit obligations included the following:

- obtaining an understanding of and assessing the design, and implementation of management's key internal controls relating to post-employment benefit obligations;
- Assessing competence, capabilities and objectivity of the external actuary;
- With the assistance of our internal actuarial specialist, evaluating the appropriateness of the valuation methodology with reference to the requirements of the prevailing accounting standards and the reasonableness of the key assumptions applied by the external actuary; and
- Considering the reasonableness of the disclosures in the consolidated financial statements inspect of the post-employment benefit obligations with reference to the requirements of the prevailing accounting standards.

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.

INDEPENDENT AUDITOR'S REPORT

FOR THE YEAR ENDED 31 DECEMBER 2023

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

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

INDEPENDENT AUDITOR'S REPORT

FOR THE YEAR ENDED 31 DECEMBER 2023

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 Tsui Kin Wa.

KPMG

Certified Public Accountants

8th Floor, Prince's Building

10 Chater Road

Central, Hong Kong

27 March 2024

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2023

(Expressed in Hong Kong Dollars)

	Note	2023 HK\$'000	2022 HK\$'000
Revenue	5	2,327,489	1,793,121
Cost of services		(2,121,367)	(1,642,149)
Gross profit		206,122	150,972
Other income, gains and losses	6	4,468	29,760
Change in fair value less costs to sell of biological assets	22	(3,188)	(2,492)
Selling and marketing expenses		(2,416)	(2,238)
Administrative expenses		(128,735)	(100,861)
Profit from operations		76,251	75,141
Finance costs	7	(13,699)	(8,236)
Share of losses of a joint venture	15	–	(1,747)
Profit before taxation	8	62,552	65,158
Income tax	9	(14,424)	(13,753)
Profit for the year		48,128	51,405
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		(68)	(209)
Items that will not be reclassified to profit or loss:			
Remeasurement of defined benefit plan obligations		1,300	–
Other comprehensive income		1,232	(209)
Total comprehensive income for the year		49,360	51,196
Profit for the year attributable to:			
Equity shareholders of the Company		47,111	53,709
Non-controlling interests		1,017	(2,304)
		48,128	51,405
Total comprehensive income for the year attributable to:			
Equity shareholders of the Company		48,343	53,500
Non-controlling interests		1,017	(2,304)
		49,360	51,196
Earnings per share			
Basic and diluted (HK cents)	11	11.35	12.94

The notes on pages 52 to 113 form part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2023
(Expressed in Hong Kong Dollars)

	Note	2023 HK\$'000	2022 HK\$'000
Non-current assets			
Property, plant and equipment	13	244,677	277,976
Right-of-use assets	14	32,640	40,544
Intangible assets		8,200	–
Financial assets at fair value through profit or loss	17	15,043	14,872
Prepayments, deposits and other receivables	18	24,388	29,508
Deferred tax assets	31	2,457	2,343
		327,405	365,243
Current assets			
Inventories	19	2,753	3,050
Contract assets	20	8,734	10,723
Trade receivables	21	599,616	452,134
Prepayments, deposits and other receivables	18	22,560	19,288
Tax recoverable		1,430	1,280
Biological assets	22	259	8,292
Pledged bank deposits	23	7,211	7,176
Cash and cash equivalents	24	41,425	28,982
		683,988	530,925
Current liabilities			
Trade payables	25	48,120	36,758
Contract liabilities	26	3,629	410
Accruals, deposits received and other payables	27	322,063	263,675
Bank borrowings	28	182,664	176,356
Lease liabilities	29	8,343	10,153
Tax payable		11,131	2,601
		575,950	489,953
Net current assets		108,038	40,972
Total assets less current liabilities		435,443	406,215
Non-current liabilities			
Other payables	27	756	1,188
Lease liabilities	29	28,278	31,201
Provision	30	14,802	14,352
Deferred tax liabilities	31	21,906	23,363
		65,742	70,104
Net assets		369,701	336,111
Capital and reserves			
Share capital	32	4,150	4,150
Reserves	33	366,041	333,468
Total equity attributable to equity shareholders of the Company		370,191	337,618
Non-controlling interests		(490)	(1,507)
Total equity		369,701	336,111

Approved by the Board of Directors on 27 March 2024 and signed on its behalf by:

Ng Wing Hong
Director

Ng Yuk Kwan Phyllis
Director

The notes on pages 52 to 113 form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2023
(Expressed in Hong Kong Dollars)

	Attributable to equity shareholders of the Company							Non-controlling interests HK\$'000	Total equity HK\$'000
	Share capital	Share premium	Other reserve	Share option reserve	Translation reserve	Retained earnings	Total		
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000		
As at 1 January 2022	4,150	100,850	18,330	1,572	7	161,675	286,584	(3)	286,581
Profit for the year	-	-	-	-	-	53,709	53,709	(2,304)	51,405
Other comprehensive income for the year	-	-	-	-	(209)	-	(209)	-	(209)
Total comprehensive income for the year	-	-	-	-	(209)	53,709	53,500	(2,304)	51,196
Capital contributions received by a non-wholly owned subsidiary from a non-controlling shareholder	-	-	-	-	-	-	-	800	800
Dividends approved in respect of the previous year (note 10(b))	-	-	-	-	-	(3,735)	(3,735)	-	(3,735)
Equity-settled share-based payments	-	-	-	1,269	-	-	1,269	-	1,269
Share options lapsed	-	-	-	(1,348)	-	1,348	-	-	-
As at 31 December 2022 and 1 January 2023	4,150	100,850	18,330	1,493	(202)	212,997	337,618	(1,507)	336,111
Profit for the year	-	-	-	-	-	47,111	47,111	1,017	48,128
Other comprehensive income for the year	-	-	-	-	(68)	1,300	1,232	-	1,232
Total comprehensive income for the year	-	-	-	-	(68)	48,411	48,343	1,017	49,360
Dividends approved in respect of the previous year (note 10(b))	-	-	-	-	-	(15,770)	(15,770)	-	(15,770)
Share options lapsed	-	-	-	(328)	-	328	-	-	-
As at 31 December 2023	4,150	100,850	18,330	1,165	(270)	245,966	370,191	(490)	369,701

The notes on pages 52 to 113 form part of these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2023
(Expressed in Hong Kong Dollars)

	Note	2023 HK\$'000	2022 HK\$'000
Operating activities			
Profit before taxation		62,552	65,158
Adjustments for:			
Depreciation	8	85,392	64,928
Reversal of credit losses on trade receivables	8	(53)	(1,782)
Provision of doubtful debts on other receivable	8	4,118	–
Share of losses of a joint venture	15	–	1,747
COVID-19-related rent concessions received	6	–	(973)
Loss/(gain) on disposal of property, plant and equipment	8	2,532	(2,989)
Gain of lease modification	8	(283)	–
Change in fair value less costs to sell of biological assets	22	3,188	2,492
Change in fair value of investments in life insurance	17	(171)	(203)
Equity-settled share-based payments		–	1,269
Interest income	6	(494)	(222)
Finance costs	7	13,699	8,236
Changes in working capital:			
Decrease in inventories		297	481
Decrease in biological assets		4,845	2,425
Decrease/(increase) in contract assets		1,989	(305)
Increase in trade receivables		(147,429)	(153,206)
Increase in prepayments, deposits and other receivables		(1,757)	(2,426)
Increase in trade payables		11,362	4,489
Increase/(decrease) in contract liabilities		3,219	(346)
Increase in accruals, deposits received and other payables		60,874	105,366
Cash generated from operations		103,880	94,139
Income tax paid		(7,615)	(3,756)
Net cash generated from operating activities		96,265	90,383
Investing activities			
Interest received		295	24
Increase in pledged bank deposits		(35)	(12)
Proceeds from disposal of property, plant and equipment		2,225	6,560
Payment for the purchase of property, plant and equipment		(43,572)	(135,229)
Payment for the acquisition of intangible assets		(8,200)	–
Net cash used in investing activities		(49,287)	(128,657)
Financing activities			
Proceeds from new bank borrowings	24(a)	1,818,619	1,638,165
Repayments of bank borrowings	24(a)	(1,812,311)	(1,585,414)
Interest paid for bank borrowings	24(a)	(11,391)	(6,654)
Capital element of lease rentals paid	24(a)	(10,017)	(11,861)
Interest element of lease rentals paid	24(a)	(1,894)	(1,301)
Dividend paid to equity shareholders of the Company		(15,770)	(3,735)
Capital contributions received by a non-wholly owned subsidiary from a non-controlling shareholder		–	800
New loan from a non-controlling shareholder of a subsidiary	24(a)	1,600	5,600
Repayment of loan from a non-controlling shareholder of a subsidiary	24(a)	(3,200)	–
Net cash (used in)/generated from financing activities		(34,364)	35,600
Net increase/(decrease) in cash and cash equivalents		12,614	(2,674)
Cash and cash equivalents at 1 January		28,982	32,254
Effect of foreign exchange rate changes		(171)	(598)
Cash and cash equivalents at 31 December	24	41,425	28,982

The notes on pages 52 to 113 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, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands and its principal place of business in Hong Kong is located at Unit A, 4/F., Dragon Industrial Building, No. 93 King Lam Street, Lai Chi Kok, Kowloon, Hong Kong.

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

The consolidated financial statements comprise the Company and its subsidiaries (together referred to as the “Group”) and the Group’s interest in an equity – accounted investee 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. MATERIAL ACCOUNTING POLICIES

(a) Statement of compliance

The consolidated financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (“HKFRSs”), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (“HKASs”) and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”) and 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. MATERIAL 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 Group has applied the following amendments to HKFRSs issued by the HKICPA to these financial statements for the current accounting period:

(i) New and amended HKFRSs

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong Dollars unless otherwise indicated)

2. MATERIAL ACCOUNTING POLICIES *(Continued)*

(c) Changes in accounting policies *(Continued)*

(i) New and amended HKFRSs *(Continued)*

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period. Impacts of the adoption of the new and amended HKFRSs are discussed below:

HKFRS 17, Insurance contracts

HKFRS 17, which replaces HKFRS 4, sets out the recognition, measurement, presentation and disclosure requirements applicable to issuers of insurance contracts. The standard does not have a material impact on these financial statements as the Group does not have contracts within the scope of HKFRS 17.

Amendments to HKAS 8, Accounting policies, changes in accounting estimates and errors: Definition of accounting estimates

The amendments provide further guidance on the distinction between changes in accounting policies and changes in accounting estimates. The amendments do not have a material impact on these financial statements as the Group's approach in distinguishing changes in accounting policies and changes in accounting estimates is consistent with the amendments.

Amendments to HKAS 1, Presentation of financial statements and HKFRS Practice Statement 2, Making materiality judgements: Disclosure of accounting policies

The amendments require entities to disclose material accounting policy information and provide guidance on applying the concept of materiality to accounting policy disclosure. The Group has revisited the accounting policy information it has been disclosing and considered it is consistent with the amendments.

Amendments to HKAS 12, Income taxes: Deferred tax related to assets and liabilities arising from a single transaction

The amendments narrow the scope of the initial recognition exemption such that it does not apply to transactions that give rise to equal and offsetting temporary differences on initial recognition such as leases and decommissioning liabilities. For leases and decommissioning liabilities, the associated deferred tax assets and liabilities are required to be recognised from the beginning of the earliest comparative period presented, with any cumulative effect recognised as an adjustment to retained earnings or other components of equity at that date. For all other transactions, the amendments are applied to those transactions that occur after the beginning of the earliest period presented. The amendments did not have a material impact on these financial statements.

Amendments to HKAS 12, Income taxes: International tax reform – Pillar Two model rules

The amendments introduce a temporary mandatory exception from deferred tax accounting for the income tax arising from tax laws enacted or substantively enacted to implement the Pillar Two model rules published by the Organisation for Economic Co-operation and Development ("OECD") (income tax arising from such tax laws is hereafter referred to as "Pillar Two income taxes"), including tax laws that implement qualified domestic minimum top-up taxes described in those rules. The amendments also introduce disclosure requirements about such tax including the estimated tax exposure to Pillar Two income taxes. The amendments are immediately effective upon issuance and require retrospective application. Since the Group did not fall within the scope of the Pillar Two model rules, the amendments did not have any impact to the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong Dollars unless otherwise indicated)

2. MATERIAL ACCOUNTING POLICIES *(Continued)*

(c) Changes in accounting policies *(Continued)*

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

In June 2022 the Hong Kong SAR Government (the “Government”) gazetted the Hong Kong Employment and Retirement Schemes Legislation (Offsetting Arrangement) (Amendment) Ordinance 2022 (the “Amendment Ordinance”), which will come into effect from 1 May 2025 (the “Transition Date”). Once the Amendment Ordinance takes effect, an employer can no longer use any of the accrued benefits derived from its mandatory contributions to mandatory provident fund (“MPF”) scheme to reduce the long service payment (“LSP”) and severance payment (“SP”) in respect of an employee’s service from the Transition Date (the abolition of the “offsetting mechanism”). In addition, the LSP and SP in respect of the service before the Transition Date will be calculated based on the employee’s monthly salary immediately before the Transition Date and the years of service up to that date.

In July 2023, the HKICPA published “Accounting implications of the abolition of the MPF-LSP offsetting mechanism in Hong Kong” that provides accounting guidance relating to the offsetting mechanism and the abolition of the mechanism. In particular, the guidance indicates that entities may account for the accrued benefits derived from mandatory MPF contributions that are expected to be used to reduce the LSP and SP payable to an employee as deemed contributions by that employee towards the LSP and SP.

However, applying this approach, upon the enactment of the Amendment Ordinance in June 2022, it is no longer permissible to apply the practical expedient in paragraph 93(b) of HKAS 19 that previously allowed such deemed contributions to be recognised as reduction of service cost (negative service cost) in the period the contributions were made; instead these deemed contributions should be attributed to periods of service in the same manner as the gross LSP and SP benefit.

To better reflect the substance of the abolition of the offsetting mechanism, the Group has changed its accounting policy in connection with its post employment benefit liabilities and has applied the above HKICPA guidance retrospectively. This change in accounting policy did not have material impact on the opening balance of equity at 1 January 2022, and the cash flows and earnings per share amounts for the year ended 31 December 2022. It also did not have a material impact on the company-level statement of financial position as at 31 December 2022 and 31 December 2023.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong Dollars unless otherwise indicated)

2. MATERIAL 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. MATERIAL ACCOUNTING POLICIES *(Continued)*

(e) Associate, joint ventures

An associate is an entity in which the Group has significant influence, but not control or joint control, over the financial and operating policies.

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 an associate or a joint venture is accounted for using 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 an associate or 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 equity – accounted investee 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 significant influence over an associate 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 significant influence or 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. MATERIAL ACCOUNTING POLICIES *(Continued)*

(f) Revenue and other income

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

Revenue is recognised when control over a service or product 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 when the services are rendered.

Revenue from sales of goods is recognised when the customer takes possession of and accepts the products. If the products are a partial fulfilment of a contract covering other goods and/or services, then the amount of revenue recognised is an appropriate proportion of the total transaction price under the contract, allocated between all the goods and services promised under the contract on a relative stand-alone selling price basis.

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. MATERIAL 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 lease modification, which means a change in the scope of a lease or the consideration for a lease that is not originally provided for in the lease contract, if such modification 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 has taken advantage of the practical expedient not to assess whether the rent concessions are lease modification, and recognised the change in consideration as negative variable lease payments in profit or loss in the period in which the event or condition that triggers the rent concessions occurred.

In the consolidated statement of financial position, the current portion of long-term lease liabilities is determined as the present value of contractual payments that are due to be settled within twelve months after the reporting period.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong Dollars unless otherwise indicated)

2. MATERIAL 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) Defined benefit plan obligations

The Group has SP and LSP under the Hong Kong Employment Ordinance. Certain employees of the Group are entitled to gratuity payments as stipulated in the Group's service contracts with the Government of the Hong Kong Special Administrative Region.

The Group's net obligation in respect of defined benefit plans is calculated for the plan by estimating the amount of future benefit that employees have earned in the current and prior periods and discounting that amount. For SP and LSP obligations, the estimated amount of future benefit is determined after deducting the negative service cost arising from the accrued benefits derived from the Group's MPF contributions that have been vested with employees, which are deemed to be contributions from the relevant employees.

The calculation of defined benefit obligation is performed by a qualified actuary using the projected unit credit method.

Remeasurements arising from defined benefit plans, which comprise actuarial gains and losses, and the effect of any asset ceiling (excluding interest), are recognised immediately in other comprehensive income. Net interest expense for the period is determined by applying the discount rate used to measure the defined benefit obligation at the beginning of the reporting period to the then net defined benefit liability, taking into account any changes in the net defined benefit liability during the period. Net interest expense and other expenses related to defined benefit plans are recognised in profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong Dollars unless otherwise indicated)

2. MATERIAL ACCOUNTING POLICIES *(Continued)*

(i) Employee benefits *(Continued)*

(iii) 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. Details regarding the determination of the fair value of equity-settled share-based transactions are set out in note 34. 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).

(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 deferred tax. It is recognised in profit or loss except to the extent that it relates to a business combination, or items recognised directly in equity or in other comprehensive income.

Current tax comprises the estimated tax payable or receivable on the taxable income or loss for the year and any adjustments to the tax payable or receivable in respect of previous years. The amount of current tax payable or receivable is the best estimate of the tax amount expected to be paid or received that reflects any uncertainty related to income taxes. It is measured using tax rates enacted or substantively enacted at the reporting date. Current tax also includes any tax arising from dividends.

Current tax assets and liabilities are offset only if certain criteria are met.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for:

- temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss and does not give rise to equal taxable and deductible temporary differences;
- temporary differences related to investment in subsidiaries, associates and joint venture to the extent that the Group is able to control the timing of the reversal of the temporary differences and it is probable that they will not reverse in the foreseeable future;
- taxable temporary differences arising on the initial recognition of goodwill; and
- those related to the income taxes arising from tax laws enacted or substantively enacted to implement the Pillar Two model rules published by the OECD.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong Dollars unless otherwise indicated)

2. MATERIAL ACCOUNTING POLICIES *(Continued)*

(k) Taxation *(Continued)*

Deferred tax assets are recognised for unused tax losses, unused tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be used. Future taxable profits are determined based on the reversal of relevant taxable temporary differences. If the amount of taxable temporary differences is insufficient to recognise a deferred tax asset in full, then future taxable profits, adjusted for reversals of existing temporary differences, are considered, based on the business plans for individual subsidiaries in the Group. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised; such reductions are reversed when the probability of future taxable profits improves.

The measurement of deferred tax reflects the tax consequences that would follow from the manner in which the Group expects, at the reporting date, to reverse and settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset only if certain criteria are met.

(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 self-constructed items of property, plant and equipment includes the cost of materials, direct labour, the initial estimate, where relevant, of the costs of dismantling and removing the items and restoring the site on which they are located, and an appropriate proportion of production overheads and borrowing costs (see note 2(h)).

Items may be produced while bringing an item of property, plant and equipment to the location and condition necessary for it to be capable of operating in the manner intended by management. The proceeds from selling any such items and the related costs are recognised in profit or loss.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong Dollars unless otherwise indicated)

2. MATERIAL ACCOUNTING POLICIES *(Continued)*

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

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

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.

(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. MATERIAL 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. MATERIAL 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.

(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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong Dollars unless otherwise indicated)

2. MATERIAL ACCOUNTING POLICIES *(Continued)*

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

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

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.

(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 of impairment:

- property, plant and equipment, including right-of-use assets;
- interest in equity – accounted investee (see note 2(e)); and
- investments in subsidiaries in the Company's statement of financial position.

If any such indication exists, then the asset's recoverable amount is estimated.

For impairment testing, assets are grouped together into the smallest Group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or cash-generating units ("CGU"s). The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs of disposal. Value in use is based on the estimated future cash flows, 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 or CGU.

An impairment loss is recognised if the carrying amount of an asset or CGU exceeds its recoverable amount.

Impairment losses are recognised in profit or loss. They are allocated to reduce the carrying amounts of the other assets in the CGU on a pro rata basis. An impairment loss is reversed only to the extent that the resulting carrying amount does not exceed the carrying amount that would have been determined, net of depreciation, if no impairment loss had been 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. MATERIAL 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 non-refundable 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)).

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

(q) Provisions, contingent liabilities and onerous contracts

(i) 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 an outflow of economic benefit, will be required to settle the obligation and a reliable estimate can be made.

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.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong Dollars unless otherwise indicated)

2. MATERIAL ACCOUNTING POLICIES *(Continued)*

(q) Provisions contingent liabilities and onerous contracts *(Continued)*

(ii) Onerous contracts

A provision for onerous contracts is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract, which is determined based on the incremental costs of fulfilling the obligation under that contract and an allocation of other costs directly related to fulfilling that contract. Before a provision is established, the Group recognises any impairment loss on the assets associated with that contract.

(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 and only the passage of time is required before payment of that consideration is due.

Trade receivables that do not contain a significant financing component are initially measured at their transaction price. Trade receivables that contain a significant financing component and other receivables are initially measured at fair value plus transaction costs. All receivables are subsequently stated at amortised cost.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong Dollars unless otherwise indicated)

2. MATERIAL 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 invoice amounts.

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. MATERIAL ACCOUNTING POLICIES *(Continued)*

(u) 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.

(v) 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.

(c) Estimation of defined benefit plan obligations

The value of defined benefit plan obligations depends on a number of factors that are determined on an actuarial basis using certain assumptions. Any changes in these assumptions will impact the carrying amount of defined benefit plan obligations. Details of key assumptions and impact of possible changes in key assumptions are disclosed in note 37.

4. SEGMENT INFORMATION

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

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

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

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, selling and marketing expenses and administrative expenses including directors' emoluments and exclude other income, gains and losses, change in fair value less costs to sell of biological assets and share of losses of a joint venture. The following is an analysis of the Group's revenue and results by reportable segments.

	Cleaning services business HK\$'000	Waste management and recycling business HK\$'000	Landscaping services business HK\$'000	Pest management business HK\$'000	Total HK\$'000
For the year ended 31 December 2023					
Disaggregated by timing of revenue recognition					
– over time	1,827,343	276,983	130,645	90,610	2,325,581
– point in time	–	1,908	–	–	1,908
Revenue from external customers	1,827,343	278,891	130,645	90,610	2,327,489
Inter-segment revenue	495	887	169	712	2,263
Reportable segment revenue	1,827,838	279,778	130,814	91,322	2,329,752
Segment results	161,691	21,165	19,050	4,216	206,122
Other income, gains and losses					4,468
Change in fair value less costs to sell of biological assets					(3,188)
Selling and marketing expenses					(2,416)
Administrative expenses					(128,735)
Finance costs					(13,699)
Profit before taxation					62,552

	Cleaning services business HK\$'000	Waste management and recycling business HK\$'000	Landscaping services business HK\$'000	Pest management business HK\$'000	Total HK\$'000
For the year ended 31 December 2022					
Disaggregated by timing of revenue recognition					
– over time	1,330,697	207,209	122,213	97,006	1,757,125
– point in time	–	35,996	–	–	35,996
Revenue from external customers	1,330,697	243,205	122,213	97,006	1,793,121
Inter-segment revenue	303	1,634	81	2,102	4,120
Reportable segment revenue	1,331,000	244,839	122,294	99,108	1,797,241
Segment results	127,647	914	10,939	11,472	150,972
Other income, gains and losses					29,760
Change in fair value less costs to sell of biological assets					(2,492)
Selling and marketing expenses					(2,238)
Administrative expenses					(100,861)
Finance costs					(8,236)
Share of losses of a joint venture					(1,747)
Profit before taxation					65,158

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	Waste management and recycling business HK\$'000	Landscaping services business HK\$'000	Pest management business HK\$'000	Total HK\$'000
As at 31 December 2023					
Segment assets	726,168	168,860	60,471	42,966	998,465
Unallocated					12,928
Total assets					1,011,393
Segment liabilities	487,039	86,851	29,891	35,411	639,192
Unallocated					2,500
Total liabilities					641,692

	Cleaning services business HK\$'000	Waste management and recycling business HK\$'000	Landscaping services business HK\$'000	Pest management business HK\$'000	Total HK\$'000
As at 31 December 2022					
Segment assets	611,699	175,200	68,538	36,583	892,020
Unallocated					4,148
Total assets					896,168
Segment liabilities	405,704	98,028	21,899	31,720	557,351
Unallocated					2,706
Total liabilities					560,057

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	Waste management and recycling business HK\$'000	Landscaping services business HK\$'000	Pest management business HK\$'000	Unallocated HK\$'000	Total HK\$'000
For the year ended 31 December 2023						
Depreciation	43,369	35,761	2,529	2,880	853	85,392
Additions to non-current assets	42,897	5,051	3,333	1,009	163	52,453
(Gain)/loss on disposal of property, plant and equipment	(26)	2,531	178	(153)	2	2,532

	Cleaning services business HK\$'000	Waste management and recycling business HK\$'000	Landscaping services business HK\$'000	Pest management business HK\$'000	Unallocated HK\$'000	Total HK\$'000
For the year ended 31 December 2022						
Depreciation	31,443	27,034	2,273	3,442	736	64,928
Additions to non-current assets	103,351	49,675	1,666	465	1,503	156,660
(Gain)/loss on disposal of property, plant and equipment	(380)	(1,976)	(295)	(339)	1	(2,989)

Geographical information

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

	2023 HK\$'000	2022 HK\$'000
Hong Kong	2,326,935	1,769,911
Mainland China	554	11,062
Southeast Asia	–	12,148
	2,327,489	1,793,121

All of the Group's non-current assets are either based in Hong Kong or related to the Group's operations in Hong Kong as at 31 December 2023 and 2022.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong Dollars unless otherwise indicated)

4. SEGMENT INFORMATION *(Continued)*

Information about major customers

For the year ended 31 December 2023, the Group's revenue of HK\$1,282,582,000 (2022: HK\$794,570,000) for various segments was derived from the same single customer, whom has individually accounted for over 10% of the Group's total revenue in 2023 and 2022.

5. REVENUE

(a) Disaggregation of revenue

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

	2023 HK\$'000	2022 HK\$'000
Cleaning services business	1,827,343	1,330,697
Waste management and recycling business	276,983	207,209
Landscaping services business	130,645	122,213
Pest management business	90,610	97,006
Sales of recycling materials	1,908	35,996
	2,327,489	1,793,121

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 business HK\$'000	Waste management and recycling services HK\$'000	Landscaping services HK\$'000	Pest management services HK\$'000	Total HK\$'000
As at 31 December 2023					
Expected to be recognised within one year	1,873,674	183,168	109,644	71,513	2,237,999
Expected to be recognised after one year	1,764,190	315,820	65,945	46,929	2,192,884
	3,637,864	498,988	175,589	118,442	4,430,883

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong Dollars unless otherwise indicated)

5. REVENUE (Continued)

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

	Cleaning services business HK\$'000	Waste management and recycling services HK\$'000	Landscaping services HK\$'000	Pest management services HK\$'000	Total HK\$'000
As at 31 December 2022					
Expected to be recognised within one year	1,373,494	244,729	93,136	83,800	1,795,159
Expected to be recognised after one year	1,352,766	285,404	50,271	105,913	1,794,354
	<u>2,726,260</u>	<u>530,133</u>	<u>143,407</u>	<u>189,713</u>	<u>3,589,513</u>

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 58 months (2022: next 12 to 54 months).

6. OTHER INCOME, GAINS AND LOSSES

	2023 HK\$'000	2022 HK\$'000
Administration fee income	8	2,415
Change in fair value of investments in life insurance	171	203
COVID-19-related rent concessions received	–	973
(Loss)/gain on disposal of property, plants and equipment	(2,532)	2,989
Gain of lease modification	283	–
Government grants*	1,755	17,489
Income relating to right-of-use assets	3,685	4,119
Interest income	494	222
Rental income	–	494
Sundry income	604	856
Total	<u>4,468</u>	<u>29,760</u>

* During the year ended 31 December 2023, the Group recognised the government grants as follows:

- (i) Employment Support Scheme, which aims to retain employment and combat COVID-19, under the Anti-epidemic Fund of the Government of nil (2022: HK\$11,320,000). The purpose of the funding was to provide financial support to employers to retain their employees who would otherwise be made redundant. Under the terms of the grant, the Group was required employ a sufficient number of employees with reference to its proposed employee headcounts;
- (ii) subsidies from the Green Employment Scheme of the Environment Bureau of HK\$571,000 (2022: HK\$875,000);
- (iii) subsidies for phasing out certain diesel commercial vehicles by the Group of HK\$801,000 (2022: HK\$5,147,000); and
- (iv) other subsidies of HK\$383,000 (2022: HK\$147,000).

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong Dollars unless otherwise indicated)

7. FINANCE COSTS

	2023 HK\$'000	2022 HK\$'000
Interest on:		
Bank overdrafts	44	6
Bank borrowings	11,347	6,648
Lease liabilities	1,894	1,301
Others	414	281
	13,699	8,236

8. PROFIT BEFORE TAXATION

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

	2023 HK\$'000	2022 HK\$'000
Auditors' remuneration:		
Audit services	1,900	1,884
Other services	162	164
Cost of consumable goods	64,219	82,482
Depreciation:		
Owned property, plant and equipment	71,814	50,685
Right-of-use assets	13,578	14,243
Loss/(gain) on disposal of property, plant and equipment	2,532	(2,989)
Gain of lease modification	(283)	–
Reversal of credit losses on trade receivables	(53)	(1,782)
Provision of doubtful debts on other receivable	4,118	–
Staff costs (including directors' remuneration):		
Wages, salaries and other benefits	1,727,611	1,300,214
Defined benefit plan obligation	54,953	39,530
Provision for untaken paid leave	21,697	17,274
Contributions to defined contribution retirement scheme	52,191	40,558
Equity-settled share-based payments	–	1,269
	1,856,452	1,398,845
Short-term lease payments not included in the measurement of lease liabilities:		
Machinery and motor vehicles	58,229	50,725
Land and buildings	3,855	6,522
	62,084	57,247

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong Dollars unless otherwise indicated)

9. INCOME TAX

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

	2023 HK\$'000	2022 HK\$'000
Current tax – Hong Kong Profits Tax		
Provision for the year	15,678	4,555
Under-provision in respect of prior years	309	87
	15,987	4,642
Current tax – People's Republic of China ("PRC")		
Enterprise Income Tax		
Provision for the year	8	16
	15,995	4,658
Deferred tax		
Origination and reversal of temporary differences (<i>note 31</i>)	(1,571)	9,095
	14,424	13,753

The provision for Hong Kong Profits Tax for 2023 is calculated at 16.5% (2022: 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 2022.

The provision for Hong Kong Profits Tax for 2023 has also taken into account a reduction granted by the Hong Kong SAR Government for the year of assessment 2022/23. The Group is eligible for the maximum reduction of HK\$6,000 (2022: a maximum reduction of HK\$10,000 was granted for the year of assessment 2021/22 and was taken into account in calculating the provision for 2022) 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 expense and accounting profit at applicable tax rates:

	2023 HK\$'000	2022 HK\$'000
Profit before taxation	62,552	65,158
Notional tax on profit before taxation, calculated at the rates applicable to profits in the tax jurisdictions concerned	10,095	10,606
Tax effect of non-taxable income	(77)	(2,946)
Tax effect of non-deductible expenses	3,621	1,333
Tax effect of tax losses not recognised	1,532	3,675
Under-provision in respect of prior years	309	87
Others	(1,056)	998
Income tax expense	14,424	13,753

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

	2023 HK\$'000	2022 HK\$'000
Final dividend proposed after the end of the reporting period of 3.4 cents (2022: HK3.8 cents) per ordinary share	14,110	15,770

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

	2023 HK\$'000	2022 HK\$'000
Final dividend in respect of the previous financial year, was approved and paid during the year, of HK3.8 cents (2022: HK0.9 cents) per ordinary share	15,770	3,735

11. EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of the basic earnings per share for the year ended 31 December 2023 is based on the profit for the year attributable to ordinary equity shareholders of the Company of HK\$47,111,000 (2022: HK\$53,709,000) and the weighted average number of 415,000,000 (2022: 415,000,000) ordinary shares in issue during the year.

(b) Diluted earnings per share

Diluted earnings per share for the years ended 31 December 2023 and 2022 are the same as the basic earnings 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	Sub-total HK\$'000	Equity-settled share-based payments HK\$'000	Total HK\$'000
For the year ended 31 December 2023							
Executive Directors:							
Mr. Ng Wing Hong	-	2,411	600	-	3,011	-	3,011
Ms. Ng Yuk Kwan Phyllis	180	2,439	1,000	264	3,883	-	3,883
Mr. Ng Wing Chuen (resigned with effect from 31 May 2023)	-	662	-	-	662	-	662
Ms. Leung Shuk Ping	180	1,467	600	18	2,265	-	2,265
Ms. Cheung Siu Chun (resigned with effect from 1 May 2023)	60	559	-	112	731	-	731
Independent Non-executive Directors:							
Mr. Sin Ho Chiu	222	-	-	-	222	-	222
Dr. Law Ka Hung (resigned with effect from 31 May 2023)	78	-	-	-	78	-	78
Mr. Lau Chi Yin Thomas	222	-	-	-	222	-	222
Professor Cheng Edwin Tai Chiu (appointed with effect from 31 May 2023)	145	-	-	-	145	-	145
	1,087	7,538	2,200	394	11,219	-	11,219

	Directors' fees HK\$'000	Salaries, allowances and other benefits HK\$'000	Discretionary bonus HK\$'000	Retirement scheme contributions HK\$'000	Sub-total HK\$'000	Equity-settled share-based payments HK\$'000	Total HK\$'000
For the year ended 31 December 2022							
Executive Directors							
Mr. Ng Wing Hong	-	2,338	587	-	2,925	-	2,925
Ms. Ng Yuk Kwan Phyllis	180	2,383	720	246	3,529	315	3,844
Mr. Ng Wing Chuen (resigned with effect from 31 May 2023)	-	1,137	143	-	1,280	-	1,280
Ms. Leung Shuk Ping	180	1,424	482	18	2,104	315	2,419
Ms. Cheung Siu Chun (resigned with effect from 1 May 2023)	180	1,520	457	186	2,343	315	2,658
Independent Non-executive Directors							
Mr. Sin Ho Chiu	195	-	-	-	195	-	195
Dr. Law Ka Hung (resigned with effect from 31 May 2023)	195	-	-	-	195	-	195
Mr. Lau Chi Yin Thomas	195	-	-	-	195	-	195
	1,125	8,802	2,389	450	12,766	945	13,711

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong Dollars unless otherwise indicated)

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

Five highest paid individuals

The five highest paid individuals in the Group during the year included three directors (2022: four) whose emoluments are disclosed above. The emoluments of the remaining two (2022: one) individuals are as follows:

	2023 HK\$'000	2022 HK\$'000
Wages, salaries and other benefit	4,343	2,030
Contributions to defined contribution retirement scheme	39	21
Equity-settled share-based payments	–	324
	4,382	2,375

The emoluments were within the following band:

	Number of individuals	
	2023	2022
HK\$2,000,001 to HK\$2,500,000	2	1

During the years ended 31 December 2023 and 2022, no emoluments were paid by the Group to the directors or the five highest paid individuals 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 2023 and 2022.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(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	Construction in progress HK\$'000	Total HK\$'000
Cost							
As at 1 January 2022	81,688	37,991	49,155	191,245	7,071	–	367,150
Additions	–	7,943	9,323	107,559	1,867	12,056	138,748
Disposals	–	(5,457)	(8,222)	(26,596)	(1,920)	–	(42,195)
Exchange adjustments	–	(19)	–	(21)	–	–	(40)
Transfer from right-of-use assets	–	–	75	7,802	–	–	7,877
As at 31 December 2022 and 1 January 2023	81,688	40,458	50,331	279,989	7,018	12,056	471,540
Additions	–	3,784	6,941	30,986	1,565	–	43,276
Disposals	–	(179)	(10,144)	(14,246)	(656)	–	(25,225)
Exchange adjustments	–	(6)	–	(7)	–	–	(13)
Transfer	–	–	9,149	–	2,907	(12,056)	–
As at 31 December 2023	81,688	44,057	56,277	296,722	10,834	–	489,578
Accumulated depreciation and impairment losses							
As at 1 January 2022	13,952	30,728	34,936	93,958	3,553	–	177,127
Charge for the year	2,662	4,735	7,579	33,563	2,146	–	50,685
Written back on disposals	–	(5,345)	(7,516)	(24,499)	(1,264)	–	(38,624)
Exchange adjustments	–	(16)	–	(7)	–	–	(23)
Transfer from right-of-use assets	–	–	75	4,324	–	–	4,399
As at 31 December 2022 and 1 January 2023	16,614	30,102	35,074	107,339	4,435	–	193,564
Charge for the year	2,662	5,246	17,509	42,483	3,914	–	71,814
Written back on disposals	–	(148)	(6,049)	(14,059)	(212)	–	(20,468)
Exchange adjustments	–	(6)	–	(3)	–	–	(9)
As at 31 December 2023	19,276	35,194	46,534	135,760	8,137	–	244,901
Net book value							
As at 31 December 2023	62,412	8,863	9,743	160,962	2,697	–	244,677
As at 31 December 2022	65,074	10,356	15,257	172,650	2,583	12,056	277,976

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

As at 31 December 2023, the land and buildings with carrying amount of HK\$62,412,000 (2022: HK\$65,074,000) were mortgaged for banking facilities granted to the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong Dollars unless otherwise indicated)

14. RIGHT-OF-USE ASSETS

	Leasehold investment properties HK\$'000	Properties leased for own use HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
As at 1 January 2022	20,830	13,495	4,117	38,442
Additions	–	21,431	–	21,431
Lease modification	(1,330)	(278)	–	(1,608)
Depreciation charge for the year	(1,191)	(12,413)	(639)	(14,243)
Transfer to property, plant and equipment	–	–	(3,478)	(3,478)
As at 31 December 2022 and 1 January 2023	18,309	22,235	–	40,544
Additions	–	8,881	–	8,881
Lease modification	969	(4,176)	–	(3,207)
Depreciation charge for the year	(1,211)	(12,367)	–	(13,578)
As at 31 December 2023	18,067	14,573	–	32,640

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

	2023 HK\$'000	2022 HK\$'000
COVID-19-related rent concessions received	–	(973)
Income relating to right-of-use assets	(3,685)	(4,119)
Depreciation charge of right-of-use assets	13,578	14,243
Interest on lease liabilities (<i>note 7</i>)	1,894	1,301
Short-term lease payments not included in the measurement of lease liabilities	62,084	57,247

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong Dollars unless otherwise indicated)

14. RIGHT-OF-USE ASSETS *(Continued)*

During the year ended 31 December 2023, the Group received rent concessions for its leased properties amounting to nil (2022: HK\$973,000) 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.

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 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 equity – accounted investee, 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 2023 and 2022 approximates its carrying value.

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

	2023 HK\$'000	2022 HK\$'000
Within one year	4,330	4,200
After one year but within five years	17,319	16,800
After five years	42,891	45,827
Total	64,540	66,827

(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 5 years (2022: 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

(Expressed in Hong Kong Dollars unless otherwise indicated)

15. INTEREST IN AN EQUITY – ACCOUNTED INVESTEE

Details of the Group's interest in an equity – accounted investee, is as follows:

Name of the equity-accounted investee	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		
NLP	Incorporated	Hong Kong	HK\$30,000,000	33.33%	-	33.33%	Provision of plastic recycling services <i>(Note)</i>

Note: NLP 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.

The Group had joint control over NLP as at and during the year ended 31 December 2022 and accordingly, NLP was classified as a joint venture of the Group. During the year ended 31 December 2023, as a result of the share transfer between the other shareholders of NLP, the Group has no longer the joint control over NLP but has instead retained significant influence over NLP. Accordingly, NLP has become an associate of the Group since then. The interest in NLP continues to be accounted for under the equity method in accordance with the accounting policy set out in note 2(e).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong Dollars unless otherwise indicated)

15. INTEREST IN AN EQUITY – ACCOUNTED INVESTEE *(Continued)*

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

	2023 HK\$'000	2022 HK\$'000
Gross amounts of NLP's		
Current assets	13,530	13,147
Non-current assets	237,888	258,040
Current liabilities	(8,957)	(10,645)
Non-current liabilities	(386,702)	(348,303)
Equity	(144,241)	(87,761)
Included in the above assets and liabilities:		
Cash and cash equivalents	9,259	5,672
Current financial liabilities (excluding trade and other payables and provisions)	(6,633)	(2,183)
Non-current financial liabilities (excluding trade and other payables and provisions)	(374,850)	(336,901)
Revenue	3,649	1,213
Loss for the year	(56,480)	(93,004)
Total comprehensive income	(56,480)	(93,004)
Group's share of losses of a joint venture <i>(Note)</i>	–	(1,747)
Included in the above loss:		
Interest expense	20,965	13,359
Reconciled to the Group's interest in NLP		
Gross amounts of NLP's net liabilities	(144,241)	(87,761)
Group's effective interest	33.33%	33.33%
Group's share of NLP's net assets and carrying amount of the Group's interest <i>(Note)</i>	–	–

Note: The Group has discontinued the recognition of its share of losses of an equity – accounted investee because the share of losses an equity – accounted investee exceeded the Group's interest in an equity – accounted investee and the Group has no obligation to take up further losses. The amounts of the Group's unrecognised share of losses of an equity – accounted investee for the current year and cumulatively were HK\$18,827,000 (2022: HK\$29,253,000) and HK\$48,080,000 (2022: HK\$29,253,000) respectively.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong Dollars unless otherwise indicated)

16. PARTICULARS OF SUBSIDIARIES

As at 31 December 2023, 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
			2023		2022		
			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 iRecycle Limited	Hong Kong	HK\$10,000	-	100%	-	100%	Provision of recycling services
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 rPapers Limited	Hong Kong	HK\$10,000	-	100%	-	100%	Provision of paper recycling services
Baguio rPlastic Limited	Hong Kong	HK\$10,000	-	100%	-	100%	Provision of source, collect and sort waste plastics bottles
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
Organic Tech Limited	Hong Kong	HK\$2,000,100	-	60%	-	60%	Provision of bioconversion of organic waste services
Tak Tai Enviroscape Limited	Hong Kong	HK\$29,000,000	-	100%	-	100%	Provision of plant nursing, landscaping and related services
碧瑤綠色科技(深圳)有限公司 [#]	PRC	RMB2,113,750	-	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

(Expressed in Hong Kong Dollars unless otherwise indicated)

17. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2023 HK\$'000	2022 HK\$'000
Financial assets at fair value through profit and loss		
Investments in life insurance	15,043	14,872

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.

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 2023, a fair value gain of HK\$171,000 (2022: HK\$203,000) was recognised and credited to profit or loss.

18. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2023 HK\$'000	2022 HK\$'000
Prepayments	16,021	12,218
Deposits	6,987	8,634
Other receivables	23,940	27,944
	46,948	48,796
Less: Non-current prepayments	(1,107)	(1,243)
Non-current deposits	(2,483)	(4,038)
Loan to an equity – accounted investee	–	(3,300)
Interest receivable from an equity – accounted investee	–	(620)
Non-current receivable from an equity – accounted investee	(20,798)	(20,307)
Non-current portion	(24,388)	(29,508)
Current portion	22,560	19,288

Included in non-current portion of deposits as at 31 December 2023 are performance deposits of HK\$901,000 (2022: HK\$1,407,000) and rental deposits of HK\$1,582,000 (2022: HK\$2,631,000), 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 the an equity – accounted investee 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 an equity – accounted investee.

Non-current receivable from an equity – accounted investee represents the right to receive payment from the equity – accounted investee 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 an equity – accounted investee.

Included in other receivables as at 31 December 2023 is an amount due from an equity – accounted investee of HK\$9,590,000 (2022: HK\$8,986,000) 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong Dollars unless otherwise indicated)

19. INVENTORIES

	2023 HK\$'000	2022 HK\$'000
Consumable goods	2,753	3,050

20. CONTRACT ASSETS

	2023 HK\$'000	2022 HK\$'000
Arising from performance under waste management and recycling contracts	4,214	5,357
Arising from performance under landscaping contracts	4,520	5,366
	8,734	10,723

The service fees under waste management and recycling contracts are received after the processed recycling materials 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 2023, contract assets of HK\$2,112,000 (2022: HK\$2,034,000) are expected to be recovered after one year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong Dollars unless otherwise indicated)

21. TRADE RECEIVABLES

	2023 HK\$'000	2022 HK\$'000
Trade receivables, net of loss allowance	599,616	452,134

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:

	2023 HK\$'000	2022 HK\$'000
Within 60 days	422,677	359,602
Over 60 days but within 120 days	132,978	79,293
Over 120 days but within 365 days	40,676	12,311
Over 365 days	3,285	928
	599,616	452,134

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 2023, 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\$38,885,000 (2022: HK\$35,884,000) with the following ageing analysis:

	2023 HK\$'000	2022 HK\$'000
Overdue by:		
Within 60 days	27,481	24,385
Over 60 days but within 120 days	6,141	7,541
Over 120 days but within 365 days	1,601	3,030
Over 365 days	3,662	928
	38,885	35,884

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\$160,245,000 (2022: HK\$104,610,000) as at 31 December 2023 were pledged for certain banking facilities granted to the Group.

As at 31 December 2023, included in the trade receivables is an amount due from an equity – accounted investee of HK\$74,000 (2022: HK\$4,572,000) which is unsecured, interest free and recoverable in accordance with payment terms as set out in the service agreement entered into with the an equity – accounted investee.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong Dollars unless otherwise indicated)

22. BIOLOGICAL ASSETS

Movements of biological assets are summarised as follows:

	2023 HK\$'000	2022 HK\$'000
Plants and flowers		
Balance as at 1 January	8,292	13,209
Purchases	269	3,082
Usage in services	(316)	(4,630)
Disposal	(4,798)	(877)
Change in fair value less costs to sell (note 4)	(3,188)	(2,492)
Balance as at 31 December	259	8,292

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 2022 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:

	2023 HK\$'000	2022 HK\$'000
Cash and bank balances	41,425	28,982

As at 31 December 2023, the balances that were placed with banks or on hand in the PRC and included in the cash and bank balances amounted to HK\$962,000 (2022: HK\$626,000). Remittance of funds out of the PRC is subject to the exchange restriction imposed by the PRC government.

The Group's cash and cash equivalents of HK\$51,000 (2022: HK\$406,000) as at 31 December 2023 were pledged for certain banking facilities granted to the Group.

(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)

	Payable to a non-controlling shareholder HK\$' 000 (note 27)	Bank borrowings HK\$' 000 (note 28)	Lease liabilities HK\$' 000 (note 29)	Total HK\$' 000
As at 1 January 2022	–	123,605	37,721	161,326
Changes from financing cash flows:				
Proceeds from new bank borrowings	–	1,638,165	–	1,638,165
Repayments of bank borrowings	–	(1,585,414)	–	(1,585,414)
Interest paid for bank borrowings	–	(6,654)	–	(6,654)
Capital element of lease rentals paid	–	–	(11,861)	(11,861)
Interest element of lease rentals paid	–	–	(1,301)	(1,301)
New loan from a non-controlling shareholder	5,600	–	–	5,600
Total changes from financing cash flows	5,600	46,097	(13,162)	38,535
Other changes:				
Increase in lease liabilities from entering into new leases	–	–	18,481	18,481
COVID-19-related rent concessions received (note 6)	–	–	(973)	(973)
Lease modification	–	–	(1,608)	(1,608)
Interest expenses (note 7)	281	6,654	1,301	8,236
Effect of foreign exchange rate changes	–	–	(406)	(406)
Total other changes	281	6,654	16,795	23,730
As at 31 December 2022 and 1 January 2023	5,881	176,356	41,354	223,591
Changes from financing cash flows:				
Proceeds from new bank borrowings	–	1,818,619	–	1,818,619
Repayments of bank borrowings	–	(1,812,311)	–	(1,812,311)
Interest paid for bank borrowings	–	(11,391)	–	(11,391)
Capital element of lease rentals paid	–	–	(10,017)	(10,017)
Interest element of lease rentals paid	–	–	(1,894)	(1,894)
New loan from a non-controlling shareholder	1,600	–	–	1,600
Repayment of loan from a non-controlling shareholder	(3,200)	–	–	(3,200)
Total changes from financing cash flows	(1,600)	(5,083)	(11,911)	(18,594)
Other changes:				
Increase in lease liabilities from entering into new leases	–	–	8,881	8,881
Lease modification	–	–	(3,490)	(3,490)
Interest expenses (note 7)	414	11,391	1,894	13,699
Effect of foreign exchange rate changes	–	–	(107)	(107)
Total other changes	414	11,391	7,178	18,983
As at 31 December 2023	4,695	182,664	36,621	223,980

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)*

(b) Total cash outflow for leases

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

	2023 HK\$'000	2022 HK\$'000
Within operating cash flows	62,084	57,247
Within financing cash flows	11,911	13,162
	73,995	70,409

These amounts of HK\$73,995,000 (2022: HK\$70,409,000) relate to lease rentals paid.

25. TRADE PAYABLES

	2023 HK\$'000	2022 HK\$'000
Trade payables	48,120	36,758

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

	2023 HK\$'000	2022 HK\$'000
Within 30 days	26,406	21,214
Over 30 days but within 60 days	10,476	10,595
Over 60 days but within 90 days	909	861
Over 90 days	10,329	4,088
	48,120	36,758

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

26. CONTRACT LIABILITIES

	2023 HK\$'000	2022 HK\$'000
Billings in advance of performance under recycling contracts	3,629	410

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong Dollars unless otherwise indicated)

26. CONTRACT LIABILITIES (Continued)

Movements in contract liabilities

	2023 HK\$'000	2022 HK\$'000
Balance as at 1 January	410	756
Increase in contract liabilities as a result of billing in advance of recycling activities	7,670	1,944
Decrease in contract liabilities as a result of recognising revenue during the year	(4,451)	(2,290)
Balance as at 31 December	3,629	410

As at 31 December 2023 and 2022, the billings in advance of performance expected to be recognised as income within one year.

27. ACCRUALS, DEPOSITS RECEIVED AND OTHER PAYABLES

	2023 HK\$'000	2022 HK\$'000
Accruals of wages, salaries and other benefits	212,164	174,601
Defined benefit plan obligation (note 37)	79,910	65,970
Deposits received	1,156	1,416
Payable to a non-controlling shareholder	4,695	5,881
Other accrual expenses and payables	24,894	16,995
	322,819	264,863
Less: Non-current other payables	(756)	(1,188)
	322,063	263,675

Non-current other payables are unsecured, interest free and repayable after one year.

Payable to a non-controlling shareholder included a loan of HK\$4,000,000 (2022: HK\$5,600,000), which is unsecured, interest bearing at 6% per annum and repayable within one year; and interest payable of HK\$695,000 (2022: HK\$281,000), which is interest-free.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong Dollars unless otherwise indicated)

28. BANK BORROWINGS

The analysis of the carrying amount of the bank borrowings at the end of the reporting period is as follows:

	2023 HK\$'000	2022 HK\$'000
Current liabilities		
Current portion of term loans from banks	103,357	119,510
Non-current portion of term loans from banks repayable on demand	79,307	56,846
	182,664	176,356

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

	2023 HK\$'000	2022 HK\$'000
Secured	182,419	173,880
Unsecured	245	2,476
	182,664	176,356

The secured bank loans of the Group as at 31 December 2023 were secured by:

- (i) pledged bank deposits of HK\$7,211,000 (2022: HK\$7,176,000);
- (ii) pledge of cash and cash equivalents of HK\$51,000 (2022: HK\$406,000);
- (iii) mortgage of the land and buildings of HK\$62,412,000 (2022: HK\$65,074,000); and
- (iv) pledge of the trade receivables of HK\$160,245,000 (2022: HK\$104,610,000).

As at 31 December 2023, the bank borrowings of the Group of HK\$182,664,000 (2022: HK\$176,356,000) bear interest ranging from 3.38 to 7.91% (2022: 2.09% to 7.25%) per annum and are denominated in Hong Kong Dollar.

As at 31 December 2023, banking facilities of HK\$309,411,000 (2022: HK\$333,242,000) 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 2023, such facilities were utilised to the extent of HK\$48,516,000 (2022: HK\$125,115,000). The Group regularly monitors its compliance with these covenants. As at 31 December 2023, none of the covenants relating to the drawn down facilities had been breach (2022: 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 at the end of the reporting period are as follows:

	2023 HK\$'000	2022 HK\$'000
Minimum lease payments		
– within one year	9,608	11,224
– after one year but within five years	15,517	17,708
– after five years	19,104	20,268
	34,621	37,976
Less: Future interest expenses	(7,608)	(7,846)
Present value of lease liabilities	36,621	41,354
Present value of minimum lease payments		
– within one year	8,343	10,153
– after one year but within five years	12,375	14,524
– after five years	15,903	16,677
	28,278	31,201
	36,621	41,354

30. PROVISION

	2023 HK\$'000	2022 HK\$'000
Provision for reinstatement costs of leasehold land		
Balance as at 1 January	14,352	10,969
Additional provision made	450	3,383
Balance as at 31 December	14,802	14,352

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.

As at 31 December 2023, the Group had recognised the receivable of HK\$11,852,000 (2022: HK\$11,402,000) for the right to receive payment from the equity – accounted investee in respect of the reinstatement costs, which is disclosed in note 18.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(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 2022	16,000	1,559	(5,634)	11,925
Charged/(credited) to profit or loss (note 9)	8,816	(1,559)	1,838	9,095
As at 31 December 2022 and 1 January 2023	24,816	–	(3,796)	21,020
Charged/(credited) to profit or loss (note 9)	(2,910)	–	1,339	(1,571)
As at 31 December 2023	21,906	–	(2,457)	19,449

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

	2023 HK\$'000	2022 HK\$'000
Net deferred tax assets recognised	(2,457)	(2,343)
Net deferred tax liabilities recognised	21,906	23,363
	19,449	21,020

Deferred tax assets not recognised

As at 31 December 2023, the Group has not recognised deferred tax assets in respect of the estimated unused tax losses of HK\$72,658,000 (2022: HK\$63,011,000) 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\$742,000 (2022: HK\$714,000) which will expire at various dates up to 2028 (2022: up to 2027). 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 2022, 31 December 2022, 1 January 2023 and 31 December 2023	1,000,000	10,000
Issued and fully paid:		
<i>Ordinary shares of HK\$0.01 each</i>		
As at 1 January 2022, 31 December 2022, 1 January 2023 and 31 December 2023	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)(iii).

(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).

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong Dollars unless otherwise indicated)

34. SHARE OPTION SCHEME (Continued)

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

Name of category of participant	Date of grant	Exercise period	Exercise price per share HK\$	Number of share options				
				As at 1 January 2023	Granted during the year	Exercised during the year	Cancelled/ lapsed during the year	As at 31 December 2023
Directors	16/10/2015	16/10/2017 to 23/4/2024	1.00	1,408,000	-	-	(620,000)	788,000
Employees	16/10/2015	16/10/2017 to 23/4/2024	1.00	2,452,000	-	-	(228,000)	2,224,000
			Total	3,860,000	-	-	(848,000)	3,012,000
Weighted average exercise price (HK\$)				1.00	-	-	1.00	1.00

Name of category of participant	Date of grant	Exercise period	Exercise price per share HK\$	Number of share options				
				As at 1 January 2022	Granted during the year	Exercised during the year	Cancelled/ lapsed during the year	As at 31 December 2022
Directors	16/10/2015	16/10/2017 to 23/4/2024	1.00	1,408,000	-	-	-	1,408,000
	26/1/2022	1/1/2023 to 31/12/2024	0.53	-	4,170,000	-	(4,170,000)	-
	26/1/2022	1/1/2024 to 31/12/2024	0.53	-	4,170,000	-	(4,170,000)	-
			Sub-total	1,408,000	8,340,000	-	(8,340,000)	1,408,000
Employees	16/10/2015	16/10/2017 to 23/4/2024	1.00	2,656,000	-	-	(204,000)	2,452,000
	26/1/2022	1/1/2023 to 31/12/2024	0.53	-	2,780,000	-	(2,780,000)	-
			Sub-total	2,656,000	2,780,000	-	(2,984,000)	2,452,000
			Total	4,064,000	11,120,000	-	(11,324,000)	3,860,000
Weighted average exercise price (HK\$)				1.00	0.53	-	0.54	1.00

The share options, those granted on 16 October 2015, vested on 16 October 2017; while the share options, those granted on 26 January 2022, were subject to the conditions mentioned in the announcement dated 26 January 2022.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong Dollars unless otherwise indicated)

34. SHARE OPTION SCHEME (Continued)

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 following assumptions adopted in the model used:

Date of grant	16/10/2015	26/1/2022		
	Share options of Directors and employees	Share options of Directors		Share options of an employee
Exercise period	16/10/2017 to 23/4/2024	1/1/2023 to 31/12/2023	1/1/2024 to 31/12/2024	1/1/2023 to 31/12/2024
Fair value at measurement date	HK\$0.39	HK\$0.11	HK\$0.12	HK\$0.12
Share price	HK\$0.94	HK\$0.53	HK\$0.53	HK\$0.53
Exercise price	HK\$1.00	HK\$0.53	HK\$0.53	HK\$0.53
Expected volatility	44.58%	51.19%	51.30%	51.30%
Option life	10 Years	10 Years	10 Years	10 Years
Expected dividends	1.383%	1.698%	1.698%	1.698%
Risk-free interest rate	1.473%	0.671%	0.704%	0.704%
Model used	Binomial	Monte Carlo	Monte Carlo	Monte Carlo

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 in 2015; however, the share options granted in 2022 would vest if the average closing price of the Company's Shares for the thirty trading days ending on 30 December 2022 (both dates inclusive) on the Stock Exchange is higher by 20% or more than the exercise price of the options granted to the grantees.

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 loan from a non-controlling shareholder of a subsidiary, 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong Dollars unless otherwise indicated)

35. CAPITAL MANAGEMENT *(Continued)*

The gearing ratio as at 31 December 2023 and 2022 are as follows:

	2023 HK\$'000	2022 HK\$'000
Total borrowings <i>(Note)</i>	223,285	223,310
Total equity	369,701	336,111
Gearing ratio	60%	66%

Note: Total borrowings included loan from a non-controlling shareholder of a subsidiary, bank borrowings and lease liabilities as disclosed in notes 27, 28 and 29 respectively.

36. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

	2023 HK\$'000	2022 HK\$'000
Financial assets		
Financial assets at fair value through profit or loss	15,043	14,872
Amortised cost		
– Trade receivables	599,616	452,134
– Deposits	6,987	8,634
– Other receivables	12,088	16,542
– Pledged bank deposits	7,211	7,176
– Cash and cash equivalents	41,425	28,982
Financial liabilities		
Amortised cost		
– Trade payables	48,120	36,758
– Accruals, deposits received and other payables	242,909	198,893
– Bank borrowings	182,664	176,356
– Lease liabilities	36,621	41,354

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong Dollars unless otherwise indicated)

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, loan from a non-controlling shareholder of a subsidiary, 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.

	2023		2022	
	Effective interest rate	Amount HK\$'000	Effective interest rate	Amount HK\$'000
Net fixed rate borrowings				
Loan from a non-controlling shareholder of a subsidiary	6.00%	4,000	6.00%	5,600
Lease liabilities	2.5%-4.43%	36,621	2.50%-3.88%	41,354
Less: Loan to an equity – accounted investee	–	–	6.00%	(3,300)
Pledged bank deposits	0.50%-0.93%	(7,211)	0.20%-0.50%	(7,176)
		33,410		36,478
Variable rate borrowings				
Bank borrowings	3.38%-7.91%	182,664	2.09%-7.25%	176,356
Total net borrowings		216,074		212,834

Sensitivity analysis

As at 31 December 2023, 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\$763,000 (2022: HK\$736,000).

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 2022.

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 43% (2022: 52%) and 77% (2022: 72%) 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 2023. 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. The ECLs as at 31 December 2023 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 2.58% (2022: 0.01% to 2.41%) were applied to such trade receivables for cleaning services, together with waste management and recycling businesses. As there was no history of default from customers for landscaping services and pest management businesses, the Group considers the credit risk of such customers to be insignificant and no loss allowance was recognised as at 31 December 2023 (2022: Nil).

Expected loss rates are based on actual loss experience over the past 5 (2022: 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:

	2023 HK\$'000	2022 HK\$'000
Balance as at 1 January	475	2,258
Amounts written off	–	(1)
Reversal of credit losses	(53)	(1,782)
Balance as at 31 December	422	475

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong Dollars unless otherwise indicated)

36. FINANCIAL INSTRUMENTS *(Continued)*

(b) Financial risk management *(Continued)*

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 2023, the Group had unutilised banking facilities of HK\$342,181,000 (2022: HK\$331,619,000).

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 2023					
Trade payables	48,120	–	–	48,120	48,120
Accruals, deposits received and other payables	242,153	756	–	242,909	242,909
Bank borrowings	108,604	82,047	4,241	194,892	182,664
Lease liabilities	9,608	15,517	19,104	44,229	36,621
	408,485	98,320	23,345	530,150	510,314
Adjustments to present cash flows on bank borrowings based on lender's right to demand repayment	74,060	(82,047)	(4,241)	(12,228)	
	482,545	16,273	19,104	517,922	

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong Dollars unless otherwise indicated)

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 2022					
Trade payables	36,758	–	–	36,758	36,758
Accruals, deposits received and other payables	197,705	1,188	–	198,893	198,893
Bank borrowings	122,508	56,102	5,177	183,787	176,356
Lease liabilities	11,224	17,708	20,268	49,200	41,354
	368,195	74,998	25,445	468,638	453,361
Adjustments to present cash flows on bank borrowings based on lender's right to demand repayment	53,848	(56,102)	(5,177)	(7,431)	
	422,043	18,896	20,268	461,207	

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 2023			
	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	–	–	15,043	15,043

	As at 31 December 2022			
	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	–	–	14,872	14,872

During the years ended 31 December 2023 and 2022, 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong Dollars unless otherwise indicated)

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

	2023 HK\$'000	2022 HK\$'000
Investments in life insurance		
Balance as at 1 January	14,872	14,669
Gains recognised in profit or loss	171	203
Balance as at 31 December	15,043	14,872

(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 2023 and 2022.

37. POST-EMPLOYMENT BENEFIT OBLIGATIONS

Defined contribution retirement scheme

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

The total expenses recognised in profit or loss included contributions to defined contribution retirement scheme for the Group of HK\$52,191,000 (2022: HK\$40,558,000) for the year ended 31 December 2023.

Defined benefit plan obligation

The Group's defined benefit plan obligations comprise gratuity payments, severance payments ("SP") and long service payments ("LSP").

Gratuity payments

Certain employees of the Group are entitled to gratuity payments calculated as a percentage of the employees' remuneration as stipulated in the Group's service contracts with the Government of the Hong Kong Special Administrative Region when the employees completed required service periods, which generally range from one to three years. The gratuity payments are made when the relevant service contracts are expired. The gratuity payments could offset the relevant employees' SP and LSP payable.

SP and LSP

Hong Kong employees that have been employed continuously for at least two years and are dismissed by reason of redundancy are entitled to SP in accordance with the Hong Kong Employment Ordinance under certain circumstances. The Hong Kong employees are instead entitled to LSP if they have been employed for more than five years. The amount of SP and LSP payable is determined with reference to the employee's final salary (capped at HK\$22,500) and the years of service, reduced by the amount of any accrued benefits derived from the Group's contributions to MPF scheme, with an overall cap of HK\$390,000 per employee. Currently, the Group does not have any separate funding arrangement in place to meet its SP and LSP obligations.

In June 2022, the Government gazetted the Amendment Ordinance, which will eventually abolish the statutory right of an employer to reduce its LSP and SP payable to a Hong Kong employee by drawing on its mandatory contributions to the MPF scheme. The Government has subsequently announced that the Amendment Ordinance will come into effect from the Transition Date. Separately, the Government is also expected to introduce a subsidy scheme to assist employers after the abolition.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong Dollars unless otherwise indicated)

37. POST-EMPLOYMENT BENEFIT OBLIGATIONS (Continued)

Defined benefit plan obligation (Continued)

SP and LSP (Continued)

Among other things, once the abolition of the offsetting mechanism takes effect, an employer can no longer use any of the accrued benefits derived from its mandatory MPF contributions (irrespective of the contributions made before, on or after the Transition Date) to reduce the LSP and SP in respect of an employee's service from the Transition Date. However, where an employee's employment commenced before the Transition Date, the employer can continue to use the above accrued benefits to reduce the LSP and SP in respect of the employee's service up to that date; in addition, the LSP and SP in respect of the service before the Transition Date will be calculated based on the employee's monthly salary immediately before the Transition Date and the years of service up to that date.

The defined benefit plan obligations were valued by Valtech Valuation Advisory Limited, an independent valuer with its core valuation programme reviewed by a qualified actuary, using the projected unit credit method.

The present value of unfunded obligations and its movements are as follows:

	2023 \$'000	2022 \$'000
At 1 January:	65,970	36,220
Benefits paid	(39,713)	(9,780)
Remeasurements recognised in other comprehensive income:		
Actuarial gains arising from changes in financial assumptions	(1,300)	–
Expenses recognised in profit or loss:		
Service cost	53,684	38,118
Interest cost	1,269	1,412
	54,953	39,530
At 31 December	79,910	65,970

The weighted average duration of the defined benefit obligation is 2.6 years (2022: 2.0 years).

The above expenses are recognised in the following line items in the consolidated statement of profit or loss:

	2023 \$'000	2022 \$'000
Cost of services	52,779	39,161
Administrative expenses	2,174	369
	54,953	39,530

Significant actuarial assumptions (expressed as weighted averages) and sensitivity analysis are as follows:

	2023	2022
Discount rate	3.0%	3.9%
Staff turnover rate	30.3%	24.4%

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong Dollars unless otherwise indicated)

37. POST-EMPLOYMENT BENEFIT OBLIGATIONS *(Continued)*

Defined benefit plan obligation *(Continued)*

The below analysis shows how the defined benefit obligation would have increased/decreased as a result of change in the significant actuarial assumptions as follow:

	Changes in assumptions	Increase in assumption 2023 \$'000	Decrease in assumption 2023 \$'000
Discount rate	0.5%	(802)	828
Staff turnover rate	5%	(7,011)	8,483

The above sensitivity analysis is based on the assumption that changes in actuarial assumptions are not correlated and therefore it does not take into account the correlations between the actuarial assumptions.

38. LEASE COMMITMENT

As at 31 December 2023, the Group had total future minimum lease payments under non-cancellable leases payable not included in the lease liabilities as follows:

	2023 HK\$'000	2022 HK\$'000
Within one year	1,077	1,065

39. MAJOR NON-CASH TRANSACTION

Additions to right-of-use assets of HK\$8,881,000 (2022: HK\$21,431,000) for the year ended 31 December 2023 were made under the lease arrangements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong Dollars unless otherwise indicated)

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.

	2023 HK\$'000	2022 HK\$'000
Short term employee benefits	10,825	12,316
Retirement scheme contributions	394	450
Equity-settled share-based payments	–	945
	11,219	13,711

(b) Transactions with an equity – accounted investee

	2023 HK\$'000	2022 HK\$'000
Income relating to right-of-use assets	3,685	4,119
Interest income	198	198
Sourcing, collection and sorting waste plastics services income	702	4,496
Other services income	159	321

(c)	Nature of related party relationship	Nature of transaction	Interested director	2023	2022
				HK\$'000	HK\$'000
(i)	Common director and shareholder	Information technology service fee	Mr. Ng Wing Hong	5,366	4,548
(ii)	The company owned by close member of director and shareholder	Information technology service fee	Mr. Ng Wing Hong	–	1,022
(iii)	The company owned by close member of director and shareholder	Purchase of cleaning equipment and materials	Mr. Ng Wing Hong	705	839
(iv)	The company owned by close member of director and shareholder	Rental expenses and other services fee	Mr. Ng Wing Hong	506	863

(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) (i) 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 other related party transactions as disclosed in note 40(c)(ii), (iii) and (iv) 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong Dollars unless otherwise indicated)

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

	2023 HK\$'000	2022 HK\$'000
Capital expenditure in respect of the additions of property, plant and equipment		
– Contracted for within one year	208	5,969

42. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	2023 HK\$'000	2022 HK\$'000
Non-current assets		
Investments in subsidiaries	1,283	1,283
Intangible assets	8,200	–
	9,483	1,283
Current assets		
Prepayments and other receivables	91	85
Amounts due from subsidiaries	172,285	181,967
Cash and cash equivalents	376	325
	172,752	182,377
Current liabilities		
Accruals and other payables	78	72
Amounts due to subsidiaries	75,809	76,834
	75,887	76,906
Net current assets	96,865	105,471
Net assets	106,348	106,754
Capital and reserves		
Share capital	4,150	4,150
Reserves	102,198	102,604
Total equity	106,348	106,754

Approved by the Board of Directors on 27 March 2024 and signed on its behalf by:

Ng Wing Hong
Director

Ng Yuk Kwan Phyllis
Director

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong Dollars unless otherwise indicated)

43. CHANGES IN EQUITY OF THE COMPANY

	Share capital HK\$'000	Share premium HK\$'000	Share option reserve HK\$'000	(Accumulated losses)/ retained earnings HK\$'000	Total HK\$'000
As at 1 January 2022	4,150	100,850	1,572	623	107,195
Profit and total comprehensive income for the year	-	-	-	2,025	2,025
Dividend approved in respect of the previous year (<i>note 10(b)</i>)	-	-	-	(3,735)	(3,735)
Equity-settled share-based payments	-	-	1,269	-	1,269
Share options lapsed	-	-	(1,348)	1,348	-
As at 31 December 2022 and 1 January 2023	4,150	100,850	1,493	261	106,754
Profit and total comprehensive income for the year	-	-	-	15,364	15,364
Dividend approved in respect of the previous year (<i>note 10(b)</i>)	-	-	-	(15,770)	(15,770)
Share options lapsed	-	-	(328)	328	-
As at 31 December 2023	4,150	100,850	1,165	183	106,348

As at 31 December 2023, the aggregate amount of reserves available for distribution to equity shareholders of the Company amounted to HK\$102,198,000 (2022: HK\$102,604,000).

44. IMMEDIATE AND ULTIMATE CONTROLLING PARTY

As at 31 December 2023, 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong Dollars unless otherwise indicated)

45. POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2023

Up to the date of issue of these financial statements, the HKICPA has issued a number of new or amended standards, which are not yet effective for the year ended 31 December 2023 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 HKAS 1, <i>Presentation of financial statements: Classification of liabilities as current or non-current ("2020 amendments")</i>	1 January 2024
Amendments to HKAS 1, <i>Presentation of financial statements: Non-current liabilities with covenants ("2022 amendments")</i>	1 January 2024
Amendments to HKFRS 16, <i>Leases: Lease liability in a sale and leaseback</i>	1 January 2024
Amendments to HKAS 7, <i>Statement of cash flows and HKFRS 7, Financial Instruments: Disclosures: Supplier finance arrangements</i>	1 January 2024
Amendments to HKAS 21, <i>The effects of changes in foreign exchange rates: Lack of exchangeability</i>	1 January 2025

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 consolidated 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 27 March 2024.

FIVE-YEAR FINANCIAL SUMMARY

	Year ended 31 December				
	2023 HK\$'000	2022 HK\$'000	2021 HK\$'000	2020 HK\$'000	2019 HK\$'000
Results					
Revenue	2,327,489	1,793,121	1,273,809	1,131,781	1,397,455
Profit/(loss) before taxation	62,552	65,158	21,726	49,122	(12,722)
Income tax (expense)/credit	(14,424)	(13,753)	(8,882)	2,254	1,412
Profit/(loss) for the year	48,128	51,405	12,844	51,376	(11,310)
Attributable to:					
Equity shareholders of the Company	47,111	53,709	12,847	51,376	(11,031)
Non-controlling interests	1,017	(2,304)	(3)	–	(279)
Profit/(loss) for the year	48,128	51,405	12,844	51,376	(11,310)

	As at 31 December				
	2023 HK\$'000	2022 HK\$'000	2021 HK\$'000	2020 HK\$'000	2019 HK\$'000
Assets and liabilities					
Total assets	1,011,393	896,168	660,943	604,295	710,583
Total liabilities	(641,692)	(560,057)	(374,362)	(315,263)	(473,462)
	369,701	336,111	286,581	289,032	237,121
Attributable to:					
Equity shareholders of the Company	370,191	337,618	286,584	289,032	237,121
Non-controlling interests	(490)	(1,507)	(3)	–	–
Total equity	369,701	336,111	286,581	289,032	237,121

碧瑤綠色集團有限公司
Baguio Green Group Limited