Tomson Group

TOMSON GROUP LIMITED

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 258)

ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 30TH JUNE, 2018

The Board of Directors (the "Board") of Tomson Group Limited (the "Company") is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (collectively the "Group") for the six months ended 30th June, 2018 together with comparative figures for the corresponding period of 2017 as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS (Unaudited)

	Notes	**Six months ended 30th June** **2018** **HK$'000**	2017 HK$'000
Gross proceeds from operations	4&5	**358,328**	1,142,428
Revenue	4	**358,328**	1,082,328
Cost of sales		**(138,459)**	(565,248)
Gross profit		**219,869**	517,080
Other income		**62,862**	46,554
Gain on fair value changes of investment properties		**264,623**	4,491
Net gain in investments held for trading		**–**	10,461
Selling expenses		**(56,028)**	(111,601)
Administrative expenses		**(66,338)**	(63,748)
Other gains and losses, net	6	**1,117**	11,468
Gain on disposal of a joint venture	7	**–**	523,713
Finance costs	8	**(13,877)**	(49,972)
		412,228	888,446
Share of results of associates		**(272)**	(612)
Share of result of a joint venture		**5,957**	3,330
Profit before taxation	9	**417,913**	891,164
Taxation	10	**(188,839)**	(354,385)
Profit for the period		**229,074**	536,779
Profit for the period attributable to:			
Owners of the Company		**227,241**	483,474
Non-controlling interests		**1,833**	53,305
		229,074	536,779
Earnings per share (HK cents)	12		
– Basic		**11.93**	27.96

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME (Unaudited)

	Six months ended 30th June	
	2018	2017
	HK$'000	HK$'000
Profit for the period	**229,074**	536,779
Other comprehensive (expense) income		
Items that may be subsequently reclassified to profit or loss:		
Exchange differences arising from translation of:		
– subsidiaries	**(143,402)**	320,183
– a joint venture	**(2,390)**	5,656
– associates	**(130)**	456
Reclassification adjustment:		
– release from foreign currencies translation reserve upon disposal of a joint venture	**–**	33,528
Gain on changes in fair value of available-for-sale investments	**–**	17,897
Items that will not be reclassified to profit or loss:		
Fair value gain on equity instruments at fair value through other comprehensive income	**5,113**	–
Other comprehensive (expense) income for the period	**(140,809)**	377,720
Total comprehensive income for the period	**88,265**	914,499
Total comprehensive income attributable to:		
Owners of the Company	**88,023**	834,915
Non-controlling interests	**242**	79,584
	88,265	914,499

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	**(Unaudited) 30th June 2018 HK$'000**	(Audited) 31st December 2017 HK$'000
Non-Current Assets			
Fixed assets			
– Investment properties		**8,231,381**	8,061,471
– Property, plant and equipment		**212,980**	226,184
Lease premium for land		**26,928**	30,410
Film distribution rights		**1,396**	4,942
Goodwill		**33,288**	33,288
Deferred tax assets		**284,682**	281,729
Interests in associates		**12,209**	12,608
Interests in a joint venture		**192,540**	188,973
Club debentures		**515**	–
Equity instruments at fair value through other comprehensive income		**511,514**	–
Available-for-sale investments		–	189,228
Pledged bank deposits		**1,487,129**	941,848
		10,994,562	9,970,681
Current Assets			
Lease premium for land		**6,042**	6,134
Properties under development		**3,577,079**	3,554,039
Deposit paid for land use right		**391,225**	396,063
Properties held for sale		**2,163,992**	2,278,099
Trade and other receivables and prepayments	13	**549,719**	1,841,016
Inventories		**5,021**	5,047
Pledged bank deposits		**655,835**	41,450
Cash and bank balances		**4,064,910**	3,692,955
		11,413,823	11,814,803
Current Liabilities			
Trade and other payables and accruals	14	**745,727**	817,220
Receipts in advance		**231,312**	220,946
Taxation		**4,669,775**	4,851,723
Borrowings		**560,116**	451,435
		6,206,930	6,341,324
Net Current Assets		**5,206,893**	5,473,479
Total Assets Less Current Liabilities		**16,201,455**	15,444,160

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION *(continued)*

	(Unaudited) 30th June 2018 HK$'000	(Audited) 31st December 2017 HK$'000
Capital and Reserves		
Share capital	**1,040,918**	942,792
Share premium and reserves	**12,323,551**	12,281,336
Equity attributable to owners of the Company	**13,364,469**	13,224,128
Non-controlling interests	**283,203**	296,461
Total Equity	**13,647,672**	13,520,589
Non-Current Liabilities		
Borrowings	**971,200**	345,780
Deferred tax liabilities	**1,582,583**	1,577,791
	2,553,783	1,923,571
	16,201,455	15,444,160

Notes:

1. The condensed consolidated financial statements are unaudited, but have been reviewed by the Audit Committee of the Board of the Company.

2. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

3. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis except for investment properties and certain financial instruments which are measured at fair values.

Other than changes in accounting policies resulting from application of new Hong Kong Financial Reporting Standards ("HKFRSs") and amendments to HKFRSs, the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30th June, 2018 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31st December, 2017.

In current interim period, the Group has applied for the first time, the new HKFRSs and amendments to HKFRSs issued by the HKICPA which are mandatorily effective for the annual period beginning on or after 1st January, 2018 for the preparation of the Group's condensed consolidated financial statements.

3. PRINCIPAL ACCOUNTING POLICIES *(continued)*

The new HKFRSs and amendments to HKFRSs have been applied in accordance with the relevant transition provisions in the respective standards and amendments which result in changes in accounting policies, amounts reported and/or disclosures as described below.

3.1 Impacts and changes in accounting policies of application of HKFRS 9 "Financial Instruments"

In the current period, the Group has applied HKFRS 9 "Financial Instruments" and the related consequential amendments to other HKFRSs. HKFRS 9 introduces new requirements for (1) the classification and measurement of financial assets and financial liabilities, (2) expected credit losses ("ECL") for financial assets and (3) general hedge accounting.

The Group has applied HKFRS 9 in accordance with the transition provisions set out in HKFRS 9, i.e. applied the classification and measurement requirements (including impairment) retrospectively to financial instruments that have not been derecognised as at 1st January, 2018 (date of initial application) and has not applied the requirements to financial instruments that have already been derecognised as at 1st January, 2018. The difference between carrying amounts as at 31st December, 2017 and the carrying amounts as at 1st January, 2018 are recognised in the opening retained earnings and other components of equity, without restating comparative information.

Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 39 "Financial Instruments: Recognition and Measurement".

3.1.1 Key changes in accounting policies resulting from application of HKFRS 9

<u>Classification and measurement of financial assets</u>

All recognised financial assets that are within the scope of HKFRS 9 are subsequently measured at amortised cost or fair value, including unquoted equity investments measured at cost less impairment under HKAS 39.

Debt instruments that meet the following conditions are subsequently measured at amortised cost:

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Equity instruments designated as at fair value through other comprehensive income ("FVTOCI")

At the date of initial application / initial recognition, the Group may make an irrevocable election (on an instrument-by-instrument basis) to designate investments in equity instruments as at FVTOCI.

Investments in equity instruments at FVTOCI are initially measured at fair value plus transaction costs. Subsequently, they are measured at fair value with gains and losses arising from changes in fair value recognised in other comprehensive income ("OCI") and accumulated in the investment reserve; and are not subject to impairment assessment. The accumulated impairment loss previously recognised will be transferred from retained earnings to the investment reserve. The cumulative gain or loss will not be reclassified to profit or loss on disposal of the equity investments, and will be transferred to retained earnings.

Dividends on these investments in equity instruments are recognised in profit or loss when the Group's right to receive the dividends is established in accordance with HKFRS 9, unless the dividends clearly represent a recovery of part of the cost of the investment.

3. PRINCIPAL ACCOUNTING POLICIES *(continued)*

Impairment under ECL model

The Group assesses ECL on financial assets which are subject to impairment under HKFRS 9 (including trade and other receivables, pledged bank deposits and bank balances). The assessment is updated at each reporting date to reflect changes in credit risk since initial recognition.

The Group always recognises lifetime ECL for trade receivables and lease receivables.

For other financial assets, the Group measures the loss allowance equal to 12-month ECL, unless when there has been a significant increase in credit risk since initial recognition, the Group recognises lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on significant increases in the likelihood or risk of a default occurring since initial recognition. When a financial instrument is determined to have low credit risk, the Group assumes that the credit risk on the financial instrument has not increased significantly since initial recognition.

Significant increase in credit risk

In assessing whether the credit risk has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, 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:

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- significant deterioration in external market indicators of credit risk, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor;
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor;
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

The Group considers that default has occurred when the financial instrument is more than 90 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

3. PRINCIPAL ACCOUNTING POLICIES *(continued)*

Measurement and recognition of ECL

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information.

Generally, the ECL is estimated as the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive, discounted at the effective interest rate determined at initial recognition.

As at 1st January, 2018, the Directors of the Company reviewed and assessed the Group's existing financial assets for impairment using reasonable and supportable information that is available without undue cost or effort in accordance with the requirements of HKFRS 9. No material impact on impairment was noted at the date of initial application, 1st January, 2018.

3.1.2 Summary of effects arising from initial application of HKFRS 9

For available-for-sale equity investments reclassified to FVTOCI, the Group elected to present in OCI for the fair value changes of all its equity investments previously classified as available-for-sale. These investments are not held for trading and not expected to be sold in the foreseeable future. At the date of initial application of HKFRS 9, HK$188,713,000 were reclassified from available-for-sale investments to equity instruments at FVTOCI, of which HK$48,091,000 related to unquoted equity investments previously measured at cost less impairment under HKAS 39. The fair value gains of HK$317,688,000 and the corresponding deferred tax liability of HK$79,515,000 related to those unquoted equity investments previously carried at cost less impairment were adjusted to equity instruments at FVTOCI and investment reserve as at 1st January, 2018. In addition, impairment losses previously recognised of HK$32,215,000 were transferred from retained earnings to investment reserve as at 1st January, 2018. The fair value gains of HK$92,299,000 relating to those investments previously carried at fair value continued to accumulate in investment reserve.

The following table shows the adjustments of the Group recognised for each individual line item. Line items that were not affected by the changes have not been included.

	31st December 2017 HK$'000	Impacts of HKFRS 9 HK$'000	1st January 2018 HK$'000
Available-for-sale investments	188,713	(188,713)	–
Equity instruments at fair value through other comprehensive income	–	506,401	506,401
Total Non-Current Assets	9,970,681	317,688	10,288,369
Share premium and reserves	12,281,336	238,173	12,519,509
Equity attributable to owners of the Company	13,224,128	238,173	13,462,301
Total Equity	13,520,589	238,173	13,758,762
Deferred tax liabilities	1,577,791	79,515	1,657,306
Total Non-Current Liabilities	1,923,571	79,515	2,003,086

3. PRINCIPAL ACCOUNTING POLICIES *(continued)*

3.2 Changes in accounting policies of application of HKFRS 15 "Revenue from Contracts with Customers"

The Group has applied HKFRS 15 for the first time in the current interim period. HKFRS 15 superseded HKAS 18 "Revenue", HKAS 11 "Construction Contracts" and the related interpretations. HKFRS 15 applies to all contracts with customers except for leases within the scope of HKAS 17 "Leases".

The Group has applied HKFRS 15 retrospectively with the cumulative effect of initially applying this standard recognised at the date of initial application, 1st January, 2018. Any difference at the date of initial application is recognised in the opening retained earnings (or other components of equity, as appropriate) and comparative information has not been restated.

3.2.1 Key changes in accounting policies resulting from application of HKFRS 15

HKFRS 15 introduces a 5-step approach when recognising revenue:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when (or as) the Group satisfies a performance obligation

Under HKFRS 15, the Group recognises revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the goods or services underlying the particular performance obligation is transferred to the customer.

A performance obligation represents a goods or service that is distinct or a series of distinct goods or services that are substantially the same.

Revenue is recognised over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met:

- the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;
- the Group's performance creates and enhances an asset that the customer controls as the Group performs; or
- the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

Otherwise, revenue is recognised at a point in time when the customer obtains control of the distinct goods or services.

A contract liability represents the Group's obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer. Contract liabilities relating to property sales received are presented as receipts in advance.

The adoption of HKFRS 15 does not have material effect on timing and amount of revenues recognised and as disclosed in Note 4, revenue from property rental will continue to be accounted for in accordance with HKAS 17. Under HKFRS 15, the revenue from property management fee is recognised over time, other revenue from contracts with customers are recognised at a point in time.

Except as disclosed above, the application of other new HKFRSs and amendments to HKFRSs in the current interim period has had no material effect on the amounts reported and/or disclosures set out in these condensed consolidated financial statements.

4. GROSS PROCEEDS FROM OPERATIONS AND REVENUE

Revenue represents the aggregate of revenue under the following headings:

(i) Property investment
– represents revenue from property management and rental income

(ii) Property development and trading
– represents gross revenue received and receivable from sale of properties

(iii) PVC operations
– represents the gross revenue from sale of PVC pipes and fittings

(iv) Leisure
– represents the income from golf club operations and its related services

(v) Media and entertainment
– represents the gross revenue received and receivable from investment in the production of live entertainment shows, film distribution and related income

Gross proceeds from operations include the gross proceeds and dividend income received and receivable from investments held for trading under the business of securities trading, in addition to the above aggregated revenue.

Revenue and gross proceeds from each type of business for the six months ended 30th June, 2018 consist of the following:

	Six months ended 30th June	
	2018	2017
	HK$'000	HK$'000
Revenue from sale of properties	**193,598**	933,633
Revenue from sale of goods	**973**	457
Revenue from rendering of services from golf club operations	**18,242**	19,204
Revenue from property management fee	**19,538**	16,774
Revenue from media and entertainment business	**5,055**	1,676
Revenue from contracts with customers	**237,406**	971,744
Revenue from property rental	**120,922**	110,584
Total revenue	**358,328**	1,082,328
Gross proceeds from sale of and dividend income from investments held for trading	**–**	60,100
Gross proceeds from operations	**358,328**	1,142,428

5. SEGMENT INFORMATION

The Group's operating and reportable segments are based on information reported to the chief operating decision makers, the Executive Directors of the Company, for the purposes of resources allocation and performance assessment. In addition to those set out in Notes 4(i) to (v), the Group's operating segments under HKFRS 8 "Operating Segments" include securities trading segment which is dealing in investments held for trading.

	Property Investment HK$'000	Property Development and Trading HK$'000	PVC Operations HK$'000	Leisure HK$'000	Media and Entertainment HK$'000	Securities Trading HK$'000	Total HK$'000
For the six months ended 30th June, 2018							
GROSS PROCEEDS FROM OPERATIONS							
Segment revenue	**140,460**	**193,598**	**973**	**18,242**	**5,055**	**–**	**358,328**
RESULTS							
Segment profit (loss)	**360,697**	**40,284**	**81**	**(8,602)**	**(4,249)**	**(127)**	**388,084**
Other unallocated income							**62,815**
Unallocated expenses							**(24,794)**
Finance costs							**(13,877)**
							412,228
Share of results of associates							**(272)**
Share of result of a joint venture							**5,957**
Profit before taxation							**417,913**
For the six months ended 30th June, 2017							
GROSS PROCEEDS FROM OPERATIONS							
Segment revenue	127,358	933,633	457	19,204	1,676	60,100	1,142,428
RESULTS							
Segment profit (loss)	95,672	286,937	(348)	(7,521)	(605)	10,309	384,444
Other unallocated income							580,935
Unallocated expenses							(26,961)
Finance costs							(49,972)
							888,446
Share of results of associates							(612)
Share of result of a joint venture							3,330
Profit before taxation							891,164

Except for the presentation of segment revenue which is different from the reported revenue in the condensed consolidated statement of profit or loss, the accounting policies of the operating segments are the same as the Group's accounting policies. The details of revenue from each type of business and reconciliation of segment revenue to the Group's revenue of HK$358,328,000 (2017: HK$1,082,328,000) are set out in Note 4.

Segment profit (loss) represents the results by each segment without allocation of central administration costs, directors' salaries, share of results of associates and a joint venture, other non-recurring income and expenses and finance costs. This is the measure reported to the Executive Directors of the Company for the purposes of resources allocation and performance assessment.

6. OTHER GAINS AND LOSSES, NET

	Six months ended 30th June	
	2018	2017
	HK$'000	HK$'000
Recovery for bad and doubtful debts, net	**1,164**	800
Net exchange (loss) gain	**(269)**	10,668
Net gain on disposal of property, plant and equipment	**222**	–
	1,117	11,468

7. GAIN ON DISPOSAL OF A JOINT VENTURE

In October 2016, the Group entered into an equity transfer agreement to dispose of its whole investment in a joint venture, at a consideration of RMB1,173 million. The transaction was completed in January 2017. A gain of HK$523,713,000 from the disposal was recognised in the condensed consolidated statement of profit or loss for the six months ended 30th June, 2017.

8. FINANCE COSTS

	Six months ended 30th June	
	2018	2017
	HK$'000	HK$'000
Interests on borrowings	**13,877**	49,972

9. PROFIT BEFORE TAXATION

	Six months ended 30th June	
	2018	2017
	HK$'000	HK$'000
Profit before taxation has been arrived at after charging:		
Depreciation of property, plant and equipment	**11,457**	9,173
Amortisation of lease premium for land	**3,021**	2,914
Impairment of film distribution rights	**3,546**	–
and after crediting:		
Other income		
– Interest income	**40,524**	20,945
– Dividends from equity instruments at fair value through other comprehensive income – listed	**11,505**	–
– Dividends from available-for-sale investments – listed	**–**	12,784

10. TAXATION

	Six months ended 30th June	
	2018	2017
	HK$'000	HK$'000
The charge comprises:		
The Mainland of the People's Republic of China (the "Mainland China") Enterprise Income Tax	**51,419**	87,555
Mainland China Land Appreciation Tax	**85,809**	46,760
Macau Complementary Tax	**–**	14,773
Dividend Withholding Tax	**107,712**	–
Underprovision in prior period - Mainland China Enterprise Income Tax	**2,626**	35,121
	247,566	184,209
Deferred tax (credit) charge	**(58,727)**	170,176
Total tax charges for the period	**188,839**	354,385

The Hong Kong Profits Tax is calculated at 16.5% (2017: 16.5%) on the assessable profit for the period. No provision for Hong Kong Profits Tax has been made since there is no assessable profit for the period (2017: the assessable profit was wholly absorbed by tax losses brought forward).

The income tax rate of the subsidiaries in the Mainland China for the period ended 30th June, 2018 is 25% (2017: 25%).

The Macau Complementary Tax is levied at 12% (2017: 12%) on the taxable income for the period.

11. DIVIDEND

The Directors of the Company do not recommend payment of an interim dividend for the period under review (for the six months ended 30th June, 2017: Nil).

In June 2018, an interim dividend of 43 HK cents per share for the year ended 31st December, 2017 (2017: interim dividend of 43 HK cents per share for 2016) amounting to approximately HK$810,801,000 (2017: HK$737,476,000) in aggregate was paid to shareholders. Of the dividend paid during the period, approximately HK$624,946,000 (2017: HK$553,064,000) were settled in fully paid shares under the Company's scrip dividend scheme approved by the Board on 27th March, 2018.

12. EARNINGS PER SHARE

The calculation of the basic earnings per share attributable to the owners of the Company is based on the following data:

	Six months ended 30th June	
	2018	2017
	HK$'000	HK$'000
Earnings		
Profit for the period attributable to owners of the Company for the purposes of basic earnings per share	**227,241**	483,474
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	**1,904,017,110**	1,729,191,407

No diluted earnings per share is presented as there was no potential ordinary share in issue during both periods.

13. TRADE AND OTHER RECEIVABLES AND PREPAYMENTS

The general credit term of the Group given to trade customers is 60 days. A longer credit period may be granted to customers with long business relationship. The Group seeks to maintain strict control over its outstanding receivables to minimise credit risks.

The following is an aged analysis of trade receivables, net of impairment losses, based on invoice date:

	30th June 2018 HK$'000	31st December 2017 HK$'000
0 – 3 months	**2,511**	1,689
4 – 6 months	**38**	147
7 – 12 months	**590**	519
	3,139	2,355

14. TRADE AND OTHER PAYABLES AND ACCRUALS

The following is an aged analysis of trade payables based on invoice date:

	30th June 2018 HK$'000	31st December 2017 HK$'000
0 – 3 months	**2,891**	4,131
4 – 6 months	**136**	58
7 – 12 months	**21**	126
Over 1 year	**127,982**	135,808
	131,030	140,123

GENERAL OVERVIEW

For the first six months of 2018, the Group reported a consolidated profit after taxation attributable to shareholders of the Company of HK$227,241,000 (2017: HK$483,474,000), a decrease of approximately 53% as compared with that for the corresponding period in 2017. Basic earnings per share was 11.93 HK cents (2017: 27.96 HK cents).

Unlike the corresponding period in 2017 when a one-off gain on disposal of a joint venture of HK$523,713,000 was recognized, there was a reduction in gross proceeds from operations of the Group to HK$358,328,000 for the six months ended 30th June, 2018 (2017: HK$1,142,428,000). These decreases in the profit and revenue were principally attributable to the completion of disposal of the Group's investment in property projects in Tianjin, the People's Republic of China ("China") in 2017 through respective disposal of equity interests in a joint venture and subsidiaries. As a result, the Group reported an operating profit before taxation of HK$147,605,000 for the period under review (2017: HK$883,955,000), without accounting for an unrealized gain on fair value changes of investment properties of the Group in Shanghai, China of HK$264,623,000 (2017: HK$4,491,000).

The Board does not recommend payment of an interim dividend for the six months ended 30th June, 2018 (interim dividend for the six months ended 30th June, 2017: Nil).

OPERATIONS REVIEW

The Group continued to maintain its principal base of operation in the Mainland of China for the period under review.

For the first half of 2018, property investment segment was the primary profit maker of the Group and this generated a segment profit of HK$360,697,000 (2017: HK$95,672,000), which was attributable to the steady recurrent rental and management income from the investment properties of the Group in Shanghai as well as an unrealized gain on fair value changes of these investment properties upon revaluation at the period-end.

Property development and trading segment in Shanghai reported a segment profit of HK$40,284,000 (2017: HK$286,937,000) and became the secondary profit contributor of the Group.

On the other hand, apart from the PVC operations making an insignificant profit, the other business segments of the Group reported immaterial losses during the period under review.

Property Development and Investment

Property development and investment remained the core business and the principal source of profit of the Group for the period under review by contributing a total profit of HK$400,981,000 (2017: HK$382,609,000). Tomson Riviera in Shanghai was the prime source of operating profit of the Group.

This business segment generated total revenue of HK$334,058,000 which accounted for approximately 93.23% of the gross proceeds from operations of the Group for the six months ended 30th June, 2018 and was wholly derived from property projects in Shanghai. In addition, an unrealized gain on fair value changes of the investment properties of the Group in Shanghai of HK$264,623,000 was recorded at the period end.

Tomson Riviera, Shanghai

Tomson Riviera comprises four residential towers erected along the riverfront of Lujiazui of Pudong and overlooking the Bund. Based on the business strategy of the Group, two residential towers are earmarked for sale while the other two towers are retained for leasing.

As at 30th June, 2018, the total residential gross floor area available for sale of Towers A and C was approximately 9,600 square meters while of the total residential gross floor area of Towers B and D of approximately 58,400 square meters, around 63% were leased.

For the first six months of 2018, the project recognized total revenue of HK$256.66 million which represented approximately 71.63% of the gross proceeds from operations of the Group. The revenue was principally attributable to sale proceeds with the balance derived from rental income and management fee. The Group also recorded an unrealized gain on fair value changes of this property project of HK$114.83 million as at the period-end date. In addition, there were sale deposits of HK$218.67 million credited to the Group as at the end of the period under review and such amount is expected to be recognized in the annual results of the Group for 2018.

Tomson Riviera Garden, Shanghai

Tomson Riviera Garden is a low-density residential project of the Group adjacent to Tomson Shanghai Pudong Golf Club in Sanba River District of Pudong and the Group holds a 70% interest in this project.

All residential units were sold out and the Group retains a club house for leasing purpose. For the period under review, rental income and management fee in the aggregate of HK$4.47 million was recognized and this accounted for approximately 1.25% of the gross proceeds from operations of the Group.

Commercial and Industrial Buildings, Shanghai

Rental income and management fee from the Group's commercial and industrial property portfolio in Pudong, which comprised, inter alia, Tomson Commercial Building, Tomson International Trade Building, Tomson Waigaoqiao Industrial Park, the commercial podium of Tomson Business Centre and the office premises on the entire 72nd Floor of Shanghai World Financial Center, provided a steady recurrent revenue of HK$69.29 million to the Group and this accounted for approximately 19.34% of the gross proceeds from operations of the Group for the period under review. The Group also recorded an unrealized gain on fair value changes of the aforesaid properties of HK$149.79 million in its results for the period under review.

Miscellaneous Residential Development in Shanghai

Tomson Golf Villas and Garden have been developed in phases around the periphery of Tomson Shanghai Pudong Golf Club in Pudong since 1996 and there are now less than 10 residential units and one hundred plus car parking spaces available for sale. During the period under review, the project recognized total revenue of HK$3.64 million from sale of car parking spaces and leasing of residential units which represented approximately 1.01% of the gross proceeds from operations of the Group.

Jinqiao-Zhangjiang Project, Shanghai

In September 2010, a wholly-owned subsidiary of the Company acquired the land use rights of a plot of land with a site area of approximately 300,700 square meters (the "Tomson Portion") located in Jinqiao-Zhangjiang District of Pudong and adjacent to Tomson Shanghai Pudong Golf Club. Initial plans were for the Tomson Portion to be developed into a low-density residential development in phases. Vacant possession of over 80% of the site area of the Tomson Portion has been delivered to the Group in phases but delivery of the last phase of the Tomson Portion ("Phase 7") did not take place before the end of 2016 as agreed.

In January 2013, the said wholly-owned subsidiary entered into a conditional framework agreement to acquire the land use rights of a plot of land with a site area of approximately 422,174.6 square meters (the "Sports Portion") for landscaping and sports facilities purposes and a residential development project (the "Development Project") on a plot of land with a site area of approximately 28,286.2 square meters in Jinqiao-Zhangjiang District of Pudong. As these two plots of land were intermingled with the Tomson Portion, the Group had intended to incorporate these land lots into the master development plan of the Tomson Portion. The Group entered into a supplemental agreement in July 2016 to cancel the inter-conditional requirement in respect of the completion of the transfers of the land use rights of the Sports Portion and the Development Project to facilitate the acquisition of the Development Project by the Group and this acquisition was subsequently completed in 2016.

Construction works on the first phase of the Tomson Portion ("Phase 1") and the Development Project have been put on hold pending clearance of related planning matters due to subsequent zoning and planning adjustments.

On 11th January, 2017, Pudong New Area Planning and Land Authority of Shanghai published on its website a public notice with respect to the proposed adjustment and change to Zhangjiabang Wedge-shaped Green Space Development Plan which covers the portion located in Jinqiao-Zhangjiang District of Pudong and north of a stream named Zhangjiabang (the "Northern Portion"), within which the Tomson Portion, the Development Project and the Sports Portion are located ("Proposed Planning Changes"). Having conducted a preliminary review and analysis of the Proposed Planning Changes, the Company noted that the Proposed Planning Changes, if effected, might involve the following: (i) the original site over which Phase 7 is located would not be delivered to the Group and instead, another piece of land in the Northern Portion might be allocated to the Group in substitution and as replacement; (ii) while the location of Phase 1 and the Development Project would remain unchanged, there might be an adjustment and relocation of the other plots forming the Tomson Portion (which are originally located along the boundaries and in the centre of the Northern Portion) such that the aforesaid plots will be consolidated with Phase 1 and the Development Project to become three combined plots within the Northern Portion to be allocated to the Group for residential development ("Revised Tomson Residential Development"); (iii) if the aforesaid relocation were to materialize, the Revised Tomson Residential Development would be relocated farther away from the high voltage pylons running along the northern side of the original Tomson Portion; (iv) there might be a slight decrease in the aggregate site area of the Revised Tomson Residential Development; and (v) the original Sports Portion might not be available for delivery to the Group because all the remaining areas surrounding the Revised Tomson Residential Development within the Northern Portion will be re-categorized as "public greenery and sports lands". In August 2017, the municipal government of Shanghai issued its consent in principle to the Proposed Planning Changes. The Group and the contracting party have been collaborating closely in negotiations with relevant government authorities, with the aim of putting into effect the adjustments under the Proposed Planning Changes in the best interests of all parties concerned.

One Penha Hill, Macau

The Group holds a 70% interest in a luxury residential condominium development project, One Penha Hill, at Penha Hill within a designated World Heritage Zone of Macau Special Administrative Region of China ("Macau"). No revenue was generated during the period under review. As at 30th June, 2018, residential gross floor area available for sale was approximately 10,800 square meters. Sale deposits of HK$5.69 million were credited to the Group and will be recognized in the results of the Group upon delivery of the properties.

Hospitality and Leisure Industry

Tomson Shanghai Pudong Golf Club, Shanghai

Tomson Shanghai Pudong Golf Club generated revenue of HK$18,242,000, being approximately 5.09% of the gross proceeds from operations of the Group, and reported a segment loss of HK$8,602,000 for the six months ended 30th June, 2018 (2017: HK$7,521,000). The revenue of the Club was mainly derived from golfing activities and the annual membership fee income was the secondary source. There was a drop in revenue possibly due to government policies regulating the golfing activities and the remaining tenor of the debentures being less than ten years.

InterContinental Shanghai Pudong, Shanghai

The Group holds a 50% interest in InterContinental Shanghai Pudong hotel. After completion of the renovation works in guest rooms on five floors in 2017, both revenue and gross operating profit had improved during the period under review as compared with that in the corresponding period in 2017. The hotel reported an average occupancy rate of approximately 75.24% (which was higher than budget) and the Group shared a net profit of HK$5.96 million (2017: HK$3.33 million) from this investment for the period under review.

Media and Entertainment

The Group set up its film distribution business in 2011 and also participated in the production of live entertainment shows. Gross revenue received and receivable from this segment amounted to HK$5,055,000 and this accounted for approximately 1.41% of gross proceeds from operations of the Group during the first six months of 2018. The revenue for the period under review was solely generated from investments in production of live entertainment shows and a segment loss of HK$4,249,000 (2017: HK$605,000) was recorded after taking into account impairment provision for film distribution rights.

PVC Operations

To capitalize on the Group's established brand and goodwill in the industry, the Group set up a wholly-owned subsidiary in Shanghai in mid-2013 to engage in export trade of PVC fittings and pipes. In the first half of 2018, the trading operation reported insignificant revenue, which accounted for approximately 0.27% of the gross proceeds from operations of the Group, and recognized a segment profit of HK$81,000 (2017: segment loss of HK$348,000) after recovery of bad debts.

Securities Trading

The Group did not participate in securities trading business during the period under review. No revenue was generated and a segment loss of HK$127,000 was resulted after taking account of operation expenses (2017: net gain in trading securities investments of HK$10,461,000).

Investment Holding

The Group holds a 9.8% interest in the issued shares of Rivera (Holdings) Limited ("RHL"), a listed company in Hong Kong Special Administrative Region of China ("Hong Kong"), as a long-term investment. RHL is principally engaged in property development and investment in Shanghai as well as securities trading and investment in Hong Kong. The Group received dividends of HK$11,505,000 from RHL during the period under review and an unrealized gain on change in fair value of the investment of HK$5,113,000 was credited to the investment reserve of the Group in 2018 pursuant to applicable accounting standards.

The Group also holds a 13.5% interest in the registered capital of an unlisted associated company of RHL established in Shanghai as a long-term investment. The company is principally engaged in property development and investment in Shanghai.

FINANCIAL REVIEW

Liquidity and Financing

The Group's capital expenditure and investments for the six months ended 30th June, 2018 were mainly funded by cash on hand, and revenue from investing and financing activities.

At the end of the reporting period, the cash and cash equivalents of the Group amounted to HK$4,064,910,000. During the period under review, the Group generated net cash inflows of HK$97,806,000 and HK$530,310,000 from its investing and financing activities respectively. Taking into account the net cash outflow of HK$220,441,000 from operating activities, the Group recorded a net increase in cash and cash equivalents of HK$407,675,000 (2017: HK$1,988,156,000). The net cash inflow for the period under review was mainly attributable to new borrowings raised and clearance of bills receivable in relation to the balance of proceeds from disposal of subsidiaries in prior year but they were partly offset by placement of pledged bank deposits and repayment of borrowings.

As at 30th June, 2018, excluding receipts in advance, of the liabilities of the Group of HK$8,529,401,000 (31st December, 2017: HK$8,043,949,000), about 54.75% were taxation under current liabilities, about 18.56% were deferred tax liabilities, about 17.95% were borrowings while about 8.74% were trade and other payables and accruals.

The Group's borrowings as at 30th June, 2018 amounted to HK$1,531,316,000 (31st December, 2017: HK$797,215,000), equivalent to 11.46% (31st December, 2017: 6.03%) of the equity attributable to owners of the Company at the same date. The Group did not employ any financial instruments for financing and treasury management. All of the borrowings were under security and subject to floating interest rates. Of these borrowings, approximately 36.58% were due for repayment within one year from the end of the reporting period, approximately 10.07% were repayable more than one year but not exceeding two years from the end of the reporting period, approximately 36.65% were due for repayment more than two years but not exceeding five years from the end of the reporting period while the remaining 16.70% were repayable more than five years from the end of the reporting period.

At the end of the reporting period, the Group had commitments in relation to expenditure on properties under development of HK$132,914,000 (31st December, 2017: HK$153,182,000) which were contracted but not provided for. The Group anticipates that these commitments will be funded from its future operating revenue, bank borrowings and other sources of finance where appropriate.

As at 30th June, 2018, the Group recorded a current ratio of 1.84 times (31st December, 2017: 1.86 times) and a gearing ratio (total liabilities to equity attributable to owners of the Company) of 65.55% (31st December, 2017: 62.50%). There was no significant change in the current ratio while the rise in gearing ratio was mainly attributable to new borrowings raised.

Charge on Assets

As at 30th June, 2018, assets of the Group with an aggregate carrying value of HK$2,583.87 million (31st December, 2017: HK$7,306.46 million) were pledged for securing bank facilities of the Group.

Foreign Exchange Exposure

The majority of the Group's assets and liabilities are denominated in Renminbi, and the liabilities are well covered by the assets. The depreciation in value of Renminbi may have an adverse impact mainly on the net asset value of the Group. In addition, as all of the other assets and liabilities of the Group are denominated in either Hong Kong Dollar or United States Dollar, the Group anticipates that the exchange risk exposure is manageable.

Contingent Liabilities

During the period under review, a non-wholly owned subsidiary of the Company entered into an arbitration agreement with its former property project manager in connection with a claim arising from a project management agreement. The project manager, being the claimant, had lodged a claim for approximately HK$83.4 million against the said subsidiary, which had lodged counter-claims against the claimant for a total amount well in excess of HK$83.4 million. The Directors of the Company consider that the said subsidiary has strong grounds to reject the claimant's claim and to support its own counter-claims, and therefore it would be unlikely for the Group to suffer any material financial loss as a result of the arbitration.

The Group had no material contingent liabilities as at 31st December, 2017.

PROSPECTS

The tightening measures imposed by the central and local governments on the real estate market in the Mainland of China and in Macau continued to be enforced with vigour, with no signs of any relaxation in sight. Added to this, uncertainties in the global economy emanating from the commencement of ending of quantitative easing, rise in interest rates and recent threatened and implemented trade wars between the biggest economies and trading blocs would impact unfavourably on the behaviour of potential purchasers of property and the consuming public as a whole.

Noticeable efforts have been directed by the Mainland government towards the development of properties earmarked for the residential leasing market. It is anticipated that with the resultant allocation of resources by government and corporate entities, this sector should see greater growth in the near future.

The Group remains optimistic about the underlying demand for properties catering to a high-income middle class and high net-worth individuals in the Mainland. The Group will endeavour to maintain the momentum in its sale and leasing plans for the property portfolio in Shanghai and Macau, with Tomson Riviera remaining as the Group's principal source of profit in 2018.

In light of evolving volatility in the Hong Kong and global financial markets, the management will continue to adopt a conservative approach in managing the securities trading portfolio of the Group, with an emphasis on securities with steady recurrent yield. Whilst property development and investment will still be the focus of the Group's business and investment strategies, the Group will continue to explore and evaluate prudently other potential investment opportunities. However, it will be the objective of the Group to maintain an optimum balance in the allocation of its resources both geographically and in different business segments.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the six months ended 30th June, 2018, there was no purchase, sale or redemption made by the Company, or any of its subsidiaries, of the Company's listed securities.

CORPORATE GOVERNANCE PRACTICES

The Board of the Company considers that the Company has complied with all the code provisions set out in the Corporate Governance Code (the "CG Code") contained in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") throughout the period of six months ended 30th June, 2018, except that:

(a) Madam Hsu Feng takes up both the posts of Chairman of the Board and Managing Director of the Company. While this is a deviation from the CG Code, dual role leadership provides the Group with a strong and consistent leadership and allows for more effective operation of the business. The Board is of the view that adequate check and balance of power is in place. Responsibilities for the Company's daily business management are shared amongst Madam Hsu and other members of the Executive Committee of the Board. Besides, all major decisions are made in consultation with members of the Board or appropriate committees of the Board in accordance with the provisions of the code on risk management and internal control of the Company;

(b) none of the existing independent non-executive Directors of the Company are appointed for a specific term, but they are subject to retirement and re-election at least once every three years at annual general meetings of the Company pursuant to the Articles of Association of the Company (the "Articles");

(c) in accordance with the Articles, any Director of the Company appointed by the Board to fill a casual vacancy shall hold office until the next following annual general meeting of the Company instead of being subject to election at the first general meeting of the Company after his/her appointment as stipulated in the CG Code. Such arrangement not only complies with Appendix 3 to the Listing Rules but also streamlines the mechanism of re-election of Directors so that both new Directors appointed by the Board (either for filling a causal vacancy or as an additional member) and existing Directors retiring by rotation shall be subject to re-election at the annual general meeting for the relevant year. Furthermore, extraordinary general meetings will be reserved for considering and approving notifiable/connected transactions or other corporate actions under the Listing Rules only, which should enhance efficiency in procedures for corporate matters; and

(d) the Company has not established a nomination committee comprising a majority of independent non-executive Directors as stipulated in the CG Code. This is because when identifying individuals of the appropriate calibre and qualification to be Board members and when assessing the independence of independent non-executive Directors, it is necessary to have a thorough understanding of the structure, business strategy and daily operation of the Company. The participation of executive Directors during the process is therefore indispensable. Accordingly, the Board as a whole remains responsible for reviewing its own structure, size and composition annually, and also for considering the appointment and nomination of re-election of Directors as well as assessing the independence of independent non-executive Directors.

PUBLICATION OF INTERIM RESULTS AND INTERIM REPORT FOR THE SIX MONTHS ENDED 30TH JUNE, 2018

This interim results announcement is published on the HKExnews website of Hong Kong Exchanges and Clearing Limited at http://www.hkexnews.hk and on the Company's website at http://www.tomson.com.hk. The Interim Report 2018 of the Company will be despatched to the shareholders of the Company by the end of September 2018 and will be available on the above websites.

On behalf of the Board of
TOMSON GROUP LIMITED
Hsu Feng
Chairman and Managing Director

Hong Kong, 29th August, 2018

As at the date of this announcement, the Board of the Company comprises four executive Directors, Madam Hsu Feng (Chairman and Managing Director), Mr Albert Tong (Vice-Chairman), Mr Tong Chi Kar Charles (Vice-Chairman) and Mr Yeung Kam Hoi, and three independent non-executive Directors, Mr Cheung Siu Ping, Oscar, Mr Lee Chan Fai and Mr Sean S J Wang.