FORNTON GROUP LIMITED
豐臨集團有限公司

(Incorporated in Bermuda with limited liability)

(Stock Code: 1152)

ANNOUNCEMENT OF FINAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2011

The board of directors (the "Board") of Fornton Group Limited (the "Company") would like to announce the audited consolidated results of the Company and its subsidiaries (collectively, the "Group") for the year ended 31 December 2011 (the "Annual Results"), together with the comparative figures for the previous year, as follows:

CONSOLIDATED INCOME STATEMENT
For the year ended 31 December 2011

	Notes	2011 HK$'000	2010 HK$'000
Turnover	4	**326,624**	356,122
Cost of sales		**(247,233)**	(273,113)
Gross profit		**79,391**	83,009
Other operating income	4	**3,933**	6,421
Selling and distribution expenses		**(9,669)**	(13,589)
Administrative and other expenses		**(57,051)**	(41,857)
Finance costs		**(700)**	(407)
Profit before taxation		**15,904**	33,577
Income tax expense	6	**(4,823)**	(5,610)
Profit for the year	7	**11,081**	27,967
Exchange differences arising on translation of foreign operations and total other comprehensive expense		**2,411**	(264)
Total comprehensive income for the year, net of tax		**13,492**	27,703
Earnings per share (HK cents)			
Basic and diluted	9	**3.4**	9.0

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2011

	Notes	2011 HK$'000	2010 HK$'000
Non-current assets			
Plant and equipment		**49,542**	15,319
Deposit paid for acquisition of plant and equipment		**872**	—
Prepaid lease payment		**13,880**	13,293
		64,294	28,612
Current assets			
Inventories		**26,987**	23,115
Prepaid lease payment		**327**	302
Trade and other receivables	*10*	**52,682**	49,229
Derivative financial instruments		**700**	—
Tax recoverable		**254**	—
Pledged bank deposits		**3,000**	—
Bank balances and cash		**47,975**	51,562
		131,925	124,208
Current liabilities			
Trade and other payables	*11*	**32,037**	40,050
Dividends payables		**—**	4,830
Amount due to a director		**3,640**	—
Amount due to a related company		**711**	—
Bank borrowings		**33,616**	9,555
Obligations under finance leases — due within one year		**210**	210
Income tax payables		**815**	1,411
		71,029	56,056
Net current assets		**60,896**	68,152
Total assets less current liabilities		**125,190**	96,764
Non-current liabilities			
Bank borrowings		**—**	32,466
Obligations under finance leases — due after one year		**158**	368
Deferred taxation		**94**	151
		252	32,985
		124,938	63,779
Capital and reserves			
Share capital		**4,160**	2,023
Reserves		**120,778**	61,756
		124,938	63,779

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

1. GENERAL INFORMATION

The Company was incorporated in Bermuda on 13 April 2011 as an exempted company with limited liability. The address of the registered office and principal place of business of the Company is Unit A, 32nd Floor, Legend Tower, 7 Shing Yip Street, Kwun Tong, Kowloon. The shares of the Company (the "Shares") have been listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") since 28 October 2011.

The functional currency of the Company is United States dollars ("US$"). The consolidated financial statements are presented in Hong Kong dollars ("HK$") as the operation of the Group is mainly based in Hong Kong.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

For the purpose of preparing and presenting the consolidated financial statements for the year ended 31 December 2011, the Group has adopted all the HKFRSs, amendments and the related interpretations issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") which are effective for the Group's financial year beginning on 1 January 2011, same as the beginning of the earliest year presented.

The Group has not early adopted any new and revised standards, amendments and new interpretations that have been issued by the HKICPA but are not yet effective for the financial year beginning on or after 1 January 2011.

3. BASIS OF PREPARATION

Pursuant to a group reorganisation (the "Reorganisation") of the Group to rationalise the structure of the Group in preparation for the listing of the Shares on the Stock Exchange (the "Listing"), the Company acquired the entire interests of Wide Reach Limited and its subsidiaries by way of swap of shares and became the holding company of the companies now comprising the Group on 11 October 2011. Details of the Reorganisation were set out in the prospectus of the Company dated 18 October 2011 (the "Prospectus") in relation to the initial public offer and placing of the Shares (the "Share Offer").

Since all entities which took part in the Reorganisation were under common control of a group of ultimate equity shareholders, the Group is regarded as a continuing entity resulting from the Reorganisation of entities under common control. These consolidated financial statements have been prepared on the basis that the current group structure had been in existence at the beginning of the earliest year presented, using the principle of merger accounting as set out in the Accounting Guidelines 5 "Merger Accounting for common control considerations" issued by the HKICPA. Accordingly, the consolidated results of the Group for the two years ended 31 December 2010 and 2011 include the results of the Company and its subsidiaries with effect from 1 January 2010 or, if later, since their respective dates of incorporation, as if the current group structure had been in existence throughout the two years presented. The consolidated statement of financial position of the Group as at 31 December 2010 has been prepared as if the current group structure had been in existence as at that date. All material intra-group transactions and balances have been eliminated on consolidation.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the effective date of acquisition and up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") and the Hong Kong Companies Ordinance.

The consolidated financial statements have been prepared under the historical cost basis except for certain financial instruments, which are measured at fair values. Historical cost is generally based on the fair value of the consideration given in exchange for goods.

4. TURNOVER AND OTHER OPERATING INCOME

Turnover represents the net amounts received and receivable for goods sold in the normal course of business, net of discounts, sales returns and sales related taxes.

Analysis of the Group's turnover for the year is as follows:

	2011	2010
	HK$'000	*HK$'000*
Turnover		
Sales of knitted products	**326,624**	356,122
Other operating income		
Change in fair value of derivative financial instruments	**700**	—
Net investment income from derivative financial instruments	**360**	—
Bank interest income	**171**	228
Gain on disposal of plant and equipment	**494**	190
Waiver of trade payables *(Note)*	**851**	—
Sales of scrapped materials	**902**	5,527
Sundry income	**455**	181
Net exchange gain	**—**	106
Interest from a related company	**—**	189
	3,933	6,421

Note: On 16 November 2011, the High Court made a decision in favour of the Group to dismiss a claim of approximately HK$851,000 from a supplier. The Group recorded the claimed amount in the trade payable as at 31 December 2010.

5. SEGMENT INFORMATION

The Group is engaged in a single segment, the production and trading of knitwear. Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the board of directors as they collectively make strategic decision in allocating the Group's resources and assessing performance.

Geographical information

The Group's operations are located in Hong Kong and the People Republic of China (the "PRC").

The Group's customers are mainly located in the United States of America (the "USA").

An analysis of the Group's revenue from customers based on their geographical location of their headquarters is detailed below:

	2011	2010
	HK$'000	*HK$'000*
USA	**217,047**	270,664
Europe	**80,087**	52,022
Canada	**18,413**	22,065
Others	**11,077**	11,371
	326,624	356,122

Less than 1% of the Group's revenue is derived from customers based in Hong Kong (country of domicile) during the years ended 31 December 2011 and 2010.

The Group's information about its non-current assets based on geographical location of the assets is detailed below:

	Non-current assets	
	2011	2010
	HK$'000	*HK$'000*
Hong Kong	**2,834**	3,942
The PRC	**61,460**	24,670
	64,294	28,612

Information about major customers

Details of the customers accounting for 10% or more of total revenue of the Group during the year are as follows:

	2011	2010
	HK$'000	*HK$'000*
Customer A	**207,164**	200,496
Customer B	**N/A***	61,945

* *The revenue generated by Customer B does not contribute over 10% of the total revenue of the Group in the respective year.*

6. INCOME TAX EXPENSE

	2011	2010
	HK$'000	*HK$'000*
Current tax:		
Hong Kong Profits Tax	**4,650**	5,179
PRC Enterprise Income Tax	**230**	371
	4,880	5,550
Deferred taxation	**(57)**	60
	4,823	5,610

Hong Kong Profits Tax was calculated at 16.5% of the Group's estimated assessable profits arising in or derived from Hong Kong for the year ended 31 December 2011 (2010: 16.5%).

Dongguan Fung Ching Knitting Limited* ("Fung Ching") (東莞豐正針織有限公司), being an indirect wholly-owned subsidiary of the Company, is a wholly-owned foreign investment enterprise and is entitled to tax concessions whereby the profit for the first two financial years beginning on 1 January 2008 is exempted from income tax in the PRC and the profit for each of the subsequent three years is taxed at 50% of the prevailing tax rate set by the PRC government.

Fung Ching is exempted from PRC Enterprise Income Tax from 1 January 2008 to 31 December 2009 and the applicable rate from 1 January 2010 to 31 December 2012 is 12.5%.

* *The English name is for identification purpose only.*

7. PROFIT FOR THE YEAR

	2011	2010
	HK$'000	*HK$'000*
Profit for the year has been arrived at after charging:		
Directors' emoluments	**3,010**	2,870
Salaries and allowances (excluding directors' emoluments)	**22,684**	21,031
Retirement benefit scheme contributions (excluding directors)	**564**	431
Total staff costs	**26,258**	24,332
Amortisation of prepaid lease payment	**327**	—
Auditor's remuneration	**700**	207
Less: over-provision in prior years	**(48)**	—
	652	207
Cost of inventories recognised	**247,233**	273,113
Depreciation of plant and equipment	**9,090**	2,897
Loss on written off of plant and equipment	**32**	51
Net exchange loss	**80**	—
Operating lease rental paid in respect of rented — office premises	**3,392**	3,381
Processing fees *(Note)*	**39,475**	31,176
Sub-contracting fee (included in cost of sales)	**82,840**	105,965

Note:

The Processing fees include the following components in accordance with the processing agreement:

	2011	2010
	HK$'000	*HK$'000*
Salaries and allowances	**12,407**	9,456
Factory's lease	**1,719**	1,640
Labour cost — direct and indirect	**22,053**	17,312
Utilities	**3,296**	2,768
	27,068	21,720
	39,475	31,176

8. DIVIDENDS

No dividend has been declared by the Company for the year ended 31 December 2011 (2010: Nil).

9. EARNINGS PER SHARE

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

	2011	2010
	HK$'000	*HK$'000*
Earnings		
Earnings for the purpose of basic earnings per share	**11,081**	27,967

	2011	2010
	'000	*'000*
Number of shares		
Weighted average number ordinary shares for the purpose of basic earnings per share	**330,521**	312,000

The diluted earnings per share is equal to the basic earnings per share as there were no dilutive potential ordinary shares during the two years ended 31 December 2011 and 2010.

The weighted average number of share in issue during the year ended 31 December 2011 represents 312,000,000 shares in issue before the Listing as if such Shares were issued on 1 January 2011, and the weighted average of 104,000,000 shares issued upon the Listing.

The weighted average number of shares in issue during the year ended 31 December 2010 represents 312,000,000 shares in issue before the Listing, as of such Shares had been outstanding during the entire year of 2010.

10. TRADE AND OTHER RECEIVABLES

	2011	2010
	HK$'000	*HK$'000*
Trade receivables	**42,722**	29,709
Other receivables	**6,107**	7,553
Prepayment	**3,853**	11,967
	52,682	49,229

The Group generally allows an average credit period of 0–45 days to its trade customers. The Group does not hold any collateral over these balances.

An aged analysis of trade receivables, net of impairment loss recognised, presented based on the invoice date at the end of the reporting period is as follows:

	2011	2010
	HK$'000	*HK$'000*
0 to 45 days	**38,261**	28,096
46 to 90 days	**3,790**	1,552
91 to 365 days	**671**	61
	42,722	29,709

11. TRADE AND OTHER PAYABLES

	2011	2010
	HK$'000	*HK$'000*
Trade payables	**15,334**	19,796
Receipt in advance	**206**	398
Other payables	**15,001**	12,967
Value added tax payables	**1,496**	6,889
	32,037	40,050

An aged analysis of trade payables presented based on the invoice date at the end of the reporting period is as follows:

	2011	2010
	HK$'000	*HK$'000*
0 to 90 days	**14,111**	18,318
91 to 365 days	**1,211**	614
Over 365 days	**12**	864
	15,334	19,796

The average credit period on purchase of goods is 30 days to 90 days. The Group has financial risk management policies or plans for its payables with respect to the credit timeframe.

FINANCIAL REVIEW AND ANALYSIS

For the year ended 31 December 2011

Financial Performance and Business Review

The Group is a knitwear manufacturer established in Hong Kong which manufactures an extensive assortment of knitwear products ranging from classically styled wardrobe basis to high quality fashion apparel. Same as previous years, the Group's customers mainly comprise international apparel brand owners headquartered in the USA and European countries such as Germany and Switzerland with their products marketed under their own labels and sold around the world.

In 2011, the Group recorded a turnover of approximately HK$326,624,000, showing a decrease of 8.3% from the 2010's turnover of approximately HK$356,122,000, which was mainly attributable to a drop in sales order from one of the major customers of the Group based in the USA with low profit margin. Such drop was slightly compensated by an increase in sales orders from a range of other customers including new customers with higher profit margin.

As compared with turnover in previous year, turnover generated by customers with headquarters based in the USA, European countries, Canada and other countries over the total turnover of the Group decreased from 76.0% to 66.5%, increased from 14.6% to 24.5%, decreased from 6.2% to 5.6%, and increased from 3.2% to 3.4%, respectively.

Gross profit of the Group for the year 2011 decreased by 4.4% from approximately HK$83,009,000 in previous year to approximately HK$79,391,000. However, the Group was able to improve its gross profit margin from approximately 23.3% in 2010 to approximately 24.3% in 2011. The minor improvement in the gross profit margin was mainly attributable to the combined effects of (i) a shift from low profit margin customers to higher profit margin customers; (ii) a decrease in cost of materials by 11.9% when compared with that of the previous year as a result of overall decrease in yarn price and the shift of customers' choice to use less expensive yarn; (iii) a substantial decrease in subcontracting charges from approximately HK$105,965,000 in 2010 to approximately HK$82,840,000 in 2011 due to the use of computerised knitting machines; and (iv) a significant increase in production-related labour cost of 20.9% when compared to that in 2010.

For the year ended 31 December 2011, the Group recorded a profit of approximately HK$11,081,000, representing a significant decrease of approximately 60.4% as against approximately HK$27,967,000 for the previous year. Such significant decrease was mainly attributable to (i) decrease in turnover due to the reason mentioned above; (ii) listing expenses of approximately HK$8,995,000 incurred for the Listing in last October; and (iii) an increase in general and administrative expenses of approximately HK$6,199,000 in aggregate arising from recruitment of senior managements for strengthening the Group's operation and attracting more new customers as well as general inflation in the PRC. Despite the significant decrease in profit, the Group is capable of maintaining long-term relationship with its customers and has been emphasising its organisational belief (i.e. "quality is the key") during the year so as to maintain a fair result of the Group.

ASSETS AND LIQUIDITY

As at 31 December 2011, the Group recorded total assets of approximately HK$196,219,000 which were financed by equity of approximately HK$124,938,000 and liabilities of approximately HK$71,281,000. The Group had total cash and bank balances of approximately HK$50,975,000. The current ratio (current assets divided by current liabilities) of the Group reduced from 2.22 times as at 31 December 2010 to 1.86 times as at 31 December 2011 which was mainly attributable to the reclassification of bank borrowings repayable within more than one year from long term liabilities as at 31 December 2010 to current liabilities as at 31 December 2011 as a result of inclusion of repayment on demand clause in the banking facilities during the year ended 31 December 2011.

CONTINGENT LIABILITIES

As at 31 December 2011, the Group did not have any significant contingent liabilities.

SUBSEQUENT EVENTS

On 24 February 2012, the Group received summons from a court for alleged breach of Import and Export Ordinance in respect of certain export sales (the "Allegations"). The Group has decided to defend against the Allegations and obtained legal advice in respect of the merits of the Allegations. The directors of the Company expect that the outcome will not have any significant impact to the operation and financial position of the Group.

On 2 March 2012, pursuant to requisition by the local authorities Fung Ching entered into a land requisition agreement with Dongguan City Dalang Town Land Reserve Acquisition Office ("Dalang Land Office") whereby Fung Ching agreed to sell the land held under Fung Ching (the "Land") to the Dalang Land Office at a consideration of Renminbi 15,500,000 (equivalent to approximately HK$19,100,000) (the "Disposal") due to the town development plan of Dalang Town. As mentioned in the section headed "Future plans and use of proceeds" in the Prospectus, the Land was planned for development of new factory to increase the Group's overall production capacity. Having entered into the land acquisition agreement, the proceeds from the Disposal will be retained as cash reserves. Until the Group finalises on a new expansion alternative, the reserves will be used as working capital. Details of the Disposal are set out in the announcement of the Company dated 2 March 2012.

USE OF PROCEEDS

The Company has set out the intended use of the net proceeds from the Share Offer of approximately HK$39,700,000 in the section headed "Future plans and use of proceeds" in the Prospectus. Approximately HK$17,300,000 was at the time of the Share Offer allocated to the proposed construction of the new production factory on the Land. As a result of the Disposal, the Company has reallocated the said HK$17,300,000 to general working capital purpose. As at 31 December 2011, the unused proceeds of HK$39,300,000 were deposited in licensed banks in Hong Kong. Set out below is the original intended use of proceeds as set out in the Prospectus, revised intended use of proceeds, utilised amount and unutilised amount of the net proceeds as at 31 December 2011:

	Original intended use of proceeds	Revised intended use of proceeds	Net proceeds *(HK$ million)*	Utilised amount (as at 31 December 2011) *(HK$ million)*	Unutilised amount (as at 31 December 2011) *(HK$ million)*
1	construction of new production factory on the Land	reallocated as general working capital	17.3	—	17.3
2	acquisition of an additional 220 sets of computerised knitting machines;	remaining unchanged	18.1	0.3	17.8
3	enhancing the Group's product design and development capabilities and sales and merchandising capabilities	remaining unchanged	1.5	0.1	1.4
4	developing the enterprise resource planning system of the Group covering various functions	remaining unchanged	0.8	—	0.8
5	the Group's working capital	remaining unchanged	2.0	—	2.0

FOREIGN EXCHANGE EXPOSURE

The Group's sales and purchases are principally transacted in US$. With production plants and office located in the PRC and Hong Kong, operating expenses of the Group are primarily denominated in HK$, Renminbi or US$. As the HK$ is pegged to the US$, the Group does not expect to be exposed to any currency risks in the near term. Moreover, the Group has a foreign currency hedging policy to monitor the foreign exchange exposure and has entered into several structured forward contracts during the year 2011 to manage the currency exposure. It will also consider further hedging significant foreign currency exposure should the need arise.

EMPLOYEE AND REMUNERATION POLICY

As at 31 December 2011, the Group has workforce of approximately 1,200 persons including three executive directors and three independent non-executive directors in Hong Kong and the PRC. Remuneration policies of the Group were determined with reference to performance, qualification and experience of the staff as well as the operating results of the Group and the current market condition with salaries and wages being reviewed on an annual basis. The Group also provided discretionary bonus, medical insurance, social security and provident fund to the staff of the Group. Pursuant to the written resolution of the shareholders of the Company on 11 October 2011, the Company has adopted a share option scheme (the "Scheme") for the purpose of motivating eligible participants. For the year ended 31 December 2011, no share options were granted by the Company since the adoption of the Scheme.

OUTLOOK

2012 will be another difficult year for both the Group and the garment manufacturing industry. The global macroeconomic environment continues to remain uncertain. On a cost level, depending on the PRC's inflation, the Group's operating expenses may be affected, which may negatively impact the profitability. The Group may also face some challenges to its business as a vast majority of our customers is with headquarters based in the USA and Europe in which the economic growth is stagnant and the unemployment rate is high, and the European customers are facing the unpredictability of the Euro debt crisis. Given the standardised and competitive environment of garment manufacturing industry, the Group will continue to focus on product quality by manufacturing novel and complicated designs to attract new customers.

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

The Group has adopted the practices that has complied with all the code provisions as set out in Appendix 14 — Code on Corporate Governance Practices of the Listing Rules since the Company has listed on 28 October 2011.

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

Since the Shares have been listed on the Stock Exchange on 28 October 2011 and up to 31 December 2011, neither the Company nor any of its subsidiaries purchased, sold or redeemed any listed securities of the Company.

AUDIT COMMITTEE

The Annual Results have been reviewed by the Audit Committee of the Company.

ANNUAL REPORT AND FURTHER INFORMATION

This result announcement is published on the website of the Company (*www.fornton.com*) and the website of the Stock Exchange (*www.hkex.com.hk*). The annual report of the Group for the year ended 31 December 2011 containing all information required by Appendix 16 of the Listing Rules will be despatched to the shareholders of the Company as well as available on the same websites in due course.

By Order of the Board
Yam Tak Cheung
Chairman

Hong Kong, 28 March 2012

As at the date of this announcement, the following persons are directors of the Company:

Executive Directors:
Mr. Yam Tak Cheung *(Chairman)*
Ms. Wong Kan Kan, Kandy
Mr. Wong Tat Wai, Derek

Independent Non-executive Directors:
Mr. Wang Wei Hung, Andrew
Mr. Cheng Dickson
Mr. Sin Ka Man