

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this announcement, make no representation as to its accuracy or completeness and expressly disclaim any liabilities whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.

## FORNTON GROUP LIMITED

### 豐臨集團有限公司

(Incorporated in Bermuda with limited liability)

(Stock Code: 1152)

### INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2012

The Board of Directors of Fornton Group Limited (the “Company”) is pleased to announce the unaudited interim results of the Company and its subsidiaries (the “Group”) for the six months ended 30 June 2012 as follows. The interim results have not been audited, but have been reviewed by the Company’s Audit Committee.

#### CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2012

		Six months ended 30 June	
		2012	2011
	Notes	HK\$’000	HK\$’000
		(Unaudited)	(Unaudited)
Turnover	4	106,804	119,846
Cost of sales		<u>(86,372)</u>	<u>(92,506)</u>
Gross profit		20,432	27,340
Other operating income	4	4,235	2,203
Selling and distribution expenses		(3,557)	(4,256)
Administrative and other expenses		(25,847)	(23,470)
Finance costs	6	<u>(265)</u>	<u>(284)</u>
(Loss) profit before taxation		(5,002)	1,533
Income tax credit (expense)	7	<u>434</u>	<u>(621)</u>
(Loss) profit for the period	8	(4,568)	912
Exchange differences arising on translation of foreign operations and total other comprehensive income		<u>130</u>	<u>502</u>
Total comprehensive (expenses) income for the period		<u><u>(4,438)</u></u>	<u><u>1,414</u></u>
(Loss) earnings per share (HK cents)			
Basic and diluted	10	<u><u>(1.1)</u></u>	<u><u>0.3</u></u>

## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2012

	<i>Notes</i>	<b>30.6.2012</b> <i>HK\$'000</i> <b>(Unaudited)</b>	31.12.2011 <i>HK\$'000</i> <b>(Audited)</b>
<b>Non-current assets</b>			
Plant and equipment	<i>11</i>	<b>44,178</b>	49,542
Deposit paid for acquisition of plant and equipment		<b>2,022</b>	872
Prepaid lease payment	<i>11</i>	<b>—</b>	13,880
Deferred taxation		<b>849</b>	<b>—</b>
		<b>47,049</b>	<b>64,294</b>
<b>Current assets</b>			
Inventories		<b>105,447</b>	26,987
Prepaid lease payment		<b>—</b>	327
Trade and other receivables	<i>12</i>	<b>73,284</b>	52,682
Derivative financial instruments	<i>13</i>	<b>500</b>	700
Tax recoverable		<b>254</b>	254
Pledge bank deposits		<b>3,000</b>	3,000
Bank balances and cash		<b>37,984</b>	47,975
		<b>220,469</b>	<b>131,925</b>
<b>Current liabilities</b>			
Trade and other payables	<i>14</i>	<b>61,123</b>	32,037
Amounts due to directors	<i>15</i>	<b>29,740</b>	3,640
Amount due to a related company	<i>15</i>	<b>711</b>	711
Bank borrowings		<b>54,019</b>	33,616
Obligation under finance leases — due within one year		<b>210</b>	210
Income tax payables		<b>1,162</b>	815
		<b>146,965</b>	<b>71,029</b>
Net current assets		<b>73,504</b>	60,896
Total assets less current liabilities		<b>120,553</b>	125,190
<b>Non-current liabilities</b>			
Obligations under finance leases — due after one year		<b>53</b>	158
Deferred taxation		<b>—</b>	94
		<b>53</b>	252
		<b>120,500</b>	<b>124,938</b>
<b>Capital and reserves</b>			
Share capital		<b>4,160</b>	4,160
Reserves		<b>116,340</b>	120,778
		<b>120,500</b>	<b>124,938</b>

# NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

## 1. GENERAL

Fornton Group Limited (the “Company”) was incorporated in Bermuda on 13 April 2011 as an exempted company with limited liability. The addresses of the registered office and principal place of business of the Company are Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda and Unit A, 32/F, Legend Tower, No. 7, Shing Yip Street, Kwun Tong, Kowloon, Hong Kong respectively.

Pursuant to a group reorganisation (the “Reorganisation”) of the Company and its subsidiaries (collectively referred to as the “Group”) to rationalise the structure of the Group in preparation for the listing of the Company’s shares on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) (the “Listing”), the Company acquired the entire interests of Wide Reach Limited (the “Wide Reach”) 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 shares of the Company have been listed on the Stock Exchange since 28 October 2011.

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. The condensed consolidated interim financial statements of the Group for the six month ended 30 June 2011 have been prepared on the basis that the current group structure had been in existence at the beginning of the earliest period presented, using the principle of merger accounting as set out in the Accounting Guidelines 5 “Merger Accounting for common control considerations” issued by the Hong Kong Institutes of Certified Public Accountants (the “HKICPA”). Accordingly, the condensed consolidated interim financial statements of the Group for the six months ended 30 June 2011 shown as comparatives in this report have been prepared as if the current group structure had been in existence throughout both periods presented, or since the respective dates of incorporation or establishment of the group companies, rather than from the date when the Company became the holding company of the Group pursuant to the Reorganisation.

The Company acts as an investment holding company and its subsidiaries are principally engaged in the sub-contracting of knitted garment and the manufacture and trading of knitwear.

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

## 2. BASIS OF PREPARATION

The condensed consolidated interim financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities (the “Listing Rules”) on the Stock Exchange and with Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting” issued by the HKICPA. The condensed consolidated interim financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group’s annual financial statements for the year ended 31 December 2011, which have been prepared in accordance with Hong Kong Financial Reporting Standards (the “HKFRSs”).

### 3. SIGNIFICANT ACCOUNTING POLICIES

The condensed consolidated interim financial statements have been prepared on the historical cost basis, except for certain derivative financial instruments, which are measured at fair values, as appropriate.

Except as described below, the accounting policies and methods of computation used in the condensed consolidated interim financial statements for the six months ended 30 June 2012 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2011.

In the current interim period, the Group has applied, for the first time, the following amendments to HKFRSs and HKAS issued by the HKICPA which are effective for the Group's financial year beginning on 1 January 2012.

Amendments to HKFRS 1	Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters
Amendments to HKFRS 7	Disclosures — Transfers of Financial Assets
Amendments to HKAS 12	Deferred Tax: Recovery of Underlying Assets

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

The Group has not early adopted any other standards, interpretations or amendments that have been issued but are not yet effective.

The following amendments to standards have been issued after the date the consolidated financial statements for the year ended 31 December 2011 were authorised for issuance and are not yet effective.

Amendments to HKFRSs	Annual Improvements to HKFRSs 2009–2011 Cycle <sup>1</sup>
Amendments to HKFRS 10, HKFRS 11 and HKFRS 12	Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance <sup>1</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1 January 2013

The Group is in the process of making an assessment of the impact of these new and revised standards, amendments or interpretations upon initial application. So far, these standards, amendments or interpretations are unlikely to have significant impact on the Group's results of operations and financial position.

#### 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 relaxed taxes.

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

	Six months ended 30 June	
	2012 HK\$'000 (Unaudited)	2011 HK\$'000 (Unaudited)
Turnover		
Sales of knitted products	<u>106,804</u>	<u>119,846</u>
Other operating income		
Change in fair value of derivative financial instruments	—	812
Net investment income from derivative financial instruments	912	—
Bank interest income	30	75
Gain on disposal of prepaid lease payments	2,017	—
Gain on disposal of plant and equipment	—	265
Sales of scrapped materials	1,027	813
Sundry income	<u>249</u>	<u>238</u>
	<u>4,235</u>	<u>2,203</u>

#### 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 external customers based on their geographical location of their headquarters is detailed below:

	<b>Six months ended 30 June</b>	
	<b>2012</b>	2011
	<i>HK\$'000</i>	<i>HK\$'000</i>
	<b>(Unaudited)</b>	(Unaudited)
USA	58,553	74,914
Europe	34,602	34,667
Canada	4,071	6,502
Asia	<u>9,578</u>	<u>3,763</u>
	<u><b>106,804</b></u>	<u>119,846</u>

Less than 1% of the Group's revenue from external customers is derived from Hong Kong (country of domicile) during the two periods ended 30 June 2012 and 2011.

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

	<b>Non-current assets</b>	
	<b>30.6.2012</b>	31.12.2011
	<i>HK\$'000</i>	<i>HK\$'000</i>
	<b>(Unaudited)</b>	(Audited)
Hong Kong	4,835	2,834
The PRC	<u>42,214</u>	<u>61,460</u>
	<u><b>47,049</b></u>	<u>64,294</u>

#### **Information about major customers**

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

	<b>Six months ended 30 June</b>	
	<b>2012</b>	2011
	<i>HK\$'000</i>	<i>HK\$'000</i>
	<b>(Unaudited)</b>	(Unaudited)
Customer A	67,770	82,296
Customer B	11,588	N/A*
Customer C	<u>N/A*</u>	<u>12,705</u>

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

## 6. FINANCE COSTS

	Six months ended 30 June	
	2012	2011
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Interest expenses on:		
— bank borrowings wholly repayable:		
— within five years	228	71
— after five years	—	147
— trust receipt loans	22	51
— obligations under finance leases	15	15
	<u>265</u>	<u>284</u>

## 7. INCOME TAX (CREDIT) EXPENSE

	Six months ended 30 June	
	2012	2011
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Current tax		
— Hong Kong Profits Tax	343	400
— PRC Enterprise Income Tax (“EIT”)	166	221
	<u>509</u>	<u>621</u>
Deferred taxation	<u>(943)</u>	<u>—</u>
	<u>(434)</u>	<u>621</u>

(i) Hong Kong Profits Tax was calculated at 16.5% of the Group’s estimated profits for the two periods ended 30 June 2012 and 2011.

(ii) 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 EIT from 1 January 2008 to 31 December 2009 and the applicable rate from 1 January 2010 to 31 December 2012 is 12.5%.

(iii) HK\$943,000 of deferred tax assets had been recognised for the six months ended 30 June 2012 in respect of unused tax loss for the period.

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

## 8. (LOSS) PROFIT FOR THE PERIOD

Six months ended 30 June  
2012                      2011  
HK\$'000                      HK\$'000  
(Unaudited)                      (Unaudited)

(Loss) profit for the period has been arrived at after charging:

Amortisation of prepaid lease payment	55	155
Depreciation of plant and equipment	6,248	2,977
Loss on change in fair value of derivative financial instruments	200	—
Loss on written off of plant and equipment	—	30
Net exchange loss	390	115
Operating lease rental paid in respect of rented — office premises	1,789	1,776
Processing fees ( <i>Note</i> )	20,818	17,100
Sub-contracting fee (included in cost of sales)	19,846	40,852

*Note:*

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

Six months ended 30 June  
2012                      2011  
HK\$'000                      HK\$'000  
(Unaudited)                      (Unaudited)

Salaries and allowances	7,429	5,868
Factory's lease	889	864
Labour cost — direct and indirect	10,974	9,089
Utilities	1,526	1,279
	13,389	11,232
	20,818	17,100

## 9. DIVIDENDS

No dividends were paid, declared or proposed during the interim period. The directors of the Company do not recommend the payment of an interim dividend for the six months ended 30 June 2012 (six months ended 30 June 2011: nil).



## 10. (LOSS) EARNINGS PER SHARE

The calculation of the basic and diluted (loss) earnings per share attributable to the owners of the Company are based on the following data:

	<b>Six months ended 30 June</b>	
	<b>2012</b>	<b>2011</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
	<b>(Unaudited)</b>	<b>(Unaudited)</b>
<b>(Loss) earnings</b>		
(Loss) earnings for the purposes of basic and diluted earnings per share	<u><b>(4,568)</b></u>	<u><b>912</b></u>
<b>Number of share ('000)</b>		
Weighted average number of ordinary shares for the purpose of basic (loss) earnings per share	<u><b>416,000</b></u>	<u><b>312,000</b></u>

The diluted earnings per share is equal to the basic earnings per share as there were no dilutive potential ordinary shares outstanding during two periods ended 30 June 2012 and 2011.

The weighted average number of share in issue during the period ended 30 June 2012 represents 416,000,000 shares in issue after the Listing, as of such shares had been outstanding during the entire six months ended 30 June 2012.

The weighted average number of share in issue during the period ended 30 June 2011 represents 312,000,000 shares in issue before the Listing, as of such shares had been outstanding during the entire six months ended 30 June 2011.

## 11. MOVEMENTS IN PLANT AND EQUIPMENT/PREPAID LEASE PAYMENT

During the six months ended 30 June 2012, the Group incurred approximately HK\$885,000 (six months ended 30 June 2011: HK\$39,688,000) on the acquisition of plant and equipment.

During the six months ended 30 June 2012, prepaid lease payment with a net carrying value of approximately HK\$14,154,000 were disposed of by the Group to an independent third party, resulting in a net gain on disposal of approximately HK\$2,017,000.

## 12. TRADE AND OTHER RECEIVABLES

	<b>30.6.2012</b>	<b>31.12.2011</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
	<b>(Unaudited)</b>	<b>(Audited)</b>
Trade receivables	<b>50,668</b>	42,722
Other receivables	<b>13,613</b>	6,107
Prepayment	<u><b>9,003</b></u>	<u>3,853</u>
	<u><b>73,284</b></u>	<u><b>52,682</b></u>

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

	<b>30.6.2012</b>	31.12.2011
	<i>HK\$'000</i>	<i>HK\$'000</i>
	<b>(Unaudited)</b>	(Audited)
0 to 45 days	<b>46,185</b>	38,261
46 to 90 days	<b>3,257</b>	3,790
91 to 365 days	<b>1,226</b>	671
	<b><u>50,668</u></b>	<u>42,722</u>

### 13. DERIVATIVE FINANCIAL INSTRUMENTS

As at 30 June 2012, the Group entered into four non-deliverable structured forward contracts (the “Forward Contracts”) (As at 31 December 2011: three) denominated in US\$ and Renminbi with a bank.

The net fair value of the derivative financial instruments as at 30 June 2012 is approximately HK\$500,000 (As at 31 December 2011: HK\$700,000). The loss arising from the change in fair value of derivative financial instruments of approximately HK\$200,000 (six months ended 30 June 2011: gain on change in fair value of derivative financial instruments of approximately HK\$812,000) was recognised in profit or loss during the six months ended 30 June 2012.

### 14. TRADE AND OTHER PAYABLES

	<b>30.6.2012</b>	31.12.2011
	<i>HK\$'000</i>	<i>HK\$'000</i>
	<b>(Unaudited)</b>	(Audited)
Trade payables	<b>37,241</b>	15,334
Receipt in advance	<b>7,391</b>	206
Other payables	<b>15,450</b>	15,001
Value added tax payables	<b>1,041</b>	1,496
	<b><u>61,123</u></b>	<u>32,037</u>

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

	<b>30.6.2012</b>	31.12.2011
	<b>HK\$'000</b>	HK\$'000
	<b>(Unaudited)</b>	(Audited)
0 to 90 days	<b>36,788</b>	14,111
91 to 365 days	<b>326</b>	1,211
Over 365 days	<b>127</b>	12
	<b><u>37,241</u></b>	<u>15,334</u>

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.

#### 15. AMOUNTS DUE TO DIRECTORS/A RELATED COMPANY

The amounts due are unsecured, non-interest bearing and repayable on demand.

#### 16. RELATED PARTY TRANSACTIONS

In addition to the balances detailed in the condensed consolidated interim financial statements and note 15, the Group entered into the following significant transactions with related parties during the period:

##### (a) Compensation of key management personnel

The remuneration of key management personnel during the two periods ended 30 June 2012 and 2011 are as follows:

	<b>Six months ended 30 June</b>	
	<b>2012</b>	2011
	<b>HK\$'000</b>	HK\$'000
	<b>(Unaudited)</b>	(Unaudited)
Short-term employee benefits	<b>2,508</b>	2,377
Post-employment benefits	<b>31</b>	36
	<b><u>2,539</u></b>	<u>2,413</u>

The remuneration of the directors and key management personnel is determined by the board of directors of the Company having regards to the performance of individuals and market trends.

(b) Other related parties transactions

Name of company	Nature of transaction	Six month ended 30 June	
		2012	2011
		HK\$000	HK\$000
		(Unaudited)	(Unaudited)
Long Rise Investment Development Limited ("Long Rise")	Rental charged therefrom	<u>850</u>	<u>850</u>

The above transactions were at terms determined and agreed by the Company and Long Rise, a company with a common director to the Company.

On 30 March 2011, the Group entered into a tenancy agreement with Long Rise in respect of the leasing of this property as the Group's headquarter, at an annual rental of HK\$1,800,000.

## **INTERIM DIVIDEND**

The Board has resolved not to declare any interim dividend for the six months ended 30 June 2012 (2011: nil).

## **FINANCIAL PERFORMANCE AND BUSINESS REVIEW**

During the six months ended 30 June 2012, the Group recorded a turnover of approximately HK\$106,804,000, showing a decrease of 10.9% from approximately HK\$119,846,000 for the corresponding period in last year. Gross profit of the Group decreased by 25.3% from approximately HK\$27,340,000 for the six months ended 30 June 2011 to approximately HK\$20,432,000 for the six months ended 30 June 2012. The Group recorded a loss of approximately HK\$4,568,000 for the six months ended 30 June 2012 as compared with a profit of approximately HK\$912,000 for the corresponding period in last year. The loss of the Group for the six months ended 30 June 2012 was primarily attributable to the decreases in turnover and gross profit margin and increase in general administrative expenses of the Group as a result of the worsening of the market conditions and business environment, the severe competition of the textile industry in Europe and the USA and the ongoing upward adjustment in labour cost and general inflation in the PRC.

The Eurocrisis in the second half of 2011 dampened the market sentiment in Europe and the USA which, as a result, caused a reduction in sales order and price pressure on the Group's products which in turn resulted in decrease in the Group's turnover by approximately HK\$13.0 million. Decrease in total cost of sales by approximately HK\$6,134,000 from approximately HK\$92,506,000 for the six months ended 30 June 2011 to approximately HK\$86,372,000 for the six months ended 30 June 2012 being 6.6% decrease was primarily attributable to the combined effect of (i) significant decrease in subcontracting charges by approximately HK\$21,006,000 as a result of using computerized knitting machines since second half of 2011; (ii) increase in cost of materials by approximately HK\$7,857,000 because of overall increase in yarn prices; and (iii) increases in direct labour cost and production overhead by approximately HK\$1,713,000 and HK\$5,302,000, respectively as a result of ongoing upward adjustment on wages and general inflation in the PRC. In addition to the reduction in the Group's turnover and gross profit margin, the Group's general and administrative expenses increased by approximately HK\$2,377,000 from approximately HK\$23,470,000 for the six months ended 30 June 2011 to approximately HK\$25,847,000 for the six months ended 30 June 2012 as a result of general increases in salaries and wages and listing compliance fee. During the period under review, the Group recorded a gain on disposal of land held under Fung Ching (the "Land") amounting to HK\$2,017,000.

## **OUTLOOK**

Looking forward, the prospect of the textile industry remains uncertain and difficult. The global economic recovery was slow and unpredictable. With the uncertain economic prospects in Europe and the USA, the Group's customers will remain cost-conscious and adopt a more conservative approach in placing orders to the Group which in turn will adversely affect the Group's sales volume and profit margin. Such unfavorable business environment combined with the rising operation cost due to increased material costs, upward adjustment on minimum wages, severe inflation and competition and ongoing appreciation of RMB will continue to affect the Group financial performance in the short run. Nevertheless, the Group will continue to focus on product quality by manufacturing novel and complicated design to attract new customers on the one hand and maintain a prudent and proactive approach to strengthen our position on the others.

## **FINANCIAL POSITION AND CAPITAL STRUCTURE**

As at 30 June 2012, the Group recorded total assets of approximately HK\$267,518,000 which were financed by equity of approximately HK\$120,500,000 and liabilities of approximately HK\$147,018,000. The gearing ratio of total borrowing as a percentage of total capital and reserves attributable to Shareholders was 70.3% as at 30 June 2012 and 30.7% as at 31 December 2011. The Group had cash and bank balances of approximately HK\$40,984,000. Deposit amounting to HK\$3,000,000 has been pledged to secure bank overdrafts, short-term bank loans and unused banking facilities. The current ratio (current assets divided by current liabilities) of the Group reduced from 1.86 times as at 31 December 2011 to 1.50 times as at 30 June 2012. The Group's operation was mainly financed by funds generated from its operation and borrowings. As at 30 June 2012, the borrowings were mainly denominated in Hong Kong dollars ("HK\$"), while the cash and cash equivalents held by the Group were mainly denominated in HK\$, Renminbi ("RMB") and United States dollars ("US\$"). Save for the amounts due to Directors and related company, which are non-interest bearing, all of the Group's borrowings are on a floating rate basis.

## **CONTINGENT LIABILITIES**

As at 30 June 2012, the Group did not have any significant contingent liabilities.

## **FOREIGN EXCHANGE EXPOSURE AND INTEREST RATE RISK**

The Group continued to manage and monitor its interest rate and currency exchange risks exposure to ensure appropriate measures are implemented on timely and effective manner. The major interest-bearing bank borrowings of the Group carry interest at floating market rates of Hong Kong Interbank Offer Rate ("HIBOR") and London Interbank Offer Rate ("LIBOR") plus 1.1% to 1.125% per annum respectively.

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\$, RMB 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 period under review to manage the currency exposure. It will also consider further hedging significant foreign currency exposure should the need arise.

## **CREDIT POLICY**

Consistent with prevailing industry practice, the Group's business was transacted on an open account basis granted to its customers with long-term business relationship. The credit ratings of customers are periodically reviewed and their respective credit limits adjusted, if and when necessary. The Group generally allows an average credit period of 0–45 days to customers.

## **CAPITAL EXPENDITURE**

During the six months ended 30 June 2012, the Group invested approximately HK\$885,000 (six months ended 30 June 2011: approximately HK\$39,688,000) on acquisition of plant and equipment.

## **CHARGES ON ASSETS**

As at 30 June 2012, deposit amounting to HK\$3,000,000 has been pledged to secure bank overdrafts, short-term bank loans and unused banking facilities.

## **EMPLOYEE AND REMUNERATION POLICY**

As at 30 June 2012, the Group has workforce of approximately 1,300 persons including three executive directors and three independent non-executive directors in Hong Kong and the PRC. Remuneration policies 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, training programs, 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 six months ended 30 June 2012, no share options were granted by the Company since the adoption of the Scheme.

## **MATERIAL DISPOSAL OF PREPAID LEASE PAYMENT**

On 2 March 2012, pursuant to the requisition by the local authorities, Fung Chung entered into a land acquisition agreement (the "Land Acquisition Agreement") with Dongguan City Dalang Town Land Reserve Acquisition Office ("Dalang Land Office") whereby Fung Ching agreed to sell the Land to the Dalang Land Office at a consideration of RMB15,500,000 (equivalent to approximately HK\$19,100,000) (the "Disposal") due to the town development plan of Dalang Town. A gain of approximately HK\$2,017,000 recognised from the Disposal. It is intended that the net proceeds of approximately HK\$16,171,000 from the Disposal will be retained as cash reserves and general working capital of the Group until suitable opportunities arise to expand the business operation of the Group. Having considered (i) the Land was sold pursuant to the requisition by the relevant authorities; (ii) it was expected that there would not be any material adverse impact on the business operation of the

Group; and (iii) a gain recognised from the Disposal, the Board considered that the entering into of the Land Acquisition Agreement was in the interests of the Company and the Shareholders as a whole and that the terms of the Land Acquisition Agreement are fair and reasonable.

## **SHARE OPTION SCHEME**

Pursuant to the written resolution of the shareholders of the Company on 11 October 2011, the Company has adopted a share option scheme for the purpose of motivating eligible participants to optimise their performance and efficiency for the benefit of the Group. The Board of directors shall be entitled at any time on a business day within 10 years commencing on the effective date of the Scheme to offer the grant of option to any eligible participants.

Eligible participants of the Scheme include (i) any director, employee, consultant, professional, customer, supplier, agent, partner or adviser of or contractor to the Group or a company in which the Group holds interest or a subsidiary of such company (“Affiliate”); or (ii) the trustee of any trust the beneficiary of which or discretionary trust the discretionary objects of which include any director, employee, consultant, professional, customer, supplier, agent, partner or adviser of or contractor to the Group or an Affiliate; or (iii) a company beneficiary owned by any director, employee, consultant, professional, customer, supplier, agent, partner or adviser of or contractor to the Group or an Affiliate.

Any grant of options to a director, chief executive or substantial shareholder of the Company, or any of their respective associates representing in aggregate over 0.1% of the shares in issue and with an aggregate value (based on the closing price of the shares at the date of each grant) in excess of HK\$5,000,000 in such person in any 12-months period up to and including the date of each grant must be approved by the independent non-executive directors, but excluding any independent non-executive director who is a proposed grantee and any further grant of options must be approved by the shareholders of the Company.

No share options are granted since the adoption of the Scheme and during the interim period.



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

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the period under review.

## **COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES**

The Company had complied throughout the six months ended 30 June 2012 with the code provisions set out in the Code on Corporate Governance Practices (the "Corporate Governance Code") contained in Appendix 14 of the Listing Rules.

The Company has adopted a code of conduct (the "Code of Conduct") regarding Directors' securities transactions on terms no less exacting than the required standard set out in the Model Code for Securities Transactions by Directors of Listed Issuers contained in Appendix 10 to the Listing Rules. Having made specific enquiry of all Directors, all Directors have confirmed that they had complied with the required standard set out in the Code of Conduct during the six months ended 30 June 2012.

To enhance the corporate governance of the Group as a whole, all relevant employees who are likely to be in possession of unpublished price sensitive information in relation to the Group or securities of the Company are subject to full compliance with written guidelines on no less exacting terms than the Model code. No incident of non-compliance was noted by the Company during the period under review.

## **AUDIT COMMITTEE**

The Board has established an audit committee (the "Committee") on 11 October 2011 with written terms of reference in compliance with the Corporate Governance Code. The primary duties of the Committee are to oversee the relationship between the Company and its external auditor in relation to the matters coming within the scope of the Group's audit and review the Group's financial reporting process, adequacy and effectiveness of the Group's internal control system and risk management system.

The Committee comprises the three independent non executive Directors in compliance with the Listing Rules.

The Committee has reviewed the unaudited condensed consolidated financial statements of the Group for the six months ended 30 June 2012 and discussed with the senior management the internal control and financial reporting matters as well as the accounting principles and practices adopted by the Group in relation to the preparation of the unaudited condensed consolidated financial statements of the Group for the six months ended 30 June 2012. The interim results of the Group for the six months ended 30 June 2012 are unaudited but certain agree-upon procedures have been performed by the external auditors of the Company in accordance with Hong Kong Standard on Related Services 4400 "Engagements to Perform Agreed-upon Procedures Regarding Financial Information" issued by the HKICPA. The agreed-upon procedures performed by the external auditors did not constitute an assurance engagement performed in accordance with Hong Kong Standards on Auditing, Hong Kong

Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the HKICPA, the external auditors accordingly do not express any assurance on the interim results of the Company. The findings on the aforementioned agreed-upon procedures have been taken into consideration by the Committee in its review of the interim results of the Group for the six months ended 30 June 2012, which have been approved by the Board on 27 August 2012 prior to its issuance.

## **PUBLICATION OF RESULTS ANNOUNCEMENT AND INTERIM REPORT**

The results announcement is published on the website of Hong Kong Exchanges and Clearing Limited at *www.hkexnews.hk* and the website of the Company at *www.fornton.com* under “Results Announcement”. The interim report for the six months ended 30 June 2012 will be dispatched to the shareholders and published on the above websites in due course.

By Order of the Board  
**Fornton Group Limited**  
**Yam Tak Cheung**  
*Chairman*

Hong Kong, 27 August 2012

*As at the date of this announcement, the Board comprises three executive directors, namely, Mr. Yam Tak Cheung (Chairman), Ms. Wong Kan Kan Kandy and Mr. Wong Tat Wai Derek and three independent non-executive directors, namely, Mr. Wang Wei Hung Andrew, Mr. Cheng Dickson and Mr. Sin Ka Man.*